White House Unveils Infrastructure Plan: Funding Questions Remain.

The American Infrastructure Initiative (infrastructure plan) released by the White House last week aims to stimulate more than $1.5 trillion in new investment over the next decade, shorten the process for approving projects, and address unmet rural infrastructure needs. But the plan offers little insight into how the government will come up with the initial $200 billion in federal funding, particularly in light of the president's proposed budget for 2019, which cuts spending on existing infrastructure programs.

The 53-page plan, released on February 12—expands on President Trump's initial infrastructure vision released early last year and calls upon Congress to move quickly to enact a law that will enable builders to construct new, modern, and efficient infrastructure across the country.

The plan is divided into four main parts: (1) funding and financing infrastructure improvements; (2) additional provisions for infrastructure improvements; (3) infrastructure permitting improvement; and (4) workforce development.

Infrastructure Incentives Program. The plan outlines various funding and financing mechanisms for infrastructure improvements, including establishment of a $100 billion infrastructure incentives program to encourage increased state, local, and private investment in infrastructure. Incentives include targeted federal investments in the form of grants to states and municipalities that would maximize investment in infrastructure, leverage federal investment, ensure long-term performance of capital infrastructure investment, modernize project delivery practices, increase economic growth, and attract new, non-federal revenue streams. Federal funds would be divided in specific amounts to be administered by the U.S. Department of Transportation, U.S. Army Corps of Engineers, and the U.S. Environmental Protection Agency. Eligible projects include surface and air transportation, passenger rail, ports and waterways, flood control, water supply and resources, hydropower, drinking water and wastewater facilities, storm water facilities, and brownfield and Superfund sites. Each lead federal agency would solicit applications upon enactment of the incentives program and every six months thereafter.

Rural Infrastructure Program. The plan would establish a $50 billion rural infrastructure program aimed at enhancing regional connectivity through public and private interregional and interstate rural projects that reduce costs for sustaining safe, quality rural communities and increase economic growth and competitiveness in rural areas by closing the gaps in local infrastructure. The legislation would create a "rural formula," calculated based on rural lane miles and population-adjusted to reflect policy objectives. The rural infrastructure program also would dedicate a portion of the funding to tribal and U.S. territory infrastructure.

Other Programs. Additional programs under the funding and financing section of the plan include a $20 billion transformative projects program aimed at significantly improving availability, safety, reliability, frequency, and service speed while reducing user costs and introducing new types of services. It also dedicates $20 billion to expanding existing credit programs like those under the

Transportation Infrastructure Finance and Innovation Act (TIFIA), Water Infrastructure Finance and Innovation Act (WIFIA), and Railroad Rehabilitation & Improvement Financing (RRIF), and to the expansion of private activity bonds. In addition, it would create a federal revolving capital financing fund, as well as various public land and federal real property asset disposal programs.

Streamlining of Permitting. The infrastructure plan also includes provisions for streamlining and facilitating various authorization and approval processes, and expanding some financing mechanisms. The plan would increase flexibility and reduce barriers for certain state-run infrastructure and project delivery for highways, rail, airport, and water systems. It also would expand funding eligibility and projects for land revitalization for brownfield/Superfund reform, including creation of a Superfund revolving loan fund and grant program.

Worth noting is the mandate to eliminate constraints on the use of public-private and public-public partnerships in transit projects. The National Environmental Policy Act (NEPA) approval process would be streamlined and a "One Agency, One Decision" environmental review structure would be established. Inefficiencies and redundancies in environmental reviews would be reduced further by allowing in some cases for the acquisition and preservation of rail rights-of-way before the completion of the NEPA review process and by delegating some review and permitting decisions to states.

Workforce Development. The fourth and final focus of the plan includes the implementation of policies that will help Americans secure stable, well-paying jobs by expanding access to education and development programs, expanding grant programs, reforming career and technical education, and revamping the Federal Work-Study program.

While the infrastructure plan does expand on President Trump's focus on infrastructure investment, it does not outline any sources for the initial $200 billion in federal funding. The President's proposed budget for the 2019 fiscal year incorporates as much as $275 billion in cuts to existing infrastructure programs, including cuts to Transportation Investment Generating Economic Recovery (TIGER) grants. The plan also does not address the underfunding of the Highway Trust Fund or a potential increase in motor fuel taxes. Additionally, there is no timeline for when Congress expects to address the plan and it remains to be seen how the plan will be received by lawmakers on both sides of the aisle.

Attorneys in Ballard Spahr's Public Finance Group have extensive experience with the rules and regulations set by the IRS and U.S. Treasury. Working closely with attorneys in Ballard Spahr's P3/Infrastructure Group, they routinely monitor and report on new developments that impact federal and state infrastructure programs.

by the Public Finance Group

Feb 20, 2018

Ballard Spahr LLP

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Issuer Brief: Trump's Infrastructure Plan Does Very Little to Help the Municipal Industry

The Infrastructure 'Plan' Needs Some Constructive Criticism

The Trump Administration's preliminary plan to support additional infrastructure financing, is purportedly in the form of $200 billion in Federal funding that, along with state, local and private sector resources, would supposedly trigger a total of $1.5 trillion in new infrastructure spending over the next 10 years.

Frankly, we remain highly doubtful that any significant incremental project funding will be triggered by this proposal, which requires considerable new private sector investments, and assumes that state and local governments will enthusiastically seek out subsidies paid at a meager rate of 20 cents in Federal moneys for 80 cents in state or local moneys. Historically, Federal subsidies of state and local programs have provided as much as 80% of total costs of projects, as opposed to the proposed 20% level. We anticipate that the ultimate form of any successful new law will diverge quite dramatically from the initial 53-page proposal.

The plan is structured around four main pillars:

1. Generate $1.5 trillion for an infrastructure proposal, including $100 billion through an incentives program that supports governmental infrastructure. It would also focus on regulations reform to streamline the permitting process for new project down to two years.
2. Invest in rural infrastructure projects and advance workforce training. Half of the federal seed money ($200 billion) would go toward an incentives program to match financing from state and local governments, while a quarter of the appropriations would be used for rural projects in the form of block grants to states so governors may decide where to invest.
3. $20 billion is for "transformative programs" meant for new projects rather than rehabilitation of old infrastructure, while another $20 billion is meant to expand the use of loans and private activity bonds, a common tool used to fund infrastructure projects.
4. The last $10 billion would go into a "capital financing fund," which would fund the construction of federal office buildings and similar infrastructure for actual government use.

Our bottom line at this point is that the proposal 1) doesn't really add ANY new moneys to current Federal spending on infrastructure and 2) reduces the amount of aggregate funding that state and local governments have available. A number of infrastructure experts have already put out analyses and releases that are sharply critical of the proposal, and we expect more to come. While the proposal and budget anticipate more use of private activity bonds, they are offset by deep cuts to existing funding for state and local governments.

The proposal is complex (even the outline is more than 50 pages long). While some commentators

have expressed a desire for the President to have called for more spending, the proposal appears to seek a balance between providing capital and encouraging the participation of additional resources to create a sustainable financing mix that will not require permanent budgetary support from the Federal government. Translating the proposal into legislation and getting it through Congress will not be easy, and with mid-term elections looming in the Fall, time is of the essence. That said, we are hoping that the proposal will incorporate much of the criticism before being resurrected in a more effective form. Hoping, but far from confident: any proposal that incorporates actual significant net spending to help support infrastructure in an effective fashion will run into massive resistance from fiscal conservatives who have been reborn since the tax bill was passed, and in the face of $1 trillion dollar or more annual deficits.

Ride-Hailing Fees Popping Up in Chicago, Philadelphia and Others

As Uber and Lyft and other ride-hailing services grow more and more ubiquitous, municipalities are moving to tax these services to fund the existing mass transit facilities against which these services compete. Some examples include Chicago, where a 15-cent fee on Uber, Lyft and other ride-hailing services is helping to pay for track, signal and electrical upgrades to make the city's trains run faster and smoother. In Philadelphia, a 1.4% tax expected to raise $2.6 million this year for the city's public schools that will also generate more than a million dollars for enforcement and regulation of the ride-hailing industry itself.

South Carolina has adopted a 1% ride-hailing fee has yielded more than a million dollars for municipalities and counties to spend as they choose. Massachusetts collects 20 cents for every ride-hailing trip this month, earmarking the revenue to improve roads and bridges, fill a state transportation fund and even help the taxi industry adapt with new technologies and job training. New York State approved a 4% assessment on ride-hailing trips that begin outside New York City (rides in the city are already subject to state and local taxes). It is expected to raise $24 million a year for the state's general fund.

In Oregon, Portland sought to create a single standard for taxis and ride-hailing cars and assessed a 50-cent ride fee on both of them, which is paid by passengers. The 50-cent fee has added up to more than $8 million to help pay for city enforcement efforts, including spot inspections of cars and incentives to companies and drivers to choose wheelchair accessible cars.

Predictably, the ride-hailing industry feels it is being singled out. It views its service as complementary rather than competitive with taxis and mass transit. We beg to differ. Ride hailing has its place but its continued implementation of a business model that resists regulation as one of its basic tenets should not be surprised to find itself in the position of being targeted for its tax revenue generating potential. Another aspects that the public transit system benefits everyone who lives and works in the city regardless of whether they're using it.

Chicago estimates that ride-hailing companies have cost the city about $40 million a year in lost revenue from transit fares, parking fees, licenses and permits. A newly imposed 15-cent fee was the first of its kind to raise money solely for public transit from those who might not even use it because they could afford the ride-hailing cars. It is projected to bring in $16 million this year, which will be turned over to the Chicago Transit Authority. The money will be used to secure additional funding through bond sales to pay for a total of $179 million in capital improvement.

As these companies continue to grow, states and localities will need to keep up revenues and can look to these examples as a creative way to fund infrastructure.

Neighborly

Posted 02/22/2018 by George Friedlander

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What It Would Actually Take to Fund Infrastructure.

Commentators have broadly agreed Trump's infrastructure proposal is not nearly enough. Here's a blueprint for how to do better.

The coverage of President Donald Trump's recent infrastructure plan has harped on one point: there's not enough funding. The plan, touted as a $1.5 trillion infrastructure stimulus, in actuality only dedicates $200 billion in federal funds over the next ten years for what Trump envisions as "gleaming new roads, bridges, highways, railways, and waterways across our land". For the rest, it relies on state, local, and private investment. The American Society of Civil Engineers gave American infrastructure a D+ rating on its 2017 Infrastructure Report Card and estimates that it will take $4.6 trillion over ten years to get American infrastructure where it needs to be. While this number may be somewhat exaggerated, it's clear that $200 billion and a shrug to state and local governments is not nearly enough to get the job done. The plan needs to be tweaked.

While critical of the plan, few commentators have proposed solutions to make American infrastructure work. The plan is in need of more dedicated federal dollars, and states and cities need to raise lots of money for their own part, but where will this money come from?

To raise the revenue necessary for a real infrastructure overhaul, the United States needs to think big and small. While the national government needs to take radical measures to raise big chunks of money for infrastructure, state and local governments must take a number of smaller actions that together will chip away at the funding gap.

Continue reading.

CITY LAB

STEPHEN GOLDSMITH FEB 21, 2018

Big Banks Got Huge Tax Cuts, Then Hiked Cities' Interest Rates.

- **Tax cut triggers loan provisions that protect banks' returns**
- **Muni bank-loan market may be as much as $180 billion**

As U.S. banks were tallying up the billions of dollars in extra profits they'll reap from the sweeping tax cuts signed into law by President Donald Trump, they were quietly delivering unwelcome news to local governments: The interest rates on their loans were about to go up.

That's because banks often include clauses in contracts when they lend to states and cities giving them the right to trigger the increases if legal changes lower the returns on their investments.

The tax cut did just that. Slashing the corporate rate made the tax-exempt loans less valuable than before compared with other assets, once federal taxes are taken into account. So companies including Wells Fargo & Co., U.S. Bancorp and SunTrust Banks Inc. demanded more interest to make them whole.

The impact is being felt across the country by governments and non-profits that borrowed through loans, a loosely regulated niche of public finance that took off after the end of the last recession. Municipal Market Analytics estimates that there are about $180 billion of such loans outstanding. That could translate into tens of millions of dollars in extra costs each year for local agencies that Trump is pushing to boost spending on roads, airports and other projects.

"It takes away from money that would help the state's reserve, or it takes away from money the state may appropriate for other statewide public purposes," said David Erdman, the capital finance director for Wisconsin, whose payments on a $279 million loan will jump by about $750,000 next year. He declined to name the lender.

Direct lending proliferated in the $3.8 trillion municipal market because states, local governments and non-profits can borrow at rates comparable to those on bonds, without the fees or disclosure requirements associated with securities sales. They also offered a way for borrowers to refinance floating-rate bond deals that unraveled after the 2008 credit crisis.

Because loans aren't classified as securities, states and cities aren't immediately required to disclose them, making it impossible to know how many borrowers might be subject to rate increases. Banks may also decide to waive the provision to preserve other business with municipalities, like investment work, and governments may opt to refinance, though interest rates in the bond market have been on the rise.

But several banks have been alerting borrowers that their interest rates are going to increase. Tennessee, the Metropolitan Atlanta Rapid Transit Authority, and Portland, Oregon, are among those whose payments are set to rise, according to public officials.

"We've heard underwriters are dealing with it in different ways," said Emily Brock, federal liaison for the Government Finance Officers Association, which represents local government officials. "One things for sure, not all issuers understand clearly how that gross-up provision is going to impact them."

Gross-up, or rate-hike provisions, are common for loans that are pegged to the London Interbank Offered Rate. A standard formula calls for multiplying the interest rate by 1.22 if corporate tax rates decline to 21 percent. For bonds bearing a fixed rate with a 5 percent coupon, the increase would be more than a full percentage point.

Tennessee will pay an extra $300,000 a year on a $70 million credit line with Wells Fargo and U.S. Bancorp, said Sandra Thompson, director of the state comptroller's Office of State and Local Finance. The increase is significant "considering it wasn't a cost that we incurred before Jan. 1 of this year," she said.

Wells Fargo has informed its clients the rate increase is automatic, but borrowers can try to negotiate new terms, said Adam Joseph, the head of Public Finance Capital Strategies at the San Francisco-based bank. He said the increases haven't come as a surprise.

"The existence of the factor was very much known to the client at the time of the deal," he said.

SunTrust "is working through" the rate adjustment with clients, said Thomas Crosson, a spokesman for the bank. Dana Ripley, a U.S. Bancorp spokesman, declined to comment.

The San Francisco County Transportation Authority is paying 0.45 percentage point more in interest on its $72 million revolving credit facility to State Street Corp. than it did last month because of an increase in Libor and the effect of the gross-up. State Street informed the transportation authority in advance that its borrowing cost would rise, said Cynthia Fong, the authority's deputy director for finance. The credit facility expires in June. Julie Kane, a State Street spokeswoman, didn't return a call and email seeking comment.

While larger borrowers will likely be able to handle the impact of the rate increases, small non-profits may find it more of a burden. One non-profit client of Michael Wiener, a bond lawyer at Holland & Knight in Lakeland, Florida, could pay an extra $100,000 a year in interest on $27 million in variable-rate debt, he said.

"One hundred thousand dollars a year is still a decent amount of money for a lot of these borrowers," said Wiener, who declined to name the client.

Some are getting a break. First Republic Bank has told California non-profits that it won't trigger the clause in their loans, said Cathy Martin, treasurer and chief financial officer of Guide Dogs for the Blind, in San Rafael, California. If it hadn't, its costs on a $30 million loan would have jumped by $100,000 a year. Greg Berardi, a spokesman for First Republic, declined to comment.

"I can't tell you how grateful I am because it would have been fairly significant money for us," said Martin.

Bloomberg

By Martin Z Braun and Benjamin Bain

February 15, 2018, 5:52 AM PST

When Public-Private Partnerships Fail: A Look at Southern Indiana's I-69 Project.

The United States has major transportation infrastructure needs. According to the American Society of Civil Engineers, the surface transportation sector—defined as highway, public transportation, and rail facilities—will face an investment shortfall of approximately $1 trillion over the next decade.

Public-private partnerships (P3s) are often mentioned as a solution to this shortfall.1 This idea is simply wrong. State and local government project sponsors do not lack access to financing but rather have insufficient tax revenues to repay new project debts. As the U.S. Treasury Department notes, “All infrastructure investments ultimately depend on either user fees, government tax revenues, or a combination of both.”2 Government project sponsors can access low-cost financing through the municipal bond market and the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program at the U.S. Department of Transportation.3 Private financing in the form of private activity bonds (PABs) and equity capital are still project obligations that must be repaid. Simply changing the source of project debts through a P3 does not resolve the two most common restraints on government revenues: economic hardship and insufficient political support.

Public-private partnerships offer state and local governments the ability to shift project risks to a private concessionaire in ways that are not possible through traditional design-bid-build procurement. When structured properly, P3 agreements allow project sponsors to offload three categories of risk: delivery, finance, and operations.4 The private concessionaire charges a premium price for taking on project risks. A key challenge for project sponsors is determining the appropriate risk-adjusted price to ensure that the procurement is cost-beneficial. Given the nation’s major need for expanded and improved surface transportation infrastructure, it is crucial that policymakers understand that risk transference through P3s is not guaranteed.

Continue reading.

Center for American Progress

By Kevin DeGood

February 15, 2018

S&P: Diagnosing Distress In U.S. Local Governments.

Highly rated credits that demonstrate a strong level of stability are the hallmarks of the local government ratings sector. So when rare occasions of fiscal distress arise, it offers opportunities for S&P Global Ratings to incorporate observations and lessons from municipal market events into our view of ratings.

Continue Reading

Feb. 12, 2018

Fitch Report: Puerto Rico Ruling Muddies Special Revenue Debt Waters.

Fitch Ratings-New York-14 February 2018 – Last month’s Chapter 9 ruling over Puerto Rico’s highway and transportation debt, if upheld, could increase the risk of delayed payments on special revenue debt in future municipal bankruptcies, according to Fitch Ratings in a new report.

With an appeal of the district court ruling already pending and the ultimate outcome likely to change, Fitch does not envision any immediate impact on criteria or ratings. “The Puerto Rico ruling

suggests a different paradigm for assessing special revenue obligations and is very much at odds with prior bankruptcy treatment of special revenue obligations," said Managing Director Amy Laskey. "Chapter 9 protections shielding special revenue debt from the automatic stay provisions have consistently insured timely payment from available special revenues during bankruptcy proceedings."

Various restrictions around diverting enterprise revenues could remove much of the incentive to delay payments to special revenue bondholders during a municipal bankruptcy even if a final ruling upholds the district court decision. "Any potential criteria modifications would need to fully consider how to account for such protections when separating enterprise ratings from a municipal IDR," said Laskey.

"What Investors Want to Know: The Impact of the Puerto Rico Ruling on Special Revenue Debt"

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Pullback From Muni-Bond Could Be a 'Yellow Flag' After Market Losses.

- **Muni funds saw outflows this week after weeks of gaining cash**
- **Investors may be responding to worst January on record**

The municipal market's short-term future might be on shaky ground.

Mutual funds that focus on state and local government bonds saw investors pull out about $443 million in the week leading up to Wednesday, breaking a five-week streak during which they continued to pour in funds, according to Lipper US Fund Flows data. Exchange traded funds lost $30.3 million this week, its first negative since April 2017, according to CreditSights analyst Pat Luby.

"It's a yellow flag, not a red flag yet," Luby said. "Inflation news has provided a dose of reality for the market."

The outflows come after municipal bonds slid amid speculation that the pace of the economy will fuel higher interest rates, sending the securities to their worst January loss since at least 1981,

according to the Bloomberg Barclays index. Analysts have speculated that the loss may cause a pullback by individual investors, who are the largest holders of municipal bonds.

Greg Kaplan, the director of fixed income for City National Rochdale, said such investors are "historically reactionary." After January's performance, he expected flows to worsen as investors saw their account statements.

Jeff Lipton, managing director for Oppenheimer, said some investors have been cautious about state and local bonds because of concerns about the ripple effects of the federal tax overhaul enacted in December. He said outflows are a result of market uncertainty, especially looming interest rate hikes from the Fed, though he expects that the retreat from municipal funds will only be temporary.

"Even with disproportionate volatility, it will be positive for the year," Lipton said. "There will just be intermittent periods of negative flows."

Bloomberg Markets

By Zachary Hansen

February 16, 2018, 8:28 AM PST

Access and Affordability in the New Housing Finance System.

Abstract

One of the measures by which any proposed housing finance system must be judged is how well it would serve low- and moderate-income (LMI) households. In this analysis, we assess how well the multi-guarantor system proposed in the draft bill under discussion in the Senate Banking Committee (as of February 2018) would serve these households, concluding that they would do considerably better than they do under the system we have today. The bottom line is that the proposed system provides considerably more and better-targeted support to assist LMI households.

Read the full brief.

The Urban Institute

by Jim Parrott, Michael Stegman, Phillip L. Swagel, and Mark M. Zandi

February 13, 2018

Neighborly Insights: Florida Puts a Price on Resilience, KC Airport Moves Closer to Takeoff and the Impact of Tech on Property Values.

Costs of Resiliency Begin to Come Into Focus in Florida

For Monroe County, Florida, home of Key Largo, resiliency is a more pressing concern than it has ever been. Like many other places in the Keys, Monroe is coming to terms with change in climate and sea levels, and the impact of recent storms. While national policymakers debate the climate

issue and the need – or lack thereof – for action, Monroe County residents have seen enough evidence to move them to support governmental action.

The county's plans to address resiliency concerns currently focuses on road projects, and it's clear why: half of the Monroe's 300 total miles of county roads have been assessed by the county to be susceptible to sea level rise in the next 20 years. The county has already spent $10 million on road projects that include elevation, and plans to spend at least $7 million more in the near future. One such plan is to elevate the lowest, most flood-prone road in the Twin Lakes Community of Key Largo and in the low-lying Sands neighborhood of Big Pine Key, 70 miles south.

In Big Pine, the road is going up a foot. In Key Largo, it's being raised six inches. Those elevations are just an inch above what researchers say is necessary for both roads to be above sea level for the next 25 years. But it is a start and will provide useful experience and help to refine cost estimates for wider-scale flood mitigation.

Continue reading.

Posted 02/16/2018 by Joseph Krist

Neighborly Insights

Recent Legislation Further Limits School District Options in Connection with the Sale of Excess Property.

Legislation enacted in 2017 and amended last month significantly expands the range of prohibitions on a school district's ability to influence the future use of real property that it sells or transfers. When disposing of real property, school districts often desire to obtain affirmative covenants restricting the use of the property to types of uses which support its interests, such as a residential development project to add families to the community. Prior to this recent legislation, Section 1260 of the Revised School Code prohibited school districts from using negative deed restrictions prohibiting the use of disposed property for any lawful public education purpose and further prohibited school districts from refusing to lease or rent property to a party solely because the party intended to use the property for an educational purpose.

The restrictions under Section 1260 did not prevent school districts from imposing affirmative obligations on the use of disposed of property solely for a particular purpose or imposing negative covenants against using the property for certain non-educational purposes. The new legislation significantly limits the ability of school districts to use these types of affirmative and other restrictions.

In 2017, the Educational Instruction Access Act (the "Act") expanded the scope of the prohibited restrictions. The Act applies not just to school districts, but to all local government entities. The Act continues the prohibition on the use of negative deed restrictions by prohibiting a lawful public education use and continuing the prohibition on the refusal to sell, lease or rent to a party who intends to use the property for an educational purpose; then expands upon that prohibition by barring restrictions that bar educational uses expressly or by operation (i.e., have the effect of barring those uses). Although the Act provides that the governmental entity may not refuse to sell, lease or rent to an educational user, it also provides that it is not required to sell, lease or rent to the educational user. The Act also prohibits local governments from adopting an ordinance, policy or

resolution which would prohibit an educational use for transferred property. Finally, the Act also provides enforcement provisions for non-compliance.

The Act was recently amended by Act 7 of 2018, which became effective on Jan. 26, 2018. Act 7 repealed Section 1260 and further expanded these prohibitions by barring the use of affirmative use deed restrictions that do not include an educational use or purpose. Act 7 also voids any affirmative or negative deed restrictions in effect on Jan. 26, 2018 that prohibit or do not permit property previously used for an educational purpose from being used for any future educational purpose.

Under the Act, as amended, a school district may now only use an affirmative deed restriction if it includes an educational purpose as one of the restricted uses. It will be interesting to see how the courts interpret the Act's provision voiding existing deed restrictions or how broadly they construe the new proscriptions on municipal actions. If you have questions regarding the impact of this legislation on prior or proposed property transfers, please feel free to contact us.

Miller Canfield PLC – James Crowley and Amanda Van Dusen

February 9, 2018

The First Circuit Joins Several Other Circuit Courts in Finding That Creditors' Committees Have an Unconditional Right to Intervene in Adversary Proceedings.

On September 22, 2017, the First Circuit Court of Appeals held that § 1109(b) of the Bankruptcy Code (the "Code") provides a creditors' committee with an "unconditional right to intervene" in an adversary proceeding.[1] In reaching this conclusion, the court reversed the District Court for the District of Puerto Rico's order denying an intervention motion and distinguished its own precedent, on which the District Court had relied. This decision further bolsters the right of creditors' committees to intervene in and to be heard on all matters within a bankruptcy case and positions the First Circuit in line with the Second and Third Circuits, which both have similarly concluded that the Code affords an unconditional right to intervene.

Continue reading.

Caplin & Drysdale, Chartered

January 23 2018

Bloomberg Brief Weekly Video - 2/15

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

Watch video.

Bloomberg

February 15th, 2018

After Muni-Bond Boom, Analysts Expect Distress to Be on the Rise.

- **Low rates, small yield penalties have fueled risky borrowing**
- **"Credit risk is increasing in the municipal market," says MMA**

Bankers say bad loans are made in good times, and the $3.8 trillion municipal-bond market may be no exception.

High demand from investors, a dwindling supply of new deals, and historically low yield penalties on the riskiest bonds has created an borrower's market, Municipal Market Analytics analysts Matt Fabian and Lisa Washburn wrote in a note to clients Monday. This atmosphere has produced a rise in issuance in sectors most "prone to impairment," they said.

"Over recent years the mix of defaults has become more diversified than it was previously," Washburn wrote.

Before the 2008 credit crisis, nearly all defaults were concentrated in the healthcare and housing sectors. Now that trend is expanding into utility districts and tax-based issues, typically known as safe sectors, according to the firm.

Even so, the municipal market remains among the safest in the world, with payment lapses extremely rare even after the economic and financial turmoil brought by the last recession. Although MMA doesn't forecast defaults, they expect an up-tick in the filings of so-called credit impairments — like technical defaults triggered by a drawn down of reserves — over the next few years.

Bloomberg Markets

By Danielle Moran

February 14, 2018, 12:43 PM PST

Muni Money Funds Have Revival After $100 Billion in Outflows.

- **Muni money market fund assets up by $7 billion in 2018**
- **Assets grown to $138 billion as of Feb. 7 from $131 billion**

If 2017 was the year the municipal money market funds stopped bleeding assets, 2018 is the year they've started growing again.

Tax-exempt money market fund assets have increased by almost $7 billion since the beginning of the year, seven times as much as all of last year, according to Investment Company Institute data.

"With rates rising there's just been a better bid for floating rate products," said Matt Fabian, a partner at Municipal Market Analytics. "It's a reasonable place for investors to park cash."

Yields on municipal securities that reset weekly rose to 1.71 percent at the end of December, the highest since October 2008, after the Federal Reserve raised interest rates for the third time in 2017.

Since then, yields have dropped to 0.98 percent, a sign of customer demand, Fabian said.

Tax-exempt money market funds are growing again after tepid growth in 2017 and the hemorrhaging of more than $100 billion in the first 10 months of 2016, a reaction to U.S. Securities and Exchange Commission rules aimed at reducing the risk of runs on the pools.

The rules required municipal money market funds to adopt floating net-asset values and imposed liquidity fees and redemption suspensions under certain conditions.

“You had the double whammy of zero yields and regulatory changes,” said Peter Crane, president of Westborough, Massachusetts-based Crane Data LLC

Municipal money market fund assets have grown to $138.1 billion as of Feb. 7 from $131.2 billion on Dec. 27, ICI said.

Bloomberg Markets

By Martin Z Braun

February 12, 2018, 10:11 AM PST

Municipal Market Update.

Read the Update.

Stern Brothers | Feb. 13

Should America Sell Its Existing Roads to Pay for New Ones?

Trump’s infrastructure plan eases requirement that investors who buy or lease public infrastructure assets must repay all their existing tax-exempt debt

When President Donald Trump unveiled his long-anticipated infrastructure plan on Monday, there was one word that caught the attention of many investors: recycling.

It isn’t the garbage variety. Since early last year, infrastructure fund managers, bankers and lobbyists have been pitching the administration on the concept of infrastructure asset recycling.

Here is how many on Wall Street hope this might play out in the U.S.: The federal government would set up a pot of money to give state and local governments a bonus payment when they privatize or lease one of their existing assets to investors. To earn the bonus, governments would have to commit to using the sale proceeds to fund new bridges, roads or other infrastructure projects in need of money.

President Trump's $1.5 trillion infrastructure plan stopped short of recommending such a fund. But it eased a requirement that investors who buy or lease public infrastructure assets must repay all of their existing tax-exempt debt—an expensive proposition that makes such deals harder to finance. The plan proposes that governments could recycle deal proceeds into new projects, and if they do, the tax-exempt debt could remain outstanding.

"Getting to $1.5 trillion without a significant asset-recycling effort will be a challenge, unless states decide to implement other revenue measures such as big tax or fee increases," said Geoff Segal, senior vice president at Macquarie Capital, the investment-banking arm of Australia's Macquarie Group Ltd.

If it takes root in the U.S., asset recycling could create a pipeline of new deal flow for Macquarie, the world's largest infrastructure fund manager, and its peers. Macquarie estimates U.S. state and local governments could earn as much as $1.25 trillion from privatizing their infrastructure assets.

Australia's ambassador to the U.S., Joe Hockey, has pitched the idea to senior administration officials, including Vice President Mike Pence, National Economic Council Director Gary Cohn, Transportation Secretary Elaine Chao and DJ Gribbin, President Trump's infrastructure-policy adviser and a former Macquarie executive.

He has also met with Rep. Bill Shuster (R., Pa.), chairman of the House Transportation and Infrastructure Committee, which will have a big say in any legislation implementing Mr. Trump's infrastructure push. A spokesman for Mr. Shuster said he believes "Australia's experience with asset recycling is something we should give serious consideration."

The idea also came up in late June, when executives from Goldman Sachs Group Inc., Morgan Stanley and a handful of other pension and infrastructure funds met with White House officials to discuss Mr. Trump's plans to jump-start investment in U.S. infrastructure. Spokeswomen for Morgan Stanley and Goldman Sachs declined to comment.

The meeting was held to broadly discuss how to level the playing field between private investors and governments, which have long enjoyed an advantage in funding U.S. infrastructure thanks to their lower cost of borrowing. One suggestion, according to two attendees, was asset recycling.

"That's how you get lots of cranes up in the air," said Mr. Hockey, who says he coined the term "asset recycling" as Australia's treasurer from 2013 to 2015.

During his tenure, Australia launched a 5 billion Australian dollar (roughly US$4 billion) asset-recycling fund to incentivize its states and territories to privatize assets and plow the proceeds into new infrastructure projects. In exchange, for doing so, they would get a bonus equal to 15% of the value of the privatized asset.

In a statement, the White House said: "The President's plan does not contain a preference for that model or really any specific revenue raiser. The plan is designed to promote innovative and creative solutions to fund infrastructure."

In the U.S., the need for other sources of revenue is paramount. Most of President Trump's $1.5 trillion infrastructure plan will not be financed by the federal government but instead by state and local governments, and private investors.

That is a difficult proposition for mayors and governors. Census data show that state and local tax revenues have been recovering from the 2007 recession at the slowest rate of any economic downturn since 1980. The administration's reduction of the state and local tax deduction, a popular

tax break for residents in high-tax states, could make it even harder for those governments to raise taxes.

“He wants everybody else to spend a trillion dollars,” said Martin Klepper, who until November headed lending programs at the U.S. Department of Transportation.

Not everyone likes the idea.

“‘Asset recycling’ sounds like a fancy term for enriching investment bankers while undermining public services,” said Lee Saunders, president of the American Federation of State, County and Municipal Employees. The 1.6 million-strong public-sector union believes “infrastructure is a public good, and it should be controlled by taxpayers and built and maintained by public-service workers.”

Another worry is that governments won’t make the best use of privatization proceeds. In 2008, for example, Chicago agreed to lease its parking meters to Morgan Stanley’s infrastructure fund for $1.16 billion and then used the money to plug budget gaps.

Mr. Hockey said it is up to the federal government to craft rules that would prevent a similar situation. But ultimately, he doesn’t want to tell the U.S. what to do.

“Take it or leave it,” he said.

The Wall Street Journal

By Cezary Podkul

Feb. 14, 2018

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Broader Private Activity Bond Use in Trump Infrastructure Plan.

CHICAGO (Reuters) – An infrastructure investment blueprint unveiled by U.S. President Donald Trump on Monday would expand the use of tax-exempt private activity bonds (PABs), while lifting a cap on issuance of the debt.

Trump’s proposal seeks to provide $200 billion in federal funds to spur $1.5 trillion in infrastructure investments with state, local and private partners over the next 10 years.

The PABs provision is aimed at increasing the leveraging of federal funds to allow for more efficient infrastructure improvements, according to the president’s legislative outline for rebuilding infrastructure.

PABs had been targeted for extinction by House Republicans in their version last year of the federal tax bill, but the final bill signed into law by Trump in December retained the debt’s federal tax exemption.

These bonds, which accounted for 27 percent of issuance in 2015, are sold for an array of projects including airports and affordable housing, as well as for nonprofit hospitals, nursing homes, and colleges.Tim Fisher, government affairs manager at the Council of Development Finance Agencies, said the proposal creates new PAB categories, while modifying others.

“It’ll take some time for us to evaluate the package as a whole, but I’m very pleased by the PAB improvements outlined in the proposal,” he said.

New uses for PABs would include construction of hydroelectric power generating facilities and environmental remediation for brownfield and superfund sites, as well as facilities for rural broadband, flood control, and storm water.

The current use of PABs for airports, water ports, mass transit, water and sewer and surface transportation facilities would be expanded to allow more privately financed infrastructure projects to benefit from tax-exemption.

PABs would no longer be subject to the alternative minimum tax in an effort to lower borrowing costs and increase their use, under Trump’s proposal. In addition, a federal population-based, per-state annual cap on the issuance of certain types of PABs would be lifted.

Sandy MacLennan, president of the National Association of Bond Lawyers, said while the proposal appears to look good for the U.S. municipal bond market, public-private and local financings may be restricted under state laws.

“Further, while the financing options may be welcomed, the total proposed dollar investment seems small in comparison to reported needs,” MacLennan said in a statement.

Reporting By Karen Pierog; Editing by Daniel Bases and Susan Thomas

FEBRUARY 12, 2018

PABs Would get Boost, but Can Trump Sell His infrastructure plan?

WASHINGTON — Less than three months after the House tried to kill tax-exempt private activity bonds, President Trump has released an infrastructure plan that proposes to expand and use them as a way to leverage financing for public-purpose infrastructure projects.

The plan calls for $6 billion to go toward tax-exempt PABs for public infrastructure. But the $6 billion would represent federal revenue losses over 10 years so the actual amount of additional of PABs issued under the plan would be much greater, sources said.

The PAB proposal is part of a major effort by the administration to place more funding responsibility on the private sector and on state and local governments, rather than the federal government.

“President Trump’s infrastructure plan is less important for the funding it may provide, but rather is significant because of its bold and sweeping proposals to move federal policy toward the involvement of the private sector in the provision of public infrastructure,” said Chris Hamel, former head of muni finance at RBC Capital Markets who now focuses on infrastructure policy.

The plan, for example, would authorize the federal divestiture of assets that it says would be better managed by state, local or private entities, including Ronald Reagan Washington National and Dulles International Airports, regional transmission systems, and the George Washington and Baltimore Washington Parkways.

Muni market groups applauded the proposed expansion of PABs.

A group of state and local officials met with the president on Monday and Columbia, S.C. Mayor Steve Benjamin, who heads the Municipal Bonds for America Coalition, thanked Trump for supporting tax-exempt PABs in the plan.

Bond Dealers of America CEO Mike Nicholas said, BDA "applauds the focus on utilizing governmental municipal bonds and private-activity bonds to upgrade our nation's infrastructure. For over a century, bonds have been a bedrock investment tool for state and local governments to produce and maintain critical infrastructure."

Emily Swenson Brock, director of the Government Finance Officers Association's federal liaison center, said GFOA has been pushing for the expansion of the use of tax-exempt PABs for public infrastructure projects like airports and seaports for two decades.

Can Trump sell plan to stakeholders, lawmakers?

But many sources questioned whether Trump can sell his plan to stakeholders and lawmakers, who are already complaining it doesn't propose enough federal spending and places too much of the funding responsibility on state and local governments.

"It is a fantasy to assume that states and local governments have the kind of available capital that the Trump plan demands they spend without federal help," said Senate Democratic Whip Steny Hoyer, D-Md.

Some muni market sources worry that, even if lawmakers eventually take up some sort of infrastructure legislation, it might be dangerous to put any PAB-related proposals before the House Ways and Means Committee again given their willingness to terminate them last year.

The U.S. Chamber of Commerce, the American Trucking Associations and many transportation groups want an infrastructure plan to increase federal fuels taxes to fix the ailing Highway Trust Fund, the main source of grants for highway and mass transit programs for states.

Rep. Bill Shuster, R-Pa., chair of the House Transportation and Infrastructure Committee, did not address the president's plan directly but rather talked about an infrastructure bill needing "to be bipartisan, fiscally responsible, and make real long-term investments in our Nation."

Shuster also talked about the importance of "addressing the long-term sustainability of the Highway Trust Fund." The president's plan is virtually silent on the HTF, with only one mention.

Rep. Peter DeFazio, D-Ore., the ranking minority member of the committee, on Thursday called the plan "fake" and said it would place too much reliance on funding from state and local governments and would result in higher tolls.

Rep. Ron Wyden, D-Ore., the ranking minority member of the Senate Finance Committee blasted the president's plan as "another broken promise to rebuild America's aging infrastructure" that caters to "wealthy investors who only care about wasting taxpayer dollars to fund their privatization schemes."

Wyden also complained that, "$200 billion is a drop in the bucket compared to the $1.5 trillion Republicans in Congress just spent to slash taxes for multinational corporations and the donor class."

National Association of Bond Lawyers' president Sandy MacLennan, said, "A recurrent theme throughout the administration's broad infrastructure proposal is the facilitation of private

investment in public projects and also the removal of impediments in existing federal law to tax-exempt financing of these projects. While that looks good on the surface for the municipal market, particularly the expanded list of private activity bond-eligible projects and expanded remedial action for change in use, there may be state law restrictions on public-private endeavors that will need to be reviewed, as well as state restrictions on local financing."

"The total proposed dollar investment seems small in comparison to reported needs," she said.

PAB Details

The president's infrastructure plan would remove state volume caps, and the $15 billion transportation volume caps for tax-exempt PABs used for public infrastructure projects, which would be expanded to include ports and airports.

The alternative minimum tax would also be removed for PABs. Historically the AMT has led to higher interest rates on many PABs, making them more costly for state and local governments to issue.

Public-purpose infrastructure projects would have to be owned by state or local governments, with some exceptions. Projects could be owned by private parties but only under arrangements in which the rates charged for services or the use of the projects are subject to state or local regulatory or contractual control and approval.

Also the projects would have to be available for general public use or to provide services to the general public.

A project would be treated as governmentally owned if a state or local government leases it to a private business if: the term of the lease is no longer than 95% of the reasonably expected economic life of the project; the private lessee agrees not to take depreciation or the investment tax credit with respect to the project; and the private lessee has no option to purchase the project other than at fair market value.

The plan would allow longer-term leases and concession arrangements for projects financed with tax-exempt PABs.

Public infrastructure projects would include the existing tax-exempt PAB categories of: airports; docks, wharves, maritime and inland waterway ports, and waterway infrastructure, including dredging and navigation improvements; mass commuting facilities; facilities for the furnishing of water; sewage facilities; and solid waste disposal facilities.

In addition such projects would include modified or new categories of: surface transportation facilities, including roads, bridges, tunnels, passenger railroads, surface freight transfer facilities, and other facilities that are eligible for federal credit assistance under the Transportation Infrastructure Finance and Innovation Act; hydroelectric power generating facilities, including new construction; flood control and stormwater facilities; rural broadband service facilities; and environmental remediation costs on Brownfield and Superfund sites.

The plan calls for modifying so-called change-of-use tax rules to more easily preserve the tax-exempt status of governmental bonds when the bond-financed project is either used, or purchased, by one or more private parties. It would also provide change-of-use cures for private leasing of infrastructure projects to ensure preservation of the tax exemption of the bonds.

Overall plan details

Overall, the infrastructure plan proposes $200 billion in federal funding over $10 years, which could be used to leverage $1.5 trillion in new infrastructure investment, mostly through incentive grants and the enhancement of several federal loan programs.

The $200 billion would be paid for from cuts in existing programs, such as transit and Transportation Investment Generating Economic Recovery (TIGER) grant programs where "this administration thinks funds haven't been spent that efficaciously," a senior White House official told reporters this weekend.

Asked about an increase in federal gasoline tax, the official said, "The president has said he's open to new sources of funding. This is the start of a negotiation to find best solution for the U.S."

"We're not proposing eliminating the Highway Trust Fund, or changing the state revolving funds," he said. "So to the extent that communities are eligible for federal funds already, that eligibility remains."

Of the $200 billion, $100 billion would be spent on incentive grants for state and local governments that identify projects and revenue streams, such as property taxes, sales taxes, or user fees, to fund them. These governments can then apply to federal agencies – the Transportation Department, the U.S. Army Corps. of Engineers, and the Environmental Protection Agency — for some percentage of matching funds to complete the financings.

An incentive grant could not exceed 20% of new revenue. An individual state could not receive more than 10% of the total amount available under the incentives grant program.

The White House official took umbrage at the notion that the president wants to reverse funding ratio so that state and local governments will now get only 20% instead of 80% of federal funds for projects.

"It's wildly inaccurate," he said, adding that kind of match is currently only available for federal-aid highways.

Currently the federal government only funds 14% of infrastructure costs, the official said. The remaining 86% of costs is evenly split between state and local governments and the private sector.

Many programs involve far less of a federal match than 80%, he said. Water projects, for example, on average involve a 4% federal share and a 96% state or local government share.

Additionally, a Rural Infrastructure Program would be established and provided $50 billion for capital investments in rural infrastructure investments. A portion of these funds would be set aside for Indian tribal governments and territories.

Governors would receive 80% of the funds via a formula based on rural lane miles and rural population adjusted to reflect policy objectives. The governors, in consultation with a designated federal agencies and state directors of rural development, would choose the infrastructure projects in which to invest.

Another $14 billion will be spent on the expansion of federal loan programs such as TIFIA for transportation projects, the Water Infrastructure Finance and Innovation Act (WIFIA) for water projects, and the Railroad Rehabilitation and Improvement Financing (RRIF) for rail projects.

Also $20 billion will also be used for transformative projects . "Funding under this program will be awarded on a competitive basis to projects that are likely to be commercially viable, but that possess

unique technical and risk characteristic that otherwise deter private sector development," the plan states.

The Commerce Department would chair the program and could request other federal agency employees to be temporarily assigned to it. Funding could cover eligible costs of up to: 30% for demonstration; 50% for project planning; and 80% for capital construction.

And $10 billion will be put into a capital financing fund and used for federal office building infrastructure.

Permitting

The president wants to shorten the environmental permitting process to two years by establishing a new 'one agency/one decision' process, the White House official said.

A federal agency with the most expertise will be designated as the lead agency and it will work with other agencies to coordinate the permitting process to reach a collective decision over a 21-month period. The agencies would all sign a "record of decision." They will then issue permits over a three month period, he said.

"The process we have in the U.S. just takes way too long," the official said. "It's not really focused on the outcome in terms of making sure we build projects responsibly. It's focused more on litigation and building up massive documents."

"We are not touching any of the fundamental requirements of the core environmental acts [but rather] the process to be used to do the analysis," the White House official said on Saturday.

The plan will also include plans to remove obstacles and disincentives for individuals to go into the trades to work on infrastructure projects, he said. For example, the administration will call for the licensing process to be more flexible so that licenses can be transferred easily from one state to another. And programs will be set up to expand apprenticeships for workers to more easily develop skills.

Administration officials have spent weeks talking about the infrastructure plan and trying to get some ideas and consensus from lawmakers on Capitol Hill and industry groups. President Trump called on Congress in his State of the Union speech to come up with an infrastructure package.

It won't be easy. White House officials noted there are five to six committees with jurisdiction in each of the House and Senate. Senate Democrats have already called for the federal government to spend $1 trillion on infrastructure, apart from any leveraging.

President Trump asked the state and local officials he met with on Monday to lobby their Senate and House members to support his plan.

The Bond Buyer

By Lynn Hume

February 12 2018

How Trump Plans to Turn $200 Billion Into $1.5 Trillion in Infrastructure Spending.

President Trump's long-awaited infrastructure plan proposes that the federal government put up $200 billion in incentives and investments over 10 years, leaving state and local governments and private industry to come up with the rest.

Here's a look at how the plan may pan out, and what the challenges will be in turning $200 billion into $1.5 trillion.

Continue reading.

THE NEW YORK TIMES

By KEITH COLLINS and PATRICIA COHEN

FEB. 12, 2018

Infrastructure Plan Falls Flat for Investors.

President Donald Trump's infrastructure plan has left investors in infrastructure firms unimpressed

Maybe it should be called "Infrastructure Weak."

In the days following the 2016 U.S. presidential election, investors took President-elect Donald Trump at his word that he would open the floodgates of federal spending and deregulation to fix America's creaking transport, energy and water systems.

A basket of 10 U.S. stocks with exposure to infrastructure spending beat the S&P 500 by nearly 13 percentage points in the eight trading sessions through November 17, 2016. In the four sessions following Monday's much-delayed release of the White House's infrastructure plan, though, the same stocks lagged behind the broader market.

Whether one calls it a $1.5 trillion plan or a $200 billion plan—the latter is the actual value of proposed new federal spending over a decade—investors clearly sense that there is less to it than meets the eye.

One reason is the assumed ratio of funding. The largest chunk, $100 billion for the so-called Incentives Program, would be awarded based largely on an at-least four-to-one the ratio of nonfederal to federal money. That gets the value of the administration's plan to $1.5 trillion. Most of the nonfederal money must come from state or local governments rather than private entities.

That ratio, though, is far above the one-to-one typical of large projects such as the recently completed new Tappan Zee Bridge in New York. A more serious problem is that the White House's budget proposal would reduce existing federal infrastructure funding elsewhere.

The recently passed tax cut also weighs on the infrastructure plan. The growing federal budget deficit and rising bond yields have made borrowing more expensive for state and local governments. A lower marginal top tax rate makes municipal bonds less attractive to wealthy individuals, their

biggest buyers. And limits on deductions for state and local taxes makes it harder for governments to raise taxes.

Unless the federal government comes up with more funding for existing programs like the Highway Trust Fund, whatever gains are achieved by the infrastructure programs will be offset by cuts elsewhere.

The Highway Trust Fund, which was bailed out in 2016, will need about $100 billion in the next decade to stay solvent, based on Congressional Budget Office projections—the same amount as the proposed Incentives Program. The U.S. Chamber of Commerce, which praised the infrastructure program, also called this week for a gasoline tax increase of 25 cent per gallon to support the highway fund.

Gaudy headline numbers aside, investors are clear in their view that Mr. Trump's infrastructure plan, even if adopted, would do little to boost overall spending. New rules and incentives are nice, but more spending and the revenue to back it up are the missing ingredient.

The Wall Street Journal

By Spencer Jakab

Feb. 16, 2018 5:30 a.m. ET

Write to Spencer Jakab at spencer.jakab@wsj.com

Blackstone, Other Private-Equity Firms May Sit Out Trump Infrastructure Push.

Private-equity funds have raised nearly $34 billion for infrastructure investments in North America

Private-equity firms raised a record sum for infrastructure investment last year, aided by President Donald Trump's promise to pump $1 trillion into America's aging roads and bridges. That was the easy part. Spending it is another matter.

After lobbying the White House to create incentives for states and cities to accept more private money for transportation projects, buyout firms got some of what they sought in the administration's infrastructure plan released Monday.

But few firms believe Mr. Trump's infrastructure plan will open the floodgates for privatization deals, which have long been out of their reach because of cheap funding alternatives such as municipal debt and the challenges of navigating local politics.

Fund managers say they are mainly looking for assets that are already privately owned—such as renewable energy, railroads, utilities and pipelines—and not the deteriorating government-owned infrastructure like roads and bridges that helped attract the capital in the first place. To the extent they are interested in public assets, the focus is more likely to be on privatizing existing infrastructure than on new development—the heart of Mr. Trump's push.

That is the paradox of the administration's plan: It creates incentives for investment that most

infrastructure funds aren't much interested in, and never really have been.

Take Blackstone Group LP. The private-equity firm plans to raise as much as $40 billion for North American infrastructure, but may devote only 10% to public assets, according to a person familiar with the matter. Other prominent infrastructure investors such as Macquarie Group have similar targets—if they target public assets at all. Macquarie, Carlyle Group LP and KKR & Co. are among the firms that have been raising infrastructure funds.

Concentrating their firepower on private assets could mean more competition, higher prices and ultimately lower returns for infrastructure funds. That has some deal makers warning of another false start for the U.S. infrastructure market after poor performance in the wake of the financial crisis.

"Most firms are probably scratching their heads, saying, 'how do I put the money to work apart from buying existing assets and paying high premiums?'" said Roger Wood, a Moelis & Co. infrastructure investment banker.

Private-equity firms raised a record $33.7 billion for North America-focused infrastructure funds last year, according to Preqin. That brought the funds' infrastructure-focused capital to roughly $70 billion, a figure that is up more than 40% since the end of 2015.

Those numbers don't include Blackstone's fund.

"The extensive discussion of infrastructure during the presidential election created a significant amount of excitement about the sector," said Mike Parker, U.S. infrastructure advisory leader at EY. "And you've seen significant fundraising on the backs of that."

U.S. infrastructure has been a tough nut for investors to crack. The U.S. market is the largest in the world for privately owned infrastructure, but it also is behind other countries when it comes to privatizing critical transportation assets such as roads and airports. Unlike other countries in which the federal government often has more control, decisions about how U.S. infrastructure projects are financed are often made at the state and local level.

The U.S. also has a larger and more liquid municipal-bond market than other countries. While voters tend to support transportation-spending ballot measures, the idea of giving Wall Street control of key highways or ports is often a hard sell.

That makes buying or leasing public infrastructure assets difficult for private investors. Deals often take years to get done and are notorious for falling apart at the last minute when an administration changes or legislatures reverse course.

Mr. Trump's plan would streamline the permitting and approval process for new projects, but not do much to change the dynamics of leasing or selling existing assets. The 53-page plan allocates $200 billion of federal spending to new infrastructure projects over a decade. The administration hopes state and local governments and private investors will provide the remainder of the tab, subsequently raised to $1.5 trillion.

These and other provisions could change considerably—or die—as they wind their way through Congress.

Still, the anticipation of the Trump plan appears to have helped Blackstone land a commitment of up to $20 billion from Saudi Arabia's Public Investment Fund, or PIF, last May. When the investment was announced, Yasir Al Rumayyan, PIF's managing director, said it reflected "our positive views

around the ambitious infrastructure initiatives being undertaken in the United States as announced by President Trump."

Blackstone, whose Chief Executive Stephen Schwarzman headed Mr. Trump's policy advisory council of executives until it disbanded in August, has said the firm's talks with PIF began in May 2016—before Mr. Trump was elected. The firm is now in the initial phase of raising as much as $20 billion to match PIF's money.

"[I]t's very fudgy, historically, trying to do things with the public sector," Mr. Schwarzman said on an analyst conference call Feb. 1. Legislation that encourages private infrastructure investment in public projects "would be sort of a cherry on a sundae for us," he said.

That hasn't stopped Blackstone from making public infrastructure projects a major selling point for its fund. In a marketing document obtained by The Wall Street Journal under a public-records request, Blackstone listed $122 billion of public-investment opportunities, primarily new projects, that could be financed with private capital.

Last month, the Pennsylvania Public School Employees' Retirement System approved a $500 million commitment to the Blackstone fund. A memo recommending the investment cited Blackstone's $122 billion list and concluded President Trump's infrastructure plan "could have a meaningful positive effect" on the buyout firm's ability to invest in the projects.

A spokeswoman for the Pennsylvania fund said the memo's intent was to illustrate "the enormous need" to upgrade U.S. infrastructure.

The Wall Street Journal

By Miriam Gottfried and Cezary Podkul

Feb. 13, 2018

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Trump "$1.5 Trillion" Infrastructure Plan Is a Mirage.

Administration officials claim that the President's new infrastructure plan will support $1.5 trillion in infrastructure investment, but his 2019 budget reveals that that number's a mirage: the President would cut annual federal support for infrastructure in the long run and shift costs to states, cities, and private individuals. As we previewed here, it likely would mean cuts to some of the areas in which new infrastructure investment is needed most — while providing a potential windfall for private investors.

At its core, the President's approach is a bait and switch that would cut federal support for infrastructure over the long term. The centerpiece is $200 billion in "new" federal funds that the Administration claims can support at least $1.5 trillion in investment. But the budget proposes deep cuts to programs in the same agencies that would receive new grant-making authority under his infrastructure proposal.

For example, the budget (even with its "addendum" to account for the budget deal) slashes support

for mass transit, ends the Transportation Department's TIGER program (which supported some of the most innovative local infrastructure projects over the last eight years), and cuts investment for new projects at the Army Corps of Engineers. It also eliminates the Department of Housing and Urban Development's main programs for building and renovating affordable housing, even as the Trump infrastructure initiative would not support much-needed housing infrastructure.

In addition, the President's budget includes — buried on page 122 of the supplemental "Analytical Perspectives" document — a major cut in federal spending from the Highway Trust Fund that would reach $21 billion a year by the end of a decade. Normally trust fund projections would reflect the spending needed to maintain the current levels of investment. But the Administration proposes to spend no more in a given year than the dedicated trust fund revenues it's currently projected to receive each year, largely through the federal gas tax. This change would move away from a bipartisan consensus in recent years to provide additional money to the fund to prevent such an outcome, effectively resulting in a cut of $122 billion in Highway Trust Fund spending over the last seven years of the budget's ten-year timeframe. The budget reflects this lower spending without proposing anything (beyond the new infrastructure initiative) to address it. Indeed, "Analytical Perspectives" states that the "Federal Government should incentivize more States and localities to finance their own transportation needs," showing that this lower level of support represents an explicit policy choice. Similarly, the budget justifies its other infrastructure cuts on the basis of the new infrastructure initiative, illustrating the President's approach of giving with one hand while taking with the other.

The headline $1.5 trillion figure hides the fact that the proposal would shift costs to states, cities, and individuals. The $1.5 trillion figure simply assumes that states, localities, and the private sector will provide $1.3 trillion of that support. The core element of the new initiative — $100 billion in grants that must account for no more than 20 percent of a project's cost — puts the burden on states and localities to fund the vast majority of any investment, while punting on the question of how they will raise the money. And that's on top of other burdens that the budget would impose on states and localities by cutting programs like Medicaid and SNAP (formerly food stamps), even as the new tax law may make it harder for them to raise revenues by limiting the state and local tax deduction.

The Administration has indicated that private investment will be a major component of its plan, with investors providing funding through public-private partnerships that achieve a financial return through collecting tolls, fees, or other revenues. But this approach could give short shrift to projects that don't lend themselves to tolls, fees, or other dedicated revenue streams — from repairing bridges to filling potholes to modernizing schools to rebuilding infrastructure in low-income communities. And it raises the likelihood that the ultimate cost of the proposal will be borne by low- and moderate-income people through new regressive taxes or fees. Meanwhile, the emphasis on private investment creates potential windfalls for investors through subsidies for projects they might have pursued anyway.

The President wants spending cuts to pay for his proposal but hasn't specified them. Administration officials explained over the weekend that while they haven't attached specific offsets to the proposal, they envisioned paying for it with cuts elsewhere in the budget — including to infrastructure. For example, the President's budget cuts the core Transportation Department budget by more than 19 percent, and White House officials say they might seek to use some of these savings, from cuts to programs like mass transit, to pay for the infrastructure initiative.

The President could also seek to use his infrastructure proposal as a cudgel to try to force Congress to pass his other proposed cuts, in programs ranging from health care to food assistance to housing, as a way to help offset the $200 billion cost. Those cuts would come in lieu of offsetting the cost by

raising revenues from wealthy taxpayers or corporations that benefited the most from the recent tax bill. The result? Even beyond any measures that states and localities may need to take to fill the funding gap left by federal infrastructure cuts, the President's initiative could ultimately hurt the same low- and moderate-income families he claims to help.

Center on Budget and Policy Priorities

by Jacob Leibenluft

Feb 12, 2018

Counties Respond to President Trump's Infrastructure Plan.

The National Association of Counties (NACo) today responded to President Trump's infrastructure plan and underscored counties' role in not only connecting people and places, but also increasing our global competitiveness.

"We welcome President Trump's focus on upgrading our nation's infrastructure," said NACo Executive Director Matthew Chase. "We must work together to achieve long-overdue infrastructure improvements."

"Counties are using every tool at our disposal to deliver infrastructure projects to our residents," Chase continued. "Despite strict constraints on our ability to generate revenue and an ever-growing list of federal and state unfunded mandates, we invest significantly in infrastructure. We also leverage innovative financing and private-sector partnerships to meet our communities' infrastructure needs."

Counties invest more than $122 billion in infrastructure and public works annually. Counties build and maintain the largest share of public road miles – 46 percent – and 38 percent of America's bridges. Counties are also involved in a third of the nation's airports and support 78 percent of all public transportation systems. Additionally, counties construct water and sewer systems, hospitals, libraries and other public facilities and public safety communications networks.

"To build upon our efforts, we need a reliable federal partner to invest in our communities and streamline processes that inhibit our efficiency," Chase concluded. "Transformational improvements to America's infrastructure have always been the result of a strong federal-state-local partnership. We stand ready to work with the administration and Congress – along with other public, private and nonprofit sector allies – to reinvest in our communities."

Feb. 12, 2018

S&P: President Trump's Infrastructure Plan: A Substantive Shift To Private-Sector Funding.

After more than a year of anticipation, on Feb. 12 the Trump released the details of of its plans to fix the nation's broken and crumbling infrastructure. President Donald Trump's "Legislative Outline for Rebuilding Infrastructure in America" framework is aimed at shaking up the federal government's

role in infrastructure investment.

Continue Reading

Feb. 14, 2018

The President's Infrastructure Proposal Misses the Mark: Too Much Cynicism, Too Little Leadership.

Rebuilding America was always a central part of Donald Trump's political ambitions. His affirmative message and decades of real estate experience created a palpable sense among both the general public and the media that the President would bring a major infrastructure push to Washington. But from the very first months of his administration, it became clear the new White House team wasn't ready with tangible ideas to match Trump's grandiose rhetoric. With multiple missed deadlines and no official documents since the last budget release, the wait for the plan's grand reveal stretched for months with seemingly no end in sight.

The wait is finally over—and it doesn't feel worth it.

Rather than establishing a clear long-term vision for the country's infrastructure that supports a more competitive and inclusive economy, the proposal is mostly a vehicle to indiscriminately boost spending. Even worse, the proposed cuts elsewhere in the FY 2019 Budget mean the administration is effectively asking everyone else – especially cities and states – to do nearly all the spending all while still claiming credit for new investments. There are certainly commendable elements within the 53 pages, but the core programs include too much cynicism and too little leadership. It's a missed opportunity.

Continue reading.

by Adie Tomer
Fellow – Metropolitan Policy Program

Feb 13, 2018

The Brookings Institutte

Trump's Infrastructure Plan is a Missed Opportunity: Podcast

Adie Tomer, a fellow in the Metropolitan Policy Program, analyzes the Trump administration's infrastructure plan. Tomer discusses who would benefit and who would be left behind by the administration's plans. He also explains the politics behind the plan and what to expect over the coming months.

Listen to the podcast.

by Adie Tomer

Thursday, February 15, 2018

The Brookings Institute

Still No Free Lunch: Infrastructure Investment Must be Carefully Evaluated.

The President's 2019 Budget gives a prominent place to infrastructure policy, proposing $100 billion of matching funds to state and local governments, as well as $50 billion in funding for rural infrastructure and $50 billion in other spending. The matching funds are intended to spur state and local investment, and would be provided to state and local governments that commit to allocating new revenues to infrastructure projects several times larger than the federal grant. The administration argues that this would leverage the federal investment, generating new state and local spending far in excess of the federal commitment.

Policymaker attention to infrastructure policy is certainly merited. A Hamilton Project blog post, "No Free Lunch: The Pros and Cons of Public-Private Partnerships for Infrastructure Financing," explored this very issue. Falling public investment at all levels of government—shown in the figure below—presents a challenge for building and maintaining American infrastructure at levels that can support robust economic growth.

Continue reading.

by Ryan Nunn

Wednesday, February 14, 2018

The Brookings Institute

Fitch: Infrastructure Plan Is Hurdle for US States and Locals.

Fitch Ratings-New York-13 February 2018: The infrastructure proposal released yesterday by the Trump administration relies primarily on funding from state and local governments. Fitch Ratings believes that providing funding from tax revenues could be challenging for some state and local governments as many have already raised revenues in recent years to fund infrastructure investments and general revenue growth has been slow. The plan includes limited additional federal funding and lacks a long-term solution for the federal highway trust fund, which serves as the primary source of existing federal infrastructure funding. Highway trust fund insolvency remains a significant long-term federal infrastructure issue.

The infrastructure proposal includes approximately $200 billion in federal funding over 10 years, largely repurposed from existing transportation programs. States and locals are asked to provide up to an 80% match for competitive grants and loans for $120 billion of this total. In contrast, most current federal funding operates on a 80% federal to 20% state and local match ratio. In the proposed plan, $50 billion will go directly to governors for rural infrastructure, while $10 billion will be for federally owned infrastructure, and $20 billion will fund expansion of existing federal loan programs and private activity bonds. The $200 billion represents limited increased federal funding over the next decade with much of it reallocated from existing transportation programs including Amtrak and the Federal Transit Administration's Capital Investment Grants (New Starts).

Many states have implemented transportation funding increases in recent years at a time of federal inaction. This will limit their willingness to pursue the additional revenue increases required by the proposal. Since 2013, 26 states and the District of Columbia have implemented transportation funding changes according to the National Conference of State Legislatures. Often, the additional funding has been directed to specific initiatives with a heavy focus on maintenance of existing facilities. Fitch anticipates these states in particular will be challenged to meet the proposed 80% match requirements for new projects.

The new cap on the SALT deduction implemented with the December 2017 Tax Cuts & Jobs Act (H.R. 1) further limits state and local governments' flexibility to generate the funding called for in the administration's plan. Taxpayers in 19 states and the District of Columbia had average SALT deductions exceeding the $10,000 cap imposed by H.R. 1, according to the Government Finance Officers Association (GFOA). The average deduction exceeded $9,000 in another 12 states in the GFOA analysis, which was based on 2015 Internal Revenue Service data. Tepid growth in state tax collections, which makes meeting operating spending demands for education and health care an ongoing challenge, further complicates states' ability to dedicate funding to a new federal transportation program. Using U.S. Census Bureau data, Fitch estimates real year-over-year growth in state tax collections was less than 1% in third-quarter 2017.

Highway trust fund insolvency remains a critical long-term federal infrastructure issue in Fitch's view, and the administration's proposal lacks any measures to address it. The highway trust fund provides roughly $40 billion in highway spending and $10 billion in transit spending to states annually. The Federal Highway Administration reports that since fiscal year 2008, trust fund spending has outpaced revenues, requiring approximately $140 billion in congressional transfers from other funds, mainly the treasury's general fund. The Congressional Budget Office estimates the highway trust fund will become insolvent under current law by 2020, threatening a primary source of existing federal support for infrastructure.

The administration's infrastructure proposal, part of its fiscal year 2019 budget request, faces an uncertain path through Congress.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings. Additional information is available on www.fitchratings.com

GASB Requests Public Input on Revenue and Expense Recognition.

News Release.

Invitation to Comment.

How Are Cities Paying Their Bills? With Fees on Trash, Parking, Sewers and 911 Calls.

From Chicago to Danville, Ill., why residents are paying higher fees for mundane services

Scranton, Pa. is turning to an unlikely source for fiscal strength: garbage.

The distressed city in northeastern Pennsylvania began charging residents a $300 annual fee in 2014 to collect their trash, up from $178. That 68% increase has since raised millions for Scranton, one of the many steps being taken to restore the former coal-mining hub to solid financial footing after decades of decline.

Cash-strapped American cities are increasingly asking their residents to pay higher amounts for mundane services as they struggle to pay for mounting pension obligations, cover costly infrastructure improvements and replace revenue depleted by the last recession. Bills are rising for everything from parking tickets and 911 calls to sewer service and trash pickup.

In 73 U.S. cities, fees and fines increased by a collective $182 million in 2017, according to financial reports analyzed by Merritt Research Services. That annual tally is up 11% since the last financial crisis in 2008.

Fees are expected to go even higher because of recent changes at the state and federal levels. New tax legislation passed last year by Congress caps the amount of local property and income taxes Americans can deduct from their federal tax bills, making local tax increases more costly for residents and thus politically difficult for elected officials.

Thirty four states have also placed separate limits on local government tax or spending increases, according to the National League of Cities. In California, tax increases by local governments must be approved by a vote of residents.

“What’s left? Basically what’s left are charges,” said Andrew Reschovsky, a professor emeritus of public affairs and applied economics at the University of Wisconsin-Madison. “I think the future probably holds more fee increases.”

Cities began turning to more fees and fines following the 2008 financial crisis, which eroded property and sales tax revenues due to pullbacks in housing values, employment and consumer spending. Revenue from property taxes, sales taxes and income taxes moved higher in recent years as the economy rebounded but the total collected from those categories in 2017 was still below 2008 levels, according to data from the National League of Cities.

Revenue from fees, on the other hand, was 14% higher in 2015 than in 2009, according to a study of 150 cities conducted by the Lincoln Institute of Land Policy. In 2017, 42% of city CFOs said their

towns had raised fees, more than the 27% who said they had raised property tax rates and 8% who reported sales tax increases.

In California, more than a dozen city fire departments are now charging hundreds of dollars for ambulance calls and more for ambulance rides. Long Beach, Calif. began imposing a $250 fee for service calls in 2016 on top of the existing $1,300 to $1,900 for a ride. The ambulance call fee brought in $1.6 million that year and $2.2 million in 2017, the finance director said.

One small Midwestern town, Danville, Ill., is raising its fees for a specific purpose: to chip away at more than $100 million in liabilities owed to police and fire department retirees. The city of about 30,000 first attached a $2 a month "public safety pension fee" to residents' sewer bills in 2014 and in December pushed that charge to $22.25 for those in single-family homes.

Danville Mayor Scott Eisenhauer said the city took this step because it no longer had enough to make its required pension payments without devoting less to firefighting, police, parks, street repairs and code enforcement. "That's what we could no longer afford to do—diminish our services because the pension obligation had increased so dramatically," he added.

Those who pay the higher fees aren't always pleased with the new demands. In Scranton, a property owner filed lawsuits over the $300 trash-collection fee and a fee for landlords, arguing the fees were higher than needed to pay for the services. The plaintiff alleges that Scranton has collected roughly $5 million more in garbage fees the past two years than it needs to run its Bureau of Refuse.

Scranton Mayor William Courtright said the fees are meant to cover the cost of collecting trash and supervising rental properties, not to generate revenue for other purposes. "Public safety and sanitation are the two most expensive endeavors of municipal government," he said in an email.

In Chicago, a city also struggling with massive pension liabilities as well as a mountain of bond debt, officials increased penalties for parking in a disabled zone and other violations between 2012 and 2014 and increased the fee for removing a car boot in 2016. The city also increased property and water-sewer taxes as part of a larger plan to improve its finances.

A city spokeswoman said Chicago reduced its "structural budget gap" by 66% in the last four years "without raising a single parking ticket fine amount." She added: "While revenue is an outcome of parking enforcement, it is not the driver of our enforcement actions."

Some public policy experts say the Chicago increases are causing hardship for certain residents. One resident, Vincent Heard, said in court documents he had accumulated about $11,000 in debt tied to parking tickets, speeding tickets and red-light violations when he filed for chapter 13 bankruptcy in September 2015.

Mr. Heard now makes monthly payments of $225 as part of his bankruptcy repayment plan. That, he said, is a challenge given his earnings of about $600 to $700 a week as a taxi driver.

"It's like I'm just working to pay tickets," Mr. Heard said.

The Wall Street Journal

By Heather Gillers and Sarah Chaney

Feb. 6, 2018 5:30 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com and Sarah Chaney at sarah.chaney@wsj.com

Fitch: Puerto Rico Ruling Could Have Wide-Ranging Impact on Municipal Debt.

Fitch Ratings-New York-06 February 2018: A ruling last week by district court judge Laura Taylor Swain that dismissed claims regarding payment of Puerto Rico Highways and Transportation Authority debt has raised broad concerns about the protections provided in Chapter 9 of the U.S. bankruptcy code to holders of bonds secured by pledged special revenues, according to Fitch Ratings. Credit ratings that could be negatively affected if the ruling is upheld on appeal include bonds secured by utility, transportation and tax revenues that are currently rated above the municipality's Issuer Default Rating (IDR).

Through a series of provisions, Chapter 9 protections have resulted in special revenue obligations receiving current payments from available net pledged revenues during the pendency of every municipal bankruptcy since enacted in 1988. These provisions protect special revenue obligations by continuing the lien on post-petition revenues (outlined in section 928(a)) and relieving bondholders from the constraints of the automatic stay provisions of the code (section 922(d)). This allows enforcement of the lien for the purpose of applying net pledged revenues to payment of the special obligation debt payment due.

Section 928(b) specifies that "necessary operating expenses" will be paid prior to debt service where special revenues are derived from a project or system. This alleviates the concern that bondholder payments might be placed above the health and safety of the municipality and its residents when resources are scarce.

The court's opinion appears to introduce a new gloss on the purpose and application of section 922(d). It states that 922(d) was included in the code only as permission for a municipality to continue paying special revenue obligations if it chooses to do so during bankruptcy. This is inconsistent with Fitch's prior understanding of the purpose of 922(d) for two reasons. First, the municipality already has the right to pay obligations of its choice during the proceeding as a general principle. This right is embedded in section 904, which places the municipal debtor in command of its assets and liabilities throughout the process without court intervention. A specific provision authorizing payment of special revenue-backed debt is unnecessary, redundant and not in keeping with Congressional intent. Examples of payments to unsecured creditors during the pendency of a bankruptcy include Central Falls' opting to continue debt service payments on its GO debt and the continuation of required pension contributions by Detroit and Stockton.

The second reason we were surprised by the court's interpretation of 922(d) is that the automatic stay provisions in section 362 act as a constraint on actions by creditors — not debtors — to enforce liens following the filing of a bankruptcy proceeding. The provisions of 922(d) are an explicit exception to this constraint which was clearly intended to allow creditors with a special revenue obligation lien to enforce any currently due debt service payments while the bankruptcy case proceeds. It is correct that the provisions of 922(d) do not create an automatic obligation of the debtor to make the payment — that obligation exists in the underlying bond documentation. 922(d) simply removes a constraint on enforcement by bondholders of rights to receive payments of debt service due.

One of the plaintiffs in the case has already appealed the court's decision, and it will be reviewed by the first circuit court of appeals. Pending the outcome of that appeal Fitch will continue to treat special revenue obligations as separated from the related IDR.

A final court ruling that payment of special revenue obligations during a bankruptcy is optional would create uncertainty about full and timely payment of special revenue obligations, potentially removing the basis for rating special revenue obligations above a municipality's IDR. For example, airport revenue bonds and water and sewer bonds issued by the city of Chicago might be capped at the city's 'BBB-'/Stable IDR. Chicago's sales tax securitization corporation's 'AAA' revenue bond rating would not be affected, as the corporation is a separate entity that would not be affected by a bankruptcy of the city.

We do not believe notching above the IDR to reflect perceived recovery prospects of special revenue debt would be warranted given that there would be new uncertainty around the level of recovery in a future bankruptcy. Existing Fitch criteria allow us to reflect potential recovery in post-bankruptcy security ratings to the extent prospects for recovery become apparent.

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Lower U.S. Taxes May Dent Insurers' Demand for Municipal Bonds.

- **'There's really not going to be that much interest.'**
- **Property, casualty insurers hold about 10 percent of munis**

Put on the Taylor Swift and pull out the Ben & Jerry's ice cream: The municipal-bond market's long relationship with property and casualty insurance companies may be breaking up.

That's because last year's tax overhaul slashed corporate rates to 21 percent, making tax-exempt debt less attractive to a segment of the insurance industry that has $342 billion in municipals, accounting for one-third of its debt investments, according to Federal Reserve data. That's threatening to pose another potential drag on the $3.8 trillion market, where prices have been sliding amid concern the Federal Reserve will increase interest rates more aggressively to slow the economy.

"There's really not going to be that much interest from insurance companies anymore," said Rich Sega, chief investment officer of Conning, which manages investments on behalf of insurers and oversees more than $9 billion in municipal bonds. "On average, it just raises the cost of municipal financing."

Too Late to Say Goodbye

Munis will be less attractive to property and casualty insurers due to lower corporate taxes

Property and casualty insurance companies are already looking to the exits. Citigroup Inc. analyst Vikram Rai said weaker demand from property and casualty insurers was one factor behind the recent downturn in the municipal market, which has already lost 1.3 percent so far this year.

Don McDonald, the chief executive officer of Prime Advisors, which oversees about $17 billion, is working with "many" companies on whether they should sell municipal bonds and shift into other asset classes.

Property and casualty insurers are likely to be "net sellers" in the first quarter, he said, forecasting that the companies' allocations to municipals will drop by 2 to 4 percentage points during the quarter.

"New purchases would have less value," McDonald said. "That's the bottom line – there's no question."

Property and casualty companies have been "cautious" about buying more state and local debt since the tax bill was enacted in December and are likely waiting for interest rates to rise enough to make it worth while, said Matt Caggiano, who helps oversee more than $9 billion of insurers' municipal holdings at Deutsche Asset Management.

Companies will be more attracted if municipals cheapen relative to U.S. Treasuries, he said, speculating that the entry point would be when yields on 30-year municipals rise above 100 percent of Treasuries. That gauge stood at about 96 percent on Wednesday.

Don't Grab Tissues Yet

The portfolios that Caggiano helps oversee for property and casualty insurance companies have allocations to municipals ranging from about 30 to 50 percent, he said. While he anticipates they could cut the amount they allocate over the next year or two, he said it's unlikely that they would reduce their overall muni holdings below 20 percent, given that the securities are among those least prone to default.

"You might see property and casualty insurers decide that's the lowest they want to go," he said.

Payden & Rygel Investment Management, which oversees $3 billion in tax-exempt and taxable municipals for clients including insurers, estimates that even with the lowered tax rates, AA and A rated municipals maturing in 20 and 30 years offer the same or higher after-tax yields than similar corporate bonds. That wasn't the case with AAA and BBB rated municipals, according to an analysis of bonds maturing from two to 30 years.

But Ksenia Koban, a vice president at the firm, said the companies won't exit the market completely. "Portfolios are still going to contain a good number" of the securities, she said.

Life insurers may also help make up for the drop-off in demand. Under the new tax law, those companies will pay taxes on just 30 percent of what they receive from tax-exempt municipal bonds, eliminating a previous uncertainty about how they would be taxed that gave them a disincentive to buy state and local debt.

Property and casualty insurance companies might be less interested in the tax-exempt municipal

market, but they will likely still be big buyers of taxable municipals, a much smaller segment of the market that accounted for about $34 billion of sales last year.

Prime Advisors has added to its exposure to taxable municipals over the last two years, McDonald said. “Taxable municipals are a great alternative,” he said.

Bloomberg Politics

By Amanda Albright

February 9, 2018, 6:23 AM MST

Bloomberg Brief Weekly Video - 2/8

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

Watch video.

Bloomberg

February 8th, 2018

What the Budget Deal Means for States and Localities.

Congress agreed on a two-year bipartisan spending deal just before dawn on Friday, after a brief shutdown of the federal government, which was the second shutdown in as many months.

The agreement, which President Trump has indicated that he will sign, increases spending by $300 billion over the next two years. Slightly less than half of that increase is slated for domestic programs.

John Hicks, executive director of the National Association of State Budget Officers, called the deal “the first salvo of federal budget certainty” that state and local governments have enjoyed in the Trump era.

Continue reading.

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 9, 2018

Credit FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Rating U.S. Solid Waste System Financings.

On Jan. 29, 2018, S&P Global Ratings published its updated criteria for rating solid waste systems in

the U.S. The update is part of our regular criteria review process, and its goal is to provide additional transparency and comparability to help market participants better understand our approach…

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Jan. 29, 2018

S&P RFC Process Summary: Solid Waste System Financings

On Aug. 21, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed criteria, “Solid Waste System Financings”. As more fully described in the RFC, the proposed criteria provide additional transparency and comparability to help market participants better understand our approach…

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Jan. 29, 2018

Criteria FAQ: S&P Global Ratings' Approach To Rating U.S. Local Government Bonds Secured By Dedicated Limited Ad Valorem Tax Pledges.

On Jan. 22, 2018, S&P Global Ratings published its methodology “Issue Credit Ratings Linked To U.S. Public Finance Obligors’ Creditworthiness” (Ratings Linked). These criteria include debt backed by an obligor’s limited ad valorem property tax pledge, even if that pledge is dedicated for debt service.

Continue Reading

Feb. 5, 2018

S&P: Puerto Rico Court Ruling Supports Our View That Credit Fundamentals Remain Key To Ratings

NEW YORK (S&P Global Ratings) Feb. 5, 2018—S&P Global Ratings today said that the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) bankruptcy judge’s recent decisions to dismiss bondholders’ claim that their secured status entitles them to full and timely payment…

Continue Reading

Feb. 5, 2018

Neighborly Insights: Pension Obfuscation Bonds, Contemplating Tolls in the Bay Area, UT and MN, Marijuana in VT.

Read the Neighborly Insights.

Posted 02/05/2018 by George Friedlander

Neighborly Insights

Neighborly Issuer Brief: A Volatile Stock and Bond Market Makes for a Difficult Space for Munis and Issuers.

Read the Neighborly Issuer Brief.

Posted 02/09/2018 by George Friedlander

Trendy Green Bonds Offer Little Beyond Feel-Good Vibes For Issuers, Investors

Although green bonds are growing in popularity in the municipal market, the largely unregulated structure may not amount to much more than a marketing tool to drive interest in an issuance.

Municipal green bond issuance totaled $11 billion in 2017, a record high and a 55% increase above 2016, according to the Climate Bonds Initiative (CBI). CBI expects that number to grow to $20 billion in 2018.

Green bonds rarely offer any distinction from traditional muni debt, financing the same projects and often without oversight to ensure the projects are green. While some issuers seek approval from CBI or Sustainalytics, there's no formal regulatory process to ensure the market avoids greenwashing, or applying the green label to projects that may not serve truly sustainable purposes.

As a result, the green label is not always limited to projects that make eco-friendly improvements. For example, a water system financing new pipes but not improving business practices to make them green, or a parking structure that offers battery chargers for electric cars are examples of projects not delivering on green benefits, an underwriter and portfolio manager told Debtwire.

But no investment is more fundamentally focused on improving people's lives than the municipal bonds. The explicit purpose of the $3.8 trillion municipal market is to function for the public good, with most issuances financing investment in our nation's infrastructure: building schools, hospitals, roads, public transportation, and utilities, including public power, water and sewer systems.

So why do municipal issuers bother with the green bond label? Ultimately, it's a marketing technique, used to generate interest in a new issuance and to attract interest from millennials or other investors searching for green and sustainable investments, according to market sources— an underwriter, portfolio manager and issuer—specializing in green bonds. More demand should, in

theory, drive the cost of borrowing down, resulting in cost savings for the issuer. However, significant cost benefits as a result of issuing green bonds have not materialized, these sources said.

New York's Metropolitan Transportation Authority (MTA) is one issuer that's revised their strategy to favor green bonds. MTA began issuing green bonds in 2016, and in an interview with Debtwire, disclosed that they've determined that going forward, the majority of its debt will be issued as green bonds, in line with its function as a mass transit operator. Unlike some green bond issuers, MTA does pursue third-party certification for its issuances, verifying their "green-ness."

But the security structure—what pays off the debt—is no different than when MTA comes to market with traditional revenue bonds, supported by a pledge of transportation revenue, or sales tax-backed bonds, and that's the same for any issuer that decides to embrace a green strategy.

Savvy green bond investors should do their homework and learn about what they're purchasing to make sure there is something beyond the label.

Forbes

By Maria Amante

Feb 9, 2018

Maria Amante is a reporter for Debtwire covering stressed credits in New York, California, Alaska, higher education and continuing care retirement community sectors. She can be reached at Maria.Amante@acuris.com.

Opinions expressed by Forbes Contributors are their own.

Multiple Factors Drive Upswing of Bankruptcies, Closures Among Rural Hospitals.

LOS ANGELES — The number of Chapter 9 bankruptcies by rural hospitals has climbed over the past five years as populations shrink and federal reimbursements decline.

In the last five years, not including this year's first filing, 13 hospitals have filed for Chapter 9, said Matt Fabian, a principal with Municipal Market Analytics.

With the distress in the sector trending up, Fabian said, it was no surprise that the first Chapter 9 bankruptcy filing of the year is a rural healthcare district.

Surprise Valley Health Care District, a 26-bed hospital in Cedarville, a small northern California town near the Nevada border, filed for Chapter 9 bankruptcy protection on Jan. 4.

The hospital district's board declared a state of fiscal emergency ahead of the filing, saying area residents' "health, safety and well-being" would be put at risk without the bankruptcy protection because it would be unable to meet its financial obligations within 60 days, according to bankruptcy documents.

The hospital, which has no bond debt, has asked the Eastern District U.S. Bankruptcy Court in Sacramento to authorize a $1.5 million debtor-in-possession loan from CadiraMD, a Denver-based

medical testing company with which it plans to partner. The loan is contingent on a number of factors including the sale of the hospital.

Surprise Valley HCD is the second rural California hospital to file Chapter 9 bankruptcy in recent months.

In the Central Valley, Tulare Local Health Care District, with $84.1 million in general obligation debt and $13.6 million of outstanding revenue bonds, filed for bankruptcy in early October. Its Tulare Regional Medical Center closed Oct. 29 and a hearing on a motion for summary judgment in the bankruptcy is slated for March 21.

“Bankruptcy is unlikely to impair the district’s GO bond payments, though risk is elevated given the challenges facing the district,” Moody’s Investors Service said in a report Thursday. “Payments on the $84.1 million in GO debt should not be affected given legal and structural features of the district’s GO bonds, which shield bondholders from hospital operations.

Tulare missed a principal payment of its revenue bonds in November. “Revenue bondholders will remain at greater risk for additional defaults during the bankruptcy process,” according to Moody’s (MCO).

Last year, Atoka County Medical Center in Oklahoma, the Gainesville Hospital District in Texas and the Kennewick Public Hospital District in Washington also filed for Chapter 9 bankruptcy protection.

Since 2010, 83 rural hospitals – or eight to ten a year – have closed, said Mark Holmes, the director of the North Carolina Rural Health Research and Policy Analysis Center.

Though iVantage Health Analytics puts the number of rural hospitals at risk of closing around 600, Holmes said he believes the number is much smaller.

The financial distress index that the North Carolina rural health policy center developed in 2015 estimates that 6% of the country’s 2,264 rural hospitals are at risk of closure, Holmes said.

Financial indicators such as operating margin, benchmark performance and retained earnings are the strongest indicators of financial distress, but hospital size and market poverty rates are also influential, Holmes said.

The North Carolina rural health policy center also looks at the size of the community, how far the hospital is from competitors, market share and the area’s unemployment rate, he said.

Fabian ticked off a list of challenges for rural hospitals that can make them a risky investment: They are small. They skew more toward reliance on reimbursement from the federal government and insurance, so they struggle with reimbursement rates. It’s harder to keep them fully staffed. The patient numbers are more inconsistent. And the long-term demographics show Americans are moving out of rural areas.

Rural hospitals in states that expanded Medicare under the Affordable Care Act like California are considered at less risk because they qualify for a higher rate of federal reimbursements for poor and elderly patients, but that is only one factor of many that are impacting small town hospitals, said Todd Sisson, a Wells Fargo (WFC) senior portfolio analyst for healthcare.

“I have been cautious about hospital investments in non-expansion states, and California is the poster child for expansion policies, but small hospitals just have a hard time,” Sisson said.

The Obama administration established a policy in which states that did not create ACA programs would not receive supplemental funding while states that did expand the number of poor and elderly served under their Medicaid programs do receive such funding.

The closures have been more heavily concentrated in southern states, but many factors that predate the ACA are pressuring those hospitals, Holmes said.

For more than 20 years, hospitals in the south have been less profitable than other areas of the country," Holmes said. "They tend to have smaller market sizes. Medicaid tends to pay less, and cover few people, in those states and reimbursements from private insurers are less."

In rural areas all over the country, population shifts have resulted in shrinking numbers and a high concentration of senior citizens.

Though older residents tend to use hospital services more, they make hospitals more dependent on reimbursement from the federal government, because many pay hospital bills with Medicare, Holmes said.

Holmes has taken note of the rural hospital bankruptcies in California, but his policy center has not studied what risk factors are specific to the state.

Technological changes are a factor pressuring rural hospitals everywhere. Medicare payments have shifted from a prospective system of fixed payments for a treatment to value-based payments tied to efficiencies and performance, Sisson said.

"You need more sophisticated technology systems to track metrics to qualify for value-based care and smaller hospitals don't have the balance sheet to pay for that," Sisson said. "That is why you are seeing a lot of hospitals trying to merge with larger providers that have more supportive IT systems."

That doesn't always work for all small rural hospitals, because often larger systems, interested in adding hospitals, want them to act as satellites focusing on outpatient care, he said.

ACA also has resulted in more private practice physicians migrating to larger hospital systems, because the billing and insurance is more complicated under the system, Sisson said.

"We have seen a ramp up in merger activity and we expect it to continue, because reimbursements are going to continue to be stressed," he said.

Changes in healthcare resulting in less time spent in hospitals and more treatments handled through out-patient procedures can also mean that rural hospitals have more beds than they need, Holmes said.

"My research indicates that the original purpose of healthcare districts was to encourage hospital facilities and healthcare in rural areas and allow them to borrow money through public finance and tax people," said Ron Winters, a managing director for Healthcare Management Partners, a consulting company that specializes in turnarounds.

That idea might not be as relevant as when it originated in the early 20th century, Winters said.

"When the financings were originally done, it was a different environment, rural hospitals could be expected to earn a certain amount of money and pay off the debt," Winters said. "Now, the life of the hospital could be shortened, so it doesn't match the lifespan of the debt."

As a municipal bond investor, Sisson said Wells Fargo (WFC) is more comfortable with larger, multi-state systems.

“We have high-yield funds, but we are cautious of rural hospitals in non-expansion states,” Sisson said.

It’s not just rural hospitals for which Municipal Market Analytics would throw down a caution flag, Fabian said, but also the cities that are served by the hospitals where they can be major employers and affect the local economy.

“Cities that are reliant on the rural healthcare provider should be seen as high risk,” he said.

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 02/08/18 07:04 PM EST

The Economy Is Full of Crypto (And Collective Delusion).

We have talked a few times around here about a socialist republic that has been hit hard by sanctions imposed by the U.S. government and that, in response, is planning to issue its own cryptocurrency to raise money. I mean Venezuela. Venezuela’s government is the one that is planning to issue a cryptocurrency to replace money that it has lost due to the policies of the U.S. federal government. In other news:

> The City of Berkeley, one of the epicenters of liberal California, is considering a turn to cryptocurrency to reduce its reliance on federal funding in the Trump administration.
>
> Berkeley would become the first city in the US to hold an initial coin offering (ICO) — a type of crowdfunding campaign that’s become popular in the past year. The city would raise funds by selling digital assets called “tokens” that are backed by municipal bonds, a type of security issued by the local government.

Continue reading.

Bloomberg View

By Matt Levine

February 11, 2018, 7:00 AM MST

Berkeley, Calif., Plans for First Muni Bond Issued on Blockchain.

Elected officials in the city are working with a startup and university faculty to try to revamp the municipal bond issuance process.

That slow-moving stalwart of investing, the old municipal bond, is about to meet the trendiest tech in

the country right now: blockchain.

The mayor and one councilmember in Berkeley, Calif., announced this week that they are partnering with the startup Neighborly and the Blockchain Lab at the University of California, Berkeley to attempt the first-ever tokenized municipal bond. They hope to make the process faster, cheaper, more transparent and more accessible to community members.

Basically, they want to sell city debt the same way cities always have — to fund projects that the regular budget can't or won't cover — but they want to digitize the process and record it on the blockchain. That means recording it digitally in a public ledger constructed with mathematical proof backing up every transaction. The people behind the initiative want to open the bond to investors using both U.S. dollars and some as-of-yet-unspecified cryptocurrency.

Continue reading.

GOVTECH.COM

BY BEN MILLER / FEBRUARY 9, 2018

Berkeley to Use Blockchain Technology to Combat Homelessness.

The city of Berkeley may soon launch an "initial community offering" as part of an effort to use blockchain technology to combat homelessness and housing issues. This would make Berkeley the first city in the United States to sell digital "tokens" as part of a crowdfunding campaign, according to a Tuesday press release.

In the press release, Mayor Jesse Arreguín and City Councilmember Ben Bartlett announced the founding of the Berkeley Blockchain Initiative, through which the tokenized municipal offering will be hosted. The initial community offering is similar to an initial coin offering, which is a cryptocurrency fundraising system. However, the tokens distributed by the initial community offering will represent real security for a specific purpose instead of potential future values, according to Kiran Jain, chief operating officer and general counsel of Neighborly.

Neighborly, a technology firm aiming to modernize municipal finance, and UC Berkeley Sutardja Center's Blockchain Lab will collaborate with the city on the initiative.

"We are always looking at new technology, trying to figure out how we can apply them in new ways to benefit our city," Bartlett said.

City Council began exploring blockchain technology about a year ago as part of the city's efforts to explore alternative methods of funding in anticipation of a possible decrease in federal funding from the Trump administration, according to Bartlett.

According to Jain, the project still has to receive official approval from City Council, along with other necessary approvals, which will likely happen about mid-May.

Jain said the process for conducting the initial community offering itself "is similar to what you'd see for a municipal bond" in terms of how the funds are raised. The official term for the process is a "tokenized municipal offering," and it is akin to an initial coin offering, except it is "fully compliant with all U.S. regulations and for low-cost tax-exempt debt rather than equity or utility token."

The initiative's leaders intend to direct the proceeds toward affordable housing projects in Berkeley.

The money raised from the community offering "can be directed towards whatever the community wants to fund," according to Bartlett. Buyers will purchase tokens backed by municipal bonds, and the proceeds can support housing projects and homelessness services.

Berkeley has a long history of combating housing issues through innovative measures, such as researching tiny homes as a possible response to the city's housing crisis.

"Cities must look towards innovative funding mechanisms to solve our most intractable problems, especially in the face of diminished federal support," Arreguín said in the press release. "Berkeley is proud to once again be leading the way."

THE DAILY CALIFORNIAN

BY LUKE KOPETSKY | STAFF

LAST UPDATED FEBRUARY 8, 2018

Contact Luke Kopetsky at lkopetsky@dailycal.org and follow him on Twitter at @LukeKopetsky.

City of Berkeley Looks to Cryptocurrency to Raise Funds.

- **California city is mulling applying blockchain to public debt**
- **Investors could buy either a digital coin or municipal bond**

In what might be a first for the $3.8 trillion municipal bond market, Berkeley, California is mulling a proposal to apply blockchain technology to public finance as a way to raise funds for community projects.

Under the initiative, the city would go to market with a public initial coin offering, allowing investors a chance to purchase either monetized digital tokens or municipal bonds issued in U.S. dollars. Coupon payments would be the same for those buying the bonds as those investors who want the digital currency instead.

The city is still working out the details, such as figuring out if voter approval would be needed to borrow the money and what kind of projects should be financed. City councilman Ben Bartlett said funds could be used to help pay for affordable housing, a critical issue for the expensive San Francisco region.

"We thought we'd get creative and figure out a way to finance our needs to take care of our people," Bartlett said in a telephone interview.

The municipal-bond market isn't often associated with cutting edge technology. With a vast number of issuers and no central exchange, it has long been considered opaque in comparison to more easily traded investments like corporate debt and equities.

Lower Costs

Berkeley is working with Neighborly Corp., an online startup that says it raises money for civic projects though municipal bonds, as well as the UC Berkeley Blockchain Lab, a research center for

cryptocurrency technology.

Applying blockchain — a platform that uses so-called distributed ledgers to allow digital assets to be traded securely — could lower costs for municipal borrowers, as well as make it cheaper and easier for local residents to invest, said John Crossman, principal at Neighborly Securities, the San Francisco-based company's underwriting arm.

For investors, they can buy the Berkeley coin directly and with less risk of mark-ups from middle-men, he said. For municipalities, savings could come from needing less from lawyers and advisers and achieving standardized documents, he said.

Since the securities would be issued and paid out in U.S. dollars, volatility in cryptocurrencies would have little impact on them, and network fees would be minimal as well, he said.

"If we can deliver on our mission, this will be a very attractive alternative for other cities and states and counties," Crossman said.

The Municipal Securities Rulemaking Board, which oversees the muni market, would have a role making sure regulations are followed in such offerings that involve market professionals such as financial advisers and underwriters, said executive director Lynnette Kelly by telephone.

"It's certainly novel, innovative and creative," she said of the initiative.

Bloomberg Technology

By Romy Varghese

February 8, 2018

Airports Call for Infrastructure Investment and Regulatory Relief.

Airports Council International – North America (ACI-NA) on Feb. 12, called on the Trump Administration and Congress to identify a clear funding mechanism to address the significant infrastructure needs of America's airports following the unveiling of the Rebuilding Infrastructure in America proposal by President Donald J. Trump.

"The infrastructure proposal put forward by President Trump addresses a number of regulatory burdens long identified by the airport industry as barriers to infrastructure development," said ACI-NA President and CEO Kevin M. Burke. "Airports will continue to pursue legislation that will not only provide meaningful regulatory relief but also a clear investment mechanism to meet the $100 billion in well-documented airport infrastructure needs across the country."

ACI-NA also released its own set of airport infrastructure principles that should be addressed by any infrastructure plan. By acting on these principles, Congress can provide airports with greater flexibility and local control to better serve their passengers and benefit their local communities now and into the future.

Modernize the Passenger Facility Charge Program

The Passenger Facility Charge (PFC) is a local user fee airports can use to upgrade their facilities, improving the passenger experience and spurring airline competition. Congress should give airports

the locally controlled self-help they need to finance critical infrastructure projects by eliminating the outdated federal cap on the user fee and streamline the cumbersome application and approval process to reduce construction costs. Congress also has the opportunity to enhance airport security by expanding PFC eligibility to include all security projects that airports are responsible for funding.

Enhance the Airport Improvement Program

The Airport Improvement Program (AIP) – supported entirely by users of the aviation system with no general fund revenues used for AIP grants – finances crucial safety, security, and capacity projects at airports of all sizes. In order to continue to be a viable funding mechanism for airports, AIP needs to be updated by Congress. Needed updates to the program include an increase in the amount of money contributed annually to AIP and the creation of an airport terminal development grant program.

Relieve Costly Land-Use Regulatory Burdens on Airports

Reducing the regulatory burden on airports would empower them to act in a business-like manner that accelerates innovation, construction, and job growth. To reduce the unnecessary federal red tape that can slow airport-development projects, Congress should eliminate the requirement for FAA approval for airports to dispose, use, or lease non-airfield property purchased without federal funding. Congress should also eliminate the requirement that FAA approve non-aeronautical improvements.

Help Airports Finance Critical Infrastructure Projects with Bonds

Airports often turn to the bond market to help finance their infrastructure projects. To help lower airport borrowing costs, Congress should maintain the tax-exempt status of public purpose municipal bonds and private activity bonds to ensure that airports can continue to finance critical infrastructure projects. In addition, Congress should exclude interest earned on airport private activity bonds from the alternative minimum tax and Allow advance refundings on all municipal bonds.

Establish an Airport Security Grant Program

In accordance with an Aviation Security Advisory Committee recommendation, Congress should establish an airport security-focused grant program at TSA to support the deployment of perimeter, access control, automated screening lanes, and other security technology at airports. Airport operators have limited funding available that must be prioritized across a multitude of safety, security, and operational projects. While DHS's existing grant programs have dispensed billions of dollars for systems and technology to bolster state, tribal, and local security, very little, if any, has been allocated to airports.

aviationpros.com

As White House Prepares To Unveil Infrastructure Proposal, Nation's Mayors Outline Priorities To Get America Moving With A Cities-First Agenda.

USCM President Mayor Mitch Landrieu: "No credible plan can ignore America's cities."

Washington, DC— As the White House releases its infrastructure plan, it will begin a national debate on the improvements needed to shore up the foundation of the nation's economy and ensure the future growth and opportunity in cities and other communities. The bipartisan U.S. Conference of Mayors (USCM) today released its plan for what are essential components of a strategy to rebuild and modernize the nation's critical infrastructure. Mayors set forth priorities last June in the Mayors' Agenda for the Future with its updated infrastructure recommendations in January, proposals that can inform and support Congress and the Administration as they craft new infrastructure policy and investments.

"Leadership at all levels of government requires presenting bold ideas that are informed by the experts on the ground – in this case, the nation's mayors," said **Mayor Mitch Landrieu of New Orleans, President of the U.S. Conference of Mayors**. "Cities remain the country's economic engine, and as such mayors of both parties are looking for a plan that benefits all Americans where they live and takes full advantage of any additional infrastructure investments to build more equity in our economy, create a more inclusive workforce, and support financially distressed communities. No credible plan can ignore America's cities."

The U.S. Conference of Mayors' priorities include:

- Local government is the most trusted authority to appropriately allocate funding to meet needs: place cities first by going directly to where the jobs are and provide direct funding to local government as the most efficient investment strategy.
- A proven way to accomplish this outcome is to deliver resources directly to cities and counties through the CDBG (Community Development Block Grants) program and funds to local areas for surface transportation needs through the State and Local Block Grant Program.
- Increase funding to the State Revolving Fund to support additional no-interest, low-interest loans, loan forgiveness, and technical assistance grants to local governments and fully fund the Water Infrastructure Finance and Innovation Act (WIFIA).
- Enable a stronger partnership between federal and local governments to speed the transition to renewable, job-creating energy systems like wind and solar.
- Modernize our ailing waterways.By increasing investment in the Army Corps of Engineers and unlocking $9 billion dollars in the Harbor Maintenance Trust Fund, we can improve the way goods and people move around.
- Thirty million Americans lack access to broadband. Give local communities the power to own and operate public broadband networks.

"The number of Americans living in cities and towns is increasing every year and the optimal plan will make sure all of America benefits. We look forward to reviewing the White House's plan and engaging in productive, bipartisan conversations around legislation and funding priorities that cities can support with leaders in Washington."

At the 86th Annual USCM Winter Meeting last month in Washington, D.C., mayors of both parties participated in a thorough discussion with DJ Gribbin, Special Assistant to the President for Infrastructure Policy on the Council of Economic Advisors, on how the Administration's policies will affect local communities.

Trump Infrastructure Plan Wants to Stop 'Overreliance' on Federal Money.

The president's long-awaited infrastructure plan pushes state and local governments to spend more,

but offers them a smoother path to getting federal regulatory approval.

State and local officials who have clamored for years for the federal government to increase spending on infrastructure projects like highways, transit and water systems won't get much new money under President Donald Trump's infrastructure package. But they could get help building those projects more quickly.

There are few surprises in the broad outline of Trump's long-awaited infrastructure plan, as described by a senior White House official this weekend and set for release Monday. That could be disappointing news for many state and local leaders who have been skeptical of the effort.

The administration wants state and local governments to pay more for infrastructure, and it wants the federal government to speed up its approval processes for those projects.

Continue reading.

GOVERNING.COM

BY DANIEL C. VOCK | FEBRUARY 11, 2018

Rep. John Katko Proposes $1 billion to Upgrade Water Infrastructure Systems.

A bill introduced by U.S. Rep. John Katko would provide $1 billion over five years for water infrastructure projects and streamline the application process to help states seeking funding for system upgrades.

The main objective of Katko's bill is to advance projects receiving funding through the State Revolving Fund. He also wants to preserve the Water Infrastructure Financing and Innovation Act, which has supported local water system improvements across the country.

The legislation sponsored by Katko, R-Camillus, would provide $200 million annually over a five-year period to support state revolving fund projects. It would waive a $100,000 application fee for states if projects are bundled.

Another change proposed in the bill is streamlining the federal approval process by allowing projects to receive funding without the Environmental Protection Agency needing to process more loan applications.

There are significant water infrastructure issues in Katko's district. The presence of harmful algal blooms in Owasco Lake, which provides drinking water to the city of Auburn and towns in Cayuga County, has spurred a multi-million dollar response to ensure the drinking water remains safe for residents.

Algal blooms have also been found in Cayuga and Skaneateles lakes, both of which are at least partly in Katko's district.

"In Central New York and communities nationwide, we need to focus on updating our water infrastructure systems to ensure safe, reliable drinking water is available," Katko said in a statement Friday.

Central New York elected officials backed Katko's effort. Oswego Mayor Billy Barlow said if the bill passes, it would provide a significant boost to his city's water infrastructure.

Onondaga County Executive Joanie Mahoney echoed that sentiment.

"(Katko's bill) will provide the additional funding needed to ensure that we can continue investing in our water systems for every resident and business," Mahoney said.

The legislation introduced by Katko is cosponsored by U.S. Rep. Earl Bluemenauer, an Oregon Democrat. The Senate version of the bill has bipartisan support, too. It was introduced by Republican U.S. Sens. John Boozman and James Inhofe and Democratic U.S. Sens. Cory Booker and Dianne Feinstein.

auburnpub.com

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Feb 3, 2018

House Dems Call for 5 Times More Infrastructure Spending Than What's Expected in Trump's Plan.

WASHINGTON — Democrats in the U.S. House on Thursday called for $1 trillion of federal infrastructure spending on public assets such as roads, railways, high-speed internet and schools.

A group of Democratic lawmakers made their pitch in advance of Monday's slated White House release of "principles" for President Trump's long-anticipated infrastructure proposal. Administration officials have indicated that the Trump plan will call for about $200 billion of direct federal spending over a decade.

"The president talks a big act, but then he proposes a small bill," House Minority Leader Nancy Pelosi, of California, said at a press conference. She described the president's approach to infrastructure as a "disappointment" and said it would shift burdens onto city and state budgets.

Continue reading.

Route Fifty

By Bill Lucia,
Senior Reporter

February 8, 2018

Tunnel Shows Risks of Trump Public Works Plan.

President Donald Trump's war with his hometown over one of the nation's priciest transportation projects shows the challenges ahead for his plan to upgrade crumbling public works by having locals

pay more of the bill.

The $30 billion Gateway proposal, which includes a new rail tunnel under the Hudson River between New York City and New Jersey, has bogged down in an acrimonious fight with the states as Trump prepares to roll out his infrastructure plan on Monday.

Democratic senators from New Jersey and New York are blocking Trump's transportation nominees until he commits federal funds to Gateway. The administration rejected an earlier deal to split the cost, saying it's a local project — even though the tunnel would help bind the entire Northeast corridor to the New York area.

The president's infrastructure plan is expected to propose spending at least $200 billion over the next decade, largely to spur states, localities and the private sector to provide the balance of at least $1.5 trillion.

State and local officials — loath to raise taxes or levy tolls — want more help. While Gateway is unique for its scope and gritty politics, standoffs with Washington could play out across the nation if Trump's plan to shift the burden of financing improvement projects to states and local governments succeeds.

"What they're going to be hearing from governors and mayors and people all over the country is, 'We don't have the money,' particularly for projects of national significance, which the Gateway project is," said Ray LaHood, a Republican and former transportation secretary under President Barack Obama.

Weakest link

The administration expects to release the president's plan on Monday, the same day he submits his fiscal 2019 budget blueprint to Congress. Half of the new federal money would go toward incentives to spur non-federal entities that own most U.S. infrastructure to raise and spend their own funds, rather than for specific projects.

The needs are great, with the American Society of Civil Engineers estimating an additional $2 trillion is required by 2025 just to restore public works to a "B" grade level. But the Hudson tunnel dispute shows how hard it might be to conjure money for even the most crucial and high-profile projects.

Hurricane damage

The Gateway project includes a new $13 billion tunnel with two tracks that would supplement a decaying, century-old tunnel that's failing because of its age and saltwater flooding from Hurricane Sandy in 2012. That tunnel provides the only direct train link between New Jersey and Manhattan for New Jersey Transit and Amtrak.

The Obama administration described the tunnel as the nation's most urgent rail infrastructure need. It is critical to the Northeast corridor, which carries more than 750,000 passengers daily and serves a region that produces about 20 percent of the gross domestic product, according to Amtrak. A 2016 Amtrak report found that implementation of the full Gateway project could generate $3.87 worth of economic benefits for every $1 spent.

Mixed signals

After New Jersey Gov. Chris Christie killed an earlier tunnel plan in 2010, saying taxpayers would be

on the hook, the project appeared to revive. The cost-sharing agreement with the Obama administration was announced in November 2015 by Christie, New Jersey Sen. Cory Booker, New York Gov. Andrew Cuomo and New York Sen. Charles Schumer.

The Trump administration has sent mixed signals about Gateway since the president took office. After Transportation Secretary Elaine Chao called Gateway "an absolute priority" in testimony before the Senate Environment and Public Works Committee last May, the department withdrew from the board overseeing the project, Democrats said.

Schumer and Senate colleagues from New York and New Jersey then began holding up the confirmation of Transportation Department nominees. Schumer cited "the lack of focus on infrastructure investment by the current administration, and the continued roadblocks the administration has erected in front of the Gateway project" in a Nov. 13 statement opposing Derek Kan as undersecretary of transportation.

On Dec. 29, the Federal Transit Administration sent a letter to New York state's budget director saying "there is no such agreement" to finance half the cost of Gateway. Deputy Administrator K. Jane Williams also questioned "the responsibility for funding a local project where nine out of 10 passengers are local transit riders."

Senate slow-walk

"You get the feeling the feds just don't have any real funds for infrastructure, so they want to knock down this expensive project," said Tom Wright, president of the Regional Plan Association, a New York urban policy group.

The nominations and the Gateway project should be considered on their own merits, said Jeffrey Rosen, deputy Transportation secretary. He said it was particularly important to seat Ronald Batory to lead the Federal Railroad Administration after recent fatal derailments.

"From our vantage point, the nominations and those New York and New Jersey transit projects are totally separate issues, and we think they should have been kept separate," Rosen said in a telephone interview.

Democratic support

Wright said the administration needs Democratic support to pass an infrastructure bill, and Gateway could be a major negotiating chip. Williams' letter to New York pointed out that "Congress is poised to begin discussing infrastructure legislation in the coming weeks."

Democratic Sen. Kirsten Gillibrand of New York raised Gateway funding in "a pretty heated discussion" during a Jan. 9 meeting with Trump administration officials about their infrastructure proposal, according to Sen. Tom Carper of Delaware, the top Democrat on the Senate Environment and Public Works Committee.

Gillibrand became angry when Chao said there would be no funding because Democrats are holding up nominations, according to a source familiar with the meeting who requested anonymity to discuss a private gathering.

LaHood said that the Gateway battle could be seen as both a political struggle between two New Yorkers, Trump and Schumer, and a striking example of the philosophical change the administration is trying to establish over the role of the federal government.

There are many large projects across the U.S. for which states and cities just don't have the resources to build without federal help, LaHood said. It will be up to Congress, which will write and pass any infrastructure legislation, to decide whether Washington continues to play the role it has.

"The $64 billion question is, is Congress willing to change the philosophy on that?" he said.

The Associated Press

February 8, 2018

Trump's Infrastructure Plan May Ignore Climate Change. It Could Be Costly.

WASHINGTON — President Trump is expected to unveil on Monday a plan that would fulfill one of his signature campaign promises: a $1.5 trillion, once-in-a-generation proposal to rebuild, restore and modernize the nation's aging infrastructure.

"We will build gleaming new roads, bridges, highways, railways and waterways all across our land," Mr. Trump said in his State of the Union address.

But while the proposal represents one of the administration's main legislative ambitions, it could directly clash with one of its defining regulatory principles, which is to question the risk from global warming and roll back regulations addressing climate change.

Continue reading.

THE NEW YORK TIMES

By CORAL DAVENPORT

FEB. 10, 2018

Next Crisis in Finance May Be Public Pensions, $1.2 Trillion Asset Manager Says.

- **Municipalities, states are pressured by funding shortfalls**
- **Head of asset manager also sees equity markets being reshaped**

What's on the list of concerns for a man who runs a $1.2 trillion asset manager? Swelling shortfalls in U.S. public pensions, according to PGIM Chief Executive Officer David Hunt.

"If you were going to look for what's the possible real crack in the financial architecture for the next crisis, rather than looking in the rearview mirror, pension funds would be on our list," Hunt said Friday in an interview. Pressure on municipalities and states will intensify in a downturn when local tax revenues decline and unemployment worsens, he said. "So we're worried about those pension obligations."

Lawmakers from New Jersey to Illinois to California are struggling to fill shortfalls. U.S. public pensions had 71.8 percent of assets required to meet obligations to retirees as of the fiscal year

ended June 2016, according to a report by the Center for Retirement Research at Boston College.

PGIM, owned by Newark, New Jersey-based Prudential Financial Inc., counts 147 of the 300 largest global pension funds among its clients. Hunt said that corporate funds generally do a better job than their public counterparts.

Hunt acknowledged that it's harder in the public pension space where lawmakers set the benefits and the fund managers are tasked with generating enough return to cover those promises. Still, he said he has advised public-pension clients to stop looking for the highest-return hedge fund and "start doing what the corporate folks have long been doing, which is to find ways to minimize the deficit and to take risk gradually off the table."

Hunt joined Prudential in 2011 from McKinsey & Co. He's doubled assets under management, renamed the business PGIM and bought a Deutsche Bank AG unit to expand in India.

In the interview, Hunt also said he's seeing a shift in equities markets as more firms pursue private funding and initial public offerings "remain remarkably muted." The number of publicly traded U.S. companies shrank from more than 8,000 in 1996 to about 4,300 in 2016, according to Ernst & Young.

"More than any other period in our history we're going to have companies that are owned by private equity rather than the public equity markets," Hunt said. "The dynamism and growth of the economy is now more and more being captured privately and by institutions rather than actually available for you to own in your 401(k) account or for other public markets."

Hunt said he doesn't expect a wave of combinations among asset managers, even as some have predicted that fee pressure could provoke more tie-ups such as the merger of Janus Capital Group Inc. and Henderson Group Plc. Even as the equity business suffers, it hasn't gotten bad enough to spur more mergers and acquisitions, he said.

"If you're a modestly scaled equity business right now you're having a hard time, but you're not losing money yet," he said. "You're more likely to have what I've kind of called the field of zombies. You have these firms, they don't disappear. They stop growing and maybe they're even shrinking, but they carry on."

Bloomberg Markets

By Katherine Chiglinsky

February 12, 2018, 2:00 AM PST

— With assistance by Amanda Albright, and Alex Barinka

Recent U.S. State Pension Reform: Balancing Long-Term Strategy And Budget Reality.

Lethargic economic recovery, weak investment returns, and assumption changes have weighed heavily on states' required pension contributions, in S&P Global Ratings' view. For the weakest pension funds, relatively high pension burdens stem from years of underfunding or deferring payments through back-loaded amortization methods and poor assumptions, combined with…

Continue Reading

Feb. 9, 2018

Could Oil Firms be Forced to Pay for Climate Change? California Cities Hope So.

The Bay Area city of Richmond recently made an unlikely move that got the attention of its largest employer and taxpayer, Chevron.

It followed other municipalities and counties across California that have filed lawsuits against oil companies, alleging that the energy giants knowingly contributed to climate change and should begin paying for it. Literally.

Employing the legal strategy that brought states major payouts from tobacco companies decades ago, the plaintiffs are demanding that oil interests begin writing checks to protect Californians against rising seas, crippling drought and harmful air.

The legal viability of the lawsuits is unclear; the cases are in early stages. But if any succeed, the implications are profound: The state is already spending hundreds of millions of dollars to shore up coastlines, protect infrastructure and retrofit roads and bridges in response to rising seas. And if companies are persuaded to drill and refine less oil, California has a much better chance of reducing greenhouse-gas emissions on the schedule it has set.

Besides Richmond, plaintiffs include the cities of Imperial Beach, Oakland, Santa Cruz and San Francisco and the counties of Marin, San Mateo and Santa Cruz. The Los Angeles City Council is considering its own suit.

The state has not joined in, something environmental groups say is a failure of leadership.

“Accountability is critical,” said Kassie Siegel, director of the Climate Law Institute at the Center for Biological Diversity. “The state of California can and should file a case seeking money damages and also an injunction against ongoing activities.”

The California Department of Justice has sued the Trump administration two dozen times over policies that include several related to the environment. Asked whether the state would join the cities and counties or consider filing its own suit against the oil companies, the Justice Department declined to comment about potential future action.

The city-county suits began six months ago when Imperial Beach, in southern San Diego County, sued a handful of oil companies. Richmond, surrounded on three sides by water and imperiled by rising seas, joined the fight Jan. 22. Its city council voted unanimously to sue 29 oil producers, even if it meant taking on Chevron, whose tax payments—$45 million in 2016—account for 25 percent of the city’s general fund.

“They are a pretty important corporate citizen,” said Richmond Mayor Tom Butt.

However, “we are a waterfront city—Richmond has 32 miles of shoreline on the Bay. Part of our city is vulnerable to sea-level rise: our transportation systems, neighborhoods and commercial areas and thousands of acres of waterfront park.”

Among those vulnerable venues is Chevron's refinery, which sits at the edge of San Francisco Bay. Completed in 1902, this refinery, the state's largest, was immediately dubbed "the colossus." The facility today employs more than 3,400 people.

Leah Casey, the spokeswoman for Chevron's Richmond refinery, said in a statement that lawsuits like the local ones "will do nothing to address the serious issue of climate change. Reducing greenhouse-gas emissions is a global issue that requires global engagement."

Butt said the city sued "out of frustration, because I know that these fossil fuel companies are aware of the long-term costs and damage of the widespread consumption of fossil fuel." He said Richmond was already planning for the sea's rise but had not yet calculated mitigation costs.

The suits are filed in state court under California's public-nuisance law, which allows legal actions against activities that are "injurious to health."

New York City filed a similar claim against five of the world's largest oil companies in federal court, asking that the cost of mitigating damage done by the companies as a result of their contribution to climate change be charged to them.

The legal challenges also assert that the oil industry has known for decades that burning fossil fuels accelerates climate change. The Richmond complaint states, "The industry has known for decades that business-as-usual combustion of their products could be 'severe' or even 'catastrophic.'

"Companies were so certain of the threat that some even took steps to protect their own assets from rising seas and more extreme storms," the complaint goes on, "and they developed new technologies to profit from drilling in a soon-to-be-ice-free Arctic. Yet instead of taking steps to reduce the threat to others, the industry actually increased production while spending billions on public relations, lobbying, and campaign contributions to hide the truth."

The slow unraveling of the decades-long industry cover-up of the medical harm from cigarettes turned the tide in the tobacco cases, according to Ann Carlson, an environmental law professor at the Emmett Institute on Climate Change and the Environment at the University of California, Los Angeles, School of Law.

Carlson, who is advising some of the plaintiffs' lawyers, said that courts will take into account the oil-industry-funded campaign to discredit climate science.

"That matters in California," she said. "If you can show evidence that a defendant engaged in a campaign to obfuscate, it's more than just a nice detail. Evidence helps."

With much at stake, oil companies are pushing back hard. ExxonMobil has responded with a demand to depose lawyers representing the California cities and counties.

The company says it is a victim of a conspiracy and cities and counties are being disingenuous: When they issue municipal bonds, they portray risk from climate change as unpredictable, not the fault of oil firms, as the lawsuits claim.

The companies have also filed motions to move the cases to federal courts, where they believe there are precedents more favorable to them.

The number of the legal claims intended to monetize the consequences of a warming planet is growing. Carlson said greater scientific certainty about attributing climate change impacts to specific industries and companies has created a legal opening.

“The courts were uncomfortable that they couldn’t trace the harm,” she said.

California is the epicenter of so-called climate-attribution science, said Peter Frumhoff, director of science and policy for the Union of Concerned Scientists.

“There’s really a quite robust ability to characterize the extent to which climate change impacts have worsened,” he said.

Further, by collating data taken from oil companies’ annual accounting and national and international energy agencies’ reports, “one can then connect the dots and assign a cost. That tees up the question, ‘Who is responsible and who should pay?’ ” Frumhoff said.

“This is where the science is taking us, with increasing specificity and confidence.”

calmatters.org

By Julie Cart | Feb. 5, 2018 | ENVIRONMENT

Group Urges SEC Probe of California, Cites Climate Hypocrisy.

California officials are downplaying the risks of climate change to bond investors while citing those same risks as the basis for a lawsuit against oil companies, according to a conservative think tank that has asked securities regulators to investigate.

The Washington-based Competitive Enterprise Institute sent a letter to the Securities and Exchange Commission, urging it to investigate a group of cities and counties in California for making contradictory claims about climate risks.

“In these lawsuits 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,” says the letter, dated Feb. 1. “In our view, this inconsistency raises serious questions of municipal bond fraud.”

The accusations by CEI mark the latest twist in a legal fight that began last July, when a group of city and county governments in California filed a lawsuit against 37 oil companies for their role in global warming. The suit claimed that the companies, which include Chevron Corp. and Exxon Mobil Corp., contributed to sea-level rise, and so should be forced to pay part of the cost of protecting coastal California communities against the problem.

Last month, Exxon launched a suit of its own, arguing that those same cities and counties had failed to disclose climate risks when it sold municipal bonds to investors.

CEI’s letter cites San Francisco, which said in the lawsuit against Exxon and other oil companies that it expects “0.3 to as much as 0.8 feet of additional sea level rise by 2030.” But when San Francisco sold $173 million in bonds in January 2017, it told investors that it was “unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur.”

“Either the City can predict such sea-level rise, as it tells the court, or it cannot, as it tells investors,” CEI wrote to the SEC.

A spokesman for the San Francisco city attorney’s office, John Cote, called the letter “deceptive,”

adding that the city “has been disclosing climate change as a risk factor since at least 2014.”

He cited an October, 2017 issuance that noted “substantial increases in sea level rise are projected due to climate change over the coming century” and could put critical infrastructure at risk.

“The assertion that the city does not disclose this risk factor to investors is false,” he said in an email.

Sam Kazman, general counsel for CEI and one of the letter’s authors, said in an interview that his organization is “quite skeptical” about cities’ claims that they face a threat from climate change. “I think they’re quite overblown,” he said of those warnings.

Still, Kazman said, the SEC ought to investigate the “very clear inconsistency between what these entities are saying in their bond offerings and in their court filings.”

The odds of legal sanctions are slim, according to Michael Gerrard, director of the Sabin Center for Climate Change Law at Columbia University.

Even under President Barack Obama, the SEC took no enforcement action against cities or companies for failing to disclose climate risk, Gerrard said Monday. He said that’s unlikely to change under President Donald Trump, who has disputed the science of climate change.

An SEC spokesman, Ryan White, declined to comment.

But that doesn’t mean the letter won’t have any effect. Barbara VanScoy, head of Alpha Impact Investors, said she expects that the letter will encourage cities and investors to take climate risks more seriously. She added that cities’ financial officers also need to talk more to the staff who work on resilience. “If offices remain siloed, nothing will change,” she said by email.

Shalini Vajjhala, a former Obama official who now advises cities on adapting to climate risks, said the charges leveled by CEI could spur those conversations across different parts of local government.

“It might create some uncomfortable conversations between the CFOs office and the offices that are focused on generating the suits against big oil companies,” Vajjhala said. “I think this is a smart move that will cause some thinking and introspection within some cities.”

Insurance Journal

By Christopher Flavelle | February 7, 2018

Climate Change is Either Upon Us or it Isn’t. California Cities Want it Both Ways.

If you live in Oakland, brace yourself. In the city’s lawsuit with six other California municipalities and counties against petroleum companies, Oakland states that man-made global warming is an ongoing threat that will culminate in 66 inches of sea level rise by century’s end, threatening the local economy with as much as $38 billion in property damage.

But if you are an investor looking to buy Oakland’s municipal bonds, the outlook is sunnier.

Oakland's municipal bond offering tells prospective investors the city cannot predict when "sea rise or other impacts of climate change or flooding from a major storm, could occur, when they may occur, and, if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the city or the local economy."

San Mateo County is another plaintiff seeking compensation from petroleum companies in advance of storms to come. San Mateo tells us to expect a precise "93 percent chance that the county experiences a devastating three-foot flood before the year 2050, and a 50 percent chance that such a flood occurs before 2030."

But if you're an investor interested in San Mateo's bonds, relax. The county is "unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur," and if they do, whether they will impact the local economy.

San Francisco's lawsuit says that the city faces "an imminent threat of catastrophic storm surge flooding," requiring long-term upgrades of up to $5 billion, while assuring investors that the city is unable to predict if such events will happen at all, or what they would cost, if anything.

From the filings of several jurisdictions, including Santa Cruz city and county, the story is much the same. They've joined together to sue "Big Oil" for projected injuries caused by global warming, while calming investors by assuring them such occurrences might not happen.

With no apparent sense of unease, officials who signed off on the lawsuits are often the same ones who signed off on the statements to investors.

When I served as attorney general of California, one of my duties was to assure the accuracy of representations about state bonds. I took this job seriously because it was my signature that affirmed the truthfulness of the claims being put before investors. To obtain my signature, a bond had to meet the budget guidelines of the California Constitution, and have a plan to be paid off within the specified term.

I also made sure claims did not contradict other claims being made by a state agency. I did this because the language in a bond offering amounts to a financial disclosure.

The factual disparities made by these California cities and counties are as wide as the Golden Gate. These contradictory statements open these jurisdictions to lawsuits from investors who can now credibly claim diminution of their investment.

Lawsuits against these municipalities could lead to judgments that impact local budgets, raising taxes or cutting services to their citizens. Furthermore, local officials who sign off on these lawsuits and the bond offerings presumably do so under penalty of perjury.

Whatever your beliefs about climate change, you don't have to dismiss the idea of human-induced global warming to see the cities' lawsuit approach as misguided. The intent of these suits is to portray petroleum companies as the new Big Tobacco. I oversaw California's tobacco litigation. I can tell you these lawsuits are nothing like those against tobacco. There exists no viable substitute today that could completely and easily replace the central role played by hydrocarbons.

Worse, the lawsuits are an attempt to mount fishing expeditions for internal documents from scientists who held robust arguments about the possibility of global warming in decades past. The goal, of course, is to selectively take statements out of context that would liken oil companies to tobacco companies.

This is just another example of activists trying to replace the power of the people and their elected representatives with the decision-making of the courts in an area in which judges have no particular expertise.

Whatever their intentions, these cities demonstrate a true legal risk – to their own city budgets and their citizens, rather than to oil companies.

Climate change is either upon us or it isn't. California cities want it both ways

The Sacramento Bee

by Dan Lungren

February 07, 2018 04:00 AM

Understanding Costs and Benefits: Leases

Read the GASB article.

Record $11Bn In Green Munis In 2017 Across U.S.; MTA In The Lead

Record $11bn in Green Municipal Bonds in 2017 across US; New York beats California as top issue; $20bn investment forecast for 2018

London 31/01/2018 15:00 GMT: Annual US green municipal bond issuance reached a new record in 2017, passing the symbolic $10bn mark with New York retaking the lead from California and becoming the US state with the highest 2017 issuance of municipal green bonds and the highest cumulative issuance.

Climate Bonds Initiative is forecasting $20bn of green municipal issuance in 2018 as US cities and states ramp up climate action.

The latest Climate Bonds Initiative analysis of US municipal green bond market finds the December 31st 2017 total stood at an annual record of $11.05bn, up from $7.11bn in 2016. New York reached a total of $4.59bn, followed by California's $4.32bn for the year.

Continue reading.

ValueWalk

by VW Staff

January 31, 2017

GASB Request for Comment: Revenue and Expense Recognition.

GASB is looking for public feedback on its **Invitation to Comment, Revenue and Expense Recognition**, which involves the development of a comprehensive revenue and expense recognition model for state and local governments.

Additional information is available in the following press links.

- News Release
- Invitation to Comment

Climate Change Could Swamp Your Muni-Bond Portfolio.

California localities warn of disaster when suing oil companies. So how come they don't tell investors?

By the end of this century Oakland, Calif., will be experiencing a "100-year flood" every week. At least that's what the Oakland city government argued last year, when it filed a lawsuit against several oil companies for contributing to climate change. The city forecasts that rising water levels in the San Francisco Bay will threaten the sewer system and other property "with a total replacement cost of between $22 billion and $38 billion."

Suppose you hold some of Oakland's municipal bonds. This climate apocalypse sounds like a serious risk, right? Yet a recent prospectus for Oakland's general-obligation bonds shrugs off the threat. "The City is unable to predict when seismic events, fires or other natural events, such as sea rise or other impacts of climate change or flooding from a major storm, could occur," the prospectus states. And even if such events occur, the city can't be sure "whether they will have a material adverse effect on the business operations or financial condition of the City or the local economy."

Other California localities have told courts one thing and investors another regarding climate change. In a similar lawsuit, San Francisco claims it faces "imminent risk of catastrophic storm surge flooding." But in a bond offering last year, the city said it is "unable to predict whether sea-level rise or other impacts of climate change or flooding . . . will occur." San Mateo County claims in another suit that there is a 50% chance that a "devastating three-foot flood . . . occurs before 2030." The county uses boilerplate similar to San Francisco's to play down such risks in its communications to bondholders.

These jarring inconsistencies have led Exxon Mobil , a target of the lawsuits, to seek judicial relief. In a petition to a Texas court, the company states: "The disconnect . . . indicates that the plaintiff municipal governments do not actually believe the allegations in their complaints and that the allegations were not made in good faith." Exxon is also asking for permission to depose the lead plaintiff's lawyer, along with 15 California officials involved in filing the lawsuits.

It is possible the California officials were truthful in their attestations about their forecasts. But that means they seriously misled their investors, hoping they could ding deep-pocketed oil companies while continuing to borrow cheaply in the municipal bond markets.

This is not an uncommon practice. As a longtime investor in sovereign bonds, I can attest to the "flexibility" politicians demonstrate when approving prospectuses and agreeing to bond covenants. Reneging on contracts and explaining away misrepresentations are standard operating procedure for the political class in localities, states, countries and territories such as Puerto Rico.

Investors are relatively powerless in the face of such government dissembling. Besides selling their bonds, their only recourse is the courts. And because politicians readily spend taxpayer money to draw out the legal process, this option is generally too lengthy and unpredictable to be worthwhile.

But this case may be different thanks to the astonishing presence of contemporaneous, and directly contradictory, legally binding statements. This could prompt the Securities and Exchange Commission to abandon its hands-off approach and require state and local governments to disclose to investors risks arising from climate change, rather than allowing them to equivocate.

States and municipalities facing climate-change-associated risks would suffer a significant blow to their credit ratings, according to a Moody's Investors Service report issued in November 2017. Municipalities that sought big paydays from major oil companies may end up with a bitter second prize—more disclosure and higher borrowing costs.

Plaintiffs' lawyers probably never intended that their war on the fossil-fuel industry would end up shining a light on the perilous state of local public finances. But wars have a funny way of creating unintended consequences. If the unqualified statements made in court about the impact of climate change are even half true—regardless of the cause—the finances of many of California's coastal cities could soon be underwater.

The Wall Street Journal

By Jay Newman

Feb. 2, 2018

Mr. Newman is a former hedge-fund manager who specialized in sovereign debt.

Fitch: US States' Economic Growth Diverges from Revenue Growth.

Fitch Ratings-New York-29 January 2018: The contrast of broad U.S. economic growth versus tepid state revenue growth and uncertain budget outlooks highlights a rising risk to some states' long-term credit profiles says Fitch Ratings. Weak revenue growth already took a toll on some states' fiscal results. We expect this trend to continue in the coming fiscal years.

The Bureau of Economic Analysis reported last week that quarterly real state GDP grew in every state in 3Q17 for the first time since it began reporting the data in 2005. State tax collections grew slower and less consistently through 3Q17, according to the US Census Bureau.

The budget issues are indicative of long-term credit challenges posed by revenue growth that lags economic growth. States have typically used growing revenue in economic expansions to restore structural budget balance, fund new priorities and build up reserves. A permanent decoupling of this link could gradually pressure the typically robust state revenue frameworks. A state's revenue framework is one of four key factors driving Fitch's credit analysis – the strongest frameworks show growth potential above national GDP and reflect revenue systems best positioned to capture economic growth. Despite widespread economic growth, the National Association of State Budget Officers (NASBO) reported that 22 states made mid-year budget cuts in fiscal 2017 and mid-year budget reports and executive budget proposals released to date indicate some will report deficits for the current and upcoming fiscal years.

Real GDP growth in 3Q17 (annualized) varied from a low of 0.5% for South Dakota to a high of 5.7% in Delaware, and the median across all states was 3.0%. Similarly, real national GDP growth also accelerated in recent years reaching 3.2% in 3Q17. Fitch estimates full-year US GDP growth to be 2.3% in 2017 and forecasts 2.5% in 2018 and 2.2% in 2019.

Real yoy growth in state tax collections was just 0.4% in 3Q17 and lagged real yoy national GDP growth since 2016. Previously, state tax collections and national real GDP growth were more correlated with state tax collections typically growing or shrinking more aggressively. Individuals and corporations that anticipated federal tax reductions may have played a role in the more recent decoupling. Policy adjustments by individual states may skew results from year to year.

State fiscal results and plans indicate the toll the trend has had on budgets. The 22 states NASBO reported on made mid-year cuts in fiscal 2017. This was the highest number since fiscal 2010 when nearly all states were managing the Great Recession's repercussions – the $3.5 billion of cumulative deficits in fiscal 2017 was much lower than the roughly $20 billion in fiscal 2010, indicating less severe but widespread fiscal challenges. Declines in states' fiscal 2017 year-end total balances reflect this revenue weakness as 31 states reported lower balances to NASBO than the prior year. Total balances were $72 billion at the end of fiscal 2017, or 9% of spending, down from $81 billion, or 10% of spending, in 2016. The 2017 levels were also below the pre-recession peak of 12% of spending.

Revenue uncertainty and budget tension will continue in the current and future budget years. Some states have reported modest current year deficits. Rhode Island's $60 million shortfall, just 2% of the budget, is one. However, projected budget holes for upcoming years appear more significant. Kentucky's roughly $2 billion gap for the upcoming biennium, to address a ramp up in pension funding, would be 10% of the budget. Federal tax changes and related shifts in taxpayer behavior will also cloud the revenue picture for states.

Municipal Bonds Head to Worst Rout Since Trump's Win.

- **State, local government debt tumbled along with Treasuries**
- **'We could still see a slow and steady grind up in yields.'**

U.S. state and local government bonds headed toward their biggest weekly drop since President Donald Trump's election, joining a selloff in the Treasury market amid speculation that a pickup in hiring may cause the Federal Reserve to raise interest rates more aggressively.

The yield on top-rated 30-year debt climbed 5 basis points Friday to 3.03 percent, the highest since May, after the Labor Department reported that payrolls grew in January at a faster-than-expected pace. Those yields have risen about 18 basis points this week, marking the steepest rise since Trump's victory raised concerns that inflation would accelerate.

The rout for municipals was driven by the global bond selloff, said Dawn Daggy-Mangerson, a managing director at McDonnell Investment Management, which has been selling shorter-term debt and buying bonds maturing in 10 to 15 years. The rise in yields was in line with the jump in those on Treasuries this week.

Municipals are "not going to be able to withstand this big of a move," said Daggy-Mangerson, whose firm holds about $7.5 billion of state and local debt.

While analysts have predicted that municipal bonds would benefit from a drop off in supply this year, the market's slide since January has upended some short-term forecasts. Jonathan Law, vice president and portfolio manager for Advisors Asset Management, which oversees about $325 million in municipals in separately managed accounts, said he thinks the decline may not be over.

"You have to wait for things to play out," he said. "I think we could still see a slow and steady grind up in yields."

Bloomberg Markets

By Amanda Albright

February 2, 2018, 12:15 PM PST

Municipal Bond Sales Hit Seven-Year Low.

- **Issuance fell to $16 billion, down 50 percent year-on-year**
- **Municipal market delivers negative return of about 1.1 percent**

Municipal-bond analysts' forecasts for January were half right.

Widespread predictions that sales of new debt would tumble were prescient, with issuance sliding to about $16 billion, half what it was a year earlier. But they were wrong that the slowdown — coupled with a surge of cash looking to be reinvested — would deliver solid returns. Pulled down by the Treasury market's selloff, state and local government bonds are poised for their first January loss since 2011 and the biggest for the month since at least 1981, according to the Bloomberg Barclays index.

It "took a lot of people by surprise, including me," said Gary Pollack, the head of fixed income trading and research at Deutsche Bank AG's private wealth division, who was among investors who snapped up bonds in December, anticipating that they'd fare well because provisions in the federal tax overhaul promised to reduce tax-exempt debt sales.

"I think this could continue, and that is my fear," he said. "It wouldn't be pretty, it would be a continuation of ugly performance."

The selloff in the Treasury market turned a usually winning month into a losing one, with the municipal market delivering negative returns of about 1.1 percent. January returns have typically been driven by a drop in new issues just as investors receive interest and principal payments.

This year, the slowdown was exaggerated by a record-setting wave of bond deals last month, as state and local governments rushed to borrow before the federal tax overhaul blocked them from selling tax-exempt debt for advance refundings, a key type of refinancing. January's issuance was the slowest start to a new year since 2011, when long-term issuance was $13.6 billion.

Citigroup Inc. analyst Vikram Rai said the expectations for strong monthly performance were upset by speculation about rising interest rates, diminished buying by banks and insurance companies and concern among some buyers about the consequences that the federal tax changes would have on high-tax states.

"We are bullish on munis — it just takes time for these factors to take effect," he said. "There's cash

on the sidelines but they're holding back because of current fears. But once those fears dissipate, they will invest again."

Bank of America Corp. was the top underwriter in January, managing more than 27 percent of the volume so far this year. RBC was the runner up, at 12.6 percent, according to Bloomberg LEAG tables.

School districts topped general obligation bond sales, comprising 21.5 percent of new issuance, led by a $219.6 million sale by Fairfax County, Virginia. Topping the revenue bond sector were gas contract bonds, with deals by Main Street Natural Gas in Georgia and Kentucky Public Energy. The two deals alone accounted for 10 percent of all new offerings.

The competitive market accounted for about 32 percent of issuance volume. By comparison, the competitive sales made up about 23.6 percent of the long-term municipal market in all of 2017.

Empire State Dominates

New York issuers lead 2018 issuance helped by MTA and Port Authority Sales

Analysts broadly anticipate that bond issuance will fall this year, though it's possible that provisions of President Donald Trump's infrastructure plan may seek to spur borrowing by states and cities. Given December's borrowing binge, though, analysts previously forecast that new muni-debt sales could fall by more than a third this year.

"The muni market is a market that runs on supply," said Pollack. "The supply factor is an important one for the muni market and supply was actually stronger in January than I thought."

Bloomberg Markets

By Danielle Moran and Zachary Hansen

January 31, 2018, 5:25 AM PST

Bloomberg Brief Weekly Video - 2/1

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

Watch video.

Bloomberg

February 1st, 2018

The Week in Public Finance: Nassar Scandal Could Prompt MSU Downgrade, Tax Reform in the States and Green Bond Growth.

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

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 2, 2018

Credit FAQ: S&P Global Ratings Clarifies Its Rating Action And Display Of Ratings Following Various Credit Enhancement Rating Withdrawals.

Recently, S&P Global Ratings withdrew various credit enhancement program ratings. In this report, we address frequently asked questions we have received from market participants to provide greater clarity on how we proceeded with the withdrawals.

Continue Reading

Jan. 29, 2018

Trump's Faux-Populist Infrastructure Plan.

President Trump campaigned on — and continues to promise — a populist agenda, most recently in his State of the Union address, in which he called on Congress to pass a trillion-dollar infrastructure package. But if his rubbing shoulders with Davos elite last week weren't enough to dispel any hopes of him delivering on his populist posturing, the emerging details of that infrastructure plan surely is.

Mr. Trump's budget proposal and infrastructure "principles" released last May, and an outline of the plan leaked last month, point to a pro-privatization approach that his pals in Davos would celebrate but would endanger basic services, enrich the private sector and force everyday people to foot the bill. The leaked plan would be a bonanza for giant corporations, prioritizing projects that raised revenue (toll roads, higher water rates) and giving very little weight to a project's social benefit.

In his address Tuesday, Mr. Trump called for $1.5 trillion for infrastructure, yet his top adviser on the project, DJ Gribbin, has maintained that the plan wouldn't include any new federal revenue. That means funds will come from elsewhere, like existing transportation budgets. Because revenue, not need, would be prioritized, cities could be forced to turn to so-called public-private partnerships — a less politically charged rebranding of privatization — that has often led to higher user fees. And that focus makes sense, since this administration is full of with champions of privatization, including Mr. Gribbin, Vice President Mike Pence and Gary Cohn, the National Economic Council director.

Infrastructure privatization raises costs for basic services, undermines transparency and is frequently used to keep government costs "off the books." Disastrous examples in the United States include a deal by the water company Suez and the private equity firm Kohlberg Kravis Roberts to privatize the water system in Bayonne, N.J., which has left some residents in danger of losing their homes after skyrocketing water rates.

Although business executives, national officials and other global financiers and deal-makers may disagree with Mr. Trump on trade, they are with his administration on infrastructure privatization. The World Bank, to take a prominent example, has a long history of pushing the privatization of people's most basic infrastructure need — water. Perhaps the best-known example is Cochabamba, Bolivia, where popular opposition to the privatization of the water system forced a return to a

publicly run system in 2000. In another failed privatization, this time branded as a public-private partnership, residents of Manila face unreliable access, infrastructure neglect and rates that are unaffordable for many.

While the World Bank claims to have no preference between public and private infrastructure, promoting public-private partnerships remains its bread and butter. At a 2016 training event, bank staff learned "how to promote water P.P.P. projects" and convince government officials "of the interest of the P.P.P. approach." What's more, bank leadership is now evangelizing what it calls the "Cascade" approach, which prescribes the bank to "first consider private investment for projects; then public-private partnerships; and if the first two are not available then, only then, consider public finance."

The budget of the World Bank's International Development Association, which advances the bank's development priorities in the lowest-income countries, recently added $2.5 billion to provide corporations with risk insurance, guarantees, loans and equity investments.

The Trump administration and World Bank leadership clearly have shared interests, despite Mr. Trump's threat of deep cuts to development funding. The bank's president, Jim Yong Kim, has raised eyebrows by offering bank staff members to advise Mr. Trump on infrastructure policy. At a World Bank conference last October, Treasury Secretary Steven Mnuchin praised what he called the Cascade approach's key pillar: that the World Bank "will not provide financing if the private sector is able to do so." Perhaps this shared pro-corporate vision is why Mr. Trump has proposed funding the World Bank at levels close to the Obama-era budget last year.

As Puerto Rico's dire situation proves, the United States, like much of the rest of the world, has critical infrastructure problems to fix. But the privatization solution promoted by the Trump administration and popular among global elite is not the answer. Already, the toll that privatization takes has provoked resistance from Pittsburgh to Lagos.

Lawmakers at every level must take a stand by refusing a privatization agenda, whether from the Trump administration or the World Bank, and calling for renewed and expanded public funding. We need a plan that increases public investment, especially federal funding, not one that yields control to profit-maximizing and unaccountable corporations.

THE NEW YORK TIMES

By KELLE LOUAILLIER

FEB. 2, 2018

Who pays for Trump's $1.5T public works plan?

President Donald Trump wants $1.5 trillion for infrastructure. All he needs is a way to pay for it.

Lawmakers from both parties and industry representatives say they're still waiting for key details months after Trump promised a plan to restore the nation's roads and bridges. They're also skeptical about prospects for legislation that doesn't include robust federal contributions for projects and specific financing sources.

Trump urged Congress in his State of the Union speech Tuesday night to put forward a $1.5 trillion

bipartisan infrastructure bill that envisions greater reliance on local and private-sector money. His request left even some Republicans searching for more details.

While leveraging public dollars is a good start, “the question is, how are you going to pay for it?” John Cornyn of Texas, the No. 2 Senate Republican, said after the speech.

In a speech to lawmakers last year, the president mentioned a $1 trillion infrastructure figure. That was increased to $1.5 trillion after his team met with state and local officials who showed enthusiasm for the plan and its incentives, a White House official said. The administration has proposed contributing at least $200 billion in federal funds over 10 years to spur spending by states, localities and the private sector.

A fact sheet released along with the State of the Union address said half of the funds would go toward generating state and local investments in infrastructure. That would be achieved by offering grants with preference given to applicants that generate their own revenue for projects, administration officials have said.

The White House said Wednesday it plans to send detailed principles to Congress in the coming weeks, after the legislative calendar and a government shutdown caused a delay in the public rollout of the plan.

Republican lawmakers will be discussing infrastructure at their policy retreat Thursday in West Virginia, said Rep. Cathy McMorris Rodgers of Washington, the chairwoman of the House Republican Conference. Trump is spoke to the group Thursday, and Transportation Secretary Elaine Chao and National Economic Council Director Gary Cohn will participate to discuss the administration’s proposal, McMorris Rodgers said.

“If we could find a way to pay for it, I believe that the Republicans and the Democrats would love to be able to move forward and deliver a major infrastructure package for the country,” McMorris Rodgers said a news conference. “The question is, how do we pay for it?”

Republican Charlie Dent of Pennsylvania, a retiring member of the House Appropriations Committee, also said that financing is the big question. “We’re going to need a recurring source of revenue on infrastructure,” he said after Trump’s speech.

The administration has pointed to unspecified budget savings to account for the $200 billion federal contribution, saying it’s open to conversations about other funding sources or a larger figure, but wants to negotiate those details with lawmakers.

“Without real federal funding to address the huge backlog of desperately needed improvements to the nation’s roads, bridges, public transit, airports, water systems, and other critical assets, it’s an empty promise,” Dave Raymond, president and chief executive of the American Council of Engineering Companies, said in a statement.

Congressional hurdles

Key Congressional Democrats Trump needs to pass a bill have already said $200 billion from the federal government isn’t enough. They doubt Republican leaders will approve more spending in a mid-term election year after passing the $1.5 trillion tax overhaul, which didn’t allocate money for infrastructure.

“The only way there will be funding for infrastructure will be by a very strong push for it by the White House,” said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation

and Infrastructure Committee.

Some governors and mayors also say they're already doing their fair share, and that they need a more reliable federal partner. Twenty-six states have raised or adjusted their motor-fuel tax rates and other fees during the past five years, and voters in 20 states approved $4.25 billion in new and continued financing for infrastructure in Nov. 7 ballot issues alone, according to the American Road & Transportation Builders Association.

"The cities are doing most of it now in terms of the existing infrastructure that we've got," Little Rock Mayor Mark Stodola, president of the National League of Cities, said at an event in Washington on Jan. 18.

Industry groups are focused on stabilizing the Highway Trust Fund, which uses federal fuel taxes to pay for transportation and transit projects. Congress has kept the fund solvent with transfers from other sources, and it is projected to become insolvent by 2021 without additional money, according to the Congressional Budget Office.

Organizations including the U.S. Chamber of Commerce are calling for an increase in the gas tax — which hasn't been raised since 1993 — as the most efficient way to raise more money, though the idea still faces Republican opposition in Congress.

Rep. Bill Shuster of Pennsylvania, chairman of the House Transportation and Infrastructure Committee, told reporters he brought up the gas tax at the Republican policy retreat and the response was mixed.

"Nobody wants to raise any taxes, but this is something that's understandable and efficient," Shuster said. "If you did 15 cents — that's a cup of coffee a week or two bottles of water."

Shuster said one concept being explored is asset recycling, which involves selling or leasing airports and other public facilities to the private sector to raise money for projects, a concept Democrats generally oppose. Australia had such a program, and officials from that country have pitched the idea in the U.S.

The American Trucking Associations has proposed a 20-cent-per-gallon fee on all transportation fuels at the wholesale level over four years to generate as much as $340 billion in highway funding over 10 years. A funding source will be needed to get a bill through Congress, said Chris Spear, the group's president and chief executive officer.

"It really comes down to, do you want to make a statement, or do you want to win?" Spear said "To win, you have to put real money on the table."

Bloomberg News

February 1, 2018

Vermont's Push to Match Local Bond Investors with Local Projects.

The Vermont Municipal Bond Bank wants retail investors to play an integral role in tackling some of the state's infrastructure needs.

The agency announced Thursday the approval of six new loans totaling around $7.8 million for capital projects across Vermont that will be funded through its first-ever offering of local investment bonds. Executive Director Michael Gaughan said the local investment bond designation allows the bank to expand its reach with individuals able to purchase the bonds in smaller increments as low as $1,000.

“Our local investment bonds are definitely part of a growing effort by many issuers to get more people to invest locally,” said Gaughan, a former public finance director at PNC Capital Markets (PNC), who began his role with the Vermont Bond Bank on Jan. 2.

The Vermont Bond Bank is planning to sell $8.2 million of the series 1 bonds during the week of Feb. 12 in a deal underwritten by lead managers Morgan Stanley (MS) and Citi. The transaction is rated AA-plus by S&P Global Ratings and Aa1 by Moody’s Investors Service.

Vermont’s local investment bond sale comes nearly a year after the City of Cambridge, Mass. offered its first minibond issuance featuring $2 million of general obligation bonds to finance local infrastructure projects such as school renovations and street repairs.

Gaughan said the new offering was inspired by the State of Vermont’s citizen bonds, which are available only to Vermont residents also in $1,000 denominations.

“The difference with our bonds is that we also wanted to recognize the high impact of the loans we fund through our pooled program,” said Gaughan. “Many of our borrowers are small towns and villages where an infrastructure upgrade can have a relatively out-sized impact versus a major metropolitan area.”

The local investment bond designation is aimed at highlighting the community impact from the transaction targeting improvements to the municipalities of Swanton, Enosburg Falls, Grand Isle, Williston and St. Albans, along with Green Mountain Union High School. Gaughan said planned outcomes from the transaction such as producing 47,000 megawatt hours of renewable energy annually and nearly 12,000 linear feet of streetscape improvements are highlighted in the offer sheet in hopes of attracting investors interested in “impact investing.”

By Andrew Coen

BY SOURCEMEDIA | MUNICIPAL | 02/02/18 07:11 PM EST

Webcast Replay: S&P 2018 U.S. Not-for-Profit Charter School Outlook

Jan. 31, 2018 | New York

S&P Global Ratings U.S. Public Finance held an interactive, live webcast on Wednesday, January 31, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Charter School sector outlook.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Infrastructure Outlook

Jan. 30, 2018 | New York

S&P Global Ratings U.S. Public Finance held an interactive, live webcast on Tuesday, January 30, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Public Power, Transportation and Water and Wastewater sector outlooks.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Not-for-Profit Higher Education Outlook

Jan. 25, 2018 | New York, NY

S&P Global Ratings U.S. Public Finance held a live, interactive webcast on Thursday, January 25, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Higher Education sector outlook.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. State and Local Government Outlooks

Jan. 22, 2018 | New York

S&P Global Ratings U.S. Public Finance held a live, interactive webcast on Monday, January 22, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. State and Local Government Credit sector outlooks.

View The Webcast Replay

Webcast Replay: S&P 2018 U.S. Not-for-Profit Health Care Outlook

Jan. 17, 2018 | New York

S&P Global Ratings' U.S. Public Finance held an interactive, live webcast on Wednesday, January 17, 2018 at 2:00 p.m. Eastern Time for a discussion on the U.S. Not-for-Profit Health Care sector outlook.

View The Webcast Replay

S&P Criteria: Issue Credit Ratings Linked To U.S. Public Finance Obligors'

Creditworthiness.

These criteria apply to issue credit ratings of debt issued by U.S. Public Finance (USPF) obligors, where debt service is paid from a limited tax general operating pledge, the entity's legally available operating revenues and/or where debt service is subject to appropriation or abatement risk, and represents an annual contingent obligation.

Continue Reading

Jan. 22, 2018

S&P Credit FAQ: An Overview Of S&P Global Ratings' Updated Methodology For Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness.

On Jan. 22, 2018, S&P Global Ratings published its revised criteria for Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness. Here, we address some of the questions we think investors and other market participants might have about our revised criteria.

Continue Reading

Jan. 22, 2018

S&P U.S. Municipal Housing Sector 2018 Outlook: Stable Overall Despite Tax Changes And Funding Questions.

S&P Global Ratings' 2018 outlook for the U.S. public finance housing sector in 2018 is stable, with some limited exceptions. The industry begins 2018 breathing a sigh of relief that the final version of the federal Tax Cuts and Jobs Act of 2017 maintained tax-exempt private activity bonds, the lifeblood of the sector, and taking a moment to recover from one of the busiest Decembers on record.

Continue Reading

Jan. 25, 2018

S&P U.S. Charter Schools Sector 2018 Outlook: Ratings Likely To Remain Stable As Volatility Wanes Among Rated Entities.

S&P Global Ratings' outlook for the charter school sector in 2018 is stable. While individual charter schools can be highly variable in their performance and success, we believe the sector overall will exhibit a relative degree of rating stability in 2018.

Continue Reading

Jan. 24, 2018

S&P U.S. Higher Education Sector 2018 Outlook: Additional Credit Pressures Spell A Negative Outlook For Institutions.

While the U.S. not-for-profit higher education sector continues to face many of the same challenges that have plagued it for the past few years, S&P Global Ratings believes additional pressures at the state and federal level combined with decreased opportunities in the capital markets will result in a negative operating and credit environment in 2018.

Continue Reading

Jan. 23, 2018

Advisors To Face Tsunami Of Cash Bond Redemptions, Money Manager Says.

Now that state and local taxes are no longer deductible from federal tax returns, many high-ne--worth individuals are looking to shelter more income in municipal bonds, such as private activity bonds, one money manager said.

“We’ve seen demand increasing for bonds issued in high-tax states like California, New Jersey, Minnesota, Connecticut and New York,” said Adam Weigold, vice president of Eaton Vance Management and senior portfolio manager on Eaton Vance’s municipal bond team. “High-net-worth individuals may have thought they were getting a tax cut, but when they consider SALT reform, many in these high tax states will see an increase.”

Private activity bonds (PABs) may appear particularly attractive because they tend to be higher yielding, especially now that their tax exempt status has been preserved by President Trump’s new tax law.

“We’ve seen the issuance of municipal bonds overall creep up on an annual basis for quite some time as the economy has grown and the needs of city, states and municipalities to finance themselves has grown,” said Weigold.

For example, 2017 saw about $436 billion in muni bond issuance.

Originally, the tax legislation did not include exempting the tax status of new private activity bonds, which had caused an issuing and buying frenzy due to the perceived scarcity value of private activity bonds.

“Much of the issuance of private activity bonds that was going to happen in the first quarter of 2018 got pulled in December,” Weigold said. “As a result, we’re going to see limited supply of these types of bonds.”

The issuance of PABs has since normalized. Generally, PABs make up about 30 percent of the municipal bond market. “If the PAB portion of legislation had passed, there’s a whole crop of issuers who would have to find an entirely new market to finance their infrastructure operations for

hospitals, stadiums, roadways and schools," said Weigold.

President Trump's proposed $1 trillion infrastructure reform makes 2018 an exciting year for PABs overall. "Potentially, PABs would be used to finance infrastructure, which is how they are largely used right now," Weigold said. "The Trump administration may be interested in enhancing the ability to issue private activity bonds if they want an infrastructure bill to be successful."

Due to the sheer number of bonds that were issued in 2008, financial advisors can expect a windfall, he said. "In July 2018, we'll see the largest month of maturities the municipal market has ever seen in any one month," said Weigold. "If a client has a portfolio of bonds, there's a good chance that something's going to be called or mature this year and that cash will need to be put to work in a market where issuance is likely going to be much lower than it was last year."

Some 10 percent of the municipal bond market has consisted of advance refunding, but this is no longer permitted under the new law. The upside of the elimination is that it could lead to innovative bond structures.

"Issuers may start to issue 30-year bonds with shorter calls or maturities, like five-year calls or 10-year bonds with five-year calls or just five-year bonds, because they want the option to refinance at some point," Weigold said.

Advance refunding is a tool issuers have been using to refinance their debt before the bonds are callable or before they mature, which allows them to refinance before the 10-year call on a bond.

"The disallowance of advance refunding is going to reduce supply in the market because issuers will no longer be permitted to refinance old bonds and issue new bonds," said Weigold.

FINANCIAL ADVISOR

JANUARY 23, 2018 • JULIETTE FAIRLEY

Spurred by Tax Reform, Municipalities Raced to Issue New Debt in December.

"A great deal of the end-of-year surge in municipal identifier requests was driven by the crush of issuers racing to raise capital ahead of tax reform, " said Gerard Faulkner, Director of Operations for CUSIP Global Services." Now that we see that the final version of the bill preserves the tax exemption on private activity bonds, we expect muni request volumes to move back into a more normalized range."

READ PRESS RELEASE

CUSIP GLOBAL SERVICES

JANUARY 22, 2018

Fitch: US Energy States Are Recovering; Resiliency Weakened.

Fitch Ratings-New York-25 January 2018: The rising price of oil and crude oil production increases

are improving the economic and financial stability in most oil-producing states, Fitch Ratings says. However, the natural resource (NR) states' revenue growth prospects remain constrained and, for many, financial resiliency has become weaker.

The US oil industry's rise has benefitted Alaska, Louisiana, New Mexico, North Dakota, Oklahoma and Texas (natural resource states). Economic growth and tax revenues tied to higher prices and production have risen. However, financial operations for many could remain tight as the fallout from successive one-time actions, including substantial reserve use, applied in recent budgets in response to the multi-year price and production downturn continue to challenge them. Fitch also expects the recent oil bust could temper these states' expectations of a long-term turnaround in the industry.

The US oil industry's recovery is underpinned by strong production growth. It grew by 11% in 2017 on the expansion of shale companies' production after organization retrenchments necessitated by the late-2014 price plunge that bottomed at $26.21/barrel (bbl; West Texas Intermediate [WTI]) in February 2016.

Prices have been rising as well. An OPEC/Russia agreement to limit production and growing global demand have pushed oil prices up beginning in 2017 from $52.33/bbl to $59.64/bbl by year's end. The 2017 acceleration boosted US rig counts to 930 at the end of the year; up 36% from January 2017, but still far below the 1,904 rigs in service in September 2014.

Fitch and the US Energy Information Administration (EIA) forecast a 1 million bbl/day increase in US oil production in 2018 from 2017. The EIA expects a 2018 average of 10.3 million bbl/day in production, rising to 10.8 million bbl/day in 2019. Growth regions identified by the EIA include the Permian region in Texas and New Mexico and the federal Gulf of Mexico. Production in Alaska is expected to remain flat in both 2018 and 2019. Fitch's forecast for the WTI price is $50.00/bbl for 2018 and $52.50/bbl for 2019; the long-term forecast is a subdued $55.00/bbl, reflecting the high level of market uncertainty and lower global production costs that are unlikely to result in a sustained period of materially higher prices.

Many factors could have an impact on these expectations, including deteriorating compliance within the OPEC/Russia production cuts and US producers' response to recent price increases.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings. Additional information is available on www.fitchratings.com

Bloomberg Brief Weekly Video - 1/25

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

Watch video.

Bloomberg

January 25th, 2018

Illinois Ponders Pension-Fund Moonshot: a $107 Billion Bond Sale.

- **Retiree association floats idea for an unprecedented borrowing**
- **"If it makes sense, we'll do it," one state lawmaker says**

Lawmakers in Illinois are so desperate to shore up the state's massively underfunded retirement system that they're willing to entertain an eye-popping wager: Borrowing $107 billion and letting it ride in the financial markets.

The legislature's personnel and pensions committee plans to meet on Jan. 30 to hear more about a proposal advanced by the State Universities Annuitants Association, according to Representative Robert Martwick. The group wants Illinois to issue the bonds this year to get its retirement system nearly fully funded, assuming that the state can make more on its investments than it will pay in interest.

It would be by far the biggest debt sale in the history of the municipal market, and in one fell swoop would be more than Puerto Rico amassed in the run up to its record-setting bankruptcy.

"We're in a situation in Illinois where our pension debt is just crushing," Martwick, a Democrat who chairs the committee, said in a telephone interview. "When you have the largest pension debt in the world, you probably ought to be thinking big."

Illinois owes $129 billion to its five retirement systems after years of failing to make adequate annual contributions. Because the state's constitution bans any reduction in worker retirement benefits, the government's pension costs will continue to rise as it faces pressure to pay down that debt, a squeeze that has pushed Illinois's bond rating to the precipice of junk.

Many American governments have sold bonds for their pensions, albeit on a much smaller scale. Illinois did so in 2003, when it issued a record $10 billion of them. New Jersey also tried it, only to see its pension shortfall soar again after the state failed to make adequate payments into the system for years. Detroit's pension-fund borrowing in 2005 and 2006 helped push it into bankruptcy.

On the whole, the track record has been mixed, according to a study by the Center for Retirement Research at Boston College. Much hinges on timing the stock market: While most pension bonds have been profitable because of equity gains since the recession, those sold after the late 1990s rally or before the 2008 crash lost money, the study found. The S&P 500 Index climbed 19 percent last year and has continued to hit new highs.

The association, which represents members of the universities' retirement system, says the plan will save the state $103 billion by 2045. That's because Illinois's current debt to its pensions grows at the rate that the retirement system expects to earn on its investments. That's usually much higher than the interest rates governments pay to issue municipal bonds.

Martwick, who has no position on the proposal, said he wants to provide transparency and hearings for any ideas that could save the state money. While the proposal to issue the bonds is being drafted into a bill, it will only move forward if committee members back it, he said.

"if it makes sense, we'll do it, and if it doesn't we won't," Martwick said.

Municipal-bond investors would likely frown upon such a massive sale, to say the least.

"Those types of deals are not typically positively received by the rating agencies or investors," said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which holds about $20 billion of municipal debt, including Illinois's. "That type of issuance could definitely be a credit negative."

This kind of issuance contemplated by the association would significantly increase the state's debt burden. Illinois had $26.3 billion of general-obligation bonds as of July, according to Moody's Investors Service, and the state sold $750 million of bonds in November to pay down unpaid bills that had accumulated during its two-year budget impasse. The state still has $8 billion of unpaid bills even after that issuance, according to the comptroller's office.

This kind of issuance "will not go over well in the bond market,'' said Richard Ciccarone, Chicago-based president of Merritt Research Services LLC, which analysts municipal finance. "It absolutely increases default risk. There's no cushion."

Bloomberg Markets

By Elizabeth Campbell

January 26, 2018, 11:56 AM PST

— With assistance by Zachary Hansen

The Week in Public Finance: Cities in the Red, Puerto Rico Lowers Expectations and Second-Guessing Tax Reform Windfalls.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 26, 2017

What Kind Of Credit Package Will The Second Amazon Headquarters Deliver To The Winning Community?

The long-term credit effects of Amazon's new headquarters for the selected community are likely to be positive on balance due to the direct and indirect effects on economic characteristics and local revenues.

Continue Reading

Jan. 25, 2018

Market Commentary: Muni Trading is Thin, Volatile and Weak, Struggling to Find the "Right" Levels.

The municipal bond market continued to struggle this week, falling significantly behind Treasuries, which were basically unchanged. 10-year triple-A yields were up 7 basis points over the past week, and 30-year yields were up 6 basis points, while 10-30-year Treasury yields were up or down a single basis point. 10-year yields as a percentage of Treasuries moved from 81.2% on 1/18 to 84.4% on 1/25. On 30-year paper, the ratio moved from 96.2% to 98.2%.

Continue reading.

Posted 01/26/2018 by George Friedlander

Neighborly Insights

Tax Cuts Curbed Muni Sales. Trump's Latest Plan Would Boost Them.

- **Private activity bonds expanded in draft infrastructure plan**
- **Proposal would allow advance refundings on the bonds**

Last month, Congress rolled back the ability of state and local governments to issue municipal bonds as a way to cover the cost of corporate tax cuts. Now, President Donald Trump is seeking to boost such borrowing to rebuild America's infrastructure.

A draft outline of Trump's proposal leaked to the press Monday calls for expanding the use of tax-exempt bonds to finance roads, sewers, airports and other public works built by businesses. It would lift state volume caps on issuance of such private activity bonds, eliminate restrictions on their use for transportation and encourage their sale by ports. It also would expand the ability to advance refinance the securities, creating potential savings that could be used for reinvestment.

The plan, if kept intact by Congress, could increase sales of state and local debt, which had been expected to decline sharply this year after governments rushed to borrow in 2017 before Congress enacted tax legislation that pulled the tax breaks from certain types of debt refinancing. Some estimates predict issuance would dip as much as 30 percent this year.

"It would certainly help the supply picture," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago.

Trump has said he will introduce a $1 trillion proposal to upgrade roads, bridges, airports and other public infrastructure. The White House plan calls for allocating at least $200 billion in federal funds

over 10 years to spur at least $800 billion in spending by states, localities and the private sector.

Barely Dry

The tax law approved by Congress and signed by Trump last month eliminated advance refundings, a frequently used refinancing technique that accounted for about a third of the municipal securities sold in 2016, and the initial House legislation proposed abolishing PABs. The president's plan, if not amended, would expand those refinancings as well as the PAB program formerly targeted by lawmakers in the House.

"If the leak proves accurate, tax reform is barely dry and already we are seeing advanced refundings come back?" said Robert Amodeo, head of municipals at Western Asset, which manages $22 billion in municipal bonds. "Every state and local government, frankly, all muni debt issuers, will request eligibility for advanced refundings."

The draft of Trump's plan also indicates he may allow state's to toll interstate highway travel to raise revenue that could back bonds and would hand states federal grants to cover a portion of a project's costs.

"This is encouraging because they're talking about expanding a part of the municipal market that we know works well," said Patrick Luby, municipal strategist CreditSights Inc.

Analysts said it's impossible to say precisely how the Trump plan would affect issuance, given that much of it will depend on how the provisions of the law are written. While there's no official figure for how many PABs are issued each year, Moody's Investors Service estimates that they accounted for about 25 percent to 35 percent of the $459 billion in municipal bonds sold in 2016.

The House's push to rescind the tax exemption for newly issued PABs prompted an outcry from state and local government officials, who said it would increase the cost of public works and put the tax-cut legislation at odds with Trump's stated goal of increasing spending on infrastructure.

The White House won't comment on the contents of a leaked document but says it looks "forward to presenting our plan in the near future," spokeswoman Lindsay Walters said. The details of the plan were reported earlier by Axios and Politico.

Bloomberg Markets

By Martin Z Braun

January 23, 2018, 4:00 AM PST

— With assistance by Zachary Hansen, and Elizabeth Campbell

Leaked Trump Infrastructure Plan Would Put Onus on States.

At a time when many state transportation officials are clamoring for more financial help from Washington, an outline of the president's infrastructure plan depends heavily on an influx of state and private funds.

The Trump administration has hinted for months that its long-awaited infrastructure plan would lean heavily on new spending by states, local governments and the private sector. On Monday, a leaked

outline of that plan seems to confirm that the federal government would take a back seat in funding its own infrastructure initiative.

But the outline also proposes a number of controversial changes, such as allowing states to toll existing highways, subsidizing improvements for passenger rail and encouraging states to "commercialize" interstate rest areas.

The outline does not indicate how much money the Trump administration will seek toward its infrastructure plan — prior reports suggest Trump wants $200 billion in new federal spending to attract another $800 billion of outside investments — but it does lay out how the administration would like to divide any new money that does materialize.

Continue reading.

GOVERNING.COM

BY DANIEL C. VOCK | JANUARY 22, 2018

Don't Expect Trump's Infrastructure Plan to Propose New Revenue.

White House adviser DJ Gribbin also told mayors the plan would not propose cuts to existing, "formula" funding programs, like the Highway Trust Fund.

WASHINGTON — President Trump's infrastructure plan will not identify new revenues to help pay for spending and will also not call for cuts to certain mainstay programs now used to fund public works around the U.S., a White House official told mayors here on Thursday.

DJ Gribbin, a special adviser to Trump on infrastructure, also said the White House would submit a "relatively detailed" set of principles for the proposal to Congress one or two weeks after the president delivers his State of the Union address, which is scheduled for next Tuesday.

"Our infrastructure proposal, when we introduce it, will not include new revenue," Gribbin said during a panel at the U.S. Conference of Mayors winter meeting.

He noted that the administration does not support, or oppose, an increase to the federal gas tax, and that the White House believes decisions about direct federal funding for the plan need to be made collectively with the House and the Senate.

Gribbin said Trump's plan would not propose slashing so-called "formula" funding programs that the federal government now has in place to distribute infrastructure dollars to states.

"We're not reducing current programs, we're not eliminating the Highway Trust Fund, we're not eliminating state revolving funds to pay for the incentive funds and other things we want to do," he said. State revolving funds include federal-state partnership programs used to help finance water and sewer projects.

"The vision, in essence, is we keep for the most part existing programs in place," Gribbin added.

He did point out, however, the budget proposal for fiscal year 2018 that Trump sent to Congress last spring included a variety of cuts, including reductions to programs involving transit and Amtrak. "We will propose repurposing those dollars," Gribbin said.

But he added: “The major delivery mechanisms for funding for infrastructure will remain in place.”

Congressional appropriators, in many instances, have not shown a willingness to adopt the sharp cuts the president’s budget proposed.

Denver Mayor Michael Hancock said during Thursday’s panel he was “pretty skeptical of the administration’s plan. Because of the concern about where the dollars are coming from.”

While he acknowledged mayors were generally supportive of the idea of an infrastructure package, he also raised worries about what federal spending could get cut to pay for it. “As cities, we don’t want to see opportunities to have more federal money come in but yet, on the back end, we’re having to backfill,” Hancock added.

“We’re very sensitive to that,” Gribbin said in his response. “At the end of the day, this isn’t supposed to be a net loss for cities.”

Despite Gribbin’s assurances, Hancock, a Democrat, told Route Fifty after the meeting that he was still uneasy about the prospect of new infrastructure spending siphoning funds from existing federal programs. “There are a lot of questions we need to ask,” he said.

Two overarching principles guiding the White House’s infrastructure plan, Gribbin explained, are increasing investment by $1 trillion and shortening the federal permitting process for projects to two years.

“We are very open to ideas of how to accomplish those goals,” he said. “We imagine this will be an iterative process.”

The plan, Gribbin also said, would call for at least $200 billion of direct federal funding. The thinking is that amount will spur state, local and private investment to reach the $1 trillion target.

ROUTE FIFTY

By Bill Lucia,
Senior Reporter

Jan 25, 2018

Muni Market Participants Applaud PABs in Purported Infrastructure Plan.

Muni market participants are pleased that the latest purported version of the Trump administration’s infrastructure plan would expand and ease restrictions on private activity bonds so that they could play a major role in helping to finance infrastructure projects.

The six-page plan was circulated on Monday by lobbyists and publications such as Axios. It makes no mention of the Trump administration and is not dated.

Sources had mixed views on its veracity.

“It’s clearly an early draft put together before tax reform, so I would caution against reading too much into it,” said Matt Fabian, managing director at Municipal Market Analytics.

Bud Wright, executive director of the American Association of State Highway and Transportation Officials said he is taking the document "with a grain of salt" because it "could be an earlier document that has been modified since that time."

But Jeff Davis, a senior fellow at Eno Transportation Center, said the document "is a faithful summary of the full 60-some page summary that the National Council of Economics has been toiling to produce for at least six months."

Several sources said they saw this plan before the tax reform debates on Capitol Hill and were shocked back then at the House tax bill's proposal to eliminate PABs in light of this plan.

The six-page plan sets forth PAB recommendations in a section called "Funding Principles."

The plan says the tax law should be amended to allow broader categories of public-purpose infrastructure, including reconstruction projects, to take advantage of PABs and encourage more private investments in projects to benefit the public.

The plan would eliminate the alternative minimum tax as well as the prohibition on advance refundings for PABs used for infrastructure. Additionally, It would remove the state volume cap on these PABs. It would also remove the transportation volume cap and expand eligibility in this category to ports and airports.

This is a reference to the $15 billion cap created for highway and surface freight transfer facilities under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) that was enacted in August 2005.

Congress or regulators would provide change-in-use provisions governing the change of use of tax-exempt bond-financed facilities to preserve the tax-exempt status of governmental bonds, according to the plan. "Change-of-use cures" would be provided for private leasing of projects to ensure the preservation of the tax exemption for core infrastructure bonds.

Joseph Krist is a Partner at Court Street Group Research, said that overall he sees the plan as positive for the muni market.

"We see lots of references to private activity bonds. The ability to advance refund private activity bonds," he said. "This document clearly sees the municipal bond market as really, in our view, central to what they want to get accomplished."

Brett Bolton, Bond Dealers of America's vice president for federal legislative and regulatory policy, said BDA is encouraged by the administration's infrastructure proposal.

"The protections for outstanding governmental tax-exempt bonds and the substantial expansion of the ability to issue tax-exempt private-activity bonds will bolster issuers and other infrastructure industry participants nationwide," Bolton said. "Restoring the ability to advance refund PABs will save the American taxpayer money and improve our nation's infrastructure but should be coupled with the ability to advance refund governmental bonds as well."

Emily Brock, director of the Government Finance Officers Association's Federal Liaison Center, said, "Some of the details of the 'leaked' plan in some ways are not surprising because we have heard these general themes on infrastructure from the White House for the past six months – including rural infrastructure, transformative plans and grant funding."

"Other parts are a bit more specific and surprising," she said. "For example, the outline seems to

suggest the White House will push a significant expansion of private activity bonds, which is a big swing away from some of the discussions with House leaders during the development of H.R.1" – the tax reform legislation.

"It shows that in their preliminary plans that they realize the policy objectives of the tool – advanced refunding creates savings which free up capital for future infrastructure investment," said Brock. "We look forward to working with the administration to expand that exemption to municipal bonds as they continue to develop this infrastructure plan."

The plan also makes no mention of the level of federal funding that is to be made available for infrastructure.

Most sources assume that the administration is still planning to provide $200 billion to leverage up to $1 trillion or $1 8 trillion of investment in infrastructure over a 10-year period. The $200 billion figure was included in the administration's budget proposal for fiscal 2018 and is expected to be in the next budget request for fiscal 2019, which typically would be released the first Monday in February.

"It's hard to assume that a bill of this type will be funded enough, in particular in the early years, to make a meaningful difference in issuer behavior," said Fabian. "It may help extend some projects and may possibly pull a few projects forward on the calendar, but because of the state-by-state limits, it's unlikely to have a large permanent net effect on total issuance. This is less about stimulating infrastructure investment, more about giving Washington more influence over what state and local projects are built."

The "Funding Principles" section of the document says 50% of the total appropriated amount would be for incentive grants, with the federal share to be up to 20%. A federal agency would administer the grants and would solicit applications every six months. The agency would define eligible costs and conduct audits to ensure funds are used appropriately. Grant awards can't exceed 20% of total project cost. No one state could receive more than 10% of the amount available.

"The question is, Can state and local governments combine this federal money with federal funding from other programs?" asked Davis.

Another 10% of appropriations would be for transformative projects and the Commerce Department would administer this program.

An additional 25% of appropriations would be for rural infrastructure projects and states would be responsible for projects funded under this program. About 80% of funds made available would be provided to the governors based on a formula.

About 7.05% of appropriations would be for federal credit programs under under the Transportation Infrastructure Finance and Innovation Act and the Water Infrastructure Finance and Innovation Act as well as Railroad Rehabilitation and Improvement Financing programs and U.S. Department of Agriculture Rural Utilities Lending Programs.

Another 5% would be used for a Federal Capital Financing Fund that would allow appropriations committees in Congress to finance General Services Administration real estate deals over 15 years with repayment spread out over the those years.

Under a section called "Principles for Infrastructure Improvements," the plan would give states the flexibility to toll on interstates and reinvest toll revenues in infrastructure.

The plan also would expand qualified credit assistance and other capabilities for state infrastructure banks.

The Clean Water State Revolving Fund would be authorized for privately owned public purpose treatment works, under the plan. And WIFIA would eliminate the requirement for borrowers to be community water systems. WIFIA also could be used for flood mitigation, navigation and water supply.

The plan includes a few proposals for streamlining specific environmental regulations. It makes no specific mention of public-private partnerships, but often refers to private investment.

Wright said the document "doesn't deal much with regulatory reform" but added that "we're hopeful" of seeing regulatory reform.

"Probably our biggest concern with what we see here is that this document does not address the solvency of the Highway Trust Fund for long-term sustainable funding and funding predictability for transportation investment," he said.

Wright said, "We will continue to say two things. One, there's no replacement for direct federal funding even though private sector investment is important. Secondly, we need to fix the Highway Trust Fund. That's going to continue to be out top priority."

Asked about the plan, Sen. John Barrasso, R-Wyo., chair of the Senate Committee on Environment and Public Works, said, "President Trump has been a champion of upgrading America's aging roads, bridges, dams, and ports. This infrastructure is critical to the country's success. I agree that this is a priority."

Barrasso added," Any infrastructure plan should include streamlining so that projects get started and finished faster. I will continue to work with the president, the members of our committee, and the House of Representatives as we continue this important process."

BY SOURCEMEDIA | MUNICIPAL | 01/22/18 07:10 PM EST

Chicago Sales Tax Bonds Fetch Wider Spreads in Second Sale.

CHICAGO, Jan 23 (Reuters) – Weaker demand resulted in wider spreads on Tuesday for the sale of highly rated bonds Chicago pulled from the U.S. municipal market last week in order to restructure the deal.

The pricing of nearly $376.3 million of the city's Sales Tax Securitization Corporation tax-exempt bonds resulted in spreads of 53 to 60 basis points over Municipal Market Data's (MMD) benchmark triple-A yield scale.

Spreads over the MMD scale for $174 million of tax-exempt bonds the corporation sold in its first-ever deal in December ranged from 23 to 38 basis points, although the bonds are trading at wider spreads in the secondary market.

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A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation's third-largest city.

The corporation is pledging Chicago's state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

BY REUTERS | MUNICIPAL | 01/23/18 05:11 PM EST

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Fintech Startup Wants to Help Advisers Find and Sell Muni Bonds.

It's like Zillow, but for bonds.

That's the idea behind Bond Navigator, a cloud-based digital marketplace for advisers to find and evaluate municipal bonds, that launched Tuesday from startup 280 CapMarkets.

Gurinder Ahluwalia, the co-founder and chief executive of 280 CapMarkets, said large institutions strongly influence bond prices and hold trading insights on their proprietary systems, making it challenging for independent advisers to access the bond market. Bond Navigator addresses this by aggregating data from multiple sources, which Mr. Ahluwalia said provides greater transparency into pricing and "levels the playing field for independent advisers."

Bond issuers are displayed on a map to help advisers identify investment opportunities by geographic location, and advisers can filter bond issuers to find the most relevant products for clients.

Ron Speaker, the CEO and founder of Equus Wealth Management, has been using Bond Navigator for three months during its test phase. He was impressed with 280 CapMarket's technology, particularly the map of bond issuers.

"Investing in munis is a study of geography," Mr. Speaker said. "Not ever municipal bond name describes where it's from, and [280 CapMarkets] did a fantastic job with that."

Mr. Speaker, who deals exclusively in bonds of California and Colorado, said there are more than 6,000 bonds available in California at any given time. By using the map to identify areas relevant to

his clients and then applying a few preferences, he said he can cut it down to a handful in a matter of clicks.

“What these guys did was put a lot of key features all into one package,” Mr. Speaker said. “They’ve got the best sorting, screening and mapping.”

The technology is supported by a team of fixed-income professionals, who Mr. Ahluwalia said work across adviser liaison, institutional sales and institutional trading desks to ensure competitive pricing for every bond order.

He said that while technology has made it easier for advisers over the last decade to go independent, the trend has not reached fixed income.

“When you look at the fixed-income offerings today, the independent advisers, once they walk away from the firm they were with, they lose their trading desk and are on their own,” said Mr. Ahluwalia, who served as president and CEO of Genworth Financial Wealth Management before it was acquired by private equity. “They are left to the mercy of their custodian or digital exchange.”

Joel Bruckenstein, president of Technology Tools for Today, said there is a need for more transparency around bonds, and that a limited supply at custodians and broker-dealers probably keeps some advisers away from them. But he’s skeptical how much traction Bond Navigator will ultimately have.

“My sense is that only a minority of advisers purchase individual bonds for clients,” Mr. Bruckenstein said. “I’m not certain that it will encourage more advisers to trade individual bonds, but it will make it easier for those that do to improve their service to clients, and it may encourage some sitting on the fence to take another look at providing such a service.”

Prescott Nasser, 280 CapMarkets’ chief technology officer, said this is why the company is not charging a separate fee for Bond Navigator, but rather charging a commission on the bonds purchased on the platform. The hope is that advisers will see how much easier it is to access bonds and feel more compelled to use bonds as a tool for asset preservation.

Investment News

By Ryan W. Neal

Jan 23, 2018

Where Amazon and Municipal Bond Finance Collide.

Amazon.com, Inc is looking for a new headquarters, but the biggest cities vying for the privilege are drowning in debt, and having a new HQ in a high debt city won’t be good for Amazon going forward.

On January 18, the company released its short list of the top 20 candidates that remain in the running to land the retail giant’s second home base. Many cities across the US made bold pitches to Amazon to lure the behemoth to their respective cities. The details of each city’s proposal remain closely guarded secrets, with lucrative tax incentives and infrastructure components offered to hopefully convince the company to bring a reported potential $5 billion additional investment and 50,000 new jobs to the lucky winner.

When deciding on a final location, Amazon is not just looking at what incentives they can get out of the deal. They are also looking at the financial standing of the cities vying for the coveted deal. 19 U.S. cities and Toronto, Ontario are all in the hunt. We imagine the retailer is taking into account many attributes, including local workforce capability, transportation, zoning and municipal government health. We think that there are many municipalities with qualified labor forces and good infrastructure but not all municipalities are well run from a debt management perspective.

Budgetary Debt and Unfunded Pensions Weigh on the Decision

Local infrastructure is an important factor Amazon is certainly taking into consideration when choosing a location for their new headquarters. Infrastructure such as roads, airports, and modern public transportation are vital to the eCommerce giant attracting the high-quality talent they seek to employ. Amazon has reported that they are looking to hire up to 50,000 high-paid employees at their second headquarters location, so cites surrounded by quality institutions of higher learning will certainly stand out. Cities under consideration for the new headquarters with aging infrastructure will have to upgrade their systems to stay in the fight. In most cases this would mean adding debt on top of already shaky financial conditions.

Why would Amazon be concerned with the financial condition of the city it chooses for its second headquarters? One big reason would be accounting for future tax liabilities. If a municipality grants tax breaks to Amazon today, and the city's credit profile deteriorates in the future then the city may be forced to increase certain taxes levied on local companies, including Amazon, to help fund those shortfalls.

According to Bloomberg, 8 of the 20 finalists have high debt and pension fund liabilities that could hurt their chances of success. These legacy costs incurred over the last few decades could make them less attractive to the internet giant.

Interestingly, it is some of the largest cities on the short list that are experiencing financial difficulty. The cities of Atlanta, Austin, Chicago, Dallas, Indianapolis, Los Angeles, Philadelphia and Pittsburgh each have more than 250,000 residents and spend the greatest share of their annual budgets on debt, pensions, and retiree medical benefits.

In contrast, smaller metropolises like Columbus and Denver were among the finalists that have relatively low debt service requirements and pension burdens relative to their population base.

The mounting liabilities faced by the eight larger cities could make them less attractive to Amazon when compared to smaller city options.

If Jeff Bezos does go central USA?

We imagine that he would chose Nashville over Chicago.

Let's take a look at these two final US cities. They are strategic from a national logistical perspective, as they are both centrally located. Being centrally located will allow Amazon to interface seamlessly with both the east and west coasts. Both cities also have a diverse demographics and therefore an equally diverse work force for Amazon to tap into. Finally, both cities are within close proximity of numerous local, well ranked universities, all of whom can provide talented new Amazon hires for years to come.

When compared on location, demographics, infrastructure, and size, Chicago and Nashville stack up fairly evenly. It is when you look into their public finances that Nashville begins to shine as a stronger candidate.

Chicago suffers from deeply troubled municipal finances, many of which are also reflected at the state level. The Chicago Public School System (CPS) is on life support at the mercy of the municipal bond market to finance their perpetual deficits. Chicago's recent financings have not been used for improvements and new construction but rather to roll-over short term borrowing with significantly higher cost long term bonds.

The Windy City currently is rated below investment grade by Moody's Ratings, which is considered to be junk bond status, as is its public-school system. Chicago Board of Education bonds are a large holding of the Van Eck Vectors High-Yield Municipal ETF (NYSEARCA: HYD), which yields over 4.25%, more than double the yield on the higher quality iShares National Muni Bond ETF (NYSEARCA: MUB)

Contrast Chicago's woes to well-run Nashville. Nashville has a stable AA2/AA investment grade bond rating, and is currently home to a number of large companies. Tens of thousands of Tennesseans are employed by companies such as Vanderbilt University Med Center, HCA Healthcare Inc (NYSE: HCA), Kroger (NYSE:KR) and Nissan. The city according to Moody's possesses strong management and as the state capital possesses a regional tax base that will continue to grow and provide the necessary revenues to support ongoing governmental operations.

Our Guess

When you dig deeper into the municipal finances of the 20 finalists, many once strong candidates begin to fall apart. We see it and we are sure the folks at Amazon do, too. We don't know Amazon's future HQ2 location. With all of our quantitative skills and higher education, we may have a 1 in 20 chance of being right. With all of the conjecture, we imagine that it could be an east coast city that wins out, supporting that thesis is a fair amount of media buzz about Atlanta, Raleigh, Washington DC, and Boston.

Disclosure: NatAlliance Securities LLC may hold a position in all bonds referenced, and in the future may be a buyer or a seller of the securities. This is not a recommendation to buy, sell, or hold the securities. Las Olas Wealth Management is a wealth management group within NatAlliance Securities LLC.: I, Dean Myerow, wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock or bond is mentioned in this article.

Market Exclusive

by Bydean Myerow -January 24, 2018

The Outlook For Municipal Bonds.

The next decades will bring a level of municipal bond defaults unlike anything seen since the 1930s. Those who are interested in preserving their wealth or retirement prospects should give serious consideration to holding insured bonds.

Municipal bonds have become more attractive than ever after the recent tax reform, which left people with high income and wealth even fewer options for preserving what they already have. Given the meager returns offered by the taxable bond market, one might even wonder why municipal yields aren't lower than they are. But before you pile further into this market, let's look at the long-term outlook. It isn't all that rosy.

Government at all levels has been splurging on debt for decades with the last ten years being among the worst. This because 2008 shook investor confidence in anything without a solid guaranty behind it, and what is more solid than government that can't go out of business. Our federal government was the worst offender, doubling the national debt to $20 trillion in just eight years. They can do this and more because they tax income and can print money. State and municipal governments are not as fortunate since they tax mainly wealth through property taxes. Their ability to tax income is limited and results in a loss of population, at least of population with income and assets.

A short reminder on the nature of debt. It is a way of robbing future revenues to satisfy current priorities and needs. When this borrowing from the future is in order to maintain the general public's well being and grow the economy, it is a positive economically and improves the quality of life for the tax payers burdened with servicing that debt. Bonds for such purposes as public works, infrastructure and housing come quickly to mind as having such positive effects. Bonds issued for budget shortfalls, pension plans, social programs and non-governmental facilities, not so much.

Today, government at all levels face a crisis that will play itself out over the next decade. This crisis is due to trillions of dollars of unfunded mandates for pension and health care obligations as the baby boomer generation retires and draws on government funds rather than being contributors. That's right, government has not only robbed the future through excessive borrowings, it has also failed to fund its promises to public workers and citizens. Promises that were gambled away, future cash flow for debt service that produced little meaningful benefit. The crisis that is coming is when government, facing a cash crunch, has to sit down with its workers, retirees and bondholders and ask them to share the pain. While bondholders may feel that the promises to them are legal and binding, be sure the other parties feel the same way and they have the media and public opinion on their side. Be assured, bondholders will suffer the most.

We have precedent for the outcome we can expect for bondholders: Going back to the 1980s when the Washington Public Power and Supply System defaulted on $2.25 billion in bonds. The Washington Supreme Court ruled the authority had to pay because of the wording of the state fraud statutes. However, media attention demonized bondholders as robber barons and the state legislature retroactively changed the fraud statutes to hold governmental entities to a less severe fraud standard.

We see in the current Puerto Rico debacle–where the stakes are much higher–more than $73 billion for bondholders and $40 billion or more of unfunded pension obligations. The hurricane damage there has given impetus to U.S. Senator Elizabeth Warren calling for a total debt forgiveness.

What is likely to happen over the next few years is governments at all levels issuing bonds for unfunded mandates. In realty, such bond issues solve nothing economically. However, issuing such bonds means that when the financing crisis hits, i.e. when there is not enough cash to meet current expenses, there will be more people sitting at the table to share the pain. If the past is any indication, bondholders will not be holding the strongest hand, it will be current employees and pensioners.

Many bondholders may think their best option is to invest in munis via a mutual fund. The thinking is that such funds have the expertise in bond selection and offer greater diversification of risk. But their strategic priority is always to attract the next investor dollar, not to retain what they already have, so risk is generally rising to keep overall returns competitive.

Apparently bondholders are catching on since there has been a net exodus from such funds over the last two years. This is not surprising since it was these mutual funds that bought many of the Puerto Rico along with Florida Community Development Districts, pension plan funding and tobacco bonds.

The better solution is for bondholders to buy only bonds insured by a mono-line bond insurer. These are companies that insure both the principal and interest payments on a bond issue. Their advantage over the expertise of bond funds and credit rating agencies is that when they are wrong, they, not you, suffer the loss. This is why some of the Puerto Rico bonds today still trade at par.

While Puerto Rico is the focus of default today, in fact there are currently more than 70 bond issuers totaling $1.3 billion that are being serviced by a guarantor. Historically, since 1980 more than 300 bond defaults of insured bonds totaling $4.6 billion have been settled at full value. Most of the bond insurers have disappeared since 2008 because they strayed into insuring corporate bonds and derivatives. But even then, they were absorbed by the surviving insurers who assumed the outstanding contracts. While insured bonds may provide a fractionally smaller yield than the equivalent issue that relies exclusively on the promise of government, long-time observers know that we live in a different time politically and that in most things today, politics trump promises (no pun intended).

Forbes

Richard Lehmann, Contributor

Jan 24, 2018

Richard Lehmann is editor of Forbes/Lehmann Income Securities Investor.

Chicago Sales Tax Bonds Fetch Wider Spreads in Second Sale.

CHICAGO, Jan 23 (Reuters) – Weaker demand resulted in wider spreads on Tuesday for the sale of highly rated bonds Chicago pulled from the U.S. municipal market last week in order to restructure the deal.

The pricing of nearly $376.3 million of the city's Sales Tax Securitization Corporation tax-exempt bonds resulted in spreads of 53 to 60 basis points over Municipal Market Data's (MMD) benchmark triple-A yield scale.

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The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

Reuters Staff

(Reporting by Karen Pierog; Editing by Matthew Lewis)

JANUARY 23, 2018

S&P U.S. Public Power and Electric Cooperative Sector 2018 Outlook: Stability Amid An Evolving Regulatory Landscape And Operational Challenges.

Public power and electric cooperative utilities continue to face evolving regulatory and operational exposures. First off, electric utilities are grappling with numerous state and federal rules governing their power plants' operations and emissions.

Continue Reading

Jan. 16, 2018

When Proposed Public and Private Projects Collide: Nossaman LLP

Infrastructure projects take years to develop: the environmental review, funding, design, procurement, and construction of a public project is time consuming in any state, but even more so in California given the strict regulations and oversight any public agency must comply with. During that lengthy process, private properties situated in the proposed project alignment remain in a state of flux. When those impacted properties are slated for development, what are the parties to do?

According to an article in the Morgan Hill Times, Council OKs new housing in one of two bullet-train paths, this situation is currently playing out in Morgan Hill, where a residential home builder is proposing to construct a subdivision which lies in the path of one of the proposed alignments for a public transit project. Despite the potential future conflict, the City approved the developer's subdivision entitlements so building the residential units can commence. Is this the right choice, or is there a better alternative?

On the one hand, there is no guarantee the public project will come to fruition, and the final alignment has not even been selected. So it makes sense to allow the private development to go forward. On the other hand, if the public project does proceed on this alignment, instead of

acquiring vacant land the agency will now have to acquire a number of new residences and relocate impacted families at a much higher price.

Under California law, the City's decision to allow the residential development to proceed is likely the correct approach. If the City refused to allow the owner to secure entitlements due to a potential conflict with the train alignment, the City would potentially be held liable for inverse condemnation. We've recently seen this play out in the Jefferson Street Ventures case. Such a situation may create liability before the public project's alignment is determined, or before project funding is even available.

However, what if, in order to minimize costs and impacts, the public agency decided to acquire the potentially impacted property now, before it was developed? Unfortunately, this raises another host of issues, as the agency could eventually risk a challenge to its environmental approvals with someone claiming that the agency's purchase of the impacted property influenced the ultimate selection of the preferred project alternative. Similarly, acquiring property before securing environmental approvals of the public project could jeopardize funding for the project from federal agencies.

In situations like these, there typically is not a great solution. However, one potential opportunity that has been utilized more frequently, and that is allowed by a number of federal oversight agencies, is securing approvals to acquire potentially impacted property under a "protective acquisition" exception. Such an approach allows a public agency to acquire impacted property before environmental approvals where the acquisition is necessary to prevent the imminent development of a parcel that is likely to be needed for the proposed public project. If the agency can document that the developer has taken concrete steps to develop the property, and imminent development would conflict with the public project, such an early acquisition may be permissible.

In order to avoid tainting the environmental process and the consideration of project alternatives, protective acquisitions are only allowed under a limited number of circumstances, and the agency must comply with the Uniform Relocation Act and all other laws and regulations. But it is definitely an approach that both public and private parties should consider exploring, and may even be one that creates a win-win solution. Perhaps it could even benefit the situation currently taking place in Morgan Hill.

Article by Bradford B. Kuhn

Last Updated: January 11 2018

Nossaman LLP

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

Interest Rate Increase Coming For Many Tax-Exempt Borrowers: Holland & Knight

Many states, local governments and conduit borrowers (e.g., 501(c)(3) not-for-profit corporations) have directly placed tax-exempt loans (secured by the issuance of notes or bonds) with lenders, such as banks and their non-bank affiliates, instead of going to the public markets. Many of these direct

placement loans have so called “gross-up” provisions for changes in the marginal corporate tax rates. The gross-up provisions were intended to protect banks’ investment return, because as marginal corporate tax rates decrease, the tax-exemption becomes worth less to the lender. Therefore, as corporate tax rates decrease, the gross-up provisions preserve a lender’s net rate of return by increasing the interest rate on the loan or bonds. Consequently, as a result of the recent reduction in the marginal corporate tax rate from 35 percent to 21 percent, many borrowers with direct placement tax-exempt loans containing gross-up provisions may see their interest rates increase.

Not all gross-up provisions are written equally, and borrowers, as well as lenders, will need to carefully review the applicable provisions in loan documents. In most instances, the provisions are written as an objective adjustment in which the interest rate is multiplied by a fraction, the numerator of which is equal to 1 minus the Maximum Federal Corporate Tax Rate on the date of calculation and the denominator of which is 0.65. The current factor of 1 (i.e., 1 – 0.35 / 0.65) is increased to a factor of approximately 1.215385 (i.e. 1 – 0.21 / 0.65)1. As demonstrated, this will result in an increase of the interest rate by more than 21 percent.

Considerations for Borrowers and Lenders

The increased interest rate will have a budgetary impact for states, local governments and conduit borrowers. Moreover, additional challenges can arise for borrowers who have entered into variable-to-fixed interest rate swaps, as a basis differential can arise from a change in the rate on the loan without a change in the interest component on the underlying swap. For these borrowers, the variable rate interest rate under the loan will be increased as a result of the “gross up” but the receipt of swap payments received from the swap counterparties will not change. Therefore, a borrower will be paying a higher variable interest rate under the loan than it is receiving from the counterparty under the swap. Consequently, the swap will no longer be perfectly hedged.

Due to the quick implementation of these changes, many lenders are still reviewing their loan documents to determine which of their loans have gross-up provisions, as well as the extent to which they must be implemented. Thus, it may be several months before lenders notify borrowers of the change in rates. In many cases, however, the implementation of the rate increase is automatic, whether or not notice is given, and will become effective as of Jan. 1, 2018. Thus, governmental entities should quickly review their budgets to account for the potential rate increases.

Depending on the way the documents are written, the implementation of these changes may not be automatic and may not be equally applied across a bank’s portfolio of loans. For some lenders, the documents provide that the rate “will” be grossed up (i.e., “the rate shall be increased”), but for other loans the provisions give the lender the option of whether or not to increase (i.e., “the rate may be increased at the option of the lender”). In those cases where the rate change under the loan documents is automatic, careful consideration needs to be given by bond counsel if the lender offers to waive the gross-up provision, because the failure to fully implement such a provision – or a delay in implementing its effective date – could cause a reissuance for federal income tax purposes and thus could cause the loan to become taxable. Lenders should consult with counsel prior to formalizing any waivers to ensure that the tax-exempt status is not unknowingly jeopardized.

Footnotes

1 A similar common adjustment factor is reflected as the product of 1 minus the Maximum Federal Corporate Tax Rate on the date of calculation multiplied by 1.53846.

Article by Michael L. Wiener, Richard B. Stephens and Edward J. Rojas

Last Updated: January 11 2018

Holland & Knight

Michael Wiener and Richard Stephens Jr. are Partners in Holland & Knight's Lakeland office and Edward Rojas is an attorney in Holland & Knight's New York office

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

S&P U.S. Transportation Sector 2018 Outlook: Credit Quality Will Largely Be Stable, But Will Infrastructure Finally Take The Spotlight?

S&P Global Ratings' 2018 outlook for business conditions and credit quality across the public transportation sector is stable across most transportation subsectors (airports, ports, federal grant-secured and parking), and positive for the toll road and bridge sector.

Continue Reading

Jan. 17, 2018

Climate Lawsuits Backfire.

Environmental activists and plaintiffs' attorneys have convinced local governments in California and New York that there is a pot of gold waiting for them in a new set of lawsuits against energy companies. The theory is that the companies raised global temperatures and thus forced cities and counties to spend billions of dollars to protect residents against rising seas.

The claim is farfetched, to begin with, and federal courts have tossed out similar arguments in the past. But now, the lawsuits are backfiring – and local governments themselves are in the crosshairs.

Here's the problem for the governments: They claim that energy companies will cause massive environmental damage, costing their cities and counties billions of dollars. But, if that claim is true, then the governments failed to reveal the risk to purchasers of their own bonds. As a result, the cities are opening themselves up to lawsuits directed at *them*.

Continue reading.

The Huffington Post

John Burnett, Contributor

Businessman | Business & Political Commentator | Professor | Urban Financial Freedom Fighter | Republican Strategist

01/16/2018 12:33 pm ET

Local Government Investment in Water and Sewer, 2000-2015.

What investments will be needed to rebuild our national water and sewer infrastructure andprovide services to a growing and shifting population and an expanding economy?

Introduction

Will a new national infrastructure policy help or hurt city water and sewer services?
What is the role of the Federal Government in helping cities provide safe, adequate and affordable water and sewer in a national infrastructure policy?

Answers to these questions require knowledge of current public water and sewer economics and recent trends to help evaluate policy implications; this paper summarizes local and federal investment trends.

Congressional framers of the Clean Water and the Safe Drinking Water Acts promised local governments a technical and financial partnership to achieve national water goals. Those promises are long forgotten. Congress and the Executive branch have steadily retreated from responsibility for local water and sewer services, although they continue to stack up expensive regulatory mandates that trigger affordability burdens for low- and middle-income households. Current discussions of boosting infrastructure investments initiated by the Executive branch are long overdue; and the stated expectation that cities and states need to step up with more of their own money before they ask for federal financial assistance rings hollow in the case of local water and sewer where local government provides roughly 98 percent of the annual investments. Any major improvement in water and sewer infrastructure will rely on a new configuration of bonds, grants, loans and rate increases. A new infrastructure policy can get it right, if the new framers of the policy consider both achievements and systemic problems that have accrued over the last 40 years.

The case is well established that the federal financial partnership with cities died when Congress eliminated the construction grants program in favor of providing capitalization grants to states to disburse to local government as loans with capital and interest payments. Elimination of earmark grants for water and sewer construction soon followed, and local government picked up all the responsibility for providing local services and achieving national health and environmental goals, (Figure 1).

Continue reading.

The United States Conference of Mayors

By Richard F. Anderson, Ph.D.

Using Dollars with Sense: Ideas for Better Infrastructure Choices.

With infrastructure policy set for the spotlight in 2018, the Urban Institute is hosting this series to look beyond funding and into the way we choose which infrastructure projects are built and which are not.

On this page, you will find short essays about what criteria policymakers should keep in mind to

make effective choices and what levers they can use to do so. Visiting fellow Shoshana Lew argues for one such tool in her new brief, calling attention to asset management plans.

Our authors hold various views and roles in our infrastructure system, and while they may not all agree, we hope their collective output will be a resource for infrastructure leaders to draw on as they make decisions that will reverberate in places and people's lives for decades.

We look forward to a thought-provoking and useful discussion.

Continue reading.

The Urban Institute

Fitch U.S. Not-For-Profit Hospitals and Health Systems Criteria Revision.

Fitch Ratings finalized its new criteria for U.S. not-for profit hospitals and health systems, the changes of which are detailed in a new report and companion piece. These revisions will facilitate a more forward-looking, predictable approach to ratings and better highlight differences among credits in the same category.

Anticipated Rating Impact Limited

Fitch expects criteria-driven rating changes to affect less than 15% of the portfolio, with a roughly equal mix of upgrades and downgrades. Upgrades are likely for issuers with enhanced revenue defensibility characteristics or less volatility in Fitch's through-the-cycle analysis, while downgrades are likely for issuers with elevated operating risk and leverage, which expose them to greater volatility in a through-the-cycle analysis.

Rating Changes More Predictable

In a sector characterized by low default risk, insight into an issuer's vulnerability to adverse conditions and credit deterioration is of paramount importance. The revised criteria more clearly define and communicate Fitch's expectations of the range of performance within which a rating is expected to be stable, versus conditions which could prompt a rating change.

New Through-the-Cycle Tools

Fitch is incorporating forward-looking tools into the rating process. Revenue sensitivity and scenario analysis tools work together to consider both the expected 'base case' financial performance within a typical business cycle and the 'rating case' potential financial performance given a moderate downturn. Known as FAST, this tool highlights how cycles affect issuers differently, and will be publicly available during the criteria comment period.

Experienced Analytical Judgment

Fitch's ratings will continue to be based on the judgment of a team of experienced analysts rather than model-based outcomes. Given the diverse characteristics and wide range of U.S. not-for-profit hospital and healthcare credits, Fitch believes there are clear limits to the degree to which data points and formulas can define them.

Clearer Communication of Credit Opinions

The goal of the revised criteria is to communicate Fitch's credit analysis more clearly, presenting well-defined opinions about both rating conclusions and the underlying fundamentals. This will provide greater differentiation among credits, increased insight into what could trigger a rating change, and facilitate comparison of Fitch's credit opinions with others in the marketplace.

Focused Key Rating Factors

Three focused key rating factors replace the traditional inventory of credit considerations to highlight the role that each plays in determining credit quality. The information that Fitch reviews is largely unchanged; however, the way this information is incorporated into integrated and transparent analysis is much improved.

Tailored Versus Generic Expectations

As part of an integrated analytical approach, expectations are linked to issuer-specific risk factors. For example, rather than having a blanket level of liquidity or leverage judged to be consistent with a given rating category, Fitch considers the issuer's fundamental financial flexibility and sensitivity to downturns against an issuer-specific operating cost flexibility assessment and the asset allocation of its unrestricted liquidity.

Bloomberg Brief Weekly Video - 1/18

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

Watch video.

Bloomberg

January 18th, 2018

House Panel Backs Bill to Scrap Floating Prices for Money Funds.

- Post-crisis rule raised municipal borrowing costs, critics say
- Key industry group opposes change, says markets have adjusted

The House Financial Services Committee has advanced a bill that would eliminate some of the strictures placed on the $2.8 trillion money market mutual fund industry in the wake of the financial crisis.

The legislation, which was opposed by Fidelity Investments, Vanguard Group., BlackRock Inc. and other major asset managers, would repeal a 2014 requirement that the riskiest funds allow their share prices to float, rather than maintain a stable $1 value. The panel's action clears the way for a House vote on the measure.

Representative Keith Rothfus, a Pennsylvania Republican who sponsored the legislation, said it aims to fix a "misguided Securities and Exchange Commission rule" that has disrupted markets and also caused municipal borrowing costs to rise. He said more than 60 lawmakers, both Democrats and

Republicans, were co-sponsors of the bill.

While the prospects for passage in the Senate are dim, the 34-21 committee vote is a victory for Federated Investors Inc., which has a large money fund business and has been fighting the SEC regulation for years. The Pittsburgh-based firm joined with state treasurers, pension funds and other businesses to form the Coalition for Investor Choice to lobby for the bill.

Interest Rates

Other fund companies disputed the group's contention that the SEC rule was responsible for increased borrowing costs for cities and towns. In a paper distributed on Capitol Hill, Vanguard attributed the rise to the Federal Reserve's decision to boost interest rates.

"The coincidental timing of these increases and of money market reform has led to misidentification of the true causation of higher municipal yields," Vanguard wrote.

Mutual fund firms and their trade association, the Investment Company Institute, had mostly opposed the SEC's move to require the floating share price, but they told lawmakers changing the rule would be expensive and potentially troubling to the markets.

"The new regulatory regime involved substantial and costly operational changes implemented on a very aggressive timetable, but money market funds and the money markets have adjusted," ICI President Paul Schott Stevens wrote in a Jan. 12 letter to committee members. "The consensus of our member leadership is that reopening these reforms is not appropriate or desirable."

Clayton Warning

SEC Chairman Jay Clayton, in a letter last year to Representative Carolyn Maloney, also urged caution, noting that the agency's rule had only been fully put in place in October 2016. "I am concerned that making major changes at this time could be disruptive to the short-term funding markets," Clayton wrote.

The SEC's reforms came in response to a September 2008 run on the Reserve Primary Fund after its share price dropped below $1, causing investors to withdraw money at other funds and helping freeze credit markets. The Treasury Department was ultimately forced to stem the panic by temporarily guaranteeing shareholders against losses.

Among the lawmakers voting against the legislation were Representatives Bill Huizenga, the Michigan Republican who leads the Financial Services capital markets subcommittee, and New York's Maloney, the panel's top Democrat.

"I oppose this bill because I think it rolls back one of the most important post-crisis reforms we made," Maloney said.

Bloomberg Markets

By Robert Schmidt

January 18, 2018, 9:50 AM PST

S&P Credit FAQ: Understanding Climate Change Risk and U.S. Municipal Ratings.

The U.S. municipal market has always faced credit exposure to hurricanes, floods, drought, fires, tornados, earthquakes, and other catastrophes. In addition to episodic event risk from natural disasters, S&P Global Ratings believes it is important to consider the current long-term credit…

Continue Reading

Oct. 17, 2017

Moody's: Climate Change Adaption and Mitigation Could Affect Cities' Bond Ratings.

In December, Moody's Investors Service issued a report encouraging cities to invest in climate adaptation and mitigation. Cities will be evaluated in the future at least in part on how they prepare for both short-term climate "shocks" and longer-term trends associated with climate change.

Moody's is the largest credit rating agency to date to publicly outline how it evaluates climate change risk and integrates it into its credit rating assessments.

In the report, the United States is broken into seven "climate regions," identified by both geography and the type of mostly common regional impacts—for example, drought, extreme heat, and wildfires in the Southwest; rising sea level and its impact on coastal development in the Northeast; and flooding and other impacts on agriculture in the Midwest. The report stresses, "If federal, state, and local governments do not adapt, these risks are forecast to become more frequent and severe over time."

Cities that are already taking proactive steps to address climate change mitigation and resilience may welcome this additional level of scrutiny. A municipal credit rating based in part on climate change preparation could lead to a virtuous circle—cities that invest in climate preparedness would see a higher bond rating, allowing them to attract more low-interest capital to invest in a broader range of strategies to prepare for the short- and long-term impacts of climate change.

For cities that have not developed a climate action plan, or begun investing in climate change preparedness, Moody's report could be a wake-up call—if credit becomes harder to come by, these cities could be at a credit disadvantage to their peers, and find it hard to find the financing to catch up.

In the report, Moody's encourages cities to develop local adaptation and mitigation programs specific to their most likely short-term climate "shocks" and longer-term climate trends. In the Midwest, the report recognizes that "impacts on agriculture are forecast to be among the most significant economic effects of climate change." In the Southwest, the report recognizes that the region will become even more vulnerable to extreme heat, drought, rising sea levels, and wildfires. Rising sea levels and their effect on coastal infrastructure are the biggest projected long-term impact on the Northeast.

As Moody's recognizes climate change as a threat to municipal bond ratings, other debt markets have already begun integrating energy efficiency and climate change mitigation into their evaluation

process. Fannie Mae is issuing green mortgage–backed securities for assets with a third-party green building certification or major energy efficiency improvements, and providing green financing loans to help drive these energy efficiency improvements. Earlier this year, a study by the U.S. Department of Energy and Lawrence Berkeley National Laboratory found that energy-efficient commercial buildings are less likely to default on their mortgages than their more energy-inefficient peers, further strengthening the case that commercial debt markets should incorporate energy efficiency into their underwriting process as well.

Urban Land

By Billy Grayson

January 17, 2018

Market Commentary: Munis Get Slammed in a Volatile Week.

Read the report.

Court Street Group's Perspective

by George Friedlander

Posted 01/16/2018

Market Commentary: Munis Outperform Treasuries as 10-Year UST Tops 2.60%

This Market Commentary is part of Court Street Group's Weekly Perspective.

This past week saw several milestones in broader markets with the Dow Jones Industrial Average crossing the 26,000 point mark for the first time and the U.S. Treasury 10-year yield topping 2.60% for the first time in nearly 4 years.

Pressure from sustained Treasury losses year to date and the crossing of the technical boundary of 2.60% did eventually put pressure on municipals but overall the theme of the week was outperformance.

Continue reading.

Neighborly Insights

by George Friedlander

Posted 01/19/2018

Chicago Postpones $898 million Bond Sale, Eyes New Structure.

CHICAGO (Reuters) – Chicago on Wednesday postponed an $898 million bond sale until next week at the earliest, citing weaker market conditions and the possibility of restructuring the deal to include taxable debt.

The revenue bond issue, which topped this week's $3.45 billion supply calendar in the U.S. municipal market, was aimed at refinancing some of Chicago's outstanding general obligation debt through a newly created Sales Tax Securitization Corporation.

Chicago Chief Financial Officer Carole Brown pointed to a weaker market tone and the fact that ratios between yields on tax-exempt muni bonds and comparable taxable U.S. Treasuries have risen since the city sold the first $743.7 million of bonds through the corporation in early December to refinance outstanding sales tax revenue debt. The ratios gauge the expensiveness or cheapness of munis versus Treasuries.

"We have the flexibility and the time to possibly evaluate some alternative structuring options and make sure we are offering the appropriate deal to the market given the current market environment," she said in a telephone interview.

While the deal was meant to refund outstanding GO bonds callable within 90 days, the city could add a taxable component to refund debt callable beyond 90 days, according to Brown. The new federal tax law eliminated tax exemption for advance-refunded munis.

The tax-exempt bond deal was initially structured with serial maturities from 2031 through 2039 and a term maturity in 2042.

Chicago created the sales tax securitization corporation last year to refinance up to $3 billion of its sales tax revenue and GO bonds, and produce an initial $94 million in savings for the city's fiscal 2018 budget.

A chronic structural budget deficit, as well as a huge unfunded pension liability that totaled $35.76 billion at the end of 2016, have led to low credit ratings and increased borrowing costs for the nation's third-largest city.

The corporation is pledging Chicago's state-collected sales tax revenue to pay off the new bonds. Investors will get a statutory lien shielding the debt from municipal bankruptcy, which is not allowed under Illinois law.

The bonds are rated AAA by Fitch Ratings and AA by S&P Global Ratings, both of which are several notches higher than the city's GO ratings of BBB-minus by Fitch and BBB-plus by S&P.

Reporting by Karen Pierog; Editing by Matthew Lewis

JANUARY 17, 2018

The Week in Public Finance: Feds to Revisit Payday Loan Restrictions, a Pot Appeal and a Better Way to Do Property Taxes.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 19, 2018

Public-Private Partnership Withstands Court Challenge.

Attorney Mariah DiGrino of DLA Piper details a recent Illinois court case.

Housing for chronically homeless individuals in Lake County, Ill., has been preserved and expanded through a public-private partnership that recently withstood a court challenge by opposing residents. The Lake County Housing Authority is working with PADS Lake County, a local nonprofit homeless services provider, to provide permanent housing for chronically homeless individuals, using funding under the Department of Housing and Urban Development's (HUD's) Continuum of Care program.

The public-private partnership in this case uses a multifaceted approach to reach a narrow segment of the homeless population, whose unique challenges have proven difficult to address. This approach allows the housing authority to tap into multiple resources to reactivate a vacant facility: HUD funding, existing public housing tenant selection processes, and PADS' experience and expertise serving the chronically homeless. PADS itself is a nonprofit organization that engages a variety of community and financial resources to address homelessness.

The public-private partnership in this case follows a long history of government efforts to engage the private sector in housing programs, beginning with New Deal-era loan guarantees and subsidized loan programs. So-called P3s have evolved to include a variety of arrangements, but all share the common features of combining government resources and authority—such as public funding, public property or facilities, access to better financing, credits, or other incentives—with private-sector funding and expertise to achieve a government objective.

The Lake County case is a reminder that public-private partnerships remain a valuable tool for providing a coordinated and customized approach to housing. It's also a reminder that, while the public-private partnership framework encourages alliances and broad-based support, such projects are not immune from opposition. Local regulations and stakeholder dynamics are important considerations that can either support or hinder the public agency's objectives. In this case, local zoning regulations and building officials cleared the way for a project that would otherwise not be permitted absent the involvement of the housing authority but not before community opposition and a decision by a local zoning board delayed the project for two and half years. Given the cyclical and competitive nature of funding, justice delayed is often justice denied.

In recent decades, HUD has sought to use P3s to increase local control of housing efforts, partly in an effort to reduce the reliance on federal funds. The current administration's goals suggest that trend will continue. While there are unique challenges associated with negotiating and implementing a public-private partnership, P3s provide a unique opportunity to leverage private-sector expertise and resources to achieve a public objective.

PADS previously provided permanent housing for 13 chronically homeless individuals through a lease arrangement with a federal Veterans Affairs health-care center. Hospital administration notified PADS that it needed to reclaim the space, requiring PADS to relocate the residents. After looking for suitable replacement units for several years, PADS and the housing authority entered into a master lease, pursuant to which PADS would sublease units in a vacant facility, known as

Midlothian Manor, to chronically homeless individuals, enabling PADS to preserve the existing 13 units and add a new unit. Midlothian Manor was acquired by the housing authority in 2001 as part of its non-federally funded housing inventory and was operated by the housing authority as an assisted-living facility for low-income seniors. Because it was never federally subsidized, the occupancy rate was perpetually low, and the housing authority closed the facility in 2010.

After PADS obtained permits for the proposed project from the local building department, nearby residents objected to the proposed reuse by filing a lawsuit seeking to stop the proposed project. The residents objected on the grounds that their homes and Midlothian Manor are located in the R-1 Residential District under the Lake County Unified Development Ordinance (UDO), which establishes zoning and development regulations throughout unincorporated Lake County. The R-1 district permits low-density, large-lot residential development. The objectors contended that re-occupancy of Midlothian Manor would be inconsistent with the R-1 district regulations.

After a two-and-a-half year battle, PADS, represented by DLA Piper LLP (US), successfully argued to the Circuit Court in November 2016 and then again to the Appellate Court in August 2017 that the project was permitted under the UDO as a "Government Use," which is a permitted use in all zoning districts under the UDO. "Government Use" is defined under the UDO as a "building or structure owned or leased by a unit of government and used by the unit of government in exercising its statutory authority." The effect of this definition is that a use which would otherwise be prohibited in a given zoning district is permitted when the governmental requirements of the definition are met, even though the uses may be functionally identical.

In upholding the building department's decision permitting the project, the Second District Illinois Appellate Court held in October that the housing authority's ownership of Midlothian Manor and the public-private partnership with PADS satisfied the definition of "Government Use." The objectors had argued that, with a public-private partnership arrangement, the property would not be "used by the housing authority," but would instead by used by PADS. The court rejected this argument and held that the public-private partnership leveraged the housing authority's express power to contract with and assist other entities—public or private—to reuse Midlothian Manor in a way that fits squarely within the agency's statutory purpose of providing safe and sanitary housing.

Affordable Housing Finance

By Mariah DiGrino

January 17, 2018

At DLA Piper, Mariah DiGrino concentrates her practice in the areas of land use and zoning, public-private financing, public incentives, historic preservation, and community and economic development.

Municipal Bond Funds See Record Inflows to Kick Off New Year.

Municipal-bond funds saw $3.1 billion of net new money last week, says ICI

It's only been a month and municipal bond funds are on a tear.

The Investment Company Institute estimated that muni bond funds saw net inflows of $3.1 billion for the week ending Jan. 10. That record-breaking sum is the biggest since the survey began in January

2007.

The bullish flows into munis represents a turnabout for the a sector that a few weeks ago looked bleak. As President Donald Trump's tax plans rushed toward completion, muni-focused mutual funds saw around $1.3 billion in net outflows in December.

At one point, the Republican tax bill threatened to do away with interest deductibility for municipal paper, which would have produced a major headwind for muni investing.

That's because the principal target investor for munis is wealthy individuals looking to cut their tax bill and earn tax-free interest income. Other measures included a repeal of private activity bonds, debt sold by municipalities to finance the projects of corporations like airports.

But sentiment over the sector swiftly turned bullish once the tax plan took its final and more benign form.

"Flipping that pancake to the other side, once the tax bill was finalized and signed, and once it became apparent that the tax rate for the top bracket was very high. Once that all became definitive, perhaps folks that took the outflow train took the inflow train," said Alan Shankel, municipal credit strategist for Janney Montgomery Scott.

Analysts now say negatives of the overall tax plan should be diminished. The Republican tax bill outlawed the use of so-called advanced refunding bonds, a roundabout way for municipalities to refinance their debt. Such bonds represented 15% of total issuance over the past decade, estimated Abigail Urtz, municipal strategist for FTN Financial.

The diminishing supply could give a boost to municipal bond-buyers and push yields lower. Debt prices rise as yields fall.

However, it may not all be rosy for munis.

Urtz said the outlook for demand could be a major wild card because one of the chief pieces of the bill was a cut to the corporate-tax rate to 21% from 35% this year.

The reduced corporate-tax rate may undercut appetite from banks and insurance companies, which have grown into significant players in the municipal-bond market (see chart lower). Banks now own more than $500 billion of the $3.8 trillion sector, according to Federal Reserve data.

"With banks the fastest growing buyers of municipals in recent years, fears about tax reform's impact on the municipal market have naturally focused on this provision," she said. "These buyers will be grappling with some sticker shock as previously cheap valuations start to look less appetizing."

Market Watch

by Sunny Oh

Published: Jan 18, 2018 7:32 a.m. ET

[European Insurers Find Yield in U.S. Municipal Bond Market.]

- **Higher credit quality than corporates fuels foreign interest**
- **Longer maturities are focus for European insurance companies**

The global hunt for yield is so vigorous that payments to protect against car losses, deaths and storms in Europe are helping to bankroll roads and utilities in the U.S.

The $3.8 trillion municipal-bond market, long the investment mainstay of U.S. residents, is seeing demand from European insurance companies drawn to higher yields and ratings than they can find closer to home. It's boosting the liquidity of a market where U.S. states and local governments raise money. And it's also providing a new source of business to asset managers.

"It's been very robust demand," said Ben Barber, head of municipals at Goldman Sachs Asset Management, which manages about $52 billion of the securities. "We're seeing brand new entrants into the market that are coming to institutional investors like us."

The interest from corporations such as Germany's Munich Re underscores the changing landscape in the municipal market, which is so U.S. focused that radio commercials for New York commuters tout local bonds. By the end of September, foreign buyers had increased their holdings of the securities to about $104 billion, more than double what they held a decade earlier, federal data show.

Municipals once held little allure overseas because federal tax breaks depress the yields. But in the era of low and even negative yields on global bonds, foreigners have taken a closer look, particularly in the taxable sector, where rates are higher.

Higher Quality

European insurers in particular are drawn to the higher quality of municipals compared with corporate debt. Sixty-seven percent of the Bloomberg Barclays Municipal Index is rated AA or higher, while just 11 percent of the comparable U.S. investment-grade corporate bond index is, according to an analysis by Matt Caggiano, who helps oversee more than $9 billion of insurers' municipal holdings at Deutsche Bank AG.

And for the higher credit quality, foreign investors are getting more in return, even considering currency fluctuations, according to an analysis from Bloomberg Intelligence.

To better match their liabilities, life insurers also favor longer-maturity bonds, which are more common in the municipal market than in the corporate world. And European Union regulations effective in 2016 allow insurers to put aside less in capital for holding infrastructure debt than corporate bonds.

"Municipals are an attractive investment, and we will use opportunities to accentuate our positions," said Josef Wild, a spokesman for MEAG, the asset manager for Munich Re, which provides reinsurance and insurance. The company likes municipals for their high ratings and spreads over Treasuries and are using them to diversify its investments, he said by email.

New Funds

While Munich Re handles its investments internally, other insurers have outsourced their municipal strategies. Goldman Sachs Asset Management has seen its holdings of taxable municipals for European insurers increase by 89 percent in about a year. In September, Nuveen Asset Management

launched a new high-grade municipal fund spurred by interest from clients outside the U.S., according to John Miller, co-head of fixed income. Overall, it's managing $2.5 billion in taxable municipals for foreign insurers as of the end of 2017 from nothing a little more than a year ago, he said.

To make room, some insurers are selling Treasuries, as well as European and U.S. corporate bonds, while others don't necessarily need to.

"There's a lot of cash being thrown off, and it's an easy way for them to make another allocation in decent yielding credit markets," said Jason Pratt, head of insurance fixed income at Neuberger Berman, which manages about $30 billion in assets for insurers.

Foreigners have made an impact: liquidity in taxable municipals has improved as trading activity shows, said Goldman's Barber. And new taxable deals have more potential buyers than bonds available than was seen in the past, said Deutsche's Caggiano.

The European insurers are likely to step up their purchases as they grow more comfortable with municipals, as yields remain competitive globally and as supply of taxable municipals picks up. Some analysts expect that the recent ban on advance refundings in the U.S., a previous source of tax-exempt debt, may compel issuers to refinance via taxable securities.

"We know from talking to potential clients that there's still capacity," Caggiano said.

Bloomberg

By Romy Varghese, Katherine Chiglinsky, and Julie Edde

January 19, 2018, 5:23 AM PST

Muni Bonds May Not Be the Reliable Bet They Once Were.

Investors should make sure to better understand the risks, and perhaps adjust their strategy accordingly

Can investors still use municipal-bond funds as core holdings in their taxable accounts?

For a long time, many have done just that—taking advantage of the bonds' big tax benefits, and using their low risk as a haven in times of stock-market turmoil.

But munis aren't looking like such a reliable bet anymore. Since the financial crisis, some big municipalities have defaulted on their obligations, while a number of states, cities and now Puerto Rico are currently facing financial woes. And bankrupt municipalities are increasingly making bondholders scrounge for what's left after paying employee pension funds.

So while it may still be possible to keep a muni fund as a core holding, investors should understand how the asset class has changed.

Price swings in the digital currency led to explosions in trading volume, assets under management and volatility at Bitcoin Investment Trust.

Municipal bonds offer investors interest that's tax-free at the federal level and at most state and

local levels, if investors own bonds issued by any government entity within their state of residence.

When deciding whether to buy muni bonds, investors usually make a comparison between the yields of a muni bond and a U.S. Treasury note or bond of similar maturities. The "taxable yield equivalent" to a municipal bond is the municipal bond's yield adjusted for the investor's tax bracket.

So if an investor is hypothetically in a 50% bracket, including both federal and state taxes, a taxable yield twice that of a municipal yield—or a municipal yield half that of a taxable bond—would make two bonds equivalent. In that case, if a highly rated muni bond offered more than half the yield of a comparable U.S. Treasury, an investor could consider the muni bond the better choice in a taxable account.

A changed asset class

For decades, that was a reasonable comparison, and largely all that investors had to consider about munis. The chance of losing an investment was not even an issue: The historical default rate of the roughly $3.8 trillion market with more than 80,000 issuers has been low—0% for AAA-rated bonds and only 0.30% for AA- and A-rated bonds from 1970 through 2009, according to a Moody's study.

Unfortunately, municipal profligacy has begun to result in more high-profile distress and bankruptcy in recent years, including Jefferson County, Ala.; Detroit; Harrisburg, Pa.; Central Falls, R.I.; and Vallejo, San Bernardino and Stockton in California. Now the fate of more than $70 billion that creditors have lent to Puerto Rico is in doubt, as Hurricane Maria battered the island already struggling with manufacturing and population loss.

An updated Moody's study from 2016 notes that the "sector has changed over the past decade and more profound changes may be in the offing. The once-comfortable aphorism that 'munis don't default' is no longer credible, although default rates remain low."

In some cases, investors betting on munis have gotten burned. Recently, Franklin Double Tax Free Income fund merged with Franklin High Yield Tax Free Income fund (FHYVX) after it inflicted significant losses on investors. The fund had more than half its assets in Puerto Rico bonds.

Some analysts warn that many bond issuers are heading into precarious financial situations. In a 2016 research report from PNC Capital Markets, Tom Kozlik argues that around 20% of issuers haven't adjusted their spending to reflect diminished revenue after the financial crisis.

Mr. Kozlik doesn't cite names, but other observers have pointed fingers at issuers at risk.

"Though I'm not warning of an industrywide municipal-bond crisis, I think investors have to think carefully about individual credits and what, exactly, they're investing in," says Nicole Gelinas of the Manhattan Institute think tank. In the case of Chicago, "it's difficult to see, 10 years from now or even sooner, how, exactly, Chicago figures out [its problems with underfunded pensions] without bondholders having to take some sort of hit, as well." (Chicago officials declined to respond to a request for comment.)

And when a municipality goes bankrupt, investors aren't always first in line to recover their money. Stockton and San Bernardino honored their obligations to state-employee pension funds at the expense of bondholders in their bankruptcies. "General obligation" bondholders, once thought to be above revenue bondholders in the case of defaults, aren't necessarily ahead of unions.

Munis aren't Treasurys

Not all municipal-bond experts are pessimistic. Tracy Gordon, a senior fellow at the Urban Institute think tank, says investors shouldn't be alarmed about munis' safety, emphasizing their low historical

default rates. “It’s unfair to paint the whole sector with a broad brush,” she says.

But if investors choose munis as a core holding, many analysts advise using a diversified fund to lessen the risk of issuers defaulting. What’s more, investors shouldn’t expect the bonds to rally during a stock-market decline, as U.S. Treasurys often do.

That’s because munis have become closely tied to the health of state-employee pension funds. If stocks fall and pension funds lose money, the funds often turn to municipalities to make up losses—which makes muni bonds less attractive and hurts muni investors.

Indeed, the Bloomberg Barclays Municipal Index lost nearly 2.5% in 2008 during the stock crash—instead of providing municipal-bond investors with protection. That’s hardly catastrophic, but it might not have represented the resilience that the bond investors were expecting. And results might be less benign during the stock market’s next wipeout.

The Wall Street Journal

By John Coumarianos

Jan. 7, 2018 10:08 p.m. ET

Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

SALT Shift Bolsters Munis' Appeal to Wealthy in High-Tax States.

- **With deductions capped, investors may look for new tax breaks**
- **Analysts expect uptick in demand from states like California**

Residents in New York, New Jersey and Connecticut who waited in queues to pay their property taxes early and take advantage of an expiring tax deduction may be lining up in 2018 to buy municipal bonds issued in their home states.

Strategists from Barclays Plc and Charles Schwab Corp. say demand for munis could increase from wealthy residents of high tax states this year because the Republican tax bill caps state and local property and income tax deductions at $10,000.

That kind of money doesn’t go a long way in Manhattan, where the average deduction per tax return is about $25,000 or Marin County, across the Golden Gate Bridge from San Francisco, where it’s about $17,000, according to the Tax Foundation. So residents may be eager to find other ways to reduce what they owe to the federal government.

“What are the remaining tax havens? Munis are still one of them,” said Mikhail Foux, the head of municipal strategy for Barclays in New York.

Californians, who pay a top income-tax rate of 13.3 percent or residents of New York City, which has a combined state and local rate of 12.7 percent, now have even more incentive to buy local debt because the interest is exempt from both state and federal taxes, he said.

Fewer Bargains

By increasing the cost of state and local taxes to wealthier residents, the federal shift may make it more politically difficult to raise taxes and curb the pace of bond sales backed by such revenue. Just four states — California, New York, New Jersey and Illinois — account for about 42 percent of long-dated, fixed-rate municipal bonds, Citigroup Inc. analysts led by Vikram Rai said in a Jan. 11 note to clients.

“A pullback on debt issuance by any of these states can cause a scarcity shock in the space for long-dated municipals,” they wrote.

At the same time, the increased demand for tax-free income may bring greater attention to mutual funds targeted at specific states.

Nuveen Asset Management’s California High Yield Municipal Bond is the best-performing open-end California municipal bond fund over the past 10 years, according to Morningstar Direct. It invests 36 percent of its assets in real-estate-related debt and has benefited from a run-up in property values since the Great Recession, said John Miller, Nuveen’s co-head of fixed income, who oversees $131 billion of muni debt.

Municipalities in California can sell bonds backed by assessments on homeowners to pay for roads and sewers in new neighborhoods.

“There’s really nothing that actually went into default in the last cycle in California in this type of bond,” said Miller, whose fund delivered annual returns of 6.25 percent for the 10-year period ending Dec. 31. “Some of these districts did trade 50-60 cents on the dollar. Now you have heavy, heavy overcollateralization.”

Miller said it will become harder to find bargains in the municipal market once the federal tax bill stokes even greater demand for higher-yielding California bonds. At the same time, limits on the ability of states and local governments to refinance their debt are promising to cut the pace of new sales.

“It’s going to get more challenging because pricing is tighter,” Miller said.

Low Defaults

Nationally, high-yield bonds offer a spread of about 2.7 percentage point more than AAA rated debt, but the premium is narrower for risky municipal debt issued in California, Miller said. And muni defaults remain low, with only $500 million defaulting for the first time in 2017, the least since 2008, he said.

“A growing economy tends to narrow spreads and low defaults tends to narrow spreads,” Miller said. “If spreads are narrowing, all else being equal, high-yield has an opportunity to outperform. You still have to pick the right credits.”

Delaware Funds Tax-Free New York Fund is the best performing New York retail fund over the 10-year period ending Dec. 31, returning 4.7 percent, according to Morningstar.

Almost half of the fund’s assets are invested in bonds in the A or BBB category, with about 15 percent in junk-rated or non-rated bonds. The largest portion of its holdings, 23.1 percent, is in the education sector.

New York offers investors a diverse range of bonds, said Greg Gizzi, who helps manage Delaware’s New York fund. For example, in the higher-education sector, the state has more than 100 private

colleges and universities, from AAA rated Columbia University to BB rated Metropolitan College of New York.

“We’re going to seek to diversify into those lower investment grade and those below investment grade categories despite the fact that we exist in a world that has constrained supply,” Gizzi said.

Bloomberg

By Martin Z Braun

January 12, 2018, 7:34 AM PST

Bloomberg Brief Weekly Video - 1/11

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

Watch video.

Bloomberg

January 11th, 2018, 9:41 AM PST

Muni Market Set for Slow January After Tax-Fueled Rush to Market.

- **Citigroup says muni-bond sales unlikely to exceed $15 billion**
- **Muni market tends to outperform during January slowdown**

Municipal bond issuance could be poised for a multi-year low this month, setting up state and local debt to deliver hefty returns.

The drop in sales is expected to come after issuers rushed to sell a monthly record of bonds in December to avoid changes to the municipal market as part of federal tax reform. Municipal bond analysts say they expect very light issuance during what is typically a slow month for sales.

“I think you could see a record-low issuance,” said James Dearborn, who oversees $29.5 billion as head of municipal bonds at Columbia Threadneedle Investments in Boston. “The forward calendar indicates it’s going to be a very quiet month, if not quarter.”

The 10-year low for January bond sales came after a similar rush to market when the Build America Bonds program was set to expire in 2010. Issuance totaled just $13.6 billion in January 2011, well below the $24.8 billion average for the month seen over the last decade, according to data compiled by Bloomberg.

Bond sales last month broke the previous monthly issuance record set in December 1985, which was driven by Congress’ overhaul of the tax code. The next month, municipal bond issuance was a paltry $1.69 billion, according to Bond Buyer data. Bond sales are unlikely to fall below that figure, though, as $722 million in bonds have already been sold this month as of Jan. 5 and $3.6 billion in sales are

scheduled for the week of Jan. 8 alone, according to data compiled by Bloomberg.

RBC Capital Markets is forecasting muni-bond sales of $10 billion in January, while Citigroup analysts say they would be “extremely surprised” if issuance exceeds $15 billion. Other analysts say they are hesitant to give a forecast for January given the mad dash to sell late last year.

“There are definitely deals that are going to be coming over the next couple of weeks, but it’s difficult to figure out which issues are left to get done in January because of the deals that got accelerated,” Tom Kozlik, managing director and municipal strategist at PNC.

The municipal bond market typically outperforms in January due to a drop-off in supply combined with investors looking to reinvest cash received from matured bonds and coupon payments.

While it’s “nearly impossible” to predict supply this month, the drop-off in sales will cause this trend to continue, said Peter Block, managing director at Ramirez & Co. Net supply stood at negative $9.5 billion on Jan. 5, with $9 billion in bonds set to mature and $8.7 billion in bonds being called, according to data compiled by Bloomberg.

“Demand is going to be extremely high and you’re going to see municipals outperform Treasuries because of the principal and interest that’s been received,” he said. “That’s how the dynamic is going to be received.”

Bloomberg Markets

By Amanda Albright

January 9, 2018, 4:00 AM PST

— *With assistance by Elizabeth Campbell*

The Week in Public Finance: Deficits in 25 States, Exxon Sues California Localities, and New Jersey's Lottery Claim.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 12, 2018

Multifamily Housing Bond Issuance May Drop in 2018.

WASHINGTON – Issuance of multifamily bonds may drop this year from the recent high of $14 billion in 2016, according to experts at a recent housing conference who were uncertain whether the decline will be significant.

Multifamily housing bond issuance had been expected to decline last year from the 2016 peak, but some projects were rushed to market at the end of 2017 when private activity housing were nearly terminated under tax reform.

“Part of the drop off, if there is one, might be that many states issued as many bonds as they could to make sure they preserved that bond authority,” Garth Rieman, interim executive director of the National Council of State Housing Agencies, told The Bond Buyer.

Final Thomson Reuters’ (TRI) data on housing issuance for 2017 won’t be released until February.

Multifamily housing bonds have been the largest component of PAB issuance subject to state volume caps and Rieman expects that to continue.

The demand for affordable housing remains “extraordinary,” Rieman said adding, “I think there are a lot of underlying reasons why production will remain high.”

On the plus said, Rieman expects a pickup in use of mortgage revenue bonds by states to assist first-time homebuyers. “As interest rates rise, that creates a little bit more separation between tax-exempt rates and taxable rates which may allow tax-exempt bonds increase activity,” he said.

Some of the MRBs used in early 2018 will be left over from late 2017, Rieman cautioned, but state housing finance agencies overall are likely to support more single-family home purchases this year.

Housing advocates remain hopeful that Congress may act on bipartisan bills to enhance the low-income housing tax credit which is linked to housing bonds in financing about half of the nation’s multifamily housing rehabilitation and new construction.

The bipartisan Affordable Housing Credit Improvement Act (H.R. 1661) has 122 cosponsors in the House and the companion bill in the Senate (S. 548) has 22 cosponsors, including Senate Finance Committee Chairman Orrin Hatch, R-Utah.

Housing experts who attended a recent panel discussion here sponsored by the National Conference of State Housing Agencies also hope Congress and the Trump administration can be persuaded to include affordable housing in their plans for infrastructure spending.

“Elements like that might support more activity later this year,” Rieman said.

For now, public housing agencies and developers are adjusting to the tax changes enacted by Congress that make housing bonds a less attractive investment.

The drop in the corporate tax rate to 21% from 35% is expected to make housing bonds less attractive as investments, experts agreed during the panel discussion.

There will be changes in housing bond pricing but nothing as extreme as what happened in the 2008-2009 Great Recession, said Anthony Freedman, a partner at Holland & Knight.

“The substance of the program hasn’t changed at all,” Freedman said.

“We weren’t devastated, but we definitely were damaged,” said Michael Novogradac, the managing partner in the San Francisco office of Novogradac & Co. His firm estimates the tax changes will produce a roughly a 14% drop in the value of investing in projects using the low-income tax credit which is often paired with housing bonds.

“In terms of what impact that is going to have coming up, I wish I knew,” Novogradac said. “I know it’s negative. I know it’s adverse.”

Foreign banks, in particular, are reassessing their investments because of complex new rules

involving the base-erosion and anti-abuse tax (BEAT) said Priya Jayachandran, senior vice president for housing development at Volunteers of America.

Jayachandran, who is taking over as president of the National Housing Trust on Feb. 1, said another possible setback for affordable multifamily housing development this year would be if interest rates rise.

Scott Hoekman, senior vice president and chief credit officer of Enterprise Community Investment, said that despite the negatives of the new tax law, “The final changes are survivable.”

The multifamily housing sector is flexible enough to figure it out how to cope, Hoekman said.

“What would have turned our world upside down was if private activity bonds had been eliminated,” Hoekman said.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/12/18 07:08 PM EST

Chicago Suburb Follows City with Securitization, Bypassing Junk Rating.

CHICAGO – A junk-rated Chicago suburb is following the city’s lead by securitizing its state supplied sales tax revenue in a $47 million deal.

The bonds priced Wednesday, according to underwriter George K. Baum & Co.

The village of Bridgeview southwest of Chicago published an offering statement and investor presentation Monday. Fitch Ratings released its report assigning a BBB-plus rating to the deal on Tuesday.

At the same time, Fitch gave the village a first-time issuer default rating of BB-plus, one notch below an investment grade. S&P Global Ratings in March dropped the village to the speculative grade level of BB-minus when it cut its rating by four notches from BBB.

Chicago’s Sales Tax Corporation received a AAA rating from Fitch ahead of its inaugural $575 million securitization earlier this month that refunded sales tax bonds. It returns next month with a $795 million issue to refund general obligation bonds.

The village has struggled to manage its debt burden after its investment in a stadium to house Major League Soccer’s Chicago Fire has fallen far short of fiscal expectations.

The village of 16,000 issued $135 million for the stadium in 2005, which has been followed by tax increases, asset sales, refinancings and restructurings. Bridgeview, which has about $240 million of debt, had previously been considering restructuring debt beyond the useful life of the stadium, according to S&P.

The securitization sale included a tax-exempt A series for $26.6 million and a taxable B series for $20.4 million. The borrower is the special purpose entity Bridgeview Finance Corp.

Baum is the sole underwriter and Austin Meade is advising on the deal.

Proceeds will ease pressures on the village's balance sheet by refunding its 2008A-2 bonds, covering a debt service payment on the village's series 2005 bonds, and financing some capital projects. The B series will refund the village's series 2008B-1 and series 2008B-2 bonds, eliminating the village's floating-rate obligations.

The new securitization bonds hold a first lien on the village's state-collected portion of its home rule sales tax and local share of the statewide sales tax.

"The BBB-plus sales tax securitization bond rating is based on the bankruptcy-remote, statutorily defined nature of the issuer and a bond structure involving a perfected first lien security interest in the sales tax revenues," Fitch wrote.

The legal structure supports a true sale of the revenues and, in Fitch's opinion, insulates bondholders from any village operating risk. Under the structure, the village will sell all right, title and interest in the pledged revenues to the corporation and the state will direct all pledged sales tax revenues to the trustee.

Louis F. Cainkar Ltd. is bond counsel to the corporation. Burke Burns & Pinelli Ltd. is counsel to the corporation and Quarles & Brady LLP is disclosure counsel. Nixon Peabody LLP is special bankruptcy counsel.

Nixon Peabody gives its "reasoned and qualified opinion" in the offering statement that were the village to enter a bankruptcy – which is not currently allowed under state law – the corporation "would not be subject to substantive consolidation with the village nor would payments to bondholders be subject to the automatic bankruptcy stay."

The village's finance director referred calls for comment on the transaction to Dan Denys at Austin Meade but he did not return calls to discuss the deal.

The review of the pledged sales tax being leveraged drove the sharp contrast between the Bridgeview and Chicago ratings. Bridgeview faces stagnant growth prospects in its pledged tax revenue and the tax base faces risks from a concentration of the top 10 tax generators accounting for over half of pledged sales taxes.

The differential in ratings "proves the point that we look at the underlying sales tax base," Fitch analyst Matthew Wong said in an interview.

"It's a very stark contrast with Chicago," analyst Amy Laskey said.

Fitch said a severe decline would pressure the rating but collections have shown resilience through economic cycles. Coverage is strong and sales tax revenue is able to tolerate a 66% decline to 1 times coverage. No additional debt is allowed under the bond resolution.

Fitch's speculative grade issuer default rating reflects a "very high liability burden" that includes its bonded debt and pension liabilities which are at 61% of village personal income.

"The village has made several budget management decisions in the last several years that have eroded its ability to support operations, including general obligation backing of the Chicago Fire stadium," Fitch wrote. "Fitch expects that ongoing budget management may be somewhat constrained by the sales tax securitization issuance as it diverts a portion of its sales tax revenue away from the general fund to pay for debt service and may require a corresponding increase in property tax rates."

The Illinois General Assembly approved the new local borrowing program over the summer at Chicago's behest as a means to bypass weak general obligation ratings by using a bankruptcy-remote structure.

Some market participants say the sturdiness of the new structure can't truly be known until tested. They cite the ongoing challenge to some Puerto Rico's debt. Others warn that the program could be abused by borrowers that lack fiscal restraint.

The stark rating differences between Chicago and Bridgeview provide "a great example of why techniques like securitization have to be viewed on an individual basis," said Joseph Krist, a partner at Court Street Group LLC. "Securitization in and of itself is not a panacea for credits across the board."

Krist said he sees why the securitization is attractive to the village because it provides a path to achieve some of its fiscal goals while addressing a market concern over its GO credit largely due its investment in a sports stadium that has disappointed.

When S&P junked the rating in March, it placed the rating on CreditWatch for a possible further downgrade due to concerns over market access and weakened liquidity. S&P removed the watch status and assigned a negative outlook in August after the village successfully modified its letter of credit with BMO Harris Bank NA. The village had been looking at borrowing to pay off $25 million of debt. BMO agreed to an extension of its amortization schedule. The securitization sale will allow the village to shed the floaters.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 12/20/17 07:18 PM EST

S&P: U.S. Not-For-Profit Health Care Sector 2018 Outlook: Balance Sheet Strength Drives Stable Outlook Despite Expectations That Operations Will Weaken.

S&P Global Ratings has affirmed its stable outlook on the U.S. not-for-profit health care sector for 2018. Our view is based on the overall strength of balance sheets in the sector…

Continue Reading

Jan. 11, 2018

S&P: U.S. Local Government Sector 2018 Outlook: Resourcefulness Will Be Key To Managing New Obstacles.

Resiliency and resourcefulness will be increasingly important in U.S. local government credit analysis in 2018. When we published our 2017 U.S. Local Government Outlook in January 2017, we described the sector as stable and resilient.

Continue Reading

Jan. 10, 2018.

S&P U.S. State Sector 2018 Outlook: Short-Term Gain, Long-Term Strain.

Tightening labor markets and the increased business investment that could accompany corporate tax rate reductions have the potential to strengthen economic conditions in 2018. Subject to caveats related to geopolitical risk and ongoing policy uncertainty, S&P Global Ratings believes that on slightly firmer economic footing throughout the next year, U.S. states could enjoy an uptick in revenue…

Continue Reading

Jan. 9, 2018

NABL: House Problem Solvers Caucus Releases Infrastructure Report.

The bipartisan House Problem Solvers Caucus Infrastructure Working Group released its report on infrastructure policy recommendations. The report entitled, "Rebuilding America's Infrastructure," calls for, among other things, the preservation and expansion of "tax-advantaged infrastructure financing options by maintaining the federal tax-exempt status for municipal bonds and private activity bonds as well as increasing the private activity bond state volume cap for all infrastructure categories."

The report is available here.

Market Commentary: Issuance Stalls, Investors Take Profits on Instability.

Below we review the market this past week as well as how December was a record-breaking month for the municipal market. Next week, we will publish our full 2018 Outlook for the municipal industry.

Issuance Stalls and Investors Take Profits on Political Instability

Over the last week munis have outperformed Treasuries on most parts of the curve. While the Dow Jones Index hit all-time highs, we are seeing investors profit-take and move into safer assets given the political instability associated with the current Administration and international affairs.

The conflux of international politics and the historical record of economic trends in the United States, converging with Dodd-Frank regulations and an expected lower issuance flow for investors leads us to believe that outperformance to Treasuries and other domestic fixed-income asset classes is expected. Issuance thus far in January has been very low and expected issuance for the rest of the month confirms this expectation.

Continue reading.

Neighborly Insights

Posted 01/08/2018 by George Friedlander

This Market Commentary is brought to you by Court Street Group.

Market Commentary: The 2018 Outlook for Investors.

The start to this year is the most complex and uncertain transition in the municipal bond market since the 1986 Tax Reform, due to four main factors:

1) The impact of the Tax Reform Law on the supply/demand structure of the market

2) The continuing move toward higher short-term rates

3) The potential for an infrastructure bill of uncertain size and scope, and other concerns about infrastructure

4) Likely continued erosion in average credit quality.

Continue reading.

Neighborly Insights

Posted 01/09/2018 by George Friedlander

This Outlook is brought to you by Court Street Group.

Bipartisan Report Underscores Hard Truths About Infrastructure Funding.

"Our attention has been on that baseline has not really been adequately funded, or appropriately dealt with," according to U.S. Rep. Elizabeth Esty of Connecticut. "That needs to be addressed."

WASHINGTON — Recommendations for upgrading the nation's public works that a bipartisan group of House lawmakers released this week underscore the difficult budget math Congress will face coming up with the money for any eventual White House infrastructure plan.

The Problem Solvers Caucus, a group of 48 lawmakers, outlined their recommendations in a report issued Wednesday. Reps. John Katko, a New York Republican, and Elizabeth Esty, a Connecticut Democrat, led a caucus working group that authored the report.

In the backdrop, is a yet-to-be-released proposal from the Trump administration for major new investment in the nation's roads, bridges, waterworks and other infrastructure.

Details that have surfaced so far suggest that the White House is aiming for $200 billion of direct federal investment, with the hope of attracting another $800 billion from state, local and private sources.

Continue reading.

ROUTE FIFTY

BY BILL LUCIA

JANUARY 11, 2018

White House Updates Senators on Trump's Infrastructure Plan.

Administration officials told the lawmakers to expect more details about the proposal around the time of the president's State of the Union address, Sen. John Barrasso said Wednesday.

WASHINGTON — The top Republican on the Senate's public works committee said Wednesday that Trump administration officials informed him and other lawmakers in a meeting Tuesday that the White House would release details about its infrastructure plan around the time of the president's Jan. 30 State of the Union address.

"Certainly within the next month," Sen. John Barrasso, the Wyoming Republican who chairs the Environment and Public Works Committee, told reporters, as he discussed when additional information about the proposal would be released.

White House officials previously signaled that they were aiming to release the long-awaited plan sometime in January.

Barrasso said that most members of his committee, both Republicans and Democrats, attended Tuesday's meeting. White House officials that were on hand included Secretary of Transportation Elaine Chao, chief economic adviser Gary Cohn and DJ Gribbin, who is a special assistant to the president on infrastructure policy, according to Barrasso.

The committee's ranking member, Sen. Tom Carper, of Delaware, described the meeting as civil and constructive.

Both he and Barrasso sidestepped questions about where lawmakers might find the $200 billion of federal funding the White House has indicated it would like to see included in its infrastructure package.

"We'll talk about it as time goes on," Barrasso said in response to a question about whether he had any preference for where the money could come from.

Asked if he had a favored approach for how to come up with the $200 billion sum, Carper responded: "Not today."

Trump administration officials have previously described a plan that would involve $200 billion of direct federal spending over a decade, combined with $800 billion from private and state and local government sources. Carper said he and other Democrats are skeptical the $200 billion could be "leveraged" to come up with the $800 billion.

"Can we save some money on streamlining? Sure. We've already done that. Can we do more? Probably. Can we better leverage private sector money, and money from other sources? Probably,"

Carper said. “Does it add up to $800 billion? I’m not sure that it does.”

The White House has also indicated that thinning down and speeding up federal permitting and approval processes for projects will be a part of its program.

Trump in a separate bipartisan meeting with lawmakers on Tuesday continued to tout the viability of his pending public works plan—one of his stated priorities since taking office.

“One thing that I think we can really get along with on a bipartisan basis—and maybe I’m stronger on this than a lot of the people on the Republican side, but I will tell you, we have great support from the Republicans—is infrastructure,” he said, according to a White House transcript of the meeting.

“I think we can do a great infrastructure bill,” the president continued. “I think we’re going to have a lot of support from both sides, and I’d like to get it done as quickly as possible.”

Carper noted that Republicans on the Environment and Public Works Committee are working on authorizing language that could guide new spending on infrastructure that is called for in the White House plan, and that Democrats are working on a similar package.

But he added: “We need for the administration to show us their proposal. Not just principles. But what do they actually want to do.”

ROUTE FIFTY

By Bill Lucia,

JANUARY 10, 2018

Whiplashed Planners Fear GOP Swerve on Infrastructure.

After close call on public-private financing tool, all eyes on 2018

Los Angeles has gained national notice for a series of ambitious projects affecting all facets of southern California’s transportation network, from the city’s light rail system to Los Angeles International Airport.

Many of the projects — a multibillion dollar expansion of the airport, work on roads leading to and from the busy ports of Los Angeles and Long Beach and a new light rail line, among others — were or will be financed with a tool called private activity bonds.

Known as PABs by those who use them, the bonds are issued by public-sector authorities to raise tax-exempt financing for private entities doing a project with a public benefit. Buyers of the bonds don’t have to pay tax on the interest income, allowing the issuer to borrow at a lower rate than would otherwise be available.

But Republican lawmakers sent a shudder through the groups that rely on the financing tool by proposing to eliminate the tax exemption in versions of the tax overhaul bill cleared by Congress just before Christmas.

“I think surprised is an understatement,” said Annie Russo, vice president of government affairs at Airports Council International-North America, a Washington group that describes itself as “the voice

of airports."

Congress eventually decided to keep the exemption, but the proposal to do otherwise put a spotlight on the importance that stakeholders give to private activity bonds. The proposal, which originated in the House tax bill and wasn't matched in the Senate version, also raised questions about what could be included in Republican plans for infrastructure legislation in 2018.

President Donald Trump campaigned on a pledge to spend $1 trillion on infrastructure over 10 years. He had said most of that would come from the private sector, but has more recently been quoted saying he doubts the value of public-private partnerships. The administration is expected to deliver a plan early this year.

In and out of Washington, some who work in the transportation sector had hoped the tax bill would include provisions to help pay for infrastructure projects, or at least provide incentives for the private sector to do more. At one time in the run-up to the tax bill, Republicans even talked about encouraging corporations to repatriate profit held abroad and steering that money into infrastructure projects.

So the House Republicans' proposed treatment of private activity bonds caught the industry off guard. Some saw the potential for hundreds of millions of dollars in additional interest costs on projects already underway. The House summary of its tax proposal — referring to the exemption as a giveaway — rang alarm bells on Republican thinking about the future.

According to Adam S. Wallwork, a public finance lawyer at Ballard Spahr, private activity bonds are a $102-billion-a-year business, representing 20 percent of the tax-exempt bond market.

Flying high on PABs

Airports in particular rely on private activity bonds for work on terminals.

Under the last major tax code rewrite in 1986, commercial U.S. airports — despite being almost universally owned and operated by public entities with bond-issuing authority — cannot issue standard municipal bonds for improvements to terminals because they benefit private companies like airlines and shops and restaurants.

But airport terminals have a clear public benefit, and therefore qualify for tax-exempt private activity bonds.

"Almost any" expansion or renovation of an airport terminal is financed through private activity bonds, Russo said.

Several parts of the Los Angeles airport's multibillion-dollar overhaul — including a $5.5 billion "automated people mover" to connect the airport terminals to the city's transit system, a new 18-gate international terminal and major renovations to other terminals — were financed through private activity bonds.

Mark Waier, director of communications for the Los Angeles airport, said PABs would finance about $5.1 billion of the roughly $8 billion of spending remaining to complete the project. Losing the tool could add $500 million just to interest payments on that total, he said.

Waier won't speculate on how the loss of that financing would affect the project, but said it would require either a new source of revenue or a smaller scope of one or more components of the program.

“If this was eliminated, we would need to either identify new sources of revenue or make a reduction to scope that would equate to $500 to $550 million out of our capital investment plan,” he said.

A tool for transit

Unlike airport terminals, public transit systems haven’t traditionally relied on private financing for expansions, but major projects in recent years included private partners, making private activity bonds an option for funding. Transit agencies that now have access to federal Transportation Infrastructure Finance and Innovation Act, or TIFIA, loans and local payments would be better positioned to work with a private partner.

“It’s one more tool in the toolbox,” said Rob Healy, vice president of government affairs for the American Public Transportation Association.

Denver’s $2.2 billion Eagle public-private partnership project combined a number of development options. The project, which added two new light rail lines and the starting component of a third, got the bulk of its funding through a 2011 $1.03 billion grant from the Federal Transit Administration.

But its second-biggest source was private activity bonds, which provided $398 million for the project, according to the Department of Transportation. Other funding and financing sources for the Eagle project include new sales tax revenues, a TIFIA loan, other federal grants and private equity contributions.

A furious response

The House proposal to drop the tax exemption engendered a backlash in part because it contradicted one of Trump’s early ideas for an infrastructure package — incentives for private sector involvement.

Private activity bonds have been used for “pretty much every project” that’s part of a public-private partnership, said Robert Puentes, president and CEO of the think tank Eno Center for Transportation. So far, PABs have worked well and without much controversy. Taking them away wouldn’t serve anyone’s interest, he said.

“It doesn’t seem to serve any public interest to get rid of it at this point, unless there are some kind of egregious problems,” Puentes said. “But it’s the opposite that we’re seeing.”

The near-universal outcry from infrastructure stakeholders that greeted the House proposal on PABs produced some echoes on Capitol Hill.

Senate Commerce, Science and Transportation Chairman John Thune, a South Dakota Republican who served on the conference committee that negotiated the final tax bill, told reporters during negotiations that PABs had fierce support in both chambers, leading to the removal of the House provision.

That account was backed up by a Dec. 13 letter from 39 House Republicans calling for members of the conference committee to protect private activity bonds. The letter nodded at Trump’s onetime proclamation that private sector money would be a key part of his infrastructure plan.

“Given the administration’s stated priority for increasing investment in infrastructure, we believe the elimination of tax exempt private activity bonds would be a step in the wrong direction toward fulfilling the president’s goal,” they wrote. “In fact, it will make infrastructure projects more expensive.”

But the criticism of private activity bonds in some ways aligns with the critique of public-private partnerships generally. The difference is that Republicans were the critics of the interest exemption on PABs, while Democrats are more likely to criticize proposals that turn public infrastructure assets over to private operators in exchange for investment.

A summary of the original House proposal said PABs were essentially a giveaway to private interests that created an uneven playing field.

“The federal government should not subsidize the borrowing costs of private businesses, allowing them to pay lower interest rates while competitors with similar creditworthiness but that are unable to avail themselves of PABs must pay a higher interest rate on the debt they issue,” the summary said.

The House proposal may also have failed to split some hairs among Republicans who like the bonds for transportation projects, but dislike their use for things such as sports stadiums and housing.

A 2016 Brookings Institution paper said private activity bonds are sometimes used to finance professional sports stadiums, a popular punching bag for those deriding “corporate welfare.”

Small-government conservatives have issues with the use of private activity bonds for housing, which accounts for about 80 percent of the private activity bonds issued, said Marc Scribner, a senior fellow at the libertarian Competitive Enterprise Institute. When used for housing, the bonds can turn into tax breaks for well-connected developers without fixing the fundamental problems driving housing shortages, he said.

But in terms of transportation infrastructure, the bonds encourage private sector involvement, and CEI has supported them for transportation projects, especially highways, he said.

The House bill’s solution to scrap the entire private activity bond function would hurt the ability of the private sector to spend on transportation infrastructure, he said. The system could be improved, but eliminating private activity bonds completely would be a mistake, tantamount to “throwing the baby out with the bath water,” Scribner said.

“If you want to increase the private sector in the provision of public-sector infrastructure, eliminating private activity bonds is a really bad way to do that,” he said.

The measure was “not very well thought out and certainly not thought out in terms of broader goals outside of tax issues,” he said.

rollcall.com

by Jacob Fischler

Jan 10, 2018

Yearend Sales Boost 2017 U.S. Muni Bond Supply to $410 bln.

CHICAGO, Jan 2 (Reuters) – U.S. states, cities, schools and other issuers sold $410 billion of debt in 2017, with 14.5 percent of the total hitting the municipal market in December ahead of federal tax changes, according to Thomson Reuters data on Tuesday.

The supply, which was 3.2 percent lower than in 2016, got a last-minute boost from issuers racing to the market in late November and in December to sell certain types of tax-exempt bonds at risk in federal tax legislation signed into law on Dec. 22 by President Donald Trump.

December's $59.56 billion of long-term debt was a monthly record for the $3.8 trillion market, beating the $57 billion sold in December 1985 ahead of 1986 federal tax changes, Thomson Reuters data showed.

Bank of America Merrill Lynch was the top underwriter of municipal bonds last year with nearly $63.2 billion in 547 deals. Citigroup followed with $46.67 billion 518 deals.

California was 2017's biggest issuer with $8.87 billion of debt sold, followed by New York State Dormitory Authority with $7.43 billion, and New York City Transitional Finance Authority with $6.5 billion. Illinois ranked fourth with $6.25 billion. The state sold $6 billion of general obligation bonds in October to raise money to shrink its enormous pile of unpaid bills from vendors and service providers.

(Reporting by Karen Pierog; Editing by Tom Brown and Richard Chang)

Public Bank Movement Gains Ground in Cities and States across the US.

A growing number of cities across the US are considering launching city-owned "public banks," reports Deonna Anderson in Next City. Among these are Portland, Oregon; Seattle, Washington; Los Angeles, San Francisco, and Oakland, California; Philadelphia, Pennsylvania; Santa Fe, New Mexico; and Washington, DC. Nationally, the Public Banking Institute, an advocacy nonprofit, has been supporting these and many other campaigns.

At the state level, Anderson notes that in New Jersey, the governor-elect "expressed interest in establishing a state public bank during his campaign." Governor-Elect Phil Murphy's endorsement of the concept of a public bank may be a watershed of sorts. Murphy spent 23 years at Goldman Sachs, so he knows a thing or two about finance.

Actually, Murphy's rationale for supporting a public bank in New Jersey has a lot to do with what he learned on Wall Street. According to Katherine Landergan of Politico, on the campaign trail, Murphy noted that,

> When New Jersey collects taxes or fees, it currently deposits those funds in private banks—spreading the state's money across American and international institutions. Those banks, in turn, charge fees … and they use the capital from New Jersey's deposits to provide loans or finance projects.
>
> "They're not being obligated to come back and do anything in New Jersey, and they don't."

Continue reading.

NPQ

By STEVE DUBB | January 2, 2018

The Biggest Issues for States to Watch in 2018.

Even though it's an election year, these policies and problems are too important and timely for legislatures to ignore.

Nothing big happens in election years. At least, that's the conventional wisdom on legislative action in many state capitols.

And in a year when 36 states will choose governors and 44 will elect state lawmakers, that feeling is understandable. Political paralysis in Congress is also keeping many states in a holding pattern, as their officials try to judge how best to react to potential changes from Washington.

But many state issues are simply too important or too timely to wait. Here are a few that will likely draw a lot of attention this year.

Continue reading.

GOVERNING.COM

BY NEWS STAFF | JANUARY 2018

Hatch Retirement Could Help Muni Market in 2019.

WASHINGTON – The outlook for the tax treatment of the municipal bond market could be brighter in 2019 when Senate Finance Committee will have a new chairman.

That's because one of the leading candidates for the position is Sen. Mike Crapo, R-Idaho, who "the bond community would welcome," said Chuck Samuels, a member of Mintz Levin who is counsel to the National Association of Health & Educational Facilities Finance Authorities.

"Crapo has been a stalwart supporter of municipal bonds both for private activity bonds and a supporter of liberalizing … bank qualified" bonds, Samuels told The Bond Buyer Wednesday.

Bank-qualified bonds were created by the Tax Reform Act of 1986 to encourage banks to buy tax-exempt bonds from smaller, less frequent issuers. Banks can buy these bonds from governments that reasonably expect to issue a total of $10 million or less of bonds in a calendar year and deduct a portion of the interest cost of carrying the bonds.

The annual limit was raised to $30 million from $10 million during 2009 and 2010 under the American Recovery and Reinvestment Act of 2009.

Bob Labes, a partner at Squire Patton Boggs in Cleveland, said Crapo has a record of supporting legislation to strengthen municipal bonds.

The Senate Finance Committee's current chairman, Sen. Orrin Hatch, R-Utah, announced Tuesday that he will not seek re-election next November. Hatch is expected to remain chairman for the remainder of his term, which ends in January 2019.

Hatch led the successful Senate effort last year to preserve the tax exemption for private activity

bonds in the new tax reform law.

Democrats could regain majority control in the Senate in the November election, which would enable the committee's ranking Democrat, Sen. Ron Wyden of Oregon, to regain the chairmanship he previously held.

The municipal bond community also would be comfortable with Wyden as chairman, Samuels said, adding. "I don't think he will give anybody a free pass. He and his staff want an understanding of why things are the way they are and how they may be changed."

Crapo, 66, is serving his sixth term in the Senate and currently serves as chairman of the Senate Banking, Housing and Urban Affairs Committee.

Seven-term Sen. Charles Grassley, 84, has more seniority on the Senate Finance Committee than Crapo, but the Iowa Republican could choose to remain as chairman of the Judiciary Committee. In that role earlier this year, he oversaw the nomination and confirmation of Neil Gorsuch to be an associate justice of the Supreme Court of the United States as well as 12 federal appeals court justices.

Micah Green, a partner at Steptoe & Johnson, gave Crapo and Grassley similar ratings on their support for the muni market. "I don't look at them as, by definition, opposed to the municipal marketplace," he said. "In the end the Senate in the showed great support for private activity bonds and I think Crapo and Grassley were both supportive these."

Crapo, for his part, 'is not speculating on any transitions as this time as there are many factors that affect all this, not the least of which is which party controls the Senate," his spokesman Robert Sumner said in an email.

If Grassley should choose to take the top spot on the Finance Committee, he would only have two years remaining in the six-year term limit Senate Republicans has set for committee chairmen.

"Grassley has done it already and the question is, how does he balance it out with the judiciary process," said Green. "There will be a new senior Republican on the committee who, unless something changes, will be chair."

Labes said Grassley has supported legislation to expand the use of student loan bonds.

"Grassley was a very active chairman during the time he was chairman,'' said Howard Gleckman, a senior fellow in the Tax Policy Center. "He maintained to some degree a sense of bipartisanship but that began to change even while he was there."

Grassley's record on municipal bond issues is mixed, according to Samuels. Although Grassley "has many concerns and skepticisms about municipal bonds, he also is a strong protector" of Iowa's small rural hospitals and small private colleges, he said.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 01/03/18 07:03 PM EST

2018 Outlook: More Tax Legislation and Possible Supreme Court Ruling.

WASHINGTON – Republicans in Congress expect the wide-ranging tax overhaul law just enacted will be followed by more tax legislation in 2018 that includes extensions for expired tax provisions such as one that would extend qualified zone academy bonds though 2017 and an excise tax on imported rum that benefits Puerto Rico and the Virgin Islands.

Senate Finance Committee Chairman Orrin Hatch, R-Utah, introduced the tax extenders bill the day after the Senate approved tax reform legislation.

The Senate extenders bill would continue for 24 months more than a dozen tax breaks that expired at the end of 2016, including a rum cover-over excise tax that produces revenue for Puerto Rico and the U.S. Virgin Islands to pay for local government operations.The QZAB extension only goes through 2017 because the new tax law terminates tax credit bonds after Dec. 31. Other extenders are energy-related, including a nuclear energy production tax credit.

Congress also will need to enact a technical corrections bill in the coming months to fix drafting errors and loopholes in the new tax law.

“It is inconceivable that Congress will not have to act early in the year on a technical reform bill,” said Frank Shafroth, director of the Center for State and Local Leadership at George Mason University.

Shafroth said the “cataclysmic rush” to enact the legislation bore not even a remote comparison to the outreach and deliberations over the last tax reform bill in 1986.

“Because the legislation will have such a significant impact on increasing the federal deficit and debt, it seems certain that interest rates will rise, thereby increasing the cost of debt issuance for not just state and local governments but also for schools and universities,” Shafroth said.

Meanwhile, the U.S. Supreme Court is expected to decide soon whether to consider a case involving South Dakota that would have nationwide impact on the ability of state and local governments to collect sale taxes on Internet purchases.

In addition, Congress may consider reforming the Internal Revenue Service to make it more customer friendly, according to House Ways and Means Committee Chairman Kevin Brady, R-Texas.

“My sense is that there could be broad bipartisan support for restructuring the IRS,” Brady told reporters on Dec. 18.

Brady said the tax bill left out provisions that were dropped at the last minute because of the Senate’s parliamentary Byrd rule as well as other proposals. Under that rule the Senate cannot include non-germane provisions without revenue implications via the reconciliation process or measures that would add to the federal deficit after the 10th year.

“This is not our last tax reform,” Brady said. “I’m going to recommend that we do have some form of tax reconciliation in future budgets because there are still areas of the tax code I think and we think can be improved whether it’s retirement savings, education, streamlining and we had a number of good ideas from our members we weren’t able to accommodate.”

Further tax legislation could provide an opening for municipal bond market issuers who think Congress left them in the lurch by not giving them a transition period before the termination of advance refundings and tax credit bonds.

Congress also will get pushback in 2018 from state and local governments on its controversial decision to limit to $10,000 per household the federal deduction for property and income or sales state and local taxes.

“Cities will continue to fight to fully restore SALT and the exemption for advance refunding bonds,” said National League of Cities President Mark Stodola, mayor of Little Rock, Ark.

U.S. Conference of Mayors President Mitch Landrieu, the mayor of New Orleans, described the tax legislation as “a full-fledged assault on cities and the families who live in them.”

“This bill will make our cities harder to live in and harder to run effectively –- all for the benefit of wealthy political donors,” Landrieu said.

Because Congress repealed the individual mandate requiring taxpayers to purchase health insurance, “Republican and Democratic mayors, not Washington politicians, will contend with emergency rooms filling up with the sick and the uninsured,” Landrieu said.

But repeal of the health insurance mandate won’t expire until the end of 2018.

The impact of the repeal could be partially offset before then if Congress enacts legislation to establish high-risk insurance pools at the state level and renews federal subsidies for low-income people to purchase health insurance. Republican lawmakers such as Sens. Susan Collins of Maine and Lamar Alexander of Tennessee are hoping Congress will enact bipartisan legislation with those fixes in 2018.

Congress, however, is expected to continue resist calls by state and local governments to enable to them to collect sales tax on Internet purchases.

The obstacle has been House Judiciary Committee Chairman Robert Goodlatte, R-Va., who has refused to consider legislation on Internet sales taxes authored by Rep. Kristi Noem, R-S.D.

Goodlatte has announced he won’t run for re-election in 2018, but relief could come sooner from the Supreme Court.

South Dakota Attorney General Marty Jackley announced Dec. 21 that the state filed its final reply in its request for consideration by the high court.

“Based upon the significant impact this issue has on every Main Street business, it remains my hope that our highest court will let us be heard,” Jackley said. “We have received extraordinary support from the State Attorneys General, the National Governors Association, educational leaders, and the business community in the national fight to bring tax fairness for our local retailers and to help support main street businesses.”

South Dakota is hoping the Supreme Court will decide whether to take the case by the end of January, setting up the possibility of a ruling by the end of the court’s term in late June.

The case is widely viewed as an opportunity for the Supreme Court to take into account technological advances since its 1992 ruling in Quill Corp. v. North Dakota, that sales tax collections for online sales can only be required if a retailer has a physical presence or “nexus” in a state.

South Dakota has no state income tax and is more reliant on sales taxes for its budget than most states.

A 2016 South Dakota law requires out-of-state retailers to collect and remit the sales tax similar to in-state retailers if the remote sellers have more than $100,000 in sales or complete more than 200 sales transactions per year within South Dakota.

After the law was enacted, the state contacted large remote retailers asking them to comply. The state then sued three that refused, resulting in the lawsuit, State of South Dakota v. Wayfair (W), Overstock and Newegg. South Dakota's highest court overturned the law, setting the stage for the appeal.

States and local governments lost an estimated $26 billion in potential sales tax revenue in 2015 because of online retail sales, according to the National Conference of State Legislatures and the International Council of Shopping Centers.

"I think the legislation, the way it is written, is actually a great opportunity for states and localities to address the collection of sales tax," said Emily Brock, director of the Federal Liaison Center for the Government Finance Officer Association.

While online merchandise sales have exploded, much of the sales tax is uncollectible, Brock said. "Local tax systems address local needs and so does the imposition of a sales tax," she said. "It's utilized effectively across the country."

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 12/29/17 07:08 PM EST

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

As we reflect on the key credit events of 2017, we think it will likely go down as one of the most significant years in the municipal market. Despite the mature economic recovery, credit pressures were evident across many sectors and the outlooks identified a range of risks that we felt could affect credit for the year.

Continue Reading

U.S. Tax Reform: What Will The New Law Do To Municipal Credit Quality?

The tax bill adopted this week in Congress has significant implications for the municipal market, although the final bill looked rather different from the original House and Senate versions. The broad-reaching bill results in many changes for the U.S.

Continue Reading

S&P U.S. Charter Schools Sector Year In Review.

While we believe the Tax Cuts and Jobs Act, which has now been signed into law, should have little

to no direct impact on the credit quality of charter schools, it still has the biggest potential to do so of any singular event in 2017.

Continue Reading

S&P U.S. Higher Education Sector Year In Review.

The ultimate credit impact of the Tax Cuts and Jobs Act on the sector remains to be seen, but we believe its provisions could have long-term operational impacts on colleges and universities throughout the country.

Continue Reading

How the New Tax Bill will Cut Infrastructure Investment.

By increasing the cost to finance infrastructure for states and local governments, the recently enacted Tax Cuts and Jobs Act (TCJA) will lower investment in our nation's infrastructure. This runs counter to President Trump's repeated desire to tackle the major problems associated with America's crumbling infrastructure through increased investment. The impact may be large and immediate enough to swamp the short-term impact of any infrastructure package Congress can put together in the immediate future.

Continue reading.

The Brookings Institute

by Aaron Klein

December 26, 2017

Muni Bonds May Not Be the Reliable Bet They Once Were.

Investors should make sure to better understand the risks, and perhaps adjust their strategy accordingly

Municipal bonds offer investors interest that's tax-free at the federal level and at the state and local levels, if investors own bonds issued by any government entity within their state of residence.

When deciding whether to buy muni bonds, investors usually make a comparison between the yields of a muni bond and a U.S. Treasury note or bond of similar maturities. The "taxable yield equivalent" to a municipal bond is the municipal bond's yield adjusted for the investor's tax bracket.

So if an investor is hypothetically in a 50% bracket, including both federal and state taxes, a taxable yield twice that of a municipal yield—or a municipal yield half that of a taxable bond—would make two bonds equivalent. In that case, if a highly rated muni bond offered more than half the yield of a

comparable U.S. Treasury, an investor could consider the muni bond the better choice in a taxable account.

A changed asset class

For decades, that was a reasonable comparison, and largely all that investors had to consider about munis. The chance of losing an investment was not even an issue: The historical default rate of the roughly $3.8 trillion market with more than 80,000 issuers has been low—0% for AAA-rated bonds and only 0.30% for AA- and A-rated bonds from 1970 through 2009, according to a Moody's study.

Unfortunately, municipal profligacy has begun to result in more high-profile distress and bankruptcy in recent years, including Jefferson City, Ala.; Detroit; Harrisburg, Pa.; Central Falls, R.I.; and Vallejo, San Bernardino and Stockton in California. Now the fate of more than $70 billion that creditors have lent to Puerto Rico is in doubt, as Hurricane Maria battered the island already struggling with manufacturing and population loss.

An updated Moody's study from 2016 notes that the "sector has changed over the past decade and more profound changes may be in the offing. The once-comfortable aphorism that 'munis don't default' is no longer credible, although default rates remain low."

In some cases, investors betting on munis have gotten burned. Recently, Franklin Double Tax Free Income fund merged with Franklin High Yield Tax Free Income fund (FHYVX) after it inflicted significant losses on investors. The fund had more than half its assets in Puerto Rico bonds.

Some analysts warn that many bond issuers are heading into precarious financial situations. In a 2016 research report from PNC Capital Markets, Tom Kozlik argues that around 20% of issuers haven't adjusted their spending to reflect diminished revenue after the financial crisis.

Mr. Kozlik doesn't cite names, but other observers have pointed fingers at issuers at risk.

"Though I'm not warning of an industrywide municipal-bond crisis, I think investors have to think carefully about individual credits and what, exactly, they're investing in," says Nicole Gelinas of the Manhattan Institute think tank. In the case of Chicago, "it's difficult to see, 10 years from now or even sooner, how, exactly, Chicago figures out [its problems with underfunded pensions] without bondholders having to take some sort of hit, as well." (Chicago officials declined to respond to a request for comment.)

And when a municipality goes bankrupt, investors aren't always first in line to recover their money. Stockton and San Bernardino honored their obligations to state-employee pension funds at the expense of bondholders in their bankruptcies. "General obligation" bondholders, once thought to be above revenue bondholders in the case of defaults, aren't necessarily ahead of unions.

Munis aren't Treasurys

Not all municipal-bond experts are pessimistic. Tracy Gordon, a senior fellow at the Urban Institute think tank, says investors shouldn't be alarmed about munis' safety, emphasizing their low historical default rates. "It's unfair to paint the whole sector with a broad brush," she says.

But if investors choose munis as a core holding, many analysts advise using a diversified fund to lessen the risk of issuers defaulting. What's more, investors shouldn't expect the bonds to rally during a stock-market decline, as U.S. Treasurys often do.

That's because munis have become closely tied to the health of state-employee pension funds. If stocks fall and pension funds lose money, the funds often turn to municipalities to make up losses—which makes muni bonds less attractive and hurts muni investors.

Indeed, the Bloomberg Barclays Municipal Index lost nearly 2.5% in 2008 during the stock crash—instead of providing municipal-bond investors with protection. That's hardly catastrophic, but it might not have represented the resilience that the bond investors were expecting. And results might be less benign during the stock market's next wipeout.

The Wall Street Journal

By John Coumarianos

Jan. 7, 2018 10:08 p.m. ET

Mr. Coumarianos, a former Morningstar analyst, is a writer in Laguna Niguel, Calif. He can be reached at reports@wsj.com.

SIFMA Issues 2018 Municipal Issuance Survey.

Compiled from responses provided by seven municipal bond underwriters and dealers, SIFMA's Municipal Issuance Survey forecasts the type of activity that is expected in the municipal securities market in 2018. Highlights from the report include the forecast of total municipal issuance, both short- and long-term, to fall to $362.5 billion, down from $439.7 billion expected in 2017. The end of advance refundings (to expire December 31, 2017, based on the tax reform bill) is expected to have the greatest effect. While taxable municipal issuance is expected to rise by 54.7 percent to $47.5 billion in 2018 from $30.7 billion in 2017.

Municipal Issuance Survey 2018

Bloomberg Brief Weekly Video - 1/4

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

Watch video.

Bloomberg

January 4th, 2018

The Week in Public Finance: Tax Reform Hits Muni Market, California Plays Tax Games and Local Pensions Do Better Than State.

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

GOVERNING.COM

BY LIZ FARMER | JANUARY 5, 2018

4 Ways States will Fund Infrastructure Projects in 2018.

While the construction industry awaits the big reveal of President Donald Trump's long-anticipated infrastructure plan – promised to be introduced this month – state and local governments are likely wondering how the details will affect the way they finance repairs and construction of highways, bridges and other public projects. One thing that Trump made clear in his budget proposal – and most recently in his contention that that the federal government is not obligated to pay for half of the near-$13 billion NY-NJ Hudson River tunnel project – is that states and municipalities will have to dig deeper to finance projects that serve mainly local residents.

Continue reading.

Construction Dive

by Kim Slowey

Jan. 4, 2018

Fitch: Southern California Wildfires Unlikely to Affect U.S. Public Finance Credit Quality.

Fitch Ratings-San Francisco-20 December 2017: As with the October 2017 wildfires in northern California, Fitch Ratings sees no immediate credit impact on U.S. public finance credits from the Southern California wildfires which continue to rage in Ventura and Santa Barbara Counties. However, Fitch believes there could be short-term budgetary pressure for the most impacted governments.

Fires this month have impacted communities in Los Angeles, San Diego, Santa Barbara and Ventura counties. All except the Thomas Fire in Ventura and Santa Barbara counties are under control. The Thomas Fire started on Dec. 4 near the city of Ventura but has moved northwest into Santa Barbara County. As of Dec. 20, the blaze has burned over 272,000 acres.

The Thomas fire appears to be largely in the Los Padres National Forest and, as a result, about 1000 structures have been destroyed compared to over 3,000 structures, mostly homes, in the Napa, Sonoma and Mendocino county fires which destroyed over 200,000 acres in aggregate. Nevertheless, with 55% contained and possibility for continued dry and windy conditions, the final outcome could be different. Full containment is not expected until Jan. 8, over two weeks from now.

As with most natural disasters, Fitch believes the fiscal impact of the fires on rated entities in Ventura and Los Angeles counties will be largely mitigated by their financial flexibility and support from federal and state governments and private insurance policies. The local governments affected by the fires are likely to use a combination of federal relief funds, state support and insurance claims to pay for most fire-related damage. The Dec. 5 federal disaster declaration for the State of California enables individuals and local governments to seek individual assistance from the federal government. According to FEMA's website, the declaration applies only to the Thomas fire in Ventura and Santa Barbara counties.

Fitch maintains an 'AA+' Issuer Default Rating (IDR) on Ventura County (population of 849,000),

which incorporates an ‘aaa’ financial performance assessment based in part on its substantial available liquidity. Fitch expects near-term budgetary fire-related impacts due to assessed valuation (AV) declines and the added cost of fire-fighting and clean-up. However, the county is part of a very large and diverse regional economy that Fitch believes should begin to recover promptly once the fires have been put out. Overall, we expect most damaged property in affected communities to be rebuilt, which will maintain tax bases, rather than residents and businesses leaving the areas. While we expect recovery efforts to follow historical patterns of disaster recovery, we will analyze any significant developments that might affect credit quality.

In addition to damage to residential properties, the fires have reportedly damaged avocado and lemon groves, but it is too soon to estimate the extent of the damage. According to the county’s most recent crop report (2015), the total value of agricultural production in the county was $1.36 billion, with avocados and lemons combined representing about one third. Damaged trees could affect future years’ output, though they would be eligible for crop insurance. However, the county’s revenues are concentrated in property taxes (about 33% of general fund revenues) and intergovernmental sources (43%), so any material impact of the fires on the county’s financial operations would be due to lower AV. This is likely to be temporary as owners rebuild damaged property, although it could be more extended for agricultural property. The breakdown of AV by land use was not immediately available.

No Fitch-rated public schools were reported as damaged due to the fires. However, a number of local school districts have been forced to temporarily close due either to fire damage or very poor air quality, including Hueneme Elementary School District (IDR ‘AA-’/Stable Outlook) State law provides for school districts to be held harmless for impacts to attendance (on which state funding is based) due to natural disasters, including air quality.

Smaller fires broke out at the same time but have been largely contained: the Lilac fire in San Diego County (population of 3.3 million) burned 4,100 acres and damaged 157 structures, including a number of mobile homes. The Skirball fire in Bel-Air (Los Angeles County, population over 10 million) burned 422 acres and damaged or destroyed 18 acres. The Sylmar Fire (Los Angeles County) burned about 15,600 acres, and damaged or destroyed about 200 structures. The Rye fire near Santa Clarita (Los Angeles County) burned over 6,000 acres and six structures.

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Bloomberg Brief Weekly Video - 12/22

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

Watch video.

Bloomberg

December 21st, 2017

How GOP Tax Overhaul Makes it Harder to Pay for Infrastructure in U.S.

President Donald Trump promised during the presidential campaign and after his election to lead an upgrade in our nation's infrastructure, announcing in February 2017, for instance, that he would ask Congress to approve programs designed to stimulate $1 trillion in infrastructure investment across the country.

At least up to this point, the President's promises with respect to infrastructure remain unfulfilled. Furthermore, the recently passed tax bill that he signed last week may create some challenges for the municipal bond market and the infrastructure sector.

Continue reading.

By DANIEL BERGSTRESSER / ECONOFACT MONEYWATCH

December 28, 2017, 5:15 AM

Why Infrastructure is a Revenue Challenge for Cities.

Guest columnist Jen Mayer shares insights on revenue generation for infrastructure projects gleaned from city-led best practices and cutting-edge investment strategies.

Now that tax reform is over, Capitol Hill is likely to turn to the challenge of financing our nation's crumbling infrastructure. The trouble is, it's not really a financing challenge.

There are plenty of capital sources, domestic and foreign, eager to lend to infrastructure projects, including the U.S. municipal bond market, which emerged largely unscathed from tax reform. While the bill prohibited advance refunding of municipal bonds, the tax-exempt status of private activity bonds important for higher education, hospital and industrial developments was preserved.

Yet whatever happens next in Washington, DC.., it's not likely to resolve the decades-long need to raise the Federal gas tax or find another new source of revenue for infrastructure. Congress may well change how existing funding is allocated, expand Federal credit programs and facilitate public-private partnerships. But local governments will have to find the revenue to pay back any financing. That task may be exacerbated by the limits placed on State and Local Tax Deduction (SALT)

deductions that could make raising local taxes even more difficult.

Continue reading.

efficientgov.com

December 22, 2017

How Trump's Infrastructure Plan Could Strain America's Cities.

A big investment blueprint is expected next month, and it might stretch local governments' already-stretched budgets.

President Trump took many opportunities in 2017 to rail against the state of U.S. infrastructure, most recently using the fatal Amtrak crash in Washington state to point out the country's crumbling bridges, roads, and railways. "[O]ur soon to be submitted infrastructure plan must be approved quickly," he tweeted, harkening back to his oft-repeated promise to invest $1 trillion rebuilding the country.

Little came of that plan in 2017. But come January, the White House will begin a push, in earnest, for a national infrastructure package that gets to $1 trillion in overall investment, using $200 billion in federal "seed" money, a senior official told Fox News last weekend.

Trump advisers had previously described an infrastructure package that would rely on the private sector to make up the $800 billion difference. In this version, most of the $200 billion would be rewarded on a competitive basis to states and localities that promise to raise new, infrastructure-dedicated revenue on their own, for a total of $1 trillion, according to The Washington Post. Some portion of the $200 billion would directly fund projects in rural areas.

Continue reading.

The Atlantic

by Laura Bliss

Trailing Deal Surge, Muni Market Heads into 2018 on Waning Supply.

NEW YORK, Dec 29 (Reuters) – The U.S. municipal bond market heads into the New Year with a thin number of deals after ending 2017 with a staggering upswing in supply as issuers raced to sell before a new tax law takes hold.

Roughly $934.7 million in municipal bonds and notes are expected to come to market next week, against a weekly average of more than $7 billion for the past 12 months, according to Thomson Reuters data.

In contrast, the month of December brought $62.1 billion in supply, far outweighing the average of $25.4 billion for the month over the last quarter-century.. The fourth quarter saw $146.2 billion in deals compared to $105.5 the same quarter in 2016.

Deals were issued at a breakneck pace as it became clear that a $1.5 trillion U.S. tax bill would clear the Republican-dominated Congress, limiting some types of muni offerings. President Donald Trump signed the legislation on Dec. 22.

Despite the eleventh-hour rush to market, 2017 produced an overall drop in muni deals compared to last year.

There were $453.5 billion in deals this year, a one percent decline from 2016, and 12,823 issues, a more than 12 percent fall.

The amount of refundings sank 16 percent to $221.2 billion as the number of those issues fell 31 percent.

New money issues, however, rose 19 percent year-over-year to $230.3 billion with a 3 percent increase in the number of deals completed.

Next week's largest deal comes from the New Jersey Economic Development Authority, which is set to sell $381 million in negotiated bonds. The state lease revenue bonds are rated BBB-plus and A-minus by S&P Global Ratings and Fitch Ratings, respectively.

A New Jersey assemblyman recently filed a lawsuit to block the bonds, which he said required a statewide vote to approve a sale. It was unclear whether the sale could proceed with the legal challenge.

The Town of Oyster Bay is expected to offer $10.5 million in general obligation district improvement bonds, the biggest competitive deal.

by Laila Kearney

Reporting by Laila Kearney; Editing by Daniel Bases and Alistair Bell

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In U.S. Tax Confusion, Muni Investors Take Refuge in the Known.

NEW YORK (Reuters) – As municipal bond investors try to understand how their portfolios will fare under the new U.S. tax code, some are maneuvering around the uncertainty by turning to one of the market's most stable options: state debt.

The appetite for state general obligation (GO) and revenue bonds will grow in 2018, investors said, as buyers seek near-bulletproof investments to keep their taxable income down as other options disappear.

That comes as the $3.8 trillion muni market is poised for significant shifts, with corporate demand seen slowing and the new tax rules limiting some types of supply. Meanwhile, bonds from high-tax states will likely see a jump in demand from in-state investors.

"The beginning of the year is going to be a period of confusion, of institutional components of the muni market figuring out where they stand … you're going to have individuals go through the same thing," said Christopher Mier, chief strategist and economist of Loop Capital's analytical services division in Chicago.

“And with confusion, you get a certain amount of risk aversion,” Mier said.

Despite higher volatility in the sector this year, states’ financial flexibility and broad revenue-raising powers will allow them to adapt to federal tax changes while smaller governments and municipalities may flounder, Mier said.

State GO and revenue bonds made up $52.74 billion, or 11.6 percent, of overall municipal issuance in 2017 as of Wednesday, according to Thomson Reuters data.

MARKET CHANGES

The sweeping Republican-crafted tax overhaul, approved along party lines in Congress and signed into law by U.S. President Donald Trump on Friday, has several implications for the municipal bond market.

Among the biggest is its elimination of tax-exempt advance refunding bonds. Taking away advance refundings, which made up 30 percent of the market’s supply last year, would likely create more scarcity in what is expected to be an already dry year for muni supply.

Uncertainty over the tax plan had prompted a surge of muni record-breaking bond issuance totaling $58 billion for the month of December.

The most talked about change to the tax code in muniland is the $10,000 limit on state and local tax (SALT) deductions, which had allowed filers to reduce their federally taxable income.

With SALT now capped, investors are likely to seek the double-tax exemption from debt issued in their states, which also avoids federal taxation, said Alex Etzkowitz, senior associate, investment research and strategy, at Gurtin Municipal Bond Management in Solana Beach, California.

“It’s definitely going to make investing in-state more attractive for a lot of investors relative to just kind of buying a national portfolio,” Etzkowitz said.

That will be especially true for investors in states taxing income at more than 5 percent, including California, New Jersey and New York, said Beth Foos, a senior analyst at Morningstar Research Services in Chicago.

And investors starved for high-yield bonds could finally catch a break in 2018 as the Federal Reserve trims its massive balance sheet and accelerates interest rate hikes, Loop’s Mier said.

As the Fed dials back its monetary accommodation, there will be more market-determined yields and prices, widening credit spreads and boosting yields, he said.

Banks and insurance companies, the top corporate buyers of municipal bonds, might also reduce their muni debt holdings in response to tax changes, said Henry Cisneros, chairman of the executive committee at Siebert Cisneros Shank & Co.

The tax overhaul slashed the corporate income tax rate to 21 percent from 35 percent, potentially making muni investments less attractive to companies.

Meanwhile, more supply could come if the Trump administration can secure an infrastructure spending deal, said San Antonio, Texas-based Cisneros, who served under former U.S. President Bill Clinton as Secretary of Housing and Urban Development. An infrastructure initiative in 2018 is “virtually certain,” he said.

But while such a plan is possible, it may not involve the federal funds needed for programs that would stir the muni market, such as the subsidized Build America Bonds introduced following the 2007-2009 financial crisis, said Alan Schankel, a managing director at Philadelphia-based Janney Montgomery Scott.

“I imagine Congress will not be wild to increase the deficit further after the tax reform by actually putting money on the table for infrastructure improvement that’s not already there,” he said.

by Stephanie Kelly & Laila Kearney

DECEMBER 28, 2017

Reporting by Laila Kearney and Stephanie Kelly in New York; Editing by Daniel Bases and Meredith Mazzilli

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Municipal-Bond Supply Dries Up After Setting a Record December.

- **30-day visible supply down 40 percent from this time last year**
- **States and cities set to issue $5.3B in the next 30 days**

States and cities are set to issue about half the amount of debt at the start of 2018 compared with a year ago.

Issuers from California to Virginia plan to take on $5.3 billion of municipal debt in the next month; that’s the lowest since June 30 and down from $8.9 billion of anticipated sales during a 30-day period beginning Dec. 27, 2016.

The dearth of supply comes as states and localities sold a record $55.6 billion of debt this month through Dec. 22 as they accelerated their offerings to avoid potential changes from the federal tax-overhaul bill.

The decline means fewer bonds for investors to choose from in early 2018. That may help generate gains in the tax-exempt market, which advanced each January for the past six years, according to Bloomberg-Barclay’s Municipal Bond Index.

Bloomberg Markets

By Michelle Kaske

December 27, 2017, 11:01 AM PST

Tired of Tax Reform? 3 Other Public Finance Trends to Watch in 2018.

For one, many states have to figure out how to manage their marijuana revenue.

Tax reform has grabbed a lot of attention when it comes to big changes to watch in 2018. But there are plenty of other headline-worthy trends emerging. Here’s a look at three economic and policy issues finance officials across the country will be dealing with next year.

Protecting Pot Revenue

As more states have legalized recreational marijuana, managing the taxes and revenues from it has proven dicey.

For starters, not every city or county in a state wants to take part in the nascent industry. These places have acted by banning pot sales within their borders. But should they still be entitled to the revenues coming in from marijuana sales? A few states don't think so. California, Massachusetts and Oregon are withholding marijuana tax revenues from these cities and counties.

Then, there's the fact that marijuana businesses deal largely in cash. The federal government regards marijuana as an illegal drug; banks are regulated by the feds. Most won't touch cannabis cash. For state and localities, this makes tracking the product and collecting the revenues difficult. Some solutions are emerging.

Community financial institutions, for one, have become more open to serving the cannabis industry after the feds said they won't go after institutions that keep a watchful eye on their clients and report suspected wrongdoing.

That's where a company called PayQwick comes in. It electronically transfers money between marijuana growers, sellers, customers and their financial institutions. It also offers services allowing businesses to electronically pay their taxes.

Another government security company, SICPA, is providing county governments in Northern California's Emerald Triangle track-and-trace services for cannabis products. Counterfeit-resistant tax stamps are placed on products and scanned at various points along the supply chain. The stamps, which the company has already developed for cigarette packs to prevent fraudulent sales, can help prevent revenue from slipping through the cracks. It also has the added benefit of helping regulators ensure that operators aren't producing more product than they are legally allowed to.

The savings can be significant, says Alex Spelman, SICPA's vice president of business development. In 2005, when the company first put tax stamps on cigarette packs in California, which has a high per-pack tax rate, it saved an estimated $90 million in revenue from going out the door. He adds it can also give governments more flexibility in deciding whether to adjust their taxes because they can more closely track what's happening at each stage of the product's life.

'Pay For Success' Coming to a Small Town Near You?

There are about a dozen so-called pay for success financing projects around the country, and all are with large governments such as states, counties and major cities. But 2018 is likely to see smaller cities finally get in on the action.

Pay for success programs attract money from private and nonprofit investors for public programs that seek to bettter outcomes in early childhood education, workforce development and opioid misuse, among other things. Governments only pay investors back if and when positive results, such as cost-savings or reduced recidivism rates, are achieved. As mayors and cities continue to face funding pressures, many more are starting to look at pay for success as a possible tool, says Justin Milner, a senior fellow at the Urban Institute.

The results of a project in Denver holds promise for smaller-tier cities looking to launch their own pay for success program. That city launched a program to provide permanent housing and support services to at least 250 chronically homeless people over five years. After 18 months, the city cut its first check — for $188,000 — to the program's financiers and put up an additional $670,000 in this

year's budget to expand the program.

The Urban Institute advised on the Denver project and is now working with smaller cities such as Eugene, Ore.; Spartanburg, S.C.; and Tallahassee, Fla.

Elsewhere, a Baltimore-area hospital is developing a project to bring nutritious meals, in-home safety checks and case management services to vulnerable older adults. New Orleans' Mayor-elect Latoya Cantrell has said she wants to start a pay for success program aimed at creating jobs and reducing criminal justice costs. And projects to reduce children's asthma are being developed in places such as Springfield, Mass., and Memphis, Tenn.

"If the next tier can build upon some of the successes of Denver," says Milner, "if they can find that philanthropic interest and have the capacity to support launching a project, then I think you'll see that movement in even the third- and fourth-tier cities."

Increased Recession Worries

The U.S. economy is currently in one of the longest expansion periods in modern history — even though it doesn't quite feel like it. And it's that feeling, along with tight budgets and slow growth, that has many public officials worried that a recession is coming. "I think everybody is waiting, just holding their breath," says Mike McCann, a vice president at OpenGov.

That elephant-in-the-room feeling is playing out in a few ways. For one, state and local governments are saving big time. Cities' average savings level is at historic highs, according to the National League of Cities (NLC), equal to about one-quarter of annual budgets. Meanwhile, 26 states now have larger rainy day funds as a share of operating costs than they did before the recession.

When it comes to budgeting, governments are being extremely cautious in 2018. Municipal finance officers are expecting minimal growth this year — less than 1 percent — and far fewer of them believe they will be better able to meet the financial needs of their communities, according to NLC. At the state level, spending is expected to grow at the slowest pace since the recession.

Because of the pressure, McCann expects to see officials demand more transparency and accountability when it comes to budgeting. "I think people are increasingly unwilling to take a black box number out of a budget module and not be able to challenge it," he says. "Old-school budgeting was so technical and some of the calculations so obtuse, that normal people weren't allowed to see that. People just aren't tolerant of that anymore."

GOVERNING.COM

BY LIZ FARMER | DECEMBER 29, 2017

December Muni Volume Hits Record $62.5B Ahead of Tax Overhaul.

Municipal bond issuance set a new single-month record in December as issuers rushed to close deals before the new tax law took effect with the New Year.

Data from Thomson Reuters (TRI) shows volume in December ballooned to $62.50 billion in 1,168 transactions from $20.81 billion in 780 deals from the last month of 2016. The issuance surpassed the previous record of $54.7 billion of deals in Dec., 1985, just before the last comprehensive tax

overhaul took effect.

Back then, issuers rushed to market on fear of tax reform only to have the legislation delayed until September. This time around, the frenzy started in early November on concern that the municipal market would lose the tax exemption on both private activity bonds and advance refundings.

The flood of issuance also resulted in a 2017 total of $434.76 billion, closer than expected to the yearly issuance record, of $451.65 billion that was set in 2016. Of the 2017 total, $144.61 billion came in the fourth quarter.

“By our estimate, the tax bill rush resulted in about $35 billion of issuance was pulled forward in 2017 and taken away from 2018,” said Sean Carney, director and head of municipal strategy at BlackRock (BLK). “It begs many questions about the New Year, including what it means for the overall market performance and volume in 2018 but also volume in the first quarter of the year.”

Tom Kozlik, managing director and municipal strategist at PNC, said he wasn’t surprised by the surge in November and December and that volume would have been even greater if there’d been more time.

“For months, tax reform had been in the pipeline and no one could have guessed a threat to the tax exemption would have emerged for a tax cut,” he said. “Issuers responded how I think they should have, by assuming the worst case scenario. And they were able to mobilize and execute some financings before year end. Investors soaked up several weeks of $20 billion-plus supply easier than expected.”

Carney agreed, saying that what surprised him the most, was how easily digested the volume was, as many deals were oversubscribed. He predicted issuance will fall to about $335 billion – down 21% year over year, but only 13% off from what the market was on pace for this year, before the tax reform rush.

“It’s harder to predict what it means for performance,” he said. “The month of January over the past five years turns in about 45% of all returns but it looks like 2018 will bring a net negative year by about $50 through $60 billion, taking us back to a year like 2011. We will be going from a growing market in to a shrinking one in 2018. Returns from municipals were phenomenal in 2017, as rates did not move as much as people anticipated. 2018 will be a year of carry and more reliant on coupon.”

The new tax bill was signed into law by President Trump on late December, keeping PABs as is for now, but ending advance refundings, a popular and important cost-saving instrument.

“Advance refundings over the past 5 years account for around 22% of all issuance,” said Carney. “One highlight of the whole situation could be how PABS were saved. Maybe it means that Washington views the muni market as an avenue to fund infrastructure. Down that road, PAB s could get redefined, especially the alternative minimum tax portion.”

Kozlik bank product solutions, like derivatives or interest rate swaps, could be employed effectively as an alternative to in certain situations.

“It would make sense for some issuers to lock in forward rates with derivatives when appropriate,” he said. “It is also possible that the uses of synthetic advance refundings are structured by using fixed payer swaptions. It is quite possible that municipal entities begin to use these types of strategies more often.

Issuers might also toy with a five-year call, instead of the traditional 10-year call, to offset the loss of advance refunding.

“Demand, creates supply. If there is demand for issuers to come with shorter call dates, then its quite possible we could start seeing more of that,” said Carney. “That being said, the muni market is very traditional and accustomed to certain 10-year non-call structure.”

Refundings accounted for $28.49 billion in 492 deals, up from $5.57 billion in 227 transactions during December of 2016. New money deal volume grew to $27.31 billion in 595 sales from $13.02 billion in 502 deals.

The value of combined new money and refunding deals for the month rose to $6.69 billion from $2.22 billion a year earlier. Issuance of revenue bonds increased to $48.29 billion, while general obligation bond sales gained to $14.21 billion from $8.33 billion.

Negotiated deals jumped to $52.69 billion from $14.16 billion, while competitive sales increased to $6.83 billion from $3.91 billion. Taxable bond volume vaulted to $6.79 billion from $2.29 billion, while tax-exempt issuance expanded to $52.84 billion.

Deals wrapped by bond insurance rose 70.2% year-over-year to $2.92 billion in 121 transactions from $1.72 billion in 123 deals.

California remained the state with the most volume. Issuers in the Golden State have sold $67.59 billion this year. New York came in second with $48.45 billion, followed by Texas with $41.62 billion. Illinois was fourth with $21.57 billion and Pennsylvania rounds out the top five with $20.47 billion.

“The threat to the tax exemption is now very elevated,” said Kozlik. “If Washington lawmakers can put the municipal bond tax exemption on the chopping block for a tax cut, what happens when they get serious about deficit reduction?”

By Aaron Weitzman

BY SOURCEMEDIA | MUNICIPAL | 12/29/17 07:07 PM EST

Bond Insurer MBIA Targeted by Short Sellers After Puerto Rico Hurricane.

Hedge funds are again betting against the company

Hedge funds are increasingly betting on whether bond insurer MBIA Inc. can survive heavy losses expected from Puerto Rico’s bankruptcy in the wake of Hurricane Maria.

Short sellers have borrowed about 40% of the firm’s stock since September, wagering that it will drop, while value investors Fine Capital Partners L.P. and EJF Capital LLC have taken the opposite side, buying millions of MBIA shares. Credit hedge funds like Mill Hill Capital LLC have bought credit default swaps, or CDSs, that gain value as the probability of an MBIA default rises.

Bond insurers charge premiums to companies and governments that issue bonds and agree to take over interest and principal payments if the borrowers default. That business model backfired during the financial crisis, when the insurers took billions of dollars in unexpected losses on mortgage bonds. Bets against MBIA became a lucrative trade among hedge-fund managers, most famously Bill

Ackman.

MBIA recovered by focusing on insuring municipal bonds but defaults in that market have mounted, calling the firm's business into question once again. Bearish investors doubt the firm has set aside enough capital to cover likely payouts, especially now that Hurricane Maria has crippled Puerto Rico, where MBIA insured $3.4 billion of bonds.

"It's not something we've asked for or created," said MBIA's head of investor relations, Gregory Diamond, about the attention from hedge funds past and present. "We are here to operate our company as best we can and to satisfy our obligations."

Mill Hill founder David Meneret said he started buying MBIA CDS—derivatives that pay out if a bond defaults—before the hurricane struck because he believed the insurer was undercapitalized given its exposure to cash-strapped Puerto Rico and financially troubled states like Illinois and Connecticut.

"We didn't know when something bad was going to happen but with a company that has so much leverage, anything bad could be very damaging," Mr. Meneret said

By one measure, MBIA has done less to prepare for Puerto Rico-related losses than its competitors. MBIA's most recently reported loss reserves amount to about 10% of its exposure to Puerto Rico, compared with about 20% for Assured Guaranty Ltd. and about 40% for Ambac Financial Group Inc., according to data from S&P Global Market Intelligence.

The difference in reserves reflects the fact that most of the Puerto Rico bonds MBIA insured were issued by different entities and government agencies than the bonds insured by its competitors and the likelihood that recoveries will vary accordingly, Mr. Diamond said.

Puerto Rico owes investors about $70 billion of bonds and had begun restructuring the debt in court when Hurricane Maria struck in September, destroying much of the island's infrastructure and drastically reducing forecasts for how much bondholders will recover. Benchmark bond prices dropped to about 23 cents on the dollar from 60 cents as expectations of bondholder recoveries fell.

The net dollar amount of CDS contracts purchased on MBIA after the hurricane hit Puerto Rico increased by $267 million to $1.13 billion through Nov. 21, the most recent date for which data are available, according to data from the Depository Trust & Clearing Corporation. The percentage of MBIA stock sold short surged to 43% on Dec.19 from 14% in September, according to data from S&P Capital IQ.

Buyers of CDS have made large returns on their trade so far—prices of the derivatives have tripled since September, according to IHS Markit. Movement of the stock has been more erratic, falling about 40% to $6.22 in October from about $10 in early September, before rebounding to about $9 in November, when MBIA announced a $250 million share buyback. Shares closed at $7.49 Wednesday, and many of the recent short sales in MBIA stock were executed when the stock traded for $8 or more, implying a modest gain, according to data from the Depository Trust & Clearing Corporation.

Sunesis Capital LLC founder Manal Mehta, a longtime investor in MBIA, says the market is again underestimating the firm's resilience. The insurer will have decades to pay off the Puerto Rico bonds it insured, which is ample time for the island's economy to bounce back and for MBIA to recover money through litigation and debt restructurings, he says.

Some funds viewed the share drop as a buying opportunity. Fine Capital Partners L.P. and EJF Capital LLC have collectively bought about 5.6 million MBIA shares since the end of September,

according to data from S&P Capital IQ. An official at Fine Capital declined to comment, while EJF couldn't be reached for comment.

The investor face-off reprises the debate over the viability of MBIA and other bond insurers that Mr. Ackman started in 2002, when he announced his short bet against the company.

The key to the bond-insurance business is reserving enough cash to cover losses from bond defaults, and to maintain a high enough credit rating to keep selling new policies. Mr. Ackman argued that MBIA had far too little capital relative to potential losses from the hundreds of billions of dollars the firm insured.

Fallout from the financial crisis forced regulators to intervene with two of the largest bond insurers—Ambac Financial Group Inc. and Financial Guaranty Insurance Co.—while others stopped writing new policies. MBIA's market capitalization dropped about 95% from precrisis levels and Mr. Ackman made about $1 billion from his trade.

Still, MBIA weathered the financial crisis by suing banks that structured the mortgage bonds it insured, and its stock recovered modestly, generating gains for hedge funds like GSO Capital Partners that bet the firm would survive.

That could happen again, Mr. Mehta says, forcing short sellers who borrowed MBIA stock to scramble to buy shares. "If you are short the stock and there's a positive piece of news, the stock will go vertical and you'll be caught with your pants down," he said.

The Wall Street Journal

By Matt Wirz

Dec. 21, 2017 5:30 a.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com

GASB Issues Implementation Guide on Other Postemployment Benefits.

Norwalk, CT, December 19, 2017 — The Governmental Accounting Standards Board (GASB) has issued a new Implementation Guide that contains questions and answers about the GASB's new standards on accounting and financial reporting for postemployment benefits other than pensions. Those benefits (primarily retiree healthcare) are referred to as other postemployment benefits (OPEB).

Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*, provides answers to questions intended to clarify, explain, or elaborate on the requirements of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

The document also addresses a limited number of issues related to Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The guide is available for download at no charge on the GASB website, www.gasb.org. Printed

copies will be available through the GASB Store in the coming weeks.

The questions and answers contained in GASB Implementation Guides constitute Category B authoritative guidance under generally accepted accounting principles (GAAP). The guidance is applicable to all state and local governments that follow GAAP when preparing their financial statements.

Broken Bonds: The Role Wall Street Played in Wiping Out Puerto Ricans' Savings.

When residents of Puerto Rico funneled their life savings into funds that were largely made up of the island's bonds, they were told their money would be safe.

They were told that they would receive interest payments that were higher than many comparable opportunities. They were told income would be tax exempt.

And when those investments began to evaporate four years ago, they were told not to sell, that the market would rebound, and they would recoup their losses — eventually.

This year, eventually became never after Puerto Rico triggered bankruptcy-like proceedings, and the island began restructuring its debt to seek protection from creditors — pushing the already depreciated bond prices within the funds lower. Then came Hurricane Maria, and those prices plummeted even further.

Continue reading.

CNBC

Dawn Giel | Leslie Picker | Scott Zamost

18 Dec 2017

Moody's: Local Government Pension Liabilities Soar in Fiscal Year 2016.

Adjusted net pension liabilities for the 50 largest local governments totaled $456 billion in at the end of fiscal year 2016, up from $390 billion the previous year, said a report from Moody's Investors Service.

The $456 billion is more than double the size of debt and reported other post-employment benefit liabilities for the local governments combined, Moody's said in the report.

On an individual basis, only 14 of the 50 municipal entities reviewed had less pension debt than bonded debt in fiscal year 2016.

Moody's uses a market interest rate to calculate pension liabilities rather than a discount rate. Often times, Moody's adjusted net pension liabilities are higher because it's using an interest rate closer to 4% than the 7% or 7.5% that pension funds use.

The five entities with the highest adjusted net pension liabilities as a percentage of operating revenue were Chicago at 703%, followed by Dallas at 609%; Houston, 606%; Phoenix, 494%; and Los Angeles, 432%. That ranking remains unchanged from last year's report, with the exception of Phoenix and Houston, which switched places.

On the flip side, local governments reporting the lowest adjusted net pension liabilities as a percentage of operating revenue were Wake County, N.C., at 24%; Houston Independent School District, 46%; and Washington D.C., 50%.

Regarding pension contributions, only 16 of the 50 entities surveyed contributed enough to stem unfunded pension liability growth, down from 26 in fiscal year 2015.

Moody's noted in the report that 42 of the 50 entities reported pension funding information that lagged their fiscal-year end. Under GASB 68, governments are permitted to report net pension liabilities up to one year prior to their fiscal-year end, said Timothy Blake, managing director, public finance at Moody's.

As a result, the rating agency predicts that adjusted net pension liabilities for the 42 entities will increase an additional 33% in their fiscal year 2017 reporting due to their "lagged recognition" of weak investment returns and declining discount rates in calendar year 2016. Moderate declines in adjusted net pension liabilities are expected in fiscal 2018, however, due to stronger returns in 2017.

Moody's report also looked at the probability of pension investment losses in a given year amounting to 25% or more of a government's operating revenue. For seven of the 50 entities reviewed, the probability of this happening was 10% or greater in fiscal year 2016 due to the size and estimated volatility of their pension assets, the report said. Houston and Los Angeles faced the highest probability.

PENSIONS & INVESTMENTS

BY MEAGHAN KILROY · DECEMBER 19, 2017

U.S. Municipal Bond Issuance Totals Nearly $12 Billion Next Week.

NEW YORK (Reuters) – U.S. municipal bond and note issuance were expected to total about $11.77 billion next week, according to Thomson Reuters data, a larger-than-usual amount ahead of the holiday season as issuers mull potential changes to the federal tax code.

This past week, U.S. municipal bond market supply totaled more than $20 billion for a second straight week as investors accelerated debt sales in case the U.S. Congress votes to eliminate federal tax breaks for private activity bonds (PABs) and advance refunding bonds starting in 2018.

The elimination would mean higher borrowing costs for nonprofits and other entities that issue PABs. It would also remove a way that all muni issuers can take advantage of lower interest rates to save money.

"Really it has been the concern about whether (there will be) a repeal of private activity bonds and advance refunding that has just driven a surge in volume during what is typically a quiet time," said Erin Ortiz, a managing director and municipal research analyst at Janney Montgomery Scott in

Philadelphia.

Republican lawmakers are expected to release details on a final tax bill later on Friday.

Muni bond and note issuance from the beginning of the year to Thursday totaled about $434.2 billion, according to Thomson Reuters data. November and December issuance accounts for nearly 20 percent of that total even though December is only half over.

A $1 billion bond sale by Houston pricing through Barclays tops next week's negotiated deal calendar.

The taxable pension bonds, which were approved by Houston voters last month, are a critical part of a 30-year cost-saving plan signed into law in May by Texas Governor Greg Abbott to address the city's $8.2 billion unfunded pension liability.

The bonds, rated Aa3 by Moody's Investors Service and AA by Fitch Ratings, are structured with serial maturities from 2020 through 2032 and term bonds due in 2037 and 2047, according to the preliminary official statement.

A handful of negotiated deals on next week's calendar total more than $600 million.

The Railsplitter Tobacco Settlement Authority in Illinois will issue about $678.6 million of revenue bonds, the Metropolitan Transportation Authority in New York will sell $608.8 million of transportation revenue refunding bonds, and Virginia's Housing Development Authority is set to issue $600 million in rental housing bonds.

The week's largest competitive deal comes from the City of Virginia Beach for $69.7 million of general obligation public improvement refunding bonds, expected to sell Tuesday.

By Stephanie Kelly

(Reporting by Stephanie Kelly; Editing by Daniel Bases and J.S. Benkoe)

Dec. 15, 2017, at 2:18 p.m.

There's No Holiday Slowdown in the Municipal-Bond Market This Year.

- **'All hands on deck' as issuance surges even during holidays**
- **About $9 billion in issuance planned for next week alone**

It's the most wonderful time of the year — and usually the quietest — for the $3.8 trillion municipal-bond market, but not so much in 2017.

States and localities typically sell very little debt during the second half of December, but the potential congressional tax-code overhaul that threatens to wreak havoc on tax-exempt borrowing for municipalities has led to a surge of deals coming to market at year-end, disrupting the usual holiday pace.

Preliminary numbers indicate that at least $9 billion of municipal debt is expected to be issued during the week of December 18 alone, according to data compiled by Bloomberg. That's more than double the average issuance during the last two weeks of December in 2014, 2015 and 2016, when

about $3.4 billion of bonds were sold, and leaves this month on track to approach or top the record of $54.7 billion hit in December 1985.

“A lot of new issues are coming in, and they’re looking to price next week,” said Eric Friedland, director of municipal research in Jersey City, New Jersey, for Lord Abbett, which holds about $20 billion of municipal debt. “It’s usually unheard of to price the week before Christmas.”

Lawmakers in the House and Senate are still hammering out the details of tax legislation that could curb subsidies for a large swath of the municipal market in 2018. The House version repeals the tax-exemption for so-called private activity bonds that help entities like hospitals and airports finance projects at a lower cost. The Senate bill doesn’t end those deals. But both chambers’ proposals repeal the use of tax-exempt bonds for advance refundings, a tool that lets localities refinance debt and save tens of billions of dollars a year. The risk of those changes sparked a rush to market.

Friedland said he wouldn’t be surprised if deals came in between Christmas and New Year’s. He noted that the calendar could also shrink if deals get pulled because of less interest.

“Until there’s clarity, everyone’s going to be trying to get to the market,” said Friedland, who noted that it’ll probably be too busy for him to take time off. “It’s all hands on deck right now.”

Bloomberg clients: We’ll be doing a TOPLive Q&A on Thursday, December 14 at noon ET, moderated by Taylor Riggs, in which you can ask Joe Mysak questions about the municipal supply deluge, tax reform, what next year may hold for the sector and more. You can watch it here. If you want to ask a question, please send it to TOPLive@bloomberg.net

Bloomberg Markets

By Elizabeth Campbell

December 13, 2017, 6:30 AM PST

— With assistance by Danielle Moran

Commentary: Holiday Wish List for Muniland.

There is no doubt that this year has created many highs and lows in the municipal market. We have many reasons to be grateful. One of the high points is that for most of the year money has flowed into mutual funds and ETFs except for a periodic single down week.

Another wonderful element this year has been the strong bid for municipals from all demand sides of the market. We have even experienced a spike in the amount of foreign buying in the market. The latter is rare indeed given foreign buyers do not benefit from the tax exemption. These buyers have been participating in municipals because our market has higher rates than in their home markets and our creditworthiness is relatively strong and stable despite the handful of problematic credits.

Although not as strong as last year, refunding activity has been steady. There have been a fair number of transactions that have been over $500 million that have been distributed with ease. The long end of the curve continued to rally despite an overall flattening of the curve. Long bonds at the offer have frequently been oversubscribed 3x’s to over 10x’s.

So what more could we desire? Why are we so cranky? Is it just because spreads are narrow and everyone is generating less revenue or is it something more? Why does it take 3 to 5 rounds of interviews to hire someone when there are enough qualified candidates?

Or, perhaps, the regulatory requirements have just become more burdensome, including issue price rules and ever more disclosure requirements. Tax Reform clearly has many troubling aspects to a municipal professional. We do not have one answer to the rhetorical question but we are certain that you have your own answer.

We think it is an appropriate time to ponder the Wish List in earnest. Herein is my humble attempt.

- Please, provide us with an Infrastructure Plan that we can embrace fully. Our appetites were whetted with the promise of a new bold plan last year. The infrastructure initiative was quickly overwhelmed by other priorities. It would appear that tax cuts and reforms were much higher on the priority list than getting more folks to work in necessary public works projects. There has been some very recent discussion that a plan may emerge again as soon as in January. However, according to reports the version that may be floated this time will allegedly put more pressure on state and local governments to provide matching funding of some kind. How will that work? Have they been reading that Connecticut, one of the wealthiest states in the nation, has a budget gap and has a challenge in its transportation funding because it is not keeping pace when the economy is at a high mark. Asking states and localities to do more is acceptable, but, these governments do not have unlimited resources.
- How about assisting the effort with some clearly identified and unencumbered revenue streams from the federal level that can be leveraged in an efficient way. We have no qualms about issuing debt, especially, revenue debt that is backed by user fees and not general taxation. But additional revenues are required. Not many projects can be well funded with “smoke and mirrors.”
- Ratings should be assigned with well researched conclusions and rationales. Criteria have to be as clear and transparent as possible. Assessment of the long haul in ratings is essential, while it is good practice not to ignore the realities of the present. Although matrices and other tools may be useful in attaining good judgments, there should not be an overreliance on these tools. Also, three notch downgrades should happen less frequently assuming reviews are being done in timely fashion.
- Adding regulations at the pace of a few major initiatives a year may be important, but it does have an impact on the functioning of the market. We keep moving toward a fully regulated market, but no participants would be satisfied with that outcome. Refining what is on the books already is a worthy goal, but brand new aspects should be sparse.
- We all have a great deal of information to review each and every day. The Bard of Avon suggested that “Brevity is the soul of wit”. We cannot agree more. We know that some technical aspects require longer explanations with certain critical passages and caveats. But, we hope that if there is a more direct way to present the information that path will be taken.
- Those who have the data prevail and those who do not are challenged. If you have access, there is a level playing field. We also believe that data that is painstaking to gather and labor intensive should be paid for without hesitation. The Bond Buyer has added MBIS data to its platform. We are working to make this service an increasingly useful tool.
- Do not forget the needs of the small Issuer. One of the greater and more democratic principles of the municipal market is that the small Issuer has as good access to the market as the large Issuer. We are not clear that this condition is the case in all markets. We continue to be champions of this principle in the municipal market.
- An informed market is a more efficient market. We fully appreciate the necessity of the Compliance function in the market. But we do believe that being able to discuss critical matters that are important to the business is quite essential to the proper functioning of the market.

- Tax Reform is a defining moment for this market. We appreciate that the tax reductions are designed to be a catalyst for GDP growth. But, let's not forget the poor, the sick, and the needy. Pass the CHIP funding. And we trust we will find our way in issuing more taxable paper if need be. We just lament the higher costs. We stand for fairness and efficient markets. We want to remain the best market we can be.

The Bond Buyer

By John Hallacy

Published December 11 2017

The Bond Buyer Celebrates City of Cambridge's Collaboration with Neighborly at Annual 'Deal of the Year' Awards.

SAN FRANCISCO, Dec. 11, 2017 /PRNewswire/ — Neighborly, the San Francisco-based fintech company focused on modernizing public finance by empowering investors to fund positive change in communities, today announced that The Bond Buyer has recognized the firm's 2017 partnership with the City of Cambridge, Massachusetts, as its 'Non-Traditional Deal of the Year.' The accolade was announced at The Bond Buyer's recent Deal of the Year Awards ceremony, held in New York City.

Now in their 16th year, the Deal of the Year Awards reward innovation in municipal finance. Winners, which are determined by a panel of Bond Buyer editors, are deemed to have exhibited noteworthy innovation, successful execution of complex transactions under oftentimes challenging conditions, an ability to serve as an exemplary model for future financing, and proven impact factor – i.e., the public purpose for which a deal's proceeds were used.

The City of Cambridge was lauded for its February 2017 issuance of General Obligation Series 2017 A Minibonds, which leveraged Neighborly's accessible online platform to sell bonds directly to Cambridge residents. The bonds, offered in affordable denominations of $1,000 to encourage participation, presented a unique opportunity for individual investors to earn tax-exempt interest while advancing positive projects in their own community. The funds raised, totaling $2 million, have since been utilized to renovate school buildings, upgrade municipal facilities, and advance implementation of Cambridge's "Complete Streets" plan.

"Neighborly heartily congratulates the City of Cambridge on this accolade, which reflects its leadership's commitment to residents," said Pitichoke Chulapamornsri, who led the deal as director of business development at Neighborly. "Our work with Cambridge is a prime example of how technology can reduce the cost and complexity associated with public finance to produce powerful results. As a result of our engagement, the City Manager's office was able to raise capital and shape Cambridge's future by connecting with a previously untapped audience of engaged, impact-driven residents."

Cambridge's initial bond offering generated a significant amount of interest, selling out within six days. Thirty-seven percent of buyers were first-time bond investors; more than 30 percent were under the age of 40.

Issuers who are interested in learning more can contact the team via neighborly.com/issuers, while potential investors can learn more about the Cambridge offering at https://neighborly.com/cambridge.

About Neighborly

Founded in 2012 and headquartered in San Francisco, CA, fintech company Neighborly is on a mission to modernize public finance. This civic-minded team of technologists and finance professionals is united by the belief that the humble municipal bond can once again be a singularly important force in solving economic, educational, healthcare and environmental issues – one community at a time. Positioned at the intersection of technology, government, and finance, Neighborly reduces the cost and complexity associated with municipal bonds by directly connecting fiscally responsible issuers with investors who want to earn returns while effecting positive change in the world.

Neighborly Corporation has built bank-grade technology, and its wholly-owned broker-dealer subsidiary, Neighborly Securities, is a member of FINRA, SIPC, and the MSRB. Neighborly Investments is an SEC-registered investment adviser; registration as an investment adviser does not imply any level of skill or training. This material is for informational purposes only and should not be considered investment advice or recommendation to invest. The information on this page does not constitute a solicitation to buy or sell securities.

When Climate Change Becomes a Credit Problem.

Climate change is now a credit issue for city and state governments vulnerable to extreme weather events and natural disasters made worse by global warming. And that will make a complicated problem a lot easier for people to understand, because it could hit them where they feel it: in their wallets.

In a welcome but long overdue development, one of the world's leading credit-rating agencies, Moody's Investors Service, announced recently that it would give more weight to climate change risks in evaluating the creditworthiness of state and local governments.

Coming in the aftermath of hurricanes that severely damaged parts of Houston and much of the United States Virgin Islands and Puerto Rico this year, the message from Moody's was clear. Governments must prepare for heat waves, droughts, flooding and coastal storm surges or face credit downgrades that will make it more expensive for them to borrow money for public services and for improvements in roads, bridges and other infrastructure.

That could mean higher taxes for the people who live in those communities. Even for governments that act to reduce their exposure to climate risks, the costs of doing so "could also become an ongoing credit challenge," Michael Wertz, a Moody's vice president, said.

And there are many communities in harm's way: Just in terms of coastal flooding, for instance, Moody's reports that 43 percent of coastal homes in Georgia lie in floodplains vulnerable to inundation; in Florida and Mississippi, the number is 38 percent; in Louisiana, 34 percent and in Texas, 26 percent.

Credit agencies have been under pressure for years to give greater weight to the dangers posed by climate change as they evaluate the risks of government bonds. As Moody's put it: Climate change is expected to increase the nation's "exposure and vulnerability to a range of factors such as severe heat, changes in precipitation patterns and rising sea levels." And those factors, the rating agency said, "are projected to drive an increased frequency of extreme weather occurrences, or climate shocks," like droughts, wildfires, flood and storms.

In short, Moody's is making it clear that there is a potential climate risk bubble in which an extreme weather event causes damages so catastrophic that taxpayers, insurers, lenders, states and municipalities suffer damages or losses of hundreds of billions of dollars and local and state government face downgrades in their credit worthiness, affecting their ability to borrow money.

This scenario isn't outlandish. In Puerto Rico, it could cost up to $95 billion to pay for and repair the damage caused by Hurricanes Irma and Maria. What if a storm of Maria's ferocity had hit South Florida dead on?

Smaller credit-rating and bond investor firms are already taking climate risks into account. But the Big Three rating agencies (the other two are Standard & Poor's and Fitch Ratings) have been slow to take climate risks seriously.

Perhaps Moody's decision might also strengthen the hand of activist shareholder groups that maintain fossil fuel-related industries may see their oil, coal and natural gas assets stranded below ground as efforts to combat climate change ramp up.

Moody's is trying to get ahead of the curve. The company and the other major credit-rating firms badly missed the subprime housing bubble that helped push the economy into recession and were widely criticized for it.

Now the agency is warning, "Long-term climate changes, including rising global temperatures and sea levels, are forecast to drive increased extreme weather patterns and other vulnerabilities like flooding that might put negative credit pressure" on municipalities and states.

Moody's warnings go beyond the risks of coastal storm damage, more frequent and severe droughts, wildfires and heat waves.

The company put it this way: "In addition to loss of life and threats to public health and safety, these events present a multitude of challenges in the form of compromised crop yields, economic disruption, damage to physical infrastructure, increased energy demand, recovery and restoration costs, and the cost of adaptive strategies for prevention or impact mitigation. These challenges can result in lower revenue, increased expense, impaired assets, higher liabilities and increased debt, among other effects."

As one of the Big Three credit rating agencies, Moody's credit advice to individual and institutional investors carries enormous weight in the lending and capital markets.

If the other major ratings agencies follow, the pressure will be on municipal and state governments around the country to address the underlying climate risks they face or confront the very real possibility that the costs of borrowing money will suddenly become a lot more expensive.

And that's not something taxpayers will like.

THE NEW YORK TIMES

By JEFF NESBIT

DEC. 13, 2017

Fitch: U.S. State Pension Burdens Trending Higher Than Debt.

Fitch Ratings-New York-12 December 2017: U.S. states continue to keep overall debt largely in check, though their pension burdens are larger and rising according to Fitch Ratings in a new report.

Fitch's calculations showed a modest year-over-year increase in median state long-term liability burdens at 6% of 2016 personal income compared to 5.6% one year earlier. Fitch attributed the entire year-over-year increase to defined benefit pension liabilities versus bonded debt. Nonetheless, Fitch still deems the median state liability burden low relative to state resources.

A different picture emerges when assessing liability burdens for individual states. Fitch calculated that six states have liability burdens eclipsing 20% of personal income. Illinois tops the list with a total liability burden equal to 28% of personal income, followed by Connecticut, Kentucky, New Jersey, Alaska and Massachusetts. By contrast, 38 states carry liability burdens below 10% of personal income, with Nebraska the lowest at 1.4%.

The disparity in liability burdens is driven mostly by pension obligations. Many states with elevated pension burdens provide pensions not only to state retirees but also to local teachers. Additionally, a history of weak contribution practices has resulted in actuaries forecasting that pension assets will be depleted for many states with the highest pension burdens. This requires a more conservative calculation of pensions under current accounting rules.

"Unlike bonded debt, state pension burdens continued to rise," said Senior Director Douglas Offerman. "Factors driving this growth include weaker than expected asset performance during the most recent reporting period, inadequate contributions by some governments, long-term demographic trends and the continued shift by states toward lower discount rates."

'Pensions Driving State Liability Burdens' is available at 'www.fitchratings.com'

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Bloomberg Brief Weekly Video - 12/15

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

Watch video.

Bloomberg

December 14th, 2017, 1:28 PM PST

Muni Debt That Beat Stocks Likely Won't Deliver Repeat Next Year.

- **Tobacco sector may return 5 percent in 2018, Barclays says**
- **Cigarette tax and smoking age increases will weigh on prices**

High-yield municipal bonds backed by legal-settlement payments from tobacco companies have returned 20.4 percent this year, more than the S&P 500 index. Don't expect a repeat in 2018.

Investors in the sector may have to settle for the income they get from interest payments — instead of price gains — as higher tobacco taxes in California and the U.S. Food and Drug Administration's plans to cut the nicotine in cigarettes to non-addictive levels threaten to weigh on the industry's sales. The payments that back tobacco bonds are based on cigarette shipments, which are affected by the overall economy, government regulation and excise taxes.

"They don't have a lot of upside left in them," said Guy Davidson, director of municipal fixed income for AllianceBernstein LP.

Junk-rated tobacco bonds have beaten the S&P 500 index three of the last five years, though almost all of the sector's gains this year came in the first half. The securities rebounded after money managers dumped the securities — among the most liquid high-yield municipal bonds — to meet redemptions during the bond-market rout that erupted after President Donald Trump's victory.

Refinancings by New York City and California that reduced the amount of debt and lower-tha--forecast smoking declines have also boosted prices.

Since the FDA announced its plan to lower nicotine levels in cigarettes in late July, the sector has returned 1.6 percent, lagging the 2.1 percent gain for the the broader high-yield muni market over the period. Junk-rated tobacco bonds make up about 20 percent of the Bloomberg Barclays Municipal High Yield Index.

The largest single tobacco bond, issued by an Ohio agency and maturing in 2047, trades at about 96 cents on the dollar, or a cent less than the 2007 issue price, and is up more than 50 percent since Sept. 2013. Many tobacco bonds can be bought back at par from investors before maturity, which may limit further upside because the securities are already trading close to 100 cents on the dollar, Davidson said.

Even though the FDA proposal may take more than a year to enact, performance next year will be hindered by other factors, Mikhail Foux, the head of municipal strategy for Barclays Plc, said in an interview. Tobacco sales may be curbed by a $2 per-pack tax increase in California that took affect April 1 and a raising of the minimum smoking age to 21 in that state as well as New Jersey and Oregon, Foux said.

The production of cigarettes has declined 2.5 percent through September 2017 compared with the same period last year, according to data from the Alcohol and Tobacco Tax and Trade Bureau.

An improving U.S. economy may blunt the impact of cigarette tax and smoking age increases, said Foux, who predicted tobacco bonds may return about 5 percent in 2018.

AllianceBernstein reduced tobacco-bond holdings in its muni high yield fund to 4.3 percent from 7 percent in June.

“The best scenario for the 2007-vintage tobacco bonds is a stable market where investors earn the yield on their bonds,” Davidson said.

Bloomberg Markets

By Martin Z Braun

December 14, 2017, 8:53 AM PST

The Week in Public Finance: Tax Reform Games, a Mad Rush to Issue Muni Bonds and Pension Fees.

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

GOVERNING.COM

BY LIZ FARMER | DECEMBER 15, 2017

State Spending Grows at Lowest Pace Since Great Recession.

Amid uncertainty about federal tax reform, states are exercising caution with their fiscal 2018 budgets.

After several years of moderate spending growth, states are dialing it back amid federal policy uncertainty and unpredictable revenues.

States’ general fund spending is projected to total $830.2 billion in fiscal 2018, which represents just 2.3 percent growth and the lowest spending increase since the Great Recession. Twenty-six states have already enacted budgets with general fund spending growth below 2 percent, and 15 states are cutting spending in fiscal 2018.

The new survey data was released Thursday by the National Association of State Budget Officers’ (NASBO).

The shift comes amid uncertainty about how federal tax reform will ultimately affect states’ revenues and taxpayer behavior in 2018. Meanwhile, two straight years of an unusually high number of states resorting to mid-year spending cuts has many policymakers taking a more conservative approach to this year’s budget.

“There’s plenty of reasons for caution at this point,” said Michael Cohen, director of the California Department of Finance, on a call with reporters. “And we’ve not been willing to overcommit to ongoing spending.”

Underscoring that caution is the fact that, for the first time in five years, states have collectively budgeted for revenue growth to outpace spending growth in fiscal 2018. Most states are forecasting general fund growth of 4 percent. Roughly a quarter of this growth can be attributed to tax and fee increases and other revenue measures enacted by states in the 2017 legislative session, often in the face of budget deficits.

Those increased revenues, said NASBO Executive Director John Hicks on the same call, are a way of “catching up” budgets to reality after many states employed one-time fixes to balance past budgets.

Many states are also continuing to strengthen their reserves, despite the recent revenue slowdown. Rainy day funds as a percent of general fund spending is now at 5.2 percent, compared to less than 2 percent in 2011.

State by state, the financial picture varies widely.

Some states have repeatedly turned to their rainy day funds to help address shortfalls. Connecticut, for example, is battling a weak local economy and has just over 1 percent of general fund spending in its reserves after withdrawals in recent years.

Alaska, New Mexico and North Dakota passed their third straight budgets with spending cuts thanks to weak oil and other energy-related revenues.

Meanwhile, 11 states, mostly in the faster-growing regions of the Southeast and West, increased general fund spending by more 4 percent.

When it comes to where states targeted their spending, most of the focus went to K-12 education, the largest single portion of state general fund spending. A total of 38 states increased education spending, while 10 states made cuts, resulting in a net increase of $8.6 billion this year.

Medicaid was also a big driver of spending with states collectively spending $2.6 billion more this year from their general funds than in fiscal 2017. (NASBO notes that figure is actually more than $5 billion when including Medicaid spending in Ohio that is now being withdrawn from special funds.)

GOVERNING.COM

BY LIZ FARMER | DECEMBER 14, 2017

S&P: Southern California Fires Again Test Local Government Credit Resilience.

After a difficult October for California that brought major fire damage to mostly northern areas of the state such as Santa Rosa and the iconic wine-growing communities in Napa and Sonoma Counties, December has brought major fires to Southern California, particularly in areas surrounding Ventura (western Ventura County).

Continue Reading

Dec. 12, 2017

P3 Digest for December 15, 2017

Innovative U.S. 36 Express Lanes Project Reduces Traffic Congestion by Offering Mobility Choices

Editor's Note: The following article is one in a series of six profiles of winners of NCPPP's 2017 National Public-Private Partnership Awards, which recognize organizations and individuals that have gone above and beyond to advance the concept and implementation of P3s across the country. The winners will be honored during P3Connect in Miami Beach in January.

If you asked David Spector which of the improvements made to U.S. 36 in Colorado have benefited the most travelers, you might expect him to pause and ponder because there are so many choices.

Would he mention the new walking, cycling or bus rapid transit (BRT) options on this 18-mile segment? Or would he single out the increased safety provided by a new diverging diamond interchange at a bridge that crosses U.S. 36? Maybe top billing would go to the ability of the state's first active traffic management system, which monitors traffic flow and speed limits, to provide traveler information and improve incident analysis.

Continue reading.

NCPPP

S&P: U.S. Not-For-Profit Acute Health Care Stand-Alone Hospital Median Enterprise Statistics.

S&P Global Ratings considers the assessment of enterprise profile characteristics in conjunction with its evaluation of financial profile attributes when rating acute-care stand-alone hospitals. Our assessment of the enterprise profile includes evaluation of the operating environment, organization-specific characteristics, and broad industry conditions–all of which can influence financial perform

Continue Reading

Dec. 11, 2017

Securitized Muni Bonds Can Make Good Sense.

The assertion that Chicago and Connecticut are borrowing a "debt trick from Puerto Rico" is misguided.

Regarding your editorial "Have They Got a Bond for You" (Nov. 21 and the Letters of Nov. 28): The assertion that Chicago and Connecticut are borrowing a "debt trick from Puerto Rico" is misguided. Municipalities and states across America have used secured debt offerings to access the capital

markets at a lower cost than unsecured bonds for decades.

Secured debt backed by a dedicated revenue stream, such as local sales taxes, typically comes with a higher rating and lower interest rate than unsecured debt. Chicago's new tax-backed bond issuance is expected to be 200 to 300 basis points cheaper than its general obligation debt, saving the city and its citizenry up to $100 million a year.

Investors will accept a lower interest rate in exchange for property interest in collateral that will remain intact following any default or bankruptcy filing. In fact, effective use of tax-backed secured debt, combined with renewed emphasis on fiscal discipline, allowed Washington, D.C., and New York City to raise affordable capital following downturns and avoid bankruptcy restructurings.

Your editorial misrepresents the separate collateral pool for Puerto Rico's Cofina bondholders and overlooks that the VAT proposed by the island's last governor was voted down by the legislature before it ever went into effect. The editorial also omits that Detroit's secured creditors received par recoveries precisely because our laws protect property interests.

We cannot forget that not all bonds are created equal.

by Matt Rodrigue

Dec. 3, 2017 3:50 p.m. ET

The Wall Street Journal

The writer is financial adviser to a coalition of investors holding $2.6 billion of Cofina senior bonds.

Fitch: Some Smaller U.S. Colleges May Face More Pressure in 2018.

Fitch Ratings-Chicago-07 December 2017: The outlook for ratings in the U.S. colleges and universities sector is stable headed into next year, though the gap is widening between larger, stronger universities and some of their smaller counterparts, according to Fitch Ratings in its 2018 outlook report.

"Operating revenue pressures will likely intensify for small, tuition-dependent schools in demographically declining areas or highly competitive regions," said Director Emily Wadhwani. "Barring those outliers, operating performance is expected to remain strong sectorwide, which coupled with steady student demand and enrollment and solid financial resources supports a stable sector outlook.'

Operating revenue also stands to be affected by recently proposed tax reform legislation, with annual charitable gift revenue and both state and federal funding to feel those effects most acutely. Most vulnerable are institutions already facing revenue pressures related to enrollment, tuition dependency, or those with limited liquidity profiles lacking material foundations or endowments. "Proposed bills have served to sustain national focus on the value proposition of higher education, which could have a more lasting impact over time," said Wadhwani.

Nonetheless, U.S. colleges and universities by and large enjoy ample financial flexibility and have been proactive in minimizing the volatility of investment returns and increasing the overall liquidity of their total holdings. Well-positioned institutions retain meaningful balance sheet resources, solid

demand and increasing tuition revenue while keeping leverage in check. Most colleges are also effectively balancing the desire to maximize long-term investment returns and the need for capital investments against the need for sufficient working capital and liquidity.

Fitch's '2018 Outlook: U.S. Colleges and Universities' is available at www.fitchratings.com.

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Fitch: Outlook for U.S. Local Government Ratings Stable in 2018.

Fitch Ratings-New York-06 December 2017: Numerous questions concerning Federal policy and infrastructure adequacy will not impede the financial resiliency of U.S. local government ratings next year, according to Fitch Ratings in its 2018 outlook report.

Fitch's stable outlook for U.S. local government ratings remains in place for 2018 thanks in large part to their financial dexterity in uncertain times, both economic and otherwise.

"Local governments have long demonstrated the ability to close budgetary gaps throughout economic cycles," said Managing Director Amy Laskey. "Also helping matters are reserve levels, which going into next year are well in excess of what is needed to offset a recessionary revenue decline."

Federal policy uncertainties around Medicaid, the federal tax system and international trade could heighten the risks associated with local government non-property tax revenue. Depending on the outcome of each of these areas, school districts would be most at risk as a result of changes to Federal policy since they are most reliant on state aid. Also worth watching are localities bordering Canada and Mexico that would be vulnerable to loss of direct revenues resulting from changes in trade policy.

Infrastructure remains an ongoing concern and more so in light of Hurricanes Harvey, Irma and Maria, which caused widespread damage in parts of Texas, Florida, and much of Puerto Rico and the Virgin Islands. That said, local government ratings should remain well insulated from ongoing rebuilding costs as they are largely shouldered by the federal government.

"Local governments will not have to issue much debt that is not reimbursable by the federal government, so the recent storms should not affect debt service or long-term liability burdens," said Laskey.

Another area of note in the coming year is the desire by some local governments to create structures that protect bondholders from a government's general operating risk. One such structure is securitization, as evidenced by the recent creation of Chicago's Sales Tax Securitization Corporation.

"Several California issuers along with the Chicago Board of Education have also issued bonds secured by tax revenues that lead Fitch to analyze the debt without regard to operations, and increased interest among some other local government entities is a real possibility headed into 2018," said Laskey.

The report "Fitch 2018 Outlook: U.S. Local Governments" is available at 'www.fitchratings.com'

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Fitch: Budget Challenges Await Some U.S. States in 2018.

Fitch Ratings-New York-06 December 2017: U.S. states are well positioned to meet budget forecasts next year so long as the economy continues to grow, though five states could run into some issues, according to Fitch Ratings in its 2018 outlook report.

The Rating Outlooks for most U.S. states are Stable and expected to remain so over the next 12 months. Federal action remains the pre-eminent factor driving state credit ratings in the coming year. Decisions around Medicaid and tax policy present the most immediate risks while infrastructure, trade and other policy areas will affect economies and budgets over time, all with varying degrees by state.

Nearly one year into the new federal administration, many areas of policy remain unresolved. Throw in increasingly contentious state budgeting sessions and policy becomes more of a challenge for states next year. However, "state budget makers are historically conservative, which should make budget forecasts attainable for the vast majority of U.S. states," said managing director Laura Porter.

Helping matters is the likelihood of the broader economy continuing to grow next year, which is what Fitch is projecting. "Changes to federal funding could present a challenge without mandate relief, though states would likely rely on their strong ability to manage budgets and download fiscal challenges were federal changes to take place, protecting ratings," said Porter.

The overall stable outlook for the sector, however, is not without its outliers. Not surprisingly,

Illinois and New Jersey are once again on Fitch's "states to watch" list in 2018 along with Connecticut, Kentucky and Louisiana. "Illinois will enter 2018 with an enacted budget for the first time in nearly three years, though whether the budget will be successfully implemented remains a lingering question mark," said Porter. "If Illinois reverts back to a pattern of deferring payments for near-term budget balancing, their credit rating could face more immediate pressure."

The full report, '2018 Outlook: U.S. States' is available at 'www.fitchratings.com'

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Fitch: U.S. Not-for-Profit Hospitals Face Rising Challenges in 2018.

Fitch Ratings-New York-06 December 2017: Regulatory, political and competitive challenges will intensify for U.S. not-for-profit hospitals and healthcare systems headed into next year, according to Fitch Ratings in its 2018 outlook report.

While Fitch has a Stable Rating Outlook for the not-for-profit healthcare sector in 2018, the sector outlook is negative. "Growth in Medicare and Medicaid volumes are weakening provider payor mixes at a time when providers are moving from volume-based to value-based reimbursement in greater numbers," said Senior Director Kevin Holloran.

Profitability will also continue to weaken gradually for the sector next year, although operating performance should by and large be stable, similar to what was seen in 2017. That being said, "growing pressure on salaries and wage expense and continued erosion in payor mix could adversely affect operating performance for lower-rated hospitals," said Holloran.

Another area worth close watch in 2018 will be the proposed tax-overhaul bill, which would hamper hospitals' and health systems' ability to issue tax-exempt revenue bonds and in turn likely drive up issuance costs and further pressure the industry.

Fitch maintains its stable outlook for ratings of healthcare issuers, with affirmations and Stable Outlooks to dominate most rating actions in 2018. Fitch anticipates our revised criteria for the acute care sector will be published early next year, which should lead to an above-average, but still balanced, degree of rating movement during the year.

"Fitch 2018 Outlook: U.S. Not-for-Profit Hospitals and Healthcare Systems" is available at www.fitchratings.com.

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Fitch: EPA's LCR Changes Will Not Deter U.S. Water/Sewer Stable Outlook in 2018.

Fitch Ratings-Austin-06 December 2017: Uncertainties around the regulatory environment will not deter the stable outlook for the U.S. water and sewer sector next year, according to Fitch Ratings in its 2018 outlook report.

The U.S. Environmental Protection Agency's (EPA) Lead and Copper Rule (LCR) may roll out revisions next year following numerous stops and starts. Added capital and operating expenses could be meaningful depending on how significant the changes to LCR are. That said, any costs would likely be phased in over several years. 'Wastewater utilities will continue to face pressure from enhanced nutrient removal requirements as discharge permits are renewed periodically,' said Managing Director Doug Scott.

Despite the regulatory uncertainty, water and sewer municipalities have strong balance sheets that give them flexibility should capital demands increase. What's more, Fitch's latest medians point to slightly lower capital spending next year and beyond from recent levels. Over time, however, 'sustained capital investment increases will be necessary to address deferred maintenance and preserve service levels over the long term for water and sewer municipalities,' said Scott.

Also solidifying the sector's stable outlook in 2018 will be a manageable debt profile, with Fitch projecting growth in debt to be muted. The likelihood of water and sewer utilities keeping new debt issuance modest in the coming year will also keep the debt profile sustainable even if interest rates rise.

The full reports, '2018 Outlook: Water and Sewer Sector' and '2018 Water and Sewer Medians' are available at www.fitchratings.com.

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Fitch: Tax Reform May Curb Capital Spending for U.S. CCRCs in 2018.

Fitch Ratings-New York-06 December 2017: A stable outlook remains in place for U.S. continuing care retirement communities (CCRCs) next year though the recently enacted tax reform bills could moderately reduce what has normally been a healthy capital spending environment, according to Fitch Ratings in its 2018 outlook report.

The potential loss of tax-exempt financing from federal tax reform proposals would reduce access to capital and increase borrowing costs or CCRCs. As a result, “CCRCs would have to use taxable bank financing and other more expensive forms of capital that may have less favorable terms and conditions,” said Director Paul Rizzo. “Additionally, many borrowers may opt to use equity or downsize capital projects that require higher levels of debt.”

Regardless, the potential short-term hit to capital spending will not dramatically affect the sector’s credit profile thanks to consistent operating profitability, high occupancy and good demand for services. CCRCs will look to remain competitive and address such service-line needs as memory care and/or unit-mix issues. The tight labor market, however, may lead to higher construction costs for some communities along with delayed starting dates for certain large-scale projects.

Also bolstering the sector’s stable outlook next year is the healthy U.S. housing market. Nominal home values are steadily increasing and housing affordability remains favorable relative to historical levels. “The housing market will remain healthy in 2018, which should support ILU occupancy and net entrance fee receipts for CCRCs in the coming year,” said Rizzo.

As far as challenges for 2018, CCRCs are experiencing pressure in post-acute care census and tightening employment markets that are increasing staffing costs. Post-acute care management and reimbursement modifications are changing the care for short-term rehabilitation patients in skilled nursing centers. Further, growth in healthcare employment levels is leading to harder recruitment of certain positions and expense pressures.

‘Fitch 2018 Outlook: Nonprofit Continuing Care Retirement Communities’ is available at www.fitchratings.com’

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Fitch: U.S. Public Power Set for Stable 2018 amid Regulatory Uncertainty.

Fitch Ratings-New York-06 December 2017: Uncertainties around the fate of the Clean Power Plan (CPP) and the Trump administration's withdrawal from the Paris climate agreement will not detract from U.S. public power sector's stable outlook next year, according to Fitch Ratings in its 2018 outlook report.

Fitch's 2018 rating and sector outlook for the public power and electric cooperative sector is stable thanks largely to autonomous rate-setting authority, the essential nature of electric service and reliable cash flow. The stability of the sector is in contrast to the future of environmental regulations aimed at reducing carbon dioxide (CO2) emissions, which is uncertain at best in light of both aforementioned market developments.

One segment already seeing a near-term boost off of Trump's proposed CPP repeal is coal-dominated public power entities according to Managing Director Dennis Pidherny. "The economics of coal-fired generation have improved this year with coal-fired generation likely to surpass natural gas-fired generation for the first time in over a decade," said Pidherny. This boost, however, figures to be fleeting for coal-fired generation with other EPA rules likely to weigh on coal-fired generation over time.

Also buoying the sector's stable outlook next year is electric cost affordability, which is now at pre-recession levels. "Strong growth in household income has eased rate pressures for most public power and cooperative issuers," said Pidherny. "A willingness to increase electric rates to preserve margins along with modest economic growth should help sustain the sector's trend of improving financial metrics."

'Fitch 2018 Outlook: U.S. Public Power and Electric Cooperative Sector' is available at 'www.fitchratings.com'

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Massive Muni Rally Not Enough to Prevent Fund Outflows.

- **Muni yields had fallen to 15-month low against Treasuries**
- **Pullback may test demand for $18 billion of deals next week**

Municipal bond buyers are taking a breather after the market's biggest rally since August 2011, with

firms reporting that investors pulled over $800 million from state and local bond funds over the course of a week.

The yields on benchmark 30-year bonds edged up 0.05 percentage points on Friday to 2.61 percent, stepping back from the price gains that had sent yields tumbling by 0.35 percentage points in the five days through Wednesday. That had left tax-exempt securities less of a draw by reducing their yields to the lowest relative to Treasuries since September 2016.

“Ratios to Treasuries have dropped to levels that present less value for crossover investors and they probably fueled the pace of the recent rally,” said Daniel Solender, head of municipals at Lord Abbett & Co., which manages about $20 billion of state and local government securities.

State and local governments are planing to sell $18 billion in debt next week, continuing a potentially record-setting wave as the tax-overhaul legislation in Congress threatens to pull the subsidies from a large swath of municipal securities beginning next year.

Investors have so far eagerly snapped up the new offerings, anticipating that the supply of tax-exempt bonds will fall next year, making them more valuable to investors.

But some buyers have shifted money away from the market. Investors yanked $807 million from municipal bond funds during the week ended Dec. 6, the biggest weekly outflow since June, according to Lipper US Fund Flows data. The outflows this past week reverse a four week-long streak of inflows.

Solender said some of the outflow may have been driven by withdrawals from funds focused on shorter-dated bonds, a segment that would be particularly affected by rate increases from the Federal Reserve.

“Given the heavy forward supply, uncertainty about flows and lower relative value, there is probably a slight pause to see how the next few deals do and to see whether the pace of selling by funds increases,” he said.

Bloomberg Markets

By Martin Z Braun and Amanda Albright

December 8, 2017, 9:36 AM PST

Bloomberg Brief Weekly Video - 12/8

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

Watch video.

Bloomberg

December 7th, 2017

The Week in Public Finance: Deduction Loss May Cause Real Pain, the St. Louis Blues Win and Working Around Bad Ratings.

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

GOVERNING.COM

BY LIZ FARMER | DECEMBER 8, 2017

A Tale of Two Recoveries a Decade Since the Recession.

The largest metro areas and those with highly educated workforces have rebounded well, but many other regions have struggled to recover job losses.

Like many smaller economies, the Binghamton, N.Y., region has seen its workforce slowly dwindle since the arrival of the Great Recession. Its large manufacturing sector was hit hard as companies lost defense contracts and a nearby IBM facility implemented multiple rounds of layoffs. Over the past decade, the region shed nearly 9 percent of its workforce — one of the largest declines of any metro area in the nation.

Elsewhere in the state, the sprawling New York City metro area and the state capital of Albany have experienced much stronger recoveries — up about 9 percent and 4.4 percent, respectively.

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GOVERNING.COM

BY MIKE MACIAG | DECEMBER 5, 2017

Green Bond Market Heats Up.

Issuance of the bonds has reached record levels this year and looks set to accelerate, market watchers say.

Issuance of so-called green bonds reached a record $110 billion through mid-October this year, according to a recent report, signaling the fast-growing popularity of an asset class that was created just a few years ago.

The report — released by Scandinavia's SEB, a leading global green bond underwriting institution — revealed that this figure topped the $97 billion in total issuance last year. SEB predicts that total issuance for the full year could reach $125 billion.

Though the concept is only about a decade old, green bonds — corporate or government-issued debt that is used to finance various environmental or climate-related projects — are becoming a credible asset class as more asset managers are increasing portfolio allocations to them.

Take, for instance, AMP Capital, a leading Australian fund management firm with A$179 billion ($138 billion) in assets under management. Lydia Serafim, a senior portfolio manager with AMP Capital, says the Sydney-based firm takes environment, social and governance investing seriously — so seriously that managers decided last year their $180 million Responsible Investment Leaders Diversified Fixed Income Fund must have a 15 percent allocation to green bonds.

“Green bonds are a small part of the overall bond market, but it’s a growing area,” Serafim said in an e-mail to Institutional Investor. “As the investment metrics around ‘what is a green bond’ become more standardised and refined, investment in the area will increase as the benefits become more transparent to clients.”

AMP Capital’s decision to include green bonds in its portfolio undoubtedly pleases Christopher Flensborg, the head of climate and sustainable financial solutions at SEB. Flensborg has been called the father of the green bond because he proposed the creation of one to the World Bank back in 2007.

Since then, he has worked with many issuers around the world to launch such bonds. According to SEB, the U.S. has been the top green bond market in 2017, with $25.4 billion in issues through Oct. 10, while China came in No. 2 with $19 billion in issues. France came in at No. 3, with $17 billion in issues.

“In the coming four to five years, I see 10 percent to 20 percent of all new issuance having the ‘green’ label,” Flensborg said in a phone interview. He expects global issuance to top $300 billion by 2020. “We’re taking about trillions of dollars a year sometime in the future.”

Matthew Kuchtyak, a New York-based analyst specializing in project and infrastructure finance at Moody’s Investors Service, also thinks the sector has room to grow.

“Although green bonds will remain a niche segment of the global fixed income market for the foreseeable future, we expect robust issuance growth as market awareness increases and issuers seek greater investor diversification,” he said in an e-mail to Institutional Investor. Moody’s expects global green bond issuance to top $120 billion in 2017, a 24 percent year-on-year increase.

Many of the 2017 issues came from utility companies. Take U.K.-based water treatment company Anglian Water, which in October issued a £250 million ($336 million) green bond to finance a range of projects in some of the driest regions of the United Kingdom.

Will Oulton, the global head of responsible investment at Australia-based First State Investments, which is a substantial shareholder in Anglian, says he expects that green bonds will become a key feature of the asset manager’s portfolio allocation strategy in the future.

“We are watching the development of the market and are always seeking a competitive market return as well as assurance that the proceeds are being utilized for the environmental purposes as stated and not for other non-environmental projects,” he said in an e-mail to Institutional Investor.

SEB’s Flensborg says he believes that China will become the world’s largest green bond market in a few years. Chief among the major global partners who worked with him in designing policies that support green bonds have been policymakers at China’s central bank.

Laurence Brahm, a Beijing-based American lawyer who acted as an adviser to China’s Ministry of Environmental Protection, says the nation is in the process of changing its power grid away from a reliance on fossil fuels. Officials are determined to reduce coal and fossil-fuel-generated electricity from 70 percent of the power grid supply to 50 percent in the coming decade, Brahm says.

In addition, according to Brahm — who helped the government draft its green investment policy known as “Ecological Civilization” — the government is determined to promote electrical vehicles so that 30 percent of all vehicles on the road will be electric by 2025. By 2030, all new sources of energy will be green, he says, adding that by 2050, 80 percent of China’s national grid will be green.

“That kind of scale of transition in a nation of 1.3 billion people can only happen if the financial services sector drives it,” Brahm said in a phone interview. “Green finance is critically important, as it is at the core of determining future infrastructure away from fossil fuel economies.”

Institutional Investor

Allen T. Cheng

December 05, 2017

U.S. Municipal Bond Supply to Top $20 Billion for Second Week.

CHICAGO (Reuters) – U.S. municipal bond market supply will top $20 billion for a second straight week as issuers scramble to sell debt ahead of potential federal tax changes, according to Thomson Reuters estimates on Friday.

Next week’s supply of bonds pricing in the $3.8 trillion market is estimated at $22.88 billion, more than three times the average weekly muni issuance between 1990 and the end of November.

In addition, billions of dollars of more debt is bypassing the market and being sold directly to banks, according to a top-ranked financial advisory firm.

Many states, cities, schools, hospitals and other issuers are accelerating their debt sales in case the U.S. Congress eliminates federal tax breaks for private activity and advance refunding bonds starting in 2018.

That move would saddle nonprofit and other entities that issue tax-free private activity bonds (PABs) with higher borrowing costs and eliminate a way all muni issuers can take advantage of lower interest rates to save money.

The feared loss of advance refundings is accounting for a lot of the market’s surging supply, according to John Bonow, CEO of Public Financial Management, a municipal finance advisory firm.

“It’s not exclusively advance refundings, but by and far it’s driven by advance refundings,” he said, adding that some issuers are combining those refundings with new money debt sales.

A provision in both the U.S. House and Senate tax bills would end the practice of refinancing bonds on a tax-exempt basis beyond 90 days from their call date for interest rate savings.

Current refundings of debt within the 90-day call date window would remain tax exempt. The tax bill passed by the House last month would get rid of tax exemptions for new PABs issued to fund hospitals, affordable housing, airports and other projects that benefit private entities. The Senate’s bill did not include that provision.

Given the time crunch for getting a deal to market by year end, many issuers are privately placing

debt with banks or turning to so-called committed underwritings with banks that lock in interest rates at a spread to current market rates with a plan to reoffer the debt to investors early next year, Bonow said. This means that the surge in debt issuance is even bigger.

“If the weekly calendar says $20 billion I think it could be as much as double that,” he said, adding he is aware of one bank that has set aside $20 billion for committed underwritings.

Market demand has been strong, sending prices higher and yields lower on Municipal Market Data’s (MMD) benchmark triple-A yield scale for five straight sessions.

But the market began reversing direction on Thursday followed by a larger downward price move on Friday that pushed yields up as much as 9 basis points. The yield on top-rated, 10-year bonds climbed 7 basis points to 1.95 percent and the 30-year yield also went up 7 basis to 2.56 percent, according to MMD.

By Karen Pierog

Dec. 8, 2017, at 2:50 p.m.

(Reporting by Karen Pierog; editing by Daniel Bases and Andrew Hay)

Here's Why Muni Bond Prices Rally Even as Market Is Deluged.

- **Steady amortization provides shock absorber for new supply**
- **Maturing bonds, calls means money is always looking for a home**

Everyone’s marveling this week because the municipal market is rallying in the face of a $21 billion-plus wave of new supply, almost triple the $7.3 billion average this year, as issuers look to get ahead of Congress’s tax reform.

The yield on the Bloomberg BVAL 10-year triple-A benchmark has fallen from 2.25% on Nov. 29 to 1.94%, even below the 2.03% it posted on Nov. 2, when the House GOP unveiled their version of tax reform and set off the bond-issuance stampede.

How was this even possible? Munis are bulletproof!

Well, yes. I hadn’t fully grasped the nature of the market until the rally this week. If anything, I took for granted what we all know in the municipal market, and which mystifies tourists in MuniLand.

And that’s the conservative debt management of most of the nation’s states and municipalities.

Back in the days of the financial crisis, even before Meredith Whitney’s famously off-target prediction about a wave of coming defaults, I remember reading some blogger who asked what municipalities were going to do when it came time to rollover all their maturing debt — a routine ingredient of sovereign debt crises. The implication was that states and cities all faced imminent financial oblivion.

But that’s not how munis work — then or now. There is no big rollover, as is also common in corporate finance. I got really angry because someone was making an assertion and they didn’t know what they were talking about. This sort of thing used to bother me.

States and municipalities borrow with bonds that mature serially (every year) and in terms (think of single-bullet maturities). They pay off their debt steadily over time, just as homeowners do with their mortgages. Because of that, even with a steady thrum of borrowing, for much of this year, and for the past few, the municipal market had actually been shrinking.

Until relatively recently, issuers have been retiring more debt than they sell. This year, for example, long-term issuance stands at $357.8 billion. There have been $439.7 billion in bonds maturing and being called.

Let's see how this works in practice. In November, $20.9 billion in bonds matured. Another $10.5 billion was called. That means $31.4 billion was looking for a new home, presumably back in the municipal market.

But November was a very busy month, as private-activity bond issuers and all issuers who wanted to use advance refundings, both of which would be prohibited under the House GOP version of tax reform, rushed deals to market. States and municipalities sold $42.7 billion in long-term debt, both fixed-rate and variable.

Now let's look at December. At the beginning of the month, the amount issuers planned to sell over the next 30 days was calculated at $29 billion, the highest it's been since 2005. Municipalities are rushing to beat the Jan. 1 effective date of the House GOP version of tax reform. They are even moving up deals they had planned to sell in early 2018.

So: $29 billion in new deals are planned. There's $27.7 billion in debt maturing; another $12.5 billion is being called. So $40.1 billion is looking for a new home. There's your rally.

Now, the visible supply figures don't capture every planned bond issue; in fact, they basically capture about half. It's almost like a weather forecast — very accurate up front, less so the further out you go. If we see $58 billion in sales this month, won't yields go higher?

And the answer is: Perhaps. But keep in mind, investors know that issuance in early 2018 will be down, maybe because of new prohibitions on tax-exempt debt, definitely because so many 2018 deals were moved into 2017. Plus, $21.7 billion in municipal bonds mature in January. We don't know yet about how many will be called; calls are announced 30 days in advance. And in February, another $26 billion matures. And so on.

This amortization schedule is why the municipal market is bulletproof.

Bloomberg

By Joe Mysak

December 7, 2017, 4:00 AM PST

Investors Can't Buy Munis Fast Enough.

- **Even as supply surges, many deals coming in oversubscribed**
- **'We've all gotten a fraction of what we'd hoped to get.'**

Congress has set off a feeding frenzy for municipal bonds.

Investors are rushing to buy debt being issued by state and local governments, leaving banks with far more orders than they can fill, despite a potentially record-setting flood of new sales this month. Some firms are borrowing so they can purchase more. And even cash from overseas is coming into a market dominated by Americans seeking income that's exempt from federal taxes.

"Firms are taking up leverage, drawing down cash, extending duration — everything they can do to be as aggressive as they can in their portfolios," Peter Hayes, head of municipal bonds at BlackRock Inc., said in an interview with Bloomberg radio on Thursday.

The spree was triggered by the U.S. tax-overhaul legislation that would pull the subsidies from a vast swath of the municipal-bond market starting next year, which investors and analysts say could cut the supply of new bonds by as much as a third. Faced with that scarcity, prices have rallied, sending the yields on 10-year benchmark debt on their biggest six-day drop since 2009, according to data compiled by Bloomberg.

Both the House and the Senate legislation would eliminate tax-exempt bond sales for advance refundings, a technique governments use to refinance tens of billions of dollars of debt each year. The House bill would also prevent businesses such as hospitals, airports and privately owned power companies from borrowing in the municipal market, where interest rates are lower. The two bills are currently in the process of being reconciled.

Guy Davidson, director of municipal fixed income for AllianceBernstein LP, said the buying has come from mutual funds, individual investors and banks.

"It's been a wall of money coming in and coming from a number of different directions all at once," he said. "We've been frustrated because we've all put in for a lot of bonds. But because there's so much competition for the bonds, we've all gotten a fraction of what we'd hoped to get."

Kyle Gerberding, director of trading at Atlanta-based Asset Preservation Advisors, said he could only get a small sliver of what he wanted from the University of North Georgia's $88 million bond issue this week. "Unfortunately, it's all been like that," he said.

He's been told by underwriters that deals have typically been 10 to 15 times oversubscribed, meaning that an investor who places an order for $1 million bonds would end up with $100,000 or less. He said he was "in an uphill battle" with larger firms, some of which are try to buy every bond in an entire deal when it comes to market.

But there's plenty of securities still in the pipeline for December, with issuers already scheduled to sell over $17 billion of bonds next week alone, more than twice what comes during a typical week, according to data compiled by Bloomberg. BlackRock's Hayes said he expects this month's issuance to eclipse the 1985 record of $54.7 billion.

Investors are especially clamoring for higher-yielding tax-exempt hospital and airport securities, which would disappear after this year under the House bill. In the Long Island Power Authority's $350 million issue last week, 10-year securities were priced at yields of 0.33 percentage point over the benchmark, down from 0.53 percentage point when it sold debt last year.

"It's been a fever pitch up and down the credit spectrum," said Tom Casey, a senior portfolio manager at Standish Mellon Asset Management, who said he expects strong returns to continue in the first quarter of 2018 due to a decline in bond sales. He said there's been "tremendous appetite" from foreign investors.

It's not only supply that the tax plan could change. By scrapping the deduction for state and local

income taxes, the overhaul would increase taxes on wealthy residents of states such as New York, California and New Jersey. That has led some analysts to predict that bonds from those states may outperform, since residents may look for new ways to drive down their federal tax bill.

“Someone who knows the market should be paying attention to high tax states, if they’re not,” said Sandy Panetta, a portfolio manager at Evercore Wealth Management in New York. “They should be getting the most attention because, for sure, they will be in higher demand next year.”

Bloomberg Markets

By Rebecca Spalding, Amanda Albright, and Danielle Moran

December 7, 2017, 9:48 AM PST

U.S. Muni Bond Yields Fall for Fourth straight Session.

Dec 5 (Reuters) – U.S. municipal bond prices rose for a fourth-straight session on Tuesday, dropping yields as much as 8 basis points on Municipal Market Data’s benchmark scale.

The yield on top-rated bonds due in 10 years fell 6 basis points to 1.99 percent and the 30-year yield tumbled 8 basis points to 2.58 percent, according to MMD, a unit of Thomson Reuters.

(Reporting By Karen Pierog; Editing by Steve Orlofsky)

Developers, Banks Push to Close Bond Deals.

It’s crunch time as the industry tries to stay ahead of potential tax reform changes.

Affordable housing developers and their financial partners are working hard to close private-activity bond (PAB) deals in the final weeks of the year.

The fourth quarter is typically a busy time for the low-income housing tax credit (LIHTC) industry, but there’s even more urgency this year. The tax bill passed by the House eliminates PABs, a critical tool in financing the production and rehabilitation of affordable housing. The Senate tax bill retains bonds, so it’s left up to members of both houses to reconcile their differences.

Concerned about the fate of PABs, developers and bond financiers are attempting to close those deals in 2017.

Roughly half of all low-income housing tax credit (LIHTC) developments utilize tax-exempt bonds and 4% credits, and losing the use of the bond program could mean roughly 60,000 fewer affordable homes are built or rehabilitated each year, estimate authorities.

Dominium, a leading affordable housing developer and owner, has approximately 13 deals that it’s trying to complete the financing on in some capacity.

“Some will close in normal course, but we’re doing everything we can that come the end of December we are in a position to capture as many deals as we can,” says Chris Barnes, vice

president and senior project partner at the Minnesota-based firm.

In prior years, Dominium has typically had between one to six bond deals set to close at the end of the year.

In addition, the company has about another 11 projects that have bonds that remain to be drawn. "We're trying to get those drawn ahead of schedule in case the worst-case scenario comes out. We're working with our lenders, fiscal agents, and issuers to get that done," Barnes says.

If the House tax plan passes, housing officials hope that Congress will adopt transition rules that would allow deals that have closed earlier to go ahead and complete their draw down in 2018 and 2019 on a tax-exempt basis so long as a draw down is consistent with the original documents and are not modified in a way that triggers a tax law reissuance. But, concerns that transition rules may not cover this issue have developers and their financial partners looking at drawing down bonds this year.

People have been a little hesitant to bring up transition rules because they don't want to appear to be conceding defeat on tax-exempt bonds. No one is ready to give up on PABs. Affordable housing supporters have been urging members of Congress to preserve the bond program.

Working on deals

In the meantime, bank and other financial leaders are doing what they can on bond deals. "An affordable housing transaction is far more complex than a typical real estate transaction," says Richard Gerwitz, managing director and co-head of Citi Community Capital. "It takes time to structure and process. It's hard to 'push' a transaction before its time. But to the extent that our clients have projects that were already in process and were planning to close sometime in the beginning of 2018, it hasn't been unusual for them to ask if we could facilitate a closing this year. We're doing everything we can to accommodate them."

The situation also depends on how much bond cap states have available. "Some utilize all of its PAB allocation on current year transactions while others states have bond allocation available and are dispersing as much as they possibly can to projects that qualify," Gerwitz says.

While it is still undetermined how many transactions Citi Community Capital will close in the final four weeks of the year, the number of deals may increase by as much as 50% over what was originally planned for the month, estimates Gerwitz.
Bank of America Merrill Lynch and Wells Fargo officials also are working on bond deals.

"We are pushing to close those deals that were originally scheduled to close in 2017 and that are appropriately structured in light of concerns raised by the House bill," says Michael Lavine, head of Wells Fargo's LIHTC program.

The bank has a slightly higher number than usual, according to Lavine. "The higher number is more due to the general delays the market suffered during 2017 in the aftermath of the election, rather than the more recent House bill," he says.

The latest efforts are broader than just closing on new deals by the end of the year, adds Iris Bashein, senior vice president, community development banking group, at Bank of America Merrill Lynch. Like Dominium's Barnes, she points to earlier bond deals that still have proceeds that need to be drawn.

"We're also trying to make sure that any deals that did not fully draw at closing will draw all of their

bond proceeds by the end of the year," she says. "That's significant."

Anything that the bank has in the pipeline that was planning to close, officials are working to hit that closing date and make sure those deals don't slip into next year, Bashein says.

"There are a handful of deals that are fully baked, but, given where they are in the closing process, there's a chance they might not make it before year end," she says. "At the advice of counsel, we're looking at doing bond-only closings before the end of the year for those few deals and then wrapping up the real estate closings in the new year."

Bond participants will be closely watching how tax reform efforts proceed.

"If we see something happen in the near-term and the House and the Senate agree on a tax bill where PABs are retained, I expect that developers will be willing to wait until next year to secure an allocation of bonds; they'll continue with business as usual," Gerwitz says. "However, if we go into the end of the year without an agreement between the House and Senate, I think developers will continue to ask us to close their deals early."

Affordable Housing Finance

By Donna Kimura

October 5, 2017

P3 Digest for December 8, 2017

Michigan's Freeway Lighting Upgrade P3 Improves Efficiency and Safety

Editor's Note: The following article is one in a series of six profiles of winners…

Read the Digest.

NCPPP

December 8, 2017

S&P Municipal Portfolio Review (September 2017): Tax-Secured Bonds Maintain Their Prevalence While Total Issuance Declines.

S&P Global Ratings is providing its first comprehensive study of enhanced and unenhanced primary market municipal bonds and notes for September 2017.

Continue reading.

Dec. 3, 2017

Tax-Secured Bonds Maintain Their Prevalence In The Muni Market While Overall Issuance Declines: S&P Video

S&P Global Ratings published its first comprehensive study of enhanced and unenhanced muni bonds and notes across all public finance sectors. In this CreditMatters TV segment, analysts Shirley Zhang, Lawrence Witte and Joshua Saunders project the issuance volume rally late in 2017 and overall decline in 2018, due to pending tax reform and slowing of refunding, among other factors.

Watch Video

Dec. 4, 2017

S&P: Pension Obligation Bonds' Credit Impact On U.S. Local Government Issuers.

U.S. state and local governments can use pension obligation bonds (POBs) to address the unfunded portion of their pension liabilities. In certain cases, POBs can be an affordable tool to lower unfunded pension liabilities. But along with the issuance of POBs comes risk.

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Dec. 6, 2017

S&P Criteria FAQ: What Does The Focus On Credit Fundamentals Mean For Proposed U.S. Public Finance Tax-Secured Criteria?

S&P Global Ratings has recently released several requests for comment (RFCs) on proposed criteria changes in U.S. public finance. While each RFC covers a distinct type of credit pledge or security, all of them have in common an increased focus by S&P Global Ratings on fundamental credit quality rather than legal provisions and structural features.

Continue Reading

Dec. 4, 2017

The Muni Market Hasn't Rallied This Much Since the U.S. Was Downgraded.

- **Prices gain, despite flood of borrowing to beat Congress**
- **‘I’m buying as many bonds as I can,’ says Deutsche’s Pollack**

In the municipal-bond market, investors are buying now while supplies last.

As municipalities rush to sell tens billions of dollars of securities before Congress enacts legislation

that would dramatically cut the size of the tax-exempt bond market after this year, prices are rallying, sending the yields on benchmark ten-year debt down by the most since S&P downgraded the U.S. in August of 2011. On Wednesday, those yields dropped 0.09 percentage point to 1.95 percent, according to data compiled by Bloomberg.

That's defying the initial expectations of analysts and investors that a potentially record-setting borrowing wave would depress prices through the end of the year. But such short-term considerations have been overridden by the prospect that new sales of tax-exempt debt could fall by a third or more starting next year, which would made the securities more valuable to investors.

"There's a fear that there's going to be a scarcity of municipal bonds going forward," said Gary Pollack, a managing director who handles fixed-income research and trading for Deutsche Bank AG's private wealth division in New York, which holds about $6.5 billion of state and local debt. "I'm buying as many bonds as I can."

The tax-cut bills that were passed by the House and the Senate would strip the tax-exemption from bonds in so-called advance refundings, a technique that governments used to refinance tens of billions of dollars in debt last year alone. The House version would also prevent hospitals, airports and other private borrowers from raising money in the tax-exempt market. The two bills are now in the process of being reconciled.

The changes have led state and local governments to move swiftly to sell debt by the end of the year, putting the market on track to approach or eclipse the monthly record of $54.7 billion in 1985. By late November, borrowers had already scheduled $29.4 billion of sales over the next month, the most since 2005. That captured only a portion of the supply, since many sales are set with less than a 30-day notice.

So far, there's been plenty of demand. "It's a grab fest," said Adam Buchanan, senior vice president of municipal sales and trading at Ziegler Capital Markets Group in Chicago.

Bloomberg Markets

By William Selway and Brian Chappatta

December 6, 2017, 10:18 AM PST Updated on December 6, 2017, 11:37 AM PST

— With assistance by Martin Z Braun

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