
Between A Budget And A Hard Place: The Risks Of Deferring Maintenance For U.S. Infrastructure.

As the world's fifth-largest economy, California enjoys a strong 'AA-' credit rating on its general obligation (GO) debt. Just seven years ago, California's 'A-' GO rating was S&P Global Ratings' lowest for any state. Better budget management that began in 2011 combined with an increase in personal income taxes–which drive much of the state's revenues–have led to a gradual recovery in California

Continue Reading

May 15, 2018

EPA Extends Deadline to Apply for a WIFIA Water Infrastructure Loan.

WASHINGTON –– Today, the U.S. Environmental Protection Agency (EPA) Administrator Scott Pruitt announced at a meeting with water sector associations that the deadline to submit letters of interest for Water Infrastructure Finance and Innovation Act (WIFIA) loans has been extended to **July 31, 2018**. Administrator Pruitt also sent a letter highlighting the deadline extension to governors of 56 states and territories as well as tribal leadership.

"By extending the deadline to apply for a WIFIA loan, even more entities will be able to bring critical water infrastructure improvements to their communities, including projects that keep lead and other contaminants out of drinking water," said EPA Administrator Scott Pruitt. "These projects create jobs, protect public health, and help ensure that all Americans continue to have access to clean and safe water."

EPA's announcement comes as part of Infrastructure Week and highlights the importance of working together with the water sector on a variety of topics, including affordability, governance, and the Clean Water and Drinking Water State Revolving Funds (SRFs).

Also in conjunction with Infrastructure Week, the Agency released a new interactive website that showcases leading efforts by states, public water systems, and communities to replace lead service lines.

Background

Established by the Water Infrastructure Finance and Innovation Act of 2014, the WIFIA program is a federal loan and guarantee program at EPA that aims to accelerate investment in the nation's water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects. WIFIA can provide up to 49 percent of the financing for a project and a state

SRF could provide additional financing for the remaining eligible project costs. The WIFIA program received $63 million in funding in the Consolidated Appropriations Act, 2018, which was signed into law by President Donald Trump on March 23, 2018.

On April 4, 2018, EPA announced the availability of additional WIFIA funding that could provide as much as $5.5 billion in loans, leveraging over $11 billion in water infrastructure projects. This year's WIFIA Notice of Funding Availability highlights the importance of protecting public health, including reducing exposure to lead and other contaminants in drinking water systems and updating the nation's aging infrastructure.

On April 20, 2018, EPA issued its first WIFIA loan to King County, Washington. The $134.5 million loan will help finance a new wet weather treatment station that will better protect public health, improve water quality, and create more than 1,400 jobs—all while saving up to $32 million compared to standard financing over the life of the loan.

According to EPA's estimate of drinking water and wastewater needs, over $743 billion is needed over the next twenty years for water infrastructure improvements. WIFIA financing and the SRFs will play an important part in fulfilling this need. With the latest two appropriations totaling $93 million, WIFIA loans can be combined with other public and private funding, to finance approximately $16 billion in infrastructure needs. EPA's FY2018 budget includes $2.9 billion for the SRFs.

For more information about the WIFIA program and resources to use when applying, visit www.epa.gov/wifia

05/15/2018

The Department of Energy's Loan Guarantee Program Presents a Crucial Opportunity to Fund U.S. infrastructure.

Now that congressional action on a major federal infrastructure bill is going nowhere fast, the U.S. Department of Energy's (DOE) loan program, with $40 billion in existing spending authority, is a here-and-now opportunity to address key U.S. infrastructure needs.

I have been making the case, including at a February 2017 House Science Committee hearing, that the tens of billions of dollars available to the DOE Loan Programs Office (LPO) could be a significant down payment on the $1 trillion investment in infrastructure called for by President Trump. The program has already made infrastructure investments in electricity transmission, carbon capture and sequestration, utility-scale electricity storage, nuclear projects, and advanced vehicle manufacturing.

Now, with the infrastructure bill adrift and the recent "omnibus" spending bill having rejected the Trump administration's efforts to eliminate the loan program, policymakers have a great opportunity to continue this valuable program and reposition it as an important tool for making progress on innovative energy and transportation-related infrastructure projects that face challenges raising capital.

Continue reading.

The Brookings Institute

by Dan Reicher, Executive Director, Steyer-Taylor Center for Energy Policy and Finance, Stanford University

May 17, 2018

The Road to Economic Revival In the Heartland Runs Through Older Industrial Cities.

Even as the U.S. economy hits new highs, the political and economic divide between America's coastal cities and the rest of the country remain a focal point of the national debate. Amid this rising regional inequality, the question of how to revive broad-based economic growth in the middle of the country has received substantial attention.

In our new report, we contend that policymakers who are serious about revitalizing the Heartland should focus on the region's older industrial cities (OICs). These places—including large urban areas like Detroit, Pittsburgh, and Cleveland, as well as smaller communities like Albany, Ga., Janesville, Wisc., and Dubuque, Iowa—once formed the backbone of America's manufacturing economy, but have since struggled to transition to a more digital economy. Despite their challenges, these cities and their considerable economic assets could help accelerate that transition for regions of our country at risk of being left behind.

Continue reading.

The Brookings Institute

by Cecile Murray and Alan Berube

Tuesday, May 15, 2018

Charts of the Week: Focus on Infrastructure.

In a new blog series for Infrastructure Week, the Metropolitan Policy program at Brookings examines infrastructure through the lens of people's expectations: whether infrastructure is accessible, affordable, and safe. Much of this research shows that infrastructure often creates economic barriers and policymakers could do a better job of measuring and meeting people's needs. Below are three charts from the series we found interesting. For more posts on infrastructure, click here.

Continue reading.

The Brookings Institute

Allison Branca

Thursday, May 17, 2018

Private Water Utility Shareholders Reject Transparency Proposals.

The proposals would have required American Water to make new disclosures on political contributions and lobbying.

Investors in the nation's largest publicly-traded water and wastewater utility rejected proposals last week that called for the company to issue reports about political contributions and lobbying activities.

American Water runs utilities in about 1,600 communities, in 16 states, with about 3.4 million customers. The company's "regulated businesses," which include its utilities, recorded about $2.9 billion in operating revenues in 2017, according to an annual report.

Two asset management firms offered the disclosure proposals during a stockholder meeting in Camden, New Jersey on Friday.

Boston Common Asset Management, LLC, a firm that describes itself as pursuing both financial returns and "social change," requested an annual report from American Water showing policies and payments for lobbying activities, along with other related information.

A description of the proposal says the company has spent over $1.1 million on federal lobbying since 2010, and that it engages in extensive lobbying at the state level, where disclosure is "uneven or absent."

"Lobbying transparency is in the best interest of American Water and its shareholders," said Kate Monahan, a shareholder engagement associate with Friends Fiduciary Corp., who Boston Common Asset Management authorized to present the proposal during the meeting.

In an opposing statement to the proposal, American Water said it fully complies with federal, state and local lobbying disclosure laws, and that the requirements in the proposal are vague, would be cumbersome to carry out and are not standard among competitors.

The political contribution disclosure proposal was offered by Trillium Asset Management, LLC, which says its investment strategy incorporates environmental, social and governance factors.

The proposal called for American Water to produce reports describing policies and procedures for making contributions to political campaigns or to influence ballot initiatives, as well the amounts, recipients and other details for the contributions.

American Water's opposing statement says its political contributions are subject to federal and state public disclosure rules and that much of the information that would appear in the requested reports is already publicly available.

The company also says it is committed to adopting a policy this year to guide direct political contributions and that it would publish this online. And that, beginning with 2018, it aims to provide information on its website about political contributions, after each fiscal year.

Shareholders shot down both proposals, according to preliminary voting results announced at Friday's meeting.

They also rejected a third proposal, which asked for a report to shareholders tracking American

Water's "impacts and responses on the human right to water and sanitation."

The proposal, from NorthStar Asset Management, Inc., suggested the report include information like: whether and how the company identifies business partners with poor track records on human rights and the environment; and the percentage of customers paying water rates exceeding 2.5 to 3 percent of monthly household income.

American Water's board opposed this report, too. The company said it would be duplicative with publications it currently issues (such as its Corporate Responsibility Report), and it said its business is already extensively regulated when it comes to issues like setting rates.

New Jersey, Pennsylvania, Illinois, Missouri, Indiana, California and West Virginia have the bulk of American Water's customers.

The company said in its 2017 annual report that it had plans for $7.2 billion in capital investment over five years, mainly for upgrading pipes and water and wastewater treatment facilities.

It also said a core part of its growth strategy is to pursue acquisitions of small and medium water and wastewater systems, with between 1,000 and 30,000 customers, that are near where the company now operates.

Route Fifty

By Bill Lucia
Senior Reporter

MAY 13, 2018

Using Asset Recycling as an Infrastructure Funding Mechanism.

"Where will the funding come from?"

It's a question that had dogged President Trump's infrastructure plan – and more broadly, many U.S. infrastructure improvements in general – from the get-go. And while public-private partnerships (also known as P3s) have been cited as a key to filling the funding gap at the state and local level, how exactly such P3s could — or must work may depend on the specific project and its host municipality's regulations, including bidding, procurement, and other requirements, some of which are decades old.

For the most part, when people think about a typical P3, they picture design, build, finance, operate, and maintain (DBFOM) agreements, such as with Florida's I-595 Express Corridor Improvements Project. At their core, such P3s involve state or local governments partnering with private organizations on the construction of one specific project. While DBFOMs have been successful in bringing some projects to life that otherwise wouldn't have been possible, they do little to replenish the dwindling coffers of local governments.

A separate type of public-private partnership — "asset recycling" can help generate immediate revenue for municipalities while at the same time ensuring infrastructure improvement needs are met. Asset recycling P3s have generated a lot of buzz in other parts of the world (Canada, Australia and the UK, specifically) but such transactions are used less often domestically for a number of

reasons, not the least of which are the aforementioned antiquated regulatory hurdles, which often deter investors from pursuing possible asset recycling transactions.

So, what exactly is asset recycling, how does it work, what are the challenges associated with making it possible in the U.S., and what does the future hold?

In its simplest terms, asset recycling involves the sale or lease of a government owned asset to a private entity to raise funds for the governmental entity. Such assets are typically unused or underutilized land or buildings, or assets that are more valuable, for any number of reasons, if they are sold or leased to a private entity for an up-front payment. The private entity agrees to assume operation of the leased or sold asset, such as an airport, bridge, toll road, wastewater facility, or parking facility, and to improve or maintain the asset according to predetermined standards.

Also referred to as asset "monetization," asset recycling enables municipalities to receive upfront proceeds and shifts the operational burden to a private entity, who assumes all operation and maintenance ("O&M") costs associated with the monetized asset. If applicable, the private entity also collects any revenue generated from such operations. After being sold or leased, the up-front funds received by the governmental entity can be used to finance construction of a new asset, repair or make improvements to an existing asset or to invest in any other way the municipality deems appropriate, such as investing in pension shortfalls or retiring old debt.

For public entities, the first step in the asset recycling process involves taking a full inventory of owned assets to assess which, if any, may be attractive and appropriate to sell or lease to a private operator. Assets ripe for monetization often include those capable of generating predictable revenue so that the private operator can ensure both a sufficient rate of return and identify, at the outset, funds that will be available to improve and maintain the leased or purchased asset. Examples of such revenue-generating assets that we have seen monetized in the recent past include sewer and water treatment facilities, parking garages and meters, school district buildings, courthouses, libraries, and golf courses. In New York City, for example, an audit from the city comptroller's office revealed more than 1,100 vacant lots that were essentially unused and ripe for asset recycling.

In order to determine the fair market value of the asset and to set reasonable expectations for up-front revenue that could be earned, local officials must collect detailed information regarding revenue generation figures and lifecycle costs. In a majority of cases, this requires assembling experts in the legal and financial fields who have experience in the sale and/or lease of public assets. It is important to note, however, that the only way to extract maximum value from monetization as an asset is often to set in place a competitive bid process whereby multiple potential private owner-operators bid against each other for the right to lease or purchase a revenue-generating municipal asset. In Pittsburgh, for example, local officials set a benchmark for what they hoped to net from the monetization of the city's parking system. Much to the city's surprise, its well-executed and designed competitive bid process produced a winning bit that was several times the initial target amount. Although the Pittsburgh parking transaction ultimately cratered for political reasons it is an excellent example of how competition and a well-designed procurement process can flesh out the true market value of public assets.

With a lease agreement, the municipality maintains ownership of the leased asset, and at the end of the lease period can either resume operation of the asset or negotiate a new lease agreement with the same or a different operator. Unlike with an apartment lease, however, the private entity assumes many (if not all) of the risks of ownership, including unexpected repair and maintenance costs. While up-front proceeds are certainly a "plus" with asset leases, shifting risk and obligation to a private entity can be the true motivating factor for a municipality looking to monetize an asset.

One particularly successful and creative asset leasing example that our team facilitated was the long-term lease of the parking assets of the city of Scranton, Pennsylvania, where the city hoped to lease its parking assets to help shed crippling debt. Facing stiff competition from local parking facilities and fatigue and frustration from taxpayers who for years were called upon to bail out a severely over-leveraged parking system, our team was able to negotiate a lease with a non-profit entity that featured sacrificed lower up-front proceeds in exchange for long-term rate and fee control. Not only did the deal help eliminate the city's approximately $3 million in annual parking-related debt, but it appeased taxpayers because the non-profit entity could offer fee and rate increases that were less than what the government operators would have implemented. Moreover, the city of Scranton was able to shift burden away from the municipality to the non-profit.

For many, the benefits of asset recycling, on both the public and the private side, seem obvious. The public gets the chance to raise funds to support infrastructure improvements by selling or leasing often burdensome assets, and private parties get the chance to turn unused property or inefficient operations into profitable assets with predictable returns.

However, asset recycling transactions face regulatory and political hurdles that are sometimes impossible to clear.

From a regulatory standpoint, certain states and municipalities either outright prohibit public-private partnerships, have rules in place that make it extremely difficult for monetization P3s to work as intended, and/or have no concept of how to manage a P3 transaction effectively and in a way that creates benefits for both sides.

Even Pennsylvania, which passed the Public and Private Partnerships for Transportation Act in 2012 to allow P3s for use in transportation projects, has limitations on the extent to which P3s can work. Not only does Pennsylvania's P3 Act apply only to transportation projects, meaning needs in water and wastewater systems, energy, brownfield sites, and more, are not specifically addressed in the Act, but the Commonwealth's P3 Act also mandates compliance with Pennsylvania's Separations Act, which requires the competitive low-bid award of multiple prime contracts for mechanical, electrical and plumbing (MEP) work. The P3 Act is a step in the right direction, and adherence to the Separations Act is by no means impossible, but the limitations imposed by both laws, especially the century-old Separations Act, can add additional layers of complexity and added costs to complex projects that already have thin margins and many other challenges.

Beyond formal regulation, the politics that surround asset monetizations can derail transactions before they even start.

For example, taxpayers may be wary of a private company taking over operations of a public asset with the goal of generating revenue for itself. Even if the private company can show that it will operate the asset more efficiently, save money in the long run, and generate immediate revenue for the public to use on more pressing infrastructure needs, it can still be a challenge to convince the masses that P3s are in the public's best interest. After all, a taxpayer may reason, the private operator is outside the reach of standard checks-and-balances that police how the current government operates the asset.

Careful thought and planning must go into explaining to constituents the benefits of a P3 as taxpayers – understandably so – often see only that their government is selling an asset to a private operator. And, along with such sale, the municipality is giving up control over rate setting. Although reasonable, this initial reaction is generally misplaced and could torpedo a P3 that would otherwise be in the best interest of the municipality. Local elected officials should offer transparency and access early and often to avoid the spread of misinformation.

Whether or not an infrastructure bill passes any time soon shouldn't limit asset recycling from becoming more prevalent in the U.S.; when structured properly, asset monetizations work well and should be strongly considered in appropriate circumstances. In the meantime, private entities and municipalities can take action to ensure asset monetization P3s are here to stay.

On the private side, companies should work with federal and state legislators to remove prohibitive regulations that can discourage private investment in public infrastructure. Simply explaining the benefits and international success stories of asset recycling to lawmakers is a good first step.

For state and local governments, officials first need to realize the potential benefit to taxpayers in allowing private companies to lend their expertise and access to capital to more efficiently operate struggling, municipal owned assets. Not only will the up-front windfall help generate new infrastructure or improve existing assets, but asset monetizations can also prevent tax hikes by finding alternate sources of revenue. Finding a way to finance infrastructure improvements without correspondence tax hikes can also be a nice feather in the cap of an official come election time.

While the country's leaders continue to search for an answer to the question, "Where will the money come from?", one thing appears likely: the existence of valuable municipal assets to sell or lease, when coupled with appropriately tailored regulations, and public-private buy-in, suggests asset recycling will become an even more useful tool for state and local governments struggling to identify sources to fund infrastructure improvements.

by William P. Conaboy Jr and Terrence Heubert

May 14, 2018

Buchanan Ingersoll & Rooney PC

Infrastructure Deals Top U.S. Muni Bond Sales Next Week.

May 11 (Reuters) – Highway, airport and other transportation deals will dominate next week's estimated $10.7 billion of new U.S. municipal bond and note sales, according to Thomson Reuters preliminary data.

The largest deals hail from Texas, Pennsylvania, New York, California. They represent a big jump from this week, when an estimated $7.2 billion of new sales came to the municipal market.

Next week's infrastructure deals are well timed for National Infrastructure Week, when leaders of state and local governments will descend on Washington to raise awareness and enthusiasm for investing in U.S. infrastructure projects.

The largest deal is $1.5 billion from Grand Parkway Transportation Corp in Texas, which aims to build a proposed 184-mile (296-km) highway, dubbed the Grand Parkway, around Houston. The deal is broken into $911 million of subordinate tier toll revenue bonds and $611 million of bond anticipation notes.

The New York City Transitional Finance Authority plans to sell $1.1 billion of future tax secured subordinate bonds, broken into a five-part series. The funds will be used to finance various capital projects.

Another infrastructure project, the Airport Commission of the City and County of San Francisco, too, aims to sell $914 million of revenue and refunding bonds.

From Pennsylvania, the state's turnpike commission will sell $445 million of oil franchise tax revenue bonds. The Commonwealth of Pennsylvania, is also on the calendar with a megadeal with $1.25 billion of general obligation bonds slated to sell next week.

(Reporting by Robin Respaut in San Francisco; editing by Jonathan Oatis)

Municipal Issuers Log Second Straight Monthly Increase in New CUSIP Request Volume.

NEW YORK, May 10, 2018 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for April 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a second straight monthly increase in requests for new municipal bond identifiers, while CUSIP request volume in other asset classes declined. This is suggestive of steady pace of new municipal issuance and a possible decline in corporate issuance in the second quarter of 2018.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,357 in April, down 5.8% from March. On a year-over-year basis, corporate identifier request volume for the first four months of 2018 is still 6.5% higher than the same period in 2017, reflecting a strong pace of new request volume in the first quarter of this year. Overall corporate request volume was driven by 843 new requests for U.S. corporate equity identifiers, 853 new requests for U.S. corporate debt identifiers, and 405 requests for combined Canadian corporate debt and equity identifiers.

Municipal CUSIP requests showed steady volume in April. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – logged a 0.3% increase over March activity. This is the second straight month of growth in the municipal category, following on the heels of a 30.9% monthly increase in pre-market muni activity in March. On a year-over-year basis, total municipal identifier request volume is down 23.4% versus the same period last year. Prior to March, municipal bond issuance had been trending downward following the implementation of the Tax Cuts & Jobs Act, which repeals advanced refunding of municipal bonds.

"The CUSIP request volume we're seeing in April in the municipal category is noteworthy because it shows that the large increase we saw last month was not a fluke," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "The increase is likely driven by a combination of factors that include the desire of many municipalities to get new issues funded before further interest rate increases, and basic funding needs."

International debt and equity CUSIP International Numbers (CINS) both declined in April. International equity CINS were down 7.8% during the month, while international debt CINS decreased 5.1% during the month. On a year-over-year basis, international equity requests were up 23.8% and international debt requests were up 8.2%, reflecting continued volatility in international markets.

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

Aging Baby Boomers: Implications For Munis.

By 2035, the elderly will outnumber young people for the first time in American history.i Or so say new projections released by the U.S. Census Bureau. This graying of the U.S. population is largely attributable to the aging baby boomer generation, which is retiring in ever-increasing numbers. The number of people over the age of 65 is growing by about 3% per year-four times faster than overall population growth.ii This developing demographic shift will likely have profound and far-reaching impacts on state pensions, healthcare, education, and more, and consequently on the municipal bond market as well.

State Pension Budget Pinch

As baby boomers retire, state budgets are likely to feel a significant financial pinch when it comes to pension obligations. It is simple math: with a shrinking proportion of working-age adults-to-retirees, there may simply not be enough revenue to support the generous pensions that many states' defined benefit plans have promised, the unfunded liabilities of which already stood at some $574 billion as of 2011.iii This will probably necessitate a reduction in services, an increase in taxes, pension reforms, or some combination of the three. States could look to address some of these issues by offloading funding obligations to local governments. This, in turn, could prove to be a major problem for municipalities, which, on average, depend on state governments for a third of their revenue.iv As state governments grapple with unfunded pension liabilities, local governments may need to raise property taxes to generate additional revenue as they are forced to shoulder an increasingly high share of the cost of delivering essential services to residents.

Looming Healthcare Gaps

Much has been made of the looming funding gaps facing Social Security and Medicare, and rightfully so, as demographic trends point to an eye-popping $100 trillion shortfall in funding for these federal programs over the coming decades.v However, there is another ticking time bomb that may prove far more relevant to state and local governments as the population ages, and has received far less attention: Medicaid, which helps pay for the healthcare of low-income citizens and their children, the disabled, and the elderly. As of 2014, Medicaid spending for those over 65 accounted for around 20% of all Medicaid costs, and this figure will probably grow in the coming years.

Thanks to Medicaid's status as a joint federal/state program, states' shares of the spending can range from 17% to a statutory maximum of 50%. However, while Social Security and Medicare are funded out of trust funds, state funding for Medicaid are drawn from the states' general revenues. It already accounts for roughly 17% of state general budget expenditures, on average, and are already the second-highest spending category.vi

Education Squeeze

Although Medicaid spending today is already a large line item, it is dwarfed by state spending on education. The 50 states devote an average of 35% of their respective budgets to education, making it the largest single category of expenditures in state budgets.vii Some states, such as Utah, where one in five residents is a student, spend upwards of 50%, while others, such as Illinois, with its unfunded pension obligations, spend significantly less than the average (in Illinois' case, just 25%).viii

What happens to education funding when state budgets are squeezed by ballooning Medicaid costs and unfunded pension obligations on a historic scale? After all, the two expenditures have already

been chewing up the highest proportion of state budgets since the 1960s.ix States could be forced to cut education spending. Indeed, this is already happening. State funding for higher education and state revenue sharing has been in decline since 2008.x

These cuts to state education spending could also further exacerbate inequality in poor school districts that cannot rely on high property taxes to raise the funds necessary to cover a shortfall. Already, in 23 states, state and local governments are spending less in poorer school districts than they are in more affluent ones.xi In some states, the discrepancy in spending between the poorest and richest districts can reach as high as 33%.

Opportunities in ETFs

Individual investors in municipal bonds have long basked in the relative "security" of the overall credit quality and reliability of the income stream. But some of the underlying tremors identified here suggest that, without forgoing the opportunity for tax-free income, the allocation of investible resources in a municipal fund, such as an ETF, may offer added protection. Simply, a portfolio of 10 different bonds cannot provide the same level of security as an ETF with 1,000 different bonds. The challenges discussed are most certainly significant to the baby boom generation, as they are to the entirety of those investing in tax-free income, but ETFs can offer investors a way to access potential opportunities.

Post Disclosure

i NPR. "Projections Show an Aging U.S. Population." Mar. 14, 2018

ii Fuchita, Yasuyuki, et al. Growing Old: Paying for Retirement and Institutional Money Management after the Financial Crisis. Brookings Institution Press, Nomura Institute of Capital Markets Research, 2011.

iii Ibid.

iv Kiewiet, D. Roderick, and Mathew D. McCubbins. "State and Local Government Finance: The New Fiscal Ice Age." Annual Review of Political Science, vol. 17, no. 1, May 11, 2014, doi:10.1146/annurev-polisci-100711-135250.

v Ibid.

vi Ibid.

vii US Census Bureau. "State Government Finances Summary Table." 2016 Annual Survey of State Government Finances Tables, United States Census, Feb. 2, 2018.

viii Ibid.

ix The Wall Street Journal. "Why Are States So Strapped for Cash? There Are Two Big Reasons." Mar. 29, 2018.

x Ibid.

xi The Washington Post. "In 23 states, richer school districts get more local funding than poorer districts." Mar. 12, 2015.

Seeking Alpha | VanEck

May 9, 2018

Did The Tax Cuts And Jobs Act Make Treasuries More Attractive Than Munis?

It seems we can't go a single day without a story about the effects of The Tax Cuts and Jobs Act. And right now, as the GOP takes credit for lower unemployment, a surge in consumer confidence and increased optimism among small businesses and manufacturing, we think it's important to look a little deeper to figure out what the resulting trade is. Whenever an equation is changed substantially in economics, one must always ask, "And then what?"

Every change in the macroeconomic composition of the United States has knock-on effects, and those effects have effects. For example, whenever there's a major change in the tax code, one constituency benefits from a cut, while another constituency picks up the slack to fund the government. In turn, those constituencies who are affected have certain knock-on effects, which get reflected in the real economy, as well as the financial markets.

When The Tax Cuts and Jobs Act was enacted in late 2017, corporate tax rates dropped to 21% at the highest marginal rate. Politics aside, lower rates mean fiercer price competition for goods — this benefit gets passed directly on to consumers. Major companies like AT&T and others announced one-time cash bonuses for their workers as a direct result of this. It is hard to deny that the economy has shown stronger signs of growth since this legislation was passed; corporates have reported strong earnings through Q1 and leading indicators for Q2 look very positive. We would still caution — correlation does not always equal causation.

Continue reading.

Forbes

by Bob Haber

May 9, 2018

Pre-Trade Activity in Corporate and Municipal Bond Markets Show Big Gains in March.

"The big story this month is the strong growth we're seeing in requests for new muni identifiers," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While March typically has a higher volume of muni issuance than January and February, this increase in demand for new muni identifiers is noteworthy following the declines we've been seeing ever since the Tax Cuts and Jobs Act was passed."

Read Press Release.

2018 GFOA Standing Committee Membership Application Process.

Applications to become a GFOA standing committee member are being accepted **through July 27, 2018**. Serving on a standing committee is an excellent opportunity for GFOA members to contribute their experience and knowledge to the entire membership. GFOA's seven standing committees meet twice each year and develop best practices, advisories and policy statements for the approval of the Executive Board and membership. GFOA associate members from the private sector may also apply to be advisors to one of the committees.

Please note that GFOA does not provide for the reimbursement of expenses incurred in connection with committee activities. Please review the Standing Committees Policies and Procedures for other committee guidelines.

The GFOA's seven standing committees are – Accounting, Auditing and Financial Reporting; Canadian Issues; Economic Development and Capital Planning; Governmental Budgeting and Fiscal Policy; Governmental Debt Management; Retirement and Benefits Administration; and Treasury and Investment Management.

- Complete the application here.
- If you are a current GFOA committee member (and at the end of your first term), please complete the application for re-appointment here.

If you have any questions about the committee application, please contact Emily Brock.

Not So Great GASB: Accounting Rule Pushes Hospital Near Default.

- **Public hospitals face downgrades due to pension accounting**
- **Government accounting standard puts pensions on the books**

The financial health of Magnolia Regional Health Center, a 200-bed public hospital in northern Mississippi, has gone from fair to serious condition all because of an accounting rule.

Magnolia is in danger of breaching the covenant on a $74 million municipal-bond issue because the rule requires the hospital, whose employees are members of Mississippi's pension fund, to bring onto its books its share of the retirement system's $16 billion unfunded liability. The $127 million obligation has pushed its debts above a limit set by bondholders and may cause a default as soon as early next year — an event that would allow investors to demand immediate repayment or take control of the hospital.

In late March, Moody's Investors Service downgraded Magnolia to junk, saying default is likely if it can't strike a deal with creditors.

The Corinth, Mississippi hospital is an extreme example of how an accounting rule has shaken up the $3.9 trillion municipal-bond market by requiring the disclosure of pension debts that some borrowers were allowed to keep off the books for years. In December, Moody's downgraded bonds issued by the Spartanburg Regional Healthcare System because operating revenue wasn't keeping up with its increased debt load and said the system's participation the South Carolina retirement system would put "long term pressure" on its credit rating.

Fitch Ratings downgraded Cleveland's MetroHealth to junk last month for similar reasons.

"That additional expense is lowering their margins," said Fitch analyst Kevin Halloran. "It's going to

continue to catch people's eyes."

The accounting change has posed particular problems for Magnolia because the hospital agreed to the benchmarks in its bond contract three years before the rule, known as Government Accounting Standards Board Rule No. 68, took effect in 2014. With a technical default now looming, the yield on bonds due in 2031 rose to about 4.8 percent by the end of last month from 3.5 percent in early January.

Magnolia has asked a Mississippi court for a judgment to prevent a technical default or change the bond covenants to remove the effects of GASB 68.

"Magnolia Regional has never defaulted on or failed to timely make any bond payment or other obligation, continues to remain financially viable and, through no fault of its own, is in danger of being placed in technical violation of its bond covenants," the hospital said in a complaint filed in February.

Fund Liability

In its lawsuit Magnolia cites a Mississippi Attorney General Opinion from March 2017 that individual participants aren't required to fund the liability of the state pension.

Magnolia has met with trustee Regions Bank and is seeking an agreement with investors to amend the bond covenants, said Brian Craven, Magnolia's chief financial officer. The hospital disagrees with Moody's that it will fall below a debt service ratio required by investors in the current fiscal year, he said.

"It is not out of the question that it could happen, but improved operating performance in 2018 has made this much less likely than in 2017 regardless of the performance of PERS [Public Employees' Retirement System] in 2018," Craven said.

GASB 68 requires that municipalities participating in multi-employer pensions report their proportionate share of the unfunded liability and that net pension liabilities be included on governments' statement of net assets.

There are 956 state and local government community hospitals in the U.S., according to the American Hospital Association, although it's not clear how many of them participate in multi-employer pensions.

The accounting rule is creating credit problems for the hospitals even though their operations haven't changed materially and they're making required contributions to state pensions. Magnolia contributes 15.75 percent of its annual payroll to Mississippi's pension, in addition to employee contributions of 9 percent.

When Magnolia issued the bonds in 2011, investors required the hospital to produce total income for debt service of at least 125% of maximum annual debt service for any fiscal year. If the percentage fell below 125% the hospital was required to hire a consultant to help improve operations. If income fell below 100%, bondholders could declare a default.

Taking into consideration its $127 million portion of the Mississippi's pension's liability, Magnolia had 117% total income for debt service for the fiscal year ending Sept. 30, 2017. Moody's expects the hospital to fall below 100% debt service coverage in the current fiscal year.

In March, a Mississippi court prohibited Regions from requiring Magnolia to hire a consultant

through the conclusion of the case.

The outcome for South Carolina's Spartanburg Regional may be a good sign for Magnolia. When that hospital adopted GASB 68 in 2015, it booked a net pension liability of $568.6 million, sending its debt as a percentage of assets soaring to 106 percent and exceeding the covenant of below 65 percent.

But bondholders were willing to rescue it from default. They agreed to waive the covenant violation and revise their contract so the pension obligation isn't included in debt-service coverage calculations, said Meredith Moore, a Moody's analyst.

Bloomberg

By Martin Z Braun

May 9, 2018, 8:07 AM PDT

Counties 'Riding Out' Bump in Tariffs.

Counties with steel production see boost from tariffs, but won't depend on them to save local economies

County officials in regions supporting steel production are encouraged by recent tariffs on steel and aluminum imports, but others are concerned about the consequences of upsetting the international trade balance, both globally and at home.

President Trump declared that the 25 percent tax on imported steel and 10 percent tax on aluminum would put the industries on an even playing field with international competition, which has prompted talk of a trade war with China. But in northern Minnesota's Iron Range, where most domestic ore is mined, St. Louis County Commissioner Tom Rukavina was pleased with the tariffs.

"For years, I've said that we have to ensure we have a viable steel industry in the United States, whether it's for bridges and buildings or for machinery or ships and tanks," he said. "In that regard, what President Trump has done is something that should have been looked at a long time ago."

Rukavina said protectionism has already paid off for St. Louis County, crediting the Obama administration's 2016 duty on steel imports, aimed at punishing foreign producers from selling steel below cost, with bringing a lot of St. Louis County's workforce back to the mines.

"That's actually what put people back to work around here," he said.

Lake County, Ind., with two U.S. Steel mills in its borders, should benefit, too as well as the five operating integrated steel mills in northwest Indiana. But the tariffs are only a leg up for the county.

"We are aware of the challenges that the steel industry faces due to the onslaught of these steel imports, more importantly, these things are going to provide an even playing field for the steel industry." said Karen Lauerman, president and CEO of the Lake County Economic Alliance.

While the tariffs could provide some temporary support for the steel industry, Lauerman says that's more of a reason than ever to move beyond just steel.

“Even without international trade cutting in, the steel industry is modernizing and becoming more advanced, it’s always evolving and changing,” she said. “What we can do as a county is build on the foundation of the steel industry and attract new technology and manufacturing jobs and opportunities.”

In Madison County, Ill., U.S. Steel had announced plans to bring its Granite City mill online after idling it two years prior. County Board Chairman Kurt Prentzler said the tariff bolstered the move and gave residents a sense of security, even though the news about the mill predated the tariff.

“After all of our history of steelmaking in the United States, I think it’s fair to have an American steel industry,” he said, acknowledging the tariff was a signal from the federal government that domestic steel production was important. He stressed that production of materials necessary for domestic energy production, particularly oil and gas drilling, were matters of national security and central to American self-reliance.

While steel producing counties are riding high, that sentiment is not universal, particularly for industries that use the steel, or regions that manufacture products or grow crops that could be targeted in a trade war.

Spartanburg County, S.C. Councilman David Britt worries that protectionism will upset the international market that has integrated itself into counties around the country. Britt chairs the county’s Economic Development Committee and is a member of the Economic Futures Group.

He points to 125 international companies that have taken root in Spartanburg County over the last 30 years, including BMW’s first production facility outside of Germany, which has fueled a lot of the county’s economic growth.

“This is going to put a foot on the throat of economic development, which impacts the citizens of Spartanburg County, the state and this country,” he said.

“My biggest concern is that somebody is not telling the president what he needs to hear: This steel industry that he is concerned about, you’re talking 100,000 employees,” he said. “In upstate (South Carolina) alone, you’re talking that many employees in different industries. It goes up to the millions, when you look at the southeast. that will be affected by this.”

The BMW plant, which opened in 1994, now produces the most BMW car engines in the world. The company contracts out the work on all the other auto parts and the tariffs increase costs for every manufacturer that uses foreign steel and aluminum.

And it might not stop there. The price increases for foreign steel can give domestic producers license to raise prices.

“American steel prices are jacking their prices up to meet almost what is happening with foreign tariffs,” Britt said.

Britt works for a national corporation that produces prefabricated concrete for construction, and he’s seeing the consequences of the tariffs manifested there.

“It’s having a tremendous effect on our customers and our projects,” he said. “Costs are going up at every stage of the game.”

In short, he is worried that the benefits of taking action to protect one industry will have a net loss for U.S. producers and their county economies, particularly if they participate in international trade.

“I am greatly concerned about the jobs and opportunities,” he said. “You got to look at the reciprocal effect on the industries that are here.”

Reciprocal effects could be felt in commodities markets if other counties impose their own tariffs on U.S. exports.

In Cherokee County, Iowa, the productivity of agricultural land directly affects its valuation, but Supervisor Dennis Bush said the county board is not panicking about drops in demand for corn or soybeans resulting from a retaliatory tariff.

“It’s something we keep on the backburner, it’s pretty early in the game,” he said. “They threatened tariffs but there’s nothing set in stone yet.

“But any drop in the price of either corn or soybeans affects the valuations of the land in subsequent years, so it would directly affect county government in that we wouldn’t have the same tax base.

“We’re just riding this out and watching it unfold.”

NATIONAL ASSOCIATION OF COUNTIES

By CHARLIE BAN

Apr. 27, 2018

New BUILD Program Replaces TIGER Grants.

BUILD program will replace DOT’s TIGER grants, has a July 19 application deadline

The Department of Transportation (DOT) announced April 20 the release of a new transportation infrastructure grant program that will replace the current TIGER Grant program. The Better Utilizing Investments to Leverage Development (BUILD) program will disburse $1.5 billion for surface transportation infrastructure projects with significant local or regional impacts, including funding for roads, bridges, transit, rail or port support.

As with TIGER grants, county governments may apply directly or jointly with other local or state entities, with an application deadline of July 19.

DOT will evaluate BUILD applications on the following criteria: safety, economic competitiveness, quality of life, environmental protection, state of good repair, innovation, partnerships and additional non-federal revenue for infrastructure investments.

Continue reading.

NATIONAL ASSOCIATION OF COUNTIES

Apr. 27, 2018

BDA Submits Written Comments in Support of Reinstating Municipal Advance Refundings and Expanding PABs.

On May 7, 2018, the BDA submitted written comments to the Senate Finance Committee in support of fully reinstating tax-exempt advance refundings, including qualified 501c (3) bonds and expanding the use of private activity bonds (PABs). The comments can be viewed here.

The comments were submitted in response to a hearing titled, "Early Impressions of the New Tax Law". While municipal advance refundings and PABs were not discussed, project data shared by BDA member firms provides the Committee with an opportunity to see the importance of these financing tools.

The BDA plans to continue lobbying on Capitol Hill in support of reinstating advanced refundings and expanding the use of PABs.

Bond Dealers of America

May 7, 2018

Answers to 3 Key Questions About the Remediation of Superfund and Brownfield Sites Under President Trump's Infrastructure Proposal.

In addition to addressing the repair of roads and bridges, President Trump's infrastructure proposal addresses a decidedly less popular infrastructure element — Superfund Sites and Brownfield Sites. It is worth looking at how President Trump's proposed changes to Brownfield and Superfund revitalization may impact future infrastructure proposals. Additionally, with the House of Representatives passing the Brownfields Enhancement, Economic Redevelopment, and Reauthorization Act of 2017 late last year, President Trump's infrastructure proposal could impact land revitalization before anything else.

What are the key questions municipalities and companies should be thinking about as they examine the President's proposed changes to Brownfield and Superfund reform? Here are the top three.

What are the biggest changes to current Brownfield and Superfund cleanup funding proposed by President Trump's Infrastructure Plan?
The overall goal with the President's Infrastructure Plan as it relates to Brownfield and Superfund Sites is to incentivize contaminated property redevelopment and find ways to mitigate legal and financial risks for those seeking to do so.

Currently, the Environmental Protection Agency ("EPA") Brownfields Program has a revolving loan/grant fund that can be used for the cleanup of a variety of projects. But under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), Superfund Sites are not eligible to receive funds for the program, and National Priorities List (NPL) Sites are not eligible for Brownfield grants. President Trump's plan would change that by expanding the types of projects eligible for the EPA Brownfields Program grant funding and allowing Superfund Sites to access that money. The plan would also amend the law to allow NPL Sites or portions of them to be eligible for Brownfield grants.

In addition to proposed eligibility changes, part of President Trump's proposal includes the establishment of an Incentives Program, which would receive up to $100 billion to fund a number of different projects, including Brownfield and Superfund Sites. More funding for Superfund and Brownfield Sites would also come from changes to the Water Infrastructure Finance and Innovation Act (WIFIA) lending program and from $10 billion of the EPA's portion of the Rural Infrastructure Program, which would provide grants for cleaning up Brownfield Sites.

While it remains to be seen how exactly each of those funds would be divided up to support remediation efforts, Superfund and Brownfield Sites should at least, in theory, have greater access to those types of funds than they did before.

Will the Infrastructure Proposal's liability relief make Superfund Site cleanups more likely?

Perhaps the most interesting — and likely the most challenging to navigate — aspect of President Trump's proposed changes to Superfund Site cleanups is the additional liability relief it gives to states and municipalities that acquire contaminated property. Currently, states and local governments may be exempt from CERCLA liability as an "owner or operator" if they acquire ownership or control of contaminated property involuntarily through bankruptcy, tax delinquency, abandonment, or other circumstances under which the state or local government involuntarily acquires the property. But there exists much confusion about what exactly qualifies as "involuntary acquisition" or who would be free of liability if the property fell into government hands.

President Trump's plan would clarify and expand CERCLA liability relief and make public entities eligible for grants as long as they did not contribute to the contamination and as long as they meet the obligations imposed on bona fide prospective purchasers (BFPPs) as described in CERCLA.

However, eliminating liability entirely could be a tricky move, especially when the state/municipality plans to sell or transfer ownership of a formerly contaminated site. There may not be enough protections in the proposal as it stands to make purchasing these properties attractive enough for private businesses or investors given third party liability concerns. The full extent to which these liability protections will extend is not yet clear.

How will the Infrastructure Plan's proposed expanded EPA authority impact the cleanup and reuse of Superfund Sites?

Under existing law, CERCLA provides only the President with the authority to enter into an administrative settlement agreement with any person to perform a response action. Additionally, it requires that when the EPA enters into a settlement for a remedial action with a potentially responsible party, the settlement must be approved by the Department of Justice and entered into the United States District Court as a consent decree.

Along with expediting the permitting process on infrastructure projects overall, President Trump's proposal would amend the law to give the EPA express authority to enter into administrative settlement agreements with BFPPs or other third parties who wish to remediate and reuse Superfund Sites, including partial and early remedial actions. In theory, this would expand the ability to cleanup and reuse Superfund Sites and eliminate delays due to negotiations in court.

For the time being, municipalities and companies will want to actively monitor the development of Brownfield and Superfund Site reform proposals. Further, as the Senate considers the House's version of the Brownfields Enhancement, Economic Redevelopment, and Reauthorization Act of 2017, it is worth keeping a close eye on how the President's proposal with regard to Superfund and Brownfields Sites will impact any final legislation.

Buchanan Ingersoll & Rooney PC

May 10, 2018

How Impact Bonds Can Save Taxpayer Dollars: Neighborly

The Massachusetts Bay Transportation Authority (MBTA), known to its Boston ridership as "the T", has a history of innovation. As North America's oldest mass transit system, it was home to the first subway tunnels and underground streetcars. The T formalized the first transit art program and was the first transit agency to offer mobile ticketing. In October 2017, we brought the spirit of innovation to public finance. Our team issued the first ever tax-exempt sustainability bonds, and perhaps more noteworthy, tested the hypothesis that issuing impact-focused as opposed to traditional bonds results in lower borrowing costs.

Sustainability bonds exclusively finance green and social projects. At the MBTA, we identified 74 projects within our 2018-2022 Capital Investment Plan that fit the strict definition of sustainability. These projects make our system more resilient to climate change, more energy efficient and more accessible. They reduce pollution, enhance safety and improve workplace conditions.

To finance the remaining projects, we issued traditional tax-exempt bonds. This created the opportunity to directly compare sustainability and traditional bonds. The two types of bonds were nearly identical: they had the same rating and average life, and both are large maturity size. Through a competitive pricing process, we were able to A/B test our hypothesis that impact-focused issuance translates to a lower cost of capital. These were the results:

1. More banks participated in the sustainability bond offering than the traditional bond offering
2. The banks that participated in both offerings submitted more aggressive bids on the sustainability bonds than the traditional bonds
3. The T's borrowing cost ended up being lower for its sustainability bonds than its traditional bonds

This is just a single data point, but as with our subway tunnels and mobile ticketing, we hope our sustainability bonds will be the first of many. We believe that being aware of our environmental and social footprint is critical to the long-term success of our organization. We also believe that the new breed of impact-seeking investors who supported our sustainability issuance will continue to do so in the future.

Neighborly

Posted 05/09/2018 by Paul Brandley

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Neighborly is providing this for informational purposes only. The information contained herein is believed to be reliable, but cannot guarantee its accuracy, nor can we guarantee past results will not be indicative of future results. Please consult your financial adviser before investing, as investing involves risk, including loss of principal. Neighborly Securities, Inc. is a member of FINRA and SIPC, and registered with the MSRB.

Can People Afford American Infrastructure?

While the first request most people make of their local infrastructure is one of physical reach—the idea that power lines, roads, broadband, and water pipes all connect to one's home—the next question is usually one of price.

If infrastructure is to function as a shared platform to promote economic prosperity, the price for these services should be readily affordable. In this case, that means every household can pay their water, energy, transportation, telephone, and internet bills—and still leave money left over to purchase other essential items like housing, food, clothing, and healthcare. In a country as wealthy as the United States, access to infrastructure is a necessity that should be available to everyone. Unfortunately, that's far from the case.

Accessing American infrastructure is a relatively expensive proposition, creating financial barriers to economic opportunity for many people throughout the country.

Continue reading.

The Brookings Institute

by Adie Tomer
Fellow – Metropolitan Policy Program

May 9, 2018

Fitch: Risk-Sharing Imperative for Light Rail Projects.

Fitch Ratings-New York-09 May 2018: Traffic congestion, lack of parking and numerous other factors are making what was considered by some to be an outmoded form of transportation desirable again for investors, according to Fitch Ratings in a new report.

Light rail transit systems are being installed again in major cities throughout the world. There are about a half-dozen new light rail projects under consideration by U.S. state and local governments. Meanwhile, light rail projects are proliferating more quickly in Canada with nearly a dozen new projects in various stages of procurement. Various light rail public-private partnerships (PPPs) are also underway in Europe, though most of those are for renovation and updating of existing light rails.

As with other forms of infrastructure, light rail PPPs come with varying degrees of risk as a project makes its way to completion. This is why risk sharing between the public and private sector is key in order for a light rail project to be completed on time and to perform well once it is operational according to Senior Director Scott Zuchorski.

'Transferring vehicle delivery to a proven private counterparty may be prudent, though risk allocated to the private sector comes with an inherent premium cost that must be factored-in,' said Zuchorski. 'Structural flexibility for delays from a timing and liquidity perspective is an important consideration when significant risk is allocated to the private sector.'

In the case of light rail projects, the following factors need to be carefully assessed to ensure that

the private sector is holding risks it can manage:

–Right of way;
–Geo-technical;
–Interface with third parties;
–Ridership levels; and
–Energy usage.

Issues such as these are inherent in Maryland's Purple Line project and will need to be taken into account for the upcoming LAX Automated People Mover.

'Assessing Risk in Light Rail PPPs' is available at 'www.fitchratings.com'.

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Taking on Walmart Is No Easy Fight for Cities.

Some towns have tried to force certain big-box retailers to pay higher wages.

Desert Hot Springs, Calif., is a bedroom community of 28,000 people, 110 miles east of Los Angeles. It's best known for its natural hot springs and spas, which bring in about $1 million in revenue each year. Otherwise, the city lacks jobs, especially ones that pay much above the minimum wage. Most residents commute out of town to work at nearby casinos, restaurants, hotels, retail stores and hospitals.

Councilman Russell Betts keeps track of the town's economic health through informal barometers. When times are good, the roads are crowded. For quite a while, he says, "there wasn't a traffic jam. People were just sitting at home, having a real hard time, not making money."

For years, officials in Desert Hot Springs have looked for ways to increase the city's median income — about $34,000 for a three-person household in 2016, roughly $20,000 less than the national average. They have pursued better-paying jobs not only to reduce poverty, but also to revive spending at local businesses around town. About four years ago, Betts and fellow Councilman Joe McKee proposed a solution: Walmart had bought a parcel of land and planned to open a store in town. Why not require it and other big-box retailers to pay workers a "good wage"? At the time, the minimum wage in California was $9. Betts and McKee introduced a bill that would inch up the lowest hourly wage at big-box retailers incrementally until it reached $12.20. After that, pay would be tied to the consumer price index and would rise automatically with inflation.

Continue reading.

GOVERNING.COM

BY J.B. WOGAN | MAY 2018

Laddered Muni Portfolios: A Potential Way to Hedge Interest Rate Risk.

The current rising interest rate environment, where the Federal Reserve has hinted toward multiple rate hikes per year in upcoming years, has fostered an environment of inflation growth. With an expected decline in purchasing power, fixed income investors are increasingly concerned about the negative impacts of rising rates on their existing, especially long-term, fixed income holdings.

Generally, investors are familiar with the inverse correlation between interest rates and bond values; however, investors with longer maturities are more vulnerable to the current interest rate environment and the forecast of steeper hikes in 2019 and 2020. The rate hikes and rise in inflation are indicative of growth and strengthening of the U.S. economy. Along the same lines, data from the U.S. Commerce Department indicate that the U.S. international trade gap has widened to $57.6 billion in February 2018, the largest since 2008, meaning that U.S. exports are growing, but imports are growing even more.

In this article, we will take a closer look at the current interest rate situation and how a laddered municipal debt portfolio can alleviate or help combat the risk of rate hikes on the values of your fixed income instruments.

Check out this article to determine whether muni bond ladders are right for you.

municipalbonds.com

by Jayden Sangha

May 10, 2018

Tension Bubbles Up Over Water Infrastructure Bill in Senate.

The prospect of making changes to federally-backed drinking water and sewer lending programs is proving to be controversial.

WASHINGTON — The waterworks financing legislation might be known as the “SRF WIN Act” for short, but a trio of groups in the water and wastewater sector are calling it a loser.

The American Water Works Association, the Association of Metropolitan Water Agencies and the Water Environment Federation came out swinging Thursday against the Securing Required Funding for Water Infrastructure Now Act, a bill that would blend elements of two federally-backed water and wastewater lending programs.

A day earlier, Sen. John Barrasso, the Wyoming Republican who chairs the Environment and Public Works Committee, left open the possibility that the bill could be included in a broader package of water infrastructure legislation that the committee hopes to pass this year.

Continue reading.

ROUTE FIFTY

By Bill Lucia,

MAY 10, 2018

With Self-Driving Cars on Horizon, Cities Worry About Parking.

Fleets of shared, on-demand, self-driving cars could be the death knell for parking fees, and that’s forcing cities, airports, and the municipal bond industry to devise new ways to extract revenue before it’s too late.

The future of transportation in metropolitan areas won’t be in individually owned cars, but rather in fleet-based, electric, and autonomous ones, planners and financial analysts told Bloomberg Government. It’s a trend with broad city-planning implications, from designing parking garages to tracking traffic patterns at airports.

Credit-rating agencies like Moody’s Corp. and S&P Global Inc. are closely watching how bond issuers forecast the consequences of falling income due to self-driving technology produced by Alphabet Inc.’s Waymo, Tesla Inc., Toyota Motor Corp. and others.

“There is going to be disruption,” Kurt Forsgren, U.S. public finance sector leader for S&P Global, told Bloomberg Government. “The question is, ‘At what rate?’”

Continue reading.

Bloomberg Government

Shaun Courtney

April 26, 2018

Brokers Polish Resumes as New Muni-Bond Rules Threaten Business.

- **Fee disclosures may curb trading by individual investors**
- **'They're expecting their flows to go way down,' firm CEO says**

Employees from banks and securities dealers have flooded investment firm Gurtin Municipal Bond Management with resumes, anticipating that new rules requiring them to disclose what they charge customers on trades of state and local government debt will shake up the industry.

The job hunting reflects anxiety that individual investors, the market's biggest customers, will revolt by shifting their money into mutual funds and other fee-based accounts, said Bill Gurtin, the chief executive officer of the Solana Beach, California-based company, which oversees $14 billion. His firm is one that stands to gain.

"They're expecting their flows to go way down on the retail side," Gurtin said in an interview.

Starting May 14, brokerages must begin reporting some of the fees they charge on municipal bond trades, which are currently hidden because they're embedded in the price brokers quote when they buy and sell bonds for their customers. Many investors probably don't know what they're paying, but it can be significant: They averaged about 1.1 percent on investment-grade bonds in 2016, or $1,100 for a $100,000 bond, according to S&P Global

Analysts are speculating that the revelation could accelerate a shift toward managed accounts by individuals who directly own about $1.6 trillion, or 40 percent, of the outstanding municipal securities. That's because the fees funds charge will look cheap compared with what it costs for individuals to trade on their own. They also provide diversification and services like credit research.

The shift toward professionally managed accounts is already well underway, in part because the record-setting bankruptcies of Detroit and Puerto Rico heightened investors' awareness of the risks associated with individual bonds. The amount of state and local debt held by mutual funds has nearly doubled since the end of 2008 and individual ownership has dropped, according to Federal Reserve Board figures.

The further decline in trading by individuals may lead dealers to reduce their already lean municipal-bond inventories and cut jobs dedicated to such trading, including strategist and analyst positions, Gurtin said. As bank inventories decline, it will be harder for them to serve clients because they don't have access to a wide network of bonds.

"It's going to make their job more difficult," Gurtin said.

He declined to name the firms currently employing the job seekers.

The greatest impact may be felt at small, regional brokerages that execute "odd lot" trades of less than $1 million, said Andrew Clinton, founder of Stamford, Connecticut-based Clinton Investment Management, which oversees $520 million of municipal bonds. Smaller trades make up the bulk of the market's daily volume.

The new disclosures are "absolutely going to hurt the retail desk at every shop from the biggest to the smallest," Clinton said. "If each time you do a transaction as an individual it costs you two points, you're probably less likely to do a transaction."

Bloomberg Markets

By Martin Z Braun

April 25, 2018, 8:39 AM PDT

Money On A Mission: Are Green Bonds Right For You?

The financial services industry is constantly developing new products to serve the ever-changing wants and needs of a diverse array of investors. While Wall Street financial innovation can lead to problems (e.g., the exotic mortgage debt instruments that helped fuel the 2008 financial crisis), investment banks occasionally launch new products worthy of investors' attention. I think green bonds are an interesting product that is worth considering for many investors.

Green bonds, like traditional bonds, are fixed income instruments that are used by governments, companies, and NGOs to raise capital through the debt markets. Their structure is not fundamentally different from the corporate bonds, government bonds, and municipal bonds with which many investors are familiar.

However, green bonds differ from traditional bonds in that the issuers of green bonds publicly state that the capital raised through the issue will fund projects, assets, or business activities with an environmental benefit. These activities might include renewable energy, sustainable forestry, or energy-efficiency projects, to name a few examples. Also, capital might be used to fund projects with social or community benefits, such as improving social services or increasing accessibility to healthcare.

In order to provide transparency to bondholders, green bond issuers typically provide periodic reporting on the use of funds and project success, though such reporting is not currently a requirement.

While green bonds are a relatively new phenomenon (the first green bond was issued in 2007 by the European Investment Bank), the global green bond market has grown from $810 million of new issues in 2007 to $155 billion worth of new issues in 2017. With new issuers and investors continuing to enter the market, the total value of green bonds outstanding was estimated to be as high as $335 billion worldwide as of the end of 2017.

While there is currently no standardized set of criteria for what qualifies a bond as "green," I expect this to change as the market develops. Several international organizations have developed guidelines that issuers are encouraged to follow in order to be able to label their bonds as "green." I expect that a single international green bond standard will emerge in the near future, which should only add to the credibility and size of the green bond market.

As an example, Apple (AAPL) entered the green bond market in 2016, issuing $1.5 billion in bonds, with the proceeds used to finance renewable energy, energy storage and energy efficiency projects, green buildings, and resource conservation efforts. Apple is undertaking these projects in order to reduce the company's carbon footprint and the carbon footprint of its supply chain. In issuing these bonds, Apple developed a green bond framework which was reviewed by a third party consultancy, while Ernst & Young was hired to conduct an annual audit to determine how the bond proceeds were used.

The increasing popularity of green bonds has coincided with the rapid development of the broader sustainable investing space, which now comprises nearly $23 trillion in assets globally. The dramatic growth of sustainable investing (which encompasses ESG, impact, and socially responsible investing), is indicative of an important and accelerating trend in investor interest regarding the way

in which firms are impacting and interacting with the environment and society as a whole.

While some might argue that this focus on corporate sustainability and responsibility does little more than make investors feel good, I would argue that it can reduce investment risk over the long term, and the research seems to agree with me. I believe it is important for investors to own investments which align with their personal values, but it is this potential for portfolio risk reduction that makes green bonds, along with other environmentally and socially conscious investments, especially interesting.

Given the multitude of risks that investors face nowadays, it can make sense to seek out investments in firms and projects which not only seek to minimize environmental, social, and governance risks but also actively pursue opportunities to make a positive impact in these areas. I believe green bonds represent such an opportunity, and I expect this to lead to continued growth of the space in the years ahead.

Nasdaq

April 23, 2018, 10:47:54 AM EDT By Matthew Blume, CFA

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of Nasdaq, Inc.

Financing The Future of Energy and Transportation in Cities.

Kristine Babick knows precisely how much work Washington, D.C. has to do to reduce greenhouse gas emissions. It's her job to know, as an analyst with D.C.'s soon-to-launch green bank.

"Seventy-five percent of our carbon emissions are from our built environment," Babick says of D.C. "This is currently close to double what other cities and jurisdictions have as their [built environment's share of] carbon emissions and sources of greenhouse gas."

D.C.'s is the latest on a list of green bank initiatives that are working to harness public and private dollars to transform energy and transportation systems. The city's mayor, Muriel Bowser, has pledged to make the U.S. capital carbon neutral by 2050.

"The amount of money that would be required to achieve a lot of those [climate] goals would be beyond the public capacity," Babick says, explaining why the District decided to launch a green investment bank. "There was a recognition that we needed to catalyze private sector investment in order to achieve a lot of these goals."

Continue reading.

NEXT CITY

BY ZOE SULLIVAN | APRIL 24, 2018

Infrastructure is Key to Economic Growth.

Lately, Americans are barraged with news stories about exciting developments in transportation technology or personal mobility that match our on-demand, life-at-our-fingertips society. Smart cities that monitor vehicle traffic congestion, or driverless cars and trucks that will convey people and goods to their destination on time — these are very compelling.

Yet these stories are missing a major fact: the underlying infrastructure needed to make such advancements in modernization possible is not getting congressional support needed to connect rubber and road, so to speak.

Senior representatives from the nation's cement and concrete companies — the North American Concrete Alliance — are here this week to help make the connection for Congress: you won't have strong, safe and long-lasting transportation networks and cities without taking action on infrastructure.

NACA comprises 12 cement- and concrete-related organizations that collectively represent 600,000 employees and contribute $100 billion annually to the U.S. economy.

America's cement and concrete industry are joining forces to urge Congress to take action on several fronts. We will be pressing lawmakers to act now — not next year, not in another Congress. How can a below-average national highway system, for example, rise to meet the vision for even greater transportation networks of tomorrow?

The cement and concrete industry is asking Congress to consider several key elements as part of any legislative approach that addresses infrastructure renewal.

The first is funding. Congress should pass a long-term, robust and sustainable funding mechanism that addresses Highway Trust Fund shortfalls, and allows for much-needed increases in highways and mass-transportation investments. Currently, lawmakers pay for highway upkeep through the fund, which is chronically under-resourced. All funding mechanisms should be on the table, including a fuel tax increase, a freight charge, a vehicle-miles-traveled tax and sales tax. Financing mechanisms, such as preserving the tax-exempt status of municipal bonds and lifting the cap on private activity bonds, should also be considered.

The second priority shifts from how you fund infrastructure to how you spend those funds. Our industry is seeking renewed competition for infrastructure projects to promote the best use of limited taxpayer dollars. To accomplish this,Congress should require the use of life-cycle cost analysis (LCCA) for infrastructure projects using federal taxpayer dollars. LCCA levels the playing field among project construction materials and enables competition in the marketplace. It is a long-proven, and widely supported process that helps planners, engineers and policy makers understand the full cost of a project over its lifetime, which results in greater accuracy, better performance and lower costs.

According to an analysis by economists from my organization, the Portland Cement Association, by leveraging LCCA on federally funded infrastructure, Congress can save $91 million for every $1 billion spent on infrastructure, or 9.1 percent. That means taxpayers would have saved $2.6 billion if Congress had included an LCCA provision in the FAST Act passed in 2015. If LCCA is incorporated in the Trump Administration's proposed infrastructure package, American taxpayers could see savings of as much as $90 billion.

Third, Congress should pass long-term Federal Aviation Administration (FAA) reauthorization legislation that increases funding for aviation infrastructure and critical agency operations. FAA reauthorization should provide robust funding for local agencies to use in improving safety, security

and both runway and terminal capacity.

Lastly, Congress should require the reauthorization of the Water Resources Development Act every two years and promote the use of resilient, durable and sustainable materials that protect health, life and property and facilitate commerce. By requiring sustainable materials and resilient construction techniques, water infrastructure will provide the best return on taxpayer investment, while using the latest technology and minimizing risk to life and property.

President Trump has reiterated his call for major infrastructure investment. Americans want strong, safe and smart transportation networks to make their lives, and the lives of future generations, better and more modern. Congress must act soon to pass an infrastructure package. U.S. cement and concrete producers are standing by.

THE HILL

BY MICHAEL IRELAND, OPINION CONTRIBUTOR — 04/23/18

Michael Ireland is president and CEO of the Portland Cement Association, which represents U.S. cement manufacturers

THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

Municipal Bond ETFs: Liquidity Impact on the Municipal Bond Market.

The Chief Economist of the MSRB examines municipal bond exchange-traded funds' relationship to municipal bond market liquidity.

Read the analysis.

Muni Bonds Drop Most Since February in Slow Reaction to Selloff.

- **Decline comes a day after Treasury yields breached milestone**
- **30-year municipal yields rise to highest since March 2017**

The municipal-bond market, a haven for buy and hold investors, isn't known for swift reaction times. And the delayed response to the Treasury market downturn this week is no exception.

State and local debt prices posted their biggest drop in more than two months on Wednesday, a day after Treasuries yields reached 3 percent, a milestone that traders have been eyeing for months.

Yields on top-rated municipal bonds climbed across the curve, with those on 30-year debt rising five basis points to almost 3.17 percent, the biggest one-day increase since February 2 and the highest since March 2017, according to Bloomberg indexes. That comes after investors pulled $766 million out of municipal-bond mutual funds in the week ended April 18, marking the third straight week that funds have seen investors retreat, according to the Investment Company Institute.

Municipal bonds have posted a 1.4 percent loss this year amid concerns the Federal Reserve will

raise interest rates at a faster-than-expected pace. R.J. Gallo, senior portfolio manager for Federated Investors, said the securities are tracking broader weakness in the bond market.

“All year long, every major fixed-income asset class is posting negative total returns –munis as well,” he said.

Bloomberg

By Amanda Albright

April 25, 2018, 10:09 AM PDT

— *With assistance by Taylor Riggs*

Mutual Funds Stand to Gain as Muni Buyers Get First Look at Fees.

- **Markups on some trades will be disclosed starting May 14**
- **Trading costs can consume several months of investment returns**

On May 14, the municipal-bond market’s biggest investors may be in for a shock.

That’s when new rules will require brokerage firms to start disclosing some of the fees they charge individuals to buy and sell state and local government debt. Those fees, which firms build into the trades by marking the price up or down, can be substantial: They averaged about 1.1 percent on investment-grade bonds in 2016, or $1,100 for a $100,000 bond, according to S&P Global. With 10-year AAA bonds yielding 2.5 percent, those transaction costs can eat up several months of a returns.

The revelation could accelerate a shift toward mutual funds and other fee-based accounts by individual investors who own about $1.6 trillion, or 40 percent, of the outstanding municipal securities, more than any other group. That’s because the fees they charge will look cheap compared with what it costs for individuals to trade on their own.

“Why pay a point to buy bonds when you can pay a few basis points a year to a mutual-fund provider and you get diversification and you don’t have to worry about a singular credit risk that comes with munis,” said Matt Fabian, a managing director at Municipal Market Analytics.

The new regulation from the Municipal Securities Rulemaking Board is the result of a push to inject more transparency into the state and local market, a haven for individuals seeking a safe source of tax-exempt income.

It comes as the shift toward professionally managed accounts has already gained steam as the record setting bankruptcies of Jefferson County, Alabama, Detroit and Puerto Rico heightened investors awareness of the risks associated with individual bonds. Mutual-fund holdings of state and local debt has nearly doubled since the end of 2008, during the height of the credit-market crisis, according to Federal Reserve Board figures.

But the impact of the fee disclosures may be limited in part by loopholes that regulators left in the new rules. Disclosure of mark ups to retail investors — both as a dollar amount and as a percentage of the prevailing market price — are required only when the dealer trades the same security that day. Moreover, the size of the dealer’s trading must equal or exceed the size of the customer’s transaction.

If a dealer had a bond in inventory and then sells it to a customer, that markup won't be disclosed. Nor will it be when a customer buys bonds issued on the first day of an initial offering.

Still, the requirements will affect a sizable number of trades. The MSRB, which writes regulations for the market, said it may affect more than 8,000 retail transactions each day.

The exceptions may bring some initial confusion, as markups are disclosed on some trades but not others. Brokers will need to spend time explaining the discrepancy and how the markups are calculated, said Patrick Luby, an analyst who follows the municipal securities industry for CreditSights Inc. And determining the market price used to gauge the markups can be complicated depending on when the trades occur.

"Asking them to take more time to explain a municipal bond trade isn't a welcome proposition, because they're already stretched pretty thin," said Luby. Time pressures on brokers may also lead them to pitch clients fee-based accounts, he said.

Municipal-bond fund managers have welcomed the rule, anticipating that new clients may emerge when they see how costly it can be to build a portfolio of sequentially maturing bonds — a practice known as laddering — on their own.

"The perception up to this point is that laddering a municipal portfolio is 'cheaper' than hiring an active manager," said Andrew Clinton, founder of Stamford, Connecticut-based Clinton Investment Management, which oversees $430 million of municipal bonds. "The clients never saw the actual transaction costs and assumed, inappropriately, that they were getting that service for free."

Gurtin Municipal Bond Management charges 0.14 percentage point to ladder a portfolio, depending on the strategy, said chief executive officer, Bill Gurtin. His firm oversees $14 billion municipal assets.

"Not only are you getting proper execution and proper value, you're also getting ongoing surveillance," transparency of fees and returns, and a manager that, unlike a broker, is legally required to act in a client's best interest, said Gurtin.

"It's hard to argue that the resources behind a professional manager aren't substantially greater than behind a broker buying bonds on behalf of a client," he said.

Bloomberg Markets

By Martin Z Braun

April 23, 2018, 8:41 AM PDT

Tobacco Refundings Erode High-Yield Muni Debt, Squeeze Investors.

NEW YORK (Reuters) – A series of big tobacco bond refundings is reshaping the U.S. municipal junk bond market, taking what has been a high-yielding staple and slowly turning it investment grade.

The change means that investors are increasingly struggling to find the same high yields in comparable securities, a problem compounded by even more investors flowing into the asset class.

"One of the largest sectors in the high-yield universe is shrinking," said William Black, senior

portfolio manager at City National Rochdale in Chicago.

The specialized bonds stem from a 1998 settlement with cigarette makers, which agreed to make annual payments to U.S. states to cover medical costs of sick smokers.

Over the intervening years, at least 21 states and territories, and separately some cities, securitized that stream of money by selling municipal bonds backed by the expected payments.

Since the start of 2016, states and cities have refunded more than $6.2 billion of their old tobacco bonds, according to Thomson Reuters data. Some of the deals are transforming junk-rated debt into investment-grade assets and squeezing high-yield investors.

When that money is returned to investors in a tobacco refunding, it is harder for them to find similar places to put it back to work.

“Mutual funds, along with the ETFs… are looking at the likelihood of seeing cash backing into the portfolio when these bonds are called away and not having a lot of choices for replacement,” said James Colby, who manages muni ETFs for VanEck.

In Colby’s custom high-yield reference index, the weight for tobacco is 15.25 percent, down from 20.70 in January 2016. The shrinkage is a direct result of tobacco refundings, he said.

Tobacco bonds comprised 15.5 percent of the S&P Municipal Bond High Yield Index at start of 2016 but have now fallen to 14.4 percent, a 7 percent decline.

Compounding the crunch is strong demand for high yield muni funds, with investors pouring money in for eight straight weeks and causing more people to chase after fewer tobacco bonds.

Flows into high-yield muni bond funds have been positive every year since 2014, with $7.5 billion of inflows last year alone, according to data from Lipper, a Thomson Reuters unit.

Those investors are likely chasing yield. The S&P Municipal Bond Tobacco Index returned 8.40 percent over the past year, compared with just 3.17 percent for the broader high yield index and 1.64 percent for the overall AMT-free national muni bond index.

For a factbox of refunding deals, click here:

PHOENIX FROM THE ASHES

In 2007, issuers sold $16.9 billion of tobacco bonds altogether, the biggest year of issuance on record, according to Thomson Reuters data.

Most bonds are callable after a decade, so some of these deals are coming back for reworking since last year’s 10-year anniversary.

Another $10.4 billion was issued in 2005 and 2006, adding to the pile of tobacco debt now being refunded.

For an interactive graphic of tobacco bond issuance, click here: tmsnrt.rs/2I3Joph

The same firm – Jefferies LLC – has underwritten every tobacco deal since 2016. Jefferies declined to comment.

Over the years, many tobacco bonds have been downgraded as more smokers than anticipated quit.

That is because revenues to the states from the 1998 settlement are based on the volume of cigarettes shipped.

But now, the ratings are moving back up as old bonds get reworked.

The high ratings have mostly been driven by new cash flow structures and, in some cases, higher payments from the tobacco companies after the resolution of legal disputes, S&P structured finance analyst Christine Dalton told Reuters.

New Jersey refunded $3.15 billion of tobacco bonds in April, exchanging speculative 'B' rated debt for investment-grade bonds. The deal will generate $162 million in present value savings for the state, said New Jersey Treasury spokeswoman Jennifer Sciortino.

The state could use the cash. The second-lowest-rated U.S. state, New Jersey needs nearly $1.6 billion of tax hikes to cover its spending needs next fiscal year, Governor Phil Murphy has said.

States can benefit from using one-time revenues – like from a refunding – for one-time expenses.

"If there's money on the ground, you can't blame someone for bending over to pick it up," said S&P public finance analyst David Hitchcock.

by Hilary Russ

MAY 2, 2018

Energy Northwest Tops U.S. Muni Bond Sales Next Week.

NEW YORK, May 4 (Reuters) – Energy Northwest in Washington State will price $635 million of electric revenue refunding bonds on May 9, the largest deal in next week's estimated $7.2 billion of U.S. municipal bond and note sales.

The deal includes $230.7 million of tax-exempt bonds for the agency's Columbia Generating Station and $400 million for "Project 3" and about $5 million of taxable bonds.

The bonds are supported by net billing agreements with the Bonneville Power Administration (BPA), a regional power marketing agency within the federal energy department.

BPA is facing headwinds in the wholesale power market, where prices have been depressed in recent years by low natural gas prices as energy firms pull record amounts of the fuel from shale formations.

From 2013 to 2017, average prices at the Mid Columbia hub near the Oregon-Washington border have averaged $30.27 per MWh, compared to $44.33 over the prior 10 years.

Those headwinds, as well as implementation of policies that favor customers, have led to "an erosion of financial strength that weakens BPA's position in its rating," Moody's Investors Service said on Tuesday when it rated the deal Aa1.

BPA's recent strategic plan laid out objectives that could help its credit rating, including a goal of reducing its debt ratio and maintaining a $1.5 billion line of credit from the U.S. Treasury.

But the goals may not be enough to stop its credit deterioration if they fail to “translate into robust actions,” Moody’s said.

“The extent of any credit benefits of BPA’s new strategic goals should become evident by the end of this year when BPA files its initial proposal for the FY2020-2021 rate case,” Moody’s said.

Under a regional cooperation debt agreement implemented in 2014, Energy Northwest issues refunding bonds to extend the maturities of outstanding debt so that it more closely matches the lifespan of the facilities it finances, according to an investor presentation.

Energy Northwest, a Washington State joint operating agency, owns and operates the Columbia Generating Station, the only commercial nuclear energy facility in the region.

Project 3 is a nuclear electric generating facility in Satsop that was never fully built, shuttered in 1994, and later transferred to a coalition of local governments for remediation and economic development. Energy Northwest pays to maintain the site.

The deal is led by senior manager JPMorgan.

Reporting by Hilary Russ Additional reporting by Scott DiSavino; Editing by Richard Chang

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Fitch: U.S. Pension Contributions Trending Higher but Pace Slowing.

Fitch Ratings-New York-01 May 2018: Actuarial pension contributions of state and local governments are and will continue to grow over time, though the pace has slowed following the rapid increases that took place immediately after the Great Recession, according to a new report by Fitch Ratings.

Following a high water mark of 8.6% in fiscal 2011, the median actuarially determined contribution (ADC) rose only 3.5% last year. Actual contributions rose marginally quicker (3.7%), as governments continue to pay a larger share of what actuaries target for supporting pension systems. However, pension contribution growth has been far faster than the growth in state and local tax resources. State and local tax resources are about one-third higher than a decade ago, while pension ADCs are 74% higher.

Though the pace has slowed, the contribution burden of pensions is likely to continue rising, according to Senior Director Douglas Offerman. “ADCs must rise further to cover asset performance that over time is unlikely to match the investment return targets that plans set for themselves,” said Offerman. “Slower ADC growth is taking place against a backdrop of longer-term unfavorable factors that will continue to push the carrying costs of pension liabilities higher over time.”

Actual contributions to pensions have risen faster than ADCs as governments have responded to pension funding concerns by paying a higher share of their ADCs. Two-thirds of major pensions are receiving at least the full ADC in fiscal 2017, the highest level in the last decade. Despite this positive trend, the willingness of states and local governments to make full ADC is generally cyclical. Fitch sees this as a negative over time. “The damage done by weak contribution practices is higher today compared to decades past because pension systems are more mature, with less favorable demographic and cash flow profiles,” said Offerman.

‘Slower Growth in Pension Contributions’ is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Muni Bonds Stage Biggest Rally in Six Weeks on Fed Outlook.

- **Long end leads gains, with 30-year yields down 5 basis points**
- **Gains come after munis cheapened last week against Treasuries**

Municipal bonds rallied Thursday, pushing yields down by the most in six weeks, after the Federal Reserve signaled it will allow inflation to run slightly above its target, a less hawkish tone than some investors expected.

The gains were led by the longest-dated securities, with 30-year yields falling 5 basis points to 3.03 percent by 1 p.m., according to Bloomberg's benchmark indexes. Ten-year yields dropped 4 basis points to 2.47 percent.

The move came after municipal debt yields rose relative to Treasuries last week, making state and local bonds more attractive by comparison. Treasuries also gained after Wednesday's Fed meeting.

"Munis underperformed across the curve and looked cheaper," said Peter Block, managing director at Ramirez & Co., a New York-based brokerage. "Supply is low this week, there's a lot of money on the sidelines and we looked attractive."

Bloomberg

By Danielle Moran

May 3, 2018

The Muni-Market's Terrible, Horrible, No Good, Very Bad Year.

- **Falling sales squeeze underwriters while investors see losses**
- **'It's a bumpy time when rates are going up," investor says**

This year is turning out to be one many in the municipal-bond world would rather forget.

Thanks to a federal tax-overhaul that caused a rush to borrow last year and curbed governments' ability to refinance debt, new bond sales have shrunk by 20 percent, cutting deeply into underwriting fees. Trading is down. Demand has dropped from some of the market's major buyers, banks and insurers, because tax rates were lowered. And with interest rates headed higher, the

securities have handed investors a loss of 1.4 percent, marking the worst start to a year since 1996.

“We have been stuck in such a low interest rate environment for so long,” said Ross Maynard, director of client portfolio management at Ascent Investment Partners, which holds about $500 million of municipal securities. “We always knew the transition period wasn’t going to be comfortable. I think we’re very much in that right now.”

The municipal market isn’t the only one whipsawed by worries about tighter monetary policy, and tax-exempt debt has posted smaller losses than corporate bonds or Treasuries, thanks in part to the drop off in supply. Moreover, higher yields will eventually draw in investors, whose returns have been restrained by a decade of low interest rates.

But for now, that may be little consolation, with investors pulling money out of municipal mutual funds for the past four weeks. Firms including Piper Jaffray Cos., Raymond James Financial Inc. and the Royal Bank of Canada said their investment banking divisions have also been hit by lagging debt sales in the first quarter.

“If rates are going up and good-quality municipals are giving 4 percent or more in tax-free cash flow, over the long term that’s going to be good for people in high tax brackets,” said Jim Pratt-Heaney, chief investment officer at Coastal Bridge Advisors in Westport, Connecticut. “It’s a bumpy time when rates are going up.”

Analysts say the market may be bolstered in the next few months as the amount of money investors receive from maturing debt and interest payments outstrips the supply of new bonds. That augurs well for demand, given that bond payments are frequently reinvested. Over the next month, some $9.3 billion of municipal debt is set to be sold, far less than the $19.7 billion bondholders will get from securities that are being paid off, according to data compiled by Bloomberg.

Ascent’s Maynard, like many investors, is buying shorter-dated debt, which is less sensitive to interest-rate changes and is one of the few niches to deliver positive returns. He said it’s a fools errand to try to predict which way the market will shift over the near-term — given that bullish analyst forecasts for January proved off base.

“You might as well be at the craps table,” he said.

Bloomberg

By Amanda Albright

May 2, 2018, 10:29 AM PDT

S&P Global Toll Road 2018 Sector Outlook: Increasing Traffic Growth Will Largely Support Credit Stability.

S&P Global Ratings’ 2018 outlook for business conditions and credit quality for rated toll road facilities across Canada, Europe, Latin America, and Asia-Pacific is stable. The exception is the U.S., where the toll sector outlook is positive.

Continue Reading

Apr. 30, 2018

S&P Credit Conditions: U.S. State And Local Government Are Experiencing An Upswing, But New Risks Could Threaten The Momentum.

With economic growth accelerating, credit conditions across the U.S. state and local government sector continue to firm. The current expansion, which was already entering the mature phase of the cycle, received additional support in the form of federal fiscal stimulus (tax cuts and increased spending) in recent months.

Continue Reading

Apr. 26, 2018

Hacking Threat Comes Into Focus for Municipal Finance.

As computer hackers become more creative in their attacks on government enterprises, different segments of the municipal industry are being forced to react.

“Everyone saw what happened in Atlanta and thinks that could be us,” said Richard Lllewellyn, Los Angeles’ chief administrative officer.

In late March, a hacking crew calling itself the SamSam Group froze a wide range of Atlanta city systems for five days and demanded a ransom equal to $51,000 in bitcoin. The hackers snarled a broad range of online systems, forcing city workers to swap electronic systems for paper, with computers rendered useless while the city worked for five days to restore service.

The Atlanta hack spared the 911 system, but the story was different in Baltimore, where the automatic dispatch system at the 911 center was shut down for an entire Sunday in March while technicians worked to restore a server breached by hackers.

Colorado’s Department of Transportation was recovering from a February attack that froze 2,000 computers when the system became re-infected. The hack, considered a variation of the SamSam ransomware that struck Atlanta, locked computer files and demanded a ransom for their safe return.

Conversations with S&P Global Ratings analysts and an FBI agent made Tom Kozlik, a PNC Bank credit analyst, realize “there isn’t much the FBI or other authorities can do to stop those kinds of ransomware attacks.”

The issue has become so commonplace that municipalities are being advised to describe the risks in bond offering documents.

Los Angeles Mayor Eric Garcetti launched the LA CyberLab in August to share information about cybersecurity threats with businesses in the city. The lab, a public-private partnership, helps to thwart cyber criminals by disseminating information and intelligence based on the analysis of more than one billion security-related events and over four million attempted intrusions into city networks per day, according to the mayor’s office.

The problem has struck close to home; the Port of Los Angeles' largest terminal was closed for several days in 2017 when the NotPetya computer worm struck shipping firm Maersk, slowing its computers' functions to a crawl.

In February, a Houston man was indicted on charges of using the Los Angeles Superior Court system to send phishing emails to direct people to a fake American Express website.

Earlier, Garcetti spent federal funds on efforts like installing Splunk, data management software that centralizes cybersecurity monitoring.

New York Mayor Bill de Blasio announced last week the city would add $41 million to its fiscal 2019 budget for cyber security projects.

De Blasio pointed to the attack on the United Kingdom's National Health Service, where medical personnel could not access patient records, putting lives at risk.

Cities have to weigh the cost of the ransom against the millions it would cost to fix systems that were electronically torched by cyber criminals.

Colorado didn't pay a ransom, but Atlanta did.

The FBI's advice runs counter to the popular belief perpetuated by movies where authorities instruct victims against ransom payments, Kozlik said.

When FBI special agent Darin Murphy gave a presentation to members of the Philadelphia Area Municipal Society in April, he told them that it was a business decision for each government, Kozlik said.

A city has to weigh paying something like a $25,000 ransom versus millions of dollars to repair a corrupted computer system and losing revenue while the system is down, Kozlik said.

Kozlik issued a commentary on the subject in April, and plans to spend the next few months analyzing the threats to municipal credits to offer more detailed guidance.

Orrick, Herrington & Sutcliffe advises clients in nearly every case to include information about cyber security in bond offering documents, said Roger Davis, co-chair of the firm's public finance department.

"It might be a separate section, or it might just be a risk factor, but almost all of the transactions I can think of lately have included some disclosure or advice on cyber security," Davis said.

He said it has been at least a year and a half since Orrick began including information in bond documents.

California had one of the largest examples of a municipal market data breach in 2015, when hackers broke into the UCLA hospital network accessing the records of 4.5 million people. UCLA's hospital network includes four hospitals and 150 offices across southern California.

The trigger for S&P to begin considering the potential credit risk for muni credits came after South Carolina's tax filings were hit in 2015, said Geoff Buswick, an analyst. The amount of taxes paid or returns received were posted to an email group, Buswick said.

Since then, it has become more common to see such online crime happen to cities and school

districts, Buswick said.

S&P pulled a group together in January 2017 to draft a reference guide on potential credit risks from cyber attacks, Buswick said.

The analysts looked at what the federal government was advising state and local governments, and the guidelines laid out by the Multi-State Information Sharing and Analysis Center of the Center for Internet Security, a non-profit entity that coordinates the IT industry to safeguard private and public organizations.

S&P has not created a separate criteria for evaluating municipal cyber risk, but advises analysts to start asking municipalities questions about their defenses and how prepared they are in the event an attack occurs. Many of the questions fall under the analysis of how well a municipality is managed. S&P also asks if a municipality has insurance coverage.

S&P has yet to downgrade any municipal credit because of cyber risk, but Buswick said what happened to Lansing, Michigan is a good example of how these attacks can act as a stress test of sorts and reveal other weaknesses.

The Lansing Board of Water & Light paid the ransom of $25,000. It was insured, but when its system was attacked officials decided it was too vulnerable and replaced it at a cost of $2 million, Buswick said. The $800,000 in insurance did not cover that expense. If the city had been facing a liquidity crunch and it had not been able to cover the additional $1.2 million expense, its ratings could have been impacted, Buswick said.

In Atlanta, residents still can't pay their water bills online, Buswick said. In that attack, he said, the hackers tried every possible combination of password they could until they could get in.

Georgia has a strong system and has worked with Atlanta on protecting its computer network.

"They have done best practices to try to protect themselves, but attackers are getting more sophisticated," he said.

Moody's Investors Service views "cyber risk as event risk – an incident with a low probability, but potentially high impact," said Joe Mielenhausen, a spokesman.

"Our fundamental credit analysis for municipalities incorporates numerous stress tests, and a cyber event could trigger one of those stress scenarios," Mielenhausen said. "Cyber attacks can shut down service and increase near-term costs for local governments, but ultimately they are manageable assuming the government has ample liquidity and other preparation measures in place."

Aravind Swaminathan, a partner in Orrick's Seattle office, said cities have to maintain ongoing surveillance, because as soon as they overcome one tactic hackers find another method of access.

Swaminathan, a prosecutor in the Department of Justice's computer hacking and intellectual property section for six years before joining Orrick, works with Davis in guiding clients on more than bond disclosure. He is also co-chair of the firm's cyber, privacy and data innovation group.

Municipalities that are not public finance clients are turning to the firm for help in creating a defense system against hackers, meeting federal guidelines on such systems, and determining the best way to handle a data security incident, Swaminathan said.

The team also aids clients if they are facing regulatory or class action lawsuits when protections fail.

“Our practice has handled 350 data security incidents in the past four years,” he said. He did not know what percentage were municipal versus private industry breaches.

“This is a world that is bound only by the creativity of the bad guy, which seems to be limitless,” Swaminathan said. “We are becoming more aware, but the bad guys are evolving just as we are.”

Paul Burton contributed to this report.

The Bond Buyer

By Keeley Webster

May 03 2018

S&P: For U.S. States, A More Positive Tone Emerges For Fiscal 2019 Budget Process; Can It Last?

With the economy settling into the mature phase of its nearly nine-year expansionary cycle, the approaching fiscal 2019 budget picture for U.S. states is more sanguine than it has been in several years. Not only are revenue collections in most states higher than at this point in 2017, tax receipts are also surpassing fiscal 2018 budget estimates.

Continue Reading

May 1, 2018

USDA Seeking Applications for Community Facilities Program.

Click here to learn more.

Municipal Bonds Weekly Market Report: Strong Wages Data Suggests Fed Could Raise Rates Four Times.

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 mixed, while municipal yields all gained.
- Muni bond funds saw inflows, a reversal of three consecutive week of outflows.
- Be sure to review our previous week’s report to track the changing market conditions.

Continue reading.

by Brian Mathews

May 01, 2018

Municipal Bonds Weekly Market Report: Fed Keeps Rates Level, While Unemployment Drops to 3.9%.

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 mixed, while municipal yields all fell.
- Muni bond funds saw outflows, a reversal of last week's inflows.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

by Brian Mathews

May 08, 2018

Climate Battle Opens New Front; Another Update on Airport Parking Issues; Ballot Initiative Proposed for Minnesota Roads.

This Issuer Brief is brought to you by Court Street Group and Neighborly.

Climate Battle's New Front

It is not a coincidence that the oil industry has asked the Securities and Exchange Commission (SEC) to investigate whether cities that have filed suit against it have themselves committed disclosure violations in their prospectuses related to the potential impact of climate change on their ultimate creditworthiness. Exxon has filed answers to suits filed by several municipalities which seek to flip disclosure responsibilities back onto issuing entities in their efforts to have the municipal suits dismissed. The municipalities seek records to investigate whether the oil and gas giant knew about the role fossil fuels played in climate change. Last week, the highest court in Massachusetts ruled against Exxon Mobil in the company's bid to block the state's attorney general from obtaining records to investigate whether Exxon knew about the role fossil fuels played in climate change.

The court concluded that the state attorney general had jurisdiction to investigate the climate-related offenses by Exxon, which included probing whether the company violated the state's consumer protection law when it marketed or sold its products. In 2015 internal communications, they appeared to show the company knew of the significant role burning fossil fuels played in climate change.

The request from Exxon to the SEC is seen as an effort to intimidate the municipalities from pursuing their lawsuits. The Massachusetts ruling would seem to support continued pursuit of the cities' litigation goals, although it must be noted that the Massachusetts circumstances were favorable to the Commonwealth's arguments. The cities hope to achieve something along the lines of the Master Settlement Agreement reached with the tobacco industry.

Should such an outcome arise, a pool of funding would result on an ongoing basis for settling plaintiffs. When the tobacco settlement was reached, the hope was that the revenues would be used primarily to address healthcare funding. It is likely that many would hope that any revenues resulting from these climate-related legal actions might be applied to efforts to fund resilience projects or other climate change mitigation efforts. In truth, the likelihood is that any revenues would be used for general budget purposes as states and municipalities remain squeezed to meet current expense demands.

Another Update on Airport Parking Issues

We have been talking about the pressures we see on the airport parking component of the airport revenue credit stream. The potential impact of ridesharing and other transportation technologies on these revenue streams has significant potential effects on this credit structure. So we view with interest any expressions of views on these credits as events warrant.

This week we see Standard & Poor's announcing that it has changed its outlook on BWI Airport Parking Revenue Bonds from positive to stable. S&P notes that there has been strong demand at BWI because enplanements increased to 12.9 million in fiscal 2017, a record for the airport. Given that origination and destination traffic represents about 70% of enplanements, there is robust demand for the about 25,000 parking spaces available.

S&P sees the airport as having pricing power in the face of this demand and that it charges the same or lower rates than nearby off-airport parking facilities. There is limited parking nearby, because the MAA captures 78% of the market share, but also faces competition from rail and transit networking companies. It did not discuss any impact from ridesharing but it also noted that the operation generates excess revenues available, after meeting the project's required funding requirements, are transferred to the transportation trust fund at the Maryland Department of Transportation (MDOT). So there are consequences besides the bonds if revenues should come under pressure.

In Rhode Island, ridesharing has moved front and center at Providence's T.F. Green Airport. Uber announced it will be moving its passenger pickup operations off T. F. Green Airport property after failing to reach an agreement on the fee the airport charges its drivers. Uber claims that the move was driven by the airport corporation's move last summer to double, from $3 to $6, the fee it charges Uber drivers waiting to pick up arriving passengers. Uber said it is the highest fee among U.S. airports. In contrast, taxis pay $1.50.

Both sides blamed the other for the standoff. The airport points out that it only charges for dropping off passengers whereas other airports charge for both drop offs and pickups. The RI Airport Commission cited their view that this is a tactic Uber is employing at every major airport in the country and considers the approach by Uber to be heavy handed. It is likely that this could be a process we see at airports across the country as the impact of ridesharing becomes clearer. Uber is not used to seeing its aggressive tactics cause them to lose out. In the end however, the will of the consumer will win the day so it is not clear as to whether this is the beginning of a trend or the last gasp of an existing business model.

Ballot Initiative Proposed for Minnesota Roads

A proposal to amend Minnesota's constitution has been introduced that would dedicate funding for transportation projects. If voters approve, more than $250 million collected annually from existing auto parts, leases and rental sales taxes would be used exclusively to bolster the state's transportation network. The plan would require legislative approval before it went to the voters. The American Society of Civil Engineers said in a 2017 study that about 6% of the state's bridges are

structurally deficient, and 15% of its roads are in poor condition.

Supporters say 0.6% of the general fund — the state's operating budget — would be prioritized for transportation infrastructure upgrades. Of the $250 million collected from the sales tax on auto parts, $145 million is slated to be dedicated for roads and bridges by fiscal 2020. The taxes are not new — the amendment would make the dedication permanent.

The Governor said the transfer would "undermine the structural surpluses in future bienniums," and other opponents cite the dedication only to road and bridge projects but not to mass transit. Others fear shifting the money exclusively to roads and bridges would come at the expense of education and health and human services. Even though the amendment deals with existing taxes, there is ideological opposition to making them permanent.

The debate is symptomatic of the larger tax debate. Even in the face of clearly defined needs whether they be transit, health, education, or pensions, the starve the beast ideology is powerful and remains a real roadblock to state credits regaining their fiscal strength at pre-recession levels.

Posted 05/04/2018 by Joseph Krist

Ridesharing Continues to Grow at Airports; P3s in PA; and Washington Transit Hits a Snag.

These Insights are brought to you by Court Street Group Research.

Ridesharing Growing at Airports

HTNB is an infrastructure advisory firm which recently released a survey of how airline get passengers get to and from airports. The findings highlight trends which, if they continue, will impact airport and related credits. The HNTB survey found that while the use of ride-sharing services is relatively low compared to other available alternatives, it is increasing. Almost four in 10 (37%) responding air travelers have used ride sharing to get to and from airports. Among this group, 42% have used it within the past year, a notable increase of three times versus 14% in the past one to three years.

HTNB identified one element which is increasingly troubling to analysts of these credits. "This rapidly growing inclination to use ride-sharing services for travel to and from airports is important on many levels, including the potential of increased vehicular congestion at airports as well as impacts it will have for traditional airport revenue sources. One direct revenue example could result from people who use ride-sharing instead of driving themselves and no longer needing parking on-site at airports."

In addition to a negative impact on the contributions of parking revenue to general airport revenue bond support, a decrease in demand for rental cars would negatively impact debt backed by revenues derived from stand-alone rental car facilities.

As we wrote recently, more airports are considering user fees for ridesharing companies. The Tampa International Airport (TIA) has begun collecting a per-trip fee on commercial ground transportation vehicles to be phased in over a three-year period. The Hillsborough County Aviation Authority voted to implement the new fee structure starting last August for transportation network companies (TNCs) — such as Uber and Lyft — through the approval of their use and permit agreements. All

other ground transportation vehicles such as taxis, limousines and hotel courtesy buses began the new fee structure in February 2018, when a new tracking technology became available.

We expect this trend to continue.

P3 Progress in the Keystone State

The Pennsylvania Department of Transportation announced last week that the Rapid Bridge Replacement project, the state's public-private partnership (P3) for bridges had 390 bridges complete and open to traffic with 50 under construction. Through the project and other PennDOT investments, more than 1,600 bridges were repaired or replaced from 2015-2017 and the number of structurally deficient state-owned bridges, or bridges considered in poor condition, has dropped to 3,098 from a high of more than 6,000 in 2008.

The private group, Plenary Walsh Keystone Partners is financing, designing, constructing and maintaining the bridges. PennDOT will be responsible for routine maintenance such as snow plowing, debris removal and incident first response. The consortium of companies within the development entity includes, Plenary Group USA Ltd. and Walsh Investors, LLC, which are providing financing and long-term management; a joint-venture construction team of Walsh Construction Company and Granite Construction Company; HDR, Inc., which is the lead design firm; and Walsh Infrastructure Management, which will provide maintenance for a 25-year period upon completion of the bridges.

As we have noted before, there is a place for private capital in the municipal space, including user fee-supported projects and P3s. Policy-wise, this has always been the case, but getting voters to approve capital spending for these projects has been difficult. The classic case is the Interstate, where the attitude is often "this was already paid for," despite the fact that major maintenance now will cost 10-20 times as much as the original project. There are also entrenched political resistances to user pay, such as from trucking companies on highways, but this is a transition that will likely have to happen given the current political climate in Washington in which federal funding has not been increased and doesn't appear to be coming any time soon. The lack of an infrastructure bill will require state and local governments to find more sources of capital for projects.

Washington Metro Funding Hits a Snag

Virginia's House of Delegates voted 50-48 to block proposed Northern Virginia hotel and real estate transfer tax increases to pay for Metro. The proposed changes included increasing from 2 to 3% the tax on hotel stays in areas served by or soon to be served by Metro and an increase in a real estate transfer tax from 15 cents to 20 cents per $100 of assessed value.

The result is that to meet Virginia's share of regional funding costs for the Metro, money in the Commonwealth's transportation budget must be reallocated from road projects throughout Virginia. The rejected plan would have effectively resulted in Northern Virginia residents paying for a transit system that primarily serves them. Now, the entire transportation constituency in Virginia will effectively pay for a regional asset.
The actions in Virginia highlight the ongoing difficulties that the DC Metro system faces in maintaining its capital assets in the face of operating difficulties and customer dissatisfaction. The choice as it is being posed by the states of Maryland and Virginia as one between roads and mass transit. This comes at a time where the provision of transit facilities – mass or individual – nears an inflection point in terms of public attitudes and demands, funding, and technology.

The situation is instructive as the federal debate with different interests being pitted against each

other as the result of the Administration's less than robust funding proposal inherent in its infrastructure plan. The question is no longer roads versus mass transit but what kind of roads and vehicles are going to be developed, what modes of transportation will be available and desired, and how are these changes going to be funded. That discussion seemed to get lost in the debate over relatively small amounts of funding in the Virginia legislature.

Vernon, CA Adopts Utility Tax to Reform Finances

Vernon, CA is a small industrial city in Los Angeles County constructed almost entirely to support industry. Business located there are heavily concentrated in the food processing, chemical processing and container packaging sectors. There are only 87 registered individuals registered to vote in the City versus more than 1,900 businesses located there. Over time, this has created some problems for the City's financial operations especially its electric system which sells 99% of its load to the industrial entities located in the City. The City has historically depended on subsidies transferred from the revenues of the electric utility to fund General Fund expenses.

Now, the City's residents have taken a step to address that relationship. Last week, voters approved a 6% tax on industrial utilities consumption that the city projects will add around $12 million annually to the its general fund for the next decade. This money will replace transfers from the utility to the general fund. This will provide more liquidity to the electric utility as well as provide a more stable revenue stream to the City. Cash transfers from the utility historically comprised about 25% of total inflows to the City's account; without the payments, the City would have a substantial deficit each year. The City projects future tax revenue to equal transfers made by the utility in recent years. One weakness in the legislation is that it includes provisions to retire the tax after 10 years, well ahead of the utility's longest dated maturity, which is 2041.

The 6% tax will apply only to industrial and commercial users of electricity, gas, telecommunications, video and water utility services; residential users are exempt. The exemption of residential users was a key element in garnering electoral support. A previous vote to enact a similar tax failed when it did not exempt residential customers from having to pay the tax.

Posted 04/26/2018 by Joseph Krist

Neighborly Insights

Putting the Public First in Public-Private Partnerships.

Public-sector competence is needed to make sure citizens get a good deal—and private vendors are no substitute for adequate public funding.

In a perfect world, a big-city mayor would not have to wrangle over how to finance a tunnel to the port. But Manny Diaz did not live in a perfect world: He lived in Miami. Port traffic clogging downtown was a decades-old problem. To realize his vision of a vibrant region showcased by a vital city center, Mayor Diaz had to get rumbling, port-bound 18-wheelers off downtown streets.

In 2007, with a plan and money on the table, the Florida Department of Transportation turned up the heat on the term-limited mayor to deliver the tunnel. So Diaz devised a strategy to gin up city and surrounding county support: He tossed a baseball stadium, museums, more funds for a performing arts center—and the tunnel—into one civic wish-list basket and made a successful appeal to regional pride for funding them all. Meanwhile, two multinational firms, Meridiam, a public

infrastructure investor, and Bouygues Travaux Publics, a tunneling and engineering firm, arrived on the scene with the dollars to move the complex initiative forward after the Great Recession unspooled the original consortium. “It was perfect timing,” says Diaz.

More than a decade later, the Port of Miami Tunnel is the marquee example of a public-private transportation infrastructure partnership. The concessionaire’s financing sources totaled about $900 million. It gets back a revenue stream based on state and federal funding sources, so there are no tolls. The city now has several new amenities, as well as two tunnels with two lanes each that, shortly after opening, decreased the weekly average volume of all port-bound traffic in downtown Miami by 35 percent and reduced weekly commercial truck traffic by nearly 80 percent.

Continue reading.

The American Prospect

by Gabrielle Gurley

April 26, 2018

Successful Launch of NCPPP’s P3Insights Breakfast Series.

NCPPP kicked off its P3Insights Breakfast Series on Monday, April 23, with a roundtable discussion on “What’s Ahead for U.S. Infrastructure Development?” led by John Smolen and Shant…

Read more.

April 27, 2018

Bill Would Let Illinois Treasurer Purchase Overdue Bills and Additional Muni Debt.

CHICAGO – With little reported headway being made toward a fiscal 2019 budget as the General Assembly’s spring session heads into its final month, Illinois lawmakers are pressing forward on a measure that would empower the state treasurer to purchase overdue state vendor bills and pitching efforts to cap spending.

Senate Bill 2858, sponsored by Sen. Heather Steans, D-Chicago, seeks to help whittle down the state’s $8 billion backlog and curtail the state’s interest tab for its overdue bills.

“This is a winning strategy to make more headway on the bill backlog,” Steans said.

The legislation recently cleared the Senate and is expected to be heard by a House committee after the chamber returns next week.

The current backlog stands at $6.8 billion after Illinois issued bonds to whittle down what was a record $16.7 billion backlog in the fall. The bills piled up during the state’s two years without a budget. Gov. Bruce Rauner’s administration estimates the fiscal year will end June 30 with a $7.7 billion backlog.

The legislation would give State Treasurer Michael Frerichs status as a qualified purchaser under the state's vendor payment program and allow the office to purchase qualified account receivables from state vendors awaiting payment for 90 days or longer. Currently, account receivables are not a permitted investment.

The state's overdue bills accrue interest at up to 1% monthly with more than $1 billion in interest paid over the last several years. The treasurer's purchases would pay a monthly .3% rate.

"This legislation would reduce the interest rate on those bills when bought by the treasurer's office to 3.6%," Frerichs said. "This isn't borrowing any additional money…it is refinancing that debt to a lower interest rate which will free up more money to pay down the bill backlog."

Under the existing vendor purchase programs, four financing firms are permitted to purchase overdue bills and collect the 9% to 12% interest. The firms recently warned that the state is far in arrears on interest payments, which threatens their future ability to participate in the program.

In addition to trimming state general fund interest costs, the change would earn a higher rate than many other of the state's permissible investment vehicles. The treasurer manages a $12 billion to $15 billion state investment pool and has said he could devote between $500 million and $1 billion to the vendor program.

The 3.6% of interest would go into the road fund or whatever fund is used to refinance the debt, Frerichs added.

Senate Bill 2661, sponsored by Jacqueline Collins, D-Chicago, would expand the treasurer's ability to purchase county and municipal bonds by allowing the office to buy at or above par to take advantage of a rising interest rate environment. Currently, the law limits bond purchases not to exceed par value. It, too, has cleared the Senate and is awaiting a House committee hearing.

The current requirement "prevents the state treasurer from purchasing qualified, highly rated municipal bonds offered at market rates, which may exceed par at the time of purchase, but will pay a higher coupon payment than current market conditions," a bill summary says, adding that the "ability to purchase municipal bonds above par provides for upside benefits and downside protection in a changing interest rate environment."

Other fiscal matters are high on legislative minds. Republican legislative leaders have filed resolutions calling for the adoption of a formal, certified revenue estimate for fiscal 2019.

"We owe it to Illinois taxpayers to take this first step in finally balancing the state's checkbook and putting Illinois on the right track towards fiscal stability," House Minority Leader Jim Durkin, R-Western Springs, said in a statement.

Rauner is pushing for a certified estimate also, but his Office of Management and Budget and the Commission on Government Forecasting and Accountability are only $99 million, or .3% apart on projections. GOMB projects $37.96 billion while COGFA projects $37.87 billion.

COGFA and governor's office estimates have tracked closely for years while being overly optimistic or pessimistic on actual revenue collections.

The Chicago Civic Federation said in a recent report it has "long supported the development of a consensus revenue forecast" because public finance experts recommend that the branches of government reach agreement prior to publication of the governor's budget to help ensure the review of critical assumptions, remove the forecast from ongoing dispute, and keep the budget process on

track.

Rauner has already proposed his fiscal 2019 budget.

A bipartisan group of lawmakers are also backing a measure to amend the state constitution to limit the growth of general revenue fund appropriations to the rate of the state's recent economic growth. The legislature would require lawmakers need to adopt a resolution saying that an emergency exists to exceed the amount.

The General Assembly formally adjourns at the end of May and passage of measures after that require a higher vote threshold to take effect immediately.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 04/30/18 07:11 PM EDT

S&P 'AAA' Rated U.S. Counties: Current List.

U.S. counties with 'AAA' ratings as of April 2, 2018

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S&P 'AAA' Rated U.S. Municipalities: Current List

U.S. municipalities with 'AAA' ratings as of April 2, 2018

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S&P 'AAA' Rated U.S. School Districts: Current List

U.S. school districts with 'AAA' ratings as of April 2, 2018

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Boston's New Site Aimed at Municipal Bond Investors is Powered by Local Startup BondLink.

Seaport-based BondLink Inc., a software startup that helps municipal bond issuers connect with investors, has found its latest customer close to home — the city of Boston on Thursday launched a new investor relations website powered by BondLink.

The new site, BuyBostonBonds.com, gives potential investors insight into the city's finances, the projects it's currently funding through bond sales, and other information. In addition to public-facing

websites, BondLink builds a variety of backend tools that help cities, states and universities manage their relationships with investors.

BondLink was co-founded by Colin MacNaught, who led the Commonwealth of Massachusetts' Debt Management Department from 2008 to 2015.

"It was really my own personal experience (that led to BondLink)," MacNaught said. "I was struck by the notion that there was really no technology to help me connect with investors and engage with investors."

BondLink sells to municipalities on the idea that the software will help them attract more investors, which will in turn improve the prices on their bonds. The startup earlier this year raised $10 million from Franklin Templeton Investments, one of the largest bond investors in the country, which proved to MacNaught that municipal bond investors are desperate for the kind of data and analytics BondLink can offer them.

"It's certainly long overdue for this market to get to where the stock market is," MacNaught said. "We're trying to bring those tools to the municipal bond market."

For BondLink, Boston is just the latest in a string of high profile customers the startup has signed on since it launched its software in late 2016. The State of California, the largest municipal bond issuer in the country, and the State of Ohio are both customers, as is the City of Chicago.

"The market is enormous," MacNaught said. "75 percent of the things around you — the roads, the bridges, the schools, the subways, the airports, the sewers you don't see — those are all funded through the municipal bond market."

The company has about 20 employees, with plans to roughly double that number by the end of the year, according to MacNaught.

Boston Business Journal

By Kelly J. O'Brien

NFMA Recommended Best Practices in Disclosure for Water and Sewer Bonds.

The National Federation of Municipal Analysts Disclosure Committee has released the final version of the Recommended Best Practices in Disclosure for Water and Sewer Bonds, Dated April 2018.

Key County Economic Programs Boosted Under FY2018 Omnibus Bill.

The omnibus bill will add $6 billion to housing, workforce and economic development programs crucial to counties

Several federal departments that deliver crucial housing and workforce and economic development programs to counties saw funding increased by nearly $6 billion under the FY2018 omnibus bill recently signed into law by President Trump.

The three departments overseeing these key programs include Housing and Urban Development (HUD), Commerce (DOC) and Labor (DOL). Under the FY2018 omnibus, HUD was funded at $42.7 billion for FY2018, a $3.9 billion increase over FY201; DOL was funded at $12.2 billion, a $129 million increase above FY2017 levels; and DOC was funded at $11.1 billion, a $1.9 billion increase over FY2017.

Some of the programs receiving an increase in funding under the FY2018 omnibus include the Community Development Block Grant (CDBG), the HOME Investment Partnerships (HOME), the Economic Development Administration (EDA) and the Workforce Innovation and Opportunity Act (WIOA).

Department of Housing and Urban Development

CDBG: CDBG is funded at $3.3 billion under FY2018 appropriations, an increase of $300 million over FY2017 funding levels. Counties utilize the flexibility of CDBG funds to support projects addressing community and economic development priorities, including housing, water, infrastructure and human services.

HUD's CDBG program provides annual grants on a formula basis to more than 1,200 metropolitan city and county governments, as well as to state governments. Nearly 200 counties are "entitlement counties" — those counties with populations exceeding 200,000, not including metropolitan areas — which receive CDBG grants directly. Non-entitlement communities must compete for funding through the state formula allocation. According to HUD, for every $1 of CDBG funds invested, an estimated $4.09 is leveraged in other public or private sector funds.

HOME: The omnibus includes $1.36 billion for HOME, an increase of $412 million over FY 2017 funding levels. In addition, the bill extends the suspension of the HOME 24-month funds commitment deadline through 2020.

HUD's HOME program, authorized in 1990, assists state and local governments in providing affordable housing for low-income families, with 60 percent of HOME funds being allotted to the nearly 650 participating jurisdictions in counties and cities. HOME funds can be used towards the acquisition and rehabilitation of housing, or towards tenant-based rental assistance, depending on a county's housing needs.

Homelessness Assistance Grants: Another HUD program dealing with affordable housing, Homelessness Assistance Grants, were funded at $2.5 billion, a $130 million increase over FY 2017 levels. The omnibus bill allocates $80 million of the $2.5 billion to addressing youth homelessness.

Department of Commerce

EDA: The omnibus provides $301.5 million for the Department of Commerce's Economic Development Administration (EDA), a $25.5 million increase from FY2017 levels. EDA funding supports regional strategies and serves as a catalyst in helping communities achieve long-term growth. The omnibus also directs EDA to use funding provided under Public Works and Economic Adjustment Assistance accounts for the support of high speed broadband, especially in underserved areas.

Under the Department of Commerce, EDA is the only federal agency with a mission solely focused on private sector job creation in distressed areas. EDA makes investments and builds partnerships to help regions and communities respond to shifts in international markets, address severe unemployment challenges and recover from plant closures, major natural disasters and other

chronic and sudden economic hardships. EDA-funded projects are awarded on a competitive basis and typically require a 50 percent local match and significant private sector investment, helping ensure projects have local support and are part of a broader regional strategy.

Department of Labor

WIOA: The FY 2018 omnibus bill includes $2.8 billion for Workforce Innovation and Opportunity Act (WIOA) Title I programs, an $80 million increase over FY 2017 levels. Of this amount, $845.6 million is included for adults, $903.4 million for youth and $1.041 billion for dislocated workers. WIOA Title I focuses on workforce development activities at the state and local level and establishes funding for three key formula grants: Adult, Dislocated Workers and Youth programs. WIOA provides critical workforce training and career services to counties.

WIOA was enacted in 2014, reauthorizing federal employment, workforce and training programs and formula funding to states and localities. WIOA is the largest single source of federal funding for workforce development activities, intended to help states and counties tackle and overcome workforce challenges. Over the last program year, WIOA employment and training programs assisted 7.3 million individuals. In 2016, 64 percent of WIOA participants gained employment, including 77 percent of adults and 82 percent of dislocated workers who received training services.

Congressional appropriators are already working on FY2019 spending levels, which must be set and passed before the current fiscal year ends Sept. 30. If legislators are unable to reach an agreement and pass a spending bill by Sept. 30, a continuing resolution will need to be passed to keep the government open.

In February, Trump released his FY2019 budget request, which outlined the administration’s federal spending priorities for the next fiscal year. The budget request would eliminate or reduce funding for many community and economic development programs important to counties.

The proposal would eliminate funding for CDBG, HOME and EDA and reduce funding for WIOA and homelessness assistance compared to FY2018 levels.

NATIONAL ASSOCIATION OF COUNTIES

By DARIA DANIEL, SOFIA FERBER

Apr. 16, 2018

EPA Taking WIFIA Loan Applications.

The Environmental Protection Agency (EPA) is now accepting letters of interest for loans provided through the Water Infrastructure Finance and Innovation Act (WIFIA) program to support water infrastructure projects. The WIFIA program is a federal loan and guarantee program within EPA that aims to accelerate investment in the nation’s water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects, including many county water infrastructure projects. The new funding announcement is designed to provide up to $5.5 billion in loans and leverage over $11 billion for water infrastructure projects.

Learn More
How to submit a letter of interest for the current round of WIFIA funding

Prospective borrowers seeking WIFIA credit assistance must submit a letter of interest (LOI) by July 6.

The funding announcement lists two major priorities for this round of funding: providing clean and safe drinking water and reducing lead exposure; and repairing, rehabilitating and replacing aging infrastructure and conveyance systems.

Nonetheless, WIFIA credit assistance can be used for a wide range of projects including drinking water treatment and distribution; wastewater conveyance and treatment; enhanced energy efficiency at drinking water and wastewater facilities; desalination; water recycling; and drought prevention or mitigation projects, many of which involve county-owned and maintained water infrastructure.

The WIFIA program received $63 million in funding in the FY2018 omnibus appropriations package, more than doubling the program's overall funding from 2017. In 2017, EPA invited 12 projects across nine states to apply for WIFIA loans totaling over $2 billion.

Generally, the WIFIA program helps finance larger water infrastructure projects — primarily those with an anticipated cost of $20 million or more. However, recognizing the need for investment in both large and small communities, Congress has stipulated that 15 percent of WIFIA funds be set aside each year for small communities serving fewer than 25,000 residents. Such projects have a lower-cost threshold for eligibility, only requiring an anticipated cost of $5 million or more.

NATIONAL ASSOCIATION OF COUNTIES

By JULIE UFNER, AUSTIN IGLEHEART

Apr. 16, 2018

MOU Streamlines Environmental Permitting Process.

Environmental permits will be streamlined for infrastructure projects under a Memorandum of Understanding (MOU) recently signed by President Trump.

The "One Federal Decision" MOU aims to accelerate the environmental review process for major infrastructure projects such as new highway construction and runway expansion or repair. Signatories of the MOU include the departments of the Interior, Agriculture, Commerce, Housing and Urban Development, Transportation, Energy, Homeland Security and the Environmental Protection Agency.

The One Federal Decision stems from the administration's "one agency, one decision" environmental review procedure, which is detailed in Trump's infrastructure plan released earlier this year. The memorandum aims to improve the current permitting process by consolidating decision-making, cutting costly delays and changing environmental review methods, according to the administration.

Streamlining the environmental review process for a variety of infrastructure projects will significantly cut the amount of time it takes to process permits, the administration claims. In 2017, Trump signed Executive Order (EO) 13807, "Establishing Discipline and Accountability in the Environmental Review and Permitting Process for Infrastructure Projects," to reduce the permit processing time of new major infrastructure projects to no more than 21 months, with actual permits

issued within three months following a decision.

These changes would achieve the administration's goal of shrinking the permitting process to two years from what can sometimes be 10 or 20 years. The MOU also calls for one lead federal agency to work collaboratively with all other pertinent agencies to reach a final decision before signing off on their respective jurisdictional purviews of a project as opposed to the existing sequential process requiring permit applicants to go through a lengthy process of dealing with multiple federal agencies.

In addition to creating a shorter timetable, the One Federal Decision aims to cut back on unnecessary costs that delays can create. By working cooperatively, federal agencies can ensure important infrastructure projects are completed in a timely and cost-effective manner, according to the administration.

NATIONAL ASSOCIATION OF COUNTIES

By SOFIA FERBER

Apr. 16, 2018

Rising Yields Make Floating-Rate Munis a Draw to Some Buyers.

- **Weekly gauge of yields is holding at highest since 2008**
- **'We think that's a pretty good deal,' said Neuberger's Iselin**

With yields on floating-rate municipal bonds holding at their highest in almost a decade, they've become a draw to investors like James Iselin.

Iselin, who oversees about $10 billion as head of the municipal fixed income team in New York at Neuberger Berman Group, said in an interview that he's been buying the securities. The debt is currently yielding more than even top-rated two year bonds, according to Bloomberg indexes, and offers protection against rising interest rates because it can always be sold for 100 cents on the dollar.

"We actually think those securities help cushion downside because they always trade at par, but also allow our clients to participate in a rising rate environment," he said.

The SIFMA Municipal Swap Index, a gauge of floating-rate yields, rose to 1.81 percent on Wednesday, the most since late 2008.

"For a security that really has no duration, and is federally tax-exempt, we think that's a pretty good deal," said Iselin, referring to the index.

Bloomberg Markets

By Amanda Albright

April 19, 2018, 10:33 AM PDT

The Big Exodus From Muni-Bond Funds Isn't Cause for Concern Yet.

- **The $830 million pulled last week was most since January 2017**
- **Outflow probably caused by tax payments, not sentiment shift**

Don’t get too worried just yet that investors are about to begin stampeding out of the municipal-bond market.

Investors pulled about $830 million out of state and local government bond mutual funds during the week ended April 11, the biggest outflow since January 2017 and the second straight week of investors pulling cash, according to the Investment Company Institute. Municipal analysts and investors have fretted over the possibility that the year’s poor start could cause a prolong run of outflows, posing a potential threat to a market that’s already delivered negative returns this year.

Given that the market has stabilized — and eked out gains last month — Barclays Plc thinks the outflows will be short lived, said Mikhail Foux, head of municipal strategy for the bank. Foux said the outflow was probably driven by investors selling their holdings to pay their tax bills.

Despite the last two weeks, municipal funds have still largely drawn in cash this year, said James Iselin, managing director at Neuberger Berman Group, in an interview. And new deals his firm has bid on over the last two weeks have been “many, many times” over-subscribed, showing that demand for municipals is still strong, he said.

“Usually what drives outflows in the muni market is a rapidly rising rate environment, and to the contrary, since that big period of volatility at the end of January and February, rates have actually settled down a lot,” Iselin said. “I don’t see that as a catalyst.”

But even if it is the result of raising cash to pay tax bills, the outflow may still continue this week. The Internal Revenue Service said it would give taxpayers an extra day to file their returns electronically after a computer malfunction disrupted the agency’s website.

“I think it will go back to normal,” said Chris Mier, chief strategist at Loop Capital Markets, predicting that the funds will go back to drawing in around $750 million a week. “The fact that we are in a positive cash flow mode given the amount of change in the environment is very favorable.”

Bloomberg Markets

By Danielle Moran and Amanda Albright

April 18, 2018, 10:28 AM PDT

— With assistance by Martin Z Braun

S&P: For California, The Road To Fiscal Recovery; For Illinois, The Road Not Taken.

Despite the widespread economic and fiscal stress associated with the Great Recession, most U.S. states weathered the historic downturn with their credit ratings intact. California (AA-/Stable) and Illinois (BBB-/Stable) were not as fortunate.

Continue Reading

Apr. 19, 2018

Neighborly Issuer Brief: Some Federal Road Dollars Flow to States Despite Lack of Infrastructure Bill.

This Issuer Brief is brought to you by Court Street Group and Neighborly.

Some Federal Road Dollars Flow to States

While the "infrastructure plan" flounders in Congress, at least some federal dollars have been provided to states for immediate road projects. The Bipartisan Budget Act included $1.374 billion for Federal Highway Administration's (FHWA) "emergency relief" account. The agency taps what it calls the ER funds to help states pay both for quick repairs in the wake of current disasters and to reimburse DOTs for eventual expenses that develop well after those emergencies – including costs that may occur for years later.

In this federal fiscal year, USDOT provided $768.2 million in accrued reimbursement requests for emergency repairs to roads and bridges in 40 states. Included was $670.3 million that went directly to state agencies for emergencies dating back to 2009, and $97.9 million to other federal agencies for damages to roads they own from events dating back to 2010. The FHWA allocated about $467 million to state DOTs for qualifying expenses from events back to 2004, plus $52.5 million to federal land management agencies for repair costs from emergencies dating to 2010.

The ranking member on the House Transportation and Infrastructure Committee noted in October there was at least a $1.76 billion backlog of qualified ER needs – not counting the repair bills to come as a result of the devastating late-summer hurricanes and autumn western wildfires – and the FHWA account then had an unspent balance of $911 million. Congress, in its omnibus appropriations measure, voted last month to triple the TIGER funding pool for 2018 to $1.5 billion, and lawmakers included language requiring the USDOT to act along a specified timeline. The congressionally mandated schedule would have the department issue a notice of funding availability by May 22, receive all grant applications by Aug. 20 and announce grant recipients by Dec. 18.

Given the political environment in D.C., we see little chance of any infrastructure bill in 2018. Issuers should focus on the positive developments out of the budget agreement to find ways in which the federal government can complement their infrastructure needs.

Bay Area Ballot Initiative to Fund Transit is Proposed

Bridge tolls across the Bay Area will rise by three dollars if the voters in nine counties, including San Francisco, approve Regional Measure 3 to fund transportation in June. If the measure is approved by a simple majority, the toll on the Bay Bridge would rise from 6 to 9 dollars during commute periods, for instance. The price would not go up immediately, however, as the tolls are set to increase by $1 in 2019, $1 in 2022 and $1 in 2025.

The increased tolls would fund nearly $4.5 billion in transit projects across the region, meant to lessen traffic congestion and address a booming workforce. 75% of the funds from Regional Measure 3 would be used for regional transit projects, including in San Francisco. Around $500 million would

help fund new BART cars, $140 million would replace and expand Muni's fleet and facilities and $325 million would help fund the Caltrain extension to the Transbay Transit Center in South of Market.

To prepare for the future, $50 million would go toward studying a potential new underwater Transbay Tube, which could carry BART or Caltrain rail cars. San Francisco car and shuttle commuters traveling south would also benefit, as the measure would fund improvements to the U.S. Highway 101/SR-92 Interchange and $130 million in improvements to the Dumbarton corridor.

The Metropolitan Transportation Commission is also developing a new regional transit fare discount program. That discount will reduce transit fares by 30 to 50% for low-income riders. Alameda County would net 32% of project funding, Contra Costa County 18%, Santa Clara County 15%, Solano County 10%, San Francisco County 9%, San Mateo County 8%, Marin County 4%, Sonoma County 3% and Napa County 1%.

Most bridge tolls are paid by Alameda county residents, who took 29% of total bridge toll trips between 2016 and 2017, according to the MTC. San Franciscans, by contrast, took 10% of bridge toll trips in that period. Bridges under the authority of the MTC and the Bay Area Toll Authority cost $5, but the Bay Bridge is $6 during peak commute hours. Golden Gate Bridge tolls, which are $7.75 if paid by license plate and $6.75 if paid by FasTrak, are managed by a separate agency and would not see tolls rise if Regional Measure 3 is approved.

As states and localities continue to deal with managing transportation initiatives, we see it inevitable that they will need to be agile in future planning for both their budgets and long-term planning for population changes.

Resilience Trumps Tradition in Houston

The City of Houston has had a long-time policy of minimal zoning requirements and a real lack of meaningful constraints on development. This has covered not only the type and pace of development but also its location. This has aided and abetted Houston's rapid rate of growth since 1900 but also has contributed to the City's long and well-documented history with flooding. Now though, it looks like nature may have won out over established attitudes as the result of Hurricane Harvey.

The Houston City Council agreed last week to require new homes built in the floodplain be elevated higher off the ground. This is the City's first major regulatory response to the widespread flooding Hurricane Harvey unleashed in 2017. The vote marks a shift away from Houston's long-time aversion to constraining development, as all new construction in the city's flood plains will have to be built two feet above the projected water level in a 500-year storm.

Current regulation mandates that buildings be constructed one foot above the flood level in a less severe 100-year storm and apply only within the 100-year floodplain, where properties are considered to have a 1% annual chance of being inundated. This will be the first time Houston is imposing minimum elevation requirements within the 500-year floodplain.

As we have noted before, it is important to disclose these impacts in Official Statements and Houston is moving in the right direction.

Pricing the Street as an Asset

The proposal by Boston's mayor to raise the cost of parking tickets as part of a plan to increase funding for public transit reflects a move toward the view that city streets are an asset which can be

monetized. This has been an increasingly favored idea among those who are thinking of more creative ways to merge policy goals with funding goals in the transportation sector. The mayor's fiscal 2019 budget includes increases for 11 types of violations that residents complain about most. The penalty for double parking in downtown neighborhoods would increase from $45 to $75; parking during street cleaning would yield a $90 fine, more than double the current $40 cost; parking in a resident-only spot without a sticker would rise to $60, from $40; while overstaying a meter would shoot to $40, from $25.

Non-financial aspects of the plan would include the replacement of parking spaces with dedicated bus lanes and the creation of ride sharing pick-up/drop off spaces at selected areas. We noted earlier this year that Washington, D.C., is also implementing a plan that turns some spaces formerly dedicated to overnight street parking to designated areas for ride sharing vehicles to use. These areas are designed to support the city's thriving nightlife activities.

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Posted 04/19/2018 by Joseph Krist

Municipal Bonds Weekly Market Report: Fed Changes Role to Neutral.

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 saw increases while muni yields mostly fell.
- Muni bond funds saw their second consecutive week of outflows this week.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

Brian Mathews

Apr 17, 2018

U.S. Bank Executives See Delayed Boost from Tax Overhaul.

NEW YORK (Reuters) – Banks have not reaped the full benefit of U.S. tax cuts, Wall Street executives said on Friday after a string of quarterly results, with expected business growth and higher consumer spending yet to materialize.

Analysts and investors are still trying to work out the longer-term effects of the tax rewrite signed into law in December, which slashed the federal corporate rate.

Asked what impact Wells Fargo & Co (WFC.N) is seeing from the new tax law, the bank's finance chief, John Shrewsberry, said "not much yet."

Bank executives said last quarter that tax cuts and changes in capital expense deductions should stoke broad economic growth, fueling expectations of higher lending and capital markets activity.

"It has not been a big mover of our business or what you can see in the real economy," Shrewsberry said, though he expects that to change later this year.

There has been some wage growth but consumer spending has not picked up accordingly, he said. Wells Fargo has not had any unusual uptick in loan demand or meaningful changes to how products and services are priced, he added.

"As much as we're all eager to see the benefits … I think we have to recognize that tax reform is still in the early phases," JPMorgan Chase & Co (JPM.N) Chief Financial Officer Marianne Lake said on a media conference call after the bank reported first-quarter results.

She told reporters earlier that JPMorgan expects to see benefits, but "with a lag."

"While client sentiment is high in the wake of corporate tax reform and we remain hopeful that this will support higher demand later in the year, we're not seeing that yet, and we are maintaining pricing and credit discipline," Lake said about loan demand.

Financial markets have already reflected investors' enthusiasm about the cuts, Citigroup Inc (C.N) Chief Financial Officer John Gerspach said on a call with reporters to discuss results, and the actual benefit to the U.S. economy will only come once investment plans are finalized.

Lower Manhattan including the financial district is pictured from the Manhattan borough of New York, U.S. June 1, 2016. REUTERS/Carlo Allegri/File Photo
"A lot of corporate actions are in the planning stage. People usually have nine to 12 months to plan for tax reform. People had a chance to digest this right around the last three weeks of last year," Gerspach said.

A cut in the federal corporate tax rate to 21 percent from 35 percent has helped banks boost profit, but other details of the new tax code have not helped their bottom line.

Wells Fargo said interest income slipped 1 percent in the first quarter due in part to lower income from so-called tax-advantaged products in light of newly lowered tax rates.

Lower tax-equivalent yields on municipal bonds should weigh on year-over-year comparisons of the lender's net interest margin by around 4 basis points for the rest of the year, Shrewsberry said on an analyst call.

The third-largest U.S. bank by assets also flagged that tax changes had weighed on new debt

issuance and secondary trading, though strong equity trading helped boost its total trading-related revenue.

Reporting by Meredith Mazzilli, Elizabeth Dilts and David Henry in New York and Sweta Singh in Bengaluru; Editing by Bill Rigby

APRIL 13, 2018

Fitch: Upgrades Outpacing Downgrades So Far for U.S. Not-For-Profit Hospitals.

Fitch Ratings-Austin-16 April 2018: Affirmations, not surprisingly, are encompassing a majority of rating actions Fitch Ratings has taken on its rated U.S. not-for-profit hospitals since launching its new criteria earlier this year, though a new report from Fitch is showing another somewhat surprising result.

Approximately 60% of the rating actions to date have been affirmations. However, since the criteria launch in January, rating upgrades are commandingly ahead of downgrades (27% to 13%) among the hospitals Fitch had placed on Rating Watch. A closer look shows, perhaps more surprisingly, that Fitch has upgraded five of eight hospitals it placed on Rating Watch Positive thus far while downgrading only two of six hospitals it placed on Rating Watch Negative.

'Considering the challenges not-for-profit hospitals were set to face at the start of the year, most are showing robust resiliency as the assorted headwinds are not affecting operating performance thus far,' said Senior Director and sector head Kevin Holloran.

Stronger not-for-profit health care providers are responding with alacrity in maintaining strong balance sheets and keeping debt levels manageable during periods of financial stress or transformation. The hospitals Fitch has taken negative rating on thus far, in contrast, are having more difficulty withstanding financial pressures and stabilizing their balance sheets.

'The wave of rating activity is likely to subside over time with fewer rating changes likely over the next several months,' said Holloran.

'U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria Update: The First 90 Days' is available at 'www.fitchratings.com' or by clicking on the link above.

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Fitch: Potential NAFTA End Pivotal for U.S. Midwest and Border States.

Fitch Ratings-New York-11 April 2018: A U.S. withdrawal from NAFTA would be a potential economic watershed for several state economies with close exporting ties to America's neighbors, according to a new report from Fitch Ratings.

"Withdrawal from NAFTA would cut economic and job growth along with tax revenue, constrain budgetary flexibility and lead to higher unemployment for states that are less populous and economically diverse, specifically states in the upper Midwest and Southwest border-states," said Michael D'Arcy, Director, Fitch Ratings.

The states that would be most impacted by a U.S. withdrawal, as measured by the percentage of their exports that are sent to Canada and Mexico, include the following: North Dakota (87%), Michigan (65%), South Dakota (62%), Missouri (56%), Ohio (52%), Texas (49%), Arizona (48%) and New Mexico (47%).

"Texas, Arizona, New Mexico and Michigan in particular are more susceptible to economic losses given their close commercial relationship with Mexico and the higher tariffs that Mexico could impose on U.S. goods under World Trade Organization (WTO) rules," said D'Arcy.

While much attention has revolved around the Trump administration's negotiations with Mexico, a significant wild card is the worsening trade relationship between the U.S. and Canada. Canada's recent formal complaint against the U.S. with the WTO earlier this year has raised the temperature of negotiations. The U.S. has also imposed tariffs on 11 classes of Canadian goods.

The economic impact on the U.S. as a whole of a withdrawal from NAFTA would be much less severe than its effect on select state economies, however, as exports of goods and services accounted for only 12% of U.S. GDP in 2016. Exports to Canada and Mexico accounted for 18% of the total or only 1.4% of U.S. GDP in 2016.

Fitch anticipates that the U.S. will ultimately choose to participate in an updated NAFTA. Even if the U.S. were to withdraw, Fitch expects trade flows would adjust rapidly as U.S. importers and exporters find replacement suppliers/buyers in non-NAFTA nations and divert a portion of their trade to those destinations. Fitch expects trading patterns between the three NAFTA member countries and other nations to shift perceptibly even if a new NAFTA agreement is signed, however.

"The experience of renegotiating NAFTA has been something of a watershed for all three participants," D'Arcy said. "The 'near-miss' of a NAFTA cancellation in the past several months has acted as a wake-up call to farmers and businesses in all three nations."

Less amicable trading relationships between the three NAFTA countries have been one result, increasing the likelihood that Mexico and Canadian consumers and business will seek to obtain some of the same goods and services from alternative sources such as China and European and South American countries in the future. U.S. exporters like Midwestern farmers who had grown quite dependent on NAFTA will also seek to broaden their exporting relationships outside of North America in the near term.

The full report, "NAFTA Termination Could Hit Upper Midwest, Border State Economies Hard," can be found at www.fitchratings.com or by clicking on the link.

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Municipal Bonds Lead Surge in CUSIP Volume, Signaling Growth in New Issuance.

NEW YORK, April 11, 2018 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for March 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found a monthly increase in volume of CUSIP requests for new corporate equities and debt and municipal bonds. This is suggestive of strong pace of new corporate and municipal issuance in the second quarter of 2018.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,625 in March, up 9.0% from February. On a year-over-year basis, that puts total corporate identifier request volume for the first quarter of 2018 7.7% higher than the same period in 2017. Overall corporate request volume was driven by 1,037 new requests for U.S. corporate equity identifiers, 902 new requests for U.S. corporate debt identifiers, and 388 requests for combined Canadian corporate debt and equity identifiers.

Municipal CUSIP requests showed significant growth in March. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – logged a 30.9% increase over February's activity. That surge in growth was driven primarily by a 37.9% increase in new municipal bond identifier requests. On a year-over-year basis, total municipal identifier request volume is down 27.6% versus the same period last year. Prior to March, municipal bond issuance had been trending downward following the implementation of the Tax Cuts & Jobs Act, which repeals advanced refunding of municipal bonds.

Continue reading.

KBRA: Governments on the Front Line of Addressing Climate Change.

NEW YORK–(BUSINESS WIRE)–Kroll Bond Rating Agency (KBRA) releases report on city and state actions on climate change. U.S. weather disasters caused record damage in 2017. The disasters, which were spread across the nation, included: three tropical cyclones, eight severe storms, two

inland floods, a crop freeze, droughts and wildfires. Cities and states are engaging their constituents on the issues, taking action, and working to raise much needed public awareness and support. There is no single government strategy to combat climate change, a multitude of efforts is required. KBRA believes that governments with proactive climate change plans are best positioned for long term credit health.

To access the full report, click here.

Airlines Know You Hate the Airport, and Are Trying to Do Something About It.

Airlines are pitching in to help renovate and expand U.S. airports, while jostling for the extra gates

Competition between airlines is heating up over airport expansion plans.

American Airlines Group Inc. signed on last month to a $8.5 billion renovation at O'Hare International Airport after bristling for months at what it argued was preferential treatment for the Chicago gateway's largest tenant, United Continental Holdings Inc.

American, United and other carriers at O'Hare agreed to new airport leases that will underpin funding plans for an expansion that is being mirrored at other big hubs across the country. From Los Angeles to New York to Atlanta and dozens of other airports, airlines and local officials are planning $100 billion in renovations over the next few years, according to the Airports Council International-North America trade group.

Continue reading.

The Wall Street Journal

By Doug Cameron and Patrick McGroarty

April 11, 2018

S&P: U.S. Not-For-Profit Electric Utilities' Credit Quality Benefits From Factors That Insulate Them From Problems Plaguing Merchant Generators.

FirstEnergy Solutions Corp., a merchant energy subsidiary of FirstEnergy Corp., filed for Chapter 11 bankruptcy protection April 1, the latest in the sector that highlights the distinctions between merchant generation companies and public power and electric cooperative utilities.

Continue Reading

Apr. 9, 2018

Cybersecurity: Is It Enough of a Factor in Credit Risk Analysis?

This report has been prepared by Court Street Group Research.

In light of the recent attacks on Atlanta and Baltimore's municipal computer systems, investors in municipal debt should start to consider the protective measures being undertaken by municipalities to deter future attacks.

Which elicits the question: Should the issue of cybersecurity be more explicitly addressed by raters and investors as a component of the analysis of creditworthiness and relative value?

We have noted more than once the lack of significant reference to the issue in offering documents and financial statements. Though, ratings agencies do sometimes reference the issue in general statements. What we do not see is a truly granular analysis of how cybersecurity vulnerabilities could affect a municipality's underlying credit. Perhaps this is because there has not been a significant enough cost — operationally or financially — to stimulate the effort. It could also be seen as reflective of a view expressed in some rating agency comments that puts these events on a par with natural disasters. This would seem to imply reliance on a federal response to the financial implications of a large-scale financial attack.

We see a major weakness in that approach. The first is that the frequency and cost associated with natural disasters seems to be on an ever-rising upward curve. This has made each response to these events more contentious politically as the approval process for appropriations of federal dollars to support recovery efforts become more intertwined with general budget politics. More important is the recent public stance taken by FEMA officials.

Last week, the agency's deputy administrator gave a speech which included the following. "FEMA is not a first responder. We are going to be very blunt with the American public about what FEMA can and can't do, about what the federal government can and can't do, and I hope state and local governments take this forward as well. FEMA will continue to fund the recovery for smaller disasters, but increasingly, we will be looking for state and local governments to manage those programs."

He was primarily talking about natural disasters. If municipalities are going to compare the impact of a cyber attack with that of say, a hurricane, then this would make a reliance on a federal response to events like cyber attacks on individual entities somewhat dubious.

Make no mistake there are costs. A pair of attacks in February and March of this year have so far cost the Colorado Department of Transportation an estimated $1.5 million with mitigation efforts still going on. There does not seem to be an available public assessment of the costs incurred by the City of Atlanta in response to the attack it felt. The costs involve not just those associated with technical fixes but potential revenue losses associated with delayed billings, collections, and business transactions. So what are localities doing to protect themselves?

In 2016, the International City/County Management Association (ICMA) surveyed some 3,400 municipalities in the U.S. to see what efforts were being undertaken to avoid cyber attacks. While the response rate was only 12% (who wants to admit shortcomings?), the results are nonetheless informative. Only 1% of the responding local governments have a stand-alone cybersecurity department or unit.

Most of the responding local governments do not outsource cybersecurity functions (61.8%); The inability to pay competitive salaries for cybersecurity personnel (58.3%); Insufficient number of

cybersecurity staff (53.0%); and, Lack of funds (52.3%) were identified by responding local governments as severe or somewhat severe barriers to achieving the highest possible level of cybersecurity.

To the extent that this data is indicative, it is not surprising that the number of attacks and attempted attacks is rising. Yet we do not see the issue as a significant one as either a pre-sale or ongoing disclosure issue and we do not see the issue discussed on an issuer-specific basis. So we have to wonder what scale cyber attacks must reach before it becomes a significant enough credit issue?

More Bad News for Nuclear Generation

In a few states, nuclear generation operators have successfully obtained operating subsidies from states to help to justify the continued operation of generating assets in the current unregulated environment. The motivation that nuclear is a way to lower carbon dioxide emissions.

FirstEnergy Solutions (FES), its subsidiaries and FirstEnergy Nuclear Operating Company (FENOC) own, and operate two coal-fired plants, one dual fuel gas/oil plant, one pet-coke fired plant and three nuclear power plants in the competitive, or non-regulated, power-generation industry. FirstEnergy Corp. announced in November 2016 that it planned to exit the competitive generation business. On March 28, 2018, FES filed notice with PJM Interconnection LLC (PJM), the regional transmission organization, that the three nuclear facilities would be deactivated or sold during the next three years.

FirstEnergy Solutions (FES), its subsidiaries and FirstEnergy Nuclear Operating Company (FENOC) (together, the “Filing Entities”) announced that to facilitate an orderly financial restructuring, they have filed voluntary petitions under Chapter 11 of the Federal Bankruptcy Code with the U.S. Bankruptcy Court in the Northern District of Ohio in Akron. The Filing Entities collectively have over $550 million in cash, which they believe is sufficient liquidity to continue normal operations and meet post-petition obligations to employees, suppliers and customers as they come due.

The filing will allow FES to restructure its debt obligations which are estimated at some $2.1 billion of tax-exempt municipal bonds. Issues are outstanding secured under bank letters of credit and by bond insurance. The insured bonds in the amount of $427 million are insured by AMBAC. For the uninsured holders, they have lots of exposure as the debt is, as is the case with many pollution control and industrial development bonds, is unsecured. It’s amazing how many times this is overlooked by investors.

The situation shows how the power of fracking to develop natural gas resources has so significantly altered the competitive power generation landscape. There is some irony in the fact that some of these plants which are the subject of the FES filing are in the heart of Pennsylvania’s fracking region. One could argue that over some period of time, the life of these nuclear and coal generating assets was literally being sucked out from underneath them. It also highlights again the fact that fracking industry has not been taxed more efficiently by the Commonwealth of Pennsylvania, a point we have made many times before.

Posted 04/13/2018 by Joseph Krist

Neighborly Insights

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Municipal Bonds Weekly Market Report: Unemployment Remains at 4.1%

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.

- Shorter-term yields were mostly up this week, while longer-term maturities fell.
- Muni bond funds registered first week of outflows after four consecutive week of inflows.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Apr 10, 2018

California Eyes Overseas Buyers for $2 Billion Taxable Bonds.

April 13 (Reuters) – California will sell $2.147 billion of bonds in the U.S. municipal market's biggest offering next week, with the state looking to place some of the debt with overseas buyers.

The preliminary official statement for the taxable general obligation bonds includes advisories for countries in Europe and Asia.

"The state has included language in the POS to allow for international investor participation," Marc Lifsher, spokesman for California State Treasurer John Chiang, said on Friday.

Taxable munis have been bought by foreign investors who cannot take advantage of a U.S. tax break given to buyers of tax-exempt munis.

The California deal's $947 million of new bonds carry maturities in 2020, 2021, 2025 and 2028, according to the POS. Another $1.2 billion of refunding bonds have term maturities in 2033 and 2038.

Part of the proceeds will advance refund some of the state's outstanding tax-exempt GO bonds.

Federal tax legislation signed into law in December by President Donald Trump ended the ability of muni issuers to refund outstanding bonds beyond 90 days of their call date on a tax-exempt basis.

The bonds, which are rated AA-minus by S&P Global Ratings and Fitch Ratings and Aa3 by Moody's Investors Service, are scheduled to be priced through J.P. Morgan Securities on Tuesday.

Overall, $7.66 billion of bonds and notes are expected to hit the muni market next week, according to Thomson Reuters estimates.

California's Sacramento County will sell $588 million of airport system senior revenue refunding bonds through Morgan Stanley on Thursday. The deal includes about $277 million of bonds subject to the alternative minimum tax.

Topping the week's competitive calendar is a nearly $315 million Memphis, Tennessee, general improvement bond sale on Tuesday. The bonds carry serial maturities in 2019 through 2048, according to the POS.

The state of Tennessee is selling a two-part $191 million GO bond issue on Wednesday.

Flows into municipal bond funds were negative for a second-straight week, according to Lipper. Funds reported $244.7 million in net outflows for the week ended April 11, slightly lower than the $247.1 million in outflows during the previous week.

April outflows are typically attributed to investors cashing in muni investments to pay their taxes.

Reporting By Karen Pierog; Editing by Dan Grebler

Huge in Korea? California's Bond Bankers See Big Fan Base Abroad.

- **Banks describe possible investors for state deal next week**
- **Japan, Korea, Taiwan among those that may buy the taxable debt**

California's not just big in Japan. It probably has bond-market fans in South Korea and Taiwan, too.

That's the message from JPMorgan Chase & Co. and Citigroup Inc., the lead underwriters of California's $2.1 billion taxable debt sale, which is scheduled for April 17. In a presentation to the state treasurer's office, the banks broke down why they think there would be "significant demand" from Asian investors for California's municipal bonds.

Wary of low and sometimes even negative rates on government bonds in their home countries, foreign investors have become a small but growing presence in the $3.9 trillion U.S. state and local government bond market. By the end of last year, overseas buyers owned a record $105 billion of the nation's municipal debt, about twice what they held a decade ago, according to Federal Reserve Board data.

That means more competition for U.S.-based firms with mandates to buy California debt — and potentially lower costs for the state.

For Korean life insurers investing in dollar-denominated debt, their "sweet spot" is in maturities between 20 and 30 years, according to the JPMorgan and Citi presentation dated March 14 and released to Bloomberg News this month. In Taiwan, where California general obligations have been

“one of the most favored credits,” investors would likely prefer long duration with maximum yield, it said.

Hong Kong firms would prefer short to intermediate maturities, the banks said, noting that life insurers there have bought state general obligations in the 15-year range, while the three to 10-year range has been targeted by sovereign fund and central bank buyers.

Meanwhile, Japanese securities firms have bought taxable Build America Bonds in the 20 to 30-year range, and some asset managers are picking up taxable municipals in the 15 to 30- year range, JPMorgan and Citi said.

Middle East investors, who were included among the Asian countries, may be interested in five and 10-year maturities, the presentation showed.

The U.S. banks didn’t exclude Europe: although investors there have been “less active recently” in municipals, large firms are already familiar with California, they said. British life insurers have recently bought the state general obligations, and Nordic investors “have historically been constructive” on such debt. Meanwhile, Swiss life insurers are “struggling to meet yield targets” in locally-denominated securities.

Jessica Francisco, a spokeswoman for JPMorgan, and Scott Helfman, a spokesman for Citigroup, declined to comment.

California in the past has seen interest from foreign investors, said Deputy Treasurer Tim Schaefer by telephone.

“It offers any investor the opportunity to diversify his or her portfolio, pick up a little bit of yield, and buy a name that’s believed by many to be quite liquid,” he said.

Bloomberg

By Romy Varghese

April 13, 2018, 7:11 AM PDT

FirstEnergy Unit's Collapse Casts Pall Over Nuveen Muni Holdings.

- **In February, firm held about half of unit’s unsecured munis**
- **About a third of bankrupt power company’s munis held by Nuveen**

The bankruptcy of an Ohio power company is reverberating in Chicago, home to one of the biggest money managers in the $3.9 trillion municipal-bond market.

Nuveen Asset Management, which oversees about $134 billion of municipal-debt investments, as of February held about half of the $1.5 billion of unsecured bonds that FirstEnergy Solutions Corp. — a unit of FirstEnergy Corp. — issued through government agencies in Pennsylvania and Ohio, according to holdings information posted on Nuveen’s website. The company reported owning another $300 million of FirstEnergy Solution’s secured municipal bonds.

The electricity producer’s bankruptcy has left the Chicago-based firm exposed to defaults — a rarity in a market dominated by state and local governments with the power to raise taxes. But agencies

are also allowed to sell tax-exempt bonds on behalf of corporations for projects like waste disposal facilities, power plants or airport terminals, a far-more riskier niche that's previously been affected by bankruptcies.

Kathleen Cardoza, a Nuveen spokeswoman, declined to comment. Tom Mulligan, a spokesman for FirstEnergy Solutions at Sitrick & Company, declined to comment.

Akron, Ohio-based FirstEnergy Solutions sought court protection from its creditors on March 31, listing more than $3 billion in unsecured claims, after unsuccessfully pushing for U.S. Energy Secretary Rick Perry to extend it a lifeline by declaring a grid emergency that would guarantee profits for ailing coal and nuclear power generators. Parent company FirstEnergy Corp. wasn't part of the bankruptcy.

FirstEnergy Solutions has about $2 billion outstanding municipal bonds. Some have already defaulted: One of its subsidiaries failed to make a payment due this month on bonds issued through Beaver County, Pennsylvania's industrial development authority. On Tuesday, FirstEnergy Solutions-backed bonds sold through an Ohio agency and due in 2020 traded for about 26 cents on the dollar, down from about 37 cents at the beginning of January.

The debt held by Nuveen is a fraction of its municipal-bond holdings or the approximately $970 billion it has under management overall. Nuveen's High Yield Municipal Bond Fund held about $273 million of FirstEnergy Solutions unsecured debt, about 1.5 percent of the total securities in the fund. The fund has lost 0.8 percent this year, compared to a 0.8 percent gain for the Bloomberg Barclays high-yield municipal index.

Electricity generators across the U.S. have been pummeled by low power prices as stagnant demand, cheap natural gas and surging development of wind and solar have squeezed profits. The trend is especially pronounced in eastern Ohio and western Pennsylvania, where the Marcellus shale natural gas formation lies, causing regional prices to be lower than the rest of the country.

Few have embodied the struggle as much as FirstEnergy Solutions, which owns a fleet of coal and nuclear plants in Ohio and Pennsylvania. It has closed four coal-fired generators since 2012, reducing its operating capacity by almost 20 percent.

Bloomberg Markets

By Martin Z Braun

April 10, 2018, 11:26 AM PDT

— With assistance by Jim Polson, Danielle Moran, and Amanda Albright

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Pimco, Long Shy of Puerto Rico, Bought In. Then the Bonds Soared.

- **Firm's investments came before debt rallied on fiscal plans**
- **In November, as prices hit new lows, bonds grew attractive**

Pacific Investment Management Co. made a well-timed bet on Puerto Rico bonds.

The firm scooped up the bankrupt island's debt after prices tumbled amid concern over the

devastation caused by Hurricane Maria, leaving parent company Allianz SE with an almost $540 million stake, according to the most recent regulatory disclosures. That made it primed to benefit late last month, when the bonds rallied over two days after Governor Ricardo Rossello offered a more sanguine outlook for the recovery. The prices of some securities have doubled since December.

Pimco's strategy may have been to hold the bonds temporarily, or it could be interested in joining the chorus of Puerto Rico bondholders who are sticking it out in the island's record-setting bankruptcy — hoping for a better recovery than the market's pricing in.

Agnes Crane, a spokeswoman for Pimco, declined to comment.

Unlike hedge funds that plowed into high-yielding Puerto Rico bonds, incorrectly wagering that Congress wouldn't give it the power to discharge debt in court, Pimco mostly steered clear as the island's financial challenges grew.

In May, when Puerto Rico filed for bankruptcy, Pimco analyst Sean McCarthy said bondholders likely faced deeper losses than trading prices suggested. General-obligation debt was trading at about 60 cents on the dollar at the time.

Then Maria arrived. As the territory contended with devastating damage, some investors fled for the exits, causing prices to tumble. By November, when prices had dropped below 30 cents, David Hammer, Pimco's head of municipal bonds, said they were looking more attractive.

The Newport Beach, California-based firm boosted its holdings of Puerto Rico securities by the end of December. Of the debt held by Allianz, the bulk was purchased by Pimco funds, according to data compiled by Bloomberg. More than $400 million of the securities were bought in the fourth quarter of 2017, the data show.

The firm held $115.3 million of the island's general obligations due in 2035, the most actively traded security, as of Dec. 31. All but $869,000 of that was bought in the last three months of 2017. That bond, with an 8 percent coupon, traded this year for as much as 45 cents on March 26, up from a low 20.75 cents on Dec. 19. It sold at an average 41.7 cents Thursday.

The run up came after Puerto Rico increased its estimated surplus, which may mean better recoveries for bondholders. Rossello's latest fiscal plan projects a $6.3 billion surplus through fiscal 2023, before paying debt service costs.

The large rally in Puerto Rico debt stands out from the company's other fixed-income investments, which have mostly generated returns from smaller moves because of the low volatility in the bond market, Pimco Chief Executive Officer Emmanuel "Manny" Roman and Chief Investment Officer Dan Ivascyn said in an interview in early April at the company's headquarters.

"Some Puerto Rican bonds went up about 100 percent," Ivascyn said.

"So we have exceptions where you hit a great home run," Roman added.

Some are questioning the rally's stamina. The commonwealth has a history of missing budget projections and Puerto Rico's federal oversight board has yet to certify the fiscal turnaround plan. The panel has asked the governor to impose cuts to retirement benefits, which Rossello has refused to endorse.

Pimco's $73 billion Global Investors Series PLC fund holds $315 million of Puerto Rico bonds bought in the fourth quarter, which included general obligations and power authority debt, the data show.

The biggest chunk was $109 million of the bonds due in 2035.

The $111.9 billion Pimco Income Fund, the largest actively managed fixed-income fund, also held $98.2 million of general obligations as of Dec. 31. Its $1 billion High Yield Municipal Bond Fund held $61.7 million of Puerto Rico securities, including general obligations, power authority and sewer debt.

Bloomberg Markets

By Michelle Kaske

April 13, 2018, 6:16 AM PDT Updated on April 13, 2018, 8:29 AM PDT

— With assistance by John Gittelsohn

What Detroit Tells Us about Conventional Financing and Economics of Revitalization.

The continuing revitalization of downtown Detroit is an international story. It is hard to believe that the General Motors bankruptcy was less than a decade ago and the city's bankruptcy was less than five years ago. The region that once served as a prime example of a Rust Belt manufacturing economy subject to heights of the late-2000s recession is now in the midst of an urban renaissance that has not only transformed the Motor City's skyline, but also completely changed the way people think about Detroit. The city is now one of the hottest national markets for stadiums, office, retail, residential, industrial, restaurants, and mixed-use development. With all of this activity, a long list of developers and investors are quite literally banking on Detroit.

One of the hidden economic dimensions behind the renaissance is the evolving financing dynamics behind the developments that are both making headlines and raising the bar.

According to the U.S. Bureau of Labor Statistics, unemployment in the Detroit area (as of February 2018) has dropped from 4.8 percent to 4.2 percent over the past year alone. As more people reenter the workforce, the need for more and better housing becomes essential.

Understanding how and why groundbreaking multifamily communities are securing the financial commitments required to become reality is an important first step in appreciating how a city's economic and development landscape evolves throughout the course of an accelerating growth cycle.

Making Conventional Work

At the intersection of Washington Boulevard and Park Avenue, construction is underway on City Club Apartments, a 288-unit apartment and penthouse community. The $70 million community features 13,000 square feet (1,200 sq m) of retail space, including a restaurant, theater, gourmet market, and specialty pet store. The apartments and penthouses, which range in size from 400 to 1,700 square feet (37 to 158 sq m), will provide 24/7 concierge service and resort-caliber amenities that rival those found at some five-star hotels. It is appropriate, given the fact that the development is on the site of the iconic Statler Hotel—originally built in 1915 and demolished by the city in 2005. Construction began on the development in fall 2017 and it will be completed this fall.

While City Club Apartments CBD Detroit is the first ground up, mixed-use high-rise in Detroit in more than 30 years, what makes the development particularly noteworthy in the context of Detroit's reemergence is the fact that it is being conventionally financed.

The majority of Detroit's new multifamily developments have received U.S. Department of Housing and Urban Development (HUD) funding—HUD serves as both the construction lender and the permanent lender—in conjunction with a range of grants and other alternative/nontraditional financing mechanisms. Conventional financing—through traditional construction lenders, commercial banks, pension funds, or a life insurance company, and securing equity through wealthy individuals and families, pension funds, life insurance companies, or real estate investment trusts—is a lagging indicator: a sign of a healthy development climate that often becomes reestablished only once a city is well on its way to an economic recovery.

Numbers and Timing

So why are we the first significant mixed-use development that has not sought to take advantage of those extra layers of incentives? Part of the answer is simply timing. Downtown Detroit's rental market has been on the upswing—a trend that really picked up in 2014, when the city came out of bankruptcy protection. Today, rents are around $2.25 to $2.50 per square foot ($24.22 to $26.91 per sq m), an important number for conventional financing to work.

Once the rental numbers work, the next challenge is the ability to get high-quality asset valuation. That poses a significant challenge in a market where everything is either "on sale" because it needs so much work, or the revitalization is so new that there are no comparables available in the market.

Detroit is not a merchant builder city and that is reflective of its low turnover rate of performing assets. Consequently, developers must identify lenders that are able and willing to get creative. When we built the first market-rent high-rise in Ann Arbor, Michigan, in more than 25 years, US Bank and Freddie Mac used comps from another city. But the bank—and the credit committee at that bank—obviously had to be willing to do that. It takes leadership and vision to make it all work.

In other words: while the market dictates financing to a large extent, you also need a developer willing and able to push for conventional financing—and financial institutions and business and credit committees that are willing and able to make decisions based on excellent fundamentals.

Our goal from day one was to prove that it could be done conventionally.

We made the case for conventional financing to Mayor Duggan, City Council, and the Detroit Economic Growth Corporation. They were confident that the market had matured enough and that rents were strong enough to make the math work for conventional financing while also ensuring that 20 percent of the apartments would be affordable.

While City Club Apartments is using available brownfield and tax abatement programs, those are incentives that are typical for urban developments. Civic leadership is also an important and often underappreciated factor in the financing equation. The political and economic dysfunction we saw in Detroit under the last administration just did not inspire trust or confidence—and that has an enormous impact on the availability of financing. From a leadership standpoint, the climate in Detroit today is both positive and highly creative.

A Familiar Pattern

This progression is typical of the upward evolution of the Midwest. Cities like Pittsburgh and Cincinnati were both in a similar place five to six years ago, Minneapolis in the early 2000s, and

even Chicago back in the late 1980s and early 1990s. Indianapolis, Kansas City, Cleveland; the list goes on. And Detroit is no different.

For those early developments in a recovering market, the lack of both rent and sales comps is a challenge. That creates a financing funnel where developers often rely on HUD loans, grants, and other incentives, which, in turn, puts more pressure on the equity side of the equation in conventional deals. Having to come up with 25 to 35 percent cash/grants/incentives equity instead of 15 to 20 percent means a lot of deals simply never get done. These are particularly turbulent waters for younger and smaller firms to navigate.

Leaning into It

Civic officials in Detroit and elsewhere are more strategic and proactive today with respect to financing. Cities should leverage alternative financing tools strategically to help those neighborhoods that are lagging somewhat behind the redevelopment curve. In Detroit, for example, this approach would push for conventional financing for projects in Detroit's CBD and Midtown areas, while "next" neighborhoods like Livernois, Corktown, Grand River, and Eastern Market would be the natural beneficiaries of grant monies or alternative financing tools.

In order to fuel Detroit's momentum, developers and civic officials in Detroit need to continue to encourage more banks, pension funds, and life insurance companies to pay attention to and participate in investing in the city's renaissance. Getting more institutions involved helps disperse the risk. Banks have lending limits, and they are going to put only so much money into any one city—no matter how much positive economic and development momentum has been established.

Urban Land Magazine

By Jonathan Hotlzman

March 26, 2018

Jonathan Holtzman is the founder, chairman, and CEO of City Club Apartments, an entity that owns more than 10,000 apartments in 30 communities nationwide with a combined real estate value exceeding $2 billion. City Club also has an additional $500 million invested in new communities in various stages of development and construction.

How Tax Reform Hurt Municipals in Q1.

Municipal bond performance in the first quarter of the year was clearly hurt by tax reform, according to Peter Hayes, head of BlackRock's municipal bond group.

Speaking Wednesday at a fixed-income roundtable event for reporters, he said that the muni market reacted too early and too strongly when it came to the new tax legislation.

"That totally took out the seasonal aspect of munis," he said, "We are now down roughly 30% in terms of volume and the net negative return was saw this first quarter was the worst it's been since 1996."

Hayes added that demand continues to be very strong and so far, there has been little change from retail investors due to tax reform, though the market was still going through a discovery period.

“The market is trying to settle in between the new tax rates,” he said. “There is still a lot of value in municipals but the market is holding back right now.”

Hayes said it is still too early to tell how the tax changes are affecting holdings of banks and casualty and insurance companies, but that the asset class looks attractive despite the rising interest rate environment.

“There is plenty of income to be had in this market and it does do well when rates rise, but curve positioning will be very important,” he said.

Secondary market
Municipal prices ended mostly flat on Wednesday after equities rebounded from earlier in the day and the market priced the $3.2 billion New Jersey tobacco deal, which was oversubscribed, according to a New York trader.

“It was extremely attractive,” he said of the tobacco deal, which was priced with a 5% coupon in 2046 to yield 4.90%.

“The market opened up a little stronger following equities, and the deals today seemed to go OK,” he said. “Equities are back in the green and as equities caught a bid, we got a little cheaper.”

The New York Municipal Water Finance Authority deal also caught some attention from investors, but “all of the focus was on the New Jersey tobacco deal, which was like 10 times oversubscribed,” the trader estimated.

The trader expected the market to stay steady heading toward week’s end, but said upcoming economic reports could put activity on hold.

“You’ve got a fairly well-focused employment number on Friday, so I think it will start to get quiet [on Thursday] as everyone waits for that number,” he said.

Primary market
Jefferies priced and repriced the New Jersey Tobacco Settlement Financing Corp.’s Series 2018A senior and Series 2018B subordinate tobacco settlement bonds for institutions after holding a one-day retail order period.

Siebert Cisneros Shank priced and repriced the New York City Municipal Water Finance Authority’s $426.14 million of Fiscal 2018 Series EE water and sewer system second resolution revenue bonds for institutions after holding a one-day retail order period.

SCSCO also priced the Bexar County Hospital District, Texas’ $242.02 million of Series 2018 certificates of obligation.

Citigroup priced and repriced the San Diego County Regional Transportation Commission’s $537.48 million of Series 2018A subordinate sales tax revenue short-term notes.

In the competitive arena on Wednesday, Howard County, Md., sold $129.89 million of Series 2018A consolidated public improvement project tax-exempt bonds.

Citigroup won the bonds with a true interest cost of 3.0611%.

Since 2008, the county has sold about $2.45 billion of bonds with the most issuance in that time occurring in 2017 when it sold $644.6 million of debt. The county sold the least amount of bonds in

that period in 2012 when is offered only $57.3 million of securities.

Late Tuesday, the Board of Trustees of the University of Illinois announced it was postponing Wednesday's sale of Series 2018A and 2018B auxiliary facilities system revenue bonds while it "considers a change in accounting principles brought about by the adoption of GASB Statement 75. In recent days, the university learned that its interpretation of GASB 75, affecting fiscal year 2018 reporting and forward, varied from that of the State of Illinois Comptroller's Office. After the board has reviewed, analyzed and adopted any required changes in accounting principles, it intends to resume the sale of the bonds."

The Bond Buyer

By Christine Albano, Chip Barnett & Aaron Weitzman

April 04 2018

Fitch Releases Revised U.S. Public Finance Tax-Supported Rating Criteria.

Fitch Ratings-New York-03 April 2018: Fitch Ratings has released an annual update to its "U.S. Public Finance Tax-Supported Rating Criteria." The revised criteria, which replace criteria dated May 31, 2017, include changes related to the analysis of moral obligation pledges and state dedicated tax bonds, as discussed in further detail below. Fitch expects these changes will affect fewer than 10 ratings. Other revisions to the criteria simply clarify certain aspects of our approach for U.S. state and local government credits.

The ratings that may be affected by the criteria changes will be reviewed in the near term..

Moral Obligation Analysis Change (Appendix D of revised criteria)
Under the revised criteria, all Fitch ratings on moral obligations will be notched down from the credit quality of the moral obligation provider. Formerly, the moral obligation enhancement was recognized either based on this "top down" approach or by notching up from the underlying security rating, depending on the nature of the transaction. This change generally aligns to the framework used for appropriation-supported debt, but with somewhat wider notching from the moral obligation provider's general credit quality as expressed through its Issuer Default Rating (IDR). Moral obligation debt will generally be rated three notches below the provider's IDR, although moral obligation debt that is currently rated two notches below the provider's IDR based on identified strengths is not affected by the criteria change.

The change to the analysis of moral obligations is expected to result in upgrades to a small number of credits.

State Dedicated Tax Bond Analysis Change (pages 29-31 of revised criteria)
The revised criteria specify more limited situations in which a state dedicated tax security can be rated without regard to the state's general credit quality. Additionally, the revised criteria now include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state IDR, can nonetheless be treated as stronger than but still linked to the state's general credit risk. In these cases, Fitch will limit the rating on most state dedicated tax securities to no more than three notches above the state's IDR. For either approach to be applicable, dedicated revenues must be structurally insulated from the state's general financial operations.

As there is no bankruptcy framework available to U.S. states, evaluation of the prospects for varying security structures at a time of fiscal distress is by necessity somewhat judgemental. Absent a bankruptcy framework, the primary limit on state action and source of protection for state bondholders is the contract clause of the U.S. constitution and equivalent clauses in state constitutions. Although contract clause protections under federal and state constitutions restrict the ability of a state government to impair its obligation to pay bondholders from dedicated tax revenue, the judicial interpretations of the contract clause indicate that it does not impose an absolute constraint where a state confronts a fiscal emergency. In such a situation, one of the key legal tests of whether a contract can be impaired is whether the impairment is necessary and reasonable.

Given this legal backdrop, under the revised criteria, the only cases in which Fitch can rate a state dedicated tax bond distinct from and without regard to the state IDR are situations where Fitch believes that the nature of the dedicated revenue stream or the legal structure render remote the possibility of a successful impairment argument. This approach is similar to Fitch's rating framework for local government dedicated tax bonds. The security must be very clearly segregated from state operations and have no nexus with general state functions. Examples include bonds issued to fund state unemployment compensation and worker's compensation systems.

In other cases, Fitch believes that the state dedicated tax security enhances the prospects for full and timely payment but does not have a sufficiently strong non-impairment argument to allow for a rating determined without regard to the issuer's general credit quality. The revised criteria cap the rating on such securities at no more than three notches above the state's IDR, indicating that they are more vulnerable to an assertion by the state that impairment is necessary. The degree of allowable notching is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the better).

The option to rate a dedicated tax security above but linked to the government's IDR can only be used for bonds issued by U.S. states. Fitch does not apply this approach to debt issued by local governments because expectations for the likely performance of local government security structures at times of fiscal distress are guided by Chapter 9 of the U.S. Bankruptcy Code. The automatic stay under Chapter 9 applies with few exceptions to all tax-backed debts issued by a local government. A local government security's exposure to the government's general credit risk is therefore predictable under the provisions of the Code: the pledged revenues are either subject to the automatic stay, and the dedicated tax rating is capped by the IDR, or they aren't, allowing for a dedicated tax rating distinct from the local government's IDR.

This criteria change represents a refinement of Fitch's approach to rating state dedicated tax bonds and is a continuation of our ongoing focus on legal security in relation to issuer ratings. The change is expected to result in downgrades to a small number of credits.

Fitch's approach to rating dedicated tax bonds issued by U.S. local governments is unchanged in the revised criteria.

Bankruptcy risk to local governments generally precludes dedicated tax bonds issued by that government from being rated higher than the entity's IDR, regardless of the strength of the security. Fitch considers four exceptions where a dedicated tax bond rating above the IDR is possible: (1) bondholders are granted a lien on and pledge of revenue that Fitch concludes would be considered special revenues under Chapter 9 of the U.S. Bankruptcy Code; (2) the debt is issued pursuant to a specific state intercept program; (3) the debt is structured as a securitization specifically authorized by state law; or (4) Fitch can identify the likelihood of enhanced recovery prospects.

Fitch’s updated “U.S. Public Finance Tax-Supported Rating Criteria’ is available at ‘www.fitchratings.com” or by clicking on the link above.

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Criteria FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Special Assessment Debt.

On April 2, 2018, S&P Global Ratings published its revised criteria for Special Assessment Debt. The updated framework is designed to provide additional transparency and comparability to help market participants better understand our approach to assigning ratings to U.S. special assessment districts, to enhance the forward-looking nature of these ratings…

Continue Reading

ESG: It's About Risk Management.

An increasing number of investors are interested in strategies that offer opportunities to make positive impacts on environmental, social and governance (ESG) issues that they care about while also earning attractive financial returns. Investors who consider the impact of a security issuer’s ESG-related practices and policies gain a more complete view of the risks posed by poor governance. By recognizing these sources of risk, they increase their likelihood of achieving the positive outcomes they seek.

We believe impact investing plays a critical role in helping create a world where both people and communities can flourish. Thriving communities depend on clean air and water, access to quality education and equal protection under the law. Unfortunately these public goods are often taken for granted and only noticed when they fail, such as when the mismanagement of Flint, Michigan’s water system exposed 100,000 people to potential poisoning. Flint’s fall from industrial powerhouse to one of the poorest communities in America is about much more than just economics – it was a failure of governance and stewardship of public goods. This is one of many examples of how poor

governance can lead to environmental and social challenges that face communities today.

Even more frequently overlooked than the role that environmental, social and governance (ESG) factors play in a community's quality of life is the role that they play in managing risk in investment portfolios. While traditional investment analysis has paid relatively little attention to these non-financial sources of risk, we believe that failure to integrate analysis of ESG factors into the investment decision-making process overlooks the potential effect of these non-financial factors on investment performance, particularly over the long term.

Unethical or neglectful behavior by a government or a company in an area of environmental, social or governance concern can harm those who invest in that government's bond or company's stock as well as harming the environment or community where a company or government is located.Investors in these communities and companies often underrate the seriousness of these risks to their investment process.

Risky Business

Each asset class creates its own set of risks and opportunities. Sometimes the risks for investors from ESG-related issues are direct and obvious. Volkswagen's use of software in its diesel cars to cheat on emission tests is an example of poor corporate governance leading directly to environmental and financial harm. That failure of governance allowed elevated levels of unhealthful oxides of nitrogen emissions into the air as well as exposing the company and its shareholders to potential lawsuits and fines by regulators. Unsurprisingly the company's stock price has suffered. The harm resulting from poor governance also extended to many unrelated areas of the automotive industry, as other companies found themselves facing increased scrutiny of the sector from regulators.

Not all ESG-related risk arises from lack of governance. A far more common outcome is the underestimation of a security or sector's long-term risks and the subsequent overestimation of its value. By not considering non-financial risks that may take years to materialize, analysts implicitly place greater emphasis on the short-term financial circumstances of a company or government when determining the value of a potential investment. That focus on an issuer's attractive short-term financial prognosis may be reflected in stock or bond prices that are higher than they would be if the significant long-term non-financial risks facing the issuer were understood and properly priced in.

Turning Impact Interest Into Implementation

The number of investors who are interested in making a positive impact with their investment portfolio continues to grow every year. With that growth we get closer to a world where impact investing and investing are the same thing. So how does the investment community turn this momentum into implementation? It starts by each investor understanding that EVERY portfolio makes an impact. Some investors want their portfolios to make an impact on environmental issues such as fighting climate change or on social issues including ensuring gender diversity on corporate boards. Others want the impact to be maximizing return on investment. While investment goals and impact are unique to each client, all share in the need to manage risk with relevant data. All investors want to be fully informed and aware of the risks they face with each investment. Are you ignoring any risks in your investment portfolio that may affect your outcomes? Using ESG Integration to solidify risk metrics is timely for all types of investors everywhere.

Disregarding valuable data for environmental, social and governance considerations inevitably increases the potential risks in a portfolio. Integrating analysis of these factors into the investment decision-making process creates a more accurate understanding of risk as well as a deeper understanding of each client's unique impact goals. Integration of these factors leads to more informed investment decisions and impacts for both advisors and individual investors strengthens

client relationships, and builds resilient communities.

ESG Around The World
As we work to push ESG integration and impact investment principles into the mainstream of investment philosophies in the U.S., we can look abroad to see what such an investment landscape could look like. International investors establish the need for esg integration upfront by asking asset managers and investment advisors how they are integrating these factors into investment frameworks. That long-standing interest, combined with regulations such as the UK's Stewardship Code has created an environment in most developed markets where investors expect managers to not just demonstrate familiarity with the role that ESG factors play in investing, but to have integrated management of these factors into the way they manage portfolios. Since 2006, the United Nations Principles for Responsible Investment have codified the principle that Environmental, Social, and Governance ("ESG") factors can have a meaningful impact on the risk and return profile of fixed income investments. Meanwhile, interest among U.S. investors in these approaches to portfolio management has been slower to develop but is now rising quickly.

What it Means for Muni Bonds
While many ESG integration strategies focus on equities and use proxy-voting rights to press firms to improve their policies, ESG integration should be an important part of fixed income investment decision making as well. Indeed, selecting municipal bonds for inclusion in a portfolio requires implicit consideration of at least some environmental, social and governance factors. Munis exist due to the need to fund public goods and while traditional bond analysis looks primarily at credit risk, the quality of an issuer's governance should be an integral part of that analysis. Sustainable bond issuers typically exhibit best practices in the areas of timely and transparent budgeting, strong financial controls, good management of pension liabilities and emphasis on delivering essential services such as school construction and water and sewer systems. Incorporating these issues enables a more comprehensive understanding of broader risk factors over time and a better understanding of whether a bond's pricing accurately reflect risks over the bond's full duration. Municipal finance provides a critical window into important ESG-related risks such as public health, safety and the scarcity and sustainability of natural resources and human capital.

So how can you help?
Impact-oriented investors want their investments to make positive contributions to the places and causes that they care about. All investors want the ability to utilize relevant data to be informed of all the risks they face while finding undervalued investment opportunities. The great news is that ESG integration is a powerful tool that help guide decision making for each investor today.

We believe investment advisors play a critical role in helping build a better world by being leaders in advancing the impact investing movement. Do you have questions about incorporating ESG analysis into your investment process? Send us an email at investors@neighborly.com or sign up here to learn more.

Posted 04/04/2018 by Alex Laipple

Neighborly

This post was co-authored by Alex Laipple and John Sparks.

Neighborly Issuer Brief: How Munis Finance Broadband.

How Munis Finance Broadband

The accelerated development of rural broadband infrastructure is one potential outcome of a federal infrastructure program. When it comes to any discussion of rural infrastructure needs, no matter where the forum or who the messenger is, what comes through loud and clear – even in analog – is the demand for high-speed internet access as a key to rural development and revival. It is important enough that some municipalities are not waiting for a federal answer.

One example is Fort Collins, CO. The City of Fort Collins, at the direction of City Council and voters, is moving forward with building and implementing high-speed next-generation broadband to the entire community. This will take 3 to 4 years and include the entire growth management area. The city is aiming to provide that high-speed connectivity for $70 per month or less, as well as a less expensive internet tier of service. Comcast and Century Link currently provide service in the city.

While the issue is being debated, it's evident that the municipal bond market has been a source of financing for local broadband since 2000. At least 8 municipalities and the U.S. Virgin Islands have issued bonds for this purpose.

Typically, bonds have been issued to provide funding for the equipping of local broadband networks within the existing infrastructure maintained by local electric systems. The issuers tend to be owners of their own existing electric distribution systems. The bonds are generally payable from the net revenues of the local cable system and are sometimes supported by an ad valorem tax pledge in the event that cable/internet revenues are insufficient.

Another method of financing mirrors the experience of financing rural electric distributions — the establishment of cooperatives for that purpose. Much like rural electric coops, rural communities have banded together to create a critical mass sufficient to support a debt financing. The RS Fiber coop is an entity made up of 17 rural Minnesota communities which issued bonds through one of the member communities in 2015. That structure obtained a stand-alone investment grade bond rating so the concept is viable from that standpoint and we could see more of these financings in the future.

For one group of localities in Vermont, broadband is the topic du jour. Central Vermont Internet – which is up for a town meeting vote in Barre City, Barre Town, Berlin, Calais, East Montpelier, Marshfield, Middlesex, Montpelier, Northfield, Plainfield, Roxbury, Williamstown and Worcester – would bring fiber optic capability to these places as they work to keep their localities economies up to 21st Century standards. Collective action such as this could easily be the digital equivalent to the joint action agency undertakings that maintained electric service in the last quarter of the 20th Century.

As the Federal government is likely to be slow–if at all in 2018–to put forward an infrastructure bill, issuers should take note of projects elsewhere and learn from the successes.

Gas Tax Increases Possible in Florida

There may not be support for increases in the federal gas tax at the federal government level — which sits at 18.4 cents per gallon, hasn't been raised since 1993 and is not subject to inflation — but there are efforts being made to find out whether that sentiment is truly felt at the local level. The latest jurisdiction to consider an increase is in Florida. Lake County voters will get a chance this fall to vote on a proposed nickel-per-gallon gas-tax to finance rehabilitation of existing roads. The

County estimates that 75 of 1,391 miles of county-maintained roads are categorized as severely deteriorating. The cash provided by the tax, if voters approve it, would help cover the cost of repaving 65 of those miles.

The extra tax would start in January 2020 and generate an estimated $6 million a year from residents and out-of-county drivers. Two-thirds of the money, about $4 million, would go to the county and the rest would be divided by Lake cities. If approved, Lake would join Osceola, Polk and Volusia counties in utilizing the maximum 11 cents a gallon in local-option gas taxes allowed by law. The average motorist purchases about 500 gallons a year per car, according to the U.S. Department of Energy. That means a driver would pay about $25 more per year if the tax is approved. The local-option 6-cent gas tax already applies to all fuel including diesel, but the proposed extra nickel in taxes wouldn't apply to diesel fuel.

As issuers and their taxpayers consider options for raising revenues for important infrastructure, these are case studies that may help guide government officials' decision-making processes and gauge voter sentiment.

Another Cyber Attack Hits a City — This Time Atlanta

Atlanta is the largest American city to see its computer systems compromised by malware from malevolent interests. The hackers recently asked the city for $51,000 in ransom to unlock data that was encrypted during the attack. Officials faced the same choice all in that position face – give in to the criminals and have their systems restored quickly or address the issue on a machine-by-machine basis.

The effect has varied. Court dates have had to be postponed and the ability to pay fines and bills has been compromised. The city's 911 system was not affected and operations at Hartsfield-Jackson Airport continued. The airport did disable its WiFi system as a precaution and its parking operation was compromised.

The city is fortunate in that operating systems do not appear to be the target. Rather the focus was on administrative systems leading to handle processing of justice system paperwork. You can get water from the city water system but you can't pay your bill when due. According to The New York Times, SamSam, the ransomware group behind the Atlanta attack has already extorted more than $1 million in ransoms this year.
City officials have not disclosed the extent to which servers for backing up information on PCs were corrupted or what kind of information they think is unrecoverable without paying the ransom. Atlanta police returned to taking written case notes and have lost access to some investigative databases.

What many of these attacks have in common is that the attacked systems are internet based. As the cloud becomes more and more ubiquitous, more and more urban infrastructure, including smart city systems, go online. Thus, many are vulnerable to the resulting delays, errors, and inconveniences associated with these attacks.

So the real question is does this constitute a material event or risk which should be disclosed to investors, current or prospective? The question is not whether cyber risk is such an event under current MSRB reporting requirements. Rather it is a question of common sense. If a municipality is vulnerable to a risk from the outside that could compromise its ability to deliver services, keep accurate records, and collect and account for revenues, is that not something to which investors are entitled to be informed and allowed to make their own independent assessment of from the perspective of investment and credit risk?

Trade War Will Hurt Midwestern States

These are the 10 largest pork-producing states: Iowa – $4.2 billion; Illinois – $1.54 billion; Minnesota – $1.47 billion; North Carolina – $1.46 billion; Indiana – $1.04 billion; Oklahoma – $952.7 million; Missouri – $791 million; Nebraska – $657.5 million. Of total pork exports, 2% of U.S. production goes to China. Predictions are that combined with other factors (energy costs, feed costs) hogs are now expected to average about $48.50 this year with cost now estimated near $53. Losses of $4.50 per live hundredweight or about $12.50 per head are expected.

So income taxes derived from the agricultural sector will clearly be positioned to decline. This will complicate existing budget strains in Iowa, Oklahoma, and Nebraska. There is an impact from the new trade policies, especially in the rurally based states with smaller less diverse economies.

According to the USDA, California has remained the top agricultural export earnings state since 2000, with Iowa, Illinois, Minnesota, Nebraska, and Texas near the top of the list in any given year. The largest exporters of animal products in recent years have been Iowa, the largest pork producer, as well California, the largest dairy supplier, and Texas, one of the top beef exporters. The top three exporters of plant products have consistently been California, Illinois, and Iowa. California is the top exporter of a range of vegetable, fruits, and nuts, whereas Illinois and Iowa are top exporters of soybeans, corn, and feeds. So the new Chinese tariffs on fruits will bite in these areas.

Posted 04/05/2018 by Joseph Krist

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Muni Bond Leverage: Risk vs. Reward of Tender Option Bonds.

Municipal bond funds are a very popular investment that provides its shareholders with a diversified portfolio of municipal bonds.

Typically, investors use muni bond funds to provide tax-free income with a secondary goal of preservation of capital. Muni bond funds can be very specific in their selection of portfolio holdings, like only of a certain investment grade from a specific state or maturity. Therefore, muni bond funds have been known to be a relatively conservative for the average investor.

However, some municipal bond funds have implemented leverage within the portfolio in an effort to increase returns, whether in the form of distributions or through total return. It is to be noted that

with more leverage comes added risk to the portfolio and its shareholders. Let us explore this concept in more detail in the following sections.

Tender Option Bonds Structure

A way for municipal bond managers to acquire leverage is by using tender option bonds (TOBs). Tender option bonds are a structured product held in the form of a trust fund. The municipal bond manager deposits some of its high-quality municipal bonds to fund the tender option bond trust. Then the TOB trust issues two types of securities: short-term floating rate and inverse floating rate investments. The short-term floating rate investments are then sold to money market funds that are looking for high-quality short-term investments. In exchange for the short-term investments, the money market funds pay cash directly back into the muni bond fund. This can be better understood from the flowchart shown below.

Continue reading.

municipalbonds.com

by Brian Mathews

Apr 05, 2018

Municipal Bonds Weekly Market Report: GDP Surpasses Expectations

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.

- Short-term yields all up this week, while longer-term maturities fell.
- Muni bond funds saw its fourth week of inflows.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Apr 03, 2018

U.S. Water Systems Capital Spending to Rise 11 Percent by 2027: Report

NEW YORK — Capital expenditures on U.S. municipal water, wastewater and stormwater infrastructure will rise 11 percent in the next 10 years, in part to cope with poor water quality, environmental mandates and crumbling systems in some areas, according to a report on Tuesday.

Total capital spending in the U.S. municipal water sector is projected to exceed $683 billion by 2027, to $72.2 billion annually from $64.9 billion this year, the report from Bluefield Research, which

focuses on the water sector, found.

“The public’s growing concerns about U.S. water infrastructure are real and increasingly reflected in utility planning documents,” Bluefield’s research director Erin Bonney Casey said in a statement.

Cities have a wide range of capital needs, from manhole covers and fire hydrants to information technology, she said. The report analyzed planned spending by water systems in 100 major cities.

In many places pipes are old and in need of replacement. Of the total estimated future spending, $376 billion, or more than half, is planned for the pipes, pumps and waterways that make up collection and distribution networks.

In areas where projected water capital spending is high, often an environmental consent decree to remediate stormwater overflows or acute water quality problems are driving the costs, for instance in Jackson, Mississippi or Pittsburgh, Pennsylvania, the report found.

Utilities are also increasingly using more expensive, sophisticated data-based technology, including smart pumps and electric drives.

By REUTERS

APRIL 3, 2018, 7:10 P.M. E.D.T.

(Reporting by Hilary Russ; editing by Susan Thomas)

Fitch Places 7 State Dedicated Tax Ratings on Negative Watch on Criteria Change

Fitch Ratings-New York/Bogota-04 April 2018: Fitch Ratings has placed the following ratings on Rating Watch Negative following Fitch’s April 3, 2018 release of revised criteria for rating U.S. state dedicated tax bonds:

–State of Illinois Build Illinois senior and junior lien sales tax revenue bonds ‘AA+’;
–Arizona School Facilities Board state school improvement revenue bonds ‘AAA’;
–Pennsylvania Turnpike Commission (PTC) oil franchise tax senior revenue bonds ‘AA’;
–Pennsylvania Turnpike Commission registration fee revenue bonds ‘AA-‘;
–Port Authority of Allegheny County, PA (PAAC) special revenue transportation bonds ‘AA’;
–Southeastern Pennsylvania Transportation Authority (SEPTA) revenue bonds ‘AA’.

With the annual update to its “U.S. Public Finance Tax-Supported Rating Criteria”, Fitch specified more limited situations in which a state dedicated tax security can be rated without regard to the state’s general credit quality. Additionally, the revised criteria now include detail on circumstances in which a state dedicated tax security, while not considered distinct from the state’s Issuer Default Rating (IDR), can nonetheless be treated as stronger than but still linked to the state’s general credit risk. In these cases, Fitch will limit the rating on most state dedicated tax securities to no more than three notches above the state’s IDR.

For more information on the revised criteria, see “Fitch Releases Revised U.S. Public Finance Tax-Supported Rating Criteria” dated April 3, 2018 and available at www.fitchratings.com.

KEY RATING DRIVERS

CHANGE IN CRITERIA: The Rating Watches are being assigned to all state dedicated tax bond securities that historically have been rated above and without regard to the state's IDR but do not meet Fitch's revised criteria for rating without regard to the credit quality of the state.

RATINGS LIMITED TO THREE NOTCHES ABOVE STATE IDR: Fitch will review the credits to determine the extent of notching above the state IDR allowable under the new criteria. Except for the Build Illinois bonds, all of the securities being placed on Watch are rated within three notches of Fitch's assessment of the related state's general credit quality and could be affirmed following committee review under the revised criteria.

KEY NOTCHING CONSIDERATIONS: Under the revised criteria, the degree of allowable notching above the state's IDR, for those credits that do not meet Fitch's requirements for rating without regard to the state's IDR, is informed by: the breadth of the dedicated revenues (the narrower the better); the nature of the borrowing program (the more specific the better); and the use of residual revenues (the more segregated the better).

LOCAL GOVERNMENT ANALYSIS NOT AFFECTED: Only dedicated tax bonds of U.S. states are being placed on Watch. Fitch's approach to rating dedicated tax bonds issued by U.S. local governments was unchanged in the revised criteria. Bankruptcy risk to local governments generally precludes dedicated tax bonds issued by that government from being rated higher than the entity's IDR, regardless of the strength of the security. Fitch's criteria detail four exceptions where a dedicated tax bond rating above the IDR is possible.

RATING SENSITIVITIES

RATING CHANGES RESOLVED WITHIN SIXTY DAYS: Fitch expects to resolve the Rating Watches within 60 days of this release.

SECURITY

BUILD ILLINOIS: Build Illinois bonds have a first and prior claim on the state share of the 6.25% unified sales tax and a first lien on revenues deposited into the Build Illinois Bond Retirement and Interest Fund (BIBRI). Debt service payments on the junior obligation bonds are subordinate to outstanding senior lien debt service.

ARIZONA SCHOOL FACILITIES BOARD: The bonds are payable from and have a first lien on a 0.6% voter-authorized addition to the state-wide transaction privilege and use (sales) tax.

PTC OIL FRANCHISE TAX: The bonds are limited obligations of the PTC, payable from an allocation of a portion of the commonwealth's OFT. The commonwealth legislature made the allocation with Act 26 of 1991, designating 14% of 55 mills of the OFT to the PTC as a continuing appropriation. The statute includes the commonwealth's covenant not to limit or alter the PTC's rights to the allocation.

PTC REGISTRATION FEE: The bonds are secured solely by an annual allocation of the first $28 million of Act 3 revenues (vehicle registration revenues), payable each fiscal year to the PTC.

PAAC and SEPTA SPECIAL REVENUE BONDS: The bonds are limited obligations of each authority payable from the authority's allocation of revenues, not subject to appropriation, derived from various Commonwealth of Pennsylvania fees and taxes levied statewide. The allocated revenues are deposited into the Public Transportation Assistance Fund with the authority's share then transferred directly to the bond trustee.

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How Blockchain Is Threatening to Kill the Traditional Utility.

- **The future is selling solar power to a neighbor with a Tesla**
- **Utilities see both opportunity and threat in new technology**

If utilities think rooftop solar panels and batteries are bad for business, blockchain should scare the bejeezus out of them.

That's because in addition to helping more people slapl panels on their rooftops — which eats into power sales and taxes grids — the distributed, digital ledger that's proliferated across industries can also be used to trade electricity without a utility even knowing it. Imagine your neighbor with a solar panel directly selling you cheap power to charge your Tesla.

Sure, there are some utilities that see the future and are trying to use blockchain to their advantage, but others ignoring it may soon start losing business to new hyper-local energy suppliers with a powerful tool to manage billions of data points cheaper and faster.

Continue reading.

Bloomberg Technology

By Chris Martin

April 9, 2018, 4:01 AM PDT

How China's Proposed Tariffs Could Impact States' Economies.

China is one of our largest trading partners. U.S. exports to the country totaled $130 billion last year.

Fears of a trade war continue to escalate this week as Chinese officials and the Trump administration threaten to slap tariffs on a growing number of imports, potentially roiling the world's two biggest economies.

China's latest announcement, on Wednesday, outlined another round of tariffs on imports from the U.S., bringing the total to more than 230 different products. The initial list of proposed tariffs, which focused on agricultural items, has since been lengthened to include motor vehicles, medical equipment, plastics and a slew of other goods from almost every corner of the U.S. economy.

And on Thursday, President Trump doubled down, calling for $100 billion more in tariffs on Chinese imports.

It's unknown how the trade dispute will unfold. But what is certain is that the consequences of China's tariffs would play out unevenly across state and regional economies. Although there's no precise state-level data tracking trade exports, several federal datasets provide an idea of just how much tariffs could disrupt state economies.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | APRIL 5, 2018

Outside Disneyland, a Reminder for Governments to Be Careful What They Wish For.

Cities have become increasingly focused on doing whatever it takes to attract large corporations. But it's hard to govern a one-company town. Just ask Anaheim.

When Disneyland opened in Anaheim, Calif., in 1955, throngs of people came to experience a theme park unlike anything they'd seen before. It soon became known as "the happiest place on earth." For years, the Walt Disney Company seemed to have a happy partnership with the city of Anaheim, too.

Anaheim has traditionally been open-handed with the international attraction that dominates its economy. Two decades ago, for instance, it agreed to issue a $510 million bond to upgrade the area around Disneyland, rebuild the convention center and provide Disneyland with a 10,000-space parking garage. The city also promised not to impose gate taxes on Disney tickets for at least 20 years. More recently, the city agreed to provide developers — including the Walt Disney Company — with more than $600 million in incentives to encourage the development of four new luxury hotels. It also extended the gate tax moratorium for another 45 years. In exchange, Disney promised to invest more than $1.5 billion in Anaheim by adding a major new attraction, Star Wars: Galaxy's Edge, which is slated to open next year.

But some have been critical of the city in its dealings with Disney. Those investments, they say, would have been made by the company anyway. For years, Anaheim's politicians largely ignored these objections. Instead, they accepted Disney's arguments that such deals were model public-private partnerships. But that attitude has begun to change. Disney "keeps talking about how it's the economic engine of the city and how we need to keep investing because we get so much in return," says Jose Moreno, a California State University, Long Beach professor who was elected to the Anaheim City Council in 2016. "But for every engine, there is exhaust, and there are parts of the city having to breathe that exhaust: the working poor."

Continue reading.

GOVERNING.COM

BY JOHN BUNTIN | APRIL 2018

State Preemption of Local Authority Continues to Rise, According to New Data from the National League of Cities.

WASHINGTON — April 4, 2018 — Today the National League of Cities (NLC), in partnership with state municipal leagues, released an update to its report, City Rights in an Era of Preemption, that reveals state preemption of local authority is increasing throughout the country. From minimum wage to municipal broadband, the report illuminates the worsening trend of infringements on local democracy.

"People who live in cities and towns want control over their own destinies," said National League of Cities (NLC) CEO and Executive Director Clarence E. Anthony. "When states take away the ability of local leaders to make decisions, the values and will of the people are ignored."

More than half of all states now ban local efforts to combat inequality through minimum wage policy, while 23 states have denied local governments the power to enact paid sick leave policies. States have shut down local LGBTQ anti-discrimination ordinances, undermined efforts to advance environmental protection, and stifled innovation by preventing cities from having a say on high-speed broadband.

NLC's research analyzes state preemption bills and judicial activity in the areas of minimum wage, paid leave, anti-discrimination, ride hailing, home sharing, municipal broadband, and tax and expenditure limitations. Compared to last year, 19 new laws were passed that will prevent cities from helping their communities across these 7 policy areas.

Additional states preempted local governments in the following ways:

- 12 percent increase in minimum wage preemption laws (3 additional states for a total of 28)
- 21 percent increase in paid leave preemption laws (4 additional states for a total of 23)
- 11 percent increase in ride sharing preemption laws (4 additional states for a total of 41)
- 67 percent increase in home sharing preemption laws (2 additional states for a total of 5)
- 18 percent increase in municipal broadband preemption laws (3 additional states for a total of 20)

Increased preemption has been linked to lobbying efforts by special interests, the spatial sorting of political preferences between urban and rural areas, and single-party dominance in most state governments. As preemption proliferates, local leaders are prevented from keeping people safe,

expanding rights, building stronger economies, and promoting innovation.

“When state laws nullify municipal ordinances or authority, the loss of local control can have far-reaching economic and social impacts in communities,” said Brooks Rainwater, Senior Executive and Director, NLC’s Center for City Solutions. “Local control and city rights are priority number one. We know well that innovation happens in cities and then percolates upwards – this process should be celebrated not stymied.”

Divorcing decision-making from the wants and needs of community members in this way creates an environment that counters the values of local democracy. To ensure that the core values of community members are heard and reflected in the policies and priorities of government, NLC launched the Local Democracy Initiative, of which this report is a key component. NLC is also working to equip city leaders with tools and strategies to prevent and reverse preemption through peer learning, evidence-based research and policy development.

Rules of Engagement: How Cities Are Courting Amazon’s New Headquarters.

Finalists for the company’s second home base break out bicycles to win over the internet giant

Don’t get too fancy. Head to edgier, trendier neighborhoods. And definitely stay on time.

These are a few of the tricks cities are deploying in their all-out effort to woo Amazon.com Inc.’s new headquarters, a move the online retailer says could bring nearly 50,000 jobs and more than $5 billion in investment over nearly two decades. Amazon executives have quietly visited more than half of the cities on its list of 20 finalists, which are vying to host what it calls HQ2, according to people familiar with the matter. The visits, which started in recent weeks, have included Dallas, Chicago, Indianapolis and the metropolitan Washington, D.C., area.

Amazon hasn’t provided much guidance on what it expects from the site visits. It has asked for breakout sessions on education and talent, plus visits to the sites it is considering, all within a strict time frame of two days, max. The rest is up to local officials.

Continue reading.

The Wall Street Journal

By Laura Stevens, Shibani Mahtani and Shayndi Raice

April 2, 2018

Local Laws Imperil 5G Innovation.

Misapplied zoning rules and huge fees block antennas the size of pizza boxes.

Marty Cooper stepped out of his office and onto a New York street corner, pulled out his phone, and made a call. It happens millions of times a day—but it didn’t then. It was April 3, 1973, and Mr. Cooper, now 89, was making the first call ever from a hand-held cellphone.

Forty-five years later, governmental obstacles threaten to block a new wave of wireless innovation, known as fifth generation or “5G.” It will multiply download speeds by at least 10 times, allowing wireless carriers to compete with cable companies for high-speed internet access. With superfast speeds and low lag times, 5G will enable advances in everything from driverless cars to the “tactile internet,” in which surgeons can perform operations and builders operate construction equipment remotely, and entertainment can include sensations beyond the audiovisual.

A 5G-enabled Internet of Things will connect people, data and new devices, creating a surge of economic growth. IHS Markit estimates that in the U.S. alone 5G will yield $719 billion in growth and 3.4 million new jobs by 2035. The world-wide figures could be as high as $3.5 trillion and 22 million jobs.

But to prepare for 5G, wireless carriers need to deploy thousands of “small cell” antennas, the size of pizza boxes. Even though small cells can fit invisibly on rooftops and lampposts, some state and local governments are acting as if they’re 100-foot towers.

In some places, outdated local requirements prohibit carriers from placing small cells in local rights-of-way and on government-owned utility poles. Zoning ordinances designed for much larger towers often require local zoning boards to approve small cells. Some localities refuse altogether to negotiate right-of-way access, while others impose prohibitive fees and other unreasonable conditions.

One Georgia municipality is considering an annual fee of $6,000 to attach a small cell to city-owned structures. Three cities in California demand annual payments between $2,600 and $8,000 for each cell attached to a city-owned utility pole. Newport Beach, Calif., is charging $10,800.

More than a dozen states have approved laws to streamline regulations for small-cell installations. By capping municipal fees at reasonable levels—usually a few hundred dollars a cell—limiting review time, and allowing small cells in most public rights-of-way, these states are saying they want the benefits of the 5G revolution.

Most states, however, have declined to take constructive action, imperiling U.S. 5G leadership. But the Federal Communications Commission is showing a way out. On a party-line 3-2 vote in March, the FCC took its first step by exempting small cells from federal environmental and historic preservation reviews, streamlining small cell reviews on tribal lands, and setting a time-frame for FCC action. But the FCC hasn’t yet acted to curb state and local 5G internet “taxes” and needless delays. The commission may take these steps later this year, and it should act fast so the U.S. ensures its leadership and makes the visionary Marty Cooper proud.

The Wall Street Journal

By Robert McDowell

April 2, 2018

Mr. McDowell, a former FCC commissioner (2006-13), is a partner at Cooley LLP and chief public policy adviser to Mobile Future.

Baltimore Trying New Tack to Pay for Costly Stormwater Projects.

City to issue $6.2 million in 'environmental impact bonds' to finance runoff-reducing green infrastructure

Baltimore is slated to be the second city in the Chesapeake Bay region to try a novel way of financing its costly water pollution reduction projects under a plan announced Monday by city officials and the Chesapeake Bay Foundation.

City officials said that with assistance provided through the Bay Foundation, they expect to issue up to $6.2 million in "environmental impact bonds" later this year to help pay for green infrastructure projects aimed at managing stormwater in more than three dozen neighborhoods.

"Baltimore can and, we predict, will be a model for innovation in pollution reduction," declared Bay Foundation President Will Baker at a news conference announcing the deal in West Baltimore by the site of one of the planned projects. "It's a partnership with nature to save dollars and reduce pollution."

The Annapolis-based Bay Foundation hired Quantified Ventures, an "impact" investment advisory firm based in Washington, DC, to work with Baltimore to structure the bond deal.

Rudy Chow, the city's public works director, said officials were looking to diversify the city's borrowing as it attempts to curtail polluted runoff at the source. Baltimore is required by federal and state regulators to reduce and treat polluted runoff from more than 4,000 acres of pavement and buildings across the city by 2019.

Instead of building holding tanks and other hard infrastructure to collect and treat stormwater, city officials hope to use nature — by replacing asphalt and concrete pavement with grassy areas that can soak up rainfall and the pollutants it picks up. They have identified about 90 greening projects they intend to complete by year's end to enhance neighborhood's quality of life while also reducing runoff.

The overall cost is projected to be $10.3 million, with the rest to be financed through traditional municipal borrowing.

The Baltimore deal is inspired by a much larger, $25 million environmental impact bond issued in 2016 by the District of Columbia Water & Sewer Authority. DC Water, as the authority is commonly known, was the first in the nation to use the financing tool to reduce chronic problems with rain-driven sewage overflows into the Potomac and Anacostia rivers.

DC Water also hired Quantified Ventures to help it issue the bonds.

"We really think that we're starting a movement here in the watershed and across the country,'' said Carolyn duPont, director of Quantified Ventures. "We believe that environmental impact bonds will be a key part of public finance in the future. Budgets are always squeezed for cities, and there's also an ever-growing group of impact investors who are really excited to put their money and capital to work into projects like these that have both a financial return as well as environmental and social benefits."

Environmental impact bonds are a variation on "social impact bonds," which are familiar to charity-minded investors who focus on issues like chronic homelessness and prison recidivism. These bonds are meant to attract investors who not only expect a modest financial return, but also want to support environmental improvements.

As with conventional municipal bonds — which fund schools or roads, for instance — the bond issuer

(the borrowing municipality) makes periodic interest payments on the amount invested, at an agreed rate, until the bond's maturity date, at which point the borrower pays back the entire principal.

But environmental impact bonds differ from traditional bonds: The municipality and investors share the risk of the investment to some degree, because the payback of the bond is based on the relative success or failure of the project. Given that setup, they are often called "pay for success" bonds.

If the project simply meets expectations, the investor will receive interest payments at the agreed-upon rate. If the project fails to meet expectations, the terms of the bond help the municipality recoup some of the cost by specifying that the investor earns little or no interest. This allows the city to protect its budget and likely channel the money held back from investors toward additional projects that help meet regulatory requirements.

If the project exceeds expectations, by curbing more pollution than anticipated, the municipality saves money by reducing the need for other projects. The investor benefits from these cost savings by receiving interest payments plus a premium – referred to as a "performance payment."

In DC Water's case, the authority is working under a consent decree reached with the U.S. Environmental Protection Agency in 2005 to reduce overflows from the combined sewer system into the Anacostia and Potomac rivers. The environmental bonds were issued to pay for installing green infrastructure — such as rain gardens, permeable pavement, green roofs and rain barrels — to soak up rainfall on a 20-acre area that otherwise would drain into the sewer system and overload it. DC Water believes such projects will be a cheaper way to reduce overflows than to build more costly underground tunnels to hold the polluted water until it can be treated at the Blue Plains wastewater treatment plant.

Once DC Water completes the green infrastructure projects, it plans after five years to compare runoff from the "greened" area before and after construction. If the projects reduce runoff by more than 41.3 percent, DC Water will pay investors an "outcome payment" of $3.3 million on top of what they would be due on the bonds. And if the project reduces runoff by less than 18.6 percent, investors will owe a "risk-share" payment to DC Water in the form of a reduced payback on their bonds. Any reduction between those benchmarks would not require any extra payments in either direction.

While the bond issuer, under such terms, might get compensated for a project's failure or low performance, the downside likely would be substantial. DC Water, in this case, would still be liable under the 2005 consent decree to reduce sewage overflows by the promised amount, so they would have to fix the project or come up with another.

On the flip side, a bond issuer could wind up paying more to borrow for a project that does better than expected, but proponents say it saves the issuer from having to spend as much on other projects to reduce pollution. If DC Water learns from the experience that green infrastructure is significantly more effective than originally thought, instead of having to invest in an additional 300-plus acres of green infrastructure, it might be able to do less.

With funding from the Kresge Foundation, the Bay Foundation has contracted with Quantified Ventures to help Baltimore structure its environmental impact bonds and market them to investors, foundation spokesman Tom Zolper said. Third-party funding was needed, explained Quantified Ventures' duPont, because this type of financing is new and relatively unproven, and it requires some extra work to figure out up front how to measure the projects' performance.

Despite their novelty, proponents hope the environmental impact bonds will prove attractive to

investors. DC Water's 30-year bonds sold at the same 4.34 percent interest rate that the authority pays on its conventional financing, duPont said.

Details of the Baltimore deal are still being worked out, but the city's public works director said he hoped that the "pay for success" approach will attract new investors willing to share the risk of trying to reduce stormwater runoff, which is a major source of nutrients, sediment and other pollutants fouling local streams, the harbor and the Bay.

Baltimore has budgeted $79 million to spend on stormwater projects this fiscal year, and expects to spend $74 million next year, said Troy Brogden, the city's chief fiscal officer. City officials opted to finance only a small chunk of its stormwater work with environmental impact bonds to test the concept, he said.

The Bay Foundation-Quantified Ventures partnership also hopes to persuade other municipalities and local governments to try the financing tool. Last summer, the foundation launched a search for municipalities and utilities in Maryland, Pennsylvania or Virginia that might be looking for ways to pay for their stormwater upgrades.

"Stormwater is a pollution source that is not going away. In fact, it's increasing in the Bay watershed," said Lee Epstein, lands program director and special counsel for the foundation. "And it's incredibly expensive to manage… We really want to see if [environmental impact bonds] could be made broadly available for more green infrastructure projects where some other kind of financing cannot. At this point, we're just not sure."

The pilot project seeks to help up to four local governments or utilities line up an environmental impact bond. The foundation hosted an informational webinar in September 2017 and shortly thereafter sent out a call for applications from localities that are under a mandate to upgrade their stormwater systems and have the necessary permits in place.

"Ideally, we're looking for communities that have green infrastructure projects that are ready to go," said Quantified Ventures' duPont during the September webinar, "and by that we mean they're in the planning process and within the next 12 to 18 months would be ready to implement those projects, assuming we can help [them] get the financing lined up."

Meanwhile, Al Wylie, president of the Harlem Park Neighborhood Council in West Baltimore, said residents were eager to re-green the patch of asphalt where the press conference took place. Over the years, pocket parks like this one in densely developed parts of Baltimore have been paved over and become litter-strewn places to avoid rather than amenities. Wylie said that in addition to grass, he'd like to see playgrounds and biking and hiking trails put in.

"It allows the community to be cleaner and safer," he said.

Bay Journal

By Donna Morelli and Timothy B. Wheeler on March 28, 2018

Battered by Great Recession, Underfunded Public Pensions to Persist.

CHICAGO — Ten years on from the financial crisis, many U.S. state and local public pension systems are still the worse for wear.

Investment returns have been uneven and funding levels have yet to recover. Many pension funds have meanwhile attempted to boost returns by loading up on alternative investments to levels unheard of a decade earlier.

“Some just cannot grow their way out of it. We have had several years of stellar (stock market) returns and it barely improved the underfunding situation,” said Mikhail Foux, municipal credit analyst at Barclays in New York.

The benchmark S&P 500 U.S. stock index has tripled in the past nine years, driven in part by unprecedented zero interest rate policies and massive monetary stimulus from central banks around the globe aimed at combating the deepest recession in a generation.

But pension returns struggled to match the broad market, and recent wobbles in U.S. equities have fed fears of another downturn.

“Now what happens when markets are falling 10 to 15 percent?” Foux asked.

For an interactive graphic on public pension plan funded levels, click: http://tmsnrt.rs/2tPyAFf

In 2007, a year before the crisis began, the median funded level was 92 percent for state retirement and 97 percent for local plans, according to Wilshire Funding Studies. That fell to 68 percent for states and 72 percent for local governments by 2016, the most recent data.

A lower funded ratio indicates the overall soundness of a pension fund is weaker and more money is required to meet future obligations.

EXPOSED

Persistently low post-crisis interest rates meant pension funds could no longer depend to the same degree on fixed income to help meet withdrawal demands of an aging pensioner population.

“When the crisis hit, it exposed the kind of precarious nature of the status of plans,” said Jean-Pierre Aubry, state and local research director at Boston College’s Center for Retirement Research.

Even with U.S. rates inching higher since 2016 and stocks mounting record highs, pensions still struggled to generate consistent returns.

For an interactive graphic on public pension annual median returns, click: http://tmsnrt.rs/2tRGptV

The number of active public sector workers per retiree has been falling. That ratio declined to 1.42 in 2016 from 2.43 in 2001, according to a November 2017 National Association of State Retirement Administrators (NASRA) Public Fund Survey. That can boost pension costs when combined with a poorly funded plan.

For an interactive graphic of state and local government pension plan membership, click: http://tmsnrt.rs/2oZwAVq

RISK TAKERS

The sharp economic downturn that accompanied the 2007-2009 financial crisis weighed on core tax revenue, leading governments to pursue an unprecedented amount of reform measures to shore up pensions by boosting contributions and cutting benefits.

“Just as these pension funds required higher contributions as a result of the market decline, the plan

sponsors were less able to pay those higher contributions," said Keith Brainard, NASRA's research director.

That prompted retirement systems to turn to riskier alternative investments such as hedge funds, private equity, real estate and commodities to pad returns.

U.S. public pension funds became the biggest risk-takers among pension funds internationally, according to one academic study updated in February 2017.

To read the study, click: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2070054

Alternative investment allocations jumped to 24 percent in 2015 from 9 percent in 2005, according the Center for Retirement Research.

"We know for the most part that alternatives have not been the panacea since the financial crisis," Aubry, noting that hedge funds and commodities have underperformed equities during that period.

Public pension funds' assumed rates of investment return have trended lower since the crisis. If a plan's returns fall below that expected rate, government sponsors need to make up for the loss.

But public plans in general have tended to lag private-sector pension plans in lowering those discount rates, according to data cited by New York's Rockefeller Institute of Government last year.

Between 1993 and 2012, as 10-year U.S Treasury yields fell by 4.3 percentage points, large private-sector U.S. plans reduced their discount rates to 4.4 percent from 8.2 percent.

For large public plans for funding purposes, the rate only fell from 7.8 percent to 7.7 percent in the same period, according to the institute's report.

LEGAL BATTLES

In the years since the crisis it has proven difficult for some governments to modify retirement benefits, and legal wranglings are ongoing.

Legal or political constraints have stymied changes in states like Illinois, Kentucky and New Jersey, where contributions have lagged actuarially required levels for decades.

Lawsuits filed against more than 40 state and local governments since 2008 contested pension changes on constitutional grounds, according to the Laura and John Arnold Foundation, which tracks the litigation.

Courts in 13 states have upheld reductions in cost-of-living adjustments (COLA) for retirees' pension payments, but have struck reductions down in four.

In California, long-standing judicial rulings prohibiting the state and local governments from reducing benefits will be tested in three lawsuits before the state supreme court, according to Stuart Buck, the Arnold Foundation's vice president of research.

By REUTERS

MARCH 26, 2018, 1:17 A.M. E.D.T.

(Reporting By Karen Pierog and Daniel Bases; Editing by Meredith Mazzilli)

Municipal Bonds Were Supposed to Get More Expensive in 2018. Why Didn't That Happen?

A widely followed municipal-bond index had its worst first quarter in 15 years

The first quarter is normally one of the best times of year to be a municipal bond holder. Not in 2018.

A widely followed municipal-bond index fell more in the first three months—1.11%—than any first quarter of the past 15 years. That is because new tax rules and concerns about rising interest rates are pushing down demand for new debt from state and local governments.

"We haven't seen prices drop this much in a long time," said Howard Cure, director of municipal bond research at Evercore Wealth Management.

The last time the Bloomberg Barclays Municipal Bond Total Return Index dropped for the entire first quarter was in 2008.

Bond values usually jump in the first few months of the year as investors look to reinvest cash from stock gains and maturing bonds. Prices were expected to again follow that pattern this year due to limited supply.

But this time, demand turned scarce early in the year, partly because Congress late last year passed new legislation lowering tax rates, making tax-exempt bonds less appealing for banks and insurance companies that traditionally hold a large chunk of the nation's municipal debt. The tax rates paid by these institutions fell to 21% from 35%.

"With the lower corporate tax rate, there is less incentive for banks and property and casualty companies to buy munis," said Vikram Rai, Head of Municipal Strategy at Citigroup.

At the same time, individual investors became wary about the prospects for inflation and higher interest rates. Inflation undermines the value of outstanding bonds in part by reducing the purchasing power of their fixed payments, and rising rates make newly issued bonds more appealing than outstanding bonds with lower coupons, driving down their prices. Federal officials in March raised interest rates and are forecasting two more rate increases in 2018.

The low bond prices have driven up borrowing costs for state and local governments that have issued debt in recent months. The state of Maryland, for example, is paying yields of 2.54% on 10-year general-obligation debt issued in March. That is up from 2.49% on 10-year general-obligation debt sold in March 2017. These bonds typically pay for schools, hospitals and other public projects.

To be sure, mutual-fund investors did buy bonds in January as nearly $6 billion flowed into municipal-bond funds, an uptick analysts attributed to efforts to rebalance portfolios following stock gains. That is 58% above the average for the past five first quarters.

But in February and March, investors put $268 million into municipal-bond mutual funds, according to Lipper data. It was the lowest inflow for the period in the past five years and a 92% drop from the five-year average for the first quarter.

"Investors may want to sell but most buyers would rather wait and see what happens," said Patrick Luby, senior municipal strategist at CreditSights.

Some bonds bucked the pricing trend: Municipal debt tied to Puerto Rico increased in value during the first quarter because of investor hopes that the island would recover more quickly from Hurricane Maria than previously expected.

The Wall Street Journal

By Heather Gillers

March 31, 2018 8:00 a.m. ET

Lower Tax Rate Boosts Case for Corporate Bonds Over Munis - Paychex CFO

The U.S. corporate tax overhaul has helped make corporate bonds more competitive with municipal issuance said the finance chief of payroll processor Paychex, Inc.

The Rochester, N.Y.-based company has a roughly $5 billion investment portfolio that has traditionally been heavily weighted toward municipal bonds, said Chief Financial Officer Efrain Rivera. Munis, as they're commonly known, typically pay a lower rate of return than corporate bonds, but that income is treated as tax-free. By contrast, the company's income from the higher-earning corporate bonds falls subject to the corporate tax rate, which was reduced to 21% from 35% previously.

"Now with tax reform, the pricing between corporate and municipal bonds is giving you a little bit more of an advantage on the corporate side, even after paying taxes," Mr. Rivera said in an interview with CFO Journal. "We're looking to increase more in corporate (bonds)," he said.

Mr. Rivera said he believes the corporate bond market will be stable over the next 12 months. However, some analysts forecast companies will have less incentive for new borrowing because the tax overhaul has increased the share of profits they get to retain.

"If anything, we are concerned about supply on the municipal side as demand slides," he said.

Mr. Rivera said that the company will make several investments following tax reform. Paychex will pay a bonus to employees and invest in internally developed software. The company will also look to be more aggressive in scouting acquisitions even as the soaring stock market inflates target prices.

"Valuations are very high, especially in anything that is related to fintech," he said. "But if you do your homework and it makes strategic sense…we'll look at other opportunities in the future." He estimates that the company typically strikes 1 to 2 deals annually valued at $200 million a piece.

Net income for the company's recently completed third quarter rose 29% to $260.4 million compared to the same period last year. Revenue totaled $866.5 million for the period, up from $795.8 million, a year ago.

The Wall Street Journal

By Ezequiel Minaya

Mar 27, 2018 6:30 am ET

Fitch Updates U.S. Public Finance Not-For-Profit Continuing Care Retirement Communities Criteria.

Link to Fitch Ratings' Report(s): U.S. Public Finance Not-For-Profit Continuing Care Retirement Community Rating Criteria

Fitch Ratings-New York-30 March 2018: Fitch Ratings has published an updated version of its U.S. Public Finance Not-For-Profit Continuing Care Retirement Community (CCRC) criteria. The updated report replaces the existing criteria (published Aug. 14, 2015) with minor modifications of Fitch's analytical approach. No changes to the ratings of existing transactions are anticipated as a result of the application of the updated rating criteria.

The criteria report describes Fitch's analytical approach and framework to rating U.S. Public Finance Not-For-Profit CCRCs including the introduction of asymmetric risk factors consistent with Fitch's rating criteria for Public-Sector Revenue-Supported Debt (published Feb. 2018). The updated rating criteria also includes a Long-Term Liability Profile key rating driver that focuses on the capability of a CCRC to generate revenues and cash flows to cover debt service and manage its overall debt position.

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Any Deeply Indebted City Might Want the Bailout Hartford Got.

- **Connecticut to pay debt service on $755 million of city bonds**
- **Rare for a state to take over bond payments for localities**

It's a deal that might appeal to any U.S. city struggling with a lot of debt. Hartford, Connecticut, won't be on the hook for its $755 million in debt payments, helping it avoid bankruptcy.

Hartford officials approved a plan Monday night that authorizes Connecticut to pay off the city's general-obligation debt, part of a lifeline the state extended to the capital city when it enacted its budget last year. While U.S. states have a history of stepping in to help distressed cities, it's rare for a state to take on debt payments for a locality.

“Our goal is to use this period of stability to continue to push for economic growth that will strengthen the city’s financial position down the road,” Mayor Luke Bronin said in a telephone interview prior to the vote on Monday.

The Deal

As part of the agreement, the city must provide ongoing financial reports and a rolling three-year fiscal plan to the state treasurer and secretary of the Office of Policy and Management. Hartford’s fiscal 2019 budget must be approved by the Municipal Accountability Review Board, which was created by Connecticut in 2017 to help cities experiencing distress.

If the city has a cumulative unassigned general fund balance deficit of 1.5 percent or more than its general fund revenues, then it would trigger higher levels of oversight. Such scrutiny from the state also would be triggered by a default or if the city seeks approval for bankruptcy protection.

The agreement illustrates the lengths that states will go to in order to prevent municipalities from filing for bankruptcy — a rarity in the $3.9 trillion municipal-bond market and something that can cause higher borrowing costs for other localities nearby.

Connecticut has a history of stepping in to help its localities: In 2001, the state established oversight of the city of Waterbury that lasted five years. Connecticut guaranteed deficit financing bonds issued by Waterbury in 2002 and put in place a control board that could cancel union contracts and renegotiate.

In New Jersey, former New Jersey Governor Chris Christie’s administration took control of gambling hub Atlantic City’s finances in 2016, a move that local officials resisted at the time.

Hartford got “too good of a deal” because the agreement does not include an emergency manager or any sort of state takeover of the city’s management, said Stephen Eide, a senior fellow at conservative think-tank the Manhattan Institute who specializes in municipal finances. Cities losing control of their finances as part of a state intervention acts as a deterrent to them pursuing such agreements, he said.

“Every city wants more aid with very few strings attached to it — that is what Hartford got,” Eide said. “I think the state should have taken a firmer hand.”

Precedents Set

Since the recession, more states have created mechanisms for dealing with municipal distress, said Michael Imber, a managing director at EisnerAmper who specializes in municipal distress and restructuring.

“This is what states can choose to do, to help stand up troubled municipal governments,” he said. “And Hartford is certainly a troubled municipal government.”

In 2010, Rhode Island’s legislature passed a law that allows the state to appoint a receiver if a locality is undergoing fiscal emergency. It also allows for the state revenue director to make debt payments if an issuer seems unlikely to pay it, according to a 2017 presentation to the National Conference of State Legislatures. Still, the state can charge those costs against any aid due to the locality.

Ohio added designations in 2011 to identify practices that could result in a declaration of fiscal emergency. Michigan, known for a longtime state law that allows for the placement of an emergency

manager, passed laws in 2017 that requires municipalities with underfunded pensions to develop action plans to fix them.

Pennsylvania in 2011 passed legislation establishing a state receivership process to address the fiscal woes of its capital Harrisburg.

Faith and Credit

The Connecticut deal also allows Hartford's debt to be refinanced using the state's full faith and credit backing. That step is more commonly used by states: In 1975, New York allowed for the creation of a corporation to issue debt on behalf of New York City, which was on the brink of bankruptcy at the time. Pennsylvania also created a similar mechanism for Philadelphia in 1991 when its largest city was struggling with a financial crisis.

But few, if any, states have taken on the debt load of their cities to provide relief. And doing so adds to the financial burden on Connecticut, which is on the hook for Hartford's general-obligation bond payments through 2036. The state has been contending with chronic deficits and is ranked as having some of the highest debt on a per-capita basis.

"Strong urban centers are vital to the state's well-being," Denise Nappier, Connecticut's state treasurer, said in an emailed statement. "Declining to help Connecticut's capital city could have adversely affected the financial health and vibrancy of surrounding towns, while helping Hartford actually might make a potential slippery slope less likely."

Bronin said he thinks the plan will be beneficial for the state as well. "If we want Connecticut to be economically competitive, we have to have strong, vibrant cities that can help drive that economic growth," he said.

Rick Mattoon, a senior economist for the Federal Reserve Bank of Chicago, said the state taking on Hartford's debt will help the city focus on providing essential services. The agreement is likely in the state's interest, too, he said.

"You want your capital city to be seen as an attractive place," he said. "Having it continue to decline is certainly not going to help your overall state or regional economy."

Bloomberg Markets

By Amanda Albright

March 28, 2018, 11:19 AM PDT

— With assistance by Danielle Moran, Martin Z Braun, and Romy Varghese

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A New Way to Finance Green City Projects, With a Boost From Foundations.

Atlanta strikes again! The city continues to be an unlikely environmental innovator, with more than a little help from its philanthropic sector. It's made strides in city parks and trails in recent years, and just secured $100 million in state funding for transit projects.

Now the city, along with Baltimore, is rolling out a new twist on the municipal bond that will help build green infrastructure projects, while shifting some of the potential risk or benefit onto private

investors. Atlanta and Baltimore are among the first U.S. cities that will use “environmental impact bonds” to pay for sustainability and climate resilience projects, with foundations helping to plan and fund the process in both cases. Atlanta’s will be the first such bond that will be publicly offered.

EIBs function much like regular municipal borrowing, but they pay back interest in a variable amounts based on projects’ environmental performance. So if a project reduces stormwater runoff by a targeted amount, for example, investors get a bonus, and if it underperforms, they pay a penalty. The idea is provide room to experiment as cities embark on untested projects to make their systems more sustainable and resilient to climate impacts like flooding or storm damage.

In Atlanta’s case, the city won the EIB Challenge, which was put on by the Rockefeller Foundation in partnership with impact investing firm Quantified Ventures and city bond platform Neighborly. The challenge was issued to the cohort of Rockefeller’s 100 Resilient Cities, and the foundation put up $342,000 toward costs of the program. The bond sale will pay for $12.9 million in green infrastructure projects in a part of town that experiences regular flooding.

In Baltimore, the city is taking out $6 million in environmental impact bonds, with the Chesapeake Bay Foundation paying the same impact investment firm, Quantified Ventures, to manage the deal. Funds will go toward $10 million in planned landscaping projects to reduce stormwater runoff into the Chesapeake Bay.

Both cities are taking a cue from Washington, D.C., which, in 2016, was the first city in the U.S. to try out environmental impact bonds. The water and sewer authority was in the process of building three grey infrastructure tunnels to control stormwater, but used a first-of-its-kind EIB to cancel the third and instead build green infrastructure. The Calvert Foundation was one of the investors in that deal. Other EIBs could go toward energy microgrids, green rooftops, tree canopies, even affordable housing.

Green infrastructure—using advanced landscaping techniques and urban features that absorb stormwater in place instead of channeling it away via filthy pipes and tunnels—is becoming increasingly popular in cities, and among green funders. Some of these infrastructure projects are new territory for municipal departments, which are cautious about where they put tax dollars.

This is just one example of philanthropy trying to close gaps between sustainability projects, including the use of clean energy deployment and private capital. Rockefeller, in particular, is putting a lot of work into creative finance mechanisms, citing trillions of dollars in funds needed to reach sustainable development goals.

Inside Philanthropy

by Tate Williams

April 2, 2018

Affordable Housing Provisions in Omnibus Bill an Important Down Payment, not a Complete Fix.

It’s a great down payment, but don’t confuse it with paying the full bill.

When Congress approved and President Trump signed the fiscal year 2018 omnibus spending bill

Friday, it was good news for affordable housing: the legislation includes a 12.5 increase for 9 percent low-income housing tax credit (LIHTC) allocations over the next four years and an income averaging option for LIHTC properties. This is the first substantial LIHTC allocation increase in a decade, coupled with a highly desired new income targeting option for LIHTC properties.

It's an achievement made even more impressive by the political climate: When President Trump and a Republican-controlled Congress were elected in November 2016, few thought that we could see an increase to LIHTC allocations just 17 months later.

We did get such an increase, though it's a down payment, not a complete solution. The allocation increase will partially offset the drop in affordable housing production caused by changes in tax legislation passed in December 2017.

A Novogradac study estimates that the four-year, 12.5 percent increase in 9 percent allocation would boost production by roughly 28,400 additional homes over the next decade (although the LIHTC allocation increase would be effective over four years only). Unfortunately, the increase applies only to 9 percent LIHTCs, not tax-exempt bond-generated LIHTCs. Novogradac analysis indicates that tax-exempt bond-generated LIHTCs are projected over the decade to finance more than half of affordable housing production. That means the 12.5 percent increase in allocations of the omnibus spending bill helps slightly close the gap for a program that is responsible for less than half of affordable rental housing creation each year. Which means the additional units make up about 12 percent of the roughly 235,000 homes that Novogradac estimates will be lost due to H.R. 1, the tax bill. (Note: The 28,400 doesn't include additional homes that will be built due to income-averaging provisions in the omnibus spending bill, but the increase due to that provision isn't projected to be very significant.)

Nearly 90 percent of the lost production remains. And even if the 12.5 percent LIHTC allocation boost was made permanent–which will take an act of Congress in future tax legislation–the increase in affordable homes would still fall short of filling the gap for 9 percent LIHTC properties and still not cover the 19 percent boost needed to fully cover the gap in 9 percent unit production.

The 12.5 percent LIHTC allocation increase and the income-averaging provisions are very positive developments about which the affordable housing community should be quite pleased. However, they shouldn't be mistaken for a complete fix for affordable rental housing production lost due to last year's tax legislation, not to mention addressing the large unmet need for affordable rental housing that was the case even before tax reform.

They're a down payment.

Published by Michael Novogradac on Tuesday, March 27, 2018

S&P: U.S. Not-For-Profit Health Care Pensions: 2017 Funded Ratios Benefit From Robust Returns.

The U.S. not-for-profit health care sector has benefited from a boost in the funded status of its pension plans in fiscal 2017 due primarily to robust investment market returns. This is despite lower assumed discount rates in recent years, which provide a more conservative liability measure.

Continue Reading

Mar. 28, 2018

S&P: Could Connecticut's Proposed Bond Covenants Lead The Way To A New Financial Management Tool For Other U.S. States?

Unless it's delayed by the legislature in the next month, Connecticut will institute restrictive bond covenants that will turn recent budget reforms into unbreakable bond covenants. The question is: Could other states follow suit?

Continue Reading

Mar. 28, 2018

S&P: How Changing Accounting Standards Could Affect Higher Ed Credit Analysis.

S&P Global Ratings utilizes audited financial statements directly in its analysis of an institution's credit as well as in the calculations of various metrics and ratios related to that analysis. And as U.S. not-for-profit colleges and universities utilize both Financial Accounting Standards Board (FASB) and…

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Mar. 28, 2018

Tech Hasn't Hurt Muni Ratings Yet.

Tech Hasn't Hurt Muni Ratings Yet

There is much discussion as to the future of certain municipal credits in an era of fast-changing technology. A lot of the concern revolves around the potential impact of the emerging Transportation as a Service sector (TaaS) on credits backed in some form by current uses of various modes of transportation. One area has been the potential effect on airports that derive significant revenues from parking and car rental facilities.

So it was with interest that we viewed Moody's recent comments about its ratings for outstanding City of College Park (GA) taxable revenue bonds (Hartsfield-Jackson Atlanta International Airport Consolidated Rental Car Facility Project Bonds). Those bonds are rated A3 by Moody's and the outlook was revised to positive from stable. The bonds were issued for construction of a consolidated rental car facility at Hartsfield-Jackson Atlanta International Airport (ATL). The obligor of these bonds was previously the City of Atlanta, GA Airport Enterprise and they have now transferred to the City of Atlanta, GA Airport Enterprise (Consolidated Rental Car Facility Project).

Moody's pointed to the long-term trend of growing transaction days at the facility that has produced a debt service coverage ratio above 2.0x times for the past three fiscal years. It acknowledged that

transaction growth turned negative in fiscal 2018 through December. Moody's is sorting through various factors which may have served to to turn the trend line negative. One of those factors is clearly TaaS related — increased competition from transportation network companies, such as Uber and Lyft, as we noted recently.

The single-source revenue stream pledged to the payment of bonds is a feature of the credit which must be dealt with should the impact of TaaS become more significant and permanent. The situation highlights the need for issuers to be nimble and flexible and to prepare the legislative and regulatory flexibility necessary to prepare for rapid technological change.

The rating reaffirmation comes as the airport is reevaluating its plans for future development of parking facilities at Hartsfield. Recently, the airport's interim assistant general manager of planning and development said that the airport's $6 billion master plan including demolishing and rebuilding its aging parking decks is being re-evaluated. Airport officials are considering whether to scale back plans for parking construction, as increased use of Uber and Lyft, and the prospect of self-driving cars, creates uncertainty around future parking demand.

More broadly, we cite three final points on the potential effect of TaaS on airport credits. First, airports serving significant metropolitan areas remain, in effect natural monopolies, that can often apply substitute sources of revenue as parking and car rental fees subside. Second, implementation of TaaS is in its extremely early stages, which will lead to much greater effects on airport net revenues in later years. And finally, while rating agencies are beginning to examine the implications of technological change for various types of credits, it is as yet too early to see the type of major changes in revenue sources and trends that would led to dramatic changes in ratings. At this point, it is up to investors/portfolio managers to consider how much they need to extrapolate from current economic and financial conditions to future potential outcomes.

Population Data Tells a Story

The Dallas-Fort Worth-Arlington metropolitan area's 146,000-population increase last year was the most of any metro area, and Maricopa County, Arizona, saw a population increase of nearly 74,000 — the most of any county last year — according to the U.S. Census Bureau's July 1, 2017, population estimates. Among the nation's counties, the top 10 with the largest numeric growth are all located in the South and West. The 10 largest counties in the country all maintained their rank compared to last year. From July 1, 2016, to July 1, 2017, six of the top 10 largest-gaining counties were in Texas — Bexar, Collin, Dallas, Denton, Harris and Tarrant.

The remaining four counties on the list were Maricopa County, AZ.; Clark County, NV.; Riverside County, CA.; and King County, WA.

Many of the top 10 metro areas with the largest numeric increases in 2015-2016 were also in the top 10 in 2016-2017, with the following notable exceptions:
Washington-Arlington-Alexandria, DC-MD-WV., climbed to 5th in 2017 from 11th in 2016, and Riverside-San Bernardino-Ontario, CA, jumped to 7th in 2017 from 13th in 2016. In 2017, the Baltimore metro area was now the 20th most populous metro area, up from 21st place in 2016. Net domestic migration is the driving factor behind all of the top 10 fastest-growing metro areas that rose in rank — St. George, UT; Coeur d'Alene, ID; Greely, CO.; Lakeland, FL; and Boise, ID.

The St. Louis, MO-IL. metro area dropped out of the top 20 most populous metro areas and swapped places with Baltimore to its new 2017 standing of the 21st most populous area in the nation. In 1960, St Louis was the 9th largest metro area. One consistent factor in terms of population declines was reflected in the fact that all 10 of the largest declines were in rural counties.

A number of “core” counties — those that are substantially made up of a major large city saw small statistical declines (<0.5%) — Chicago, St. Louis, Baltimore, Milwaukee, Cleveland, Pittsburgh, Detroit. The question that is not readily apparent from the data is why are these people moving? In many cases, housing costs in core urban areas have been increasing. This has forced out residents who can no longer afford to buy, or rent, for that matter. That raises the issue of whether the remaining population is actually made up of higher income individuals who can afford to maintain higher property values. In effect a leaner but stronger local economy.

Chicago keeps being at the center of much conversation regarding population trends. A look at recent data shows that values in the City’s tonier districts are actually rising and with some consistency. At the same time, the outflow from some of the City’s poorer neighborhoods may be what is accounting for city population declines. There is anecdotal evidence that the population of the City’s crime ridden South Side is generating the number. The poor housing, underperforming schools, and dangerous conditions lead to a sense of desperation that outweighs the economic risks of moving without being in possession of a job at one’s chosen destination.

The theory is also supported by data from other areas. Of all places, Brooklyn, NY experienced a net decline in population. This occurs in the face of mass gentrification which has made it harder and harder for long-time low income residents to hang on in the face of higher housing costs. As those costs approach a greater and greater proportion of income (and a huge shortfall of affordable and/or public housing exists) it is likely that lower income outmigration accounts for population loss.

So the question is, how much of an impact is this population loss on credit? If it results in a higher property value, higher income demographic profile than the change is more of a statistical phenomenon than a real credit negative. It may result in some unfavorable per capita credit rating statistics but this implies that a more sophisticated analysis may be needed. Something to keep in mind as credit analysis becomes more quantitative and ratio based with the proliferation of data providers in the muni space.

Neighborly Insights

by Joseph Krist

03/28/2018

Insights is brought to you by Court Street Group

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Municipal Bonds Weekly Market Report: GDP Surpasses Expectations.

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.

- Short-term yields all up this week, while longer-term maturities fell.
- Muni bond funds saw its fourth week of inflows.
- Be sure to review our previous week's report to track the changing market conditions.

Continue reading.

municipalbonds.com

by Brian Mathews

Apr 03, 2018

Utilizing Political Subdivisions As a Stable Funding Source.

As the economic cycle continues to heat up, financial institutions are accessing additional deposit funding channels. From a deposit strategy, often overlooked sources of deposits are political subdivisions. Most credit unions have a relationship with their local school districts, municipalities, or other public entities such as park districts and libraries, but often stop there. Political subdivisions receive funding throughout the year and then invest to meet obligations. Funding is repeated on an annual basis, making political subdivisions reliable and consistent sources of deposits.

For some financial institutions, there are two perceived challenges with political subdivision deposits. Their balances are cyclical in nature and usually require some form of collateralization.

Continue reading.

CUInsight

by JAMES LUTTER, PMA FUNDING

March 27, 2018

Nasdaq: Why Munis Will Stay Solid.

One of the most popular fixed income assets for wealthy US investors are municipal bonds. Their tax exempt status has made them continually popular, but what will their fate be during a period of rising rates? There are currently fears that tax cuts and rising rates will wound the sector, but one top financial advisor says the muni sector "will retain its rightful position as a place where wealthy Americans protect their wealth". Despite rising rates there will be lower issuance this year, which

will protect the sector. Additionally, tax cuts for the wealthy will be modest, and not really enough to damage munis. “They will still be a relative value compared with other fixed-income, high-grade asset classes”.

FINSUM : We suspect munis will continue to have a high degree of demand, and if issuance stays low, then those are two important supportive factors. However, some municipalities are facing big budget and pension issues, which could pose a risk.

By dkorth@finsum.com

March 27, 2018

Cyberattacks Wakeup Call for Local Governments to Prepare.

ATLANTA — Atlanta police officers initially had to write reports by hand. Residents still can’t pay water bills online. Municipal court dates are being reset. All are fallout from a ransomware attack last week that hobbled the city’s invisible infrastructure.

Another ransomware attack hit Baltimore’s 911 dispatch system over the weekend, prompting a roughly 17-hour shutdown of automated emergency dispatching. The Colorado Department of Transportation suffered two attacks just over a month ago. And the North Carolina county that’s home to Charlotte totally rebuilt its system after a December attack.

For cash-strapped local governments, paying for robust protection against the invisible menace of a cyberattack can be a hard sell. But cyberattacks continue to proliferate, and experts say preparation and strong defensive measures are necessary to avoid the crippling effects.

“As elected officials, it’s often quite easy for us to focus on the things that people see because, at the end of the day, our residents are our customers,” Atlanta Mayor Keisha Lance Bottoms said at a news conference Monday. “But we have to really make sure that we continue to focus on the things that people can’t see, and digital infrastructure is very important.”

Although it’s vital to make sure systems are up to date and have the latest patches, malware evolves so quickly that experts also stress the importance of comprehensive backups and a quick response when an attack does happen.

“I don’t think any security is flawless,” said Craig McCullough, a vice president at security firm Commvault. “I always approach it from the standpoint of it’s not a matter of if but when, and when it happens, are you prepared? Are you going to be able to get your data back?”

Governments, public agencies and companies need to know what data they have and make sure it’s backed up. Software and hardware can be replaced, but data is much more difficult, McCullough said.

A quick response can help minimize the damage, said Dmitri Alperovitch, chief technology officer of security firm Crowdstrike. If a threat is detected immediately after it enters the network — for example, when someone clicks on a link in a phishing email or through a vulnerable server — it might be possible to stop before it spreads beyond the initially infected computer, he said.

Atlanta officials won’t say whether they’ll pay the $51,000 ransom, though Bottoms has said all

options are on the table. Mike Cote, president of Secureworks, a security firm hired by Atlanta, has said they know who's behind the attack but aren't releasing that information.

Cybersecurity experts say the attack is consistent with the SamSam group, which is known as a sophisticated attacker and negotiator, said Jake Williams, founder of security firm Rendition Infosec.

Unlike other ransomware that might raise alarms upon infection, SamSam compromises machines without immediately locking up their files. That access is then used to spread through the network "before they press the encrypt button," Williams said.

"They put you into an extreme pain point position where paying is actually an attractive option," Williams said

He said he regularly tells clients they must make a business decision on whether to pay. He acknowledges that can be more difficult for governments, whose rules might block them from spending public funds on extortion.

Although Atlanta's critical physical infrastructure — including the city's airport, emergency response systems and water safety and treatment — were not directly affected, other departments are operating manually and some services have been suspended. Nuisances at first, issues caused by the outages could have compounded effects if they persist.

The mayor has been cautious, declining to give a timeline for when things might be up and running again after the cyberattack announced March 22. She has repeatedly said the investigation and recovery is "a marathon, not a sprint," and her focus is on making sure the city's network is safe moving forward.

But the road could be long.

The Colorado Department of Transportation was hit by a SamSam attack on Feb. 21 and again on March 1, and it was back to 80 percent functionality by Thursday said Deborah Blyth, the state's chief information security officer. Luckily, they had strong backups so they didn't even think about paying the ransom, she said.

In the weeks since the attack, they've implemented two-factor authentication for remote access and accelerated the implementation of other security measures that were already planned.

In Mecklenberg County, North Carolina, where Charlotte is located, it took a little more than 60 days for things to return to normal after a ransomware attack that began with a phishing email in December.

County officials didn't pay the ransom after consulting with federal authorities and realizing their data was backed up so they didn't need to pay to get it back, County Manager Dena Diorio said. But the process was still tedious as they had to essentially rebuild the system.

The county has taken steps to prevent another attack, including making its email system more secure and limiting employees' internet access. And they have more expensive plans — segmenting their data and moving to a cloud-based system — that will take about two years to implement, Diorio said.

Remembering the scary early days, Diorio had advice for her counterparts in Atlanta: "All I can say is: Don't panic and stay focused."

By THE ASSOCIATED PRESS

MARCH 30, 2018

Associated Press writer Matt O'Brien in Providence, Rhode Island, contributed to this report.

How Local Governments Can Prevent Cyberattacks.

The recent cyberattack on Atlanta, in which the municipal government's computers and related services were held hostage by a ransomware attack, is a reminder that local governments are particularly vulnerable to these and other cyberthreats.

Local governments of all sizes and locations now own and operate a wide and growing array of internet-connected technology systems: employee-issued laptops, motion sensors on light poles and under pavement, mapping and informational systems inside police cars, online citizen-engagement tools and much more.

Most local governments in the United States don't have a strong grasp of the policies and procedures they should implement to protect their technology systems from attacks. This is especially concerning because the threat of a cyberattack is the most important cybersecurity problem they face, according to a survey conducted by the organization I work for, the International City/County Management Association, and the University of Maryland, Baltimore County.

Forty-four percent of local governments report that they regularly face cyberattacks, on either an hourly or daily basis. More troubling is the high percentage of governments that do not know how often they are attacked (28 percent) or breached (41 percent). Further, a majority of local governments do not catalog or count attacks (54 percent).

This is not just an American problem. Last month, at a conference in Tel Aviv, Tamir Pardo, the former head of Mossad, Israel's national intelligence agency, said that most local government leaders around the world do not fully understand how serious a threat cyberattacks are and have not imaginatively assessed the consequences of inaction. He described cyberthreats as "soft nuclear weapons" that one day may be used to start and finish a war without firing a shot.

So what should local governments do to improve their cybersecurity apparatus to help prevent or mitigate damage from future attacks like the one experienced in Atlanta, or from those contemplated by Mr. Pardo?

First, local leaders must create a culture of cybersecurity that imagines worst-case scenarios and explores a range of solutions to mitigate threats to the ecosystem of local government technology. This should involve prioritizing funding for cybersecurity, establishing stronger cybersecurity policies and training employees in cybersecurity protocols. Success will require collaboration with local elected officials, internet-technology and cybersecurity staff members, department managers and end users.

Cybersecurity is more than just the I.T. department's problem. It must now also be a top priority along the entire chain of elected and appointed officials in and around local governments. Preventing and mitigating the effects of future attacks will require intergovernmental cooperation, because localities work together across state lines and collaborate with the federal government on crucial tasks like running elections, managing transportation and sharing intelligence.

Most technological advances are transforming local governments for the better, moving them from inefficient and costly paper systems to digital systems that allow for better analysis and understanding of policy decisions. The science of analytics and big data promises even greater leaps for local governments in evidence-based policymaking. These exciting developments may one day radically alter the ways that traditional local government services are financed, operated and managed.

But we cannot get lost in the excitement. We must actively prepare for cyberthreats of the sort that have been demonstrated in places like Atlanta. If smart cities and communities are the brightly lit days of the increasingly connected world of local government technology, cyberattacks are the dark and stormy nights. We don't need to halt technological deployments and evolution, but we do need to recognize that cybersecurity is an essential counterpart.

The New York Times

By Tad Mcgalliard

March 30, 2018

Tad McGalliard is the director of research and policy at the International City/County Management Association.

To Pay or Not to Pay Hackers? Ransomware Poses a Dilemma for Governments.

Baltimore's 911 system and a range of city services in Atlanta were hijacked in the past week.

First it was Atlanta, then Baltimore.

In a matter of days, hackers launched cyberattacks in both cities, hobbling the 911 emergency response system in Baltimore and crippling a wide swath of city services in Atlanta, knocking out Wi-Fi at the nation's busiest airport and forcing city workers to keep records with pen and paper.

No evidence has emerged suggesting the attacks are connected. But in both cases the hackers used ransomware, which encrypts a victim's files and then sends a digital ransom note demanding money to decrypt them.

In Atlanta, hackers demanded $51,000 in the cryptocurrency bitcoin. City officials declined to say whether they made the payments. Baltimore officials didn't release details on the ransom amount.(One large private company, aircraft manufacturer Boeing, was also attacked on Wednesday, according to a report from Bloomberg News.)

The attacks are part of a fast-growing market in computer hacking. In a 2016, the FBI reported major uptick in ransomware attacks, with more than $200 million in payments to hackers in the first three months. That's almost 10 times the amount paid during the same period in 2015. Since the beginning of 2018, the SamSam ransomware — which was used in the recent Atlanta attack and shut down the Colorado Department of Transportation for several days last month — has raked in more than $1 million from 30 organizations.

Ransomware isn't expensive to design or purchase, and a person with even moderate coding experience can alter it to exploit leaks in a specific system's protective firewall. The odds are on the side of the hackers.

"They only have to be right once. Your anti-malware has to be right 100 times," says Tom Gilbert, chief technology officer at Blue Ridge Networks, a cybersecurity firm based in Northern Virginia.

Ransomware is a boom economy because organizations are often quick to pay.

"The economics of being a bad guy on the internet are just too good," says Oren Falkowitz, who spent seven years with the National Security Agency before co-founding Area 1 Security, a private firm.

But should they pay?

Public entities have sometimes been willing to pay the ransom demands since the hackers tend to ask for a relatively low amount of money. Madison County, Ind., for instance, paid $21,000 to regain access to its data, and the Los Angeles Community College District forked over $28,000 to hackers.

But the San Francisco Metropolitan Transit Authority refused to pay $73,000 to the hackers who froze the agency's computer system on Thanksgiving weekend — one of the busiest travel times — in 2016. By the following Monday, the agency had regained control of its system.

The FBI advises organizations hit by ransomware not to pay. There are no guarantees the hackers will return the hijacked data. And the agency argues that paying off hackers only encourages more attacks.

"Paying a ransom not only emboldens current cybercriminals to target more organizations, it also offers an incentive for other criminals to get involved in this type of illegal activity," former FBI Cyber Division Assistant Director James Trainor said in a statement in 2016.

Government agencies are vulnerable because they're often underprepared.

"What makes the cyberattack on Atlanta so pernicious is the lack of preparation. The facts are, this is a very common phenomenon," says Falkowitz, the cybersecurity expert.

Indeed, city computers in Atlanta were infected in last year's WannaCry outbreak, which also disabled systems across the globe, including the networks of FedEx, Honda and several state-level government agencies in India.

More than 90 percent of ransomware infections come from phishing attacks, in which unwitting users are enticed to open a file or click on a link containing the malware. Falkowitz says training users to fight that impulse is a losing battle, which is why organizations need to invest in better security.

"Humans are curious, and we are talking about organizations that have hundreds of thousands of people," he says. "Someone is going to click on a link."

A virus' impact can be felt along after the initial attack. Worms like SamSam are designed to hide in the system even after a security firm flushes the computer network and patches holes in the firewall. The same worm can mutate and begin to attack other still-unprotected portions of the network.

That's precisely what happened in Colorado: SamSam infected the system in late February and then

again, in a mutated form, days later.

Government agencies, says Gilbert, need to do a better job of partitioning their networks. Not every piece of data needs to be shared and not every department needs to be open to the internet.

“The absolute critical aspects of an operation really have no business being directly connected to the internet,” Gilbert says.

GOVERNING.COM

BY J. BRIAN CHARLES | MARCH 29, 2018

Credit Enhancement For Charter School Facilities Program.

What’s New
On March 21, 2018, the U.S. Department of Education published in the Federal Register a notice inviting applications (NIA) for the Charter Schools Program (CSP): Expanding Opportunity through Quality Charter Schools Program–Grants for Credit Enhancement for Charter School Facilities (Credit Enhancement). The purpose of the Credit Enhancement program is to award grants to eligible entities that demonstrate innovative methods of helping charter schools address the cost of acquiring, constructing, and renovating facilities by enhancing the availability of loans and bond financing.

For more information about this awards, visit the Applicant Info and Eligibility page.

Program Description
This program provides grants to eligible entities to permit them to enhance the credit of charter schools so that the charter schools can access private-sector and other non-Federal capital in order to acquire, construct, and renovate facilities at a reasonable cost.

Objective
An eligible entity receiving a grant must use the funds deposited in the reserve account to assist one or more charter schools to access private-sector capital to accomplish one or more of the following objectives:

1. The acquisition (by purchase, lease, donation, or otherwise) of an interest (including an interest held by a third party for the benefit of a charter school) in improved or unimproved real property that is necessary to commence or continue the operation of a charter school.
2. The construction of new facilities, or the renovation, repair, or alteration of existing facilities, necessary to commence or continue the operation of a charter school.
3. The predevelopment costs required to assess sites and to commence or continue the operation of a charter school.

Permissible Uses of Reserve Account Funds

An eligible entity receiving a grant shall, in accordance with State and local law, directly or indirectly, alone or in collaboration with others, deposit the funds received, other than funds used for administrative costs, in a reserve account established and maintained by the eligible entity. Amounts deposited in such account shall be used by the eligible entity for one or more of the following purposes:

1. Guaranteeing, insuring, and reinsuring bonds, notes, evidences of debt, loans, and interests therein.
   Guaranteeing and insuring leases of personal and real property.
2. Facilitating financing by identifying potential lending sources, encouraging private lending, and other similar activities that directly promote lending to, or for the benefit of, charter schools.
3. Facilitating the issuance of bonds by charter schools, or by other public entities for the benefit of charter schools, by providing technical, administrative, and other appropriate assistance (including the recruitment of bond counsel, underwriters, and potential investors and the consolidation of multiple charter school projects within a single bond issue).

Funds received and deposited in the reserve account shall be invested in obligations issued or guaranteed by the United States or a State, or in other similarly low-risk securities. Any earnings on funds received shall be deposited in the reserve account and used in accordance with this program.

Impermissible Uses of Reserve Account Funds

Grantees may not use reserve account funds to:

1. Directly pay for a charter school's construction, renovation, repair, or acquisition.
2. Provide a down payment on facilities in order to secure loans for charter schools. A grantee may, however, use funds to guarantee a loan for the portion of the loan that would otherwise have to be funded with a down payment.

How Puerto Rico's Bankruptcy is Roiling the Municipal Bond World

Puerto Rico's debt crisis is taking a toll on the mainland municipal bond market.

Municipal participants say the ripple effects from the biggest municipal bankruptcy have shaken investor confidence in lower-rated states and cities, legal promises, and credit ratings in general. Of particular concern is a ruling by Title III judge Laura Taylor Swain that upset expectations regarding special revenue bonds, which had continued to generate payments in previous bankruptcies.

In her ruling on Jan. 30 in a case involving the bonds of the Puerto Rico Highways and Transportation Authority, Convention Center District Authority, and Infrastructure Finance Authority, Swain said the fact the bonds were special revenue bonds didn't require the issuers to continue paying in a Chapter 9 bankruptcy. Puerto Rico is in a Puerto Rico Oversight, Management, and Economic Stability Act Title III bankruptcy that incorporates the Chapter 9 bankruptcy provisions on these bonds.

"The fact that an automatic stay does not apply to special revenues and that payments should continue to bondholders has been accepted as common knowledge by the investing public," said Wells Fargo Securities managing director Natalie Cohen. Swain's decision has "cast doubt" on that.

Cohen pointed out that a federal website of the Administrative Office of the U.S. Courts summarizes a part of Chapter 9 saying, "Holders of special revenue bonds can expect to receive payment on such bonds during the Chapter 9 case if special revenues are available."

Bond insurers Assured Guaranty (AGO) and National Public Finance Guarantee are preparing an appeal of the Swain ruling and Cohen said this may clarify its impact. For the time being, the "decision has caused concern about the safety of special revenues of distressed borrowers."

Peter Block, head of municipal credit strategy at Ramirez, said if Swain's decision is upheld, market participants may not respect special revenue bonds in the future.

Fitch Ratings thought Swain's decision was important enough to put out a six-page "special report" on the topic, "What Investors Want to Know: The Impact of the Puerto Rico Ruling on Special Revenue Debt."

On March 9 Fitch said it would include a warning in its commentaries on credits that might be affected by a final court ruling on Swain's decision. Among other things, the warning comment says about special revenue bonds, "The outcome of the litigation could result in modifications to Fitch's approach."

Municipal bond participants have responded to Puerto Rico's bond meltdown in their U.S. dealings not just since Swain's January decision but also over the last several years. Some have become more cautious about purchasing bonds from distressed issuers.

On Feb. 13 one of the historically biggest holders of Puerto Rico debt, Franklin Templeton Investments, said it had learned its lessons from its experience of the islands' slide into multiple defaults. "As a result of lessons recently learned, the Franklin municipal bond group generally does not purchase general fund appropriation debt from cities, counties or states that in our view are facing unsustainable structural budget situations," two co-directors of the group wrote in "Fundamental Changes That No Muni Investor Should Ignore."

"As real examples, the Franklin municipal bond group has divested from – and currently won't invest in – obligations of the State of Illinois, the City of Chicago and Chicago Public Schools, no matter what they offer in terms of security," Co-Directors Sheila Amoroso and Rafael Costas wrote.

Franklin Templeton managed 24 municipal bond bonds as of November 2016 that held more than $1.5 billion of Puerto Rico bonds.

"As the financial picture there deteriorated, we began to reduce our exposure," the authors wrote. "Unfortunately, by the time Puerto Rico made known its intentions to default on its debts we had not completely exited our position."

The U.S. Virgin Islands, which has its own financial problems, has struggled with the shadow of Puerto Rico's default. The latter's default played a role in the Virgin Islands' inability to sell bonds in the late summer of 2016 and January 2017 for operating expenses.

In August 2017 the Virgin Islands' Water and Power Authority, also in extreme financial difficulties, had to offer 11% annual interest on a 35 month duration bond to gain a buyer.

In Detroit's bankruptcy the judge treated general obligation bonds as unsecured debt, Block noted. In Puerto Rico the island has defaulted on its GO debt and now Swain is saying the special revenue bonds don't have to be paid in bankruptcy either. "People have learned to look more carefully at what they own," Block said.

On Feb. 5 S&P Global Ratings agreed, titling a commentary, "Puerto Rico Court Ruling Supports Our View That Credit Fundamentals Remain Key To Ratings." The piece commented on recent Swain rulings on both GO and special revenue bonds.

"The continuing uncertainty surrounding outcomes for Puerto Rico bondholders reinforces that credit fundamentals matter even where legal protections appear strong," S&P Analyst David Hitchcock wrote. "We have incorporated this approach into all of our GO and revenue bond ratings."

The Puerto Rico crisis also undercut the market's faith in credit ratings.

Block said that the market and institutional investors in particular have lost some confidence in ratings over the past 10 years and have bolstered credit staffs to monitor underlying credit quality of holdings. The confidence was shaken by ratings that eroded very quickly on some mortgage-backed bonds prior to the 2008 financial crisis and some ratings that went bad more recently, namely those for Detroit and Puerto Rico.

Block said in hindsight the agencies probably should have rated Puerto Rico speculative grade shortly after the island began to deficit finance the general fund (via COFINA) following the onset of the Puerto Rican recession in 2006.

Prior to the 2008 financial crisis, ratings had a 90% influence on where bonds traded, Block said. Now the influence is closer to 40% to 60%.

By Robert Slavin

BY SOURCEMEDIA | MUNICIPAL | 03/21/18 06:58 PM EDT

Private Activity Bonds: An Introduction.

Read the Congressional Research Service report.

CDFA Announces 2018 Policy Agenda.

Read the Agenda.

S&P: How Our U.S. Local Government Criteria Weather Climate Risk.

Extreme weather-related events and climate change place U.S. local governments on the front lines in preparing for acute weather risk events, working to prevent longer term damage and, if necessary, building or rebuilding critical infrastructure.

Continue Reading

Mar. 20, 2018

Congress' Last-Minute Budget Bill May Actually Prove Good for Cities.

In a midnight vote to avert another looming government shutdown, Congress overwhelmingly approved a $1.3 trillion spending bill that, for once, didn't shortchange cities.

President Trump threatened to veto the bill the next morning, but ultimately signed it.

While the dollars appropriated to housing, community development, and other urban priorities still fall far short of what's needed, in many cases the bill increased funding to key programs. The bill also included a key change to the low-income housing tax credit program, making it easier to finance units that are affordable for households at lower income levels than typical under the current program.

Continue reading.

NEXT CITY

BY OSCAR PERRY ABELLO | MARCH 23, 2018

Issuer Brief: The Continued Case for Resilience As a Credit Issue.

his Issuer Brief is brought to you by Court Street Group

The Continued Case for Resilience As a Credit Issue

The American Association for the Advancement of Science released a study of the San Francisco Bay Area which reflects the potential impacts of rising seas from climate change on the region. According to the study, major consequences of exacerbated inundation risk for coastal areas include saltwater contamination of surface and underground waters, accelerated coastal erosion, wetland losses, and increased flooding. The study estimates that by 2100, more than 480,000 people and $100 billion worth of property in the San Francisco Bay will be exposed to flood risk. It comes from a combination of rising sea levels but also from land subsidence. The study estimates that Portions of Treasure Island, San Francisco, San Francisco International Airport, and Foster City are subsiding as fast as 10 millimeters/year.

And it is not just these factors that are a concern. Storm intensity, associated rainfall, and storm surges affecting the coastal area are likely amplified by the elevated ocean temperature caused by ongoing global climate change. Higher volumes create greater amounts of water to be absorbed which results in higher water tables creating flooding. These create greater localized flood risk in those areas as well. An example is the flooding in sections of Miami due to a rising water table and reduced absorptive capacity.

The credit impact results from the need to install flood mitigation infrastructure, to raise roads or relocate them, and the potential need to relocate significant infrastructure such as airports – as well as the need to find additional revenue sources to support these additional facilities. Significant airport facilities located adjacent to or extended into the water include Logan in Boston, LaGuardia and JFK in New York, and San Francisco International, just to name a few.

Planning for these impacts at the state and local level will intensify more quickly and issuers will likely need to disclose potential credit implications when issuing new deals.

Airports Moving Forward with Rideshare Fees to Boost Revenues

Tampa International Airport (TIA) has begun collecting a per-trip fee on commercial ground transportation vehicles to be phased in over a three-year period. The Hillsborough County Aviation Authority voted to implement the new fee structure starting last August for transportation network companies (TNCs) — such as Uber and Lyft — through the approval of their use and permit

agreements. All other ground transportation vehicles such as taxis, limousines and hotel courtesy buses began the new fee structure in February 2018, when a new tracking technology became available.

Taxis, limos, and TNCs would pay $3 the first year, $4 the second year, and $5 the third year. Rideshare vehicles, off-airport courtesy transport by rental car companies, off-airport parking courtesy vehicles, and hotel/motel courtesy vehicles would pay $2.50 the first year, $3.50 the second year, and $4.50 the third year. Fees would apply for picking up passengers only; customer drop-offs will continue to be allowed at no charge.

The charges were authorized under state legislation signed in May 2017. An automatic vehicle identification system will track taxis, limos, and hotel courtesy vehicles, using a transponder-like device on the windshield like a SunPass. TIA based the commercial vehicle user fees on a study showing use at 14 other airports. It concluded that that TIA's expenses for its operation and maintenance of its ground transportation facilities exceeded the revenue received under prior fee structure. TIA collected $420,000 from cab companies and another $87,000 from limos for using the airport. The new structure plus adding TNCs is expected to bring additional revenue to the airport.

Knoxville, along with Nashville and Memphis, have an operating agreement with Uber. When the Uber driver picks up a passenger and drives into the area covered by the airport's geofence, that will trip a $2.50 charge to Uber.

These sorts of arrangements will allow airport operators to generate revenues from the ride share services to offset lost revenues from decreased demand for parking for private vehicles. The evidence is not clear yet as to whether an equilibrium has been established between revenue gains from ride sharing versus lost revenues from decreased parking demand. The development and increasing implementation of such revenue-generation schemes gives us confidence that airports will adapt over the long run and sustain their ability to finance their operating costs and capital needs.

Most airports generally have certain monopolistic attributes that will enable them to significantly increase fees from passengers who transition from driving in and parking their own cars to using ride sharing, but at some level which may be below the net revenues from such fees, they may run into resistance. It will take considerable time for these patterns to play out, and airports will have to be vigilant and assertive in responding to these transitions.

An Update on the Gateway Project

One of the shortcomings of the Trump administration infrastructure plan is the low level of federal funding. The spotlight was directed on this when the Secretary of Transportation appeared before the House Transportation and Infrastructure Committee. Secretary Elaine Chao confirmed for members of a House committee that President Trump doesn't want Congress to include any funding for the planned Gateway Tunnel in an omnibus spending bill. Trump's concern, Chao said, is that the project would consume all of the available federal funding.

This position seems to be designed to stoke opposition to the tunnel in the House where members have expressed concerns that financing for the tunnel would compete with the needs of rural areas. New York and New Jersey want to obtain federal loans totaling $4.29 billion from the Railroad Rehabilitation and Improvement Financing program as well as a federal Capital Improvement Grant. The Railroad Rehabilitation and Improvement Financing (RRIF) Program provides direct federal loans and loan guarantees to finance the development of railroad infrastructure. Other projects seeking loans from the same program include the All Aboard Florida Brightline between Miami and

Orlando; the Dallas Area Rapid Transit Cotton Belt line; the Port of Charleston, S.C. intermodal facility; the Port of Everett, Washington terminal upgrades; and the Merchant's Rail Bridge in St. Louis.

New York and New Jersey could apply for loan funding under the federal Transportation Infrastructure Finance and Innovation Act (TIFIA) for the Gateway project. The website for TIFIA says local repayments of federal loans are treated as a state or local share of costs. Chao apparently has not read their own website as she contends that loan proceeds cannot be counted as equity contributions from the two states for the tunnel. Chao rejected suggestions that the federal government made any commitment to the Gateway project in the past contradicting the understanding of two governors and senators from each state.

Now with the government facing a shutdown deadline this coming weekend, funding for the Gateway Tunnel became a major stumbling block in the effort to adopt an omnibus spending bill to fund the government in lieu of a formal budget agreement. House leadership had been reluctant to include anything in a bill that would cause the President to veto the legislation. However, Amtrak will be able to contribute $388 million to Gateway using its Northeast Corridor Account, while New York and New Jersey will receive another $153 million from the Federal Transit Administration's High-Density States and State of Good Repair grant programs. In addition, the bill will also provide $2.9 billion in discretionary grants to DOT that could be used to fund a portion of Gateway. The Gateway builders, which include Amtrak and officials in New York and New Jersey, have already applied for some of those grants.The deadline for passage of the spending bill to avoid a government shutdown is 12 a.m. this Saturday the 24th. Both the House and Senate passed a $1.3 trillion spending bill and sent it to the President's desk. President Trump has threatened to veto the bill. As of press time, he had not acted.

Issues like this contribute to the pessimism about the timing of Congressional funding for any infrastructure program before year-end.

Neighborly

by Joseph Krist

Posted 03/23/2018

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Introduction to Environmental Impact Bonds.

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 client profile.

The new wave of green municipal debt instruments has many investors talking and potentially looking to make them part of their portfolio. Green munis can be either general obligation or revenue-backed debt instruments that are essentially issued to fund any "green initiative" or project by local and state governments. Many local governments have been focused on reducing carbon emissions in their infrastructure projects or conserving run-off rainwater – all of which could potentially constitute as a green project.

Furthermore, an important branch of green bonds are known as Environmental Impact Bonds (EIBs), which are starting to gain momentum with muni investors. In this article, we'll take a closer look at EIBs and whether the increased use of these bonds will give muni investors an opportunity to earn higher returns with a risk profile similar to that of current munis.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 22, 2018

The New Federal Spending Bill Is Flush With Money for Waterworks.

"The new initiatives and funding increases actually make this legislation a new national water infrastructure program," says a representative for the National Rural Water Association.

WASHINGTON — The massive $1.3 trillion federal spending bill lawmakers in Congress are racing to pass this week would open the spigot for greater federal grants, loans and other assistance to flow to water and wastewater utilities around the U.S.

Programs within the Environmental Protection Agency and the U.S. Department of Agriculture that support water and sewer utilities would see funding levels boosted by hundreds of millions of dollars.

"The new initiatives and funding increases actually make this legislation a new national water infrastructure program," said Mike Keegan, a legislative affairs staffer at the National Rural Water Association. "If the president signs it, he and Congress can claim that."

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

March 22, 2018

Counties Enmeshed With Federal Lands Score Wins in Spending Bill.

The legislation will rekindle the Secure Rural Schools program and beef-up Payments in Lieu of Taxes.

WASHINGTON — For counties with large tracts of tax-exempt public land and those affected by diminished timber harvest revenues from logging in federal forests, the $1.3 trillion spending bill President Trump signed on Friday is noteworthy.

The fiscal year 2018 package will up funding for Payments in Lieu of Taxes, or PILT, to $530 million. That's $65 million higher than the last budget cycle. It also authorizes the Secure Rural Schools program for two years. For many rural county governments, particularly those in the west, the programs can be an important source of funding.

"A broad coalition of county commissioners, teachers and school administrators got the message across," Karen Skoog, a commissioner in Pend Oreille County, Washington, said in a statement.

"Without SRS and PILT payments, many schools in rural America would not be able to keep their doors open," she added.

Under the PILT program, the feds makes payments to local governments encompassing non-taxable federal lands.

These lands comprise more than 90 percent of the area in some counties, limiting opportunities for generating local property tax revenue. At the same time, public lands can create costs. For instance, a county might be stuck paying the snowplowing and maintenance tab for a road that provides access to a federal area.

Secure Rural Schools was designed to help offset declines in federal timber harvest revenues in jurisdictions located near national forests.

It was enacted in 2000 and in prior years it has funneled money to hundreds of counties. Money from the program goes not only to schools, but also to county governments who use it to pay for roadwork and other basic costs. The program expired in 2015.

"The last payments went out in the spring of 2016," Jonathan Shuffield, associate legislative director for public lands for the National Association of Counties, said by phone Friday.

NACo and other groups have pushed in recent years to get Secure Rural Schools reauthorized.

Finding a budget offset that would allow for the program's reauthorization proved to be a sticking point as the spending bill came together in Congress. But in the run-up to the bill's release, lawmakers solved the problem, offsetting the expense of SRS with oil sales from the nation's Strategic Petroleum Reserve, according to a person familiar with how the legislation took shape.

The spending legislation will provide Secure Rural Schools payments for fiscal years 2017 and 2018.

The fiscal 2017 payments are due to go out within 45 days from the time the bill is enacted. Shuffield said that fiscal 2018 payments will likely go out sometime early next year. Counties are not slated to get any SRS payments for fiscal 2016.

For fiscal 2015, Secure Rural Schools provided $278 million to over 700 rural counties and other jurisdictions, according to NACo.

Shuffield explained that one likely reason for the sizable uptick in PILT funding is that SRS payments have not gone out for two years and there's interplay between the two programs.

Route Fifty

By Bill Lucia,
Senior Reporter

March 24, 2018

The Public Startup Charting Bold New Waters.

Water utilities are struggling to lower their operation costs and simultaneously meet stricter environmental rules. Blue Drop, the brainchild of DC Water's former leader, wants to help.

Most startups fail. Within the first four years, anywhere from 50 to 90 percent of firms go belly up. Investing in them is risky. It's easy for things to go wrong.

But Blue Drop LLC isn't a typical startup. To begin with, there isn't a hoodie or open-loft office to be found in its modest headquarters in downtown Washington, D.C. And the company's lone investor, the public utility DC Water, hails from an extremely risk-averse sector.

There's something else unique about Blue Drop: A healthy portion of its revenue plan relies on selling truckloads of what used to be human poop.

Launched in late 2016 with a nearly $3 million investment in cash and resources from DC Water, which provides water and sewage services to residents of the nation's capital, Blue Drop is the brainchild of George Hawkins, the utility's former CEO and general manager. Hawkins, who stepped down only recently after a nine-year tenure, is credited with not just restoring public trust in the utility but with making it one of the most cutting-edge water enterprises in the country. (Governing named him a Public Official of the Year in 2014.) Now, he and others think the innovative and creative solutions that have emerged from DC Water over the past decade can be repackaged and marketed to others. Blue Drop, a nonprofit consulting enterprise, will do that by connecting potential public utility clients with the experience and know-how of DC Water. The company has two full-time employees — for now — plus five part-timers on loan from the utility.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | MARCH 2018

The Week in Public Finance: What's in the Congressional Spending Bill for States and Localities.

Several major programs — some that the White House aimed to eliminate — will get a significant funding boost. President Trump signed the bill hours after threatening to veto it.

In the federal spending bill that President Trump signed on Friday, several government programs are getting funding boosts, including two that the White House sought to eliminate a year ago.

Community Development Block Grants, which help fund an array of local government projects spanning from affordable housing assistance to small business loan programs, are set to see a $300 million increase in funding. That puts total federal funding at $3.3 billion for a program that Trump's 2017 budget proposal had targeted for elimination. It's also the first meaningful increase for the program since the early 1990s.

"Every year, it costs more to build roads and homes and to rehab facilities," says the Urban Institute's Brett Theodos. "So a program that's the same dollar value every year is actually a shrinking program in terms of what it can produce on the ground."

Continue reading.

GOVERNING.COM

BY LIZ FARMER | MARCH 23, 2018

Infrastructure Series: Cost-Sharing with State and Local Governments.

This is the fifth issue of WilmerHale's 10-in-10 Infrastructure Series. In this series, our attorneys share insights on current and emerging issues affecting infrastructure project developers in the United States. Attorneys from various practice groups at the firm offer their take on issues ranging from permitting reform to financing to litigation, and share their insights from working with clients in a variety of infrastructure sectors, from water infrastructure to energy development to infrastructure development on tribal lands. Read all issues in this series and our other recent publications.

As discussed in previous issues of WilmerHale's Infrastructure Series, the Trump Administration proposes several initiatives to seek and secure long-term changes in the government's approach to funding infrastructure projects. One significant proposal to help support the Administration's ambitious $1.5 trillion infrastructure initiative is to encourage cost-sharing arrangements among federal, state and local entities.

Continue reading.

March 22 2018

Wilmer Cutler Pickering Hale and Dorr LLP

UMBC Retrievers Tout Publicly-Financed Arena After NCAA Win.

- **University system opened up new $85 million arena in February**
- **Men's basketball won upset victory over top-seeded Virginia**

The University of Maryland at Baltimore County has a message for the legions of people who became instant fans Friday night with its stunning victory over No. 1 seed University of Virginia in the NCAA basketball tournament: Come to our new municipal-bond financed events center.

"BTW guys, we have a brand new $85 million Event Center we opened up last month that still doesn't have a corporate sponsor name…" @UMBCAthletics, the social media account for the college's athletic department, tweeted on Sunday.

The new multi-purpose facility was financed through borrowing well before the Retrievers became a household name with their Cinderella victory. In fact, the school is one of many — including Clemson University, the University of South Carolina, and the University of Connecticut — that have taken advantage of the $3.9 trillion municipal-bond market to build top-of-the-line athletics centers.

The UMBC facility, at 172,000 square feet, will include a practice court, a "state-of-the-art" strength and conditioning gym, and the UMBC Athletics Hall of Fame. It's meant, in part, to help the school recruit and retain student-athletes and will also host concerts, speakers and banquets.

The University System of Maryland listed the event center as one of $1 billion in facility projects it's authorized financing for as part of four separate bond resolutions, according to offering documents from a bond sale in February. Moody's Investors Service issued its second-highest rating on that sale of auxiliary bonds by the university system, citing strong demand for the system's 11 schools.

While the 16-seeded Retrievers upset Virginia 74 to 54, they went on to lose to Kansas State two days later. Still that hasn't stopped officials from boasting about the Retrievers short-lived March Madness run. The athletic department took to Twitter on Sunday to again tout the new arena with a link for high school students to apply for admission.

"We hope to see all of you at our brand new $85 Million Event Center in November for the season opener. Congrats @KStateMBB, good luck the rest of the way!….and for those of you in HS, you can apply right here –> undergraduate.umbc.edu/"

Bloomberg

By Amanda Albright

March 19, 2018, 10:19 AM PDT

Bloomberg Brief Weekly Video - 3/22

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

Watch video.

March 22nd, 2018

Bloomberg

Public Finance Practices Saw a Huge Boom at the End of 2017.

One public finance practice leader said deal work was triple the normal amount in the fourth quarter.

The end of 2017 came with a short-lived, but sweet surprise for law firms with public finance practices.

Those practice groups saw business explode in the fourth quarter, particularly in the last two months of the year, as legislators in Washington, D.C., debated a tax bill that had big implications for the tax-exempt market. The last such boom was more than 30 years ago, public finance lawyers said.

"It all was in a very compact period of time," said Emilie Ninan, who chairs Ballard Spahr's public finance department. "There was this concern that as of the first of the year, we're not going to be able to do these deals anymore."

The tax bill put an end to advance refunds for tax-exempt bonds, which was a way for public finance clients to take advantage of lower interest rates and save money. Marc Feller, chair of Dilworth Paxson's public finance group, said clients were "finding every conceivable bond that could generate savings" at the end of 2017, in anticipation of the tax bill prohibiting that activity in 2018.

Continue reading.

By Lizzy McLellan | Mar 23, 2018

The Legal Intelligencer

Connecticut to Lead Light Week in U.S. Municipal Bond Issuance.

March 23 (Reuters) – Connecticut and California will supply roughly one-third of a light, $3.6 billion U.S. municipal bond load in a holiday-shortened week next week, going to market with a pair of deals worth about $1.2 billion.

Connecticut will issue $617 million in two series of general obligation bonds on Wednesday in a deal led by Loop Capital. Across the country, California's Health Facilities Financing Authority will price $606 million in revenue bonds led by Morgan Stanley.

Connecticut's GO issuance received an A1 rating from Moody's Investors Service, which the agency said reflected the state's high income levels and adequate liquidity, while also accounting for high fixed costs for debt service and ballooning pension and debt.

Connecticut's financial crisis reached a crescendo last year when Governor Dannel Malloy slashed spending after he and lawmakers failed to reach a budget deal by a June 30 deadline.

While sides reached a budget deal four months later, the state general fund has a shortfall of nearly $193 million.

California's Health Financing Authority, meanwhile, will issue $606 million in revenue bonds to help construct and expand facilities at its Sutter Health system, part of a $1.29 billion financing plan that is also slated to feature $684 million in taxable fixed-rate bonds.

Next week's load, which totals $3.87 billion when accounting for $184 million in notes, is well below the 2017 weekly average of $7.3 billion, continuing a trend of light muni issuance in the wake of President Donald Trump's tax reform measures.

Also hampering issuance is next week's early close on Thursday, and full close on Friday, in observance of Good Friday.

Puerto Rico will be back in the news next week, as the bankrupt U.S. territory's federally-appointed oversight board will meet on Monday. It is expected to sign off on the island's fiscal turnaround plan, a financial blueprint that will serve as the basis for restructuring talks with creditors holding more than $70 billion in debt.

Already bankrupt when Hurricane Maria hit in September, the island is struggling to recover from its most devastating storm in 90 years. [reut.rs/2G5EB2m]

Reuters Graphic
Maria sent Puerto Rico's benchmark general obligation bonds plummeting, from around 60 cents on the dollar before the storm, to as low as 20 cents after.

The bonds have begun to recover as the forecast for Puerto Rico's economic recovery has brightened, though they remain down dramatically from pre-storm levels, closing on Thursday at 35.75 cents on the dollar.

Reporting by Nick Brown Editing by Tom Brown

City Priorities Shine Through in FY18 Omnibus Spending Bill.

Funding proposal reflects strong federal-city partnership

WASHINGTON — March 22, 2018 — The House and Senate have reached a deal on the omnibus appropriations bill (H.R. 1625), a $1.3 trillion spending proposal that maintains or increases funding for key programs that cities use to fund infrastructure, economic development and public safety, among others. The bill comes after more than 1,000 city leaders lobbied Congress over the past year to save Community Development Block Grants (CDBG), TIGER grants, workforce development and education programs, and energy efficiency and renewable energy programs.

"The spending bill before Congress shows that our federal partners have heard the thousands of city leaders urging them to reject the severe budget cuts proposed by the administration and that were required under sequestration," said NLC President Mark Stodola, mayor of Little Rock, Arkansas. "This bill makes clear that city leaders are part of the solution to our country's greatest challenges. It's a victory not only for America's 19,000 cities, towns and villages, but for the more than 250 million residents that rely on safe and reliable infrastructure and strong local economies that contribute 91 percent of the nation's GDP."

The bill also includes additional funding for water infrastructure through the U.S. Environmental Protection Agency, including for lead testing and lead reduction in schools, which NLC has been calling for in its Rebuild With Us infrastructure campaign. NLC also supports the bill's reauthorization of the brownfields redevelopment program, which helps cities clean up contaminated properties, the expansion of Low-Income Housing Tax Credits to make up for losses in affordable housing stemming from tax reform, and the extension of the National Flood Insurance Program until July 31, 2018.

Continue reading.

National League of Cities

GASB Outlook E-Newsletter, Q1 2018

Read the Newsletter.

Educators, Finance Officers Team Up to Build a Better Budget.

Having a plan to tackle your school district's critical problems doesn't mean you have the money to pay for it, and many districts find their best-laid improvement plans can fall apart with just one state budget cut or failed local bond issue.

That's why a growing number of districts nationwide are working to bring together educators and budget officers early and often, to make sure budgets support the most critical priorities.

"One of the hardest things is when you talk about academic [return on investment], educators are not used to putting a dollar sign on students; they look at quality education and what's best for the kids," said Claire Hertz the Beaverton, Ore., district's chief financial officer. "And I look at dollar signs, but I don't necessarily know what's most important instructionally," she said. "We each bring a strength and a source of data to each other."

Continue reading.

Education Week

By Sarah D. Sparks

March 20, 2018

CUSIP Request Volume Signals Strong Pace of U.S. Corporate Equity & Debt Issuance in Q1.

NEW YORK, NY, February 22, 2018 – CUSIP Global Services (CGS) ttoday announced the release of its CUSIP Issuance Trends Report for January 2018. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found an increase in

CUSIP request volume for new U.S. corporate equities and debt, but sharp decreases in the municipal bond market. This is suggestive of as strong pace of new corporate issuance and a slowdown in new muni issuance in the early weeks of 2018.

Read the Report.

CUSIP: Municipal Volumes Trending Down Following Tax Reform.

"We're still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity."

Read the Press Release.

Public Debt Upgrades Top Downgrades in 2017: Moody's

NEW YORK (Reuters) – In the U.S. public finance market, debt rating upgrades topped downgrades for the third year in a row in 2017 as the U.S. economy continued to improve, according to a report by Moody's Investors Service released on Monday.

The ratings agency said the upgrades indicated continued improvement in credit quality across the public finance sector but warned of "pockets of weakness," particularly in the healthcare and higher education sectors.

"While the number of upgrades continued to grow, the amount of upgraded debt declined for the fourth year in a row," the report said.

Despite the economic upswing, the dollar value of downgraded debt was $201.8 billion last year, double the $100.3 billion of upgraded debt. This was driven primarily by the downgrade of Puerto Rico and related issuers in the aftermath of Hurricane Maria, which devastated an already fragile economy.

California led in upgraded debt in 2017, helped by an upgrade of Los Angeles County's $1.6 billion worth of debt.

Nearly 35 percent of upgrades and 14 percent of upgraded debt in 2017 stemmed from a change in Moody's U.S. Local Government General Obligation Debt methodology, which revised the agency's approach to rating general obligation limited tax (GOLT) debt.

The change drove less than one percent of downgraded debt, and upgrades still topped downgrades when stripping out the effects of the change, Moody's said.

In general, housing and infrastructure bonds performed strongly in 2017. Annual toll increases contributed to a $2.8 billion upgrade of Central Florida Expressway Authority revenue bonds, and the California Housing Finance Agency's mortgage revenue bonds accounted for $1.2 billion of upgraded debt in 2017.

Performance was weak in the higher education and healthcare sectors.

Illinois, which accounted for the most credit downgrades last year as the state and local governments continued to face pension challenges, also had a number of downgrades to its public universities

The State of New Jersey marked the largest downgrade last year at $37 billion, followed by downgrades of over $20 billion each in Illinois, Puerto Rico, and Connecticut. These four entities accounted for almost 70 percent of downgraded debt in 2017.

Puerto Rico Electric Power Authority (PREPA) accounted for more than half of downgraded debt in the infrastructure space, which overall saw $9.4 billion worth of credit ratings lowered versus $19.8 billion of upgrades, Moody's said.

Reporting by Reade Levinson; Editing by Daniel Bases and Diane Craft

March 13, 2018

Bloomberg Brief Weekly Video - 03/15

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

Watch video.

Bloomberg

March 15th, 2018

Fitch Updates Criteria for US SHFA Single Family Mortgage Program Bond Ratings.

Link to Fitch Ratings' Report(s): U.S. State Housing Finance Agencies: Single-Family Mortgage Program Rating Criteria

Fitch Ratings-New York-15 March 2018: Fitch Ratings has published an updated criteria report titled 'U.S. State Housing Finance Agencies: Single Family Mortgage Program Rating Criteria.' The report replaces the existing criteria of the same title published on June 28, 2017.

The changes to the criteria mainly relate to the reordering and clarification of key rating drivers and the incorporation of a flow chart to describe the credit review process. In addition, the criteria revisions provide clarity to the FHA-insured loan loss assumption.

No changes to the ratings of existing transactions are expected as a result of the application of the updated rating criteria.

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America's Cities Are Exporting Bonds.

- **Foreign investors have increased holdings steadily since 2012**
- **It may provide lift for taxable debt, Citigroup's Rai says**

America's states and cities have hit on a popular export product: their bonds.

Foreign buyers have expanded their investments in U.S. municipal securities every quarter for more than five years as low — or even negative — interest rates prod European and Japanese investors to hunt for higher yields than can be found in their home countries. That continued during the last three months of 2017, when they boosted their holdings by a record $4.5 billion to $104.6 billion, according to Federal Reserve Board statistics.

The steady buying is a welcome development for the $3.9 trillion municipal market, where demand from banks and some insurance companies may be curbed by the corporate tax cuts that took effect in January. This year, municipal bond prices have slid amid concern about rising interest rates, pushing up yields on top-rated 30-year debt by about half a percentage point to 3.12 percent, the highest in a year.

The overall impact from the overseas spending spree may be limited. Such buyers tend to focus on taxable bonds, which pay higher yields than traditional municipal securities. Tax-exempt municipals aren't as attractive, given that they have no use for the income-tax breaks typical state and local bonds provide.

"Foreign investor demand will drive the richening of taxable munis, but it provides no safety net for tax-exempts," said Vikram Rai, a municipal-bond analyst for Citigroup Inc., the second-biggest underwriter of the securities. "That's not where they choose to invest."

Bloomberg Markets

Amanda Albright

March 12, 2018, 10:04 AM PDT

— With assistance by Zachary Hansen

Protons Beams Zap Cancer With Muni-Bonds as Market Strains.

- **Bond sales for the new cancer centers swelled in 2017**
- **'Investors are going to be caught asleep at the wheel'**

Hospitals and health-care centers borrowed more in the municipal-bond market last year for cancer treatment facilities known as proton clinics than they did over the previous decade after private lenders balked following a string of financial failures brought about by the industry's aggressive expansion.

Local government agencies — which sometimes lend tax-exempt bond proceeds to businesses — issued $418 million of debt last year for such clinics, up from the $239 million in the prior 10 years, according to data compiled by Bloomberg. The surge is helping to bring new clinics on line, with 18 set to finish construction by 2021, according to the National Association for Proton Therapy. None of the bonds sold last year carried credit ratings, a step that borrowers take to avoid the potential stigma of being labeled junk.

The rapid expansion has concerned some analysts and health-care experts, who say the market for such clinics is already near saturation and wider expansion of proton treatment overextends the clinical use of the technology. Debt sold by rural hospitals and other types of medical clinics are one of the biggest sources of defaults in the municipal market, a haven for individual investors seeking steady, tax-exempt returns.

Continue reading.

Bloomberg Markets

By Zachary Hansen

March 13, 2018

A Better Way to Revive America's Rust Belt.

The government should spend money on research, not life support.

Harvard economists Benjamin Austin, Ed Glaeser and Larry Summers think the U.S. government should do more to help the country's struggling regions. It's a great idea, but their specific policies could use some work.

Many economists believe in focusing policies on people, rather than places — essentially, having the government help the poor and disadvantaged, but letting the market sort out where people live and where economic activity is concentrated. There are several arguments for this approach. First, even if aid is aimed at a struggling area, it might benefit some richer individuals — few people want to see their taxes being spent on millionaires, even if those millionaires live in Detroit.

Second, many worry that it's foolish to fight the vast, unstoppable forces of economic geography. Monkeying with the highly complex web of trade, clustering and specialization could prop up cities that have no business existing, causing continued struggle for the people living there, and costing taxpayers a bundle as well. According to this conventional wisdom, if a place is in decline, the best

thing the government can do is help people move away. I myself have advocated pro-mobility policies. But those policies can also come with a big downside.

When huge numbers of people flee a region, the people who are left behind suffer. Neighborhoods dotted with empty houses become centers of drugs and crime. A dearth of taxpayers makes it impossible to pay for upkeep on roads, water pipes and other essential local infrastructure. Inadequate tax revenue also makes it hard to pay the pensions of city workers, police and firefighters, requiring painful municipal bankruptcies. Shopping centers without a critical mass of customers become wasting assets. Life in a declining region is not the best, but life in a half-depopulated declining region is far worse.

Thus, more economists are starting to think about place-based policies. The election of Donald Trump was a startling wake-up call: Even though identity issues were a bigger factor explaining why Michigan, Ohio, Pennsylvania and Wisconsin flipped to Trump in 2016, the long-term economic decline of the Rust Belt probably contributed substantially to an overall climate of discontent.

In a paper presented at the Brookings Institution this past weekend, Austin, Glaeser and Summers don't single out the Rust Belt. Instead, they identify the struggling region as the "eastern heartland," meaning non-coastal states admitted before 1840. The authors show that by a number of measures — employment rates, per capita GDP, mortality rates, and self-reported life satisfaction — the eastern heartland has done somewhat worse than either the coasts or the interior west over the last two to four decades.

This regional breakdown is too arbitrary and broad. There's no reason we need to think about the country in terms of three vast regions when focusing on declining places, when we can pick out specific cities and states that are struggling. But the general principle is correct — helping lagging regions is a good and important idea.

The next question, though, is what kind of help to provide. The authors discuss an array of ideas. One that they zero in on, unsurprisingly, is infrastructure investment. Another is the relocation of government offices from coastal enclaves to interior regions. They suggest an array of federal tax credits and wage subsidies for people living in distressed areas. And they call for the strengthening of community colleges to provide targeted training.

These are all ideas worth thinking about. With the exception of relocating government offices, however, most of these would impose large costs on the American taxpayer. This is true even of infrastructure — a road in an economically growing, thriving place will often pay for itself, but a road in a depopulated region with no one to drive on it is a white elephant project. As for tax credits and employment subsidies, these could end up keeping whole regions of the country on permanent fiscal life support.

Committing to long-term expenditures on economically unproductive regions can have dramatic fiscal consequences. Few nations know this better than Japan, where the central government in Tokyo has long pandered to outlying regions with lavish redistribution. Partly as a result, Japan now has the world's highest public debt, which forces it to keep interest rates permanently at zero.

Using direct fiscal lifelines to support struggling places should therefore be a last resort. Instead, governments should focus on trying to make these places as economically productive as possible.

The best approach is to spend more money on research at universities. Evidence shows that such spending boosts local economies. Top institutions like Carnegie Mellon in Pittsburgh are widely credited with industrial revivals in previously hard-hit Rust Belt areas. A flood of research dollars

from the federal government, targeted at universities in struggling areas, has the potential to turn the region around. This should be matched with encouragement of immigration to declining areas, which will help shore up local tax bases and keep city services running.

There may come a time when some U.S. regions are doing so badly that they need to be kept on life support. But that time has not yet come. There is still a chance to make struggling American towns productive again.

By Noah Smith

March 13, 2018

Bloomberg View

Noah Smith is a Bloomberg View columnist. He was an assistant professor of finance at Stony Brook University, and he blogs at Noahpinion.

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

The Week in Public Finance: 3 Things State and Local Governments Should Know About the Banking Deregulation Bill.

The first major bipartisan banking bill since Dodd-Frank has some potential pluses and minuses for states and localities.

This week, the U.S. Senate passed the first major banking bill since the Dodd-Frank financial overhaul in 2010. If successful, it would roll back and loosen regulations on banking institutions prompted by the 2008 financial market meltdown.

The new bill is the result of a bipartisan effort. More than a dozen Democrats joined the Republicans to pass it. But passage in the House, where it heads next, is not guaranteed as Republican lawmakers there want an even bigger rollback of regulations.

The measure, supporters say, will provide regulatory relief for small banks. Meanwhile, critics argue that it benefits larger institutions more by loosening important consumer protection requirements for lending.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | MARCH 16, 2018

S&P U.S. And Canadian Not-For-Profit Transportation Infrastructure Enterprises: Methodologies And Assumptions.

S&P Global Ratings is publishing its methodology for assigning ratings and related credit products

to U.S. and Canadian not-for-profit airports, ports, toll facilities, or parking systems (transportation infrastructure enterprises, enterprises, or entities), and for debt secured by specific revenue streams tied to special facility projects or by demand tied to transportation infrastructure.

Continue Reading

Mar. 12, 2018

S&P: New GASB Statements 74 And 75 Provide Transparency For Assessing Budgetary Stress On U.S. State & Local Government OPEBs.

In June 2015, the Governmental Accounting Standards Board (GASB) adopted Statement No. 74 (GASB 74), related to financial reporting for postemployment benefit plans with irrevocable trusts (other than pension plans), and Statement No. 75 (GASB 75), related to accounting and financial reporting for postemployment benefits.

Continue Reading

Mar. 14, 2018

Insights: How Steel and Aluminum Tariffs Might Impact State Economies; More Negative News on Infrastructure.

How Steel and Aluminum Tariffs Might Impact State Economies

The Brookings Institution released some very interesting state-specific details on the potential impact of steel and aluminum tariffs. Here is some of what they had to say.

When measured by total volume, the nation's largest states dominate steel and aluminum imports — Texas, California, Illinois, Michigan, Louisiana, Pennsylvania, Ohio, and New York all import more than $2 billion annually in steel and aluminum products, together accounting for 60% of the nation's total.

Louisiana presents a particularly notable example. Oil and gas drillers, and petrochemical producers in that state, rely on imported steel and aluminum to support their operations. The Port of New Orleans imported 2.48 million tons of steel in 2017, accounting for 30% of its tonnage. Maryland's imports are also disproportionately weighted toward aluminum and steel. As the Baltimore Sun reported, Maryland manufacturers of steel products are concerned that they will be put at a disadvantage, both due to higher input costs and by potentially limiting their access to important export markets should retaliatory measures be put in place.

Continue reading.

Posted 03/16/2018 by Joseph Krist

Neighborly Insights

Insights is brought to you by Court Street Group.

Philadelphia Schools Deal Tops $3.1 bln U.S. Muni Bond Sales Next Week.

NEW YORK, March 16 (Reuters) – The Philadelphia School District plans to price $251.8 million of tax-exempt general obligation bonds on Thursday, the first time the fiscally strained district in Pennsylvania will issue debt since a decision to return it to mayoral control.

The deal is the largest negotiated offering of the $3.1 billion of U.S. municipal bond and note sales planned for next week.

The state-formed oversight commission that ran the district for the past 16 years began dissolving at the end of last year. Mayor Jim Kenney is selecting a nine-member school board to be in place by July 1.

Financially, the shift could benefit the district but hurt the city. Moody's Investors Service said in December that its negative outlook on the city, rated A2, in part reflects possible challenges in fiscal 2019 in funding the district.

Moody's assigned to the district's forthcoming bonds an underlying rating of Ba2 with a positive outlook and an enhanced rating of A2 with a stable outlook.

Kenney's recent city budget proposals would allocate permanent tax increases to schools, Moody's noted. A Pennsylvania intercept program that funnels state aid to bondholders if the district cannot meet debt service payments lifted the enhanced rating.

Proceeds of the sale will fund capital projects, with the district returning to invest in classrooms "after years of austerity operations," Moody's said.

For the past few years, the district has been trying to stem its fiscal crisis, leading to protests by teachers who were tired of seeing their schools shuttered, colleagues laid off and supplies cut.

But the district has also secured at least $58 million from the state annually from a cigarette tax that was made permanent and $2 million of new revenues from ridesharing fees, according to a presentation for prospective bondholders.

It has also refunded more than $1 billion of high-interest debt to save $100 million over the next 20 years, leading to Moody's upgrade by one notch to Ba2 in September.

The bonds have serial maturities through 2038 and term bonds due 2043. The lead manager is Bank of America Merrill Lynch.

Next week's largest muni deals are both competitive. Maryland's Anne Arundel County is expected to sell $263.7 million of bonds for general improvements and water and sewer projects, and the city and county of San Francisco, California will price $251.3 million of debt for parks and road projects.

(Reporting by Hilary Russ in New York; Editing by Richard Chang)

Berkeley To Use Blockchain For Tokenized Bonds.

The City of Berkeley, California will be the first U.S. city to explore blockchain-based financing to

tackle social issues such as affordable housing. Mayor Jesse Arreguin and Councilmember Ben Bartlett are collaborating with the UC Berkeley Blockchain Lab and San Francisco-based financial startup Neighborly for the Berkeley Blockchain Initiative ("BBI") to develop a tokenized municipal bond. According to Forbes, Berkeley had a similar idea twenty years ago with a local currency called "Berkeley Bucks." This time, Neighborly explains, "[t]he initiative will explore how to harness the power of blockchain and cryptocurrencies to democratize access to public finance and improve social outcomes."[1]

Termed an "initial community offering" rather than an initial coin offering ("ICO"), municipal bonds will be divided into micro-bonds and sold as a token as a new source of capital that will enable more Berkeley residents to invest directly in their community through various projects at low denominations. According to Coindesk, Councilmember Bartlett claims the offering will be less risky than an ICO because the tokens will be backed by an underlying bond. Residents will be able to choose specific social impact projects of interest compared to the traditional nature of a single bond that may be raising funds for multiple municipal projects. Councilmember Bartlett believes "[b]lockchain's benefits, such as security, efficiency, transparency and speed, are not only applicable, but much needed at the government level to deliver better and more streamlined services to the people who need it most."

Details on what this new token will be named and whether it will be issued on a private or public blockchain are up in the air, but the plan is to keep the initiative local to Berkeley. Issuing tokenized micro-bonds through blockchain will fund smaller ventures like purchasing an ambulance at first, but the City of Berkeley envisions the model will eventually fund affordable housing projects and could potentially give the homeless population access to other goods and services in the future.

This project may be a signal that tokenized public finance models could become mainstream in the near future. Local investors may like the flexibility that these municipal tokens allow in investing in smaller investments in specific projects the investors support. Bonds issued by states, cities, and municipalities are exempt from the registration requirements and certain of the reporting requirements under the federal securities laws. Nevertheless, these products are subject to the Securities and Exchange Commission's ("SEC") antifraud rules and therefore it is important that issuers make appropriate risk disclosures with respect to the crypto market and nature of the tokens to investors.

Issuers also should carefully weigh the risk of special treatment by the SEC. The agency may more carefully scrutinize bonds issued as crypto tokens out of concern that the issuer chose to issue crypto token bonds rather than traditional bonds to garner attention or to capitalize on the euphoria associated with crypto investments. This offering will test the waters for new security token issuances amid an environment where the SEC is scrutinizing a broad swath of so-called "utility" tokens for being unregistered securities.

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[1] The statement can be found at neighborly.com/.

Last Updated: March 15 2018

Article by Herbert F. Kozlov, Kari S. Larsen, Michael Selig and Kelley Chittenden

Reed Smith

Berkeley Is Turning to the Blockchain for City Funding.

In an effort to reduce their reliance on federal and state funding, the City of Berkeley is turning to a surprising source: cryptocurrency. The idea is to leverage the blockchain — the technology that makes bitcoin and other cryptocurrencies possible — to spur private, crowdfunded investment in affordable housing and other local projects.

Led by Berkeley Mayor Jesse Arreguín and City Councilmember Ben Bartlett, the city is partnering with University of California Berkeley's Blockchain Lab and finance technology company Neighborly to create an initial coin offering. The offering will allow individuals to buy Berkeley's cryptocurrency to fund city-issued municipal bonds. The money raised will pay for things such as affordable housing, homeless shelters, ambulances, street trees, even a community theater. Coin owners will potentially be able to spend the cryptocurrency at some Berkeley businesses. As with any municipal bond, investors who get in on the offering will earn a small return on their investment over time as the city pays them back with interest.

The idea grew out of concern over the impact corporate tax cuts (not to mention threats to cut funding to sanctuary cities) would have on their ability to address their affordable housing and homelessness crises. With lower corporate tax rates, corporations have less incentive to buy low income housing tax credits, a key source of affordable housing funding. In addition, big banks raised interest rates on loans to local governments in the wake of the tax cuts.

"We have over a thousand homeless people in Berkeley and expect that to grow by a factor of five," says Bartlett. "We knew we needed to find a way to fund these things. This need is going to grow and it's already a disaster that's affecting our moral and physical integrity as a city."

Beyond that, Bartlett says conventional municipal bonds are expensive, slow and have lots of red tape for investors, making it hard for individuals to invest in them at all, let alone in the small denominations most people might have to invest. With their idea, bonds could be smaller and be issued more quickly.

Neighborly was launched to do just that — to allow individuals to crowdfund municipal bonds. Austin issued a bond on the platform to pay for historic preservation. Cambridge, Mass., used it to fund schools and utility infrastructure.

Berkeley's idea operates on a similar principle, but will use the blockchain technology to improve security and transparency, factors they hope will help spur investment (and provides a bit of flashy tech-factor that Bay Area residents might find appealing).

"You conceive of an idea, get the costs ready, push it out to the community, they can buy it right away," Bartlett explains. "It's more flexible. It doesn't have to be a $100 million bond for a sewer. It could be smaller projects and with the lower denomination ability…It's projected to be 50 percent less expensive to the issuer [than conventional municipal bonds]."

In simplified terms, a blockchain is a database stored concurrently on a peer-to-peer network of computers, making it less vulnerable than storing everything on a central server. Each copy of the database serves as a permanently available public record of every transaction on the blockchain. The technology keeps every copy of the database updated as people buy and exchange each "coin."

"It's immutable. It's transparent. There might be fewer concerns about misappropriation of funds," explains Stacie Olivares-Castain, who recently became state of California's first ever senior advisor

for impact investments and blockchain.

Olivares-Castain says she is encouraged by Berkeley's experiment. "It's very, very early, but what we're starting to see is the blockchain can be used to improve a sense of individual agency and create more opportunity. The Neighborly model is a very interesting partnership. I think it could be used by other communities, too…Through the blockchain, there's more democratization of access to capital."

There are plenty of criticisms of cryptocurrency — coin wallets getting hacked, the wild fluctuation of currency value, the absurd amount of energy bitcoin "miners" consume to run their computers as they continually search for new bitcoin tokens produced somewhat randomly by digital algorithm. Bartlett says none of those issues apply to Berkeley's project. There will be no coin "mining" for Berkeley's coins, so the city's coins "won't be a tool for speculation. It has a set rate of return at darn near public rates," he explains.

There are still plenty of details to work out in the plan, but the city is aiming to launch its initial coin offering in May. Bartlett says he's already fielding calls about it from cities in the U.S. and abroad and is confident that there's a future for their approach to city funding.

"Digitization, crowdfunding—these are just social impact bonds for the next generation," he says. "For cities to survive this escalating disinvestment in the public trust, we're going to have to start thinking outside the box and creating our own resources."

NEXT CITY

BY JOSH COHEN | MARCH 15, 2018

Investing in Water Infrastructure and Workers: Examining the Bay Area's Regional Approach.

Investing in water infrastructure represents a major challenge and opportunity across the United States. As pipes, plants, and other facilities reach a breaking point, utilities and local leaders must plan and pay for increasingly costly repairs. However, many places have responded with innovative approaches, using new management techniques and modern technologies to deliver water infrastructure that is more cost-efficient, durable, and resilient.

Crucially, these challenges and opportunities do not simply end with the infrastructure itself.

The country's water workforce is also undergoing change. Similar to millions of other workers involved in infrastructure nationwide, the water workforce is aging, experiencing rapid turnover, and facing a huge gap to fill in terms of hiring, training, and retention—from operators and engineers to accountants and office clerks. At the same time, these jobs offer competitive wages, have lower educational barriers to entry, and consequently provide a pathway to greater economic opportunity for all types of workers across all skill levels.

Continue reading

by Joseph Kane
Senior Research Associate and Associate Fellow – Metropolitan Policy Program

March 7, 2018

The Brookings Institute

Infrastructure Series: Paying for and Permitting Water Infrastructure.

This is the fourth issue of WilmerHale's 10-in-10 Infrastructure Series. In this series, our attorneys share insights on current and emerging issues affecting infrastructure project developers in the United States. Attorneys from various practice groups at the firm offer their take on issues ranging from permitting reform to financing to litigation, and share their insights from working with clients in a variety of infrastructure sectors, from water infrastructure to energy development to infrastructure development on tribal lands. Read all issues in this series and our other recent publications.

President Trump's February 12, 2018, Infrastructure Plan highlighted the need for investment in the nation's water infrastructure. The Plan included general provisions that could support water infrastructure, and specific provisions intended to increase federal, state, local and private resources for water infrastructure. Implementation of the Plan will depend on whether Congress acts on proposed legislative reforms, which will be challenging in an election year. Nevertheless, there are opportunities and resources available now to assist in developing water infrastructure projects, including streamlined permitting under Title 41 of the Fixing America's Surface Transportation Act (FAST-41), expanded credit assistance programs and state programs.

Continue reading.

by H. David Gold and Andrew L. Spielman

USA March 15 2018

Wilmer Cutler Pickering Hale and Dorr LLP

Patience Is Not A Virtue When Reviewing Municipal Bond Credit.

Municipal bond market innovation continues to lag most other major financial markets – the sector is arguably light years behind the equity market in transparency, timely reporting, electronic trading and analytics. The sector's history of low default rates against corporate bonds is likely one of the reasons why investors are somewhat blasé about lagged financial reporting, thin disclosures, and the reluctance to include alternative data in the investment process.

It is safe to say that corporations with publically traded debt and/or equity provide more transparency to their investors than municipal bond issuers, albeit not necessarily by choice. Indeed, there are several reliable vendors that aggregate historical corporate financial data, versus relatively few for municipal bonds.

The municipal bond market should consider leveraging some of the same innovation that equity markets have already adapted, including technology that rapidly identifies sound investments, analyzes credit and monitors positions in a cost effective manner. As the hedge fund sector

demonstrated in the past, some investors will turn a blind eye to higher management fees, if a money manager produces above average returns over peers or pertinent index benchmarks.

Many of those outperformers in the equity market have successfully deployed a “quantamental” approach – which takes the sector expertise of an analyst and improves investment decisions through a combination of machine learning and alternative data which identifies “diamonds in the rough” and avoids “landmines”. That same approach can be applied to high yield and unrated municipal bonds to potentially enhance a portfolio’s performance and accurately price risk.

In the case of more plain vanilla strategies and certain SMAs, investors will bargain shop based on fees, which has been driving down fees and profitability across the wealth management industry. This drive to more of a low cost asset accumulation model will require AI based tools and not the hiring of more analysts to rapidly analyze new issue and secondary credits, create accurate and comprehensive marketing material for pitching bonds to their clients, and automated surveillance tools to identify local or regional economic/financial distress using financial statement and public/alternative data sources.

The holy grail of municipal bond analytics will likely mimic that of an industrial supply chain, where every source of revenue and expenses will be identified or estimated through a non-traditional data proxy. These metrics can then be compared to changes in liabilities and the tax paying population (citizens and corporations).

An investor would begin with an aggregate view of every potential bond offered by the dealer community – coupled with MSRB trade price history and government bond yields – and supplemented with accurate evaluated bond prices/yields to fill in the days where a round lot did not trade.

The next layer will use natural language processing (NLP)-driven news-to-CUSIP mapping applications, and alternative datasets – such as US port ship traffic and US Customs bill of lading data – to proxy revenue through the flow of goods in and out of a state, while mining through publicly available bespoke data from data.gov to enhance standard economic data releases.

The biggest leap will be made when the performance of the largest private employers for the issuer is added to the credit picture, enabling the identification of a growing or shrinking tax base. Lastly, all of the aforementioned elements will be combined with financial statement data to model which factors drive the issuer’s assets and liabilities the most – with the end goal of determining its performance outlook.

The successful implementation of AI and alternative data in the investment process will benefit asset managers and issuers by modernizing investment and due diligence processes. The investment community has the resources and expertise to discover an issuer’s tax revenue base shift through advanced data, with those same findings having the potential to help guide municipalities’ financial and policy decisions.

Machine learning has been used by credit card companies for fraud detection for decades, and can potentially be used to identify discrepancies and errors in financial statements, when compared with data sourced outside of the issuer.

Deploying these types of technologies may eventually be a matter of pure survival for money managers, because clients will likely gravitate towards money managers that successfully combine alternative datasets, AI, and sector expertise to identify real-time shifts in credit.

Those who are patient enough to wait until the issuer's next quarterly or annual report is released will not fare as well.

Seeking Alpha

Mar. 6, 2018

California's $83 Billion of Bond Debt Isn't Enough for Some.

- **Golden State is selling $2.1 billion of bonds this week**
- **California has $31 billion of unissued bonds still pending**

California's sale of $2.1 billion in bonds this week isn't enough for some buyers and interest groups.

The state is sitting on $31 billion of unsold bonds, about a fifth of the $149 billion approved by voters over the decades, according to a financial report by the state treasurer. And the state hasn't matched recent voter enthusiasm for billion-dollar measures with immediate sales: most of the $17 billion added to the authorized pool since 2014 haven't been issued.

Proponents of initiatives approved by voters, such as school construction and water infrastructure, would like to see California sell those bonds sooner. State officials, on the other hand, have focused on paying down outstanding debt and timing sales more closely to when those projects get started.

The subdued pace demonstrates the fiscal restraint that along with the state's economic rebound has helped boost California bond prices. But California isn't seizing the opportunity to tackle its significant capital needs such as water projects at low costs, said Dora Lee, vice president at Belle Haven Investments, which manages about $7 billion of municipal bonds.

"They're not only missing out in terms of lower interest rates, they're missing out on future economic growth and they're limiting their choices down the road," she said.

Sitting Idle

California has about $83 billion in outstanding general obligation and lease revenue debt, down by $3 billion from 2016, according to state treasurer reports.

Governor Jerry Brown's administration doesn't want to sell bonds before the proceeds are needed for different stages of construction, said H.D. Palmer, a spokesman for the finance department. Otherwise, "you start racking up debt service costs for cash that's sitting idle," he said.

Indeed, a large increase in outstanding bonds could pressure California's rating, which at AA- from S&P Global Ratings is lower than the company's average AA rating for states but is at the highest in almost two decades.

"They could afford to issue a bit more debt than they're currently amortizing and maintain their current credit profile but not a significant amount," said Bernhard Fischer, senior fixed-income analyst at Principal Global Investors, which oversees about $8 billion in munis. Fischer said the state could probably sell about $1 billion more than it is now.

Those chafing at the pace include the California School Boards Association, which wants quicker sales of $7 billion on bonds for construction projects at elementary and high schools and $2 billion

for community colleges. Brown, who opposed the measure, had wanted tighter accountability requirements before selling the debt.

So far about $433 million have been sold for the schools and about $17 million for community colleges, excluding what will be allotted from the proceeds of this week's deal. If the current pace continues, it would take more than a decade to sell the bonds, said Nancy Chaires Espinoza, a lobbyist for the association.

"The bond sales aren't keeping pace with demand," she said.

Bloomberg Markets

By Romy Varghese

March 6, 2018, 6:55 AM PST

U.S. Muni Bond Market Inches Up to $3.851 trln in 4th Quarter - Fed.

NEW YORK, March 8 (Reuters) – The U.S. municipal bond market inched up to $3.851 trillion in the fourth quarter of 2017 from $3.809 trillion the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.570 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, slipping from $1.573 trillion in the third quarter, the Fed report said.

U.S. banks' muni bond buying spiked after dwindling the previous three quarters. Financial institutions added $37.4 billion in the fourth quarter, compared with $8.6 billion in the third quarter.

Property and casualty insurance companies took on $7 billion of munis in the fourth quarter after adding $3.4 billion in the third quarter. Life insurance companies picked up $5.1 billion of the bonds.

U.S. mutual funds bought $25.3 billion of munis in the fourth quarter, down from $40.7 the previous quarter, while exchange traded funds added $7.6 billion, up from $4.8 billion.

Foreign holdings of munis rose to $104.6 billion.

(Reporting by Laila Kearney in New York Editing by Matthew Lewis)

US Green Finance: A Clearer Year Ahead.

The US green finance surge continues regardless of federal government, argues S&P Global Ratings' Michael Ferguson

The American green bond market has been stepping up. Last year, dollar-denominated green issuance grew substantially: self-labelled US municipal bonds reached $10.4bn, a 43 per cent increase on 2017. Importantly, American municipal issuance alone accounted for 34 per cent of the global sub-sovereign issuance, and included 10 first-time issuers, according to the Climate Bonds

Initiative (CBI).

This expansion of the marketplace could just be the beginning. Forecasts suggest that issuance by US municipalities could top $15bn in 2018 – representing an increasingly diverse and proactive group of sub-federal actors, which also extends to large corporations. On this evidence, state-level climate action is significantly bolstering the country's green marketplace even amid uncertainty at the federal level.

In turn, this is driving forward a decarbonisation agenda, despite the current federal disinclination to pursue comprehensive carbon reduction policies. Indeed, uncertainty about US regulatory policy may have hitherto contributed to limited growth in corporate green bond issuance. The US' revised tax code, however, has provided some market clarity, at least for now.

It ensures that both the production tax credit (supporting wind) and the investment tax credit (supporting solar) will continue. So, corporate taxpayers can still benefit from the credits, which have propelled investment in renewable assets in the past. And though the credits' retention was a surprise to many, it has revealed a clear bipartisan support for renewable energy in the US, possibly contributing to a continuing a surge in green finance.

Continuing tax credits

The production tax credit (PTC) has historically supported wind power generation. With its help, America's wind capacity quadrupled between 2007 and 2014. Then, in 2015, the market suspected (incorrectly, with hindsight) that the PTC would be excluded from future budgets. As a result, installed wind capacity surged to capture the credits before expiry. When the credit was omitted from early versions of the 2017 federal budget – along with the investment tax credit (ITC) for solar – the market gave pause.

However, the final version of the tax reform bill signed into law by President Trump in December 2017 continued the credits. Many believe that the bill could substantially increase the federal deficit, based on non-partisan estimates. Yet, in a bill passed without a single democratic vote, the preservation of both the PTC and the ITC speaks to the enduring value of the credits as tools for spurring renewable development.

With the phase-out of the tax credit temporarily avoided, S&P Global Ratings expects that renewable financing, especially corporate power purchase agreement (PPAs), will continue to grow. Although growth will be spurred in part by diminished costs, we don't expect an immediate surge in financings as experienced in 2015. But with a clearer outlook ahead, the US renewable energy market will likely enjoy a steadier growth trajectory through the beginning of the next decade.

Worth a little less?

That being said, the revised tax code may have an indirect impact on the value of the PTC and ITC, thereby presenting a possible new market dynamic. A lower corporate tax rate – with the marginal percentage down to 21 per cent from 35 per cent – could undermine the value of some tax equity investments. In turn, this may influence issuers' decisions about whether to use tax-exempt municipal issuances, corporate debt, or project finance debt.

Further, in the absence of a federal policy on climate change, we're not likely to see the pricing signals associated with a carbon tax or emissions trading, and consequently the financeability of projects could be dependent on both state level policies (including RPS) and the value of these tax credits. Given the limited pool of equity investors, revisions to the tax code may also have

ramifications for the green marketplace – and alter how such projects are funded.

Infrastructure goes green

Regardless, the funding will have to come from somewhere. America's infrastructure needs are vast – with green finance increasingly used to fund improvements. According to the US Environmental Protection Agency, the country's water, wastewater and irrigation systems require over $630bn of investment through to 2033 in order to bring them up to modern standards. And there is broad consensus on Capitol Hill that the country's aging infrastructure, which has been underfunded for decades, is in need of an overhaul.

The White House has recently proposed over $1tr in infrastructure investments, in addition to the $200bn included in the 2018 budget. However, much of the funding for these projects – about 75 per cent according to the Council on Foreign Relations – will have to come from state and municipal budgets, as it has done for most of the past century. This, coupled with heightened sub-federal decarbonisation and adaptation initiatives, makes more green financings possible nationwide.

In turn, S&P Global Ratings anticipates another banner year for US green bond issuance – and the wider green finance marketplace. Propelling the market will likely be a mixture of renewable-backed issuances and others to repair, or even replace, some of the country's infrastructure. While estimates for green bond issuance vary wildly, and can hinge on a bevy of market and political conditions, it is clear that green instruments have firmly secured their place within the US financial landscape, and their prominence will only grow as investors become more sensitive to climate concerns.

businessgreen.com

Michael Ferguson, S&P Global Ratings

09 March 2018

Michael Ferguson is director of US energy infrastructure at S&P Global Ratings

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GASB Invitation to Comment on Revenue and Expense Recognition.

Read the Invitation to Comment.

[03/07/18]

GASB 2018 Request for Research: The Gil Crain Memorial Research Grant.

Read the Request for Research.

Bloomberg Brief Weekly Video - 03/08

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

Watch video.

Bloomberg

March 8th, 2018

California Shows Bond Buyers Willing to Jettison Industry Staple.

- **State opted for shorter call dates after U.S. tax change**
- **Deputy treasurer says didn't pay up for different structure**

Since the Great Recession, the $3.8 trillion municipal-bond market proved adaptable as the debt insurance industry collapsed, derivatives disappeared and the federal government created a new type of taxable security to stoke the economy by encouraging spending on public works.

If California's bond sale this week is any guide, it seems just as willing to embrace the latest change: Shorter call dates, in response to provisions in the U.S. tax overhaul that curbed governments' ability to refinance debt before it can be repurchased from investors.

When the most-populous U.S. state sold $2.2 billion of general-obligation debt, it gave itself the option to call back most of the bonds in five or eight years, meaning bondholders could be forced to part early with what they expected to be a long-term investment. But that did little to deter demand, with buyers placing orders for twice as many bonds as were being sold and some maturities six-times oversubscribed, Tim Schaefer, California's deputy treasurer, said in an interview.

"The fact that we did this and got such good reception on it is confirmation that the market has grown to a much more sophisticated place," he said.

The sale marked the biggest test yet of whether investors would be willing to embrace the shorter call dates, though demand may have been stoked in part by the dearth of new municipal bond issues this year. Wisconsin and Utah's Davis School District sold similar securities on a smaller scale this year, and analysts anticipate that more borrowers will follow suit.

Investors accepted yields of 2.74 percent on a 5 percent coupon bond due October 2029 with an eight-year call, while the same maturity with a five-year call yielded 2.42 percent. The price of the securities edged up in subsequent trading.

The state didn't appear to pay a price for the call-option shift because the difference between the state's yields and top-rated securities was similar, or lower, than during its debt sale a year ago, Schaefer said.

While some other governments may have to pay higher yields to compensate buyers for the risk the securities will be paid off ahead of schedule, the earlier calls will preserve their ability to save money if interest rates fall.

"It's a good compromise for issuers who want that flexibility going forward, don't want to wait 10 years, and are willing to accept modestly higher rates on a yield to maturity basis and in a rate environment that is still historically quite low," said Jay Wheatley, head of Citigroup's municipal

syndicate desk. “It’s going to become more of the norm, especially in a low issuance environment.”

Bloomberg Markets

By Romy Varghese

March 9, 2018, 6:07 AM PST

— With assistance by Danielle Moran

[If You're Fleeing Volatility, There's Refuge in the Muni Market.]

- **10-year yield has budged 0.01 percentage point in three weeks**
- **Muni prices haven’t been this steady in nearly three years**

Quick: What are the most commonly used adjectives when describing the $3.8 trillion municipal-bond market?

If you said, “sleepy,” or ”boring,” you win.

Over the last three weeks, it has lived up to that reputation, with yields on 10-year AAA municipal bonds moving exactly one basis point, to 2.49 percent from 2.48 percent. The difference between the daily high and low yield over that period is nearly as minuscule — a range of a mere 2.6 basis points, a difference that amounts to about $26 on a $100,000 investment. The price volatility over the past 20 days is the lowest since mid-2015, according to data compiled by Bloomberg.

Treasury yields haven’t moved much either since Valentines Day, just 3 basis points. But there’s been a 15 basis point difference between the three week high of 2.95 percent on Feb. 21 and the 2.81 percent low on March 1.

So why has trading municipal bonds become about as exciting as working as the Maytag repair man?

New offerings of long-term, fixed-rate state and local government debt is down 40 percent, compared with last year, because municipalities rushed to market in December before the federal tax overhaul sharply limited their ability to refinance debt. The issuance drought helped support the market amid the selloff in January triggered by speculation that the Fed will raise interest rates more aggressively than expected, leaving munis with a smaller loss than Treasuries so far this year.

“The lack of supply has kept the market from sort of falling off a cliff,” said Nicholos Venditti, who oversees $11.5 billion of municipal bonds at Thornburg Investment Management in Santa Fe, New Mexico.

What’s more, retail investors, who drive the muni market, haven’t been spooked — yet — by the losses showing up in their month-end statements. Munis lost 1.5 percent through the end of February, their worst start to a year since the 2008, during the early pangs of the credit crisis.

The market may get more volatile as mom and pop investors start selling and signs emerge that banks and insurance companies are gradually paring tax-exempt bonds and buying taxable bonds instead because corporate tax cuts have made tax-exempt debt less attractive, Venditti said.

Add a pick-up in issuance by municipalities and that could lead to a bearish market, Venditti said, making his job — and maybe yours — more interesting.

Bloomberg Markets

By Martin Z Braun

March 7, 2018, 11:29 AM PST

Trump Can't Derail Renewable Energy Push

Public-private partnerships at the state and local levels are stepping in for federal funding.

When President Donald Trump entered office, it was clear that policies boosting energy production would take precedence over those protecting the environment.

The administration's 2019 budget and its addendum proposed sweeping rollbacks to programs designed to limit environmental pollution and mitigate the effects of climate change, while slashing funds devoted to research on renewable energy.

Yet despite this setback, these policies should not leave investors in renewable energy holding the short end of the stick. Instead, this sector is showing signs of a revival thanks to public-private partnerships at the state and local levels.

Continue reading.

Bloomberg View

By Shelley Goldberg

March 9, 2018

Mayors and Governors Urge Congress to Pass Legislation Expanding Public-Private Partnerships (P3s) for Public Buildings.

The Performance Based Building Coalition calls for rebuilding America's unsafe and dilapidated public buildings

WASHINGTON, March 2, 2018 /PRNewswire/ — March, 1 2018, A bipartisan group of 14 mayors and 10 governors have sent letters to Congressional leadership expressing their strong support for the Public Buildings Renewal Act (S. 3177/ H.R. 5361) or PBRA, which will spur private investment in rebuilding America's unsafe and dilapidated public buildings.
http://www.p3buildings.org/wp-content/uploads/2018/02/PBBC-Letter.pdf

The bill would permit state and local governments to access $5 billion in private activity bonds (PABs) for the financing of critical construction and infrastructure projects for qualified public buildings, such as schools, hospitals, courthouses, universities, police stations, and prisons.

“Infrastructure across our country is in desperate need of investment; and that includes our nation’s public buildings. Providing services to our citizens depends on it,” said Colorado Governor John Hickenlooper. “This proposed legislation needs to be a part of the conversation that brings us a comprehensive solution to our infrastructure needs.”

Currently, the use of public-private partnerships (P3s) to deliver public buildings is extremely limited because unlike the transportation sector, public buildings are not eligible for private activity bonds. This inhibits public building P3s from combining tax exempt financing with private financing, resulting in an increased cost of financing.

“Private Activity Bonds for buildings are a triple win for governments, taxpayers, and the economy,” said David Tuerck of Beacon Hill Institute which authored a study on the economic benefits of the PBRA. “Our findings show that, in the short run, every dollar of new infrastructure investment made possible by the PBRA will add $2.80 to the U.S. economy. At the same time, taxpayers save nearly 25 percent over the life of these projects compared to traditional building methods, while these projects are delivered on time with guaranteed long-term performance.”

Nearly every U.S. transportation P3 project has utilized federal financing, at least 75% of which have accessed Private Activity Bonds. Over $36 billion in transportation P3 projects have been undertaken since 2010 with a cost savings of more than 20 percent on most projects.

This bill will catalyze the use of P3s in public buildings just as PABs have for transportation. By empowering the private sector to tackle these projects, the bill would make these projects more cost effective, stretching every public dollar further.

The Joint Committee on Taxation provided a very low score for this legislation, which shows it will have a minimal impact on the Federal budget– estimating a cost of only $18 million over five years and $48 million over 10 years.

The PBRA bill has bi-partisan support in Congress. It is sponsored by Senators Dean Heller (R-NV) and Bill Nelson (D-FL) in the Senate and by Representatives Mike Kelly (R-PA) and Earl Blumenauer (D-OR). There are 10 Senate co-sponsors and 28 House co-sponsors. The bill includes more bipartisan Ways and Means support than nearly any other bill pending before the Committee.

About the Performance Based Building Coalition: Founded in 2012, the Performance Based Building Coalition is the nation’s only non-profit industry coalition exclusively dedicated to developing the market for social infrastructure public-private partnership (PPP) projects in the United States. The PBBC’s mission is to pass federal tax legislation that will create a new category of exempt facility bonds for government owned buildings, while simultaneously educating the public sector on all aspects of executing a P3 project. PBBC leadership & roster of over 90 members. www.p3buildings.org

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Why the Rust Belt Economy will Suffer in a Trade War.

President Trump’s unanticipated announcement of steel and aluminum tariffs has sent markets reeling, and stoked trade war fears. The president appears motivated in part to deliver on his promise to voters in the industrial Midwest, where many responded positively to his anti-trade rhetoric and pledge to dismantle what he called the NAFTA “disaster.”

But Trump’s proposed tariffs, which many see as his latest negotiating tactic to make Mexico and

Canada accept his demands on NAFTA, are unlikely to help these Midwestern voters and their communities. The early consensus is that the tariffs would cost many more jobs than they will keep or create. As Economic Outlook Group chief economist Bernard Baumohl put it, “More workers in the U.S. make products that are made from steel, than make steel itself.”

Continue reading.

The Brookings Institute

John C. Austin

Tuesday, March 6, 2018

S&P Global Trade At A Crossroads: U.S. States And Localities May Take Another Look At Budget Forecasts.

In its 2018 sector outlook for U.S. states, S&P Global Ratings cited the potential for policy missteps as a leading risk to its baseline economic forecast for the year. President Trump’s recent decision to impose import tariffs of 25% on steel and 10% on aluminum is an example of this type of risk.

Continue Reading

Mar. 9, 2018

S&P: Odds Are Favorable For Continued Strong Credit Quality For U.S. Lottery Revenue Bonds Despite Slower Future Growth.

Consistent with S&P Global Ratings’ long-held view, we anticipate that the highly rated U.S. lottery bonds sector will remain stable, despite expectations of slower lottery revenue growth. S&P Global Ratings maintains ratings on lottery bonds issued by four states, with all but one rated ‘AAA’ (our highest rating).

Continue Reading

Mar. 6, 2018

Issuer Brief: A New Microgrid in Chicago and What It Means for Governments Moving Forward.

Microgrid Approved in Illinois — A Case Study

The Illinois Commerce Commission has approved ComEd’s plan to construct one of the nation’s first utility-scale microgrid clusters in the Bronzeville neighborhood on the South Side of Chicago. The project, which has received more than $5 million in grant funding from the U.S. Department of Energy, will enable the study of how microgrids support the integration of clean energy onto the

grid and increase grid security to keep power flowing even during extreme weather or a catastrophic event.

A microgrid is a small power grid with defined boundaries which can operate both when connected to the larger electric grid and as an "'island" when there's an interruption on the main grid. It draws on distributed energy resources, such as solar power or cogeneration facilities, to serve customers within the microgrid footprint.

In this case, the project will serve an area that includes 10 facilities providing critical services, including the Chicago Public Safety Headquarters, the De La Salle Institute, and the Math & Science Academy, a library, public works buildings, restaurants, health clinics, public transportation, educational facilities, and churches. It will also be connected to an existing microgrid at the Illinois Institute of Technology. The completed project will serve about 1,060 residential, commercial, and small industrial customers. It will be constructed in two phases and will include battery storage and solar photovoltaic cells. It is scheduled for completion in 2019.

Our interest here is the technological improvement. Although it is being undertaken by an investor-owned rather than a municipally owned and operated utility, there are clearly many municipally operated utilities which could potentially use and benefit from this technological step, by reducing peak capacity requirements and carbon footprints. So we will look with interest at the results of the project as they impact, cost, efficiency, and reliability for this major urban electric distributor.

Privatization Takes a Hit

From the earliest days of the Trump Administration, Rep. Bill Shuster R-PA has been pursuing an effort to privatize the federal air traffic control (ATC) system. For a while, the ATC privatization plan was the only thing that the Trump Administration could cite as its infrastructure program. Since then, the Administration has put out an infrastructure plan weighted in favor of private interests. Over that same period, the Shuster privatization legislation has met bipartisan resistance, and Rep. Shuster has announced that he will retire at the end of his term in January.

So it is with real interest that we received the news that "despite bipartisan support among lawmakers, industry and labor groups, there isn't enough support to approve the proposal this year," Shuster said. He also said that instead he would work with his counterpart, Sen. John Thune, R-S.D., to approve FAA legislation without air-traffic control privatization.

General-aviation advocates feared that the corporation would favor airlines at busy airports and would have charged higher fees than the government. Groups including the Aircraft Owners and Pilots Association, the General Aviation Manufacturers Association, the National Air Transportation Association and the National Business Aviation Association issued a joint statement opposing the effort.

The moral of the story is that privatization is not the answer for all infrastructure situations. A successful process will concentrate on the best result rather than the method used to accomplish it.

Is the NY-NJ Gateway Tunnel Project Hitting a Wall?

There have been concerns since the unveiling of the Trump administration infrastructure "plan" in mid February about whether funding commitments to the Gateway Tunnel project by the Federal government would be adhered to. In December, the acting administrator of the Federal Transit Administration, K. Jane Williams, said in a letter to officials in New York and New Jersey that any such agreement was "nonexistent." The signals this week were not very encouraging. First,

Transportation secretary Elaine Chao told transportation advocates that federal loan funds provided to participants in the Gateway project would not be counted as part of the states' equity contributions. This would require N.Y. and N.J. to come up with even more locally generated funding. At a Senate Environment and Public Works hearing Sens. Kirsten Gillibrand (D-N.Y.) and Cory Booker (D-N.J.) pressed Chao about why the administration doesn't consider federal loans as equity, she said it's simply not the way things have been done. Gillibrand and Booker disagreed, and at one point Booker cited a DOT webpage he said seemed to invalidate her position. Chao said that wasn't her understanding, but promised to "look at it."

The Secretary ran into additional pushback during a hearing held by the House Transportation and Infrastructure Committee Tuesday. Chao said the concern is that the project would consume all of the available federal funding. "If they absorb all of these funds, there would be no others left for the rest of the country," Chao said. That does echo fears some rural legislators have expressed.

The project is also getting caught up in the maelstrom of chaos engulfing the White House. President Trump is pressing congressional Republicans to oppose funding for a new rail tunnel telling Speaker Paul Ryan this week not to support funding for the $30 billion project. The stance is likely fueled by Trump's animus toward N.Y. Sen. Chuck Schumer. The project is widely considered to be among the most pressing and most expensive infrastructure needs in the country, making up 20% of the nation's GDP. A document issued by Trump's transition team listed the Gateway project as the No. 1 national infrastructure priority.

Congressional appropriators are looking to spend at least $950 million in federal funds on the Gateway project in the coming omnibus spending bill. Lawmakers are expected to pass the legislation ahead of a March 23 government shutdown deadline. The chairman of the House appropriations subcommittee on transportation, said the project was among the top priorities to be funded in the new bill. On the Omnibus funding, if the money is added to the New Starts program or State of Good Repair program for it, then it has to be signed off in by Chao which could present problems if Trump is super dug in. However, if the money goes through the Amtrak account, it goes straight to the Amtrak board who then can get it out without DOT signoff.

Posted 03/08/2018 by Joseph Krist

This Issuer Brief is brought to you by Court Street Group.

Neighborly Insights

First Municipal Bond ICO Is in the Works.

Investors can't seem to agree on the value of cryptocurrency, but when it comes to blockchain, there's a strong consensus: the public ledger has the potential to transform the investment world. As it turns out, blockchain technology might offer an innovative method for cost savings and transparency in the municipal bond market.

Berkley, California and underwriting firm Neighborly will make history this spring when they launch the first initial coin offering (ICO) backed by municipal bonds. The city plans to hold the ICO in May, giving investors an opportunity to purchase municipal bonds in tokenized form. ICO is a controversial but extremely popular crowdfunding model that startups have used to generate billions of dollars in financing over the past 14 months.

However, unlike typical ICOs that generate cryptocurrencies, Berkley plans to implement a "tokenized system for creating, distributing, storing and relaying bonds denominated in USD," according to Neighborly chief executive, Jase Wilson. The company has already set up the technology to issue the tokens and has a proven track record in delivering to non-traditional markets. In 2017, Neighborly took home the Bond Buyer Deal of the Year award in the non-traditional assets category for the mini-bond sale it executed for Cambridge, Massachusetts.

Continue reading.

municipalbonds.com

by Sam Bourgi

Mar 08, 2018

Paul Ryan Says House Infrastructure Action Will Happen in 'Stages'

The House speaker's remarks come one day after he ruled out the idea of raising the gas tax.

House Republicans will move ahead with a series of infrastructure bills in the coming months, Speaker Paul Ryan said Thursday.

The Wisconsin Republican's comments came a day after he ruled out the possibility of hiking the federal gas tax, and as the Trump administration is promoting a public works plan that calls for $200 billion of federal spending, mostly for new grant programs.

Until legislation starts to emerge, it will be unclear how closely the efforts Ryan described will hew toward the plan Trump has proposed. Some of the bills the speaker referenced were due to arise in Congress even without any extra prodding by the president.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 8, 2018

City Leaders Prepare for an Infrastructure Lobbying Push.

The effort will take place this week as part of the National League of Cities 2018 Congressional City Conference.

WASHINGTON — City leaders from across the U.S. vowed Monday to keep pressure on Congress to advance infrastructure legislation.

Infrastructure is the marquee issue at the National League of Cities 2018 Congressional City Conference taking place here this week. Over 2,000 city officials are attending the event and more than 200 NLC delegates have about 150 meetings planned on Capitol Hill.

“It’s no secret,” Little Rock, Arkansas Mayor Mark Stodola, the current president of the National League of Cities, said at a press conference Monday, “America has an infrastructure problem.”

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 12, 2018 10:16 PM ET

U.S. DOT Announces TIGER Grants Totaling Nearly $500 Million.

The White House has called for axing the grant program in each of the two budget plans it has sent to Congress.

The White House has called for axing the grant program in each of the two budget plans it has WASHINGTON — Nearly a half-billion dollars is set to flow to 41 infrastructure projects in 43 states through grant awards the U.S. Department of Transportation announced on Friday.

The grants come via the Transportation Investment Generating Economic Recovery program, commonly referred to as TIGER. President Trump has proposed ending the competitive, Obama-era grant program in each of his last two budget requests.

Even so, the White House touted last week’s awards in an email to media outlets on Friday, linking them to the Trump administration’s ongoing push for greater infrastructure investment.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

MARCH 11, 2018

Insights: Threat to State Tax Revenues, What's Next for Advanced Refundings?

The potential threats posed to state revenues by the tax reform law have already been discussed. The other shoe to drop has been the steady stream of budget proposals that have been articulated since tax reform was enacted. Many of these cuts are in areas broadly defined as social service based. They include health, housing, income maintenance as well as the administration’s love affair

with block granting.

In each case, the proposed changes would either reduce revenues available for services to satisfy demographically driven demand or would replace cash income available to generate retail sales. No matter how you slice it, the budget ideas from the Trump Administration are bad for state finances.

Take the proposal to replace half of the cash portion of the food stamp program with the distribution of food boxes. While presented as a source of both cost savings and better health, the plan would make a serious dent in the income generated from the sale of the products to be distributed. The federal government would buy food products at wholesale and compete against entities whose purchases currently generate sales tax revenues on their own. The government could also use its scale of purchasing power to drive down prices and therefore, agriculture-related incomes. By reducing the amount of food purchased by SNAP recipients from retailers, those retail food distributors would see their sales go down, thereby reducing their taxable incomes. The likely result would be employment reductions at those stores resulting in further declines in the taxable income base.

Then there are the stealth proposals to reduce benefits to the fast-growing elderly population. The Centers for Medicare and Medicaid Services (CMS) actuary said this week that American healthcare spending will grow from 4.3% in 2016 to 5.3% this year and 5.7% by 2021. Much of that increase will be driven by aging baby boomers in need of more medical care. With the retirement assets of most Americans way below their needs, much of that cost will be borne by Medicaid—the health insurance program for low-income and disabled Americans —not by Medicare. Some states are taking a proactive approach.

At least five states — Maine, Arizona, Utah, Wisconsin and Kansas — have asked the Department of Health and Human Services (HHS) to approve proposals that would put a cap on how long Medicaid beneficiaries can receive coverage. Republicans on the House Budget Committee are pushing forward with a new budget resolution this year designed largely to rein in spending on entitlement programs like Medicare and Social Security.

The Administration has proposed a freeze on most funding under the Older Americans Act, which provides money for social and nutrition services for seniors, including Meals on Wheels. While the proposal contains a small increase for food programs, it would cut funding for disability programs by about 30%. It would also eliminate federal block grants that states use to fund programs for seniors.

Since Congress just passed a two-year spending plan, it’s highly unlikely Trump’s budget will be enacted but it signals where, at least the Republican party, would like to go on entitlements. All of this would be credit negative for the states.

Response to the Loss of Advanced Refundings and Alternatives For the Market

Much has been written about how issuers of new deals, issuers with bonds that are not yet callable, and investors are likely to respond to the loss of advanced refundings. That loss was a substantial blow to financial flexibility for issuers—certainly an ironic result, given the purported desire to generate more capacity to finance and fund infrastructure.

Here are the key considerations for all three parts of a muni transaction:

- First, issuers seeking to maximize flexibility on new long-term financings need to be cautious about expectations that shorter-call paper will be absorbed readily by the market at a yield commensurate with how short-call paper has traded recently. We believe that if short-call paper

becomes more common, the yield spread between this paper and bonds with 10-year calls will increase dramatically.
- Second, we support the use of variable-rate debt for a portion of a strong issuer's financings as a way to enhance flexibility without increasing all-in borrowing costs. The challenge will often be in getting credit backstop for such an issue, or in keeping current credit ratings. Stronger issuers such as double-A-rated states will have more flexibility in this context.
- Third, some issuers have discussed the use of much larger amounts of lower-coupon bonds as a way to reduce the yield-to-call on paper with a 10-year call, and thus the urgency to find an alternative to advance refundings. As with short-call paper, issues with coupons well below 5% may find that the market is not willing to buy such deals except at substantial yield premium over more traditional 5s. This pattern may also reduce the proportion of competitively sold paper. Competitive issues tend to use bidding requirements that lead to a large proportion of lower-coupon bonds—the type that the market may increasingly require to have higher yields to the call date than 5s.
- Fourth, institutional investors with old, short-call paper that they would like to unload also need to be cautious. We expect that either new or aged short-call paper will run into situations of diminishing returns as more of it reaches the market.
- Fifth, issuers seeking to refund bonds significantly before the first call date need to be cautious about paying up too much in yield for alternatives such as forwards or taxable crossover bonds, rather than simply waiting until the bonds are currently refundable. Most potential techniques for refunding such bonds before the first current refunding date will lead to a relatively sharp increase in the borrowing cost, which only makes sense under the assumption that muni yields will be moving significantly higher between now and the first current refunding date.
- Sixth, we are less worried than some observers about the use of floating-to fixed swaps or other derivatives as a way to do an early refunding—but only if the issuer is equipped to recognize the risks and extra costs involved in such a transaction. Many issuers will need outside expertise to handle such potential risks and costs. We note that some of the well-described disasters in swaps stemmed from a reliance on auction rate securities or other warning signs that no longer apply. We do agree strongly with the need for strong hands-on expertise when considering such a choice, however.

03/02/2018 by Joseph Krist

Neighborly Insights

Insolvent "On Behalf Of" Municipal Bond Issuers: Chapter 9, Chapter 11, or Ineligible?

Last week, President Trump unveiled his proposal to fix our nation's aging infrastructure. While the proposal lauded $1.5 trillion in new spending, it only included $200 billion in federal funding. To bridge this sizable gap, the plan largely relies on public private partnerships (often referred to as P3s) that can use tax-exempt bond financing. In evaluating bankruptcy and default risk with P3s and similar quasi-governmental entities it is important to understand whether such entities are eligible debtors under the Bankruptcy Code, and, if so, whether they are Chapter 11 or Chapter 9 eligible.

P3s often involve the issuance of bonds by quasi-governmental hybrids, including so-called "63-20 corporations" (named after an IRS Revenue Ruling) that meet IRS criteria for the issuance of bonds by a non-profit corporation "on behalf of" a state or municipality. Such hybrids are used because they have a sufficient nexus to a state or municipal government to satisfy federal tax criteria for the

issuance of tax-exempt municipal debt, while being sufficiently distinct from the state or municipal government to escape otherwise applicable state law restrictions on the incurrence of debt. Given such hybrid nature, questions can arise about whether the issuing entity is eligible for Chapter 9 of the Bankruptcy Code (in those states that have authorized filings under that Chapter) or Chapter 11 of the Bankruptcy Code. That distinction is significant.

Not only are the rules in Chapter 9 and Chapter 11 different (particularly as they relate to bond debt), but there are more eligibility restrictions in Chapter 9 than in Chapter 11. Chief among these is the requirement of specific state authorization for Chapter 9 eligibility. Where such authorization currently does not exist, bondholders can be lulled into a false sense of security thinking their issuer cannot file bankruptcy under Chapter 9, only to find out that the issuer is Chapter 11 eligible.

Continue reading.

By William W. Kannel & Charles W. Azano

February 26, 2018

Mintz Levin

Yes, Special Revenue Bonds Remain Special: Mintz Levin

Judge Swain's decision in the PROMESA Title III bankruptcy proceeding of the Puerto Rico Highways and Transportation Authority ("PRHTA") that a federal bankruptcy court cannot compel a municipal debtor to apply special revenues to post-petition debt service payments on special revenue bonds has generated controversy and caused some market participants to question whether, if the decision is upheld by the First Circuit on appeal, the perception that special revenue bonds have special rights in bankruptcy remains justified.

The short answer is that, whatever the First Circuit does with the Swain ruling, bonds secured by special revenues should continue to emerge from bankruptcy proceedings more unscathed by the issuer's bankruptcy than bonds that are not special revenue bonds or secured by statutory liens.

Judge Swain's order dismissed a complaint by PRHTA's bond insurers for declaratory and injunctive relief requiring PRHTA to remit special revenues received by PRHTA to its bond trustee for payment of bond debt service, and for a declaration that PRHTA lacked a property interest in the trustee-held debt service reserve fund (which would have permitted the trustee to apply the debt service reserve fund to bond debt service payments without further legal analysis.)

It is important to focus on what Judge Swain did and did not hold:

- The most controversial portion of Judge Swain's opinion addressed the meaning of Section 922(d) of the Bankruptcy Code, which exempts from the bankruptcy stay "the application of pledged special revenues." Judge Swain stated that Section 922(d) "makes clear that the automatic stay is not an impediment to continued payment, whether by the debtor or another party in possession of pledged special revenues, of indebtedness secured by such revenues…." She held, however, that the quoted exception from the stay did not extend to lifting the stay in order to permit a creditor to seek a court order compelling the debtor to turn over special revenues to a bond trustee.
- Even under Judge Swain's narrow reading of Section 922(d), a bond trustee in possession of special revenues need not seek or obtain relief from stay to apply special revenues to debt service

payments. Special revenue bonds structured with a "true" lockbox, in which revenues flow directly to the bond trustee or an agent for the trustee, should not be impacted by Swain's decision, even if upheld. In contrast, under Judge Swain's reading of Section 922(d), special revenue bonds in which revenues flow to the issuer and the issuer covenants to turn the revenues over to the bond trustee upon receipt may, at a minimum, suffer delay in the payment of scheduled debt service.
- Judge Swain's rulings on the debt service reserve fund consisted of rejection of the proposition that the debtor lacked a property interest in the reserve, and an assertion that the court lacked authority to compel the application of the reserve fund to debt service. Even under Judge Swain's narrow reading of Section 922(d), a trustee-held reserve fund containing special revenues may be applied by the bond trustee to debt service on the bonds without relief from stay. It is unclear whether the bond trustee in the PRHTA case lacked confidence that the funds in the reserve fund qualified as special revenues; if they so qualified, there was no apparent need to seek any court ruling prior to applying such funds, nor is there anything in the court's ruling precluding such application of special revenues.

On appeal, the bond insurers will seek to persuade the First Circuit that Judge Swain's reading of Section 922(d) is overly literal, that legislative history suggests Congressional intent that special revenue bonds not be "impaired" in a bankruptcy, and that failure to receive scheduled post-petition payments when due constitutes the type of impairment Congress intended to preclude by enacting Section 922(d).

However the First Circuit reads Section 922(d), good reasons remain for an issuer to turn over net special revenues, as debtors in Chapter 9 proceedings have historically done. Section 928 of the Bankruptcy Code provides that a "lien on special revenues … derived from a project or system shall be subject to the necessary operating expenses of such project or system." In the PRHTA proceeding, the "special revenues" included, in addition to toll revenues, some Commonwealth-imposed excise taxes that may not qualify for this operating expense carveout because they are not "derived from a project or system." But most special revenue bond issuers are protected by Section 928 from being left without a source of payment for necessary operating expenses even if they turn over net special revenues. Moreover, even under a narrow reading of the special revenue protections, to the extent an issuer seeks to apply net special revenues for purposes other than debt service, it is dissipating cash collateral and the creditors should be entitled to relief from stay in the absence of "adequate protection". What may or may not be "adequate protection" for an issuer's expenditure of cash collateral is a separate topic that Judge Swain has addressed tangentially in other opinions, but in most instances special revenue bond issuers should have little incentive to hang on to net special revenues versus turning them over – they may lose adequate protection litigation, and even if they do not, special revenue bond issuers are often standalone authorities precluded by state law (and in the case of PROMESA, federal law) from applying their revenues for purposes other than their own operating expenses, debt service and, although there is yet another litigable issue over whether funding capital expenditures at the expense of paying current debt service is permissible (and if so, under what circumstances) under the Chapter 9 special revenue provisions, capital expenditures on the system that generates the special revenues.

In any event, however broadly or narrowly the courts ultimately construe the Section 922(d) exception to the stay for application of special revenues, the primary reason that special revenue bond status is important and beneficial resides in Section 928(a) of the Bankruptcy Code, which provides that, unlike most revenue pledges that are cut off upon the filing of a bankruptcy petition, "special revenues acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by the debtor before the commencement of the case." This is the main source of protection for special revenue bonds – the fact that the bankruptcy process does not permit the debtor to free itself from the lien on its post-

petition special revenues. Because pledged special revenues can stretch into perpetuity until the special revenue bonds are fully paid, there is generally little advantage to issuers in not keeping current on post-petition debt service.

The fact that special revenue bondholders have a permanent lien on special revenues generated by the debtor does not, of course, guarantee full payment of special revenue bonds in instances where structural issues prevent an issuer from fully servicing its debt – i.e the special revenues being generated are simply insufficient to service the debt . But it does mean that special revenue bonds should do better in bankruptcy than comparable bonds that are unsecured or secured only by pre-petition revenues.

Where a special revenue bond issuer claims that it will not be able to repay special revenue bonds in full, the case for relief from stay to preclude the issuer from dissipating cash collateral in excess of any applicable operating expense carveout is compelling. The most disturbing element in Judge Swain's opinions to date are statements, mostly in dicta, that come close to the line, or cross the line, of suggesting that PROMESA Section 305, which states that a bankruptcy court "may not, by any stay, order, or decree, in the case or otherwise, interfere with … any of the property or revenues of the debtor", precludes a bankruptcy court from granting any relief from stay when a creditor seeks to prevent detrimental application of cash collateral. Section 305 cannot be read to override other provisions of PROMESA, such as provisions authorizing relief from stay for lack of adequate protection, nor is the lifting of a stay to permit a creditor to pursue state court remedies against a municipal debtor the equivalent of a bankruptcy court's "interfering" with the debtor's revenues. Accordingly, Judge Swain's overbroad pronouncements on Section 305 are likely to be cut back by the First Circuit.

With all of that said, it is understandable that special revenue bondholders would prefer a reading of Section 922(d) that permits creditors to seek to compel a municipal debtor to turn over special revenues during the pendency of a bankruptcy proceeding in those instances where there is not a "true" lockbox and the debtor fails to do so voluntarily. But whether the First Circuit reads 922(d) narrowly or more broadly than Judge Swain, special revenue bonds will remain justifiably "special."

by Leonard Weiser-Varon

USA February 26 2018

Mintz Levin Cohn Ferris Glovsky and Popeo PC

MSRB: How Do Interest Rate Movements Affect Municipal Bond Prices and Yields?

Find the answer here.

Follow the Money: How to Track Federal Funding to Local Governments.

Abstract

To respond effectively to state and federal policy changes, city leaders, non-profit service providers,

advocates, and researchers all need accurate data on how federal funds flow to local governments. Unfortunately, those data are spread across multiple sources that are often indecipherable or inaccessible to non-experts. The purpose of this guide is to help data users navigate the patchwork of primary data sources and online portals that show how the federal government distributes funding to local governments. We drew on the literature, an inventory of online resources, interviews with local and federal officials, and Urban Institute research staff experience to catalog available data on federal-local transfers. We describe the strengths, weaknesses, and best uses of various data sources and portals and provide guidance on where users can find information to understand trends or how their community stands relative to its peers. Our guide concludes with simple recommendations for how to improve data quality, comparability, and usability at all levels of government.

Read the full report.

The Urban Institute

by Megan Randall, Tracy Gordon, Solomon Greene & Erin Huffer

February 26, 2018

Bloomberg Brief Weekly Video - 3/1

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

Watch video.

Bloomberg

Muni Market Headed for Worst Start of a Year Since 2008 Crisis.

- **Munis poised to post 1.5% loss in first two months of the year**
- **Selloff driven by Fed, less corporate buyers after tax reform**

This year hasn't been kind to the $3.8 trillion municipal-bond market, which is starting off with the biggest loss since the turmoil of the credit crisis a decade ago.

State and local government bonds are headed for a 1.5 percent loss, the first drop for the first two months of a year since 2008, when they tumbled by more than 3 percent, according to Bloomberg Barclays indices. The poor performance comes after Congress enacted an overhaul of the tax code that reduced the appeal of tax-exempt debt to corporations and amid expectations that the Federal Reserve will raise interest rates more aggressively than previously expected.

"It's going to be a very tough market," said Mike Brilley, senior vice president for Sit Investment Associates, which holds about $4 billion of municipals. "But getting interest rates up to levels above inflation is a very attractive development."

Yields on top-rated municipals maturing in 30-years have soared in 2018, climbing to 3.1 percent on

Wednesday, the highest since last March.

Brilley said the selloff has been driven by “significantly reduced” interest from insurance companies and banks after their income-tax rates were slashed to 21 percent, reducing the allure of tax-exempt bonds.

Investors may want to thank the deep slowdown in the pace of new bond issuance this year for preventing returns from going deeper in the red. Sales fell 38 percent in January and February from a year earlier after Congress eliminated a key debt-refinancing tool and as interest rates rise.

“If it were not for the lack of supply, year-to-date muni returns would be even weaker,” Jeffrey Lipton, head of municipal research and strategy at Oppenheimer & Co., said in a note this week.

Bloomberg Markets

By Amanda Albright

February 28, 2018, 10:02 AM PST

— With assistance by Danielle Moran

Muni Mispricings Seen Stinging Taxpayers for Up to $25 Billion.

- **Consultant study finds prices rise 1.6 percent in early trades**
- **That suggests the debt was priced too low, Fideres says**

Every time America’s states and cities sell bonds to build new roads, schools and bridges, they may be leaving a big chunk of money on the table.

Investment banks, which governments hire to line up buyers for their bonds, routinely underprice the securities, delivering gains to early investors at taxpayers’ expense, according to a study by Fideres Partners LLP, a London-based consulting firm. It found that bond prices increased by an average of 1.6 percent soon after they were first sold — indicating governments could have raised over $25 billion more from 2006 to 2015 if the debt was sold at those higher prices.

“The reason why these bonds trade so heavily and go up in price so much right after issuance is because people think the issuers overpaid — that that bond is worth more,” said Alberto Thomas, who worked on the study. “Someone in that process has not done their job properly.”

The $3.8 trillion municipal-bond market is the key way that local governments finance construction projects, so any failure to adequately price the securities would be felt broadly. President Donald Trump has sought to encourage states and cities to pump more money into airports, roads and other infrastructure, some of which was neglected as governments dealt with the economic fallout of the Great Recession.

Other research has raised questions about the efficiency of the municipal market. A study released more than a decade ago by professors at Carnegie Mellon University found “substantial” underpricing of new issues. And others have asserted that governments could save money by selling their debt more frequently in competitive auctions, instead of the typical practice of relying on underwriters picked ahead of time.

Fideres, which also studied the rigging of the Libor benchmark interest rate and often prepares research for use in class-action lawsuits, looked at 8,000 tax-exempt bond issues sold between 2006 and 2015 worth about $1.1 trillion. It was limited to fixed-rate deals above $50 million sold through both negotiated and auction sales.

The price increase from the day the bonds were awarded until the settlement date was “abnormally high” compared to other asset classes, the report said. Corporate bonds rose about 0.64 percent — less than half as much as the munis — while U.S. Treasuries gained 0.33 percent, the firm said. Fideres has previously asserted that the gap shows that corporate debt is being “systematically underpriced,” too.

For municipal bonds, those early increases have been shrinking, potentially because low interest rates — which have pushed up debt prices — have given the securities less room to rise. In 2010, prices rose an average of 1.88 percent between the initial pricing and the close date, according to Fideres. That shrank to 0.85 percent in 2015.

The Securities Industry and Financial Markets Association, the trade group for underwriters, hadn’t seen the study and declined to comment, spokesman Katrina Cavalli said.

Underwriters may have a reason to underprice securities: They often retain a portion of the bond issue after a sale, which means they’ll benefit if the price climbs, the report said.

“Knowing a bond price will increase shortly after issuance allows them to generate trading profits, incentivizing them to set lower issuance prices,” the report said.

Bloomberg Markets

By Amanda Albright

March 2, 2018, 5:35 AM PST

— With assistance by Joe Mysak

S&P 2018 U.S. Municipal Green Bond And Resiliency Outlook: Comparing The Self-Labeled Market With U.S. And Global Peers.

The volume of U.S. municipal debt issuers label “green”–bonds that finance projects with net positive environmental impacts–continues to increase, and market estimates for 2018 suggest that issuance could top $15 billion. S&P Global Ratings expects to see issuers across a wide variety of sectors continue to use the green label…

Continue Reading

Feb. 28, 2018

S&P: When Analyzing Municipal Utility Credit Quality, Strong Management Is

Often An Asset.

When S&P Global Ratings revised its utility revenue bond rating criteria, it added two new components that evaluate the issuer's management team: the operational management assessment (OMA) and financial management assessment (FMA).

Continue Reading

Feb. 20, 2018

S&P U.S. Military Housing Sector 2018 Outlook: Sector Credit Quality Remains High.

S&P Global Ratings believes its rated issuers in the U.S. military housing sector have very high credit quality, with 90% of ratings in the 'AA' or 'A' categories in 2017. Our portfolio of public ratings covers 46 projects consisting of over 143,000 units of housing at bases throughout the U.S., and most of our projects exhibit strong debt service coverage (DSC) ratios, high occupancy levels…

Continue Reading

Mar. 2, 2018

How QE Using Municipal Bonds Happens in the Next Recession.

I'm worried. I know this sounds strange. After all, we are in arguably the best growth phase in this economic cycle. And very few economists are predicting, let alone talking about, recession. I don't see recession around the corner either. But, still, I am concerned. And my worry is about a recession and public pension crisis. I am even talking about the Fed buying up municipal bonds using quantitative easing. That was my last post.

Since I have put this out there so early, let's talk about how the Fed actually does it. I mean, we are still a long way from recession or crisis. So think of this post as an OJ-style "If I did It" piece, with me ghostwriting for the Fed.

Continue reading.

Credit Writedowns

by Edward Harrison

4 March 2018

Better Data, New Tools Make Municipal Bond Market More Transparent.

Despite numerous regulatory efforts for greater transparency, the nature of the municipal bond

market remains opaque due to its fragmented nature. While some of the attempts at increasing transparency such as municipal issuer continuing disclosure requirements or near-real time trade data reporting have been effective, even with 30,000+ trades reported daily, publicly available trade data fails to provide meaningful context for price discovery of municipal securities without extensive manipulation. And even though they may appear to be alike, no two municipal bonds are directly comparable due to the innate diversity of municipal issuers. For many investment professionals, it is difficult to establish the relative value of securities in which they wish to invest. The problem is magnified for the end investor.

Existing solutions fall into two broad categories: benchmarks (i.e. yield curves) and indices. Between the two they provide some framework, but do not necessarily equip the investors with a transparent or complete engine to ease their search for value. For example, popular municipal yield curves use polling techniques to establish an opinion of value (rather than observable market data) and do so over a very small slice of the municipal market. One such curve is limited to bonds rated AAA with a 5% coupon, which represent less than 2% of daily trading in municipal bonds. Another uses a single state (Maryland) and bond characteristic (general obligation) as a general guide. While these simplifications are appealing in that they remove complications from the calculations, they do not make for a more comprehensive depiction of the actual market. With today's large, detailed databases, improved hardware and software techniques for dealing with masses of data, it is time to revisit the need for simplifications that remove available data from calculations.

Indices represent a greater portion of the municipal market and are designed to be broadly inclusive. This inclusive nature means that they will include securities which are not available for purchase. As such, they wholly depend on third party evaluations. And unlike yield curves, indices are primarily used as benchmarks for portfolio total returns rather than facilitating daily trading or investment related decisions by allowing comparisons across bonds at a point in time.

In either case, with current yield curves or indices there is an inherent bias and lack of transparency because neither of the benchmarks are based on actual market observations. What then does the market need?

Emerging technology tools can enable traders and investors to address this problem through a transparent, quantitative and flexible approach utilizing newly publicly available trade data. These state-of-the-art solutions include the fixed coupon investment grade segment of the tax exempt municipal market (representing 80-85% of daily municipal trading activity), and provides what BondWave believes is just the right amount of context to municipal price discovery.

Municipal Benchmarks

In the contemporary municipal market, predominantly two types of benchmarks influence the determination of general level of interest rates:

Yield Curves – the term structure of interest rates, representing the relation between yield levels and maturities at a point in time; and
Bond Indices – a broad rules-based composite used to determine value of a certain bond market segment over time, regardless of the underlying constituent maturities.

While they influence trading patterns, investment decisions and relative value, most popular yield curves and indices have a few common weaknesses which an investor alone cannot overcome.

Prevailing yield curves are defined by a specific set of criteria – such as coupon rate, rating or sector. These criteria, as in the earlier examples, usually define a very narrow portion of the market.

The underlying assumptions are also very rarely updated to reflect current trading behavior. The calculated yields are synthesized and updated based on opinions of analysts and market participants introducing the potential for bias into the calculations. The potential for bias can be removed by a properly constructed yield curve that relies on the truest expression of value: arm's length transactions between informed market participants. Historically, this proved impossible prior to the advent of the near real-time reporting of all trades to a publicly available database. More recently it proved inconvenient because the organization, size and diversity of that database made analysis difficult. However, with improved tools for analysis, consumption, and organization of near real-time trade data it is time to update yield curve techniques to reflect these realities.

Bond indices are slightly different. They are more inclusive in nature and provide ways to group similar securities via a set of inclusion and exclusion rules. A few popular indices consider the entire bond universe when creating such groups, while others focus on a much smaller set of issuers (or specific securities). This subjects them to the 'narrowness bias' not unlike the yield curves. When it comes to valuation, indices are not valued based on opinions; but nor are they valued based on actual observable market data. Indices are valued based on theoretical evaluated prices of their constituent securities or estimates from market participants. Therefore, performance of the indices is influenced by the inclusion of a few large issuers regardless of whether those large issues trade in the market.

On-the-run or bellwether securities could also be potential benchmark options, but it is not a notion that fits in the municipal market. Unlike the US Treasury market, defining such a benchmark for municipal securities is a difficult task because of the diverse nature of issuers and the wealth of possible structures. Not all municipal issuers have sufficient debt outstanding to provide the necessary liquidity. And while there is no lack of trade volume on any given day, it is difficult to find a single security which trades consistently enough to be defined as a benchmark. Regulatory (bank qualified securities, disclosure rules, etc.) and other market forces (state/municipal budget deadlines, availability of funding, early redemptions, etc.) heavily influence which bonds are available for purchase. That makes it nearly impossible to come up with something akin to a set of 'on-the-run' or bellwether securities as benchmark.

How does one get beyond the shortcomings of existing benchmarks to arrive at meaningful conclusions?

Why Guess When We Can Measure?

We have at our disposal accurate, comprehensive, publicly available trade data published by MSRB. It holds immense potential to be analyzed numerous ways to create observable quantitative benchmarks. Such an approach can make up for the inadequacies of prevailing benchmarks by being:

1. transparent (based on an observable dataset),
2. quantitative (methodology based on measurable calculations as opposed to opinions), and
3. flexible (enough to provide investors with ways to navigate the murky waters of municipal relative value analysis).

The first step was creating a consistent quantitative methodology based on publicly available municipal trade data to deliver yield context. Various clusters of trades are formed, where each cluster has its own unique set of 'similarity' characteristics. Each of these clusters can be thought of as a distinct 'Bond Type'.
Trades within each given Bond Type can be meaningfully compared to one another. A user can also map any given security to one of these Bond Types based on relevant set of characteristics.

Additionally, with these newly available tools, users can create customized versions of the available yield curves tailored to their needs – introducing immense flexibility in the analysis they wish to carry out.

BondWave QCurves Yield Curves: Design and Methodology

The methodology behind BondWave QCurves takes a consistent data-centric, transparent approach to development of yield curves. The basis for yield calculations is publicly available municipal trade data obtained from MSRB. This dataset is examined daily for irregularities and carefully analyzed for inaccuracies.

Bond descriptive elements such as municipal sector, rating, coupon type and state of issue of the security are used to divide trade data into distinct clusters (or Bond Types).
Zero coupon bonds are excluded from the analysis. They usually trade at a deep discount, and have a unique duration/return dynamic due to their non-coupon paying nature, thus demonstrating a trading behavior that is fundamentally different from their fixed coupon paying counterparts.

All three trade types (dealer to dealer, purchase from customer and sale to customer) and all trade sizes are included in preliminary yield calculations. Users have the flexibility to choose between the three trade types and relevant groups of trade sizes to meet their analysis requirements.

Trades are further grouped by years to maturity within each cluster.

Minimum data requirements1 are imposed per maturity year to ensure that yield curve calculations are meaningful. Additionally, a quartile-based outlier removal method2 is applied to each maturity subset within each trade cluster so that the resulting interest rates remain neutral to extreme observations.

Interest rate levels weighted by trade size are calculated from these standardized datasets for the entire term structure, and a ‘best fit’ curve is also derived. For this, we employ a second order polynomial equation to determine a graphical curve that represents the interest rates accurately.

As an important step taken towards improving transparency in benchmark calculations, the metrics indicative of the depth of data of any given point are displayed. These metrics include, but are not limited to, number of trades, total par traded, number of unique securities traded, R-squared3 value and p-value4 for the best fit curve.

BondWave QCurvesYield Curves will help users drive their search for value both for a specific security, and across the spectrum of these curves. Because of the consistent methodology, these benchmarks can be meaningfully compared to one another at any point in time. They can also be used to understand the trends in municipal yields over time.

A transparent data centric methodology, attractive visual display of calculated data, and intuitive quick filters which provide alternative views of the traded securities should empower the user with material insights into price/yield levels of tax exempt municipal securities.

Traders Magazine Online News

by Madhura Katre

March 1, 2018

Nebraska Archway's Survival Is Cautionary Muni Bond Tale.

- **Tourist attraction was funded in 1998, during a muni bond boom**
- **Checkered history is warning to buyers in current sales spree**

A surviving relic of the first Golden Age of Public Finance returned to the headlines last week, when the Great Platte River Road Memorial Archway outside of Kearney, Nebraska, said it had turned a profit for the first time in 17 years.

“We’re done playing defense!” was how Eric Hellriegel, a Kearney city official who now also runs the Archway, put it to me on Friday.

In 2017, the Archway brought in operating revenue of $799,393, a 3 percent profit.

The Archway was built with $60 million in unrated revenue bonds in 1998, when it seemed that anything could be financed in the municipal bond market, from aquariums and theme parks to paper de-inking mills and a recycler of “broiler mortality.” The Archway, which looks like an enormous covered bridge over Interstate 80 outside of Kearney, was designed as a tourist attraction detailing the history of Western migration.

The first Golden Age of Public Finance ran from the mid-1990s to September of 2000, when the Heartland high-yield municipal bond fund imploded. We are living in the second one, if last year’s issuance is any indication.

The Archway bonds, which carried yields as high as 7 percent, defaulted in 2002. In 2003, the issuer exchanged $22 million in new bonds for the original debt. Even this was too great a debt load, however, and a bankruptcy judge in 2013 eventually awarded bondholders pennies on the dollar.

Once upon a time a bond analyst told me, “Remember, they don’t call them infeasibility studies.” This is the lesson to be learned from the Archway experience.

The 1998 bond issue contained a feasibility study projecting that the Archway would attract 906,000 visitors during the first year it was open. This year, attendance was projected to be just shy of 1.5 million. Revenue from the sales of tickets to these visitors repaid the bondholders.

At least in theory. In reality, the Archway never made its projections. In the first year of operation, about 300,000 people visited. After that, keeping up with attendance figures at the Archway got very sketchy. In other words, I’d call them, and they didn’t want to tell me. In 2007, the bond trustee reported that attendance was about 10 percent of projections, or roughly 100,000.

Well, it’s a new day at the Archway. Executive director Hellriegel sent me his presentation to the city council, which shows attendance was 49,851 in 2013, 55,959 in 2015 and 57,592 in 2017. Could be time for a site visit!

Investors during the second Golden Age of Public Finance would be well-advised to keep the cautionary tale of the Great Platte River Road Memorial Archway in mind as they consider new deals.

Bloomberg Politics

By Joe Mysack

March 5, 2018, 5:52 AM PST

Fossil-Fuel Giants Take Legal Action Against Local Government.

Exxon Mobil's targets are several California cities and counties that have filed state lawsuits.

WASHINGTON — Exxon Mobil Corp. and other fossil-fuel giants are taking legal action against local governments, seeking to undermine a key part of their finances — their relationship with lenders.

Exxon Mobil's targets are several California cities and counties that have filed state lawsuits, claiming that the oil and coal industries worked for decades to cover up their roles in climate change and the consequences. The local governments want the industries to pay for damage and adaptation costs resulting from climate change, including sea-level rise and more extreme storms.

Exxon Mobil responded last month by petitioning a state court in Tarrant County, Texas, to subpoena California officials and lawyers involved with the lawsuits. In a novel legal tactic, Exxon Mobil alleges that the local government officials are defrauding buyers of municipal bonds by not disclosing to lenders the climate risks they have claimed in their lawsuits.

It is unlikely that Exxon Mobil will ultimately win in court, but the tactic may succeed in discouraging other cities and states from filing similar lawsuits. That may be the point.

"We knew they were going to deliver a counterpunch, but we didn't know what it would be," said Ryan Coonerty, a supervisor in Santa Cruz County, one of the local governments suing the oil companies. Exxon Mobil's response, he said, "is particularly outrageous and clearly an effort of intimidation."

It is not the first time Exxon Mobil has attempted to pre-empt climate change litigation and investigations that could expose it to court damages. After New York and Massachusetts attorneys general issued subpoenas to investigate Exxon Mobil's practices, the company sued both of them, claiming they were part of politically motivated conspiracy against the company.

"The reasons our investigations came to light was because Exxon actually sued us to shut down our investigations," Massachusetts Attorney General Maura Healey said last week.

Healey called the Exxon Mobil lawsuits an "unprecedented step" to "squash the prerogative of state attorneys general to do their jobs." Since then, no other state has joined New York and Massachusetts in going after the company.

For both sides in the ongoing litigation, the stakes are considerable. Climate activists have been preparing for more than a decade to launch mass litigation against the oil industry and other companies responsible for large emission of greenhouse gases. They compare their litigation to lawsuits that eventually cost the tobacco industry billions of dollars.

But the oil companies are not letting this campaign gain momentum. Along with countersuing the jurisdictions that are suing, they've been getting help from a collection of industry-friendly think tanks and trade associations. Those groups launched their own recent counterattack against the litigating local governments, which include San Francisco, Oakland, Richmond, Imperial Beach, Marin and San Mateo counties and Santa Cruz city and county.

Groups that have received oil industry funding, such as the National Center for Public Policy Research and the Chamber of Commerce' Institute for Legal Reform, have recently criticized the coastal communities in Fox News and Sacramento Bee op-eds. In January, the National Association of Manufacturers hired a former Bush administration lawyer to counter litigation filed against oil refiners and other companies.

The Competitive Enterprise Institute has also entered the fray. The recipient of millions of dollars in funding from Exxon Mobil and the oil industry, CEI has been among the most effective nonprofit groups in spreading doubt about climate change science.

In May 2016, the group purchased a full-page ad in the New York Times criticizing the attorneys general of New York and the U.S. Virgin Islands for subpoenaing documents from CEI and other groups related to the climate investigation of Exxon Mobil. The CEI claimed that its free-speech rights were being violated.

"CEI ran an aggressive campaign to generate backlash against the USVI case," said Kert Davies, founder of the Climate Investigations Center, a group that tracks the oil industry and its nonprofit allies.

It worked. By late June that year, the Virgin Islands dropped its subpoena.

In February, three weeks after Exxon Mobil filed its legal action in Texas, the CEI filed a petition with the U.S. Securities and Exchange Commission urging the regulatory agency to investigate the cities and counties suing Exxon Mobil for bond fraud. "The plaintiff cities and counties apparently describe these climate risks in ways that are far different than how they described them in their own bond offerings," the CEI said in its petition.

The language in the CEI petition mirrors that of Exxon Mobil's. Both, for example, cite Santa Cruz County's claims in court that it will face a 98 percent chance of a "devastating three-foot-flood by 2050," an assertion not included in the county's bond prospectus.

A CEI lawyer, however, said the group's petition to the SEC was based on its own research. "We were reading through some of the cases the cities had brought, and saw it did not match what they were telling investors," said Devin Watkins, who co-wrote the petition.

If the SEC were to investigate and file charges, the California cities and counties could face fines and risks to their bond ratings. Local government officials and their legal advisers, however, say it is preposterous to claim that they have hidden their climate change risks from investors or anyone else.

"If you look on the websites of these jurisdictions, you will see they have done reports on sea level rise and adaptation planning," said Sean Hecht, a law professor at the University of California, Los Angeles, who is advising some of the litigants. "It would take 30 seconds to find those documents."

Several state lawsuits by California jurisdictions have been brought against Exxon Mobil, Chevron and other big oil and coal companies. Litigants include San Francisco, Oakland, Imperial Beach, San Mateo and Marin counties and Santa Cruz city and county.

All the lawsuits seek to hold oil companies responsible for contributing to climate change and attempting to cover up its effects. They all argue that under state law, the companies created a "public nuisance" with their actions and should compensate the local governments for the consequences.

Exxon Mobil did not respond to requests for comment.

In its court filings, Exxon Mobil claims to be the victim of a conspiracy by abusive governments and activists. The company claims the conspiracy began five years ago at a meeting in La Jolla, Calif., and spread to local jurisdictions and state attorneys general.

Jurisdiction is a focus of the fight. Oil and coal industry lawyers want the lawsuits moved to federal court, partly because California has a history of "public nuisance" law that hurts their chances.

Last week, a U.S. district judge in San Francisco, William Alsup, ruled that the Oakland and San Francisco lawsuits must be heard in federal court, a potential setback for the plaintiffs.

But another federal judge who is hearing the Marin and San Mateo case, Vince Chhabria, was somewhat skeptical at a recent hearing about the oil industry's arguments. His ruling could determine whether at least one of the lawsuits is heard in California state court.

In the meantime, Exxon Mobil is continuing to subpoena top officials in Santa Cruz County and other jurisdictions. Coonerty, the county supervisor, said he doubts that Exxon Mobil will prevail but knows his community and others are in for a long fight.

"Any time you have adversaries that have unlimited resources and a determination to win, it is daunting," he said.

By Stuart Leavenworth

March 4, 2018

McClatchy Washington Bureau (TNS)

Appetite Increases for Green Bonds but Investors Demand More Education and Transparency.

- **Appetite Increases for Green Bonds but Investors Demand More Education and Transparency**
- **Survey by Natixis and the California State Treasurer's Office reveals challenges and opportunities of green bond market**
  78% of California residents believe it's important to make the world a better place while growing assets1
- **Misconceptions around ESG present barriers to investing; 72% want greater transparency and standardization of reporting**

BOSTON & SACRAMENTO, Calif.–(BUSINESS WIRE)–Individual investors in California are keen to make the world a better place while growing their personal assets, but engaging investors in the green bond market will require a deeper understanding of their motivations, perceptions and knowledge gaps. Natixis Investment Managers' Center for Investment Insight and the California State Treasurer's Office announced today the findings from a new survey of 500 California residents during the California State Treasurer's Green Bonds Symposium. The study explores the challenges and opportunities of engaging investors in the state's growing green bond market.

The survey polled individual investors from California on their investment preferences and

expectations, their commitment toward environmental, social and governance (ESG) investment principles, and their predisposition to act on green intentions. Key to motivating investors to participate in the California green bond market will be education, transparency and the development of an investment proposition, the study finds. While 66% of California respondents say they would invest in green bonds because of their potential environmental impact, only 53% say they are knowledgeable about ESG investing and merely 29% claim to know what green bonds are.

“The majority of California residents want their investments to have a positive social and environmental impact,” said David Goodsell, Executive Director of Natixis’ Center for Investor Insight. “But many need guidance before they can act on their preferences when it comes to investing in green bonds. Public outreach and education will be critical in dispelling some of the misconceptions associated with ESG investing, and we can jumpstart these initiatives by having conversations with the broader advisor community.”

The research offers four key insights on California residents’ sentiment towards green bonds:

- **Californians want to use their assets to make a difference:** Survey respondents said they want their investments to reflect their personal values (77%), to know their assets are doing social good (76%), to invest in companies that are ethically run (82%), and to invest in companies that have a positive social impact (77%).
- **Investors have misconceptions around ESG investing:** Some individuals perceive limitations around ESG investments, with 46% believing they have to give up return potential to invest in green bonds and 55% believing that costs will be higher without green bonds delivering adequate returns. However, green bonds are generally not limited in their return potential, nor do green bonds generally come at a higher cost. Three-quarters of respondents say they believe there is a lack of standardized guidelines on what constitutes as a green investment, therefore we believe public education will be essential to dispelling such misconceptions.
- **Californians are prepared to act with enlightened self-interest:** Californians emphasize the potential investment benefits of municipal bonds over their community impact. When asked for their main reasons for investing in municipal bonds, they first focus on direct portfolio advantages, citing tax-free income (55%), low risk (51%) and stability (39%) as the main drivers. Investors in California may not fully understand the potential tax benefit these securities could provide given that only 11% said they would invest to manage tax liability.
- **Financial and non-financial variables factor into green investing:** Top considerations when selecting a green bond investment include return on a bond over its lifetime (50%), how long it takes to mature (40%) and amount paid at maturity (36%). However, 66% say they would invest in green bonds because of their potential environmental impact.

“It’s not surprising that nearly four out of five Californians believe it’s important that their investments shape a better world. This research demonstrates there is strong momentum for the leadership role we are taking in California to find solutions to pay for projects that generate solar and wind power, reduce methane emissions, provide clean drinking water, and more,” said John Chiang, California State Treasurer. “At a time when the White House has abandoned its leadership role in the fight against global warming, California stands with the rest of the world that has declared climate change is an urgent and potentially irreversible threat to human societies and the planet.”

Success Factors for California’s Green Bond Market

The survey findings indicate that many worry about accurate reporting and verification around green investing. Nearly three-quarters of investors (72%) say that greater transparency and

standardization of reporting would increase their desire for green bonds, and six in ten would be willing to pay more for their investment if it meant greater transparency. Californians are willing to accept validation on a wide range of public and personal sources in order to achieve transparency, starting with the media (58%), reports from the issuer (47%) and a financial advisor (45%). Another factor is access to green issuances; overall, more than half of investors say they would prefer buying green bonds through a fund (59%) compared to individual securities (41%).

“As the green bond market matures, we are pleased to see that issuance is growing in tandem with investors’ interests,” said Chris Wigley, Portfolio Manager at Mirova, a responsible investing affiliate of Natixis Investment Managers. “This symbiotic relationship indicates that both governments and corporations are making the effort to transition to a lower carbon world, which is also motivating the individual investor to consider incorporating ESG into their portfolios.”

Methodology

Natixis Investment Managers surveyed 500 investors in California in August 2017, with the goal of understanding the perceptions, attitudes and opinions of individuals residing in California related to green bonds and ESG-focused saving and investing approaches. For more information, visit im.natixis.com/us/research/california-green-bond-market-survey.

February 28, 2018 12:01 PM Eastern Standard Time

About Natixis Investment Managers

Natixis Investment Managers serves financial professionals with more insightful ways to construct portfolios. Powered by the expertise of 26 specialized investment managers globally, we apply Active ThinkingSM to deliver proactive solutions that help clients pursue better outcomes in all markets. Natixis ranks among the world’s largest asset management firms2 ($997.8 billion AUM3).

Headquartered in Paris and Boston, Natixis Investment Managers is a subsidiary of Natixis. Listed on the Paris Stock Exchange, Natixis is a subsidiary of BPCE, the second-largest banking group in France. Natixis Investment Managers’ affiliated investment management firms and distribution and service groups include Active Index Advisors®;4 AEW; AlphaSimplex Group; Axeltis; Darius Capital Partners; DNCA Investments;5 Dorval Asset Management;6 Gateway Investment Advisers; H2O Asset Management;6 Harris Associates; Investors Mutual Limited; Loomis, Sayles & Company; Managed Portfolio Advisors®;4 McDonnell Investment Management; Mirova;7 Natixis Asset Management; Ossiam; Seeyond;8 Vaughan Nelson Investment Management; Vega Investment Managers; and Natixis Private Equity Division, which includes Seventure Partners, Naxicap Partners, Alliance Entreprendre, Euro Private Equity, Caspian Private Equity and Eagle Asia Partners. Not all offerings available in all jurisdictions. For additional information, please visit the company’s website at im.natixis.com | LinkedIn: linkedin.com/company/natixis-investment-managers. Natixis Investment Managers includes all of the investment management and distribution entities affiliated with Natixis Distribution, L.P. and Natixis Investment Managers S.A.

About the Natixis Center for Investor Insight

Investing can be complicated: Event risk is greater and more frequent. Volatility is persistent despite market gains. And investment products are more complex. These factors and others weigh on the psyche of investors and shape their attitudes and perceptions, which ultimately influence their investment decisions. The Center for Investor Insight conducts research with investors around the globe to gain an understanding of their feelings about risk, their attitudes toward the markets and their perceptions of investing.

About Mirova

Mirova, an affiliate of Natixis Investment Managers, offers a global responsible investing approach with a single offer revolving around 5 pillars: equities, bonds, infrastructure, Impact investing, voting and engagement. Mirova has $10.8 billion of assets under management (as of 12/31/2017).

About Natixis Asset Management US, LLC and Mirova

Natixis AM US provides access to investment solutions that benefit from the extensive resources of a leading European asset management group. Natixis AM US launched in 2014, is a U.S.-based investment adviser, majority-owned by Natixis Asset Management and minority-owned by Mirova with $561 million in assets under management (as of 12/31/17). Natixis AM US utilizes the expertise of Mirova, which is operated in the U.S. through Natixis AM US.

This material is provided for informational purposes only and should not be construed as investment advice. There can be no assurance that developments will transpire as forecasted. Actual results may vary.

Green bonds are securities that finance projects that provide environmental benefits.

All investing involves risk including risk of loss.

Municipal markets may be volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities.

Sustainable investing focuses on investments in companies that relate to certain sustainable development themes and demonstrate adherence to environmental, social and governance (ESG) practices, therefore the Fund's universe of investments may be reduced. It may sell a security when it could be disadvantageous to do so or forgo opportunities in certain companies, industries, sectors or countries. This could have a negative impact on performance depending on whether such investments are in or out of favor.

Diversification does not guarantee a profit or protect against a loss.

Natixis Investment Managers does not provide tax or legal advice. Please consult with a tax or legal professional prior to making any investment decisions.

1 Natixis Investment Managers, 2016 Retirement Plan Participant Survey conducted by CoreData Research, August-September 2016. Survey included 951 respondents, 121 of whom were California residents.
2 Cerulli Quantitative Update: Global Markets 2017 ranked Natixis Investment Managers (formerly Natixis Global Asset Management) as the 15th largest asset manager in the world based on assets under management as of December 31, 2016.
3 Net asset value as of December 31, 2017. Assets under management ("AUM"), as reported, may include notional assets, assets serviced, gross assets and other types of non-regulatory AUM.
4 A division of Natixis Advisors, L.P.
5 A brand of DNCA Finance.
6 A subsidiary of Natixis Asset Management.
7 A subsidiary of Natixis Asset Management. Operated in the U.S. through Natixis Asset Management U.S., LLC.
8 Formerly an investment division within Natixis Asset Management, Seeyond became an independent global affiliate of Natixis Investment Managers effective January 1, 2018. Seeyond is

operated in the U.S. through Natixis Asset Management U.S., LLC (Natixis AM U.S.). Natixis AM U.S., which launched in 2014, is majority-owned by Natixis Asset Management (Natixis AM) and minority-owned by Mirova, which is in turn wholly-owned by Natixis AM. Natixis AM U.S. had €467M / $561M / £415M in assets under management as of 12/31/17.

New Report Says FEMA Badly Underestimates Flood Risk.

41 million Americans—not 13 million—are at risk of experiencing a 100-year flood, according to the study.

Over the past 30 years, the United States has suffered an average of $8.2 billion in annual damage from freshwater flooding. Studies show that the destruction is intensifying every year. The August 2016 floods in Mississippi and Louisiana, for example, inflicted $10 to $15 billion in damages.

The wrath of Hurricane Harvey sparked debate over how the country manages flood insurance and brought fresh scrutiny on incentives for new construction on the country's precarious floodplains. But meaningful reform faces a hurdle: the Federal Emergency Management Agency's flood hazard maps. These maps dictate flood risk management in the U.S., and they've been widely criticized for being outdated and underestimating the country's flood risk.

A report released on Wednesday by the University of Bristol, U.K., and the Nature Conservancy concludes that FEMA's maps only account for one-third of the total population that is exposed to serious flooding. Whereas FEMA estimates that 13 million Americans are currently exposed to the devastation of a "100-year flood," the report puts that number at 41 million. (A 100-year flood describes an extreme flooding event that has a one-percent chance of occurring in any year; it is a common benchmark for flood risk management.)

"It's pretty daunting," said Kris Johnson, a Nature Conservancy scientist and one of the report's authors.

The simulations run for this study used large amounts of data from the U.S. Geological Survey National Elevation Dataset, and were "much more accurate and much more comprehensive than anything we've had available before," Johnson said. FEMA's appraisal of flood risk, on the other hand, relies on time-consuming local assessments of various catch basins and floodplains.

"Producing maps the FEMA way essentially misses a lot of flood hazard," said Oliver E. J. Wing, a doctoral candidate at the University of Bristol and another of the report's authors. "And these maps are what inform risk management decisions in the U.S. at the moment." Wing said that FEMA's methods "tend to ignore smaller streams." Smaller streams don't hold the same volume of water as America's largest rivers, but they are numerous, and many run through heavily populated areas.

The report finds that FEMA maps overlook risk across the U.S., but but the newly identified exposure areas are concentrated along the Pacific coast, in urban centers around the Great Lakes, and across the inland West. The researchers also projected future changes in population and housing density using the Environmental Protection Agency's Integrated Climate and Land Use Scenarios. They found that the proportion of Americans living in flood-prone areas will increase over time.

Today, 13.3 percent of the U.S. population is exposed to a 100-year flood, but that number may rise to 15.8 percent by 2050 and 16.8 percent by 2100, according to the report. In some regions, the

projected increase is stark. South Dakota, Nebraska, and New Mexico are slated to see a five-fold increase in flood exposure by 2100. In California, Florida, and Texas, exposure is predicted to triple or quadruple, according to the study.

“What’s really unnerving,” said Johnson, “is that in some cases, there’s disproportionately more people and development projected to happen in areas that are at even greater and more frequent risk of flooding. Our policy and planning and incentive structure, our insurance structure—it’s not set up to think holistically and disincentivize bad decisions about where to build.”

In one scenario modeled by the researchers, the amount of developed land that would lie in the 100-year floodplain in 2100 would equal the size of Colorado and would contain assets roughly equivalent to the current GDP of the U.S. And the study didn’t account for how climate change could exacerbate flooding, meaning that these outcomes could be more severe.

Avoiding new construction in these areas will be key to minimizing future flood damage, Johnson said. It could also have another advantage: Instead of being clogged with concrete, these natural drainage areas could do what they’re meant to, and absorb a river’s excess water.

“We’ll get some additional benefit, because those flood waters will be able to spill out on the flood plain instead of being shunted downstream at higher velocity,” Johnson said. “In this country, we overlook and undervalue the roll of intact natural features in helping manage risk.”

For localities to make granular decisions, like how high to elevate buildings or where exactly to avoid new construction, planners will still have to conduct more specific local models. But the study points to the regions of the country that need to be more critical about their risk assessment. With more data, Wing said, this methodology will be able to better inform localities on flood risk: “With this new modeling, at this stage, we’re only scratching the surface.”

MICHAEL ISAAC STEIN

MAR 2, 2018

CITY LAB

Trump’s Infrastructure Plan Puts Workers at the Bottom. They Should Be at the Top.

Less than two weeks after President Trump’s State of the Union in which he declared that “American heart, American hands, and American grit” would rebuild the country’s infrastructure, workers barely register in his administration’s newly-released infrastructure plan. Out of the plan’s 53 pages, it is not until page 51 that workforce development even gets covered, with little public attention beyond that. Instead, the vast majority of the plan focuses on reforming permits to get projects done more quickly and new programs to boost infrastructure investment.

Given the ongoing need for infrastructure investment nationally, it’s not surprising to see new funding and financing strategies gaining most of the limelight. But relegating workers to the bottom of the plan underplays the enormous opportunity for future infrastructure programs to promote shared prosperity.

In an economic era defined by inequality, infrastructure jobs offer one of the more stable,

competitive career pathways to workers across all skill levels. The infrastructure sector employs over 14.5 million workers, most of who fill long-term, good-paying jobs with low barriers to entry. Moreover, there is a huge need to hire and train a new generation of workers in transit agencies, water utilities, and other sectors experiencing a wave of retirement in coming years. Even though a huge boost in construction hiring seems unlikely given the robust labor market at the moment, the presence of infrastructure jobs in every corner of the country makes workforce development an obvious candidate for federal action.

Continue reading.

by Joseph Kane
Senior Research Analyst and Associate Fellow – Metropolitan Policy Program

Feb 28, 2018

The Brookings Institute

Trump's $1.5 Trillion Infrastructure Plan: Unlikely to Impact the Muni Market in 2018.

President Trump's long-awaited $1.5 trillion infrastructure plan is finally coming into the forefront of discussion moving into 2018.

While details have been sparse, the proposed plan would put a heavy burden on local and state governments, as well as private corporations, and could have a significant impact on the municipal bond market. The upshot is that a finalized plan is unlikely to come to fruition in 2018 despite the administration's promises.

Continue reading.

by Justin Kuepper

Mar 01, 2018

municipalbonds.com

Congress Kicks Off Discussions About Trump's Infrastructure Plan.

There were frictions over issues involving funding and environmental permitting in a hearing on Thursday.

WASHINGTON — President Trump's infrastructure plan got its first public airing in Congress on Thursday, with some of the thornier issues that are likely to guide debate about any forthcoming public works package on display.

These issues are mainly centered on funding and environmental permitting. Transportation Secretary Elaine Chao and R.D. James, assistant secretary of the Army for civil works, who leads the Army Corps of Engineers, appeared before the Senate Environment and Public Works Committee on

behalf of the administration.

Chao brushed off a question about President Trump's current position on raising the federal gas tax. In recent weeks, Trump has floated the idea of a 25-cent gas tax increase to help fund infrastructure.

Sen. Chris Van Hollen, a Maryland Democrat, asked about this. "The president has now said on a number of occasions that he does support an increase in the gas tax to fund this $200 billion plan," he said. "Does the president mean what he says about increasing the gas tax?"

"You should ask the White House," Chao shot back.

Later in the day, DJ Gribbin, a special assistant to the president on infrastructure policy, said, as he has previously, that the president has not ruled out the possibility of a gas tax increase. "He's said supportive things about it," Gribbin told state transportation officials at an event.

The president's infrastructure plan calls for $200 billion of federal spending that would mostly go to new grant programs. It aims to stimulate around $1.5 trillion of spending over a decade for roads, water systems and other public works, when factoring in state, local and private funds.

How lawmakers will find or raise the money to pay for new infrastructure spending, or even to shore-up existing programs in future years, like the Highway Trust Fund, is one of the quandaries on Capitol Hill as infrastructure discussions ramp up.

Gribbin has previously pointed to proposed cuts in the president's fiscal year 2019 budget plan as a way to pay for the infrastructure programs the White House proposed. Democrats have lashed out against the idea of chopping existing funding for transit and rail.

Sen. Jeff Merkley, an Oregon Democrat, questioned whether the White House infrastructure and budget proposals amount to "simply moving chairs around on the deck of our infrastructure Titanic."

And Sen. Tom Carper, a Delaware lawmaker who is the top Democrat on the Environment and Public Works Committee, said he and other senators met with governors who are "concerned" and are "not anxious to accept the kind of deal" outlined in the Trump proposal.

The largest pool of grants under the White House public works plan involves an "incentives program" that would be allotted $100 billion.

By Bill Lucia,
Senior Reporter

March 1, 2018

Route Fifty

Muni Bonds Face 'Steep Decline' Ahead, Challenging Trump's Infrastructure Plan.

- **Muni bonds face 'steep decline' ahead, challenging Trump's infrastructure plan**
  Municipal bonds are expected to be considerably scarcer in 2018, with one firm projecting a "steep decline" in issuance.
- **Rising yields are raising costs for governments, while changes in tax laws have made**

munis less appealing.

- **President Donald Trump is pushing an aggressive infrastructure agenda, so crimps in the muni market could hurt his plans.**

The precipitous rise in bond yields is being felt across a number of markets but perhaps none more than municipal bonds, where the trend ultimately could help jeopardize a critical part of President Donald Trump's economic agenda.

For local and state governments, the cost to finance debt has spiked on some levels even more than the surge in Treasurys.

As a result, fixed-income experts are expecting a major drop in muni issuance. Already, January issuance fell 26 percent from the same period in 2017 and dropped 57 percent from December, which along with November saw a huge rush ahead of new tax laws taking effect.

"This pattern of request volume, layered on top of a secular trend of slowing municipal bond issuance, suggests that new muni volume in 2018 is indeed headed for a steep decline," CUSIP Global Services said in a report this week.

Tax overhaul legislation that Congress passed in December represented a good news/bad news scenario for the $3.8 trillion U.S. municipal bond market. On the plus side, the legislation preserved tax-exempt private activity bonds, which are used to finance a slew of local projects including infrastructure and nonprofit entities including hospitals.

But the industry, for now, is focusing on the loss of advanced refunding for munis, a key tool governments use to refinance old debt at lower costs.

"We're still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes," Gerard Faulkner, director of operations for CUSIP, said in a statement. "While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity."

Problems aren't just on the investor side. Issuers face higher costs now that yields are rising.

Top AAA-rated debt for a 10-year term now carries a yield of 2.4 percent, up from 1.98 percent at the end of 2017. The yield on 30-year debt has zoomed from 2.54 percent in December to 2.95 percent now.

The surge in costs and drop in issuance comes at an inopportune time for the White House. The Trump administration has released the broad sketches for a program aimed at pumping in $1.5 trillion in new spending for America's ailing infrastructure system.

A tepid muni environment could threaten the program's success, particularly if Congress continues to tinker with the tax-exempt areas of fixed-income markets as a way to raise revenue.

"Tax reform dealt three curveballs to the municipal market in 2017, and it is conceivable that more surprises could await in 2018," S&P Global Ratings said in a report. "These potential sources of revenue may remain targets for budget drafters in the coming year."

Sagging muni issuance runs counter to the broader trend, with the U.S. government expected to issue $1.3 trillion in Treasurys this year. In addition, corporate issuance is likely to be robust, thanks to the tax bill that lowered rates for companies from 35 percent to 21 percent. That also could make corporate debt preferable to muni and could be another factor in driving up the latter's yields.

CNBC.com

by Jeff Cox

Published 3:08 PM ET Thu, 22 Feb 2018 Updated 3:47 PM ET Thu, 22 Feb 2018

Will Municipal Bond Issuance Fall Off a Cliff in 2018?

Will municipal bond issuance fall off a cliff in 2018? It's a question that's been on the minds of fixed income investors, municipal issuers, and analysts as they weigh the potential impact of tax reform and increasing interest rates on municipal borrowing.

With analysts' projections ranging widely from a decline of 8% to a decline of 34% in new muni issuance1, most observers agree that issuance will slow, but there is little consensus on how significant that slow-down will be.

CUSIP Global Services has been monitoring demand for new municipal debt in the pre-trade market on a monthly basis since 2010 by tracking issuer requests for new security identifiers as an early indicator of forthcoming market activity.

Continue reading.

ValueWalk

Feb 21, 2018

CUSIP: Municipal Volumes Trending Down Following Tax Reform.

"We're still seeing fallout from the Tax Cuts & Jobs Act in our muni request volumes," said Gerard Faulkner, Director of Operations for CUSIP Global Services. "While lawmakers are currently reviewing a new bill that would restore the tax exemption for advance refunding bonds, for now, the marketplace is reacting to the tax reform by dramatically curtailing their pre-trade activity."

Read the Press Release.

Fitch Updates Airports Rating Criteria.

Link to Fitch Ratings' Report(s): Airports Rating Criteria

Fitch Ratings-New York-23 February 2018: Fitch Ratings has updated its "Airports Rating Criteria". The update only includes minor clarifications on the model section of the criteria. No rating changes are expected as a result of the updated criteria. The report replaces the version dated November 2017. It is available at www.fitchratings.com or by clicking on the link above.

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Fitch Updates its Ports Rating Criteria.

Link to Fitch Ratings' Report(s): Ports Rating Criteria

Fitch Ratings-New York-23 February 2018: Fitch Ratings has updated its "Ports Rating Criteria".

The update only includes minor clarifications on the model section of the criteria. No rating changes are expected as a result of the updated criteria. The report replaces the version dated Oct. 2, 2017. It is available at www.fitchratings.com or by clicking on the link above.

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Fitch Updates Toll Roads, Bridges and Tunnels Rating Criteria.

Link to Fitch Ratings' Report(s): Toll Roads, Bridges and Tunnels Rating Criteria

Fitch Ratings-London/Milan/New York-22 February 2018: Fitch Ratings has updated its "Toll Roads, Bridges and Tunnels Rating Criteria".

The update only includes minor clarifications on the model section of the criteria. 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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Fitch: Credit Impact of Proposed Utility Sales Generally Limited.

Fitch Ratings-Austin-22 February 2018: Discussions concerning the sale of publicly owned utilities arise periodically in the utility sector, according to Fitch Ratings. There are a number of discussions currently occurring at the federal, state and municipal level. At present, there is no credit impact resulting from the sale discussions for any of these credits. In most cases, Fitch views the privatization of governmental utilities as credit neutral based on the expectation that existing debt obligations will be repaid in full or legally defeased as a condition of the sale. Furthermore, in Fitch's view these proposed transactions are not part of a growing trend but rather the result of specific objectives and priorities of the respective governmental owners.

Consideration of utility sales is often prompted by a specific circumstance such as quality of service issues, high electric rates or the need for cash by the governmental owner. However, few utility sales persist through to completion in the public sector. The reasons the proposals falter vary but it is a time consuming and often expensive process to unwind power purchase contracts and debt obligations. Potential transactions must consider the impact to ratepayers and are not compelling unless ratepayer benefit can be credibly anticipated. Finally, political approval from governing bodies or voter approval is typically required. Fitch views most discussions of asset sales as unlikely to result in a final divestiture of the utility.

Tennessee Valley Authority, TN and Bonneville Power Administration, OR

The 2019 Presidential Budget includes a proposal to sell federal transmission assets of the Tennessee Valley Authority (TVA; AAA/Stable) and Power Marketing Administrations (PMAs), including those of the Bonneville Power Administration (Bonneville; AA/Negative). The key credit consideration in the event of a partial sale of assets is the resulting revenue profile of the remaining assets in relation to a potentially lower leverage position, depending on the ultimate use of sale proceeds. The proposal to sell federal transmission assets has been included in budget proposals offered by prior administrations of both parties. Any final adoption of the proposal will require congressional approval.

If Congress does approve the divestiture of transmission assets only, Fitch believes there would likely be no credit impact to TVA based on the assumption that any remaining debt would continue to be repaid from revenues generated by the balance of assets and the implicit governmental guarantee supporting TVA's current 'AAA' rating. Fitch notes that in the case of a full divestiture of TVA assets, TVA's bond resolution requires either the full repayment or provision for the continued payment of principal and interest.

Similarly, in Bonneville's situation, the potential sale of Bonneville's transmission business line would be evaluated in the credit context of the power business line's ability to support remaining obligations. Since the transmission system has historically been 100% debt financed, the planned use of any sale proceeds would be a material consideration as to the ultimate leverage profile of the remaining utility. Fitch's timeline for reflecting credit implications will be dependent on affirmative legislative action or compelling legislative momentum towards acceptance of the proposal and

details regarding final treatment of related debt.

The President's 2019 budget proposal also raised the idea of PMAs being permitted to charge market rates for their services. Bonneville's power supply contracts with 125 preference customers extend through 2028. Fitch believes the contracts would postpone any movement away from cost based rate methodology through the contract term, even if this proposal gained legislative support.

South Carolina Public Service Authority (Santee Cooper), SC

The decision in July 2017 by Santee Cooper (A+/Stable) and South Carolina Electric & Gas Co. (SCE&G; BBB-/Rating Watch Evolving) to abandon construction of the Summer Nuclear Units 2 and 3 ignited controversy across the state and has drawn intense political scrutiny. The Governor has called for the sale of Santee Cooper in a stated effort to eliminate costs to ratepayers related to the $4.3 billion Santee Cooper spent at Summer Units 2 and 3. Discussions regarding the sale of Santee Cooper are occurring against the backdrop of various legislative proposals that include placing Santee Cooper's rate setting under Public Service Commission oversight and not allowing new rates or charges to be imposed for the repayment of costs related to Summer Units 2 and 3.

At present, Fitch continues to view the potential sale of Santee Cooper as credit neutral to bondholders given our expectation that any privatization would require the repayment or legal defeasance of all outstanding debt obligations ($8.1 billion as of September 2017. It remains unclear whether or not the sale will gain the required state legislative approval and whether a willing buyer will propose a satisfactory proposal that will be accepted by the state. Separate and distinct from the sale of the utility, legislative changes that impact Santee Cooper's independent rate authority could weaken credit quality.

Discussion Regarding Sale of JEA, FL

JEA (AA/Stable) is a combined electric, water and wastewater and chilled water utility located in Jacksonville, FL. JEA and its owner, the City of Jacksonville, are proceeding through an evaluation process regarding the sale of the utility. The undertaking does not appear to be driven by concerns such as poor quality of service or the need for cash at the city, but was prompted by the premise that the recent scope and pace of change in the utility market warrants a fresh analysis regarding whether or not JEA should remain a governmentally owned utility. Fitch believes the exercise is in very preliminary stages but that any ultimate sale would involve the full retirement of its over $4 billion in outstanding debt obligations as of Sept. 30, 2017.

Pending Sale of Vero Beach, FL

Vero Beach, FL (A+/Stable) is in the process of selling the city's electric system to Florida Power & Light, which is expected to occur in 2018, nearly 18 months after both parties signed the original letter of intent, and will include the full retirement of Vero Beach's approximately $20 million in outstanding debt.

The sale arose from a strong degree of customer dissatisfaction with Vero Beach's above average electric rates over a number of years. One of the complexities in reaching an agreement was the settlement of Vero Beach's participation in multiple power supply projects at Florida Municipal Power Agency (FMPA) with project-specific secured debt. While the process to complete the sale is a lengthy one, the majority of the many steps necessary have already been achieved, including approval from FMPA's nearly 20 separate participant city commissions and the required transfer and assignment of Vero Beach's obligations under the various FMPA power sales contracts.

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Bloomberg Brief Weekly Video - 2/22

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

Watch video.

Bloomberg

February 22nd, 2018, 2:38 PM PST

Florida City Ponders Privatizing 8th Largest U.S. Public Utility.

- **Jacksonville has eighth largest public utility in the U.S.**
- **Electric, water company said worth $7.5 billion to $11 billion**

A sizzling sellers' market for power companies could prove enough for Jacksonville, Florida, to put its prized community-owned utility on the auction block.

While elected officials in the city of 881,000 on Florida's northeastern seaboard are divided over whether to place the power, water and sewer utility, known as JEA, up for sale, market conditions may provide the kind of valuation that would make such a deal attractive, consultants hired to evaluate a sale said in a report to JEA's board earlier this month.

The utility could be worth between $7.5 billion and $11 billion before costs are calculated, Michael Mace, a managing director with Public Financial Management, told the city council Feb. 14. A sale

to private investors could probably net the city about $2.9 billion to $6.4 billion after debt is retired, he said.

The question of privatizing JEA has vexed Jacksonville officials, mostly because the value of the utility never seemed enough to make it worth while. That's in part because JEA is a cash machine. It gave the city $117 million in the current fiscal year to help prop up Jacksonville's $1.27 billion budget.

Elected officials and community leaders are also concerned about losing local control over the rates the JEA — the eighth largest community-owned U.S. utility — charges its 458,000 electric, 341,000 water and 264,000 sewer customers.

'Old Math'

PFM in its report said federal corporate tax cuts, a rising equity market and low interest rates are contributing to a sellers' market right now. Consolidation in the industry — driven by a weak growth outlook that is forcing companies to merge if they want to boost earnings — led to $68.2 billion of acquisitions in 2017, the most in a decade, according to data compiled by Bloomberg.

These changing conditions "justify a new look at the old math that had always favored municipal ownership," PFM said in its report.

A sale of JEA would be one of the largest and most complex municipal privatization in the U.S., PFM said in the report. JEA has more than $4 billion in municipal debt outstanding. And a sale deal could take years to complete and would face regulatory hurdles, PFM said.

"JEA is a huge entity that is both an electric utility and a water, sewer utility and they also have some telecommunications infrastructure," said Ted Kury, a professor at the University of Florida and a researcher in public utilities. "It's highly unlikely that any potential purchaser would want to buy JEA consolidated," suggesting the only way to sell the utility would be to split it up among at least two, possibly more buyers.

Jacksonville isn't alone in looking to privatize municipal utilities. Florida power giant NextEra Energy Inc. reportedly is interested in buying the troubled state-owned utility Santee Cooper from South Carolina. And President Donald Trump proposed in his budget to sell off transmission line assets now owned by government-run utilities Tennessee Valley Authority and Bonneville Power Administration.

Bloomberg

By Danielle Moran

February 21, 2018, 6:14 AM PST

Welcome to San Francisco. Would You Like to Make a Deposit?

A groundswell of interest in public banking has advocates pondering how city-owned banks could transform the way municipalities collect and spend their money.

It's no surprise that Malia Cohen worries about what local public dollars are doing. As a member of

the San Francisco Board of Supervisors, the municipal legislative body, it's her job to know how, where and why the city's money is coming in and going out. But recently, Cohen has joined a growing number of public officials around the country who are wondering what happens in between — what happens when the money in the city coffers goes to sleep at night.

In fiscal year 2017, the city of San Francisco took in an average of $508 million a month in revenues and put out $467 million a month in expenses. But in between, the banks that handle all that cash sometimes used public dollars in ways that, in the opinions of Cohen and others, contradict the reasons why that money is coming and going in the first place.

"The existing banking and financial structures we're operating in don't always mirror our city's values," Cohen says. "For example, we had many people opposing the Dakota Access Pipeline. Many of the banks we bank with support the funding of this pipeline."

Continue reading.

Next City

by Oscar Perry Abello

Feb 19, 2018

Assessing Your Innovation District: Five Key Questions to Explore.

Over the past two decades, a confluence of changing market demands and demographic preferences have led to a revaluation of urban places—and a corresponding shift in the geography of innovation. This trend has resulted in a clustering of firms, intermediaries, and workers—often near universities, medical centers, or other anchors—in dense innovation districts. Local economic development leaders are now exploring ways to support this evolution as a means of fostering job creation, economic opportunity, and revitalization in their communities.

In "Assessing your innovation district: A how to guide," we provide guidance for how public, private, and institutional leaders stakeholders can undertake the first key step in that process: assessing their innovation ecosystem. Such an "audit" provides critical intelligence on an area's strengths, weaknesses, and opportunities, which can inform a unified vision, a clear set of goals, and customized strategies for reaching them.

Developed with our colleagues at Brookings, Project for Public Spaces, and Mass Economics, and road tested through on-the-ground work in Philadelphia, Pittsburgh, and Oklahoma City, the guide lays out a framework to help leaders identify an area or areas in their region with strong potential for innovative growth and development and/or evaluate an area already recognized as an emerging innovation district. The guide is centered around five big questions local "auditors" need to explore:

1) Where are your region's highest concentrations of innovation assets?
Companies today need to be able to interact with researchers, inventors, and entrepreneurs, as well as with other firms, to define new products and identify new markets. Density and proximity are paramount in facilitating this type of interaction. Local leaders therefore need to look across their urban landscape to determine what area or areas have a critical mass of well-connected innovation assets from which a district can grow and develop.

2) Is the district leveraging and aligning its distinctive advantages to grow and strengthen firms' innovation capacity?
Successful innovation districts have the collective ability to translate ideas into new products and services that improve the quality of life in their city and region, and, potentially, have a positive impact on people and places across the globe. This can take many forms and originate from several types of institutions—from research hospitals to engineering schools to technology startups, among others. To assess a district's innovation capacity, local leaders need to understand their innovation ecosystem's inputs (e.g. research strengths), outputs (e.g. start up activity), and levels of connectivity among actors and assets.

3) Does the district have an inclusive, diverse, and opportunity-rich environment?
A healthy innovation district comprises a diversity of people and provides economic opportunity for workers with a range of skills and education levels. And many emerging districts are within or adjacent to areas of economic distress, offering the opportunity to meaningfully engage nearby residents in district growth. But this won't happen by accident: Leaders must assess existing measures of diversity and inclusion and develop intentional strategies to ensure that all residents have a chance to benefit from, and are an integral part of, district development.

4) Does the district have physical and social assets that attract a diversity of firms and people, increase interactions, and accelerate innovation outcomes?
Dense, walkable, and highly connected areas help nurture the increasingly collaborative and open culture of innovation. These places include the kinds of spaces, in both the public and private realms, that bring a diversity of firms, institutions, and workers together in both formal and informal ways; that grow and strengthen social networks; and that offer the kind of vibrant environments where people want to spend time. In short, stakeholders should recognize (and thus evaluate) quality of place—connectivity, proximity, and the presence of dynamic, inclusive spaces—as central to a district's economic proposition.

5) Does the district have the leadership necessary to succeed?
Regardless of their economic, physical, or human capital strengths, burgeoning innovation districts will not reach their full potential without capable leadership. District leaders can play a variety of roles in fostering a new culture of collaboration and collective impact, whether by serving as champions of a district vision, conveners that mobilize stakeholders to engage, or catalysts of action. While leadership structures will vary, districts can't succeed unless leaders of key organizations—anchor research institutions, nonprofits, intermediaries, and/or private firms—make a shared, sustained commitment to drive change.

While the starting points for different districts will vary, knowing the right questions—and tailoring them to the local context and capacities—will help district leaders conduct an analysis most appropriate for their individual needs. Indeed, no two places will use this guide the same way, and we expect that the process itself will evolve over time to consider new measures, and be undertaken in novel and innovative ways by new groups of stakeholders working within districts and across them. As they do, communities will hopefully learn from each other in a virtuous feedback loop that gets sharper and more effective at every turn.

The Brookings Institute

by Jason Hachadorian and Jennifer S. Vey

February 21, 2018

Will Chicago's "AAA-Rating" on Its Sales Tax Securitization Corp. Hold During Bankruptcy?

The City of Chicago's new debt transaction, secured by sales-tax revenues, emerges as the epitome of financial engineering and ingenuity of a bond transaction structuring.

The city, with its own financial challenges and mounting pension obligation, is going to be selling debt instruments under a newly created company secured by a first lien position pledge on the city's sales-tax revenues; these debt instruments are being labeled as secure as U.S. Treasuries with a AAA credit rating. In the municipal debt markets, every local government strives to earn the best possible rating on their debt issuance to bring the cost as low as possible, as high ratings directly correlate to positive outlook and low coupons for the debt instruments.

In this article, we will take a closer look at the debt structuring of Chicago's Sales-tax debt, the rating criteria and the potential impacts during a financial downturn.

Obtaining "AAA-rating" With Relatively Low General Obligation Ratings

A low general obligation rating can substantially restrict a municipality's access to capital markets or make it substantially more expensive to issue debt. In the City of Chicago's case, their general obligation debt ratings vary from strong investment-grade to junk status, which has essentially restricted their access to capital through debt financing.

Recently, with the help of well-known investment banks, Chicago has ventured into issuing revenue-backed debt by creating a new corporation and using it to issue new bonds while assuring investors have first claim on the city's sales tax revenues. This transaction has already earned an AAA-rating by a couple of the rating agencies and a positive outlook on the city's sales tax revenue streams.

However, this presents its own dilemmas in the event of financial insolvency of the municipality; as in, whether the debt holders will continue to get their coupon payments or, if instead, the city will be required to meet its other obligations to its pensioners, local government employees and funding critical city-wide programs.

The Case of Sales Tax Revenue Pledged Debt for Puerto Rico

For many investors, Chicago's sales tax backed debt seems very relatable to Puerto Rico's COFINA debt, which was backed by the first pledge on the sales tax revenue streams. Throughout the financial restructuring of Puerto Rican debt, there has been the emergence of two primary disputes between GO and revenue-backed debt.

Many investors assume, rightfully so, that revenue-backed debt is a relatively safer investment option and consider its position to be higher than general obligation debt due to the specific revenue streams that are typically collateralized to make payment on these bonds. However, this assumption can be severely challenged in the event of local government insolvency or restructuring efforts. This conundrum has caused quite a stir among Puerto Rico's GO and COFINA debt holders. GO bondholders and their legal representatives have brought forward lawsuits claiming that their debt obligations must be met by the island's government before COFINAs are paid, irrespective of any revenue pledges, liens or secured debt. Several references and interpretations have been made toward the GO debt structures, and the island's Constitution states that GO debt must be paid before other expenses. The legal teams in favor of GO bonds have argued that the COFINA structure is invalid and violates the island's Constitution because Puerto Rico cannot continue to pay its sales tax

bonds while skipping GO payments, especially when GO debt structure entails a claim on any "available resources" of the Commonwealth, including sales tax revenues.

On the other hand, COFINA debt holders have filed their own lawsuits claiming that their debt indentures allow them to have the first claim on any revenues generated through sales tax, and that these revenues are not part of the general revenue to pay GO debt obligations prior to revenue debt. In addition, they have also claimed the invalidity of GO debt, since any GO debt issued after 2011 has been over the Constitutional limit and, according to the lawsuit, should be rendered invalid. COFINA holders also say that since the sales tax revenue is specifically pledged for payment of revenue-backed debt, it doesn't constitute "available resources" and cannot be mingled into the general fund.

As if this feud wasn't enough to keep investors occupied, there have been internal legal disputes between senior and subordinate COFINA debt holders. As in many local U.S. governments, revenue debt is typically issued depending on the timing and the capital needs of the municipality and can often be structured with senior and subordinate lien positions on the pledged revenues. As the sales tax revenues are also on a decline for the Commonwealth, COFINA holders are scrambling to get clarity on their positioning to claim those sales tax revenues. In obvious terms, senior debt holders claim that their debt service obligations must be met before any junior or subordinate lien positions are paid; senior lien holders would like this to be true for both semi-annual debt payments (such as interest and principal payments) or full payment on senior holdings prior to subordinate debt in the event of bankruptcy. Subordinate debt holders disagree with these terms and would like to have a claim on the sales tax revenues equal to that of the senior debt holders.

Investors and the municipal markets have shown similar concerns on the AAA-rating for the City of Chicago's revenue-backed debt and the validity of these ratings during a financial distress similar to Puerto Rico.

municipalbonds.com

by Jayden Sangha

Feb 22, 2018

In New Jersey, New York, Tax Overhaul May Be Lifting Muni Bonds.

- **Analysts expected demand in high-tax states would increase**
- **New Jersey, New York yields have narrowed against benchmark**

Some municipal-bond analysts expected the new $10,000 limit on state and local deductions would increase demand for debt issued by high-tax states as wealthy residents look for ways to reduce their federal tax bills.

The prices of New York and New Jersey bonds seem to be bearing out that call.

The yields on 10-year bonds issued by the two states have drawn closer to top-rated bonds since the federal tax-overhaul legislation was released in early November, according to data compiled by Bloomberg. New York's yields — which were as much as 0.19 percentage point above the benchmark in early November — have since dropped to about 0.06 percentage point below it. For New Jersey, that gap has slipped to about 0.66 percentage point from more than a percent point in November.

That stands in contrast to Florida and Texas, two relatively low-tax states whose bonds have been little changed against the benchmark since the tax changes were enacted.

The limit on state and local tax deductions will fall heavily on residents of states where many pay more than $10,000 a year in property and income taxes. Analysts speculated that the change could boost interest in municipal bonds, whose income is tax-exempt, as a possible way to cut their federal tax bills.

Not all the higher-tax states are seeing a bond-market impact. California's yields, which have been steadily declining against the benchmark for years because of the government's improving finances, have been little changed. And in Connecticut, where Governor Dannel Malloy has been contending with chronic deficits, demand hasn't been enough to turn the tide: Investors are demanding even higher payouts to compensate for that risk.

Bloomberg Markets

By Amanda Albright

February 26, 2018, 9:43 AM PST

Many Scratching Their Heads Over White House Infrastructure Plan.

An ambitious White House infrastructure plan released Feb. 12 that depends on private investors and state and local governments to finance as much as $1.3 trillion in projects is leaving out a lot of details, including whether the money and attractive projects are there, potential partners and industry experts say.

A core tenet of the plan is transferring decision-making authority to state and local governments, along with streamlining the permitting process and reducing regulatory barriers. The federal government would put in $200 billion to stimulate that $1.3 trillion, with $100 billion of that going to a new incentives grant program for state and local government projects that attract additional investment, including credit for some past projects if they generate revenue.

Another $20 billion would go toward expanding infrastructure financing programs, with $14 billion for existing credit programs, and $6 billion to expand tax-exempt private activity bonds. Another $50 billion would go to block grants to governors for rural projects, which experts say are now overlooked. Another $20 billion would be for what the White House calls "transformative" projects highlighting next generation approaches as opposed to rebuilding current systems. The remaining $10 billion would be for a "capital financing fund."

According to the American Society of Civil Engineers, the United States needs to invest $4.6 trillion in infrastructure through 2025 – but only $2.5 trillion in funding identified is available. The ASCE puts the infrastructure investment deficit at $2 trillion over 10 years.

Still, infrastructure investing is growing in the U.S., with $418 billion in private capital assets under management for infrastructure funds, including $65 billion raised for infrastructure funds that closed in 2017, according to data from Preqin.

Ball in states' court

The major shift away from Washington had board members of the $356.6 billion California Public Employees' Retirement System, Sacramento, meeting right after the announcement, wondering if states would have the money to match the federal dollars. "When you look at the state and local jurisdictions fiscally, there's a lot of question marks about whether they can afford to participate in this without raising a whole bunch of charges," CalPERS portfolio manager and head economist John Rothfield told the board. "There's been such a build-up in federal debt that the situation here seems to be to pass some of this on to state and local municipal-level debt funding or raising revenue."

Andrew Marino, Washington, managing director and co-head of Carlyle Group LP's $750 million global infrastructure fund, is much more optimistic. Providing incentives for state and local governments "is absolutely the best thing for this market," he said. "What makes our country different than other countries is that the U.S. infrastructure market is fundamentally a local market. And each of these jurisdictions have their own stakeholders to manage and their own process to follow. Those dynamics are incredibly important … to balance the needs of the investors and the stakeholders.

"That means that more deals are going to get done. It means our market is going to get more efficient. It's going to force investors in infrastructure to be local," he said, adding, "we are not daunted by local politics." Carlyle has a long history managing union pension funds, and "we also see creating jobs and protecting taxpayers as integral components of any project," he said.

Carlyle, which has a large presence in local and state infrastructure markets, is "happy footing the bill (for the project) ourselves," said Mr. Marino, who foresees state and local governments adopting more of an Australian model that lets local officials step in if agreements are violated. "Out of financial necessity, state and local governments are becoming more innovative and very entrepreneurial," including airport terminal projects and broadband systems.

Increased demand

"The Trump proposal will increase the demand side. I'd say the investor side is already there," said Michael Likosky, principal and head of infrastructure at 32 Advisors in New York, whose firm advises on the origination, structure and close of funds. He has seen U.S. investors traditionally in real estate becoming increasingly interested in infrastructure over the last 15 years in terms of the risk/return profile.

"It's a perfect asset class for institutional investors, who have been doing it for 20 years internationally. What they're doing is stuff that has worked in other places. It's a basic formula. It's just a matter of people seeing that opportunity," particularly in small markets and particularly overlooked rural areas, said Mr. Likosky. The learning curve for institutional investors, he said, will be monitoring their third-party fund managers. Private-sector pension funds "aren't allocating as much as they could" because they have been waiting for third-party managers to find the deals in a "Balkanized" market with countless states and counties for investors to figure out.

For the states, a key to making Mr. Trump's infrastructure plan work is expanding the use of tax-exempt debt, said Vermont Treasurer Beth Pearce, who is also president of the National Association of State Treasurers. She notes that state and local governments finance more than 75% of all U.S. infrastructure projects, and while state and local governments appreciate the emphasis on partnering with them, it's up to Congress to support tax-exempt financing, including maximizing the use of tax-exempt municipal bonds and private activity bonds, and reinstating access to tax-exempt advance refunding bonds, which were eliminated in the 2017 tax law.

Even coming up with that $200 billion in federal funds will be a challenge, following an expensive

tax reform plan that adds $1 trillion or more to the federal deficit over the next decade. The $200 billion for infrastructure would have to be offset by cuts to other programs such as mass transit, which would face stiff resistance in Congress. The fight over infrastructure financing has not even begun and the administration's proposalis far from the bipartisan solution that affected parties say is necessary.

Add in the midterm elections this fall, and the clock may run out on the proposal, said William Galston, Brookings Institution senior fellow, Washington. "Getting private capital involved makes a lot of sense in principle, (but) the idea that states and local governments are going to be able to come up with that much money strikes me and a lot of other people as a stretch."

Who pays for it?

Another question is whether Americans will pay to use public assets, a necessary part of making the deals attractive to investors who would need to earn a return on their investments and eligible for the proposed federal incentives. "The problem for U.S infrastructure has never been a shortage of private capital, but rather how it is paid for," wrote analysts at S&P Global Inc. in New York, in a research note published Feb. 14.

Even if the White House plan, including the role for private capital, is rejected, they see "an inevitable need for Americans to accept paying more to use the nation's infrastructure. At its very essence, the plan forces into the political debate a conversation about who will support new infrastructure because massive federal funding is no longer on the table. And if the gap cannot be bridged by local and state governments alone or through additional direct federal spending or programs, the private sector will inevitably have to be involved in the solution."

Mr. Marino of Carlyle believes that federally funded infrastructure projects may follow, but will be more complicated. He sees "the first big wave of transactions" inspired by a shift away from Washington that will pave the way, helping bankers and other intermediaries get more knowledgeable and comfortable, which in turn can lower the costs of infrastructure capital, he said.

"We think that the market right now supports a different type of deal because it requires more expertise to make things happen," he said. For both the potential financial and societal benefits, "it is really exciting."

PENSIONS & INVESTMENTS

BY HAZEL BRADFORD · FEBRUARY 19, 2018

Trump Public-Works Plan Gets Nudge From $2 Trillion Pension Pool.

- **Pension industry Down Under says it can help unlock funds**
- **Turnbull leads 22-strong business delegation to Washington**

Australian Ambassador to the U.S. Joe Hockey discusses investing in U.S. infrastructure.
President Donald Trump's pledge to fix America's ailing roads, bridges and airports may get an unlikely boost from retirement savers some 10,000 miles away in Australia.

In face-to-face talks at the White House this week, Prime Minister Malcolm Turnbull will propose using a chunk of Australia's A$2.53 trillion ($1.99 trillion) pension savings pool to help unlock

funding for Trump's infrastructure push. He's being joined on the trip by local money managers who help control the world's fourth-largest pot of retirement savings.

"There's a very bold ambition to drive U.S. infrastructure and Australia should be front and center in terms of project design, build, financing and management," Trade Minister Steven Ciobo said in an interview ahead of the visit.

Trump's $1.5 trillion public-works plan has hit potholes amid a lack of bipartisan support in Congress and questions over who would pay for the initiative despite his pledge of $200 billion in federal funding over 10 years. Australian officials have pointed to their own success in selling or leasing public assets to finance new construction without incurring new debt — a concept known as asset recycling.

Joe Hockey, now Australia's ambassador to the U.S., was a key champion of the initiative when he was federal Treasurer and has been pivotal in promoting it in Washington.

"There's no doubt when it comes to infrastructure and better rollout of infrastructure, Australia has some examples that may be of use to the United States," Hockey said Wednesday. Australia could help deploy "private money in partnership with state, county and city governments to give the infrastructure America desperately needs just to maintain its current economic growth, not to fall backwards," he said.

Fund managers in Turnbull's delegation of 22 business leaders will continue the push at the National Governors Association meeting this weekend.

"The key blockage in the U.S., which is also common across the world, is the political risk due to community concern over private ownership of what people perceive should be public assets," said David Whiteley, chief executive of Industry Super Australia — the representative body for not-fo--profit funds that invest the retirement savings of 5 million Australians with more than A$224 billion under management.

Assets in Australia's compulsory pension savings system, known as superannuation, have increased nearly ten-fold in the past two decades. Assets aren't expected to peak for another 20 years, with estimates of the system's ultimate size ranging from A$3.5 trillion to A$5.1 trillion.

"Few Australians —- and even fewer Americans —- know Australia has grown a titanic stock of capital in its superannuation funds," the University of Sydney's United States Studies Centre said in a report released on Thursday. "Massive amounts of this colossal investment pool" is already invested in the U.S., helping "grow American firms, build and repair U.S. infrastructure."

Brett Himbury, chief executive officer of Melbourne-based IFM Investors Pty, canvassed potential cross-border infrastructure deals with Vice President Mike Pence last year and joins Turnbull on this trip.

"The administration needs $1 trillion and it's unlikely that can all be supplied from the public purse," Himbury said. "So there is a growing realization that private capital is needed."

IFM, which has A$101 billion of assets under management, invests money on behalf of entities from 16 countries including seven of the top 10 U.S. pension funds, according to Himbury.

"Part of our pitch is that this is worker's money from many different countries being used to build infrastructure in the U.S. and helping to create jobs for U.S. workers," Himbury said. "And we think that is a pretty compelling proposition."

Still, some U.S. states and municipalities remain wary of private ownership, even if assets are bought by not-for-profit retirement funds. Ten years ago, Chicago's move to lease its parking meters for 75 years cost the city $974 million in lost revenue and angered voters who were left paying higher fees.

"The U.S. is obviously free market, but many of the states still have quite socialist attitudes towards ownership of some infrastructure assets," said Jim Miller, chairman of Infrastructure Victoria in Australia's second-largest state. "Many states are pretty unlikely to change their attitudes to private ownership."

Bloomberg Politics

by Jason Scott and Brett Foley

February 21, 2018, 3:00 AM PST Updated on February 21, 2018, 5:13 PM PST

— With assistance by Emily Cadman, and Mark Niquette

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