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Finance

Muni Market Goes on Hot Streak Even as All Signs Suggest Selloff.

As municipal bond issuers stampede to borrow before Congress enacts sweeping changes to the $3.8 trillion market, investors are stampeding right back at them.

Yields on 30-year municipal bonds fell for a fourth straight day to the lowest level of 2017. It's a shock to investors who have been bracing for a supply glut that has pushed the volume of planned issuance in the coming weeks to almost $28 billion.

"I'm trying to wrap my head around it," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $6.5 billion of municipal bonds. "Stuff's running pretty hot right now."

Yields on top-rated 30-year municipal bonds fell on Tuesday by about seven basis points to 2.67 percent, the lowest since November 2016. Issuers that benefited from the demand include New York, Texas's Harris County and a newly created corporation in Chicago.

Dalton said one possible reason for the rally was that investors are anticipating a big drop off in issuance in the first quarter of 2018, given how states and local governments are pulling deals forward before year-end. Muni yields have declined in each December over the past three years.

The House tax-cut plan would end the tax break for interest on private activity bonds sold by nonprofits, hospitals and private colleges. The House and Senate bills would also end a debt refinancing tool called advance refundings that states and cities use to save money.

"I'm shocked at how well the market has absorbed this supply so far," said Nicholos Venditti who oversees $11.5 billion of munis at Thornburg Investment Management in Santa Fe, New Mexico.

Bloomberg Markets

By Martin Z Braun

December 5, 2017, 2:08 PM PST

Inside the Tax Reform-Fueled Muni Market Frenzy at MuniOS.com.

- **Sales in November hit $44.5 billion, up 45% year-on-year**
- **December 1985 is all-time record for issuance at $54.7 billion**

Rescheduled vacation time, all-nighters and plenty of coffee and pizza: these are the scenes from the front lines of municipalities' push to sell bonds before Congress overhauls the tax code.

MuniOS.com, operated by Ann Arbor, Michigan-based tech company ImageMaster, is the platform that thousands of issuers spanning the $3.8 trillion municipal market use to showcase their bond offering documents. Since the release of the House and Senate tax bills in November, MuniOS has processed preliminary and final official statements for the billions of bonds sold by issuers hoping to avoid being affected by tax bills going into effect Jan. 1.

The website was launched in 1999 and is used by issuers to distribute and print their bond offering documents. The service has a 72 percent market share among issuers. It's popular with other municipal market participants, too: MuniOS has over 28,000 active members and over 7,600 people have signed up to receive emailed filing notifications from MuniOS. Over 500 users were listed as active on the website on Tuesday morning.

Long and short-term municipal bond sales surged 45 percent year-over-year in November to $44.5 billion, the month that both chambers released their tax plans, according to Bloomberg data. The House plan would end the tax break for interest on private activity bonds sold by nonprofits, hospitals and private colleges. The House and Senate bills would end a debt refinancing tool called advance refundings.

MuniOS has been helpful for municipal bond trader Chip Peebles during the rush to market. Once bond offering documents are up on the website, it means the deal is on its way to pricing soon rather than just being under consideration, said Peebles, who is a senior vice president for retail trading at Raymond James.

"It's very helpful," said Peebles, who is based in Memphis, Tennessee. "As a trader, you hear a lot of rumors about deals. But until you see the papers on it, you can't do much with the rumors."

Peebles, who has worked in municipals for over 30 years, said he's been a user of the site since it was created. Raymond James traders and underwriters use the site's customization features to receive emailed bond offering documents for the regions or sectors they trade in, he said.

The only time comparable to this year's surge in bond sales was in late 2010, when the Build America Bonds program was set to end its subsidies on taxable bonds, said Dan Rodriguez, a vice president at ImageMaster who has worked there for 27 years. While the Build America Bonds supply surge started in September until the end of 2010, this year's flurry of bond sales is being consolidated into a shorter time period, he said.

When MuniOS receives a bond document from an issuer, it vets the document with a 64-point checklist system that takes about two hours or less to complete, said Marianne Shiff, vice president of operations at ImageMaster. Then, staff members will give their feedback to the issuer, which could take anywhere from a few hours to a day to be completed, she said.

That means lots of long hours lately for the 30 people who work on MuniOS.com, which has people on staff from 7 a.m. to 11 p.m. EST. It also offers a 24/7 on-call service issuers can arrange ahead of time, Shiff said. Last weekend, before issuers were set to sell as much as $21 billion in bonds, there were eight different people on call, Shiff said.

"Everybody's all in and we take care of each other," Shiff said. "It'll be over in a few weeks."

A boon in municipal bond sales is good news for ImageMaster, which receives fees from processing the offering documents and printing them. The company's roadshow service — which features recordings of issuers' presentations to investors — had its biggest month ever in November, Rodriguez said.

“With the large saturation of deals in the market, we see that a lot of clients are trying to stand out by providing these online roadshow presentations,” he said. The service has also gotten new clients during the past month, Rodriguez added.

Still, the official statement hustle and bustle has required some sacrifice. Production supervisor Jennifer Braun was going to take off for her birthday on Monday, but decided not to because it’s one of the company’s busier days. In the past few weeks, some employees have worked through the night until their coworkers came into the office the next morning.

Shiff said she’s looking forward to recharging come Jan. 1, 2018, when the proposed tax changes would go into effect. MuniOS also plans to re-launch the site in early 2018 to be more mobile-friendly.

Bloomberg Markets

By Amanda Albright

December 6, 2017, 4:00 AM PST

Seeking Solutions for the ‘Water Infrastructure Death Spiral’

It’s a problem communities can face when populations and property values decline.

WASHINGTON — Cities with shrinking populations and aging water infrastructure can face tough choices when it comes to paying for waterworks upgrades and keeping service affordable.

This has some experts and lawmakers raising concerns. They caution that there are localities around the U.S. that could be at risk of problems similar to those that bedeviled Flint, Michigan, where residents were exposed to lead-contaminated drinking water.

“Communities that are struggling begin to make sacrifices, budgetary decisions, based on what they can afford and what their immediate needs are,” Rep. Dan Kildee, a Michigan Democrat whose district encompasses Flint, said at an event on Capitol Hill on Wednesday.

Continue reading.

ROUTE FIFTY

BY BILL LUCIA

DECEMBER 7, 2017

U.S. Municipal Bond Market Shrinks to $3.803 trln in Q3-Fed.

Dec 7 (Reuters) – The U.S. municipal bond market shrank to $3.803 trillion in the third quarter of 2017 after growing to $3.827 in the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

Households, or retail investors, held $1.562 trillion of debt sold by states, cities, schools and other muni issuers in the latest quarter, down from $1.612 trillion in the second quarter, the Fed report said.

U.S. banks' muni bond buying fell to $7.1 billion in the third quarter from $10.9 billion in the second quarter. Property and casualty insurance companies also acquired fewer munis in 2017's third quarter at $3.4 billion versus $5.8 billion in the second quarter. Life insurance companies picked up $5.4 billion of the bonds.

(Reporting By Karen Pierog Editing by Chizu Nomiyama)

GASB Proposes Guidance on Capitalization of Interest Cost and Implementation of Recent Pronouncements.

Norwalk, CT, December 8, 2017 — The Governmental Accounting Standards Board (GASB) has issued two Exposure Drafts proposing accounting and financial reporting guidance—a proposed Statement related to capitalization of interest cost and a proposed Implementation Guide that addresses multiple topics.

Capitalization of Interest Cost

The Exposure Draft, *Accounting for Interest Cost during the Period of Construction*, proposes guidance that would enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also would simplify accounting for interest cost incurred during the period of construction.

For financial statements prepared using the economic resources measurement focus, interest cost incurred during the period of construction would be recognized as an expense in the period in which the cost is incurred. Such interest cost would not be capitalized as part of the historical cost of a capital asset.

For financial statements prepared using the current financial resources measurement focus, interest incurred during the period of construction would continue to be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

Implementation Guidance

The proposed Implementation Guide, *Implementation Guidance Update—201Y*, contains questions and answers intended to clarify, explain, or elaborate on GASB Statements. It proposes guidance on a range of topics, including pensions, other postemployment benefits, the statistical section, regulatory reporting, and tax abatement disclosures. The proposed Implementation Guide also includes amendments to previously issued implementation guidance.

Both Exposure Drafts are available on the GASB website, www.gasb.org. Stakeholders are encouraged to review and provide comments on the Exposure Drafts.

Comments are due on the Exposure Draft, *Accounting for Interest Cost during the Period of Construction*, by March 5, 2018.

Comments are due on the Exposure Draft of Implementation Guide No. 201Y-X, *Implementation*

Guidance Update—201Y, by February 16, 2018.

Muni Buyers Are Handed a Holiday Bounty With Governments Rushing to Market.

- **New offerings hold near 13-year high in usually slow month**
- **Issuance may break $54.7 billion monthly record seen Dec. 1985**

For municipal-bond buyers, December is providing the chance for a rare holiday shopping spree.

Spurred by legislation in Congress that would end the tax-exemption for a big share of the market starting next year, state and local governments are rushing to borrow, turning a typically sleepy month into a potential record-setter.

That's created some discounts, too: In anticipation of the deluge, prices have dropped, sending the Bloomberg Barclays Municipal Bond Index 0.54 percent lower in November, its worst monthly performance in a year.

"It is significantly busier," said David Mullen, senior vice president and director of public finance at Dougherty & Co., a Minneapolis based investment bank and financial advisor. "The feeling in the office is hectic."

The volume of sales scheduled over the next 30 days currently stands at $26.9 billion, holding near its highest in almost 13 years. That's already more than was sold in all of last December, and the final tally is likely to be considerably higher because many deals are planned with less than a month's notice.

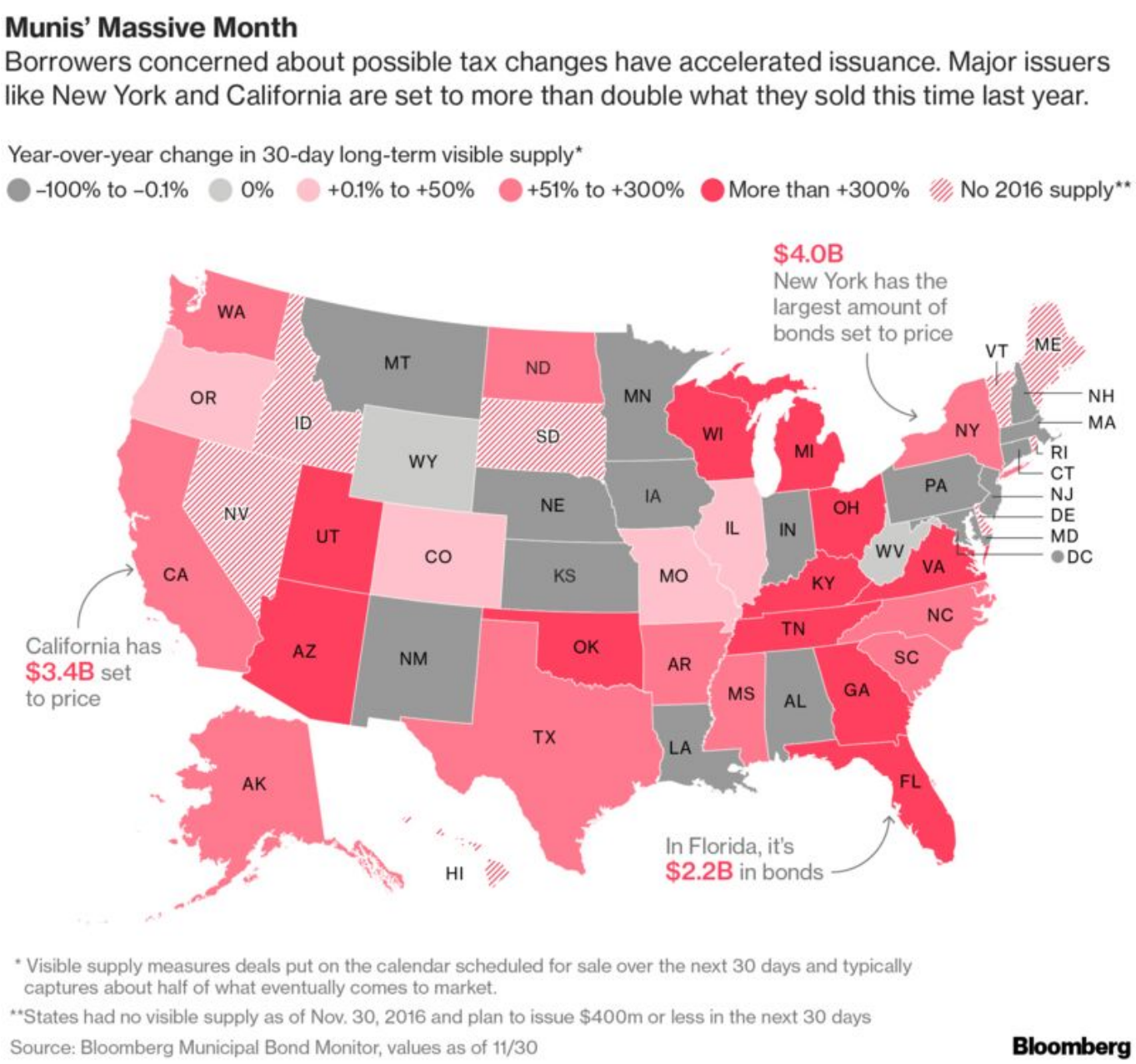
The tax bills in Congress — which propose scrapping subsidies for advance refundings and, in the House's version, private activity bonds as well — would reduce tax-exempt issuance significantly starting next year. Those two categories accounted for about 40 percent of total new supply over the past three years, according to Peter Block, managing director of credit strategy at Ramirez & Co.

Hence a rush that recalls the scramble to issue seen in December 1985, ahead of the last major overhaul of the U.S. tax code. Governments in New York are leading the charge with $4 billion of borrowing planned, followed by California, Texas and Florida.

Should December issuance top $54.7 billion, it would be the biggest month in the market's history. Mikhail Foux, head of municipal strategy at Barclays Plc, estimates that $40 billion to $50 billion will be sold, in line with other forecasts. That compares with about $32 billion in November.

The dramatic increase in supply has driven municipal prices down and yields up, with the Bloomberg Barclays municipal index loosing about 0.8 percent last month, the worst monthly showing in a year.

"I'm getting the impression that there is a lot of general market distortion that prices are significantly different than what they were two or three weeks ago," said Scott Stevenson, a managing director at D.A. Davidson, an underwriter.



The uncertainty is due partly to the discrepancies between the House and Senate tax bills, with the Senate proposing to leave the private activity bond market intact.

"One pivotal question, one key uncertainty to this whole equation is the degree to which what's eventually passed. Is it the House version or is it the Senate version?" said Brett Wander, chief investment officer of fixed income at Charles Schwab.

For the moment, that's sending underwriters into overdrive. And buyers are busy shopping.

Bloomberg Markets

By Danielle Moran

December 1, 2017, 6:00 AM PST

Every Basis Point Counts to Muni-Bond Issuers Rushing to Market.

- **Difference in rates between taxable, tax-exempt would add up**
- **A-rated 30-year G.O. bond issue would cost $12 million more**

What's the difference between selling municipal bonds that are tax-exempt and taxable? While a few fractions of a percentage point might not seem like much, it can cost taxpayers millions of dollars.

For example, an A-rated municipality that issues $100 million in 30-year general-obligation bonds in the taxable rather than the tax-exempt market would see an additional cost of 0.40 percentage points, or $12 million over the next three decades, according to calculations based on Bloomberg's indexes.

That's why states and local governments are rushing to sell billions of dollars of bonds this month, in case Congress enacts legislation that would tax the income from a big chunk of the municipal securities that are sold after this year.

The U.S. House of Representatives' bill would pull tax-exemption from refinancings known as advance refundings and from private activity bonds, which are used by colleges, hospitals and airports, among other borrowers. The Senate's would leave private activity bonds intact, though that could change when the two chambers negotiate a compromise.

Borrowers aren't waiting to see. Wheaton College, the Norton, Massachusetts-based liberal arts institution, plans to offer $56 million revenue bonds next week, some of which will be used for an advance refunding. If the deal was sold at taxable yields, the higher interest costs would be equivalent to about $200 of additional tuition per year from each of its students under a 30-year maturity, said Brian Douglas, executive vice president for finance and administration.

The college was planning to sell the bonds anyway, but once tax reform came under discussion, the university decided to move quickly, he said.

Wheaton, which has over 1,650 students, is rated A3 by Moody's Investors Service. Taxable A-rated revenue bonds with a five-year maturity would cost about 90 basis points more than their tax-exempt counterparts, according to data compiled by Bloomberg.

Over 65 percent of students receive need-based aid at Wheaton. Annual tuition cost $50,520 for the 2017-18 year. "We try every way we can to lower the costs for our students," Douglas said, "and this change would have the opposite effect, it would force us to increase costs for students."

Other entities face a similar hike in borrowing costs. Dennis Hunt, executive vice president and manager of public finance at Stephens Inc., said municipalities that sell tax-exempt bonds with a top yield of 4 percent would pay 5.5 percent if bondholders had to pay tax on the income.

If the proposed limit on tax-exempt private activity bonds goes through, many issuers would likely curb their borrowing because of the the higher interest rates, he said. That would cut into spending on infrastructure projects, putting the tax bill at odds with President Donald Trump's stated goal of pumping more money into public works.

"It would be a very significant difference," he said.

Bloomberg Markets

By Amanda Albright

December 1, 2017, 8:50 AM PST

House Approves Legislation to Reauthorize Flood Insurance Program.

House Republicans voted to reauthorize flood insurance for five years with heavy reforms including new reporting requirement for FEMA

Although the House and the Senate remain at odds over how to advance legislation that would reauthorize the National Flood Insurance Program (NFIP), the House on Nov. 14 approved its measure by a vote of 237–189 along party lines.

The legislation, the 21st Century Flood Reform Act (H.R. 2874), combines a series of bills that, in addition to reauthorizing the NFIP, would bring about considerable reforms to the program. Some of the proposed reforms could raise premium rates for flood insurance policyholders and make insurance less affordable for homeowners. As lawmakers respond to the aftereffects of this year's severe storms, some expressed hesitation to attach controversial reforms to a must-pass reauthorization bill, which the White House had urged Congress to consider earlier this year.

The NFIP is currently operating under a temporary extension that will expire on Dec. 8 if Congress does not act. Facing a busy congressional calendar, the House may have to pass an additional short-term funding extension through the end of December until a longer-term package is approved.

H.R. 2874 includes the following provisions:

- Reauthorize the NFIP for five years, from its Dec. 8, 2017 expiration through Sept. 30, 2022
- Lower the annual cap on premium increases from 18 percent to 15 percent
- Create a new flood insurance affordability program that allows states to subsidize premiums for low-income policyholders
- Require property owners to disclose any known flood damage prior to selling or renting a property, and
- Direct the Federal Emergency Management Agency (FEMA) to provide a mitigation credit for homeowners who have made improvements to their property to reduce the impact of flood damage.

The bill would also enact new reporting requirements for FEMA, which would require the agency to disclose to policyholders the formula used to determine insurance rates and provide property owners with information on flood risk and previous claims. Important to note for counties, the bill would create a new voluntary Community-Based Flood Insurance Pilot Program, which would allow local governments to purchase flood insurance for a portion of properties within their jurisdiction or for all of them.

The bill also contains several provisions of concerns to policyholders, including:

- An increase in the threshold of premium increases from 5 percent to 6.5 percent, meaning whenever rates increase for policyholders, they would do so at no less than 6.5 percent; this represents an increase from what is currently authorized under federal law;
- The cap on annual premiums is set at $10,000, which could limit affordability of the program to homeowners, and decrease the overall risk pool; and
- The implementation of a $25-$250 surcharge for policyholders who elect to make monthly

installments on their annual premiums.

During a Nov. 13 hearing about the bill in the House Rules Committee, Rep. Garret Graves (R-La.) voiced concerns with the legislation, which he said did not adequately address the long-term solvency of the NFIP or the program's leftover debts from the costs incurred by superstorms such as Hurricanes Sandy and Katrina. Graves also argued that much of the NFIP's $24 billion in debt was a result of levee failures, and not due to a lack of coverage among property owners in New Orleans, who could face higher premiums that would go toward paying off the program's debts.

The measure must now be considered in the Senate, which remains divided on significant issues with the NFIP, such as the program's long-term solvency and premium increases for policyholders.

Although NACo applauds lawmakers' efforts to reauthorize the NFIP and implement reporting standards that are beneficial to homeowners, counties remain concerned with proposals that could make flood insurance less affordable, especially at a moment when communities across the country are still engaged in recovery efforts.

NATIONAL ASSOCIATION OF COUNTIES

By JACOB TERRELL Nov. 22, 2017

Fitch U.S. Water and Sewer Rating Criteria.

View the criteria.

30 Nov 2017

S&P Request for Comment: U.S. Municipal Retail Electric And Gas Utilities.

S&P Global Ratings is requesting comments on proposed changes to its methodology for assigning ratings and related credit products to U.S. retail electric, retail gas, steam, chilled water, and combined utility systems where electric and/or gas is the predominant service…

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Nov. 27, 2017

S&P Criteria FAQ: Proposed Criteria For U.S. Municipal Retail Electric And Gas Utilities.

On Nov. 27, 2017, S&P Global Ratings published a request for comment (RFC) on revised criteria for U.S. municipal retail electric, retail gas, steam, chilled water, and combined utility systems where electric or gas is the predominant service ("U.S. Municipal Retail Electric And Gas Utilities").

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The Week in Public Finance: Controversy at the Consumer Protection Agency, Education Funding Still Lags and Tax Reform's Blow to Puerto Rico.

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

GOVERNING.COM

BY LIZ FARMER | DECEMBER 1, 2017

Fate of Special Purpose Tax Districts Tied to Reform Bill.

Think local impact fees are high now? Eliminate private activity bond deductibility, and then see what happens

U.S. Senate lawmakers, back in Washington after Thanksgiving holidays, are working on the double to fast-track a major tax code overhaul through to a vote on the floor this week. The aim is to take a passed Senate bill to conference–a committee of both Senators and House members–for reconciliation of its bill with legislation voted on two weeks ago in the House.

As is widely reported, the current Senate version of tax reform may need revisions–both in its cost implications and in whom it's benefits impact–to successfully navigate push-back from Senators who could deter its passage. Word is, if the Senate passes an amended bill by just a vote or two, its compromises may be so stretched to the limit that it may simply hand the bill over to the House with a "take it or leave it" message.

Continue reading.

Builder Digital

by John McManus

November 28, 2017

P3 Digest for November 30, 2017

Dominique Lueckenhoff Brings a P3 Approach to Community-Based Stormwater Management

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 who 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.

"Innovation is taking two things that already exist and putting them together in a new way." — Tom Freston

States and localities throughout the nation are struggling to find reliable, cost-effective ways to

prevent stormwater runoff from reaching — and polluting — major waterways. Failure to address this major cause of water pollution is endangering health and safety, while increasing the liabilities of communities with permit compliance requirements under the Clean Water Act. However, local government efforts to develop solutions often have been hampered by limited public funding for construction or capacity to implement larger scale projects. This is particularly true for greener stormwater infrastructure projects.

Continue reading.

NCPPP

Neighborly Insights: Tax Outlook and Mueller Investigation Roil the Bond Markets, Taking Munis for a Ride.

Municipals had a rough week to start but ended on a more positive tone, following Treasuries to lower yields as the tax reform debate moves along. Although issuance could be as much as $50 billion for December, real money accounts (especially funds) appear to have been well positioned coming into this heavy period, and there is also going to be an especially heavy bond call/maturity period from December 1 through February 1 with proceeds that need to be reinvested somewhere.

Continue reading.

by George Friedlander

Posted 12/01/2017

Neighborly Insights

This post is adapted from the Court Street Group Weekly Perspective. Download the full report.

Commentary: How the Puerto Rico Dispute Threatens Bond Holder Rights.

The municipal bond market, for borrowers and investors alike, is fundamentally changing. Municipalities across the U.S. are struggling to provide essential services on top of skyrocketing pension and benefit obligations. In addition, although bankruptcy and default remain minimal, the Detroit bankruptcy case had a profound and sobering impact on the market, leading participants to reevaluate what a general obligation (GO), full faith and credit pledge actually means. Logically, there has been a market shift to bonds secured by a specific revenue stream – a securitized loan – as a means for issuers to enhance the attractiveness of their bonds and lower borrowing costs.

The outcome of a highly publicized court case currently being heard by Judge Laura Taylor Swain in U.S. Municipal Bankruptcy Court under Title III of PROMESA (No. 17-00257-LTS), COMMONWEALTH of PUERTO RICO vs. COFINA, is likely to set the course for where the municipal market goes from here.

COFINA bondholders are renouncing actions taken by the Commonwealth to impair or eliminate its debt. Clearly, this would be devastating for investors, including the Puerto Rican citizens who own

approximately $2.8 billion of the bonds. Impairing this debt may also impede, if not eliminate, access to funding via securitized loans.

The background: The Puerto Rico Sales Tax Financing Corporation — in Spanish, Coporacion del Fondo de Interes Apremiante or COFINA — was created by PR Law No. 91, as amended, to establish an entity that was independent and separate from the Commonwealth in order to address one of the worst fiscal crises in Puerto Rico's history. In consideration for COFINA's help in this crisis, the legislature established and assigned to COFINA a priority lien on a newly imposed, island-wide sales and use tax (SUT). A summary of Puerto Rico Act No. 56., describes the bargain:

"A special fund is hereby created to be known as the Dedicated Sales Tax Fund. The Dedicated Sales Tax Fund and all of the funds deposited therein and all the future funds that must be deposited in the Dedicated Fund pursuant to this law are hereby transferred to, and shall be the property of COFINA. This transfer is made in exchange for COFINA's commitment to pay, all or part of the extraconstitutional debt outstanding as of June 30, 2006. The Dedicated Sales Tax Fund shall be funded each fiscal year from the first revenues of the SUT, deposited at the time of receipt and shall not be deposited in the Treasury of Puerto Rico, nor shall it constitute resources available to the Commonwealth of Puerto Rico, nor shall be available for use by the Secretary of the Treasury."

COFINA – revenue analysis: The Sales and Use Tax (SUT) pledged to COFINA is very strong, as reflected in all but one of the elements credit analysts consider when evaluating a bond.

- *Demographics and Economic Base* – **Poor.** The island has a declining population, low income levels, and high unemployment relative to the U.S. mainland.
- *Nature of the Dedicated Revenue* – **Superior.** The SUT applies to a very broad list of services and essential consumer goods, is very stable, and is enforced throughout the entire island.
- *Revenue Analysis and Fund Flows* – **Superior.** Fiscal year 2017 collections were a record high and double 2013 levels. A priority lien exists on collected taxes, going first to bondholders.
- *Debt Service Coverage* – **Superior.** The ratio of pledged revenue to annual debt service on the senior lien bonds was 11x in fiscal year 2017.

The problem: After following the law and the set-forth payment mechanism for many years, as well as countless legal opinions attesting to COFINA's property rights, multiple opinions rendered by the Commonwealth's own Department of Justice, year upon year of statements by Governors, Legislators, and Development Bank officials attesting to COFINA's rights the Commonwealth provided the following statement as part of its complaint filed with the bankruptcy court (Under Title III of PROMESA) on Sept. 8:

"This adversary proceeding is being commenced to resolve the Commonwealth-COFINA Dispute. As set forth, in this complaint, the SUT revenues, wherever located and whenever arising, are the exclusive property of the Commonwealth."

With 25 years of experience as a municipal bond analyst and portfolio manager, I have never witnessed such apparent disregard for property rights, existing statutes, and Constitutional law. Since July 2015, while remaining current on debt payments, the Commonwealth has increasingly made bondholders uneasy by their actions and inactions with regard to COFINA's rights and priorities. With this complaint, however, they essentially deny COFINA's existence altogether. Even in Title III bankruptcy, the Commonwealth's actions appear almost contemptuous of US Municipal Bankruptcy law as amended in 1988, which had the sole purpose of distinguishing between certain revenue bonds and general obligation (GO) debt. At least in this matter, it appears that promises, obligations, commitments, liens, contracts, and bargains carry little weight with the Commonwealth government.

The ramifications: Should the Commonwealth of Puerto Rico prevail, I foresee it setting a disastrous precedent.

- Access to the securitized loan market could be restricted for all borrowing municipalities. This would be most damaging to state and local borrowers with weak GO ratings. Over time, this may affect higher-rated issuers as well.
- Local governments and municipalities could be forced to choose between default and austerity.
- The ratings of some existing revenue bonds may see multiple downgrades.
- Future Puerto Rican bonds will necessitate a specific revenue pledge separate from their general fund. Oddly, this is the COFINA bond structure the Commonwealth is arguing against.
- Rating agencies will have the challenge of squaring up ratings among different securitized bonds.
- An alarming moral hazard would be created if interest rates (borrowing risk) are determined based on the political and judicial landscape – eschewing property rights and collateral.
- Bankruptcy will become a more popular option for politicians as an "easy" short-term solution to more difficult long-term problems.
- There could be a significant impact on the U.S. municipal market if the control board and the Commonwealth push through a Detroit-like bankruptcy result favoring pensioners over secured borrowers and other creditors with constitutional priority.
- If a borrower's ability to repay is in doubt, and complying with the law is optional, that borrower could be forced to pay higher interest rates, which could be a budget-busting proposition for financially fragile municipalities.
- Higher government borrowing costs may crowd-out the ability to provide and maintain essential services. This could lead to higher taxes or a reduction of services, resulting in a U.S. taxpayer bailout nonetheless.

The numbers: Consider the Virgin Islands Electric and Water Authority. In July 2017, it was shunned by "once burned, twice shy" municipal investors leery of a Puerto Rico-like restructuring, leaving officials no choice but to issue a three-year note paying 10.85% interest. Contrast this with Philadelphia Gas Works Authority, which issued three-year notes yielding 1.2%. That is an interest penalty spread of 9.65%. Applying this to half of Puerto Rico's estimated outstanding debt of $60 billion equates to an annual financial impact of $3 billion.

The bottom line: I cannot begin to imagine the current struggles for the people of Puerto Rico. Without electricity, adequate shelter, and dependable water supplies, I am at a loss to relate to the challenges people on the island face today, and for the foreseeable future. Yet, I firmly believe that if debt relief is the action taken by the Commonwealth against COFINA, it will only hurt, not help, the territory as it emerges from this crisis. The ability to raise funds to deliver needed services is one of the most broadly essential functions a government can provide, and the cost of those funds affects all citizens.

All things considered, I'm an understanding holder of Puerto Rico general obligation debt, but I'm an angry COFINA bondholder.

Policymakers and the public must recognize that bonds are not all structured the same. Each bond has very separate and unique security features which need to be considered and respected, not just in the case of COFINA, but for the overall health of the municipal bond market. For if all bonds are treated the same, and politics trump property rights and the sound application of bond analysis, then the unintended consequences will be costly and far-reaching.

In closing, as a Chartered Financial Analyst and Certified Financial Planner®, I pride myself on taking a long-term view, doing extensive research, and adhering to a moderately conservative risk profile. My clients are accepting of lower returns in lieu of lower overall portfolio volatility — and

like me, they are pleased to provide capital to state and local governments in need of infrastructure development. They are not vultures or unscrupulous speculators, and I take offense to the generalization by public officials and others who insist they are – and the last thing any of us expects is to be "wiped out." Risk is certainly a part of this business, but my hope is that we will all look to the future and craft solutions that protect not only investors and borrowers, but also our fellow citizens of Puerto Rico who desperately require our help.

The Bond Buyer

by Glenn E. Ryhanych

Glenn Ryhanych CFA, CFP is an investment advisor representative of Spire Wealth Management, LLC, an SEC Registered Investment Advisor, and is president and founder of BlueList Partners, LLC, a municipal bond management firm in Northern Virginia.

November 29 2017

The views expressed in this article are the author's own and do not in any way reflect the opinions of Spire Wealth Management. Mr. Ryhanych personally owns General Obligation, Highway & Transportation, and COFINA bonds issued by the Commonwealth of Puerto Rico.

What Do Muni Bonds Have To Do With Medicare? Here's Why You Should Care.

It's that time of year again. No, I don't mean the holidays. It's that window in time when those who just turned 65 can sign up for Medicare.

You're probably asking why a bond manager is writing about Medicare and what this has to do with anything. Simple. The law requires some people to pay higher Medicare premiums than others. Simply stated, this is the government's way of saying that Medicare is means tested. Those who earn more, pay more. Tax-free income from municipal bonds is included in your modified adjusted gross income.

Here's the rub. You may own a large municipal bond portfolio of all high coupon munis: maybe 5.50%, 5.00%, perhaps some 4.00% coupons. If you purchased bonds over the last four years with maturities 12 years or less, you paid high premium prices for each. Your actual yield based on cost is most likely one-half that of your coupon. However, your brokerage firm reports the gross coupon income on your Form 1099, which is also reported to the IRS, and then reported to the Social Security Administration for use in means testing your Medicare premiums. By definition this overstates your income, thus possibly placing you in a higher Medicare means testing category than is appropriate.

The bummer here is that if your muni portfolio is large enough and populated with high coupon bonds, the gross income grotesquely overstates what you are actually earning. You should care because it may increase your Medicare premiums. This is due to the difference between coupon cash flow versus real yield based on cost.

This coupon tragedy is much more prevalent in Muniland as opposed to corporate bonds. That's because when a state, city, county or municipality comes to market with a new issue there usually is a reverse inquiry. That is, several municipal bond fund managers may be queried as to what

structure they may be interested in having. All high coupons? Current coupons? Zero coupons? From what I understand of the process the underwriters take that information under advisement then decide with the issuers the best structure.

Take a look at Illinois—the most dysfunctional state government. To help pay down their $16 billion in unpaid bills over the past two years the state issued $4.5 billion bonds. The 5.00% municipal General Obligation bonds due November 1, 2022 was one maturity size. This portion of the 2022 maturity size represented $500 million of the $4.5 billion. The dollar price at the new issue was 108.465, or $1084.65 per bond yielding 3.15% to maturity.

This means at maturity you'll hopefully get back $1,000 face value for every bond. Do the math. The state immediately took in a premium of $84.65 per bond equaling $42,325,000 more than it will pay at maturity while paying a 5% coupon rather than the 3.15% yield to investors based on the bond's cost.

Forbes

by Marilyn Cohen

NOV 28, 2017

Bloomberg Brief Weekly Video - 11/30

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

Watch video.

Bloomberg

November 30th, 2017, 5:27 PM PST

Moody's Warns Cities to Address Climate Risks or Face Downgrades.

- **Communities in Texas, Florida, other coastal states at risk**
- **Credit rating agency says it's adding climate to credit risks**

Coastal communities from Maine to California have been put on notice from one of the top credit rating agencies: Start preparing for climate change or risk losing access to cheap credit.

In a report to its clients Tuesday, Moody's Investors Service Inc. explained how it incorporates climate change into its credit ratings for state and local bonds. If cities and states don't deal with risks from surging seas or intense storms, they are at greater risk of default.

"What we want people to realize is: If you're exposed, we know that. We're going to ask questions about what you're doing to mitigate that exposure," Lenny Jones, a managing director at Moody's, said in a phone interview. "That's taken into your credit ratings."

In its report, Moody's lists six indicators it uses "to assess the exposure and overall susceptibility of U.S. states to the physical effects of climate change." They include the share of economic activity that comes from coastal areas, hurricane and extreme-weather damage as a share of the economy, and the share of homes in a flood plain.

Based on those overall risks, Texas, Florida, Georgia and Mississippi are among the states most at risk from climate change. Moody's didn't identify which cities or municipalities were most exposed.

Bond rating agencies such as Moody's are important both for bond issuers and buyers, as they assign ratings that are used to judge the risk of default. The greater the risk, the higher the interest rate municipalities pay.

Bloomberg News reported in May that towns and counties were able to secure AAA ratings despite their risks of flooding and other destruction from storms, which are likely to be more frequent and intense because of climate change. If repeated storms and floods are likely to send property values — and tax revenue — sinking while spending on sea walls, storm drains or flood-resistant buildings goes up, investors say bond buyers should be warned.

Jones said Tuesday that the company had been pressured by investors to be more transparent about how it incorporates climate change into the ratings process. Some praised the move, while also urging it to go further.

Think Harder

"This kind of publication shoots for municipalities to think harder about disclosure," Adam Stern, a senior vice president at Breckinridge Capital Advisors in Boston, said in an interview. "The action would start to happen when and if you start seeing downgrades."

Jones, the Moody's managing director, said he couldn't recall any examples of the company downgrading a city or state because it failed to address climate risk.

Eric Glass, a fixed-income portfolio manager at Alliance Bernstein, said real transparency required having a separate category or score for climate risk, rather than mixing it in with other factors like economic diversity and fiscal strength.

Still, the new analysis is "certainly a step in the right direction," Glass said by email.

Others worried that Moody's is being too optimistic about cities' desire to adapt to the risks associated with climate change.

Shalini Vajjhala, a former Obama administration official who consults with cities on preparing for climate change, says that won't happen on a large scale until cities start facing consequences for failing to act — in this case, a ratings downgrade.

"Investors and governments alike are looking for clear market signals to pursue, and perhaps even more importantly, to defend investments in major adaptation and resilience projects to their constituents and taxpayers," Vajjhala, who now runs Re:Focus Partners, said in an email. "Outside of the rating agencies, it is not obvious who else could send a meaningful market-wide signal."

Rob Moore, a senior policy analyst at the Natural Resources Defense Council, said increased attention from rating agencies could push cities to reconsider where they build.

"If I was a city official, I'd be asking a whole lot of questions about what vulnerabilities their

community has, and how each new proposed development adds to that vulnerability," Moore said in an email. "Because at some point, your creditors certainly will."

Bloomberg

By Christopher Flavelle

November 29, 2017, 1:00 AM PST

— *With assistance by Tiffany Kary*

California's Post-Redevelopment Tools are Getting a Test Drive.

LOS ANGELES — California cities are beginning to figure out how to use economic tools created to fill a gap left when redevelopment agencies were dissolved in 2012.

La Verne city leaders have spent the past 18 months coming up with a plan to redevelop 100 acres into a mixed-use development involving housing, infrastructure and a parking structure for a train station on the Foothill Gold Line, a light rail extension into the San Gabriel Valley, said Larry Kosmont, founder of Kosmont Cos., a consultant on the project.

That plan uses the Enhanced Infrastructure Financing District legislation that was adopted in 2014, and further refined in 2015.

La Verne, a city of about 30,000 about 30 miles east of downtown Los Angeles, is among the first cities to create such an improvement district.

It took La Verne 18 months to come up with an infrastructure financing plan, Kosmont said. The city went to Los Angeles County with the idea of improving the area around the proposed transit station. The county owns the nearby Los Angeles County Fairgrounds and Brackett Field Airport. The county, which doesn't have an EIFD process, hasn't decided whether to join, Kosmont said, but participants can decide to contribute their money at a later date, he said.

The city made a decision to move ahead with its own share and activated the EIFD as of Oct. 30. Making the decision to do it now enables the city to set a baseline for tax increment for the tax rolls in 2018.

"The county is still reviewing," Kosmont said. "I hope they will come in next year."

The new light rail line is key to the plan. The Los Angeles County Metropolitan Transportation Authority has a groundbreaking ceremony planned Dec. 2 for the $1.5 billion Foothill extension. Metro issued Nov. 8 the request for qualifications for the 12.3-mile project that will add six new light rail stations in Glendora, San Dimas, La Verne, Pomona, Claremont and Montclair.

The debate in Congress over the future of private activity bonds could make things harder for the city; the GOP tax bill in the House of Representatives would eliminate them, while a Senate Republican plan keeps them.

The elimination of PABs won't stop the project, but it takes away another avenue to encourage public-private partnerships in the state, Kosmont said.

The infrastructure La Verne is building would be funded with public money generated by the tax increment the district generates.

Any potential EIFD bonds wouldn't be affected, but Kosmont said the elimination of PABs could make it hard to do a public-private project on the parking structure next to the transit station, because it would then have to be funded with taxable bonds or as a stand-alone parking bond. The parking structure for the district isn't likely to be constructed for a couple of years, because rail line construction has to be completed first.

Gov. Jerry Brown signed legislation eliminating some 400-plus redevelopment agencies in 2011. Prior to that, cities and counties could use tax increment financing – the increase in tax revenues generated by new development – to repay bonds issued to finance development and infrastructure in project areas deemed "blighted." The RDAs were also required to set aside 20% for affordable housing.

Two laws passed in 2015 sought to restore some of the economic tools used by the former RDAs. The laws allow cities, counties and special districts to form EIFDs under specific circumstances. Once the districts are formed, local government can use tax increment to finance infrastructure improvements.

The initial EIFD statute, Senate Bill 628 was passed in 2014. Assembly Bill 313 approved in 2015 added refinements.

EIFDs are separate government entities, formed through a joint powers authority consisting of cooperating cities, counties, and special districts. They can finance traditional public works, such as transportation, transit, parks and libraries, water and sewer facilities, solid waste disposal, and flood control and drainage.

A primary difference between EIFDs and the former redevelopment agencies is the new districts can't just capture all the tax increment created with new development. The district's authority can designate its own tax increment, but it then has to ask other municipalities in the district if they would like to contribute their increment to the project.

That authority has to create an infrastructure financing plan that will attract private investment and reduce the carbon footprint, Kosmont said.

The authority establishes a boundary and identifies infrastructure improvements that could occur over the next 45 years. The La Verne project involves the creation of three new districts on 110 acres in the city's downtown area, two adjacent to the rail station, and one bracket near the airport.

La Verne's financing plan has a 10-year outlook horizon that determines how much tax increment will be generated from new development, Kosmont said.

Improvements planned around the Gold Line station include sustainable water and utility projects and a parking garage. The city rezoned a number of properties around the transit station to build affordable housing and other amenities by working with private developers, Kosmont said.

Voter approval is not required to form an EIFD, but there is a 55% requirement to authorize bonds. Where an IFD makes the tax increment available for up to 30 years, the EIFD extends that timeline to 45 years.

"I am calling EIFDs sustainability and housing districts, because they are used for sustainable infrastructure," Kosmont said.

Another difference between redevelopment agencies and EIFDs is that a blight study is not required, but an infrastructure plan is, Kosmont said. The former redevelopment districts had to be created in blighted areas as they were designed to bring economic development to areas unable to attract new projects – and also to provide funding for and encourage affordable housing development.

When Brown pushed to eliminate redevelopment agencies, the governor's argument was that they were taking away money needed for school districts.

"The school district tax increment is not eligible to be part of EIFDs, as they were with redevelopment agencies," Kosmont said.

"That wipes out 50 cents on the dollar," he said. "It's why RDAs were so powerful. They took everyone's increment and used it for redevelopment. The RDAs came into the sandbox and took everyone's toys. The EIFDs come into the sandbox with their toys, and then ask if they can share everyone else's toys."

The districts can include brownfield restoration and other environmental mitigation; affordable housing development, and transit-oriented development.

Even as cities are beginning to figure out how to use EIFDs, two candidates for governor – California Treasurer John Chiang and former Los Angeles Mayor Antonio Villaraigosa are talking about bringing back redevelopment agencies if they are elected.

"I believe that more tools to facilitate development and redevelopment are better than less, particularly in Los Angeles as the region is preparing for the Olympics, addressing the evolution of mobility and catching up with years of deferred infrastructure projects," said Timothy Reimers, a principal with Polsinelli, a law firm.

The Bond Buyer

By Keeley Webster

Published November 16 2017, 2:00pm ES

How Cash-Strapped Chicago Snagged a Triple-A Rating for Its New Bonds.

Chicago is running a multimillion-dollar deficit and faces a pension-funding crisis that dwarfs many others around the country.

Yet the nation's third-largest city is on the verge of selling as much as $3 billion in bonds at a triple-A rating, the latest twist in the tale of cash-strapped U.S. municipalities adopting Wall Street financial engineering in their struggle to raise money in the market.

Echoing methods adopted by Puerto Rico and New York, Chicago has created a new company to sell debt, offering a tempting pledge to investors: a dedicated first claim to the city's sales-tax revenue.

In theory, that should make the debt as secure as U.S. Treasury bonds. But there is a catch: analysts and investors say in the scenario of a bankruptcy, it is difficult to predict whether owners of the new bonds would get paid back ahead of other creditors, pensioners or even police and emergency services workers.

The deal tests whether years of near-zero interest rates will send yield-starved investors into complex bond structures. And Chicago — with a school system that has teetered near bankruptcy and greater expenses than its revenues — could still face a funding gap down the line even if it manages to lower its borrowing costs, analysts say.

For the $575 million in bonds being priced this week, Jefferies LLC is the underwriter, while Goldman Sachs Group Inc. will lead the next batch, according to city presentations. Carole Brown, chief financial officer of Chicago and a former banker at Barclays PLC, told investors that she devised the plan to create the corporate entity to issue the bonds, according to a person who attended an investor luncheon for the sale.

Through the sale, Chicago is tapping a tool New York's leaders developed in the 1970s as the city faced the specter of a bankruptcy. Back then, Felix Rohatyn, a famed mergers and acquisition banker at Lazard, led an entity called the Municipal Assistance Corp., which allowed New York to borrow money even after major banks had choked off financing.

Puerto Rico sold more than $15 billion in sales tax bonds over the past decade. Rating firms considered the debt to be the island's safest offering, and it was snapped up by investors. Now those bondholders are fighting in court against creditors owning general-obligation bonds, who say their claim on the island's full faith and credit should include sales taxes also. Known by the acronym Cofina, those bonds recently traded at pennies on the dollar.

"Sometimes greed overtakes fear" in the market, said Chris Ryon, a portfolio manager at Thornburg Investment Management, which oversees more than $10 billion in municipal bonds. "It's a function of investors' desire for income."

Earlier this year, Chicago issued more than $1 billion in bonds, with part of the deal yielding 6%, far higher than most tax-exempt municipal credits. The coming deals would allow Chicago to refinance some of its over $9 billion in debt with lower interest costs, city officials have said.

The new debt, the first portion of which has maturities up to 26 years, could save the city more than $90 million in borrowing costs next year, according to the city. Chicago's leaders emphasize in bond filings that the new company, dubbed the Sales Tax Securitization Corp., is separate from the city.

Illinois currently doesn't allow its municipalities to file for bankruptcy, though lawmakers introduced legislation in recent years that cleared the way for Chicago or its school system to file.

Chicago declined to comment on the debt deal. Robert Christmas, a partner at law firm Nixon Peabody, which is advising the city on the sale, said investors shouldn't compare Puerto Rico's sales-tax bonds with Chicago's offering, in part because the city has stronger protections for investors than the island territory had.

Chicago's deal also sheds light on how widely diverging views can emerge from credit-ratings firms in the municipal bond market. Moody's Investors Service has graded the city's debt as junk, but S&P Global Ratings, Fitch Ratings and Kroll Bond Rating Agency have given Chicago investment-grade ratings.

For this latest issuance, Fitch and Kroll gave Chicago's corporate entity an additional boost: a AAA rating, the highest possible grade and equivalent to U.S. Treasurys.

S&P scored it two grades lower, although the firm still rates it five notches higher than other Chicago bonds. S&P also said in November it could change how it evaluates debt like Chicago's latest issuance, meaning investors could end up with bonds that are later downgraded by the firm.

In 2015, two years after it defaulted on its debt, Detroit snagged an investment-grade rating from S&P on new bonds by promising investors they would have first claim on income-tax revenues, although it didn't create a new corporation like Chicago.

Thornburg's Mr. Ryon said Chicago's new entity doesn't deserve separate credit ratings from the city's other debt. "It's a bit of smoke and mirrors," he said.

Moody's, which lowered the city's general-obligation bonds to junk in 2015, doesn't have a rating for the city's new debt. Chicago asked Moody's to withdraw the junk ratings on the general-obligation bonds, the firm said.

Bond ratings are also important because they can dictate money flows. Fund managers are often restricted to buying bonds with certain grades.

Other cities and states will be watching Chicago's bond sales. Illinois passed a special statute allowing the city to issue the bonds, and now other municipalities in the state can do the same.

States including California, Nebraska and Rhode Island have passed laws in recent years aimed at giving bondholders first claims on some taxes even if the issuer is in financial distress. Illinois and Michigan have also proposed similar laws.

Investors say municipalities with weaker financials will continue to try to woo bondholders with proposed safeguards, especially with the market rattled by Puerto Rico's restructuring.

"The idea is to provide a little more reassurance to potential creditors that they've got first crack at the money," said Glenn Weinstein, a Chicago attorney at Pugh, Jones & Johnson P.C., who has advised the city in the past.

At the same time, Mr. Weinstein said, "if you don't have financial difficulties and your credit is good, you don't need this."

Dow Jones Newswires

By Gunjan Banerji

Published December 03, 2017

Write to Gunjan Banerji at Gunjan.Banerji@wsj.com

KBRA Friday Read: 2017 Project Finance Update New Market Developments, Sector Overview, and Looking Forward to 2018.

In case you missed it, KBRA published an article discussing some recent project finance market trends, credit performance of certain sectors and its expectations for 2018.

The Project Finance Group has seen a significant increase in requests for Project Finance ratings in 2017. So far, it has provided ratings on 25 projects. It believes the significant increase in number of transactions and rated debt amounts can be attributed to a shift in financing strategies from the bank market to the capital markets –both public and private—due to the forced deleveraging of banks following the financial crisis, the longer tenors the bond market offers relative to the bank

market, the increased amount of private capital that has needed to be deployed, and general yield-hunting behavior exhibited by investors given the current low interest rate environment.

To access the full report, please click on the link below:

New Market Developments, Sector Overview, and Looking Forward to 2018

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com

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Have They Got a Bond for You.

Connecticut and Chicago borrow a debt trick from Puerto Rico.

State and local governments pledge their full faith and credit to repay general obligation bonds, but politicians in Chicago and Connecticut realize their word is depreciating in value. Thus they're pitching a debt arbitrage to reduce their borrowing costs.

As part of Illinois's slow-rolling bailout of Chicago, Democrats in Springfield this summer allowed the city to issue bonds securitized with $700 million or so in annual sales tax revenue. Creditors would have a legal lien on the revenues. Chicago plans to start floating the sales-tax bonds next month to refinance existing debt.

The bonds will be cheaper to finance than Chicago's junk-rated GO bonds, which carry a 3.5% premium over top-rated municipal securities. Fitch has rated Chicago's sales tax bonds AAA, which is an insult to every triple-A issuer including the U.S. Treasury. (Fitch still rates Treasurys triple-A, unlike Standard & Poor's.) While the city noted in a recent presentation that "ratings agencies rate bonds issued by special-purpose corporations highly because they are more legally secure than a normal bond," that hasn't historically been the case.

Securitized bonds issued by special public corporations were once considered less safe than GO bonds because their revenue bases are narrower and can shrink over time. Consider the 2011 bankruptcy of Jefferson County, Alabama, which resulted from political corruption at its over-leveraged sewer system.

Detroit's Chapter 9 bankruptcy in 2013 set a precedent by subverting GO bondholders to pay public workers and retirees. Prior to Detroit, creditors considered GO bonds sacrosanct and figured courts would compel local governments to raise taxes or cut pensions to repay them. That assumption proved incorrect. So creditors are now demanding higher yields for GO bonds issued by fiscally irresponsible governments.

Hence, Connecticut lawmakers recently authorized bonds backed by state income taxes as a substitute for GOs. The budget noted that "the new type of borrowing authorized in the bill may be viewed more favorably in bond markets because it is linked directly to a large and relatively stable revenue source." Hmmm.

Income-tax revenues in Connecticut have repeatedly fallen short of estimates due to tepid economic growth. Last year they were off by $530 million. Perhaps Democrats consider this a rounding error on a $3.5 billion deficit. Chicago has reassured investors that the new "corporation would be considered bankruptcy-remote" (our emphasis). However, "in the unlikely event of a municipal

bankruptcy, bondholders would still be paid." Not so fast.

Puerto Rico likewise established a special public corporation in 2006 to issue sales-tax "Cofina" bonds, which were billed as more secure than debt paid from the commonwealth's operating fund. And for a time that appeared true as politicians raised the sales tax (which was later converted into a VAT) to repay creditors.

But last year Puerto Rico's governor issued a debt moratorium, which led Congress to impose a fiscal control board and create a quasi-Chapter 9 bankruptcy process. Cofina and GO bondholders are now vying for the same, small pool of money, and both will be lucky to get half of what Detroit bondholders recovered.

Illinois could authorize Chicago to declare bankruptcy in the future, and while states can't declare bankruptcy, Connecticut could try to renegotiate the terms of its debt. In the event of a default, GO bonds in both places would be less secure because of competing creditor claims.

Investors thirsty for yield may take Chicago and Connecticut up on their proposition, but they shouldn't complain later if these bets turn out to be bad political risks. Caveat creditor.

The Wall Street Journal

By The Editorial Board

Nov. 20, 2017 7:12 p.m. ET

Fitch Focuses on Rental Car Facilities in Revised Airport Criteria.

Fitch Ratings-New York-27 November 2017: Fitch Ratings is enhancing its rating criteria for airports by adding key risk factors associated with airport stand-alone car financed projects, as per the rating agency's new criteria report.

Link to Fitch Ratings' Report: Airports Rating Criteria

Consolidated car rental projects, or CONRACs, are typically financed and secured by the levy of a surcharge on car rental contracts called Customer Facility Charges (CFCs).

"More airports are finding the need to do standalone financing in order to develop efficient car rental facilities," said Senior Director Seth Lehman. "CONRACs are helping to consolidate and make airport operations more seamless in the grander plan of streamlining airport services overall."

A burgeoning subset of the airport finance market, Fitch currently rates eight CONRACs including the first projects in Hawaii and San Antonio, Texas.

Fitch's key financial performance metrics for CONRACs will be based on volatility of cash flow derived from the combined assessments for both Revenue Risk – Volume and Revenue Risk – Price. Volume and price revenue risk remain the key factors Fitch will use in its analysis of airports going forward, along with criteria mainstays like infrastructure development/renewal, debt structure and the financial profile of an airport.

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

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Additional information is available on www.fitchratings.com

Fitch: FACT Shows Large Hubs Again Driving Traffic for U.S. Airports.

Fitch Ratings-New York-27 November 2017: Annual passenger traffic at U.S. airports grew at an even greater rate in 2016 while airport debt remained relatively flat, according to Fitch Ratings in its latest interactive peer study for standalone U.S. airport credits.

Median enplanements grew again yoy, rising by over 5% to 4.71 million for fiscal 2016 compared to 4.16 million in fiscal 2015. Large hubs and international gateways again drove most of the growth yoy. “The vast majority of Fitch-rated U.S. airports saw higher passenger traffic last fiscal year,” said Senior Director Seth Lehman. “Conversely, only four airports saw declines in passenger traffic in fiscal 2016.”

Strongest performers among the large hub airports include Orlando, FL; Broward County (Ft Lauderdale), FL; Seattle, WA; and Los Angeles, CA. Weakest performers included several airports such as Dayton, OH and Buffalo, NY.

The Fitch Analytical Comparative Tool (FACT) contains key financial information for Fitch-rated standalone airport issuers in the U.S.; a graphical plotting function for five-year annual and median performance; and a radar chart that indicates key risk levels. FACT also features a peer analysis tool, which allows users to review and compare summary credit profiles for selected individual issuers. The median charting tool allows users to generate a graphic representation of how specific metrics for individual airports compare to sector medians.

“Fitch Analytical Comparative Tool – U.S. Airports” is available at www.fitchratings.com. Fitch has also updated its interactive map detailing the financial profiles of its rated U.S. airports.

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Bloomberg Brief Weekly Video - 11/24

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

Watch video.

Bloomberg

November 22nd, 2017, 1:04 PM PST

Can Other States Tap Tennessee's Secret Sauce for Government Efficiency?

Once seen as a laggard in public administration, the state is now a leader.

Derek Young is no stranger to the C-suite. As he waits for a client in his 10th-floor corner office in downtown Nashville, he talks about his passion for culture change. One of the services he offers companies is as a motivational speaker and executive coach who charges "anywhere from one to six thousand dollars" a pop.

This morning, Young is meeting with Marcus Dodson, who manages IT operations for a large financial institution. When he arrives, Dodson updates Young on the project he is currently working on. He's been trying to get everyone in his 250-person organization up to speed on Microsoft Excel. But the project isn't going well. Dodson wasn't as prepared as he had wanted to be, and as a result, the first round of reviews from participants let him know that. But then, Dodson worked to improve his presentation, and his subsequent reviews were dramatically better.

Having a coach help an executive work through challenges is common in corporate America. But Dodson doesn't work in the private sector. He works for the state. He's responsible for infrastructure and security at the Tennessee Department of Treasury. He's receiving coaching through an innovative leadership development program known as LEAD Tennessee.

Continue reading.

GOVERNING.COM

BY JOHN BUNTIN | NOVEMBER 2017

Why Does Some Available Capacity for New CREBs Go Unused?

WASHINGTON – The Internal Revenue Service is accepting applications from public power providers through June 19, 2018 for $379.5 million of unused volume cap for New Clean Renewable Energy Bonds.

Congress authorized $2.4 billion of New CREBS during the Obama administration and divided the amount into $800 million each for issuers in three categories — public power authorities, electric cooperatives and state and local governments.

New CREBs are taxable and issued as either a refundable tax credit to the bondholder or in a direct-pay mode to the issuer with a direct subsidy from the federal government that reduces the interest costs. The direct-pay subsidy equals 70% of interest costs minus or 70% of a credit rate determined by Treasury, whichever is less. Both are subject to sequestration, which is a 6.6% reduction in the current 2018 fiscal year.

Cooperative electric companies had $179.36 million in unused allocations as of July and governmental bodies had $150.3 million, as well as public power providers that had the $379.5 million, according to the IRS.

Those allocations are being made on a first-come, first served basis.

White House emphasis on renewable energy sources such as solar, wind and hydro-electric has fallen with the change in administrations, but the New CREBs program is continuing to allocate unused bond authority.

Some New CREBs bond authority has not be used, in part, because of the peculiar idiosyncrasies of the authorizing law, according to those familiar with them.

Electric cooperatives and state and local governments have been limited to allocations of no more than $40 million, which limits the size of the projects unless they are packaged with other financing.

Public power companies have only 180 days to issue New CREBs after the date they receive a notification of their award from the IRS.

“Energy financings take more time than perhaps other types of financing to get the bonds issued,” said Ed Oswald, an attorney with Orrick Herrington & Sutcliffe here. “If someone is looking to do a wind project, wind typically takes a long time to do, and it could just be within a particular time frame of use-or-lose. I don’t think that’s the whole story but at least a part of it.”

“New CREBs obviously help reduce the cost of financing renewable energy projects,” said John Godfrey, senior director of government relations at American Public Power Association. “New CREBs are good if you can get them and I am glad to see that some of our members have been able to make real use of them.”

Godfrey said the federal law authorizing New CREBs for public power authorities, hamstrings how they are used.

“You have to get a prior allocation of bond volume, bond volume itself is limited and, in the case of public power, even if you get an allocation you may only get a fraction of what you need,” Godfrey said. “Bluntly, being forced to wait around for a fraction of ‘too little’ is not a good way to run a

program. If Congress wants these incentives to work — if they want public power utilities to directly invest in renewables – these barriers need to be lifted."

A 2009 round of new CREBs for public power agencies was over-subscribed. According to the APPA, there were 38 applications for $1.446 billion.

The IRS prorated the allocations and set a 180-day deadline for their use.

Many of the projects were not undertaken by the 180-day deadline, however, so there was a reallocation round in 2015 round for the remaining $516.56 million.

That second round for public power companies ended June 3, 2015 with only $137 million in New CREBs bond authority used. The IRS has not disclosed how much bond authority was requested or how much may have been forfeited by not meeting the 180-day deadline.

The new round announced by the IRS on Oct. 19 faces the same hurdles.

Public power authorities once again will be awarded pro-rata shares of the $379,549,691 if the requests are larger than the allocation and will have 180 days to issue bonds after receiving a letter of notification.
The Grant County Public Utility District in Washington State has been the nation's largest user of New CREBs, according to a database maintained by Thomson Reuters (TRI).

The Grant County PUD issued $222.4 million in low-cost New CREBs to "help modernize turbines and generators at Wanapum and Priest Rapids Dams,'' spokesman Ryan Holterhoff said. Wanapum Dam produces 1.1 million kilowatts of electricity and Priest Rapids Dam produces 956,000 kilowatts.

The two other New CREBs issuances that were among the three largest also were for hydro-electric projects.

American Municipal Power Inc., which serves 135 public utilities in nine Midwest and Southeast states, issued $136 million. The money went for the Meldahl Hydro Project and the Combined Hydro Project, which includes development of new hydro-power at the Smithland, Cannelton and Willow Island Locks and Dam, said spokesman Michael Beirne.

Seattle City Light used $84.9 million to rebuild hydro-electric generators at the Diablo Dam and Boundary Dam.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 10/31/17 07:11 PM EDT

Neighborly Insights: Flattening Treasury Curve and Tax Reform Concerns Outweigh Temporary Spike in Muni Supply.

According to Bond Buyer data, muni new-issue supply in the upcoming week is expected to reach nearly $12 billion, as a number of issuers rush deals to market to avoid potential deadlines in House and Senate Tax Cut Bills, which would eliminate both advanced refundings and Private Activity Bonds (PABs) on the House side, but potentially preserve PABs on the Senate side. What the outcome will be after a) a Senate vote and b) some form of Senate/House negotiations, if we get that

far, remains uncertain. Nevertheless, some issuers are in a hurry to get their deals done before a potential 12/31/17 deadline, just in case prohibitions of advance refundings and PABs actually make it to a final law. Such a law could be signed after 12/31, but with a year-end effective date.

So, we expect issuance in vulnerable sectors to remain heavy right through year-end, unless it becomes clear that the Tax Cut bill in the Senate is foundering — a distinct possibility. Of the 26 major negotiated deals this week, 20 are revenue-based issues. Many have noted that generic revenue bonds have outperformed high-grade GOs by 50 basis points. Additional concession can be expected in the sector with the influx of supply and should offer interesting yield options (5 year 2%s, 15 year 3%s). The 5-year AAA has moved 20 basis points higher, while intermediate yields are nominally higher and 20 year-plus yields have seen a modest rally. Short munis are looking the most attractive to short U.S. Treasuries in nearly a year.

Continue reading.

by George Friedlander

Posted 11/27/2017

Neighborly Insights

Trump's Vow to Fix 'Third-World' U.S. Airports Is Hurt by Tax Bill.

- **House measure would end tax-free bonds used to fund projects**
- **Infrastructure advocates lobby to kill measure in final draft**

President Donald Trump has compared landing at Los Angeles International and other U.S. airports to arriving in a third-world country. But a provision in the tax bill passed by the House of Representatives would eliminate a tool central to his $1 trillion pledge to upgrade airports and other public works.

The House measure would eliminate a form of tax-exempt debt called private-activity bonds. That would leave Los Angeles World Airports, which runs LAX, with the choice of scaling back projects in its $14 billion modernization plan or finding $500 million in new revenue because of higher borrowing costs, Chief Financial Officer Ryan Yakubik said in a interview.

"Certainly, it had been made clear that infrastructure was a great priority, and that finding ways to do that was important," Yakubik said. "This doesn't seem pointed in that direction."

While the Trump administration has called for expanding the use of the bonds to attract more private investment in U.S. infrastructure, the House tax bill passed on Thursday would eliminate them after Dec. 31. Airport executives, state transportation officials and other advocates unsuccessfully lobbied lawmakers to remove the provision. It's not in the current Senate plan, and they're pushing to keep it out of any final bill.

Fewer Projects

Advocates say losing the tax exemption would mean airports, port authorities, state and local governments and other entities would complete fewer projects or face higher costs at a time the American Society of Civil Engineers has said the U.S. needs an additional $2 trillion for

infrastructure by 2025. Trump has promised to invest $1 trillion over 10 years.

“They just won’t be able to do these deals,” Toby Rittner, president and chief executive of the Council of Development Finance Agencies, said by phone. “At the end of the day, you just hope smart-minded people in the House and Senate see the ramifications of this.”

Private-activity bonds, or PABs, are issued by state and local governments and other public authorities to give private entities access to tax-exempt debt to increase their participation and lower costs for qualified projects. They’re also used by hospitals, universities and other non-profit groups.

Without the tax exemption, borrowing costs for state and local governments would rise by as much as 35 percent, Ritter said in a Nov. 3 letter to congressional leaders on behalf of more 200 cities, banks and other entities nationally and in 39 U.S. states and territories.

The impact would be especially felt at LAX and other U.S. airports, where PABs accounted for 60 percent of bonds issued for terminal renovations and other capital projects during the past decade, according to Airports Council International – North America. The group represents owners and operators of commercial airports in the U.S. and Canada.

Cancel or Delay

Airports have an estimated $100 billion in infrastructure needs by 2021, and financing that work without PABs could increase costs to the airport industry by $3.2 billion over the life of the bonds, according to a Nov. 13 letter sent to Senate Finance Committee leaders by the Council and the American Association of Airport Executives. Some airports may have no choice but to cancel or delay projects, the groups said.

Voters in Kansas City approved a new $1 billion terminal on Nov. 7, and the elimination of PABs could throw the project’s future into question because of higher borrowing costs, Mayor Sly James said. Philadelphia International Airport would have to re-evaluate the sequence of about $377 million in planned projects, Chief Executive Chellie Cameron said in a statement. Denver International Airport would have to evaluate other financing options if the bonds were eliminated because it had expected to use them for about three-quarters of a planned $3.5 billion capital improvement program, Chief Financial Officer Gisela Shanahan said.

Borrowing Costs

Republican tax-writers said the federal government shouldn’t subsidize the borrowing costs of private businesses when their competitors must pay higher interest rates on debt. Eliminating the tax exemption also would increase federal revenue by $38.9 billion through 2027 to help pay for tax cuts, according to the Joint Committee on Taxation.

Still, there’s a misperception about PABs because the bulk of the deals are for assets that the public uses, said Susan Monteverde, vice president for government relations at the American Association of Port Authorities.

“We are building a transportation hub for trade, which everyone sees as a valuable public asset,” Monteverde said.

Advocates also were surprised by the provision because the Trump administration had proposed expanding the bonds as a way to tap more private capital for the president’s infrastructure plan, which is expected after the tax overhaul. The White House has called for allocating $200 billion in

federal funds to generate $800 billion in spending by states, localities and the private sector.

“Any objective assessment would conclude that terminating the use of PABs will make these levels of infrastructure investment much more difficult to achieve, if not impossible,” associations representing state transportation officials, construction companies and other contractors said in a Nov. 3 letter to leaders of the House Ways and Means Committee.

More Expensive

Without the tax-exempt bonds, projects such as the $3 billion Interstate 66 project in Virginia, which includes new express lanes and relies on about $737 million of PABs, may not get off the ground or would be more expensive, said Aubrey Layne, the Virginia secretary of transportation.

“If they truly are serious about infrastructure, then this is not helping,” Layne said.

The Trump administration “strongly” supported passage of the House bill and didn’t publicly object to the provision eliminating PABs. The White House said Trump is committed to generating $1 trillion in infrastructure investment.

“We are confident that when the debate on tax reform is complete, we will be well positioned to make American infrastructure once again the envy of the world,” White House spokeswoman Lindsay Walters said in a statement. Walters didn’t specifically address the potential elimination of the tax-free bonds as a financing source.

’Third-World Countries’

Trump has said multiple times during the presidential campaign and since his election that U.S. airports are “like third-world countries.”

“We had the most beautiful airports,” Trump said during a June 21 rally in Cedar Rapids, Iowa. “Now we’re more like a third-world country. LaGuardia, Newark, LAX, Kennedy. They’re like third-world airports.”

While there are concerns about what eliminating the bonds would mean for infrastructure work, the U.S. Chamber of Commerce also is taking a holistic view of the tax overhaul and the potential for economic growth and benefits to companies, said Neil Bradley, the chamber’s chief policy officer.

Even so, reductions in the corporate tax rate won’t help businesses if they don’t have adequate roads and other infrastructure, said James, the Kansas City mayor.

“If they limit our ability to do anything with infrastructure, then this country will literally fall apart,” James said.

Bloomberg Politics

By Mark Niquette

November 17, 2017, 1:00 AM PST

— With assistance by Martin Z Braun

Let's Talk Municipal Finance - Tax Anticipation Notes and Bond Anticipation Notes.

In this installment of the Let's Talk Municipal Finance series, I will discuss two short-term alternatives to the issuance of long-term bonds for municipalities to access needed funds. These alternatives have a shorter maturity period and are either anticipated to be repaid by long-term bonds or other municipal revenue.

Tax Anticipation Notes
Tax anticipation notes, commonly referred to as TANs, are a form of municipal borrowing with a maturity date often less than one year from the date of issuance, payable from anticipated tax revenues of the municipality. In Maine, the issuance of a TAN is authorized by 30-A M.R.S.A. § 5771. In addition to authorizing the issuance of a TAN, Section 5771 puts certain restrictions on both the amount and the maturity date – the amount of the TAN is limited in relation to the total tax levy of the municipality in previous years and the maturity date is generally limited to one month after the end of the municipal year in which the note was issued.

The interest on payments on TANs is excludable from gross income under section 103 of the Internal Revenue Code. Unlike bonds, most TANs are typically issued directly through a bank to which the payments of principal and interest will eventually be made. As the name suggests, the funds used to make those payments are limited by statute to those raised out of taxes paid to the municipality; however, unlike some bonds, the funds can be used for general municipal purposes and need not be tied to a specific purpose. Therefore, the process required for a municipality to issue a TAN is much simpler than that required of a long-term bond, although certain documents, including a legal opinion on matters such as the tax exempt nature of the interest paid on the TAN, are usually required by the bank.

Bond Anticipation Notes
Bond anticipation notes, commonly referred to as BANs, are also a form of municipal borrowing, but share more characteristics with long-term bonds than a TAN. The key difference between a BAN and a TAN is that the municipality usually cites a specific purpose for issuing the BAN, which must be the same purpose as the anticipated long-term bond that the municipality intends to eventually issue to repay the BAN. BANs are subject to statutory requirements under 30-A M.R.S.A. § 5772, including a maximum face amount of the BAN not exceeding the authorized amount of the anticipated bond and a maximum period of borrowing of three years. Some municipal charters may also contain additional requirements or limitations for the issuance of BANs.

Northern New England Municipal Law Blog

by PretiFlaherty

November 21, 2017

Neighborly Launches Effort Aimed at Big Bond Investors, Tinkers with AI and Blockchain.

To lead the new Neighborly Investments effort, the company has brought in financial-

sector veteran Christine Todd.

Neighborly has always been idealistic. It was founded, in so many words, to help citizens invest in municipal bonds that help the communities they live in.

But now the platform wants to go after the big fish too — with artificial intelligence, future plans for blockchain and other changes to the way it does business.

The company has launched a new effort called Neighborly Investments, which for the time being is focusing on people and organizations with lots of money — multi-family offices, ultra-high net worth individuals, community banks and the like. Coming in to lead the effort is Christine Todd, who spent 22 years at the asset management firm Standish Mellon, serving as the company's president for about four years and managing $30 billion in municipal bonds.

"The thing that we realized midway in is the vast majority of the capital is managed by really smart people who have entrusted their money to professional money managers," said Jase Wilson, chief executive officer of the company.

They're people with lots of money to invest, which means that they need to be able to make large buys at once. The problem with the way Neighborly was built was that it's focused on individual municipal bond projects.

For now, Neighborly Investments functions pretty similarly to the regular Neighborly experience, except that its users will interact with it from a dashboard without going directly to the platform itself. In that way, they will be able to use the platform for vetting bonds according to Neighborly's standards, which emphasize impact. Neighborly's listings include both municipal bonds from the larger market and those that local governments have generated directly using the company's platform.

"They have a read-only view of what goes into their portfolio and they can follow the story of the impact they're having," Wilson said.

Because Investments' target users are people who invest large pools of money, it will offer some functionality meant to help those people more quickly process information about bonds.

"For them to go in and do even a $5 million buy on a single municipal bond offering is tough, because the way the market looks today is every project has 300 pages of documents to read," he said.

So the company has developed machine reading functionality, incorporating machine learning algorithms, to help users identify the most important points in those documents. Artificial intelligence will also help the company learn more about correlations between different aspects of bonds, creditworthiness and the impact that those bonds end up having.

The technology and user experience will be a competitive advantage for Neighborly against similar services for investment managers, Todd said.

"There will be surprising elements in fundamentals and impact that AI will surface that humans might not otherwise know," she said. "We will be able to scan the official statements and the documents to quickly get an understanding of the impact of each project rather than having human beings spend countless hours turning pages digging through that lengthy document."

The platform also offers the ability to apply several filters — geographic, project type, bond type, etc.

So a community bank could search for municipal bonds in its state, and could then narrow it down to bonds for park projects and then set terms for the types of bonds it wanted to see. The idea is to deliver bonds that meet the investor's definition of positive impact.

Todd said she thinks the platform can make a big change in a couple of ways. One is in changing the way people think about making an impact with their money. Many, she said, turn to philanthropy in an attempt to make the world better — but the world of savings and investment, she said, can have positive impacts too. A municipal bond might build a library, or a park, or help improve transportation for the people who need it the most.

Second, she hopes to influence how people think about infrastructure. The vast majority of public infrastructure projects in the country in the past two centuries have been funded by bonds, she said. And if President Donald Trump wants to spend $1 trillion on infrastructure in 10 years, a promise he campaigned on, he would do well to look at the $400 billion-per-year municipal bond market.

"What we'd like to see is the municipal market be not only part of the plan, but the cornerstone of that plan," Todd said.

In the future, Wilson said the company wants to offer bond packaging through Investments as well. Just like in the larger securities markets, where large lots of assets get bundled together into packages for investors to buy, Neighborly wants to bring together bonds that have been vetted according to its criteria and offer them en masse to big investors.

"That's on the road map," he said.

The company is also planning to eventually work blockchain into its system — "cloudsourcing," as Todd said, transactional data and other information so as to better create an environment of transparency and speed up internal processes.

Todd said she's excited about the prospect of jumping in with the company early on.

"I would say that my transition from Standish to Neighborly is very fortunate," she said. "Opportunities like these don't come along very often, where one's own experience and mission aligns so well with an opportunity to grow a younger firm and make a sign impact in doing so."

Neighborly wrapped up a $25 million Series A round in May. According to Wilson, the company has facilitated $100 million in bond investments this year, which was its first full year of offering investment capabilities to users.

GOVERNMENT TECHNOLOGY

BY BEN MILLER / NOVEMBER 22, 2017

Ben Miller is the business beat staff writer for *Government Technology*. His reporting experience includes breaking news, business, community features and technical subjects. He holds a Bachelor's degree in journalism from the Reynolds School of Journalism at the University of Nevada, Reno, and lives in Sacramento, Calif.

Fitch: U.S. Airport Credits Experiencing Little To No Turbulence.

Fitch Ratings-New York-13 November 2017: Strong passenger traffic along with stable airport finances will keep U.S. airport ratings well rooted in 'A' territory, according to Fitch Ratings in its latest peer review of U.S. airports.

Rating actions over the last year by and large mirrored movement seen last year with Fitch taking 12 positive rating actions on general airport debt across eight airports. Fitch also revised the Rating Outlook on four airports to Positive (Denver, San Diego, Burlington and Pensacola). The lone Fitch-rated airport with a Negative Outlook (Dayton International) remained so this year.

Changes in 11 of Fitch's attribute scores over the past 12 months were instrumental in much of the rating movement for airports, with Revenue Risk seeing much of the change. 'Sustainable positive passenger trends at a number of U.S. airports coupled with updated airline agreements with enhanced pricing flexibility contributed to many of the adjustments,' said Seth Lehman, Senior Director in Fitch's Global Infrastructure Group.

Highest rated airports are typically those with a strong underlying market or franchise driving demand, overall stability of cash flows through contractual agreements with airlines and other commercial users and healthy financial metrics. Conversely, weakest rated airports include those serving small markets or secondary airports subject to competition for passengers, or thinner financial metrics and elevated leverage.

Fitch's latest 'Peer Review of U.S. Airports' is available at 'www.fitchratings.com' or by clicking on the link.

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Fitch Teleconference Replay: Chicago Sales Tax Securitization Corp, IL.

Arlene Bohner, Amy Laskey, and Laura Porter discussed Fitch's 'AAA' rating on the Sales Tax Securitization Corp, IL Series 2017 A&B bonds.

Bond proceeds will be used by the corporation to purchase the sales tax revenues that secure the bonds. Funds will be applied to refund the city's existing sales tax revenue bonds. The bonds are expected to sell via negotiation the week of December 4. The Rating Outlook is Stable.

Listen to the teleconference.

Bloomberg Brief Weekly Video - 11/16

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

Watch video.

Bloomberg

November 16th, 2017, 12:58 PM PST

Muni-Bond Market Braces for Borrowing Rush Ahead of Tax Changes.

- **November, December could be 'huge' for issuance, analyst says**
- **Republican overhaul would pull tax break from many bond types**

The municipal market is preparing for a potential onslaught of bond deals before the end of the year as U.S. lawmakers consider pulling the tax break from tens of billions of dollars of debt issued each year.

The House of Representatives bill would require investors to pay income taxes on so-called private activity bonds, or PABs, which finance projects like airports, water facilities and toll roads, and do away with a frequently used refinancing technique known as advanced refunding. While the Senate version leaves PABs intact, the risk may push borrowers to act before the law is changed, Municipal Market Analytics said in a research report.

"It could be a huge end of the year," Matt Fabian, a partner with MMA, said in an interview. "Issuers will probably begin to access the market shortly just on the risk. If they're going to borrow next year they might as well accelerate to borrow now."

A late-year rush — if significant enough — would offset the slowdown in the municipal market, where new debt sales have declined from last year's record pace. That contributed to this week's drop in state and local government bonds prices, paring the gains that came after the tax overhaul promised to slash sales in the years ahead by pulling the tax-exemption from a significant chunk of the market.

Citigroup Inc. analysts raised their municipal-bond sales forecast for 2017 by $15 billion to about $380 billion as governments move to refinance before the tax law is potentially changed. There was $428 billion of municipal debt sold last year, according to data compiled by Bloomberg.

The pace of issuance through the end of 2017 may be limited because there are few weeks left to do so. Given that it's already mid-November, there isn't enough time for a lot of issuers to come to market before the end of the year, according to Philip Fischer, head of municipal research at Bank of America Merrill Lynch.

The Illinois Finance Authority used PABs to finance more than $24 billion in "essential infrastructure

projects," including more than $3.6 billion in fiscal year 2017, according to a draft of a memo to Congress from the agency. Ending the exemption means projects may not get built, be delayed or reduced in scale, said Chris Meister, the authority's executive director.

"The virtue of private activity bonds is that it provides a fairly small benefit, but in each individual transaction it's a material benefit to non-profits to do the sort of work that either the private, for-profit sector cannot or does not want to do, or that government cannot or cannot afford to do," Meister said in an interview.

The Illinois authority is ready to move quickly to help borrowers get private-activity deals done before the end of 2017, according to Meister, who said he's heard that some borrowers are interested in moving up planned sales.

If enacted, the rollbacks to municipal-bond subsidies will "disproportionately" hurt states with fiscal challenges, said Richard Ciccarone, Chicago-based president of Merritt Research Services, which analyzes municipal finance.

"In Illinois, we can't replace those kind of government incentives with tax-supported programs because our balance sheet is already loaded with debt and pensions liabilities," Ciccarone said. "So we can't easily replace the loss of the lower cost to do your financing."

Bloomberg

By Elizabeth Campbell

November 14, 2017, 8:53 AM PST

The Week in Public Finance: Trump's Impact on Trade, a Predatory Lending Loophole and More.

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

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 17, 2017

Fitch: Trump's Impact on Trade.

Sticks and stones aside, it turns out words really can hurt: President Trump's protectionist rhetoric over the past year may be leading to lower tax revenue for border states.

The findings, laid out this week by Fitch Ratings, suggest that the president's foreign policy agenda is cutting cross-border travel. Trump in January pulled the U.S. out of the fledgling Trans-Pacific Partnership. He has also said he wants to renegotiate the North American Free Trade Agreement (NAFTA).

Passenger crossings at several ports-of-entry were down year-over-year, particularly in Alaska, Idaho, Texas and Washington state. Notably, vehicle passenger traffic either fell or stagnated at

three of the four largest ports-of-entry — San Ysidro and Otay Mesa, Calif., and Laredo, Texas. Along the northern U.S. border, passenger vehicle traffic at Michigan's three major border crossings all showed signs of softness.

Lower cross-border traffic, says Fitch, impacts sales and excise tax revenues collected in border communities.

The Takeaway: The reduced border crossings could be a sign of things to come if Trump implements protectionist policies. "Although reduced border crossings themselves are not credit negative, these fluctuations are an indicator of what border traffic declines might look like — on a larger scale — if NAFTA negotiations break down," says Fitch's Michael D'Arcy. "A re-imposition of tariffs would depress border traffic and sales tax receipts, factors which represent a credit risk to border municipalities, particularly in Texas and New Mexico."

Green Bond Issuance Surpasses US$100 billion in 2017.

Green bond issuance in 2017 has surpassed the US$100 billion milestone, marking a new record, according to Climate Bonds Initiative (CBI) data.

Last year saw a previous record of US$81.6 billion issuances, but CBI forecasts an estimated US$130 billion to be reached by the end of this year.

The Top 10 countries for green bond issuance so far in 2017 are as follows:

1. China
2. France
3. US
4. Germany
5. Netherlands
6. Sweden
7. Mexico
8. Spain
9. India
10. Canada

CBI noted that European nations have maintained their representation in the top 10, while the emergence of Mexico and India reflected their the growth in their green finance markets.

During 2017, France became the second nation to issue a sovereign green bond and Fiji has become the first emerging economy, Pacific Island nation and first from the Southern Hemisphere to issue a sovereign green bond. Nigeria is expected to become the first African nation to issue a sovereign green bond in the coming weeks.

Christiana Figueres, former UN climate chief, convenor of Mission 2020, said: "Passing US$100 billion in green bond issuance shows we are moving capital flows in the right direction. The priority is to accelerate green finance and climate investment between now and 2020 at a scale never seen before.

"A systemic response from global finance is required. Asset owners and managers need to adjust their capital allocations. Banks and corporates need to commence large-scale green bond programs.

Funding clean energy and green infrastructure to meet NDC goals is the objective. US$1 trillion in green finance by 2020 is the performance measure."

Sean Kidney, CEO, Climate Bonds, said: "We are looking for other nations to follow the lead of Poland, France, and Fiji on the sovereign issuance path. […] Now is the time for G20 and OECD countries to act and signal their intentions into 2018."

By Tom Kenning Nov 16, 2017

Trump Wants More Big Infrastructure Projects. The Obstacles Can Be Big, Too.

President Trump says he is frustrated with the slow pace of major construction projects like highways, ports and pipelines. Last summer, he pledged to use the power of the presidency to jump start building when it became bogged down in administrative delays.

"No longer will we allow the infrastructure of our magnificent country to crumble and decay," Mr. Trump said in August.

In an executive order, the president directed federal agencies to coordinate environmental impact reviews for major projects with the goal of completing them within two years. Such reviews can often take four years and, in some cases, even longer.

Continue reading.

THE NEW YORK TIMES

By BARRY MEIER

NOV. 18, 2017

S&P: Securitization Plan Won't Affect Chicago GO Debt Rating.

Chicago's authorized $3 billion sales tax securitization issuance would channel pledged sales tax revenues to a lockbox structure, unavailable to fund city operations or general obligation (GO) debt service until debt service needs on the securitized bonds have been met.

Continue Reading

Nov. 14, 2017

Market Commentary: Lots of Noise in the Muni Market as Confusion, Concern Surround PABs, Refundings.

The muni market outperformed Treasuries over the past week. Or it underperformed. Or it remained

constant. It was a mixed bag for munis this week with yields rising slightly. However, finding a consistent theme is difficult because there is so much noise in the data right now, that it's difficult to tell where the market stands.

This Market Commentary is part of *Court Street Group's Perspective*. For a full copy of the report, click here.

The Court Street Group

by George Friedlander

Posted 11/17/2017

Leveraging CA SB1 Funding: Orrick

Considerations for California Public Entities Entitled to Receive SB1 Revenues and their Financial Advisors and Underwriters

In April 2017, the Road Repair and Accountability Act of 2017 was enacted in California (also known as California Senate Bill "SB1"). Key facts about SB1 are as follows:

- SB1 is the landmark transportation funding package which generates new revenues from several transportation-related taxes and fees.
- $5.2 billion a year is the new estimated revenue expected to be generated for use by the State, cities, counties and certain other governmental entities on transportation infrastructure in California.

Governmental entities entitled to receive the new SB1 revenues may be evaluating whether there is a need for accelerating the SB1 funding by leveraging the revenue stream(s). This will depend in large part on the amount of eligible transportation projects that are construction ready.

Read Article

by Jenna Magan

November.14.2017

Orrick

U.S. Muni Supply Tops $4 bln Next Week, as Focus Stays on Tax Reform.

Nov 17 (Reuters) – New York's Metropolitan Transportation Authority will lead next week's U.S. municipal debt load, which includes $4.2 billion of total bonds and $69 million in notes.

The MTA will issue about $2 billion in bonds to refinance outstanding transportation revenue bonds, so-called green bonds that support financing for projects that reduce the impact of climate change.

In another large negotiated deal, Virginia's Commonwealth Transportation Board will issue $479

million to refund outstanding notes and help pay for a slew of repairs and work on Virginia state-owned roads.

That deal, set to price on Tuesday, is being underwritten by Wells Fargo.

The biggest competitive bond next week will come from New York'sOrange County, which plans to issue some $55.5 million in public improvement serial bonds.

Georgia will provide the largest note issuance, a negotiated, $35 million deal from the Atkinson-Coffee County Joint Development Authority, underwritten by Raymond James.

The U.S. muni bond world will continue to watch tax reform efforts next week, as President Donald Trump and Republicans in U.S. Congress push tax legislation that could have an impact on municipal investing.

The so-called Tax Cuts and Jobs Act, which passed in the House of Representatives on Thursday, still must pass muster in the Senate before making it to Trump's desk.

The bill would terminate private activity bonds (PABs), and repeal advance refundings, which municipal issuers use to refund bonds ahead of their call dates to take advantage of lower interest rates.

While the bill preserves the tax-exempt status of some municipal bonds, PABs and refunding bonds account for some 40 percent of all tax-exempt bonds, PNC Managing Director and municipal strategist Thomas Kozlik said in a note on Wednesday.

"There are scenarios we envision where no tax-exempt advance refunding or private activity bonds are sold for the first three to four months, or perhaps maybe not at all in 2018, if there is no conclusion about tax reform," Kozlik wrote.

By Nick Brown

Mixed Results in Pre-Trade Market Highlight Continued Caution Among Issuers.

"There is an alchemy to new security issuance that involves equal parts macroeconomics, politics, and routine funding needs of corporations and municipalities," said Richard Peterson, Senior Director, S&P Global Market Intelligence. " As those three variables continue to fluctuate over the course of the year, we're seeing those same undulations in the pre-trade market where issuers are readying new instruments to bring to market. We expect that general sense of cautiousness to pervade new issuance activity for the near-term."

READ PRESS RELEASE

CUSIP Request Volume Signals Sluggish Pace of Corporate and Muni Bond Issuance.

NEW YORK, NY, NOVEMBER 13, 2017 – CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for October 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found mixed results this month. Pre-trade requests for new corporate debt identifiers decreased in October, while requests for new corporate equity and municipal bond identifiers saw some increases. This is suggestive of a continued sluggish pace of new security issuance in the fourth quarter of 2017.

READ REPORT

S&P: Local Government Pension and Other Postemployment Benefits Analysis: A Closer Look

Since the turn of the century, most U.S. public sector pension plans have experienced a sharp increase in unfunded liabilities due to several factors including demographic shifts primarily associated with the baby boomers, significant increases in life expectancy, and investment returns…

Continue Reading

Nov. 8, 2017

How Lawrence Used Regenerative Public Finance to Fund a Single Fire Truck.

One bond. One project. One fire truck.

Firefighters are part of the backbone of our communities. They're the ones running into a burning building when everyone else is running out, they're first on the scene to provide medical care, and they'll even help rescue your family cat from that sugar maple. Firefighters save lives, protect property and help educate the public about fire safety. Ensuring that they have the equipment they need to do their jobs is crucial.

But raising funds for fire equipment isn't always easy. The traditional transacting costs associated with issuing bonds are high, so cities often bundle projects into larger bond issuances – the average bond issuance in the year to date was $35.7 million, according to the MSRB. This "bundling effect" can sometimes delay the acquisition of important equipment, such as the purchasing of fire trucks.

Continue reading.

Neighborly

by Garrett Brinker

Posted 11/05/2017

The Week in Public Finance: The Senate's Tax Reform Plan, Election 2017's

Impact on Spending and More

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

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 10, 2017

Struggling Suburb? Merge It With the Big City Next Door.

It wouldn't be a panacea, but it's an option that needs to be on the table.

Consolidation of city and county governments has long been in vogue with good-government advocates. But while the cost/benefit of these kinds of "big box" mergers is questionable, one kind of smaller-scale jurisdictional union makes a lot of sense: the merger of struggling inner-ring suburbs with adjacent central cities.

The problems facing inner-ring suburbs, which contain as much as 20 percent of the American population, have been getting increasing attention. While many of these communities are doing well or even thriving, others have encountered serious challenges with population loss, increasing poverty, declining household incomes, retail vacancies and dead shopping malls. As their tax bases shrink, these communities run into serious financial challenges, leaving them struggling to provide basic services to their residents.

Troubles in an inner-ring suburb can be more difficult, in a sense, than in a bigger city. These smaller communities are often off the public's radar, so problems there seldom get media or state-level attention until a crisis occurs, as with the turmoil following the police shooting in Ferguson, Mo., or the pay scandal in Bell, Calif.

Compared to cities, inner-ring suburbs have a limited range of housing and retail building types. Some of these, such as small ranch homes or simple strip malls, are now out of favor in the market. If a more monolithic suburb has these off-trend buildings, attracting residents and businesses can be challenging. What's more, many suburbs were built as bedroom communities. They lack the regional assets of big cities, such as powerful office-based central business districts, seats of government, cultural institutions, universities or hospitals. They have fewer assets to redevelop around.

These challenges often overlap with racial ones. In many regions, black city residents, along with members of other minority or ethnic groups, have been moving to the suburbs in search of the American dream of home ownership. While this often goes well, some of these inner-ring suburbs have proven to be similar to the troubled city neighborhoods that people have fled. When public pension costs, bond debt and other bills from the past come due in such declining places, suburban residents are unable to draw on the tax base of a larger, asset-rich central city.

A merger is not a panacea. Nobody should expect one to magically address poverty or segregation, for example. But when fiscal conditions make it impossible to fund basic public services, merging with an economically stronger municipality can help address that problem. The other options for struggling municipalities all come with their own sets of downsides. A financial control board or even a bankruptcy can potentially address debt or pension problems, but they won't help with a declining tax base. Neglect or simply providing life support through subsidies might be viable politically in the short term — until a crisis strikes. But temporary subsidies ignore underlying

problems and allow them to continue to fester. And finally, a state takeover comes with its own risks. Just ask Flint, Mich.

I examined suburbs contiguous to several Midwestern and Northeastern post-industrial cities for my recent Manhattan Institute study, “Mergers May Rescue Declining Suburbs.” I found that a large number of these suburbs face negative indicators like falling populations and rising poverty. Many are potential candidates for a merger, and I highlight 10 of them as examples.

We haven’t seen this type of merger in the recent era, but there have been a few proposals. One case is East Cleveland, Ohio. The Cleveland suburb has lost 37 percent of its population since 2000 and has a poverty rate of almost 43 percent. Fiscal problems forced it to cut its budget by 38 percent and lay off almost half of the municipal workforce. It had to borrow salt trucks from the state and an ambulance from a neighboring town. Merging with Cleveland could help to ensure that good-quality basic public services can be delivered there.

But let’s not kid ourselves: Mergers are extremely challenging politically. East Cleveland is again the example. After starting the process of exploring a merger, the mayor and city council president were recalled by narrow vote margins in a special election in December, killing the merger proposal for now.

Nevertheless, local and state leaders should keep mergers in mind as a policy tool. Then they can look for opportunities where need and political reality align to use it. They can also start drawing lessons from annexation battles. Annexations typically require a carrot of some sort to sell the proposal, such as getting utility service or investments in other infrastructure. For mergers to happen, states will likely need to step up to fund transition costs, potentially absorb excessive suburban fiscal liabilities and put a capital improvement plan on the table as a sweetener. Ohio’s state auditor had suggested a $10 million state infrastructure investment in East Cleveland contingent on a merger.

The challenges of helping economically declining and fiscally struggling inner-ring suburbs will not be easy ones to solve. There are no magic fixes, and the answers will vary by community. But merging with the adjacent central city is an option that needs to be on the table.

GOVERNING.COM

By Aaron M. Renn | Columnist
Senior Fellow at the Manhattan Institute

NOVEMBER 2017

[The Municipal Bond Trader Working the Phone Is Now a Dying Breed.]

- **Electronic networks account for majority of dealer trading**
- **Regulator says data provides first look at role of ATSs**

Even on staid municipal bond desks, the days of traders working the phones are rapidly fading.

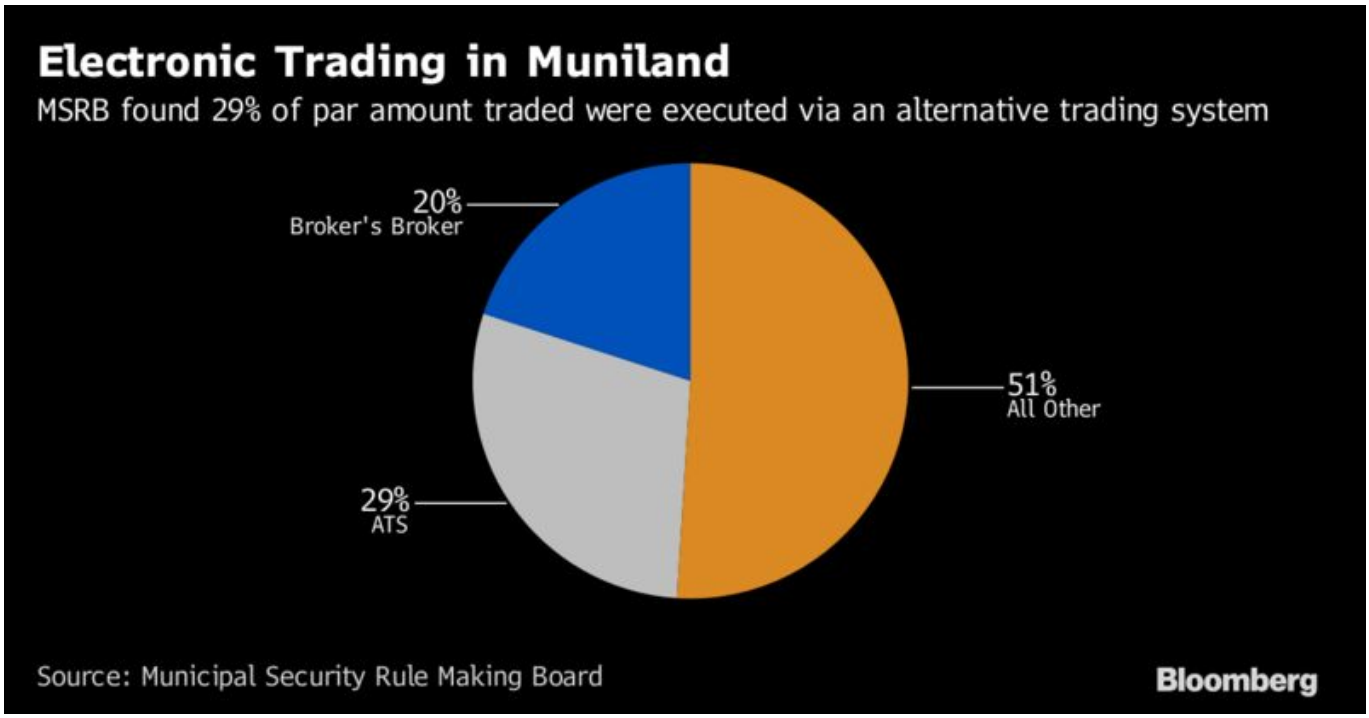
Electronic-trading platforms, known as ATSs, for securities firms and big investors account for 59 percent of all state and local debt trades between dealers, according to data released by the Municipal Securities Rulemaking Board. Dealers can choose to trade one of three ways — through

ATS, broker's brokers or directly with each other.

"Our data provide the market's first view of the extent to which ATSs are used in the muni market," John Bagley, the Chief Market Structure Officer at the MSRB, said in a statement. "These platforms, which disseminate quotes and expand access to bond inventories, can help improve liquidity and market efficiency. They can also help dealers obtain the best pricing for investors."

The MSRB first began data collection on the amount of trading executed on ATSs in July of 2016. In the past twelve months, 29 percent of total inter-dealer par amounts traded were executed through an alternative trading system.

While a majority of inter-dealer trades used ATSs, 34 percent were still conducted directly between dealers and 7 percent through a broker's broker.



Bagley said that ATSs can provide a way for "dealers to access bids and offers from a wide range of market participants," given that securities firms have cut their bond inventories by about 50 percent over the past decade.

Bloomberg Markets

By Danielle Moran

November 9, 2017, 9:30 AM PST

Bloomberg Brief Weekly Video - 11/09

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

Watch video.

Bloomberg

November 10th, 2017

Public-Private Development: Aligning Interests Through a Ground Lease.

To facilitate real estate development projects, the public sector often seeks to structure its public-private transactions through a ground lease. For the public sector, a ground lease possesses a number of important features, including: (i) an enforceable mechanism to structure both the development and operational relationship with its private sector partner; (ii) the opportunity to realize longer-term economic value in the property once improved; and (iii) the means to ensure that particular public objectives are achieved. For the private sector, while a ground lease presents challenges that must be addressed, the structure allows for a number of benefits, including: (i) the opportunity to develop a project without carrying a significant upfront acquisition cost for the land; (ii) a means to access tax benefits; and (iii) a flexible structure that can adapt as a project moves from the construction phase to the operational phase.

Given the parties' varying objectives and the long-term nature of the relationship, public-private ground lease negotiations are complex and lengthy in nature. These negotiations typically focus on the following key provisions:

- rent, revenue participation and resets; tax benefits;
- capital work and public sector oversight; use and operations;
- term and purchase option;
- transfer restrictions;
- casualty events; and
- reporting requirements and audit rights.

By undertaking a ground lease transaction with a sound understanding of each party's key objectives and by using the negotiation process to align the parties' interests, the ground lease provides a means to optimally allocate risks and benefits to each of the parties, which can lead to transformative real estate development projects.

Rent, Revenue Participation, and Resets: Maximizing Public Sector Long-term Value

Although the public sector often has significant nonmonetary objectives when negotiating a ground lease, the public sector also seeks to maximize the value of its real estate interest. Since governmental entities are not equipped to enter into formal joint venture agreements with developers, a ground lease represents a suitable alternative form to memorialize these arrangements. Consequentially, the public sec-tor attempts to negotiate a rental stream that in the aggregate reflects its contribution to the project. Typically, negotiation of the rent provisions focus on: (i) a base rent that escalates over time; (ii) a participation component; and (iii) periodic resets. By structuring these revenue streams in a manner that provides the private sector with a level of certainty regarding its annual payments while also offering the public sector the opportunity to participate in the project's success, the parties can align their respective interests.

Base Rent

While base rents can vary, the parties tend to negotiate a rent that is between five percent and seven percent of the agreed-upon value of the land subject to the ground lease. The agreed-upon value presents the real challenge in this negotiation. While the public sector may anchor itself to an appraisal based on highest and best use, the developer wants to make sure that the appraisal accounts for any development limitations set by the lease. For example, even though an all residential project may represent highest and best use, if the developer is limited in the amount of residential space allowed in the project, the appraisal should account for such limitation.

Escalations

The escalation of ground rent payments represents a significant concern for both parties. Often times, the public sector negotiates to tie the escalations to an objective mea-sure such as the Consumer Price Index ("CPI"). The challenge with using CPI though is that land values and CPI increases do not necessarily correlate. In a strong real estate market, land values may rise significantly while CPI remains relatively flat. Over the past few years in New York City, for example, land prices have increased significantly while inflation has remained low. Although the relative steady nature of CPI in recent history would appear to benefit a developer, a developer often looks to have even greater certainty with respect to what its future rental payment stream will be given that ground leases can extend for upwards of 99 years. As a result, a developer either seeks to have a fixed annual percentage rental increase or looks to tie the increase to CPI subject to a cap on annual increases. Within this basic framework, there are numerous variations. For example, instead of increasing annually, the parties may agree to ground rent payments that step up periodically (e.g., once every three years).

Given that periodic increases may not appropriately reflect changes in property values, periodic reset provisions often are negotiated in ground leases. These provisions require that an appraiser undertake an appraisal, and as noted above in the context of base rent, the parties' negotiations focus on the scope of the appraisal. While the public sector tends to propose a highest and best use scope, the developer again needs to negotiate to ensure the valuation takes into account the limitations established by the ground lease as well as the age of the facility then on the property. The developer wants to ensure the valuation is of what the property is and not of what the property could be.

Participation

Since in many respects the ground lease acts like the public sector version of a joint venture, a participation rent provides the public sector with the opportunity to realize additional value for its property contribution, particularly in the event of a highly successful project. Given the unknowns associated with the project at the time the parties negotiate the participation provision, these negotiations can be particularly challenging. In addition to the percentage itself, the parties must agree on the base number to use in the calculation. While the public sector prefers to have the participation calculated off a gross revenue number, the developer understandably is resistant to such a calculation because a net number is more reflective of the true success of the project. For the public sector, a net number presents a challenge because the public sector is not well positioned to assess the appropriateness of certain expenses incorporated into the calculation. For instance, the developer may allocate certain overhead costs to the property's operation, which can be difficult for the public sector to verify. Consequentially, the public sector needs to have appropriate audit rights to confirm the participation payments.

As with rent escalations, there are numerous variations to the rent participation framework. For example, the parties typically discuss whether to use a tiered structure for the participation. In this instance, the parties agree to adjust the percentage rent applied to revenues as those revenues grow

in a given year. To the extent a project is more successful, the public sector receives compensation for a greater share of that success.

While the parties may see each component of the rent stream in a binary light, when viewed in terms of a structure that over time (i) provides the developer with some level of certainty regarding payments, (ii) fairly compensates the public sector for its initial investment through the contribution of its property and (iii) further benefits the public sector party in a manner that tracks the success of the project, the rent stream represents one significant tool to align the interests of the two parties.

Tax Benefits: Other Forms of Public Sector "Investment"

Although tax benefits represent another deal term viewed in a zero-sum fashion, when war-ranted these benefits are an additional form of public sector investment in a project. This is particularly true given that the public sector is increasingly less likely to make direct capital contributions as budgets tighten. Through the targeted use of tax benefit tools, the parties can work together to develop an optimal plan that further ensures the project comes to fruition.

Tax Exemptions

Maximizing the long-term value of its property represents one public sector objective, but the ground lease also is often the means through which the public sector can further invest in the project by providing a real estate tax exemption. Typically, property owned by a public sector entity is not subject to real estate tax under applicable state law. For example, Section 404 of the New York Real Property Tax Law exempts real property owned by the State of New York from real estate taxes while Section 406 exempts real property owned by the City of New York from real estate taxes. Therefore, by having a public sector entity retain the fee interest, the entity can make an-other longer-term investment in the project through the real estate tax exemption.

If the parties have not agreed to preserve the real estate tax exemption, the public sec-tor typically negotiates a provision requiring that the developer make payments-in-lieu of taxes, or PILOTs, which the parties can structure to mirror the amount that the developer would otherwise pay annually or can structure as a fixed-payment schedule. In addition to real estate taxes, in certain instances the public sector can provide other tax benefits through the ground lease. For example, in New York City, the public sector may provide a sales tax exemption through the ground lease.

Tax-Exempt Financing

In addition to facilitating a tax exemption, ground leases commonly are used in tax-exempt financing transactions, which represents yet another manner in which the public sector can contribute to a project. The parties can structure this financing in a few different ways. The public sector and developer may undertake a tax-exempt bond financing in which PILOT payments made by the developer act as the source of repayment of the bonds. Per Internal Revenue Service regulations, the PILOTs must be "commensurate with the amount imposed by a statute for a generally applicable tax".

Another tax-exempt financing structure used for development projects involves 501(c)(3) bonds. This particular structure has become more prevalent in the student housing area as public universities turn to private developers to build new student housing. In this type of public-private partnership, the university ground leases its property to a not-for-profit conduit issuer who in turn issues 501(c)(3) bonds to finance the student housing development. The not-for-profit tenant also enters into development and management agreements with a private sector partner who proceeds to develop and operate the project. The ground lease has a term that extends for a period sufficiently

beyond the term of the bonds. At the end of the lease term, the improved property returns to the university. Through this structure, the university has the ability to not only access tax-exempt financing but also to work with a developer with expertise in student housing development without fore-going its fee interest in a property.

Construction and Public Sector Oversight: Ensuring the Project Comes to Fruition

With respect to the project's construction period, the parties need to focus on establishing a process that provides the public sector with sufficient comfort that construction progresses on schedule while at the same time not limiting the developer's ability to use its expertise to efficiently manage construction. The extensive negotiations that typically take place over the level of the public sector entity's involvement in monitoring a project's construction phase is particular to the public-private context. When viewed in the context of the ground lease being analogous to the public sector's version of a joint venture, this focus makes a good deal of sense. The public sec-tor usually undertakes an extensive diligence process to ensure that its private sector partner is proposing a feasible project and that the developer has the resources and ability to successfully deliver the project on time and on budget. The resulting ground lease safeguards relating to project delivery are particularly critical to the public sector because all too often the public sector has experienced situations in which its property winds up being saddled with a ground lease and where the developer can-not deliver a project.

As noted above, the public sector often makes significant contributions to the development project through its land contribution as well as tax benefits and should negotiate the construction period provisions as a joint venture partner would. In fact, the public sec-tor may structure the transaction so that the ground lease only becomes effective upon the developer fulfilling certain conditions, including a final set of plans and specifications, a fully negotiated construction contract and construction financing in place. The parties may negotiate an agreement to lease or development agreement to govern the period prior to the ground lease becoming effective. The public sector also seeks to have the developer provide a completion guaranty and/or provide security in the event of default where the developer leaves the property with a partially completed project that the public sector must remove. As is the case in a traditional construction financing, a key item with respect to the completion guaranty is the identity of party who will provide the guaranty. Since the developer likely has formed a special purpose entity with no other assets to act as tenant under the ground lease, the public sector needs to ensure the sponsor entity steps in to provide the guaranty.

To make sure construction proceeds in accordance with the final project budget and schedule, the public sector wants to negotiate into the ground lease rights to monitor construction through regular updates and inspections. For the developer, it seeks to make certain that these rights do not delay the project's development. During negotiations, the parties will likely discuss the appropriateness of having a deemed approval provision with respect to items for which the public sec-tor has an approval right. While a reasonable request, the public sector must make sure it is equipped to respond in a timely fashion.

Although the public sector strives for certainty in this process, there often is significant uncertainty associated with development projects. Hence, a developer looks to build enough flexibility into ground lease provisions so that the developer does not risk an event of default if and when construction does not proceed according to plan. This is particularly important because the ground lease will need to include typical provisions that make it financeable, including provisions regarding recognized leasehold mortgagees, notice and cure rights for mortgagees and new lease rights in the case of a termination. Given that the construction lender shares the public sec-tor entity's interest in project certainty, the public sector may take comfort in the construction lender having the necessary rights and protections typical in a construction loan provided by an institutional lender. To ensure

that the lending party is an institutional-type lender with sound underwriting standards and the ability to insist on customary lender protective provisions in the loan, the public sector typically negotiates recognized mortgagee provisions requiring the lenders to be of a certain financial standing.

Not surprisingly, one of the biggest points of negotiation in the construction context is the completion date. Obviously, a developer seeks to have as much cushion as possible on this term. Additionally, its construction lender wants to make sure that there is sufficient time so that in the event the lender must foreclose on the developer's interest and bring in a replacement developer there is time for this to occur without facing a default and potential termination of the ground lease. Since the completion date may trigger the commencement of rent payments, the public sector may have a basis for negotiating a liquidated damages provision for lengthy delays in completion. As the delay grows, the public sector has grounds to expect a higher damage payment.

Use and Operations: Ensuring Success is Not Fleeting

Through the combination of a prescriptive use provision with defined parameters for granting relief, the parties can establish a structure that protects the public sector's interest in seeing its property activated in a particular way while also allowing the developer to make adjustments if market conditions warrant. Since the public sector often enters into a ground lease expecting a particular end use that satisfies certain public objectives, the public sector typically negotiates prescriptive use and operation provisions that go beyond standard provisions prohibiting noxious uses. For example in a retail development, the use provisions may specify the type and quality of tenants as well as minimum operating hours. The public sector typically also includes limitations on "going dark" to prevent extended periods of inactivity on the property. Collectively, these use provisions are particularly important because job creation often is a key project objective. Furthermore, in the event that the public sector expects to derive a significant component of the project's economic value from percentage rent, the public sector wants to ensure the property remains active.

In addition to the economic component, the use provisions may also act as another overlay of zoning with certain uses being prescribed for different components of the project. For example, the use provisions may prescribe streetscape retail on the ground level with commercial office space residing on upper level floors. The public sector may also negotiate to have a portion of the developed project retained for its own use or the use of groups in the surrounding community. As a result, the public sector seeks to ensure that the various uses are compatible.

While the public sector, as is the case during construction, seeks certainty, the developer again seeks the flexibility to allow the project to adapt over time. The developer may needs this flexibility because the market for the project does not materialize as expected or be-cause market preferences change over time. The developer typically makes the case that it is incentivized to maximize activity on the property since profit maximization is its primary motivation. To the extent one use does not maximize profits, the developer will ultimately choose another use that does over having the property remain dark.

To address these competing concerns and to implement a structure that provides some level of flexibility, the parties can agree to include a set of parameters, which if met would provide the developer with a basis to request relief from the prescriptive use provision. For example, in the event the ground lease re-quires a particular type of tenant as occupant for a minimum amount of space, the agreement could provide that if the developer can demonstrate it has diligently marketed the space for a minimum period of time but has not attracted a tenant the developer would have the ability to offer the space to a wider range of tenants.

Term and Purchase Option: Determining How Long is Long-Term Part I

Given the significant investment that a developer makes to develop a project, a ground lease tends to be a minimum of 25 years and often runs 49 years or more. Generally, a lease of 25 years does not provide sufficient time to make a developer's investment of time and money worthwhile. It is not atypical to have a 49-year ground lease with tenant options extending the term to an aggregate of between 75 years and 99 years.

In the context of the ground lease term, negotiations tend to focus on whether or not the developer will have the option to purchase the property at some point during the term. While the public sector may want to preserve its reversionary interest in the property, if structured correctly, the public sector can realize the value of its property interest through the purchase option once the project has reached stabilization. As in the case of the base ground rent and rent reset calculation, the purchase option negotiation focuses on the scope for the appraisal that is typically undertaken to determine the developer's purchase price. The parties can look to the present value of the future rental payments to inform the discussion, but the fact that the public sector likely expects a portion of its return in the form of percentage rent means that the base rent stream does not fully reflect the value of the public sector's interest. While the parties can estimate future participation based on past experience, the public sector also must ensure that the valuation is not depressed because the developer opportunistically exercises the option at a low point in the market. As a result, the parties must work through a number of scenarios to appropriately address the potential issues raised by valuing the public sector's interest.

The developer's argument for a purchase option is stronger in the instance where the ground lease is simply undertaken to provide a tax benefit or facilitate a tax-exempt financing. In those instances, the parties can tie the purchase option to the point in time when the agreed-upon tax benefits have expired or when the tax-exempt financing has been repaid.

Transfer Restrictions: Determining How Long is Long-Term Part II

Although provisions restricting transfers apply to both the development stage and operations stage, the parties can craft these provisions to provide the public sector with the comfort of knowing that the developer will not exit before project completion and with knowing that over the long term a party with the necessary property management expertise will oversee its operations. Developers generally understand that the public sector is looking to the developer to deliver the project so the ground lease significantly limits the developer's ability to transfer its interest in the project during construction. While the developer needs sufficient flexibility to bring in additional equity partners, the public sector wants to ensure that the developer retains control over management of the project given the reliance on the developer's expertise. The public sector also wants to make sure the developer continues to have "skin in the game." As a result, during the construction phase, the ground lease may include a minimum equity stake for the developer as well as a requirement that the developer remain in control of the project.

Once the developer completes the project and the project reaches stabilization, the developer has a basis to negotiate less restrictive transfer provisions. The developer's business model may not focus on the continued management of a stabilized asset. As a result, provided that the developer has successfully delivered on its construction commitments, the ground lease may allow for less restrictive transfer provisions during the operational phase. For the public sector, the key component of a less restrictive provision is that a property manager with a sufficient level of expertise and quality manage the project moving forward. The parties may agree in advance on a group of entities from which to choose or may agree on a set of criteria, such as a certain amount of space under management, that a property manager would need to satisfy.

Casualty Event: To Restore or Not to Restore

Given the length of a ground lease's term, the parties need to address the potential that at some point a casualty occurs. By crafting provisions that take into account the extent of the damage and the timing of the event relative to the lease's remaining term, the ground lease can reflect the public sector's interest in having the project restored while not overly burdening the developer with an absolute restoration obligation. For the public sector, it seeks to ensure that the private sector party is carrying sufficient insurance so that proceeds cover restoration of the project. The public sector looks require that the developer restore the project to at least the same condition as prior to the casualty event. In contrast, the private sector party wants to preserve the flexibility to determine how best to proceed based on the extent of the damage and when during the term the casualty takes place. Typically, a developer agrees to the restoration requirement provided the extent of the damage caused by the casualty does not exceed an agreed-upon threshold amount. The parties may base this threshold amount on the value of the property or on the square footage of the property. For example, a developer may agree to restore provided the damage does not exceed 50 percent of the value of the property or instead 50 percent of the square footage of property. During the final years of the ground lease, neither party may have an interest in restoring the project given the project's age and the ground lease's remaining term. As a result, the parties typically agree to lower the material casualty threshold in the final years of term so that the developer's restoration requirement is limited to minor casualty events.

In the casualty provisions, the parties also need to account for the potential requirements of the developer's lender who will seek to control the use of any insurance proceeds in the event of a casualty. For the public sector, the lender's right does not present an issue provided the lender agrees to have the proceeds used first for restoration. Repayment of any loan amounts should occur only in the event that the developer has the right to terminate without restoring the property. In the event that a casualty triggers a termination of the ground lease and pay out of proceeds, the parties need to work through the waterfall for these proceeds. The developer will seek to have proceeds first paid to it for the value of the improvements while the public sector will seek to have at least a portion of the proceeds paid to it for the value of its land. This tension again leads to the parties seeking an appraisal to determine the relative value of their interests in the property.

Reporting and Auditing: Providing for Transparency

By incorporating transparency measures into the ground lease, the parties are more likely to receive the necessary buy-in from public stakeholders and are more likely to achieve their collective objective of developing a successful project. When negotiating a ground lease with the public sector, a developer needs to understand that the public sec-tor must ensure that a transparent process occurs both for its own interests and the interests of its constituents. Since the public sector entity undertaking the ground lease likely has reporting obligations to public bodies and the public at-large, the public sector typically includes a robust set of reporting obligations on the part of the developer as well as significant auditing rights. With respect to reporting, the public sector has an interest in ensuring the project delivers on the commitments made in the ground lease and any ancillary agreements. In an economic development project, for example, the public sector wants to receive updates with respect to the number and types of jobs being created as well as average wages being paid. The public sector may also require a local hiring effort as part of the project, which requires additional compliance monitoring.

It also is worth noting that as the public sec-tor increasingly becomes subject to stronger transparency measures, the public sector in turn must ensure that it receives the information necessary to keep constituents apprised of project developments and whether the project is delivering the benefits promised. To ensure that the public sector receives the in-formation that it

needs in a format that it can readily digest, the parties should agree at the time of ground lease execution on the appropriate format for periodic reporting. Additionally, the public sector is likely subject to the oversight of other public sector parties, so audit rights represent an important provision to work through. For example, in New York City, the city comptroller's office conducts audits of city agencies so these agencies must have the means to respond by having an appropriate level of audit rights.

In addition to compliance and audit, the developer must report on the project's financial operation to the extent that a participation rent comprises a component of the rental stream. Since the public sector from time to time may disagree with the calculations used for participation rent, the public sector needs the ability to more closely review the books and records of the project to make sure the calculations are fair and accurate. This is particularly important when participation rents are based on net income figures. To the extent that general overhead costs, for example, are being allocated to the project, the public sector wants to ensure that these costs are appropriately attributable to the project.

Conclusion

Although ground lease negotiations present challenges for both private sector and public sector parties, the nature of the process can allow the parties to work through these challenges to develop an agreement that aligns their respective interests and optimally al-locates risk over the length of the ground lease. For the public sector, the ground lease acts as means to invest in a project through the contribution of its property and potentially other public sector support and allows for a level of protections for the public sector that appropriately reflects the stage in which the project exists. For the private sector, the ground lease is a means to receive that public sector support while at the same time providing flexibility over time to adapt the project and its role in the project within parameters agreed upon at the outset of the term. Taken together, the ground lease provides the basis for a structuring a mutually beneficial long-term relationship between the public and private sectors.

October 31 2017

by Patrick J. O'Sullivan, Jr.

Herrick, Feinstein 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.

Bond Buyer Announces Finalists for 16th Annual Deal of the Year Awards.

The Bond Buyer Tuesday announced the finalists for its 16th annual Deal of the Year awards.

Issuers were honored in eight categories, and all the award winners are also finalists for the national Deal of the Year Award, which will be announced at a Dec. 6 ceremony held at 583 Park Avenue in New York City. The winner will also be revealed online at BondBuyer.com later that evening.

For more than a decade and a half, the editors of The Bond Buyer have selected outstanding municipal bond transactions for special recognition. The 2017 awards, which considered deals that closed between Oct. 1, 2016 and Sept. 30, 2017, drew nominations that represent the full diversity

of the communities and public purposes that are served by the municipal finance market.

“The nominees faced stiff competition from many eminently qualified deals,” said Michael Scarchilli, Editor in Chief of The Bond Buyer. “We chose the finalists for innovation, the ability to pull complex transactions together under challenging conditions, the ability to serve as a model for other financings, and the public purpose for which a deal’s proceeds were used.”

For the seventh year, the Deal of the Year gala will also include the presentation of the Freda Johnson Award for Trailblazing Women in Public Finance. This year marks the third in which the organization is honoring two public finance professionals; one from the public sector and one from the private. The 2017 honorees are Chicago chief financial officer Carole Brown and Julie Morrone, a principal at Rosemawr Management.

The finalists are:

NORTHEAST REGION
The Massachusetts Bay Transportation Authority’s $370 million issuance of sustainability bonds and bond anticipation notes. Proceeds of the offering, the first tax-exempt sustainability bonds ever issued in the United States, will go exclusively toward projects that benefit the environment or society more broadly.

SOUTHWEST REGION
The Fort Worth Transportation Authority’s first-ever transaction, a $325 million private placement to fund a commuter rail line that will alleviate traffic, provide much-needed rail service to Dallas-Fort Worth airport, connectivity to Dallas Area Rapid Transit’s rail system, as well as improving air quality.

MIDWEST REGION
The $1.3 billion inaugural financing from the newly-created Great Lakes Water Authority, among the most sizable water and sewer systems in North America. The sale unlocked substantial debt service savings for ratepayers and provided necessary funds for water system capital projects at an attractive borrowing rate.

SOUTHEAST REGION
The Kentucky Economic Development Financing Authority’s $472 million deal to benefit Owensboro Health. The sale represents the first new use of commercial bond insurance and first use of a surety in place of a Debt Service Reserve Fund in non-profit healthcare finance since the credit crisis a decade ago.

FAR WEST REGION
The Bay Area Toll Authority’s $1.9 billion sale as part of its San Francisco Bay Area Toll Bridge Seismic Retrofit Program. Over the past decade, BATA has completed more than $13.7 billion of bond financings and refinancings as part of the program, which has provided critical funding for retrofitting seven bay area bridges including the San Francisco-Oakland Bay Bridge.

NON-TRADITIONAL FINANCING
The City of Cambridge, Mass.’ $2 million sale of minibonds, with minimum denominations of $1,000, to fund city-wide municipal and school projects. The minibond structure allowed Cambridge to respond to an unmet need of its residents, who regularly expressed interest in actively investing in capital projects throughout the city.

HEALTHCARE FINANCING

Kaiser Permanente's $4.2 billion sale which represented the largest aggregate financing by a 501(c)3 healthcare institution, the largest taxable issuance by a 501(c)3 healthcare institution, and the largest Green Bond issuance by any healthcare organization. The California Health Facilities Financing Authority was the conduit issuer on the $2.1 billion tax-exempt component.

SMALL ISSUER FINANCING
The City of Missoula, Mont.'s $138 million sale of bond anticipation notes to purchase its water system from a private company. This was the inaugural financing for the city's newly formed water enterprise and the culmination of over six years of legal battles to purchase the water system through Montana's eminent domain statutes.

November 07 2017

Bondholders Fret as Alchemy Turns Chicago's Junk to Gold.

- **Chicago sales-tax securitization may herald trend for cities**
- **With money siphoned away, other bondholders left less secure**

Chicago's public pension debt is $36 billion and growing, it's facing $550 million in budget deficits over the next three years and this summer the state had to bail out a school system that was flirting with insolvency.

Yet next month, the nation's third-largest city — whose bonds were downgraded to junk by Moody's Investors Service two years ago — will start selling as much as $3 billion of debt that another rating company considers as safe as U.S. Treasuries.

That's because Chicago is selling off its right to receive sales-tax revenue from Illinois to a separate public corporation, which will issue new bonds backed by those funds, a structure called securitization. Because bondholders will be insulated from the city's finances and have a legal claim to the sales-tax money, Fitch Ratings deems the bonds AAA.

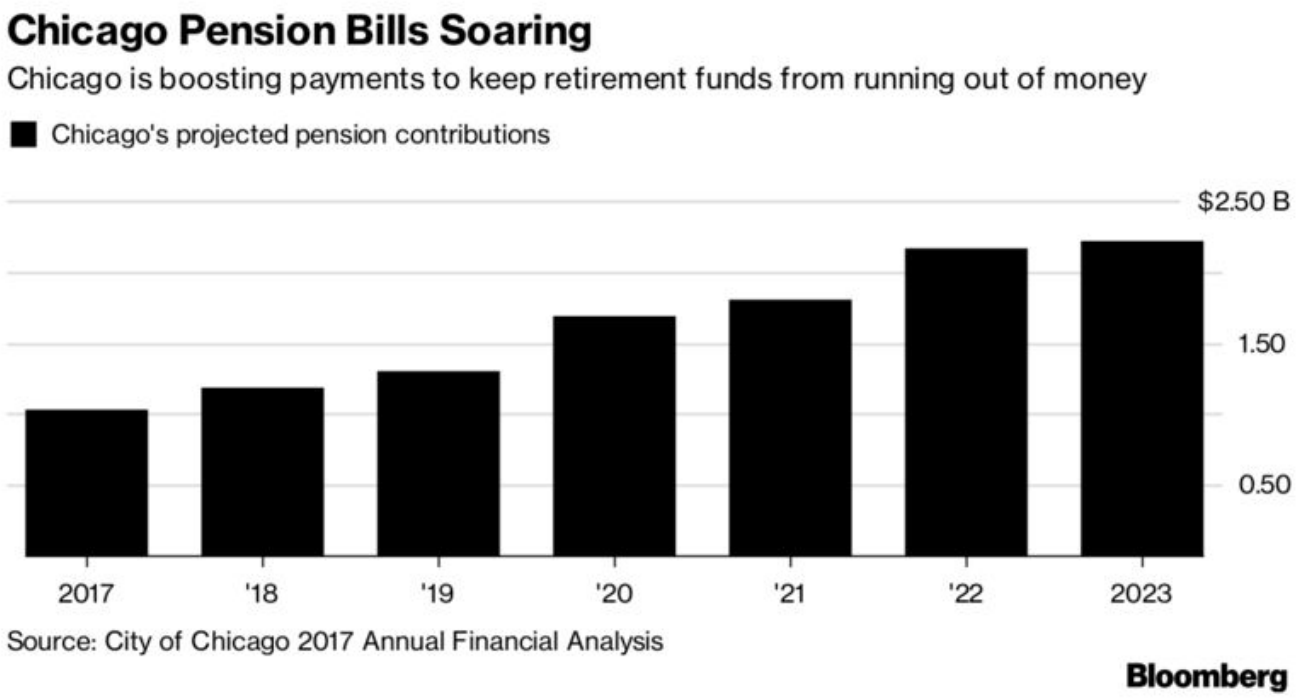
Some investors fear Chicago's approach may kick off a wave of securitizations by fiscally stressed municipalities that would increase their risk by siphoning away cash that backs bonds secured only by a promise to repay. Last month, Connecticut, which had a $3.5 billion two-year deficit, approved a budget that authorizes new debt backed by state income tax so it could receive a higher rating than the state's A+ general-obligation bonds.

"You are, through a process of alchemy creating AAA rated debt," said Christopher Dillon, a municipal bond portfolio specialist at T. Rowe Price Group Inc. "They've lowered their borrowing cost in the near term, but long term, it's just a continued degradation of the full faith and credit at the general-obligation level."

Detroit Casts Shadow

Since Detroit's bankruptcy four years ago, investors in the $3.8 trillion municipal market have given greater scrutiny to securities backed by a government's good word instead of a secure revenue stream. When that city emerged from court, holders of "limited" general-obligation bonds received 42 cents on the dollar for their investments, compared with 100 cents for owners of Detroit's water and sewer debt.

Institutional Investors from Pacific Investment Management Co. to Standish Mellon Asset Management Co. have said they favor revenue bonds, which don't compete for resources with public pensions, over general-obligation debt.



Creating separate entities to issue higher-rated debt isn't a new phenomenon. New York City, Philadelphia, Washington, Nassau County and Buffalo, New York, have all issued higher-rated dedicated-tax bonds to save money. But Chicago's sale comes as many cities face pressure from deeply underfunded pensions and opting for bankruptcy has lost some of its taint after a handful of governments did so after last decade's recession, though Illinois municipalities aren't allowed to take that step.

Chicago was extended the power to securitize its sales-tax payment by Illinois lawmakers this year. Paying off higher cost debt by issuing the new bonds will save Chicago almost $100 million in 2018.

Chicago's new bondholders will have a first claim to more than 90 percent of the approximately $715 million of sales-tax revenue collected each year, according to a presentation to Chicago's aldermen. The state, which collects sales taxes, will send the revenue directly to the bond trustee. Any excess revenue will go to the city.

"It just reeks of having your cake and eating it too," said Triet Nguyen, managing director at NewOak Capital. "You can prioritize certain revenue but the general obligation-bonds are actually fine."

The lower rating on Chicago's general-obligation bonds reflects all its debt, including securitizations and dedicated-tax bonds, and the government's ability to repay it, said Amy Laskey, a managing director at Fitch. The new bond issue hasn't affected that rating because the city is refinancing at a lower cost, not increasing its overall debt.

"The real sea change would be if they decided for some reason to issue a whole ton of debt that they hadn't planned to before," Laskey said. "I haven't heard any indication from them that's the case."

S&P Global Ratings grades the sales-tax securities slightly lower than Fitch at AA, the third-highest grade. They aren't rated by Moody's.

Puerto Rico Fight

Some investors say the legal battle now being waged in federal court between Puerto Rico's general-obligation debt owners and sales-tax bondholders shows that legal structures like the one set up in Chicago are no guaranty when a borrower goes bankrupt or encounters severe financial distress.

In 2006, Puerto Rico passed a law creating a separate entity to issue sales-tax backed bonds with a legal structure similar to Chicago. The commonwealth approved a 5.5 percent sales tax and sent a portion to an entity known as Cofina. The new tax-backed bonds issued by the agency had a bigger margin of safety to pay debt service and garnered A+ ratings, five levels higher than Puerto Rico's general-obligation bonds at the time.

This year, Puerto Rico entered into a form of bankruptcy and Cofina bondholders discovered the debt might not be so secure.

In June, the island said it may need more than $400 million in sales-tax revenue held by Cofina's bond trustee for government operations. Cofina bondholders are fighting the move in bankruptcy court. General-obligation bondholders assert the money belongs to them, arguing that the territory's constitution guarantees them a first claim on the government's resources.

"We're seeing these structures don't always stand up the way they were designed to in bankruptcy," said Tamara Lowin, director of research at Belle Haven Investments. "The market's not putting as much faith in them as they have in the past."

Bloomberg Markets

By Martin Z Braun

November 10, 2017, 4:30 AM PST Updated on November 10, 2017, 9:04 AM PST

— With assistance by Elizabeth Campbell

Chicago School Bonds Top Next Week's $9.84 bln Muni Bond Sales.

CHICAGO, Nov 10 (Reuters) – The junk-rated Chicago Board of Education will sell $922 million of bonds next week in the wake of a new Illinois education funding formula that allocates more money to the cash-strapped district.

The two-part bond sale, pricing through J.P. Morgan on Wednesday and Thursday, tops the $9.84 billion of bonds and notes selling in the municipal market in the coming week, according to Thomson Reuters estimates on Friday.

Escalating pension payments have led to drained reserves and debt dependency for Chicago Public Schools (CPS), the nation's third-largest public school system.

The state funding formula enacted in August allocates an additional $450 million to CPS in the current fiscal year from new state money for operations and pensions and a local property tax increase.

“CPS is a different credit than it was just a few months ago,” Ronald DeNard, the district’s senior vice president of finance, said in an investor presentation.

But the district’s general obligation ratings remain in junk with major credit rating agencies. Ahead of the deal, Fitch Ratings upgraded the district to BB-minus with a stable outlook from B-plus, citing the additional state aid. It also noted a continued high dependence on cash-flow borrowing. CPS has said it will decrease its reliance on tax anticipation notes to $1.3 billion in fiscal 2018 from $1.55 billion the prior year.

S&P rated the GO bonds B with a stable outlook, noting the district’s “extremely weak liquidity and its vulnerability to unexpected variances in its cash-flow forecast.”

CPS will sell $632.5 million of GO refunding bonds and nearly $225 million of new GO bonds, as well as $64.9 million of dedicated capital improvement tax bonds that are rated at the investment-grade level of A by Fitch.

The biggest chunk of the GO bond deal, $441.7 million, will restructure 9 percent floating-rate debt that CPS sold in 2011, 2013, and 2015 into a fixed-rate mode.

Another low-rated Illinois issuer, the Metropolitan Pier and Exposition Authority, which owns Chicago’s McCormick Place convention center, will sell $475 million of new and refunding expansion project bonds through Citigroup on Tuesday. The bonds are rated BB-plus by S&P and BBB-minus by Fitch.

Meanwhile, U.S. municipal bond fund flows turned positive in the latest week, according to Lipper, a Thomson Reuters unit. Funds reported net inflows of $463 million in the week ended Nov. 8 compared to net outflows of $655 million in the prior week.

(Reporting By Karen Pierog; Editing by Chizu Nomiyama)

Republican Tax Bill Seeks Elimination of Some Municipal Debt.

CHICAGO — The U.S. House Republican tax bill released on Thursday would put an end to tax-exempt debt issuance by state and local governments for an array of health care, education, and economic development financing, which took municipal market participants by surprise.

The proposed elimination of low-cost funding through private activity bonds, which many in the $3.8 trillion U.S. municipal market were not expecting, would raise nearly $39 billion for the federal government over the next nine years, according to a summary of the legislation.

“This came as quite a shock,” said Barbara Thompson, executive director of the National Council of State Housing Agencies, noting that there had been assurances from Congress that private activity bond issuance would be retained.

Thompson said it would be devastating for the country’s production of affordable housing.

“The bill will increase borrowing costs and harm the ability of state and local governments to build and to maintain the infrastructure,” needed for critical health, education, ports, airports, and low-income housing, Sandy MacLennan, president of the National Association of Bond Lawyers, said in a statement.

Non-profit hospitals, which are major issuers of tax-free bonds to fund capital projects, would also be hit.

“For many communities, tax-exempt financing, such as private activity bonds, has been a key to maintaining vital hospital services,” Tom Nickels, executive vice president of the American Hospital Association, said in a statement.

“If hospital access to tax-exempt financing is limited or eliminated, hospitals’ ability to make investments in new technologies and renovations in the future will be challenged.”

Also on the chopping block are advance refunding bonds, which issuers in the U.S. municipal bond market use to take advantage of lower interest rates before outstanding bonds can be called.

“Current-law advance refunding bonds provide state and local governments with incentives to issue two sets of federally subsidized debt to finance the same activity,” the House bill’s summary stated.

Tax-credit bonds, which never really caught on with investors, would be repealed but federal tax credits for existing bonds would remain in place. Bonds issued for professional sports facilities would be subject to federal taxation under the bill.

The Alternative Minimum Tax would end under the legislation. That tax is applied to earnings from a small percentage of muni bonds sold by issuers such as airports and housing authorities that have substantial private-activity components in their deals.

The proposals are not a sure thing. The bill has a long legislative process ahead with changes expected before it could be voted into law.

Bill Gale, co-director of the Urban-Brookings Tax Policy Center, said the likelihood of the final bill including the elimination of private activity bonds was “not high.”

“It is hard to get support. There are an enormous number of revenue raisers in here and every one of them is politically going to be hard,” Gale said.

By REUTERS

NOV. 2, 2017, 9:30 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Daniel Bases)

Denver Supportive Housing Social Impact Bond Initiative: Housing Stability Outcomes Report to the Governance Committee.

Abstract

In February 2016, the city of Denver and eight private investors closed on the city’s first social impact bond (SIB), an $8.6 million investment to fund a supportive housing program for 250 of the city’s most frequent users of the criminal justice system. The city will make outcome payments over five years based on the initiative’s goals of housing stability and decreased jail days. This report details the first assessment of housing stability payment outcomes.

Read the full report.

The Urban Institute

Sarah Gillespie, Devlin Hanson, Mary K. Cunningham & Mike Pergamit

October 30, 2017

Fitch: U.S. Public Finance Upgrades Match Downgrades, Ending 13 Quarter Streak.

Fitch Ratings-New York-01 November 2017: The third quarter of 2017 marked the end of a 13 consecutive quarter streak in which U.S. public finance upgrades outnumbered downgrades, according to a new Fitch Ratings report.

Affirmations accounted for 78% of total rating actions in 3Q17, on par with 2Q17 result.
"There were 35 upgrades and 35 downgrades in 3Q17, a decline from 94 and 37, respectively, in the prior quarter," said Jessalynn Moro, Managing Director and head of Fitch's U.S. Public Finance group. "Downgrades were driven largely by the healthcare and public power sector. Higher activity from the prior quarter was driven by completion of the tax-supported portfolio review under new criteria."

The downgrade of Puerto Rico's Sales Tax Financing Corporation (COFINA) senior and subordinate lien sales tax revenue bonds and the Employees Retirement System of the Commonwealth of Puerto Rico (ERS) pension funding bonds accounted for approximately 45% of all downgraded par.
The number of Negative Rating Outlooks in 3Q17 declined to 96, marking the first time that Negative Rating Outlooks have fallen below 100 since 1Q08.

Also noteworthy, the healthcare sector experienced a marked increase in both Positive and Negative Rating Watches in 3Q17 compared to 2Q17 following the release of Fitch's 'Exposure Draft: U.S. Not-for-Profit Hospitals and Health Systems Rating Criteria' on Sept. 6, 2017. The U.S. nonprofit and healthcare systems sector is currently the only sector that holds a Negative Sector Outlook for the year.

For more information, a special report titled "U.S. Public Finance Rating Actions Third-Quarter 2017" is available on the Fitch Ratings web site at www.fitchratings.com.

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Bloomberg Brief Weekly Video - 11/02

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

municipal market news.

Watch video.

November 2nd, 2017

Bloomberg

The Week in Public Finance: The Cost of the Opioid Epidemic, Connecticut's Budget and a Disaster Relief Bond.

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

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 3, 2017

CDFI Fund Opens Application Period for Bond Guarantee Program.

Learn more.

CDFI Fund | Nov. 1

U.S. Municipal Debt Trading Drops in 3rd quarter of 2017.

Oct 31 (Reuters) – U.S. municipal bonds trading in 2017's third quarter dropped by 21 percent to $661 billion compared to the same period in 2016 and was the lowest par volume since 2016's first quarter, the Municipal Securities Rulemaking Board (MSRB) reported on Tuesday.

The number of trades in the latest quarter rose by 7 percent to 2.29 million with customer purchases accounting for most of the transactions, according to MSRB, the self regulator of the $3.8 trillion market for debt sold by states, cities, schools and other governmental and non-profit issuers.

Customer buying activity fell to an average daily par amount of $5.4 billion in the third quarter from $6.72 billion in the same quarter in 2016, the report said.

The heaviest trading was in Texas tax and revenue anticipation notes due in 2018 with a 4 percent coupon in both par amount and number of trades during the quarter. Other actively traded securities by par amount were Virginia's Tobacco Settlement Financing Corp bonds due in 2046 with a 6.71 percent coupon and state of Illinois bonds due in 2033 with a 5.10 percent coupon.

Issuers filed 30,869 disclosure documents with the MSRB during the quarter, with bankruptcy and default-related disclosures totaling 37. (Reporting By Karen Pierog; editing by Diane Craft)

S&P Credit Conditions: U.S. State And Local Governments Can't Rely On Robust Economic Growth To Solve Budget Imbalances.

Legislative gridlock in Washington appears to be taking the upper hand over proposed legislation designed to spur growth in the economy. This is keeping GDP growth low: S&P Global currently projects overall GDP growth of 2.1% in 2017, a tick downward from 2.2% in prior projections.

Continue reading.

Nov. 1, 2017

Should State and Local Governments Use Pay for Success Financing to Support Medication-Assisted Treatment (MAT) for Opioid-Use Disorder?

The increasing rate of opioid use disorder and overdose deaths has become a national opioid crisis, which has further increased pressure for policy-makers to "just do something." However, the opioid crisis is complicated, and it isn't always clear how state and local governments can improve the situations people are facing.

Pay for Success (PFS) is an innovative financing model that allows state and local governments to ensure their scarce resources are used for programs that actually improve people's lives. As one of the only evidence-based solutions available to help address the opioid crisis, implementing Medication-Assisted Treatment (MAT) through PFS financing may be an effective means for jurisdictions to "do something" that improves the situation. However, successful PFS projects also involve requirements that are not well-suited to every program.

This debate brings together policy researchers, medical practitioners, decision-makers, and PFS experts to discuss and debate whether state and/or local governments could (or should) use PFS to implement MAT as an approach to address the opioid crisis in their jurisdictions.

Continue reading.

The Urban Institute

Bloomberg Brief Weekly Video - 10/26

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

Watch video.

Bloomberg

October 26th, 2017

The Number of Americans That Directly Own Bonds Fell to One Percent in 2016.

The day when Americans bought and owned individual bonds are all but gone.

Direct household participation in the bond market has fallen to 1.3% in 2016, albeit from a relative low of 5% in 1989, according to a recent study by the St. Louis Federal Reserve.

But the falling cost of participation in financial markets should have smoothed over the path for more Americans to become investors. The expense of taking part in the markets' ups and downs have slipped thanks to the rise of passive investing and exchange-traded funds, which have pushed actively managed funds to cut their fees. This has made U.S. perhaps one of the best places to be an investor, according to a Morningstar report.

Continue reading.

MarketWatch

by Sunny Oh

Oct 25, 2017

Municipal Priorities: How To Avoid The Sinkholes.

Sometimes things go wrong with a corporation. It could be hugely disappointing quarterly revenues and earnings. Maybe low energy prices or competition annihilates the sector. It happens. Corporate bond prices of these disappointing companies also decline as their spreads to comparable maturing Treasurys widen.

Some examples of bad news we've seen are Under Armour, Macy's and other retailers getting 'Amazoned.' Hertz restating financials is another. You get the picture. A corporate bondholder can lose 5 to 10 points in a flash. The really bad news is announced and—BAM—it's instantly reflected in lower bond prices.

But the municipal bond market works differently from the corporate bond market. Munis respond to news in glacial time. There's no need to react to bad news in the next nanosecond. That's not the way munis trade. Investors have plenty of time to digest news, numbers and consequences before making a decision.

Continue reading.

Forbes

by Marilyn Cohen

October 24, 2017

Muni Bond Monday Update: 10-Year Yield Increases.

A look at the AP Municipal Bond Index for Monday, Oct. 23:

BIGGEST MOVER: One-year bonds. Yield climbed 5 basis points over the last week to 1.02 percent.

TWO-YEAR: Yield dropped less than a basis point to 1.09 percent. The two-year/10-year spread is 119 basis points, down from 121 basis points a week ago. The two-year/30-year spread is 176 basis points, down from 177 basis points a week ago.

10-YEAR: Yield increased 1 basis point to 2.28 percent, compared with 2.38 percent for a 10-year Treasury. The gap between 10-year municipal bonds and Treasurys has been widening over the last week. It was 2 basis points on Oct. 16. The 10-year/30-year spread for municipal bonds is 57 basis points.

30-YEAR: Yield rose by 2 basis points to 2.85 percent, compared with 2.89 percent for a 30-year Treasury.

The Week in Public Finance: Tax Reform Fast-Tracked, Puerto Rico's Cleanup Mishap and the Pension Penalty.

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

BY LIZ FARMER | OCTOBER 27, 2017

GOVERNING.COM

S&P: The Opioid Crisis Is Real, But Not Yet A Threat To State Credit Quality.

Does the current opioid drug epidemic pose a threat to state credit quality? The answer is probably not, although some states will be more affected than others, and the full costs are not clear. States have not precisely tallied the cost of the epidemic nor reported them in a comparable way.

Continue reading.

Oct. 31, 2017

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5 Good Reasons Why Local Governments Should Embrace Long-Term Budget Forecasting.

There are plenty of reasons why cities and counties focus on short-term fiscal needs. Here are some advantages for those who change that risky mindset.

SAN ANTONIO — In the world of city and county budgeting, the “balancing of the short term and

long term is one of those inherent difficulties with local government."

That's according to Kurt Wilson, the city manager in Stockton, California. He should know. Wilson was appointed to his position in January 2014, just 10 weeks after the city of 300,000 residents located about 50 miles south of Sacramento had entered bankruptcy.

"A bankruptcy is the result of a series of bad decisions," Wilson said this week during an educational session on long-term budget forecasting at the International City / County Management Association's annual conference, which wrapped up Wednesday in San Antonio. "It's difficult for an elected official to make long-term decisions" when re-election and trying to please everyone are top of mind, he said.

Continue reading.

ROUTE FIFTY

BILL GRASS

OCTOBER 26, 2017

From P3s to 'Invisible Collection': How State and Local Agencies are Financing Fixes to US Infrastructure.

Infrastructure may not be high on the public's radar, at least until it fails or is preparing to do so.

If the Hudson River tunnel, which connects commuters between New Jersey and New York City's Pennsylvania Station had to shut down, the repercussions — and logjams — would reverberate all along the Northeast Corridor. The tunnel, which suffered severe damage from Superstorm Sandy in 2013, is now undergoing a $13 billion facelift as part of a $35 billion Amtrak-led program that will see improvements and upgrades to the region in an attempt to prevent the kind of disruption that would accompany tunnel closures.

When a fire under a bridge section along Interstate 85, one of Atlanta's busiest highways, caused it to crumble, state transportation officials pulled out all the stops to fast-track the project. The replacement work, which, under normal conditions, could have taken more than a year, took just 45 days — one month ahead of schedule — as a result of collaboration between the contractors, engineers and state agencies.

Though repairing the highly trafficked segment was a priority for stakeholders, cash incentives from the Georgia Department of Transportation for contractor C.W. Matthews undoubtedly helped the project team shave precious days off their schedule.

Still, the average infrastructure project wasn't making headlines until President Donald Trump made the issue of the nation's crumbling bridges, roads and other public assets, in addition to how to finance their repairs and replacements, a central tenet of his campaign. Trump and his advisers bet that the idea of private investment would take hold with American businesses and voters — and they were right.

P3s and their place in infrastructure

As was touted during his campaign, Trump until recently had been bullish on using the private sector to take on the task of a $1 trillion infrastructure agenda, including formalizing the campaign promise in his subsequent budget proposal. The president reneged on that proposal last month, saying public-private partnerships (P3s) would no longer play a significant role in his infrastructure agenda, though lawmakers and the construction industry still await details of his plans.

According to David Fernandez, a public finance attorney and shareholder at Buchanan Ingersoll & Rooney, it's going to be a long wait. That wait, however, could end if Congress is able to reach an agreement on tax reform. If all goes to plan for the Trump administration, the new program would see legislation that repatriates corporate earnings, perhaps creating new revenue streams to help finance such a massive program.

"You have to have the tax reform to make infrastructure work," Fernandez said.

But many states, whether unwilling or unable to wait for such a plan to be implemented, have begun turning to their own strategies to finance repair and modernization programs at home. Though the president has said he will no longer place his bets on the delivery method, many states are signing on to P3s to upgrade their infrastructure.

"The reason I like [P3s] is you're borrowing on the creditworthiness of the project," Fernandez said.

When government agencies borrow money for a capital project or for any other reason, the borrowing costs hinge on the public entity's credit rating. Private investors and the banks that private consortia tap to finance their part of these projects, however, look at the project's potential for success to determine risk and, ultimately, interest rates.

That is, of course, if the private part of the P3 is going to finance the project. More often than not, public entities use financing vehicles like municipal bonds or general obligation bonds to finance the work, John Brown Miller, president of the Winchester, MA–based nonprofit infrastructure consultancy the Barchan Foundation, said. Even P3s that finance public projects in exchange for compensation use a debt strategy of 80% to 85% of their total obligation, Fernandez said.

Invisible collection and the 'painless pain'

But state and local governments have other options for revenue streams, not just outside of bonds in P3 projects.

One method governments can turn to is imposing extra tolls or similar user fees like congestion pricing in order to pay for maintenance, repairs and new transportation projects. Some New York City officials are considering congestion pricing as a way to ease traffic by charging a premium for motorists traveling in and out of the area during certain high-traffic time periods.

Fernandez calls this method of collection "painless pain" because this invisible collection mechanism allows motorists to breeze through toll and other fee collection points without having to stop at a checkpoint and pay for the charge. The mechanism is the most obvious solution, he said, barring some type of on-the-spot collection system, which Fernandez said would likely lead to complaints about higher taxes and could potentially scuttle fee increases altogether.

Turning to the feds

Government agencies who may be short on funds may also try their luck applying for federal loans and grants.

If traditional lenders are involved, as in the case of a P3, Miller said, those lenders like to see loans like Transportation Infrastructure Finance and Innovation Act (TIFIA) low-interest loans used for extra financing. That's because the TIFIA loan obligation does not interfere with lenders' first position on projects in case of a bankruptcy or other financial setback.

The system, however, isn't perfect. In July, a Senate panel heard testimony on a potential expansion of the TIFIA program, as well as how to improve the loan process for future borrowers. A shortened timeline for responding to TIFIA letters of interest, better outreach to rural areas and revamping the existing credit-rating system were all cited as ways to improve the program.

Grants, Fernandez said, are contingent on the revenue stream backing them, and taxpayer pockets only run so deep. Relying on grants long-term, he said is not viable.

Still, they have made some projects possible, like the Minnesota Southwest light-rail, the Maryland Purple Line light-rail project and the CalTrain rail line electrification project.

Energy savings performance contracts (ESPCs) can also finance certain infrastructure projects today based on the projected savings those improvements will bring for decades to come.

For example, Johnson Controls is updating the state of Hawaii's port lighting to LED systems. The ports will save approximately $2.5 million a year on energy costs when the project is complete. The state calculated those savings over a 20-year time period, allowing the Hawaii Department of Transportation to use the $2.5 million to finance the LED project.

Those projects that can generate the most savings — those with the highest energy costs — are usually the ones that see the most benefit.

According to Russell Garcia, Johnson Controls' director of higher education for North America, public universities are using ESPCs to finance repairs and capital projects based on energy savings and, sometimes, operational savings. Depending on the type of agreement these universities strike with Johnson Controls, Garcia said, can sometimes transfer the risk of financing their projects on future savings through a guarantee that would see the company cover any shortfalls.

The University of California at Merced, Garcia said, is using an ESPC to finance a portion of its $1.3 billion campus expansion as part of its Merced 2020 Project.

As far as federal funding for infrastructure? Fernandez is optimistic but realistic.

"There are subtle ways the government is putting the structure into place."

Construction Dive

by Kim Slowey

Oct. 26, 2017

Less Water, More Risk: Exploring National and Local Water Use Patterns in the U.S.

Amidst a rising number of extreme weather events, service fluctuations, and other investment

concerns, America's water infrastructure is at a crossroads. Frequently overlooked and taken for granted, water is not just vital for life, but also provides an economic foundation for millions of businesses, farms, power plants, manufacturers, and households that depend on a reliable supply each day in the United States.

Despite seeing declining levels of water use in recent years, the U.S. still depends on nearly 355 billion gallons each day, an enormous total speaking to the breadth of uses nationally. Water use remains high in many cases, but it is also falling across the board as new conservation measures and technologies have been introduced. Utilities must confront several competing needs as a result: fixing aging, brittle infrastructure systems in service of a productive economy while generating less predictable revenues from lower levels of water use. Rising water bills, in turn, are helping to cover these costs and are often hitting lower-income households and other vulnerable users the hardest.

To provide reliable, cost-effective service, utilities—alongside local planners, economic development officials, and other leaders—need more detailed metrics and a better understanding of how regional water needs are shifting. By providing a comprehensive comparison of metropolitan and non-metropolitan water use, this report helps to meet this need. It not only highlights the scale and complexity of how users in different areas depend on water, but it also points to difficulties these users—and providers—face managing this scarce resource in an economically efficient and equitable way.

Continue reading.

The Brookings Institute

by Joseph Kane

Senior Research Analyst and Associate Fellow – Metropolitan Policy Program

October 20, 2017

Study Says New PABs for Public Buildings Would Add $8B in Economic Growth 1st Year.

WASHINGTON — Congressional passage of a bill that would allow private activity bonds to be used for public-private partnerships to finance public buildings would provide an economic boost of more than $8 billion in the first year, reports a study by the Beacon Hill Institute.

The Beacon Hill Institute, a free-market think tank based in Boston, analyzed the potential benefits of the Public Building Renewal Act, bipartisan bills (H.R. 960 in the House, S. 326 in the Senate) that the lead House sponsor will propose including in tax reform legislation.

Rep. Mike Kelly, R-Pa., who introduced the bill Feb. 7, plans to propose adding the Public Building Renewal Act to tax reform legislation when the House Ways and Means Committee votes on it in early November, his spokesman Tom Qualtere said Friday.

The bill would allow the issuance of up to $5 billion in new PABs for constructing government-owned buildings such as elementary and secondary schools, facilities used for educational purposes by state colleges and public libraries.

Kelly has 16 Republicans and 11 Democrats who are cosponsors in the House.

An identical version of the bill in the Senate has eight Republican and three Democratic sponsors.

The lead Senate sponsor is Sen. Dean Heller, R-Nev., who offered his bill at the same time and is a member of the Senate Finance Committee which will also vote on the details of tax reform.

The Kelly-Heller Public Building Renewal Act amends the Internal Revenue Code by expanding the definition of "exempt facility bond" to include bonds used for qualified government buildings.

Exempt facility bonds already are tax-exempt private activity bonds used for airports, highways, mass commuting facilities, sewage plants and other public purposes that may have some small private involvement.

The Beacon Hill study looked at 13 major public-private partnerships in the United States that have been undertaken using the existing laws ranging from the Port of Miami Tunnel in Florida to the Presido Parkway connecting the Golden Gate Bridge to the city of San Francisco.

Also on that list: the Denver FasTracks commuter rail and bus project and the new Goethels Bridge connecting New Jersey and the New York City borough of Staten Island.

"We estimate that, on average, P3s save 24.6% in project costs (design, construction, operation and maintenance)," the report said.

The Council of Development Finance Agencies, which annually tracks the issuance of PABs, supports the proposed legislation as a way of encouraging more cost-saving P3s.

"States and municipalities need more help if they're going to rebuild their aging infrastructure, and passing legislation that encourages private investment in public facilities would go a long way toward solving that problem," said Tim Fisher, legislative and federal affairs coordinator for the Council of Development Finance Agencies.

Beacon Hill said that passage of the proposed legislation "could provide a critical financing tool to speed the recovery effort" from the recent hurricanes that struck Texas, Florida and the U.S. Caribbean.

"According to the Houston Independent School District, 22 of its 245 schools had extensive damage that will keep them closed for months and about 53 have "major" damage," , the think tank said.

Puerto Rico and the U.S. Virgin Islands sustained massive damage from Hurricane Maria that will require extensive rebuilding.

Beacon Hill estimated that the use of if P3s were used to finance 20% of all applicable state and local government buildings over time, this would result in $2.796 billion in building construction.

The Bond Buyer

By Brian Tumulty

October 30 2017, 6:00am EDT

Is the Trump Administration a Friend or Foe of America's Infrastructure?

As a candidate, Donald Trump deserved credit for identifying a policy that damages jobs, competitiveness, and economic growth: underinvestment in infrastructure.

Americans overwhelmingly agree. A poll this summer found that 89 percent of Americans believe infrastructure investment strengthens the economy, with 81 percent saying it would benefit them personally. More than half (56 percent) think U.S. infrastructure is in bad condition, compared to just 30 percent who say it is in good condition. Americans everyday confront the problems created by bad roads, broken public transit, ancient airports, and crumbling bridges, that are generations behind what is enjoyed in other parts of the world.

Unfortunately, Trump's plans as president could make the situation worse. Yes, he still promises a $1 trillion federal infrastructure package, but his proposed budget cuts to infrastructure are $55 billion more than the new federal dollars he included. Moreover, his tax plans and congressional politics suggest his overall impact on infrastructure likely will be substantially more negative.

Continue reading.

The Brookings Institute

by Blair Levin and Adie Tomer

Friday, October 27, 2017

Getting Shovel-Ready: Opportunities for Infrastructure Finance.

The Trump Administration identified infrastructure as one of its top priorities, yet legislation to boost private and public investments in infrastructure projects remains elusive. Leading a panel on *The $1 Trillion Question* at SIFMA's Capital Markets Conference in Washington D.C, Chris Hamel, Head of Municipal Finance at RBC Capital Markets, explored the state of infrastructure finance and how the policy debate on Capitol Hill may affect the ability of the public and private sectors to fund infrastructure projects.

"We track the P3 end of the market," said Stephen Howard at Barclays. Holding up a list of 43 projects across the country, Howard stated 25 have real potential for development. The same list five years ago was probably half this length. With gradual, incremental tweaks at the federal level, he expects the list to grow to 50-60 projects in the next five years with 30 likely candidates for development. Now, he said, "it boils down to how local jurisdictions can get shovel-ready projects."

"There is I believe plenty of capital," said Western Asset Management Company's Robert Amodeo. "I am bidding [on projects] every month whereas two years ago I was bidding every 12 months. There are more projects and they are more interesting, but there is still too much capital chasing too few investment opportunities."

U.S. infrastructure is so complex, noted the panelists, that a single policy option cannot address all existing concerns. Tax credits for instance, said Robert Andres, tax and economic policy advisor for the U.S. Senate Committee on Finance, are "a targeted tool but not a panacea."

The Administration has a role to play, and it doesn't necessarily need to be top-down, said Robyn Boerstling of the National Association of Manufacturers. Projects aren't getting built in some places and that is for a reason. "Multi-jurisdictional states are a headache – the Administration can and should find a way to break those logjams. Eliminate showdowns and slow downs."

At the close of the discussion, Hamel asked the panelists to envision they were invited to Mar--
-Lago. "What ideas would you pitch to the President on infrastructure?"

Amodeo called for better government coordination, optimization of vehicles used to get capital to communities, and seeking ways for the public sector to earn better returns on their portfolio. Andres urged a focus on funding. Boerstling said we should identify specific projects and lean on the strong support from the business community. Howard wants to expand the exemptions for private activity bonds and the Transportation Infrastructure Finance and Innovation Act (TIFIA) to support funding for greenfield projects.

SIFMA believes we can close the infrastructure gap by preserving the tax exemption of municipal bonds, expanding the use of private activity bonds, promoting design-build as a procurement mechanism for state and local governments, providing a tax credit for equity investors in infrastructure projects, expanding alternative federal financing programs, and permitting the use of new financial instruments for infrastructure finance. For more on our positions, see:

- SIFMA Statement on ASCE 2017 Infrastructure Report Card
- Financing Infrastructure: Why Public-Private Partnerships Matter

So, are we shovel-ready? Capital is ready and waiting. What we need now are the projects and the legislation to encourage them.

SIFMA

By Michael Decker
Michael Decker is Managing Director and Co-Head of Municipal Securities at SIFMA

October 25, 2017

Don't Expect Congress to Follow a Tax Reform Bill with Infrastructure Legislation.

WASHINGTON – Congress won't follow tax reform legislation with a big infrastructure bill, members of the Securities Industry and Financial Markets Association meeting here were told on Monday.

During a session called, "Infrastructure Finance: The $1 Trillion Question" at SIFMA's annual meeting, Michael Decker, a managing director and co-head of munis for SIFMA who was in the audience, asked panelists about the prospects for an infrastructure funding bill or whether infrastructure might be part of tax reform legislation.

The panel's moderator, Chris Hamel, a managing director and head of public finance at RBC Capital Markets as well as head of SIFMA's infrastructure policy committee, put his own spin on the question, asking, "A year from now will we be in this room discussing and celebrating the implementation of an infrastructure bill" or talking about whether there will be such a bill and what should be in it?

“No, we won’t,” said Bobby Andres, a tax and economic policy advisor to the Senate Finance Committee who stressed he was speaking personally and not on behalf of any committee or any member of Congress.

“If you want to get a bill done, you’re going to need money to do that bill,” he said. “As of right now, there is zero conversation happening about linking tax reform and infrastructure.”

“If you think that [Congress] is going to do a $5 trillion tax cut bill and then turn around in January and do an infrastructure bill of any substance … that’s just not going to happen,” he said. “And then what’s left is sort of the other regulatory changes, which would probably struggle in the Senate to get 60 votes.”Stephen Howard, a director and head of infrastructure at Barclays Capital, agreed, saying, “I don’t see a massive, transformative infrastructure bill on its own.”

“I don’t know how you pay for it,” said Robert Amodeo, head of municipals at Western Asset Management Co. “Because if we have tax reform that’s supposed to be revenue neutral and it’s not, how do you embark on another spending program without immediate returns?”

Amodeo explained that typically it takes three to five years to see returns from infrastructure spending and that there’s not an immediate boost in productivity.

However, if tax reform happens piecemeal, maybe that will increase the probability of infrastructure legislation, Amodeo said, adding, “I really think tax reform will drive whether we have infrastructure legislation or not.”

Andres said that it will be important for Congress, in debating tax reform legislation, to “do no harm to the current set-up” such as eliminating or restricting private activity bonds. “Let’s not screw up what we’re already doing right now, and then, [we can look at] what can we add on to that to make things look a little bit better.”

Amodeo and Howard said state and local governments and some private consortia are moving forward with infrastructure projects and are not waiting for federal dollars.

There was consensus among the panelists that plenty of capital exists for infrastructure projects.

Howard said that $200 billion per year is currently being invested in infrastructure projects today, if one looks at both tax-exempt and taxable bonds, bank loans and grants. “Let’s not mess it up, let’s add incrementally to it,” he said.

Howard and other panelists said there is a lot that administration officials are doing and can do to help infrastructure projects, such as Trump’s Executive Orders to streamline the permitting and the environmental process for projects.

Howard predicted the federal government will make incremental changes in grant programs such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) or Water Infrastructure Finance and Innovation Act (WIFIA) to “incentivize innovation at the state and local level” for infrastructure projects.

He also predicted the federal government will take steps to expand the use of tax-exempt private activity bonds so they can help finance projects in which private parties participate.

Howard said tax regulators should not require the redemption or defeasance of outstanding tax-exempt bonds when those bonds have financed an existing publicly-owned asset that has been privatized.

Hamel asked the panelists if public-private partnerships will be part of the mix for whatever infrastructure policy initiative is advanced next year and whether some kind of infrastructure tax credit might provide revenue.

Despite President Trump's recent comments that he doesn't like P3s, Robyn Boerstling, vice president of infrastructure, innovation and human resources policy for the National Manufacturers Association, said, "I don't think public-private partnerships are going away."

Amodeo said, "We're going to build an American version of what we see globally, one where you can transfer the economic risk of a public asset while maintaining ownership by the public."

In the past munis have played the key role in infrastructure projects with the public taking on all the risk, he said. Now we have to invite private capital in to help share the risk without privatizing the asset. He said munis will continue to play "a very important role."

Howard said his firm tracks P3 infrastructure projects. It currently has a list of 43 such projects around the country. Half of those are transportation-related and half are split between social, environmental and other projects. Probably only half of the total 43 will move forward, he said, but the list is double what it was five years ago.

"I think we're going to see a gradual increase in the number of deals that under development with a bunch of small tweaks that are going to take place at the federal level," he said, adding that he sees his list of P3 projects growing from 43 to 50 or 60 in another few years, of which 30 will move forward.

Amodeo said he has "strong views" on tax credits. "I think they can blunt the incentive to control economic risks. I think it's a disaster, frankly."

He pointed to a project that involves the gasification of municipal waste. The product is to be added to jet fuel.

"The only reason this project is being built is because of the tax credits," he said.

"It does not work economically. So you have to be judicious in how you allocate tax credits."

Andres said tax credits have been very successful for some projects involving renewable energy and housing.

"But they are a targeted tool" and they can't be used as a panacea, he said.

Andres talked about the Move America Act (S.1229) that was introduced by Sens. Ron Wyden, D-Ore. And John Hoeven, R-N.D., in May. The bill would offer more financial options for P3s through a combination of a new class of private activity bonds and expanded tax credits.

The Bond Buyer

By Lynn Hume

October 24 2017, 12:57pm EDT

Why Isn't the Bond Market More Worried About Climate Change?

Coastal towns destroyed by Sandy still have perfect credit scores. Why?

Early this month, when the annual king tide swept ocean water into the streets of Miami, the city's Republican mayor, Tomás Regalado, used the occasion to stump for a vote. He'd like Miami residents to pass the "Miami Forever" bond issue, a $400-million property tax increase to fund seawalls and drainage pumps (they'll vote on it on Election Day). "We cannot control nature," Regalado says in a recent television ad, "but we can prepare the city."

Miami is considered among the most exposed big cities in the U.S. to climate change. One study predicts the region could lose 2.5 million residents to climate migration by the end of the century. As on much of the Eastern Seaboard, the flooding is no longer hypothetical. Low-lying properties already get submerged during the year's highest tides. So-called "nuisance flooding" has surged 400 percent since 2006.

Business leaders are excited about the timing of the vote in part because Miami currently has its best credit ratings in 30 years, meaning that the city can borrow money at low rates.* Amid the dire predictions and the full moon floods, that rating is a bulwark. It signifies that the financial industry doesn't think sea level rise and storm risk will prevent Miami from paying off its debts. In December, a report issued by President Obama's budget office outlined a potential virtuous cycle: Borrow money to build seawalls and the like while your credit is good, and your credit will still be good when you need to borrow in the future.

The alternative: Flood-prone jurisdictions go into the financial tailspin we recognize from cities like Detroit, unable to borrow enough to protect the assets whose declining value makes it harder to borrow.

The long ribbon of vulnerable coastal homes from Brownsville to Acadia has managed to stave off that cycle in part thanks to a familiar, federally backed consensus between homebuyers and politicians. Homebuyers continue to place high values on homes, even when they've suffered repeated flood damage. That's because the federal government is generous with disaster aid and its subsidy of the National Flood Insurance Program, which helps coastal homeowners buy new washing machines when theirs get wrecked. Banks require coastal homeowners with FHA-backed mortgages to purchase flood insurance, and in turn, coastal homes are rebuilt again and again and again—even when it might no longer be prudent.

But there's another element that helps cement the bargain: investors' confidence that coastal towns will pay back the money they borrow. Homebuyers are irrational. Politicians are self-interested. But lenders—and the ratings agencies that help direct their investments—ought to have a more clinical view. Evaluating long-term risk is exactly their business model. If they thought environmental conditions threatened investments, they would sound the alarm—or just vote with their wallets. They've done it before—cities like New Orleans, Galveston, Texas, and Seaside Heights, New Jersey were all downgraded by rating agencies after damage from Hurricanes Katrina, Ike, and Sandy. But all have since rebounded. There does not appear to be a single jurisdiction in the United States that has suffered a credit downgrade related to sea level rise or storm risk. Yet.

* * *

To understand why, it helps to look at communities like Seaside Heights, the boardwalk enclave along the Jersey Shore whose marooned roller coaster provided the definitive image of the 2012 storm.

Seaside Heights was given an A3 rating from Moody's in 2013, meaning "low credit risk."* Ocean County, New Jersey—the county in which Seaside Heights sits—has a AAA rating. In the summer of 2016, before Ocean County sold $31 million in 20-year bonds, neither Moody's Investor Services nor S&P Global Ratings asked about how climate change might affect its finances, the county's negotiator told Bloomberg this summer. "It didn't come up, which says to me they're not concerned about it."

The credit rating agencies would deny that characterization—to a point. They do know about sea level rise. They just don't think it matters yet. In 2015, analysts from Fitch concluded, "sea level rise has not played a material role" in assessing creditworthiness, despite "real threats." Hurricane Sandy had no discernible effect on the median home prices in Monmouth, Ocean, and Atlantic Counties, which make up New Jersey's Atlantic Coast. The effect on tourism spending was also negligible.

"We take a lot from history, and historically what's happened is that these places are desirable to be in," explains Amy Laskey, a managing director at Fitch Ratings. "People continue to want to be there and will rebuild properties, usually with significant help from federal and state governments, so we haven't felt it affects the credit of the places we rate."

There are three reasons for that. The first is that disasters tend to be good for credit, thanks to cash infusions from FEMA's generous Disaster Relief Fund. "The tax base of New Orleans now is about twice what it was prior to Katrina," Laskey says, despite a population that remains 60,000 persons shy of its 2005 peak. "Longer term what tends to happen is there's rebuilding, a tremendous influx of funds from the federal and state governments and private insurers." Local Home Depots are busy. Rental apartments fill up with construction workers. Contractors have to schedule work months in advance. Look at Homestead, Florida, Laskey advised, a sprawling city south of Miami that was nearly destroyed by Hurricane Andrew. Today it is bigger than ever. "If there was going to be a place that wasn't going to come back, that would have been it."

What emerges from the destruction, for the most part, are communities full of properties that are more valuable than they were before, because they're both newer and better prepared for the next storm. Or as a Moody's report on environmental risk puts it, "generally disasters have been positive for state finances." But this is entirely dependent on federal largesse: After Massachusetts brutal winter of 2015, FEMA granted only a quarter of the state's request for aid. Moody's determined that could negatively impact the credit ratings of local governments that had to shoulder the cost of snow and ice removal.

Second is that people still want to live on the shore. "The amenity value of the beach is something you can enjoy every day of the summer," says Robert Muir-Wood, the chief research officer at Risk Management Solutions. "People may say, 'The benefits of living on the beach to my health and wellbeing outweigh the impact of the flood.'" That calculus is strongly influenced by affordable flood insurance policies, but it has not changed. In a way, despite the risks, the sea is a more dependable economic engine for a community than, say, a factory that could shut its doors and move away any minute.

Most bonds get paid off from property taxes. If property values remain high, bondholders have little to worry about. If, on the other hand, property values fall, tax rates must rise. If buildings go into foreclosure, or neighborhoods undergo "buy-outs" to restore wetlands or dunes, more of the burden to pay off that new seawall falls on everyone else.

Third: Most jurisdictions are large. New Jersey's coastal counties also contain thousands of inland homes whose risk exposure is much, much lower. Adam Stern, a co-head of research at Boston's

Breckinridge Capital Advisors, argues that the first credit problems will come for small communities devastated by major storms.

Still, Stern said, his firm looks at these issues. “One of the things we try to get at when we look at an issuer of bonds that’s on the coast: Do you take climate change seriously? Are you planning for that?” Still, he said, bond buyers—like everyone else—discount the value of future money, and hence future risk. When could the breaking point for the muni market come? Stern predicts that will happen when property values start to discernibly change in reaction to climate risk. It’s a game of chicken between infrastructure investors and homeowners.

“I think we’re in territory that’s changing right now,” says John Miller, an engineer studying climate change and credit risks at Wharton’s Risk Center. He pointed to Sea Bright, a barrier-island borough of New Jersey just south of New York Harbor. A municipal analysis concluded that by 2050, one in five of the borough’s parcels will be underwater—amounting to 17 percent of the total value of all Sea Bright real estate. Under 2050 SLR predictions, a 100-year flood would put 99 percent of parcels underwater. That year, 2050, is just beyond the 30-year frame used to sell both homes and bonds.

Generally, though, if you are looking for financial markets to start enforcing the risks of climate change, don’t look at towns on the rebound. Those places—whether they’re building seawalls or simply enforcing building codes on reconstructed properties—are better prepared. “The places you’re going to see the biggest disasters,” Muir-Wood predicts, “are the ones that haven’t been hit.”

Slate.com

By Henry Grabar

Henry Grabar is a staff writer for Slate’s Moneybox.

How Cities Are Defending Themselves Against Sea Level Rise.

HOBOKEN, N.J. — Superstorm Sandy and a series of lesser coastal storms since that 2012 disaster compelled some coastal communities to defend themselves by elevating homes and critical infrastructure, building sand dunes, widening beaches and erecting or raising sea walls.

But as sea levels continue to rise around the world, that’s not an option in large cities, where skyscrapers can’t be elevated and subway and train tunnels act as turbocharged flumes when millions of gallons of stormwater rush through them.

The answer, some cities have decided, is a mixture of hard and soft barriers; green infrastructure to capture rain and absorb storm water; temporary storage space for runoff; and drastically increased pumping measures.

Here’s a look at some steps being taken by cities around the world to address the issue:

LOS ANGELES

In addition to physical barriers and widened beaches, Los Angeles is planting trees and paving some roads with cooler surface material so that less heat is reflected. They and other cities have also baked sustainability and resiliency concerns into municipal polices on development.

“It’s a challenge and an opportunity at the same time,” said Matt Petersen, who served as the city’s chief sustainability officer until earlier this year. “Infrastructure and buildings are vulnerable to sea level rise. We can’t solely build our way out this this, but we can take steps to mitigate it long term. There are 150 million Americans that are vulnerable to sea level rise, and cities need to address that.”

The Port of Los Angeles recently added 6 inches (152mm) to the height of its proposed Wilmington Waterfront Promenade to compensate for anticipated sea level rise.

BALTIMORE

Baltimore requires new construction to have an additional two feet of elevation, and some existing buildings have been raised. The city uses bulkheads, and is integrating parks into green space flood-absorption areas. It is considering protective walls for certain vulnerable parts of the city.

LONDON

London is protected in part by a flood gate on the Thames River that can block exceptionally high tides or storm surges from the North Sea. Storm defenses were elevated for 11 miles (17.7 km) of the riverfront.

SHANGHAI and WUHAN

Flood gates and levees help protect the Chinese city of Shanghai. Elsewhere in China, the city of Wuhan is undergoing a test project to make it a “sponge city” capable of absorbing rain through a variety of green methods, including capturing stormwater and using it for its own water needs.

By THE ASSOCIATED PRESS

OCT. 27, 2017, 1:06 A.M. E.D.T.

KBRA Releases U.S. Not-For-Profit Healthcare Rating Methodology.

Kroll Bond Rating Agency (KBRA) announces the release of the methodology for rating U.S. not-fo--profit healthcare issuers. The methodology describes the major factors that KBRA considers when assigning a rating to not-for-profit hospitals and health systems.

Please click on the link below to access the methodology:

U.S. Not-For-Profit Healthcare Rating Methodology

If you have any difficulties accessing the methodology, please contact info@kbra.com or visit www.kbra.com.

Bloomberg Brief Weekly Video - 10/19

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

Watch video.

October 19th, 2017

Bloomberg

Wells Fargo, Banned by California, Finds Way to Still Land Bonds.

- **Bank wins bidding for $554 million of state's debt sale**
- **As scandal takes toll, bank becomes bigger player in auctions**

Wells Fargo & Co. has been barred from being hired to underwrite California bond sales, but that hasn't kept it entirely on the sidelines.

The San Francisco-based bank won the bidding for $554 million of California bonds that were sold in an auction Tuesday, according to data compiled by Bloomberg. That sale came just one day after Treasurer John Chiang said Wells Fargo wouldn't be picked for state investment work for at least another year, a result of the nationwide backlash against the bank following revelations employees opened bogus accounts in customers' names to meet sales quotas.

The ban applies only to sales managed by an underwriter hired in advance, a method used for about three quarters of municipal-bond offerings. Wells Fargo hasn't been barred from auctions.

The "purchase clearly shows that we will continue Wells Fargo's strong, decades-long commitment to the State of California in order to support its issuers and state residents," Phil Smith, who runs the lender's government and institutional banking unit, said in a statement Wednesday.

With public officials in New York, Washington and Illinois also moving to sever ties to the bank, Wells Fargo's municipal-bond business has lost ground, slipping two ranks to the seventh largest this year, according to data compiled by Bloomberg. It appears to be bidding more aggressively in auctions to offset some of the impact: This year, it's the third largest underwriter of debt sold by competitive bidding, up from sixth in 2016.

Bloomberg Markets

By Laura J Keller and Danielle Moran

October 18, 2017, 9:13 AM PDT

Facing Sanctions, Wells Fargo Aggressively Pursuing Competitive Muni Bond Deals.

LOS ANGELES — Wells Fargo appears to be countering restrictions on its ability to act as senior manager on negotiated bond deals by going after competitive deals more aggressively.

When the news broke last year that the bank's employees had secretly created accounts without clients' approval, public officials in California, Illinois, Washington, Massachusetts and New York implemented restrictions limiting business with the bank on negotiated bond sales and institutional

investments.

The bank has risen in the rankings both nationally and in California for competitive municipal bond deals, while its volume on the negotiated side has fallen dramatically.

“We suspended them from being senior underwriter on negotiated sales where the Treasurer picks the underwriter,” said Marc Lifsher, a treasurer’s spokesman. “Wells didn’t have the ability to get that business.”

Wells Fargo’s winning bid Tuesday on a $557.2 million competitive, tax-exempt chunk of California general obligation bonds shows that the bank “will continue Wells Fargo’s strong, decades-long commitment to the State of California in order to support its issuers and state residents,” Phillip Smith, Wells Fargo’s head of government and institutional banking, said in a prepared statement. The auction was one of three pieces of $1.6 billion in bonds the state sold competitively Tuesday.

“By law we cannot stop them from being the lowest bidder on competitive sales,” Lifsher said. “There’s more than money here. The sanctions caused Wells Fargo much reputational damage; and still is doing so.”

Wells fell nationally from a fifth-place ranking crediting it with $26.1 billion of municipal bond underwriting in 2016 to seventh with $15.8 billion so far this year, according to Thomson Reuters data. On the competitive side, nationally it rose to a sixth-place ranking with $7.1 billion so far this year compared to fourth place with $7.6 billion in 2016.

In California, it’s soared to the top slot on competitive deals with $2.6 billion in 2017 from a fifth place rank with $674.1 billion last year. In Golden State negotiated deals, it fell from No. 6 with $3.8 billion in 2016 to seventh place with $3.3 billion.

Just Tuesday, Wells Fargo won $557.22 million of California general obligation bonds out of $1.6 billion sold in an auction by California.

This year alone, Wells Fargo has purchased $1.3 billion in competitive bond sales from the state of California, according to Wells Fargo. The bank currently holds a 56% market share of the state’s debt sold competitively in 2017.

The treasurer’s restrictions do not apply to auctioned competitive sales, so although it wasn’t able to act as a senior manager on the $15.9 billion in negotiated bond deals for fiscal 16-17, the bank has been able to participate in competitive deals.

One Midwest trader opined that Wells “really paid” to win Tuesday’s competitive deal to stay in the state’s “good graces” and preserve the relationship with the state while it works through its troubles.

“It’s hard to speculate that that would be their intention,” said Matt Fabian, a partner at Municipal Market Analytics.

“California bonds do have a fair bit of upside relative to a lot of things out there right now, and the market has a decent chance of tightening further,” Fabian said. “It could simply be a market call on their part.”

Fabian added that double-A-rated California debt is going for a steep price now — and the market in general is pricing higher.

“Unfortunately, the current market context favors having the bonds to sell versus buying the bonds at the right price, so things like this will happen even without Wells or California being involved,” Fabian said of what Wells Fargo paid to be the winning bidder.

On Monday, Chiang, who is touting his toughness on Wells Fargo as he campaigns for governor, extended sanctions on the San Francisco-based bank another year.

“California is our headquarters state,” said the statement in response from Wells Fargo’s Smith. “It is where more than 43,000 of our team members work and call home. And it’s where since 1852 we have invested billions of dollars to help millions of homeowners, automobile owners, and small, midsize and large businesses.”

He failed to return calls seeking further comment on how the sanctions have impacted the bank’s business.

Chiang has also asked federal regulators to look into the bank’s institutional banking practices. The focus of federal investigations thus far has been on controversies surrounding the retail banking business.

Including the cities of Los Angeles, San Francisco and Santa Clara, Wells Fargo has purchased $2.6 billion year-to-date of California state and local debt, including more than $1.2 billion of debt offerings just since September 2017. That equals about 31% of total state and local debt sold competitively in 2017, according to the bank.

The Bond Buyer

By Keeley Webster

October 19 2017, 3:08pm EDT

Markets reporter Aaron Weitzman contributed to this report.

U.S. Municipal Disaster Plans Seen More Vital for Ratings: Report

NEW YORK (Reuters) – U.S. state and city governments’ planning for natural disasters will become more critical to their credit quality as costs to deal with extreme weather events increase, S&P Global Ratings said in a report on Tuesday.

“What we do expect is the severity of. these storms – in terms of financial impacts and the human impact as population tends to move toward urban, coastal cities – will grow over time,” Kurt Forsgren, public finance analyst at S&P, said in an interview.

Costs to build more resilient infrastructure will increase, while federal disaster relief could become less certain, according to the report on how climate change affects credit quality.

If extreme weather becomes more frequent, municipalities might be unable to count on the traditional level of federal disaster relief after an event, Forsgren said.

Climate change can hurt municipal issuers, for instance, if sea levels rise and damage properties and their values, or increase electricity loads because of higher average temperatures, the report said.

“Overall, we see some municipal issuers recognizing, measuring, and reporting their impact on the environment as well as documenting how operations and capital planning are changing in response, but this is not widespread,” the report said, adding that California is leading the pack.

While relatively few credit downgrades have been prompted by natural disasters or climate risks, S&P said that number could rise if climate risks increase and are not mitigated.

The report came after hurricanes Harvey, Irma and Maria inflicted widespread damage on areas including Texas, Florida and the Caribbean.

On Tuesday S&P revised its outlooks on five Texas municipal utility districts to negative due to impacts of Hurricane Harvey.

Moody’s Investors Service downgraded Puerto Rico’s General Obligation bonds on Oct. 11 to Ca from Caa3, citing in a report protracted economic and revenue disruptions caused by Hurricane Maria.

by Stephanie Kelly

October 17, 2017

Reporting by Stephanie Kelly; Editing by Daniel Bases and Richard Chang

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The Week in Public Finance: Hartford Nears Default, Columbus Soccer Threatens to Move and More.

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

GOVERNING.COM

BY LIZ FARMER | OCTOBER 20, 2017

Is Your State Ready for the Next Recession? Chances Are, It's Not.

A new report says one-third of states will face severe fiscal stress during the next economic downturn.

Nearly a decade since the last recession started, most states still aren’t prepared for the next one.

Fewer than half of states have the funds they need to weather the economic downturn, and nearly one-third would likely face significant fiscal stress, according to a report released today by Moody’s Analytics.

The report conducted the first-ever stress test on all 50 state budgets to assess their ability to absorb a fiscal shock. It found that 16 states have enough in reserves to get through the next recession somewhat comfortably. Another 19 states have some or most of the funds they would need, which means they would likely have to raise revenue and/or cut spending, as well as tap reserves, to balance their budgets during a downturn. And 15 states are so “substantially

unprepared” for the next downturn, they would face major “economic repercussions.”

The idea of stress testing state budgets, which was borrowed from the U.S. Federal Reserve, essentially throws different economic scenarios at a state budget to see how revenues would be impacted. While the idea is popular with economists and ratings firms, only a few states actually conduct their own stress tests.

In its analysis, Moody’s Analytics ran two different scenarios: a moderate recession and a more severe downturn that mimics the losses experienced during the Great Recession. The models took into each state’s tax structure, revenue volatility, expected spending on Medicaid, and existing reserves and fund balances, among other things.

Having the proper cushion allows lawmakers to keep making policy when times are tough, rather than simply just reacting, says Moody’s senior economist Dan White, the report’s author. “If you have the reserves put away and don’t have to worry about making ends meet,” he says, “that gives you more time to focus resources on things that are really plaguing you — like the cost of Medicaid.”

White’s modeling gives states at least one or two years before the next economic downturn. That means places like California, Kentucky and Wisconsin, which have about half of the savings Moody’s estimates they need, potentially have time to improve their position. But for the states with slim-t--no savings set aside (such as Connecticut, New Jersey and Pennsylvania), White says it’s likely too late to make the needed adjustment before the next recession.

Many of the states that fall into the unprepared category are there because they haven’t addressed their structural budget burdens. Pennsylvania, for instance, has consistently struggled with balancing its budget over the last decade. Part of the reason is that its Medicaid spending is gobbling up nearly 40 percent of the budget and giving it less flexibility than any other state. “They just really haven’t had the breathing room necessary to set aside any amount for reserves,” says White.

While many state budgets were seemingly blindsided in 2008 by free-falling revenues, White says there was at least one person in every state who should have known the recession was coming: the state Medicaid director. That’s because enrollment jumped significantly beginning in the first half of 2008, nearly a year before revenues began taking a nose dive.

Medicaid enrollment in states that have expanded their programs under the Affordable Care Act is still increasing for noneconomic reasons. But White expects that to level off before the next downturn.

GOVERNING.COM

BY LIZ FARMER | OCTOBER 18, 2017

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…

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Oct. 17, 2017

P3 Digest, October 17, 2017

Maryland Governor Announces Ambitious Three-Highway Expansion

Maryland Gov. Larry Hogan announced plans to widen three of the state's most congested roadways in what he…

Continue reading.

S&P U.S. State Pensions: Funded Ratios Declined Again In 2016.

In the ninth year of this historically slow economic recovery, many states are experiencing budget pressure as fixed costs rise and revenue growth remains stagnant. The current recovery from the Great Recession over the previous nine years has been relatively slow for state economies and tax revenues, which has posed challenges for rebuilding reserves and investing in infrastructure.

Continue Reading

Oct. 18, 2017

S&P: U.S. State Retiree Medical And Other Postemployment Benefit Liabilities Keep Rising As States Prioritize Other Obligations.

Total unfunded state other postemployment benefit (OPEB) liabilities have increased, according to S&P Global Ratings' latest survey of U.S. states. Many states have completed new OPEB actuarial studies since our last survey (which used 2015 or previous studies) and total unfunded liabilities across all states increased $22.7 billion or 3.9% in fiscal 2016.

Continue Reading

Oct. 18, 2017

Addressing the Growing Need for Senior Living Projects Through Tax-Exempt Bonds: Orrick

A Guide for Senior Living Facility Owners, Developers and Operators

As Baby Boomers begin to reach their seventies and life expectancy continues to increase, the U.S. senior population is expected to grow significantly in the coming years and decades. In fact,

according to the U.S. Census Bureau:

- The population aged 65+ is projected to more than double in size between 2014 and 2060
- The biggest increase is expected to start in just a few years in the decade from 2020 to 2030, when those aged 65 and over are projected to increase by 18 million to a total of 74 million people, accounting for more than 20% of the total United States population

As the senior population continues to grow, so does the need for housing built specifically for seniors, such as multifamily senior apartments, continuing care retirement communities, independent living and assisted living facilities, skilled nursing facilities and memory care facilities ("senior living facilities").

Read the article.

October.13.2017

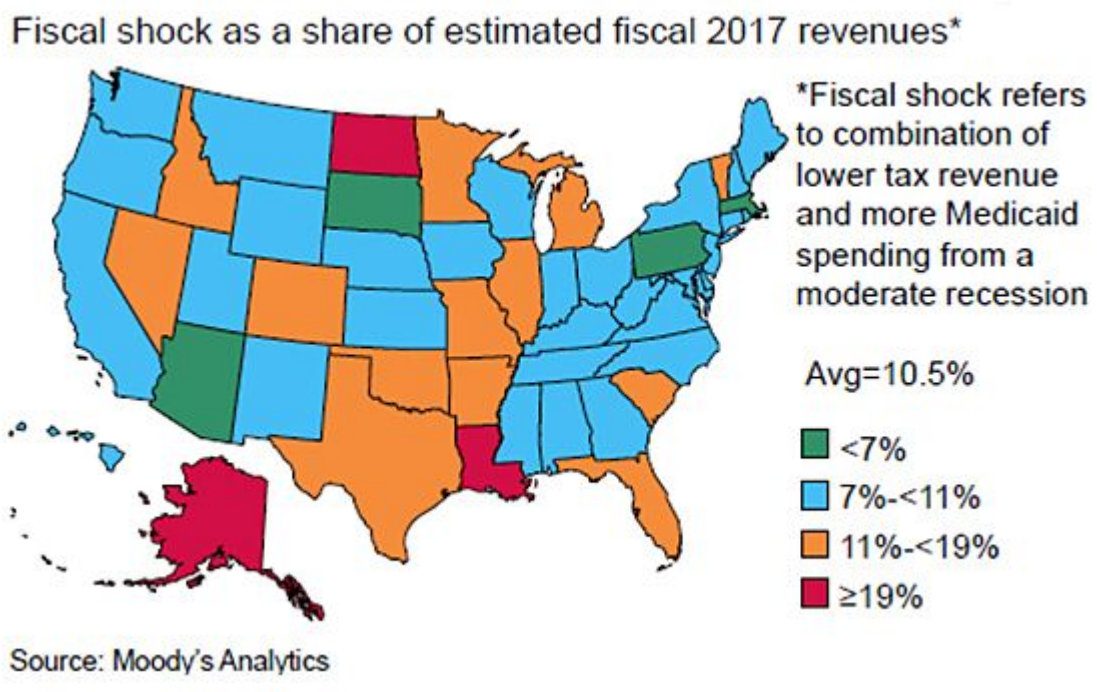
Orrick

These States Are the Least Ready for the Next Recession.

- **Moody's Analytics says 15 states not prepared for a downturn**
- **Louisiana, North Dakota, Oklahoma fare worst in stress test**

It's been more than eight years since the last recession, but nearly a third of America's states aren't ready for the next one.

Fifteen state governments don't have enough money saved to make up for the revenue that would disappear during a moderate recession, with Louisiana, North Dakota and Oklahoma the least prepared, according to stress tests conducted by Moody's Analytics. New Mexico, Illinois, Colorado, New Jersey, Pennsylvania, Missouri, Kansas, Virginia, Vermont, Arizona, Arkansas and Connecticut were also judged ill-equipped.



Moody's Analytics isn't forecasting a recession, though it said another one is only a matter of time.

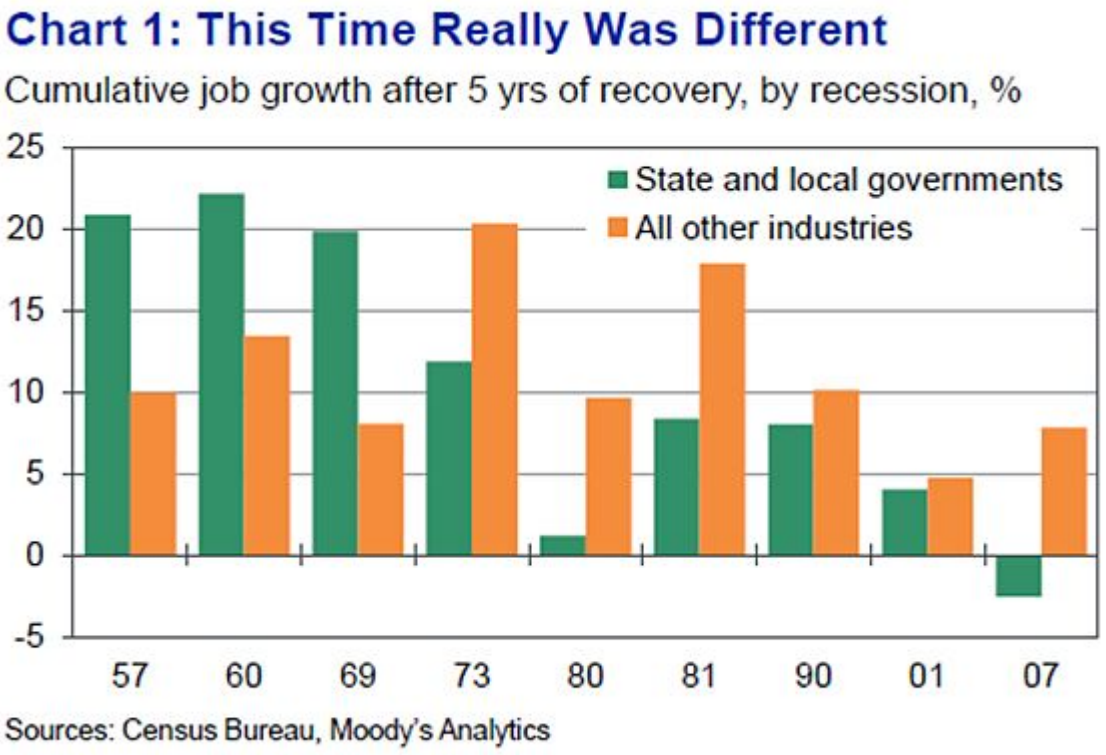
"A concerning number of states are still substantially unprepared for an economic downturn, and that level of unpreparedness will have economic repercussions if not addressed," Moody's Analytics economists led by Dan White wrote. "At the very least, states and local governments should be reviewing their reserve policies and checking on their adequacy following such a tumultuous fiscal period as the last decade."

Despite the third-longest national economic expansion on record, soaring stock prices and an unemployment rate of less than 5 percent, many states are still having trouble balancing their budgets. Almost a dozen weren't able to enact one by the time their new years started in July, and Connecticut still hasn't. Pennsylvania did so, though lawmakers still haven't figured out how to close the deficit that was left.

The median state rainy-day fund has enough to cover a little over 5 percent of the government's general budget, according to Moody's Analytics. That's not too much more than what it was in 2008, which proved completely inadequate to offset the brunt of the Great Recession.

"This lack of preparation left some policymakers budgeting without a net at the worst possible time," the analysts said in the report.

Once that recession struck, states and local governments shed almost 750,000 workers in the next five fiscal years, exerting further drag on the economy. Almost a decade later, municipal payrolls still haven't returned to pre-recession heights, leveling off around 300,000 below the previous peak, according to Moody's Analytics. State and local government employment is lower, on a per-capita basis, than at any time since the 1980s.



To come up with its list, Moody's used state-by-state estimates of tax revenue shortfalls and Medicaid spending increases under a recession. The firm then compared that figure with the reserves held by each state as of fiscal year 2017. Moody's Analytics regards states with a greater than 5 percentage point difference between actual and necessary reserves as unprepared.

Louisiana, the least prepared state, had a 24 percentage point difference between actual and necessary reserves. Alaska, the most prepared state, had 191 percentage points more in reserves than it would need under a moderate recession, according to Moody's Analytics.

States are more vulnerable to recession now than in the past, according to Moody's Analytics. Spending on Medicaid, the state-federal health-care program for the poor, is rising at a faster rate than revenue, becoming a much larger portion of budgets. Meantime, tax revenue collections have become volatile as states rely more heavily on progressive personal income taxes — and a smaller number of wealthy taxpayers — for revenue. Sales taxes are more stable but cover less of the service-oriented U.S. economy.

Energy and commodity states, like Alaska and Louisiana, and those that rely the most on progressive personal income taxes, such as California and New York, will experience more revenue volatility and should keep more in reserve, Moody's Analytics said. Meanwhile, Arkansas, with a much less volatile tax or economic structure, needs to save less, according to the report.

On average, a state would need to have more than 10 percent of its budget in reserve to weather a modest recession without having to resort to potentially drastic fiscal measures. It would take 16 percent to handle one akin to the last.

States should also develop better guidelines for using the funds, Moody's Analytics said. During the Great Recession, several states with "sizable reserves" used the money late or not at all as elected officials debated the true purpose of their reserves.

"As a result, several state rainy day funds were marginalized during one of the largest downpours in American history," according to the report. "This forced some states to take more severe fiscal actions than they otherwise might have, which subsequently weighed on the pace of economic recovery."

Bloomberg

By Martin Z Braun

October 17, 2017, 9:01 PM PDT

Around the World, Private Capital is Solving Public Problems.

The first ever Social Impact Bond ("SIB") was introduced in the United Kingdom when private investors funded an initiative aimed at reducing recidivism among inmates released from Peterborough prison.

Since its inception, it has achieved a rate of return of over 3 percent, while reducing recidivism rates by 9 percent. The financial return was contingent upon meeting a 7.5 percent reduction target set by the Ministry of Justice, which was exceeded. Today, there are approximately 89 SIBs in 19 countries addressing an increasing array of social issue.

SIBs are a financing tool in which governments contract with private entities to produce measurable results in areas such as criminal justice, substance abuse, early childhood development, homelessness, workforce development, and public health. Start-up capital is raised from investors, frequently with backing from foundations. But a financial return is only secured if a predetermined

set of objectives are realized. In other words, if an initiative fails to meet its targets the loss is absorbed by investors not taxpayers. Under this “pay for success” model, governments only pay if and when certain goals are achieved.

Continue reading.

The Hill

BY DOUGLAS SINGLETERRY AND ZENON CHRISTODOULOU, OPINION CONTRIBUTORS

MSRB Investor Guide to Monitoring Muni Bonds.

Are muni bonds part of your retirement savings plan? Check out our investor guide on monitoring bonds.

How Optimistic Math Conceals Depth of America’s Public Pension Crisis.

Minnesota’s funded ratio fell more than 30%, leaving its state pension funded at 52.10%, according to S&P Global Ratings

Minnesota’s state pension funds became the seventh most underfunded in the country in 2016 after its largest fund lowered its expected rate of return to a more realistic level.

The move highlighted how optimistic return estimates for public pension funds have helped disguise the extent of America’s pension crisis and underscored how teachers, firefighters and other public employees may end up looking forward to a smaller safety net.

Minnesota’s actions were prompted by the Government Accounting Standards Board, which has pushed state pension funds to base their funding ratios on more conservative forecasts on their investments. In response, its largest pension fund for public-sector workers slashed its expected return from 7.90% to 4.17% for fiscal 2016.

Continue reading.

MarketWatch

by Sunny Oh

Published: Oct 23, 2017 8:19 a.m. ET

Planning For the End of LIBOR: Holland & Knight

By 2021, it is likely that LIBOR will no longer exist, and even more likely that it will no longer be the leading global benchmark interest rate. This news comes from the U.K. Financial Conduct Authority’s (FCA) announcement that after 2021, it will no longer make the reporting of interbank

lending transactions on which LIBOR is based mandatory.1 That change, together with criticism that LIBOR rates are no longer supported by sufficient underlying market data and the rate fixing scandals in recent years suggest LIBOR's days are numbered.

The discontinuance of LIBOR would affect most financial markets, including the aviation finance industry. Many aviation finance transactions incorporate some form of a floating rate based on LIBOR whether it be in the form of a floating rate loan, floating rent rate, or default interest rate pegged to the benchmark. It is prudent to assess existing and future transactions that will remain in place past 2021 to ensure that they contain suitable provisions for selecting a replacement rate.

Lack of Data and Scandal

The London Interbank Offered Rate (LIBOR) was created almost 50 years ago to track the interest rate at which certain large institutional banks lend unsecured funds to each other in multiple currencies and for twelve different tenors on the London interbank market. LIBOR rates are created based on information supplied to the ICE Benchmark Administration by a panel of 20 banks that participate in the London interbank market. The panel is required to submit interest rate data from actual interbank loan transactions, and where no such transactions have taken place, the LIBOR rate is based on the submitting bank's traders' estimates of what the rate of an actual interbank loan on that date would have been. The published rates are the average of all submissions.

A dramatic decrease in interbank lending has left LIBOR as more a representation of expert opinion than a summary of actual market activity.2 According to Andrew Bailey, the head of the FCA, the number of certain interbank loan transactions has dropped down below 20 per year. For a rate that is set daily, this means that on most days the rate is set based on expert opinion alone. This lack of actual data, coupled with the recent LIBOR rate fixing scandals, are likely to spell the end of the benchmark. Since 2012, banks have been fined over USD$ 9 billion for fraud, collusion and manipulation of LIBOR rates.3

Alternatives to LIBOR

Belief that the end of LIBOR is near is strong enough that governments worldwide have started looking at replacement options. A few alternatives are starting to build momentum, but there is no consensus around which rate will replace LIBOR as the market standard benchmark. In fact, there is speculation that no single replacement will emerge and instead LIBOR could be replaced by multiple benchmarks, leading to a more fractured market and greater complexity for negotiating parties.

To address the end of LIBOR, the United States government created a panel of fifteen large U.S. banks called the Alternative Reference Rates Committee (ARRC). In June, the ARRC endorsed the use of what has come to be called the Broad Treasury Financing Rate (BTFR), which will be published by the Federal Reserve Bank of New York as the best practice for U.S. dollar derivatives and financial contracts.4 The intricacies of the BTFR are currently undergoing a public review and comment period, after which it is expected that the rate will be published beginning in the middle of 2018. Generally, the BTFR will represent the interest rate at which banks and others will fund overnight loans secured by U.S. government debt.

In the United Kingdom, the leading alternative appears to be the Sterling Overnight Index Average (SONIA), which reflects the rates for unsecured short-term transactions tied to the pound.5 SONIA's scope is more limited than LIBOR since it only covers sterling while LIBOR covers five different major currencies, and SONIA only measures the overnight rate while LIBOR covers seven maturities from overnight to 12 months.6 These limitations may hinder SONIA's adoption globally.

Existing Documentation

Aviation finance industry participants should review their existing documentation which incorporates LIBOR and may have a term or tenor through 2021 or beyond. LIBOR is used in loan documentation (secured and unsecured), all varieties of leases (with or without floating rent rates), MRO general terms agreements, and even guaranties or other credit support documentation. Even where the principal payment obligation is not a floating rate, documentation can have other types of floating rates that incorporate LIBOR such as default interest rates, or fixed to floating rate conversion options.

Documentation that incorporates LIBOR but lacks a mechanism for selecting a replacement when LIBOR is no longer available should be amended in the coming years if it is expected to remain in place past 2021.

However, documentation that incorporates LIBOR usually includes a mechanism for determining the applicable interest rate if LIBOR becomes unavailable. Here are some thoughts on assessing the adequacy of three of the most common varieties of replacement provisions:

- *Successor Provisions.* These provisions indicate that if another entity takes over the publishing of LIBOR from the ICE Benchmark Administration, or if the LIBOR rates are published in a different way in the future, that such successor publisher or means will be the new rate. These provisions won't be of much use if LIBOR ceases to exist.
- *Interpolation and Alternative Information Source Provisions.* Provisions that empower one party to interpolate between other available LIBOR rates if the LIBOR rate of the selected tenor is no longer available will not be of use if the benchmark itself no longer exists. Similarly, provisions that empower one party to select a different source for the screen rate will not be of use if the underlying benchmark is not available anywhere.
- *Unilateral Selection.* Another type permits the creditor party to unilaterally select a suitable replacement if the LIBOR rate is no longer available or no longer the market standard. Sometimes these provisions require consultation with the borrower, sometimes not. While we are likely to experience a period without a clear market standard alternative to LIBOR, generally speaking this type of a provision will still give the parties sufficient certainty that a suitable replacement will be selected when that time comes. In syndicated loan documentation, borrowers may wish to have the selection of a replacement rate require the approval of a majority of lenders, rather than requiring unanimous approval to expedite the selection of a new rate once a market consensus is reached.
- *Reference Bank.* Finally, so called "Reference Bank" provisions specify that a particular interest rate offer from a specified private bank or the average of rates supplied by a few banks will be the replacement rate if LIBOR is unavailable. This type of provision, which is found in standard LMA and LSTA documentation, is intended to resolve short-term LIBOR interruptions, but leaves considerable uncertainty if utilized indefinitely and should not be viewed as a practical permanent solution. For example, it is likely to result in a party paying different rates of interest under different deals that are on the same commercial terms but appoint different reference banks.

By the time LIBOR reporting is no longer mandatory, there ought to be greater consensus around the suitability of available replacements. For now, parties should be cautious about incorporating a LIBOR replacement they are not already familiar with. Until consensus grows in the financial sector, parties need to ensure that their existing documentation and new documentation contain adequate provisions for selecting a suitable replacement in the future.

Footnotes

1 https://www.fca.org.uk/news/speeches/the-future-of-libor

2 In 2015, about 70% of the bank submissions were experts guesses. http://www.businessinsider.com/demise-of-libor-part-of-massive-global-trend-many-overlook-2017-9

3 https://www.lexology.com/library/detail.aspx?g=342c165d-5c56-4cb5-a1cb-5a15696e91ca

4 https://www.newyorkfed.org/medialibrary/microsites/arrc/files/2017/ARRC-press-release-Ju--22-2017.pdf

5 https://www.lexology.com/library/detail.aspx?g=342c165d-5c56-4cb5-a1cb-5a15696e91ca

6 https://www.lexology.com/library/detail.aspx?g=342c165d-5c56-4cb5-a1cb-5a15696e91ca

Last Updated: October 17 2017

Article by Nathan Leavitt and Yue Qi

Holland & Knight

Nathan Leavitt is a Partner and Yue Qi is an Associate in the San Francisco 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.

The Next Green Revolution: An Overview of the Rapidly Evolving Green Bond Market.

This article is from the Nonprofit Quarterly's fall 2017 edition, *"The Changing Skyline of U.S. Giving."*

Responsible investment means incorporating environmental, social, and governance (ESG) factors into investment decisions to generate sustainable returns and better manage risk. On a human level, it means incorporating the desire to make a difference in the world into the investment process. Green bonds, fixed income instruments that fund projects with environmental and/or climate benefit, are a type of responsible investment.1 More broadly, they are an example of leadership from the investment community in addressing the threat of climate change. In the wake of recent catastrophic hurricanes, this article provides an overview of the green bond market for potential investors and issuers seeking to do more to protect the planet.

Market Size and Trajectory

Green bonds have grown rapidly since they were invented by investors in 2007 to fund projects with climate or environmental benefits. Since then, two categories of green bonds (labeled and unlabeled) with four main structures (use of proceeds, revenue, project, and securitized) have emerged from a broadening range of issuers. Global green bond issuance is projected to double in 2017 from $93.4 billion of issuance in 2016,2 after doubling from $42 billion in 2015.3 With the Paris Climate Agreement and China's clean energy campaign as drivers of continuing growth, this deep dive into the emerging asset class is warranted. By way of background: under the Paris Climate Agreement, investors with an aggregate $11 trillion of assets under management (AUM) committed to build a green bond market,4 and the United States committed to reducing its greenhouse gas emissions 26 to 28 percent below the 2005 level by 2025.5

Continue reading.

NONPROFIT QUARTERLY

By BHAKTI MIRCHANDANI | October 10, 2017

Market Commentary: Muni Market Digests Large Supply With Much More to Come This Week.

This Market Commentary is part of *Court Street Group's Perspective*. A PDF of the full report is available here.

The first full week of October saw municipal bond interest rates move into lower ranges amid larger supply and continued anemic fund flow figures. The end of the third quarter saw high-grade bonds track about 20 basis points higher in the intermediate and longer-ranges of the yield curve.

Continue reading.

by Lynne Funk Posner

Posted 10/13/2017

Neighborly Insights

Credit Focus: State Revenue Scoreboard - CA, MA, MO, AR, GA, MS

This *Credit Focus* is part of *Court Street Group's Perspective*. A PDF of the full report is available here.

Disclosure of Revenues a Credit Positive

It seems that the states are realizing that more regular and timely disclosure of state revenues can have a beneficial impact in supporting their debt both during and after the marketing for their bonds. They seem to be realizing the municipal analysis is moving in a more quantitative direction all the time and that data is the key to this analysis. The demand for information — historically available to a limited number of inside government players — is bolstered by a more information savvy generation of analysts and investors as well as the ability of states to disseminate data through the internet that satisfies any regulatory concerns. As a result, the availability of such information expands constantly.

As as a result, we are able to comment on current state revenue results like the following:

Continue reading.

by Joseph Krist

Posted 10/13/2017

Neighborly Insights

S&P: Rising OPEB Liabilities For The 15 Largest U.S. Cities Could Strain Budgets And Pose Credit Risks.

S&P Global Ratings' survey of the 15 largest (by population) U.S. cities' other postemployment benefits (OPEB) liabilities shows that these remain largely unfunded, face funding pressures, and pose a long-term credit risk. This is especially the case as health care costs continue to rise, the U.S. population continues to age, and uncertainty persists regarding the Affordable Care Act and Medicaid.

Continue reading.

Oct. 10, 2017

Bloomberg Brief Weekly Video - 10/12

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

Watch video.

October 12th, 2017

Bloomberg

Pay for Success and the Savings Trap.

Saving money isn't the point. The conversation should be about government effectiveness and positive outcomes.

"So, how does this *really* save our jurisdiction money?" I get this question about "pay for success" projects all the time, and I dread it — not because I can't answer it but because it's pernicious. It sounds practical and technocratic, but it's neither. It conceals an intricate web of misunderstanding about why and how to fund, manage and evaluate public programs.

What's more, this is largely a self-inflicted wound. From its inception nearly a decade ago, many of us involved with pay for success (PFS) have described it as a way to deliver "cashable savings." It's not. Framing it that way is both an over-simplification and a fundamental misreading of how the public sector works.

PFS projects are a way for governments to fund social programs on the basis of their performance. Parties agree on what outcomes constitute success and how to measure them, and then put a price tag on how valuable each outcome is. But most nonprofits that provide program services can't afford to wait to get paid until outcomes are achieved and can't bear the financial risks of a negative result.

That's why working capital for PFS programs is often provided by "impact investors," those who seek to generate social and environmental impact alongside a financial return.

Cost savings aren't the point — not for PFS projects and not for governments. The point is to create safe, just and prosperous communities at a reasonable cost to taxpayers. The idea that, for example, helping the homeless find stable housing has to save money is ludicrous; we support the homeless because the kind of society we want doesn't let the most vulnerable among us live, and too often die, on the streets. In plenty of areas this is obvious: K-12 education is incredibly expensive, doesn't show any fiscal return for decades and pays off over a lifetime — and is one of our most important public institutions.

Of course, some programs do drive down costs, and good cost-benefit analyses are valuable tools for making decisions. But we should be humble about our ability to predict the future. Sophisticated models can't tell us whether a new drug will stop a disease in its tracks, or whether treatment costs will plummet, or whether policies will change. Each of these dynamics changes the "savings" picture dramatically.

What is really misleading about the idea of cashable savings, though, is that "cashing" them is ultimately about effective governing. If, for example, a PFS program reduces days people spend in jail by 25 percent, it will mean fewer incremental costs, such as for inmates' food and clothing. But most of the real value will come from personnel. There will be less work for staff members — corrections officers, janitors — to do. A county can decide to "cash" those "savings" by downsizing jail staff, or it can decide to put these staffers to work on other tasks. Deciding to extract savings from the budget is a political question separate from programmatic success. It's the job of public leaders to decide what to do with the value created by good programs: extract and reallocate it, or reinvest it.

A better way to talk about programmatic success is in terms of effectiveness. Instead of focusing on the cost of services, we need to start focusing on the cost of getting good outcomes. Take the cost of high school. If our state spends $10,000 per student per year and graduates half of the class, we're paying $80,000 per graduate. If by spending another $1,250 per student per year we can boost graduation rates to 90 percent, we won't "save" any money, but we'll get a lot more bang for taxpayer's buck by paying only $50,000 per graduate.

This is what pay for success is about: not cashable savings but government effectiveness.

We need to start having a more sophisticated conversation about the value of programs and stop hiding behind the false simplicity of cashable savings. Governments need to redefine the terms of engagement to more thoughtfully make tough decisions about where to spend taxpayers' money. That's the only way we'll be able to accomplish something refreshingly bipartisan: getting more value out of our government spending.

GOVERNING.COM

By Jake Segal | Contributor
Director of advisory services for Social Finance

October 16, 2017

The Week in Public Finance: California's Wildfires, Illinois Going Into More Debt and Kentucky Embraces P3s.

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

GOVERNING.COM

BY LIZ FARMER | OCTOBER 13, 2017

Shield Exemption, Spend More on Infrastructure, Congress Told.

PHOENIX – Tax-exempt bonds and other infrastructure financing tools need to be protected even though they are insufficient to support America's surface transportation needs, stakeholders told a House panel Wednesday.

Witnesses representing issuers and manufacturers made that case to lawmakers during a hearing of the House Committee on Transportation and Infrastructure's subcommittee on highways and transit. The session was called as part of a series of hearings to solicit stakeholder views on 21st century infrastructure. Those witnesses told committee members that state and local spending is important but doesn't substitute for federal spending.

Patrick McKenna, director of the Missouri Department of Transportation, representing the American Association of State Highway and Transportation Officials, told lawmakers that AASHTO supports federal grant programs over expanded financing options. The group denies that merely incentivizing local investment or public-private partnerships, as the Trump administration has proposed, will be enough to deliver on the country's infrastructure needs, he said.

"AASHTO and its members disagree with any notion that federal transportation funding displaces or discourages state and local investment," McKenna said. "Financing instruments such as subsidized loans, tax-exempt municipal and private activity bonds, and infrastructure banks are insufficient to meet most types of infrastructure investment needs."

Ray McCarty, president and chief executive officer of the Associated Industries of Missouri, representing the National Association of Manufacturers, stressed the importance of protecting the tax exemption for munis as lawmakers consider tax reform, rather than letting less traditional financing methods crowd bonds out.

"Tax-exempt municipal bonds should be protected as policymakers consider ways to expand the funding and financing toolbox with public-private partnerships and leveraging opportunities,"

McCarty told lawmakers. When asked to expand on that point by committee member Rep. Bob Gibbs, R-Ohio, McCarty said that scrapping the tax exemption would make bonds less desirable for investors and eliminate that tool from the funding toolbox.

"As tax reform is being considered, we think it's very important that we preserve the ability to deduct the interest from those municipal bonds," McCarty said.

Trump campaigned on a ten-year $1 trillion infrastructure plan, but subsequently proposed only $200 billion of total federal infrastructure spending from fiscal 2018-2027 to support that $1 trillion. Though the administration initially indicated that private investment in infrastructure would be a

major driver of the plan, Trump last month told lawmakers that public-private partnerships do not work.

An angry Rep. Peter DeFazio, D-Ore., the senior Democrat on the transportation committee, said Congress was making seemingly no progress on the infrastructure front despite the general agreement that it is a bipartisan issue.

“All we’re doing around here is talking,” DeFazio said.

Rep. Bill Shuster, R-Pa., who chairs the full transportation committee, urged consideration of a variety of funding means, including foreign investment in U.S. infrastructure.

Congressional leaders have indicated that tax reform is the next major agenda they will tackle, and lobbyists have said they generally expect more robust infrastructure discussions to take place after that.

By Kyle Glazier

SOURCEMEDIA | MUNICIPAL | 10/11/17

US Infrastructure: Land of Opportunity.

Investors are poised to rebuild America after President Donald Trump revealed a $1trn infrastructure plan. But progress has been slow, writes Christopher O’Dea

Blackstone’s announcement in May that it was launching a new business to invest up to $100bn (€84bn) in US infrastructure brought into sharp focus a major question for institutional investors: how to deploy more capital into the massive US infrastructure sector.

President Donald Trump has called for private investors to inject $1trn in capital to refurbish, rebuild and replace all manner of infrastructure. But aside from the initial proposal to use $200bn in federal funds as seed money to attract the rest, details about the plan have been sketchy. The infrastructure initiative remains stuck, a distant third behind the stalled efforts at healthcare and tax reform, and increasingly hamstrung by the administration’s own missteps.

Continue reading.

BY CHRISTOPHER O’DEA

SEPTEMBER/OCTOBER 2017 (MAGAZINE)

IPE REAL ASSETS

Campaign to Block Promotion of PPPs Launched.

Public-private partnerships are too expensive, high risk and “encourage corruption and bad decision-making”, civil society organisations said as they launched a campaign to stop their promotion.

These partnerships are a threat to public finances because they are more costly in the long run than conventional public funding, according to a cross-NGO campaign launched at the World Bank-IMF annual meeting in Washington DC today.

The campaign aims to reverse the promotion of public-private partnerships (PPPs) and is calling on western governments, the World Bank and development banks to stop pushing them over traditional public borrowing to finance infrastructure and services.

Promotion of PPPs is increasing and being "pushed onto countries in the global south as the answer to development finance shortfalls", said Maria Jose Romero, policy and advocacy manager at the European Network on Debt and Development (Eurodad), a member of the campaign.

She said: "This dangerous trend means the very countries which are already most vulnerable to debt and most in need of development aid are saddled with expensive, high risk, undemocratic and unaccountable projects.

"PPPs also encourage corruption and bad decision-making because contracts are often negotiated in secret and covered by commercial confidentiality."

The 146 organisations from 45 countries behind the campaign manifesto said the experience of PPPs "has been overwhelmingly negative" and did not deliver enough results in the public interest.

A statement from Eurodad added that PPPs expose governments to financial risk because of the cost and "can have disproportionally negative impact on women and children" as well as undermining democracy and human and environmental rights.

The campaign highlighted examples of failed PPPs including a hospital in Lesotho, which cost three times more than the one it replaced and took up a quarter of the country's health budget. It also flagged up a PPP road linking Brazil and Peru, the cost of which rose from $800m to $2.3bn because of a corruptly secured renegotiation processes.

Last year, the World Bank also highlighted PPP problems. Its report found that most countries are not up to standard in at least one of the analysed areas – preparation, procurement, unsolicited proposals and contract management.

Public Finance International

By: Simone Rensch

11 Oct 17

Citizens Will Hopefully Get Involved in This Issue.

The president's proposed $1 trillion national infrastructure plan has become something of an anomaly. Once a highly touted campaign promise, the long-awaited plan has been void of any specifics and last spring was reduced to a set of ambiguous "principles." However, both pre-campaign and post-inauguration, Trump's proposal relied heavily on capital investment by the private sector.

Just a week ago, the president started walking back his often-stated commitment to use $200 billion

in federal funding to leverage another $800 billion in private capital and other non-federal funds for an infrastructure plan. Word from the Beltway this week is that a new "outline or principles" for an infrastructure plan will be forthcoming from the Trump administration, possibly in the next week or so.

In the meantime, a group of House Democrats this week announced their own "principles" regarding how to rebuild the nation's infrastructure. Their plan relies on revenues created through repatriation, dedicating funds realized from taxing corporate earnings overseas that are returned to the United States, and a congressional commitment to long-term, adequate funding of the Highway Trust Fund. And, unlike Trump's sudden lack of interest in P3s, this new proposal encourages more public-private collaborations.

The American Society of Civil Engineers says that the U.S. is currently facing a $4.6 trillion deficit in infrastructure spending for critical needs. Infrastructure projects in dire need of repair include roads, bridges, airports, water resources, wastewater treatment plants, ports and energy-related projects. Absent a federal commitment to increased funding or support for private capital investment, state and local officials will be seeking funding sources that will likely fall on citizens and taxpayers. Some funding may come from increased state gas taxes, local fees and passage of infrastructure-related bond issues.

At a time when many communities need billions for infrastructure repair because of damages caused by some of the nation's costliest disasters – hurricanes Harvey, Irma and Maria – if ever it seemed reasonable to find ways to support collaborative efforts and private investment, it might be now. But, perhaps Congress can find other ways to allocate funding.

U.S. Reps. Tom Reed and Bill Pascrell recently filed legislation to expand funding options to help pay for storm damage in Texas, the Florida coasts and Puerto Rico. H.R. 3679 would create federal Disaster Recovery Bonds, a permanent federal tax-exempt bond that allows state and local governments to finance public infrastructure projects resulting from a disaster. The bonds would provide immediate funding once a presidential disaster is declared. State and local officials would be granted authority to issue private activity bonds that could be used to leverage private investment in many of these projects. Private investment was called "a vital component to cash-strapped governments during disaster recovery" by Toby Rittner, president and CEO of the Council of Development Finance Agencies.

Government officials are beginning to realize the lower risk, potential cost savings and increased efficiencies of entering into public-private partnerships (P3s). One of the nation's bellwethers of change regarding collaboration between the public and private sectors is the Pennsylvania Department of Transportation's (PennDOT) Rapid Bridge Replacement project. Arguably one of the nation's most successful infrastructure P3s, the state's transportation agency partnered with a consortium of private-sector firms to replace 558 aging bridges in the state. The program, which began in mid-2015, completed its 200th bridge replacement in January. An additional 200 bridges are expected to be replaced this year, and 100 more in 2018.

So successful is this program that PennDOT this week announced it is accepting unsolicited proposals from the private sector for other infrastructure needs. The agency is seeking proposals to address innovative solutions for delivery of roads, bridges, aviation and ports or proposals that will address how to more efficiently manage current PennDOT transportation-related services and programs.

Regardless of what type of funding mechanism is used, disaster recovery and infrastructure rebuilding must occur. Every citizen and taxpayer should carefully monitor how Congress proposes

to resolve the country's crumbling infrastructure. And, citizens who really care about preserving the country's greatest assets will hopefully urge members of Congress to hurry and find consensus on this important issue.

by Mary Scott Nabers

Oct 6th 2017

Strategic Partnerships, Inc. is one of the leading procurement consulting companies in the U.S. Contact them today to learn how to increase your public sector sales.

Trump's Apparent About-Face on Partnerships Injects 'Huge Question Mark' Into Infrastructure Plan.

It's too soon to know if President Trump's seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

The infrastructure industry and public officials are trying to figure out how to interpret President Trump's recent move to back off what had been a major pillar of his $1 trillion infrastructure investment plan.

Trump said he doesn't favor using public-private partnerships to finance infrastructure projects because they don't always work, he told Democrats on the House Ways and Means Committee during a Sept. 26 meeting.

In the spring, the White House released a six-page outline of its infrastructure priorities that encouraged public-private partnerships as part of an incentive program in which the federal government offers up to $200 billion to state and local governments that enter into the agreements and other private sector deals.

It's too soon to know if Trump's seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

"It's very dismaying," said Robert Poole, director of transportation policy at the Reason Foundation, a free-market research group. "You saw during the first six months of this year, everyone involved with public-private partnerships, including the construction and finance industries, were all saying, the U.S. will be the big next frontier for these deals. That now has a huge question mark on it," Poole told the Washington Examiner.

A public-private partnership acts as it sounds, with private investors helping fund construction and repair of roads, bridges, and airports in exchange for a share of future revenue. It is not quite privatization, in which a government sells a public asset to a private company.

Lawmakers who participated in the meeting with Trump say he cited the experience of Vice President Mike Pence, who was Indiana's governor when a private group helped the state operate a major toll road and the developers went bankrupt.

The U.S. market for public-private partnerships is barely formed, but supporters say the deals can be quicker and more efficient and entail less taxpayer risk if structured properly.

But such deals are also financially complex, which public officials can struggle to understand, leading to agreements that don't work.

"They are not the answer to the infrastructure needs in this country, but can be a part of some of these projects," said Aubrey Lane, Virginia's secretary of transportation, who has briefed Trump administration officials on infrastructure. "I didn't believe the first hype from the administration that public-private partnerships would be all the answer, and I don't believe this new hype they aren't good at all," Lane told the Washington Examiner.

Virginia is an outlier in the U.S. with its deep experience with public-private partnerships, which are known as PPPs or P3s in transportation circles.

Since 2007, the state has closed five public-private partnership deals worth more than $9 billion collectively, with more than $2.5 billion coming from private equity, less than $1 billion in public funds, and the remaining from privately backed debt.

The Trump administration had seemed to like such projects before the president's recent comments.

Trump chose an expert on public-private partnerships as his top White House official focused on infrastructure.

D.J. Gribbin, Trump's special assistant for infrastructure policy, previously worked on public-private partnerships for Macquarie Capital and Koch Industries.

Gribbin spoke at the P3 Hub Americas conference, a major industry gathering promoting public-private partnerships, on Sept. 26, the same day Trump met with House Democrats.

"It's so frustrating someone would make off-the-cuff comments like that about P3s," Poole said of Trump. "I can't imagine that he was coordinating with his staff. The whole reason Gribbin was hired was to do P3s. That has been his specialty for the last 20 years both in government and out of it. It's very strange."

The White House did not respond to emailed questions from the Washington Examiner about Trump's comments and whether they represent a policy change.

Experts interpreting Trump's comments have different perspectives on their significance.

Supporters of a more robust federal investment in America's infrastructure say Trump's comments don't necessarily reflect a flip-flop on public-private partnerships, but rather an appreciation for the different funding solutions needed to tackle the issue.

"It just shows the totality of the problem we are trying to address," said Ed Mortimer, executive director of transportation infrastructure at the U.S. Chamber of Commerce. "The private sector has to have a role. It's also a recognition there has to be a significant federal investment in infrastructure."

He said his engagement with the Trump administration has not changed in recent weeks.

"We have not sensed any reticence from the administration to move forward, and we will continue to push them to move forward on this," Mortimer said. "It's too important to economic growth. We

cannot continue to to fall behind the rest of the world."

Democratic lawmakers, meanwhile, cheered Trump's comments, viewing them as proof he is willing to extend his recent embrace of bipartisanship to infrastructure, and ready to rely on significant direct federal funding to pay for projects.

"I was actually very encouraged to hear that," said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee. "I guess he is a businessman and can see through that concept as a false promise. Hopefully, he sees infrastructure as capital expenditures as opposed to operating costs and is willing to get innovative on how we are going to finance it."

But conservatives have long opposed major funding initiated by the federal government, and deficit hawks likely will recoil even more in light of the tax cuts recently proposed by Republicans.

"The president is clearly frustrated with Republicans in Congress," said Michael Sargent, an infrastructure policy expert at the Heritage Foundation. "Doesn't this open the door to working with Democrats on infrastructure? That is something I am wary of. If we are moving away from public-private partnerships, if you want to spend $1 trillion you will need more offsets to raise that money, or tack it onto the debt. Either way, that's a very large bill that will have to come from somewhere."

Infrastructure spending boosters realize they will need conservative support for any plan to become law.

"It's just not going to happen to have an infrastructure bill out of the Republican House and Senate that doesn't have some private financing," Marcia Hale, president of Building America's Future, told the Washington Examiner.

Layne, Virginia's transportation secretary, would just like some clarity, as he prepares to fulfill the infrastructure needs of his state.

"I am glad to hear all the infrastructure talk, but I don't want it to be all talk and expectations and find out nothing is going to happen," he said. "I still don't know where we are nine months into the administration. I don't know what their plan is. I don't see specifics I can act on as the person in charge of the construction program for the state with the nation's third-largest road network."

The Washington Examiner

by Josh Siegel | Oct 9, 2017, 12:01 AM

Political Stalemate Buoys Municipal Bonds.

Relatively scant issuance this year also helps the market for city and state debt

Inaction in Washington has been a boon for municipal-bond investors this year.

In the two months after the 2016 election, investors took $27 billion out of muni-bond funds. The fear was that President Donald Trump's agenda for taxes, infrastructure and health care would drive up interest rates, and thus make outstanding bonds less attractive.

Washington has made scant policy changes, and those concerns have since abated. In addition, the

GOP tax framework leaves the tax-deductibility of municipal bonds intact. In short, little has changed, and investors are again doing what they had done in previous decades: buying munis.

“So far this year has been very good for returns for munis, and somewhat unexpectedly,” said Jim Colby, senior municipal portfolio manager at VanEck.

Also driving up prices: Cities and states have so far issued much less debt than last year, leaving investors hungry for municipal bonds.

Though prices have drifted downward slightly over the past month alongside Treasurys, the S&P Municipal Bond Index is back to its pre-election level, 4.4% higher than at the beginning of January.

In trading this month, a New York state general-obligation bond carried a yield of 1.2%, compared with 2.1% in December. Yields fall as prices rise.

About $28 billion flowed into municipal-bond mutual funds and exchange-traded funds from January through September, according to the Investment Company Institute.

These investors are largely shrugging off two potentially disruptive events: multiple ratings downgrades in Hartford, Conn., where the mayor in July hired restructuring advisers; and what amounts to the largest-ever municipal bankruptcy, in Puerto Rico.

“Munis had a pretty good year,” said J.R. Rieger, managing director of fixed-income index product management at S&P Dow Jones Indices LLC. “That’s kind of a surprise to me given all the headline headwinds that the muni market is facing.”

Increasing demand also came from foreign buyers. More than $3 billion flowed into municipal bonds from outside the U.S. in the second quarter, bringing the total amount of munis held by foreign investors to a record $98.6 billion, according to Federal Reserve data. With global interest rates still low, munis appeal to foreign institutional investors seeking safe long-dated securities, even though they don’t benefit from federal and state tax exemptions.

Despite high demand in both the U.S. and abroad, munis are in fairly short supply. Municipalities this year have issued $276 billion in new bonds as of last week, down 18% from this time last year, according to Thomson Reuters. The state of Massachusetts has sold about $1.7 billion in general-obligation bonds this year, half the amount it had issued by this time last year, according to Municipal Securities Rulemaking Board data.

The drop-off comes as cities and states are doing far fewer refinancing deals this year; many governments typically refinance before a new presidential administration, to head off potential uncertainty, said Matt Fabian, a partner at Municipal Market Analytics.

One of the few hiccups to the rebound in prices this year was in September. Since last month, bond prices have fallen slightly alongside Treasurys after the Federal Reserve signaled it remained on course to steadily raise interest rates.

But that dip barely dented the upward trend in muni prices since January. Some bondholders were relieved after a Trump infrastructure plan that could have diverted the assets of large infrastructure investors away from muni bonds didn’t materialize. Given that failure, the inability to repeal the Affordable Care Act and other setbacks for the Trump administration, investors became increasingly confident big changes weren’t coming from Washington this year.

“As the year has worn on, there has been this understanding that these things, if they happen,

they’re not going to happen any time soon, and they may not happen at all,” said Gary Gildersleeve, partner and portfolio manager at Evercore Wealth Management.

The Wall Street Journal

By Heather Gillers

Oct. 12, 2017 9:00 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Little-Known Wisconsin Finance Authority Draws Scrutiny for Debt Deals Worth Billions.

MADISON – With the aid of a few local governments, a prominent lobbyist and politicians of both parties, a Wisconsin group has carved out a niche doing billions of dollars in tax-free debt deals, becoming a national player that’s virtually unknown in its nominal home state.

But that may be changing for this entity with a Madison address but no direct employees in Wisconsin and relatively little business here.

One deal done by the Public Finance Authority of Wisconsin has angered lawmakers in Kansas and another has received some unwanted attention from federal tax officials and investment regulators.

The once-obscure group is also getting more scrutiny in Wisconsin. State lawmakers are now asking why the Finance Authority should have powers such as the ability to issue bonds for projects that are outside Wisconsin and even potentially outside the country.

“I’m skeptical of the public benefit,” said Rep. Scott Allen (R-Waukesha), who voted against the state budget in large part because of Finance Authority provisions. “It doesn’t make sense to have a local public agency created by Wisconsin taxpayers and the Wisconsin Legislature that doesn’t provide public benefit to the people of Wisconsin.”

“As more people learn about this, I’ve got a feeling I’m not going to be the only one scratching (my) head,” he said.

Authorized in 2010 by lawmakers and then created by five local governments, the Finance Authority helps clients around the country borrow money from investors using tax-exempt bonds. The group generates some revenue for local governments in Wisconsin and government associations, but critics question whether it’s providing more benefit to out-of-state developers than to the public.

Though the Wisconsin group has a board of largely former local elected officials and a local law firm, much of the Public Finance Authority’s work is done by a California bond firm, GPM Municipal Advisors, and a law firm based in San Francisco.

The Finance Authority has done 238 bond deals around the country totaling $8.3 billion for projects ranging from a conference center and parking garage to charter schools and a massive shopping mall and entertainment complex in New Jersey. One project was in the U.S. Pacific island territory of Guam.

Only $168 million of the deals — or about 2% — have been in Wisconsin. Many of the bond offerings were sold to sophisticated investors and did not receive a credit rating from an independent agency that would assess how risky they were.

The Finance Authority pays fees to the five local governments and to several sponsoring groups like the Wisconsin Counties Association. Mark O'Connell, the executive director of the counties association, said the Finance Authority brings benefits to the state with no risks.

"Wouldn't we want this entity to engage in business everywhere? There's no risk to the state of Wisconsin. There's no taxpayer dollars put into it or at risk," O'Connell said in an interview.

Part of the controversy around the Finance Authority focuses on whether one of its bond deals produces the kind of public benefit needed to qualify for tax-free status from the U.S. government.

In July, the federal Internal Revenue Service told the Finance Authority of its proposed conclusion that the bonds for a Dallas luxury tower development shouldn't be exempt from federal taxes.

That matters because the investors who had bought the bonds had done so expecting that the interest they would be paid on them would be free from federal income taxes. The Finance Authority's outside attorney, the San Francisco firm of Orrick, Herrington & Sutcliffe, concluded the bonds should be tax free.

O'Connell insists that the Finance Authority has no legal risk from a potential investor lawsuit and that the group will be successful in challenging the IRS finding.

"The PFA will not do a project unless there's a public benefit attached to it," said Andrew Phillips, an attorney with von Briesen & Roper in Milwaukee who serves as general counsel to the Finance Authority and the counties association.

In the meantime, the U.S. Securities and Exchange Commission has also asked the Finance Authority to turn over documents related to the Dallas deal. It's not clear why the investment regulators are looking at this particular deal, but in the past the SEC has charged participants in bond deals with fraud for misleading investors about whether the bond are tax free.

In a statement, O'Connell said the SEC inquiry may have arisen out of a dispute between partners in the tower's development company and that there's "nothing to suggest that the investigation involves PFA in any fashion."

But Mark Scott, an attorney in the field, said it was unusual that the IRS had taken note of the bonds so quickly after they were issued last year. Scott, the head of the IRS tax-exempt bond office from 2000 to 2005, said auditing can take years to reach such a finding unless the IRS is tipped off or has a local employee who raises a concern.

Typically, Scott said, "it would have been years after the issue, not months."

Scott said he wasn't as sure as O'Connell that the Finance Authority has no potential liability from the deal.

"They're probably right but there's no guarantees," he said.

Another Finance Authority deal sparked controversy in 2016 when the University of Kansas borrowed nearly $330 million through the authority for a science building, dormitory and student union. If the university had used a Kansas agency to borrow the money, it would have needed the

approval of that state's legislature, the Wichita Eagle has reported.

The Public Finance Authority started out without controversy.

A group in California had been doing similar deals in that state but had been unable to get lawmakers there to sign off on the group doing such projects in other states, O'Connell said. Staff from the National Counties Association reached out to their counterparts in Wisconsin to see if they'd be willing to seek legislation to do that here, he said.

In 2010, the Wisconsin Legislature, then controlled by Democrats, passed a measure unanimously that allowed the creation of the authority and Democratic Gov. Jim Doyle signed it into law.

The legislation allowed a group of Wisconsin communities to form a government entity that can issue bonds on behalf of certain other borrowers around the country, who then hold the responsibility of paying off the loans.

Five communities then formed the Finance Authority — the City of Lancaster and the counties of Adams, Bayfield, Marathon and Waupaca.

As part of the 2011 state budget, Gov. Scott Walker and GOP lawmakers then gave the Finance Authority the power to refinance projects, purchase bonds and delegate some of its powers to its officers or board members.

In the 2013 budget, lawmakers went along with a Walker plan allowing the authority to issue bonds for projects outside the country if the borrowing entity was incorporated in the United States.

GOP legislators approved additional powers for the Finance Authority in both the 2015 and 2017 budgets, but Walker vetoed them.

The Finance Authority's lobbyist is Eric J. Petersen, whose clients include insurers, road builders, a title loan company, a tobacco maker and a trade group for liquor wholesalers.

"He has a high profile and a record of getting things done," O'Connell said of Petersen.

The Finance Authority is sponsored by the National Association of Counties, National League of Cities, Wisconsin Counties Association and League of Wisconsin Municipalities. The League of Wisconsin Municipalities received $74,500 from the Finance Authority in 2016 and O'Connell said the other three groups or their affiliates got about the same amount each.

Since 2010, the five communities that formed the authority have received about $26,000 each — or $130,000 in total — to carry out certain duties on behalf of the Finance Authority.

Jason Stein and Patrick Marley, Milwaukee Published 3:05 p.m. CT Oct. 13, 2017 |

MSRB Adds Bloomberg BVAL to Municipal Market Yield Curves on EMMA.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today expanded the availability of municipal market yield curves and indices on its Electronic Municipal Market Access (EMMA®) website. The addition of Bloomberg's BVAL Municipal AAA Curve to EMMA today gives investors another tool intended to help monitor the level and direction of municipal bond interest rates, and compare relative yields of specific municipal securities.

“The MSRB’s vision is for EMMA to evolve into a comprehensive transparency platform that brings together data, documents and tools that support fair and efficient transactions and facilitate decision-making in the municipal market,” said MSRB Executive Director Lynnette Kelly. “We are excited to provide free access on EMMA to municipal market yield curves and indices for investors who in the past may not have been able to take advantage of these powerful benchmarking and analytical tools.”

Bloomberg’s BVAL municipal curve uses real-time trades and contributed sources to reflect market movement as it happens. Bloomberg’s BVAL service prices 2.5 million fixed income securities, including nearly 1 million municipal bonds which are priced three times a day.

“Bloomberg is proud to work with the MSRB to bring more transparency to the municipal bond market by offering the BVAL Municipal AAA curve on the EMMA site,” said Varun Pawar, global head of Bloomberg’s evaluated pricing service. “BVAL is the primary pricing source for the Bloomberg Barclays indices, which are widely used by institutional fund managers to measure investment performance. Retail investors now have access to yield curve data that correlates to these muni market benchmarks.”

Bloomberg’s BVAL Municipal AAA Curve is available on EMMA’s Tools and Resources page, as are a daily yield curve from the Associated Press (AP) and historical index data for five different indices from Standard & Poor’s (S&P), which were made available in July 2017. Access yield curves and indices on EMMA.

Market indicators, including the AP and Bloomberg yield curves and S&P indices available on EMMA, are useful tools for evaluating bond prices and yields, measuring market direction and performance, and determining pricing on new bond issues. Read about understanding yield curves and indices in the MSRB Education Center. The MSRB may add more yield curves and other tools over time as part of its ongoing effort to enhance the availability of market-wide data, in addition to information about individual bonds. Earlier this month, the MSRB began the daily release of previously unavailable market statistics on EMMA. The MSRB also has provided access on EMMA to two interactive calendars that display upcoming bond offerings and upcoming economic reports and events.

The MSRB’s EMMA website is the official source of data and disclosure documents on more than one million outstanding municipal securities. The MSRB operates the EMMA website in support of its mission to protect investors, state and local governments, and the public interest by promoting a fair and efficient municipal market.

Date: October 5, 2017

Contact: Jennifer A. Galloway, Chief Communications Officer
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A Slide in Capital Spending by States and Local Governments.

Moody’s cautions that putting off infrastructure investments could lead to a “form of ‘soft’ debt that will compete with pension liabilities and other governmental mandates for funding.”

Capital spending by state and local governments around the U.S. has been on the decline, with jurisdictions pushing off infrastructure costs into future years.

That's according to a report the credit ratings agency Moody's Investors Service issued this week. The ratings agency looks at U.S. Bureau of Economic Analysis figures and says the information suggests an "ongoing buildup of deferred infrastructure maintenance."

This comes as costs tied to areas like public employee pensions and education continue to put pressure on many state and local budgets.

Moody's notes that state and local capital investment, unadjusted for inflation, hit a peak in 2009 as a percentage of gross domestic product at about 2.6 percent. Since then, it has steadily declined, hitting a low in the first quarter of this year of about 1.7 percent.

If states and localities had maintained 2009 capital investment levels, they would have invested an additional amount of roughly $685 billion in the past seven years, or about 27 percent more than the $2.5 trillion spent during that time, according to Moody's

"Over time," the report says, "we expect that the deferral of such fixed investment will lead to poor asset quality…and require even greater investment in the future—a form of 'soft' debt that will compete with pension liabilities and other governmental mandates for funding."

As Route Fifty reported earlier this year there are unanswered questions about how to best measure the financial costs of deferred infrastructure maintenance among state and local governments and what it means in terms of risk for investors and taxpayers.

The Trump administration has promised an ambitious infrastructure spending package.

But details are still forthcoming. And some state and local officials are skeptical about how far it will go toward addressing what many see as a sweeping need for greater infrastructure investment.

Route Fifty

by Bill Lucia

October 6, 2017

Bill Lucia is a Senior Reporter for Government Executive's Route Fifty and is based in Washington, D.C.

Community Development Lenders Go Where Amazon Goes When It Needs Cash.

There are $92 trillion in bond markets around the world. Corporations have ready access to those dollars. For example, when Amazon needed $16 billion to acquire Whole Foods, it borrowed it through the bond market.

Now, nonprofit lenders in the U.S. with a mission to make capital meet the needs of poor communities have a foothold into that world.

"When I was in the capital markets I always said, how come we aren't investing enough here

domestically," says Lisa Jones, who works at the U.S. Treasury's Community Development Financial Institution (CDFI) Fund, which supports those lenders — community development financial institutions, or CDFIs — nationwide. "We can make investments all over the world, and we can assess the risk. Why can't we assess the risk here in some of our underserved and low-income communities?"

Continue reading.

NEXT CITY

BY OSCAR PERRY ABELLO | OCTOBER 5, 2017

Municipal Market Update.

Read the Update.

Stern Brothers & Co. | Oct. 5

Dreyfus Bet on Tobacco Bonds Pays Off With Top Muni Fund Returns.

- **Fund avoided Puerto Rico, FirstEnergy Solutions bonds**
- **Nuveen, Goldman Sachs high yield funds rounded out top three**

Dreyfus Corp.'s $170 million high-yield municipal-bond fund is beating bigger and better-known competitors by riding a rebound in tobacco bonds while avoiding pitfalls such as Puerto Rico debt.

The fund returned 10.2 percent through the first three quarters of the year. High-yield tax-exempt funds managed by Nuveen Asset Management and Goldman Sachs Asset Management ranked second and third, respectively.

Dreyfus's fund held almost 11 percent of its portfolio in tobacco bonds at the end of July and benefited from a 18.5 percent run-up in the debt in the year's first half. Tobacco bonds 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 and moderate smoking declines have also boosted performance.

"After it became clear Trump wasn't going to his enact his agenda, there was a strong tobacco rally and we were well positioned for that," said Dan Barton who co-manages the Dreyfus fund with Jeffrey Burger in Boston. "A lot of funds are looking for yield-ier alternatives to Puerto Rico."

High-yield munis returned 7.7 percent through the third quarter, three percentage points more than investment grade municipal bonds, according to Bloomberg Barclays Indexes.
The sector has benefited from an imbalance in supply and demand.

Two-thirds of the $10.5 billion investors added to the municipal market this year flowed into high-

yield funds, according to Lipper U.S. Fund Flows data. Meanwhile, just $2.5 billion unrated or speculative grade municipal bonds has been issued through the third quarter, a 50 percent decline from the same period last year, according to data compiled by Bloomberg.

“You just buy anything under the sun because you have to utilize your cash,” said Mikhail Foux, head of municipal strategy in New York at Barclays Plc.

In a year full of retail bankruptcies, the deal was postponed so the underwriter, Goldman Sachs Group Inc., could drum up more buyers. Since American Dream’s $1.1 billion bonds were sold in June, prices on the longest-maturity securities have risen to 116 cents on the dollar from 103 cents.

It’s “one of the last really exciting and last really cheap deals priced in the high yield area with size and liquidity in the last couple of months,” said John Miller, Nuveen’s co-head of fixed income.

Nuveen’s $15.6 billion high yield fund owned $370 million American Dream bonds as of August 31. The fund returned 9.3 percent through the third quarter. Miller invested about 7.5 percent of the fund’s assets in tobacco debt.

Nuveen also reaped a windfall from its bet on its hometown school district. Chicago school bonds rallied after Illinois Governor Bruce Rauner signed a measure that boosts funding to the district by an additional $1.1 billion over the next five years. Chicago Board of Education bonds with a 7 percent coupon maturing in 2044 have returned 27 percent this year, Miller said. Nuveen owns $263 million of the securities.

The performance of the American Dream bonds took Dreyfus, which doesn’t own any, by surprise. Not so, tobacco debt, whose cash flows can be modeled assuming varying degrees of cigarette consumption declines, Barton said.

Under a 1998 national settlement, the major tobacco companies agreed to make annual payments to the states in perpetuity to resolve their liability for health-care costs attributed to smoking. Some states and cities borrowed against the payments, which are based on cigarette shipments.

Altria Group Inc., estimated that domestic cigarette industry shipment volume decreased by about 3.5 percent in the first half of 2017. Moody’s Investors Service projects 80 percent of the securities won’t make scheduled payments based on historical declines of 3 percent to 4 percent in U.S. smoking.

A U.S. Food and Drug Administration proposal in July to cut the amount of nicotine in cigarettes to non-addictive levels cut tobacco bond returns 0.4 percentage point in the third-quarter, a potential buying opportunity, Barton said. Tobacco companies are expected to vigorously oppose the proposal.

“Near-term, we don’t see a ban of nicotine in cigarettes,” Barton said.

There’s also value in certain zero-coupon tobacco bonds trading at discounts of more than 50 percent to accreted value that may be refinanced, said Ben Barber, who manages Goldman Sachs Asset Management’s $5.2 billion high-yield muni fund. The fund returned 8.2 percent through the third quarter and had 8.8 percent of assets in tobacco debt at the end of August.

Nuveen stumbled on its investment in FirstEnergy Solutions, the power-generation unit of FirstEnergy Corp. The Akron-based owner of coal-fired and nuclear plants aims to exit the generation business and restructure FES’s debt. Nuveen owns about $300 million of secured and unsecured FirstEnergy Solutions bonds with a market value of $193 million.

Dreyfus doesn’t hold FirstEnergy debt or bonds issued by Puerto Rico or the U.S. Virgin Islands.

Performance is about “as much what you don’t own as what you do,” said Barton.

Bloomberg Markets

By Martin Z Braun

October 3, 2017, 10:21 AM PDT

Don't Think You Own Muni Bonds? Check Your Robo Adviser Account.

- **Betterment and Wealthfront are top holders of iShares muni ETF**
- **Republican proposal could unleash tax-deductible debt demand**

Financial planners have long advised individual investors to carve out some portfolio space for municipal bonds. Most likely, though, only those wealthy enough to hire an investment manager actually went out and bought any.

Well, check your portfolio. Because you just might be the proud owner of at least a slice of a muni bond, especially if you use a robo-adviser — the increasingly popular form of electronic financial guidance for individual investors.

Betterment and Wealthfront Inc., two of the most popular robo-advisers, are also two of the biggest holders of the iShares National Muni Bond ETF, ticker symbol MUB, the largest municipal bond exchange-traded fund with nearly $9 billion in assets. Based on their June 30 filings with the Securities and Exchange Commission, Betterment owned about $500 million of the fund and Wealthfront held about $430 million. That makes them the second- and fourth-largest holders, respectively.

Munis appeal to the wealthy because their interest income is shielded from federal and, in most cases, state income taxes. Their importance to investors could grow if the full Republican tax plan is enacted into law, particularly the proposal that would end deductions for state and local taxes. The change could unleash demand within the tax-deductible muni bond market, particularly from investors in high-tax states like New York and New Jersey.

Bloomberg

By Brandon Kochkodin

October 4, 2017, 9:12 AM PDT

Bloomberg Brief Weekly Video - 10/05

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

Watch video.

Bloomberg

October 5th, 2017

Munis For Dotards.

My friend John Mauldin is doing a great job beating the drum about the coming pension crisis (actually it has already arrived). The shortfalls in public and private pensions are staggering. Ben Bernanke and his colleagues at the Federal Reserve either didn't consider the effects of prolonged low interest rates on pension funds when they implemented their destructive policies a decade ago or didn't care or figured they had bigger problems to deal with, but the bill is coming due and cannot be paid.

The only question is how long states, cities and counties as well as the federal government can keep lying to people. According to a new report from the Pew Charitable Trusts, the shortfall in state pension and retiree healthcare benefits is now $1.1 trillion and $645 billion, respectively, based on 2015 data (the numbers are larger today). And remember, this comes nearly a decade into an epic bull market in stocks that lifted the value of the funds set aside to pay these benefits; imagine what will happen when the bull market ends (which, despite reports on CNBC to the contrary, will actually happen!).

New accounting rules require states and cities to book these obligations beginning in 2018, which will significantly weaken their financial statements and likely their credit ratings if the rating agencies are paying attention (something that is always questionable). According to Pew, states had only $48 billion in assets set aside in 2015 compared with $693 of retiree healthcare liabilities (though they do retain their taxing authority, though it is reaching its limit in many states). If you do the math, that's a mere 6.9% of the assets needed to pay these liabilities, which is both alarming and pathetic.

Municipal bond managers may have some serious explaining to do to their clients if this moribund but important market sells off as the true state of municipal finance is revealed. The municipal bond market is notoriously illiquid and opaque. It may turn out that Meredith Whitney wasn't wrong, just early in her warning a few years ago that munis aren't as safe as they seem.

Any asset class that offers virtually no upside and significant downside needs to be looked at with a jaundiced eye. Munis are one such asset class. Based on my three decades in the credit markets, it is clear that you don't need to be a rocket scientist to manage municipal bonds. Anyone paying someone more than a couple of basis points to manage munis is paying too much.

States and municipalities count on the limited capabilities and knowledge of municipal bond managers and buyers to fund themselves (and the municipal bond underwriting business is rife with corruption. But apparently even that low bar is too much for some muni managers who are wetting themselves in excitement over an upcoming bond offering by the hopelessly corrupt and insolvent state of Illinois, whose unpaid bills to vendors ballooned to a new all-time high of more than $16 billion (yes, that "billion" with a "b").

These managers are cheering an upcoming $6 billion Illinois General Obligation bond deal because a recent stop-gap two-year budget deal that kicked the can down the road to nowhere led to a short-term rally in Illinois municipal bonds. We all know about short memories in the financial markets, but the memories of municipal bond managers give fruit flies a run for their money.

These dotards should stretch their little minds and try to remember how hot and bothered they got when the similarly corrupt and insolvent territory of Puerto Rico sold 8% bonds due in 2035 at a discount (93 cents on the dollar) a few years ago. I warned readers away from those bonds at the time; hopefully you listened–they were trading at 51.75 cents on the dollar on September 27.

Just as Puerto Rico had no prospect of repaying those bonds (and defaulted on them and the rest of its $75 billion of debt), Illinois has no ability to repay this upcoming certificate of stupidity. Now, as Puerto Rico wrestles with the aftermath of Hurricane Maria, the island's bondholders are looking at even deeper losses as the board overseeing PROMESA (the acronym for the Puerto Rico Oversight, Management and Economic Stability Act that should be called NOPROMESA) decides if it can shift up to $1 billion of funds from bondholders to emergency rebuilding measures. What politician is going to vote against that?

Nonetheless, some of the most highly regarded names in the business (by the financial media, certainly not by me) are telling investors to run out and buy Illinois' debt (or more likely rationalizing why they intend to buy it for their clients). If you are a client of one of these firms, it is not too late for you to instruct them not to put this garbage in your account or to pull your money. Nuveen Investments' co-head of fixed income John Miller claims that the state has "turnaround potential." So does Zimbabwe.

Guy Davidson, director of municipal investments at AllianceBernstein, claims that the state has "stopped the bleeding. It's not like we think they have solved their problems. We just think they've stabilized their problems." Tell that to the vendors waiting for $16 billion of their bills to be paid (which will soon be $17 billion, then $18 billion–you get the picture). And Dennis Derby, a portfolio manager at Wells Fargo Asset Management, tells us that Illinois is "not under the gun as much as far as ratings go." That's because the gun is pointed at bondholders' heads and all of the chambers are loaded. Not to put too fine a point on it, but these comments should freak out anyone whose money is managed by these gentlemen and their firms.

Clearly the best and the brightest are not managing municipal bond portfolios and if any of these bright lights are managing yours and buy this new Illinois bond, you are in big trouble. Illinois' will be far from the last bankrupt municipality to sell worthless paper in the coming months and years and anyone incapable of avoiding this one is bound to throw more of your money down the rat hole if you give them a chance.

Forbes

by Michael Lewitt

Oct 5, 2017

When Underfunded Pensions Become Debt.

With concerns about the sustainability of states' underfunded pensions growing, and with "$70 billion in US municipal bonds across our asset management business" analysts at JP Morgan have set out to try and determine the riskiest states to invest in.

The findings of this analysis were published in a report last week, which ranked the 20 most risky cities and eight most risky counties by credit profile. On average, while a few states have very large debts relative to their revenues, many are in decent shape.

However, in general, US cities and counties have substantially more debt relative to their revenues than US states. While most have several years to undertake remediation measures, some “very difficult choices will be required in order for them to meet all of their future obligations.”

What’s of more concern to investors is the fact that, according to JP Morgan, when rare municipal bankruptcies do occur, bondholders have “usually received lower recoveries than pensioners.”

When underfunded pensions become debt

JP Morgan’s analysts point out in the report that cities’ debt is not just limited to interest-paying bonds. Debt also includes unfunded obligations related to “pensions and retiree healthcare along with bonds, leases and other obligations supported by each municipality’s general account.”

Interestingly, when all of these factors are added in, bonds and leases only represent around one-third of the total debt of US cities and counties.

Continue reading.

ValueWalk

by Rupert Hargreaves

October 9, 2017

On Infrastructure, Now What? Trump's Sudden Turn Away from Public-Private Model Brings Uncertainty.

Advocates for increased spending on the nation’s roads, bridges, tunnels and other infrastructure programs are considering ways to move forward after President Trump unexpectedly rejected using private money to pay for the federal program.

Trump’s policy shift is significant for an administration that spent the last nine months advocating private investment as the linchpin to generating $1 trillion in infrastructure spending.

Trump told members of the House Ways and Means Committee last week that he no longer favored private investment — also known as P3s — and was focused more on using money directly from the treasury to pay for the program, according to Rep. Brian Higgins, who was in the private meeting. “He said that they were more trouble than they were worth,” recounted Higgins, a Democrat from New York.

A White House official confirmed Trump’s reversal, saying private financing is “certainly not the silver bullet for all our nation’s infrastructure problems.” The administration wouldn’t make anybody available to explain the change or the timing.

The uncertainty around Trump’s infrastructure plan is frustrating private investors and fund managers who were hoping for opportunities to deploy a record amount of money raised for building projects in North America — $68 billion so far this year, according to one analysis. White House officials have been advocating the use of private investment, believing that private money could get projects done faster than traditional government financing.

Public-private partnerships allow states and local governments to enter into a contract with a private investor to either renovate an existing project or build a new one. In exchange, the private entity could collect user fees like tolls or collect regular payments from the government.

Another idea pushed by the White House — called asset recycling — would have provided federal incentives to government entities that were willing to sell existing projects to private investors and then use the proceeds of the sale to build new projects.

White House officials have been pitching both ideas to transportation officials, state and city leaders and construction firms over the past few months. State and city leaders have been reluctant to embrace any ideas because of scarcity of details from the administration.

Higgins said Trump's comments came in response to his question about whether Trump would be willing to cut the tax on corporate profits kept overseas and then use the additional tax dollars to pay for infrastructure. The congressman said Trump replied that he wasn't interested in using those funds for infrastructure, adding that he needed direct federal investment for infrastructure because P3s "don't work." He said Trump pointed to Vice President Mike Pence — the former governor of Indiana — and said P3s weren't successful in that state.

"The revelation that he was rejecting public-private partnerships toward a direct federal expenditure was very, very clear," Higgins said. "It was something that he offered, not something that was implied. It was very explicit."

Higgins said he does not support public-private partnerships. He'd rather see federal borrowing or increasing the federal gas tax to help pay for the nation's infrastructure needs.
Nine months into his presidency, Trump's apparent abandonment of the model has created yet another level of uncertainty for groups pushing to build new projects across the U.S. and for the investors who have lined up tens of billions of dollars. The American Society of Civil Engineers says there's a national need to fix the nation's infrastructure. The group has given the system, including the nation's roads, bridges, tunnels and sewer lines, a grade of a D+.

Most states, however, aren't changing their approach to infrastructure planning in response to Trump's recent comments.

Colorado officials are even thinking further ahead because it's one of few states that has already tapped private financing for road and bridge projects.

"What we need are funding solutions, not financing solutions," said Shailen Bhatt, executive director of the Colorado Department of Transportation. He wants to increase federal funding for road and bridge projects because Colorado is facing a $1 billion a year shortfall to maintain and build new transportation projects.

He said Trump's initial plans for private funding would have helped Colorado accelerate one or two bigger projects in his state but "it doesn't solve our transportation funding need."

One obvious mechanism for the federal government to raise money to spend on infrastructure is the gas tax, which was last increased in 1993 to 18.4 cents per gallon.

Trump's budget calls for $200 billion in federal funding with the hopes of creating $1 trillion of total infrastructure spending. The president and several members of his cabinet point out that private investors — via public pension funds, sovereign wealth funds and private equity — have billions lined up to finance projects.

But an APM Reports analysis of more than 500 projects submitted last winter to the White House shows that only a small percentage are being considered for private investment. The analysis also found the bulk of the projects considered for private financing are located in urban areas.

The appetite for the private financing of public works projects has received significant pushback in recent years. The Texas Legislature defeated a measure that would have allowed for an expansion to private financing for road projects after receiving citizen pushback over an increase in toll roads. A privately financed road project in southwest Indiana is also facing significant delays. And rural lawmakers have worried that projects in their areas will attract less interest from the private sector because there isn't the population to pay for the projects through user fees like tolls.

Trump advocated for increased private investment during the 2016 presidential campaign. He's also hired infrastructure investment consultant D.J. Gribbin to lead the program. Gribbin worked at two firms that pushed private investment, Macquarie Group and HDR.

Todd Herberghs, executive director of the National Council for Public-Private Partnerships, said the administration has not released a specific plan so it isn't certain whether Trump has completely ruled out private financing or will use it in a more limited role.

Herberghs said he'll continue to remind the Trump Administration and Congress that privatization should be another option. "The current way of doing things isn't working as well as it potentially could," he said. "As an industry, we just want public entities — whether they be federal, state or local — to use (private investment) as an option."

Critics of privatization also say they aren't convinced Trump has completely ruled out including investors.

Donald Cohen, executive director of the union-backed organization In the Public Interest, said he thinks Trump will reconsider after realizing Republican party leaders don't support a gas tax hike or increased borrowing. "It's pretty challenging to do what they say they want to do, meaning $1 trillion of infrastructure spending without using private capital, if they can't get the Congress to actually spend real money," he said.

Construction firms and investment advisers are also waiting to see whether Trump's plan has any movement.

Tom Carr from data analysis firm Preqin — which estimated the $68 billion raised this year — points to the Blackstone Group as an example of a firm eager to invest money from a $40 billion fund it has built.

Stocks in the building sector skyrocketed after Election Day but trended down after Trump and Congress put the issue on the back burner of the legislative agenda.

Kathrin Heitmann, a senior analyst for Moody's Investors Service, says Trump's recent statements as to his overall plans remain unclear.

In July, Moody's said it was unlikely that an infrastructure plan would be passed into law this year and that funds wouldn't be released until 2020. Heitmann's report also found that there's been little political support for private investment on the state and local level. She said without knowing how much money the Trump Administration plans to commit and where the other funding would come from, she's not changing her outlook.

"Not having an infrastructure bill from the federal administration creates uncertainty for investors,"

she said. “And uncertainty is never good for the private investor.”

By Tom Scheck, APM Reports

October 05, 2017 | 5:42 PM

Four Considerations for Infrastructure Policy.

Statement before the New Democrat Coalition 21st Century Infrastructure Task Force

Tracy Gordon, a senior fellow at the Urban Institute and the Urban-Brookings Tax Policy Center, spoke before the New Democrat Coalition 21st Century Task Force on October 4, 2017. She shared four things that Congress may want to keep in mind when considering changes to infrastructure policy.

Continue reading.

The Urban Institute

Tracy Gordon

October 4, 2017

How to Make Private Investment in Infrastructure Really Work.

PPPs hold big promise for projects in urban America—if Congress eliminates regulations and perverse incentives.

During the 2016 presidential campaign, Donald Trump—like his opponent Hillary Clinton—spoke glowingly about infrastructure spending, alluding to Franklin Roosevelt’s Works Progress Administration and Dwight Eisenhower’s Interstate Highway System as examples of how spending on roads, bridges and airports helped unite the country. For 2017, the American Society of Civil Engineers has given America’s infrastructure an overall grade of D+, estimating it would cost more than $4 trillion to upgrade properly. But President Trump’s $1 trillion dollar, 10-year infrastructure plan has so far moved along at a halting pace.

This tortoise-like profress may offer an opportunity to think more strategically about the means and ends of infrastructure—and increase the chances of final passage down the road. The odds are still good that Congress will act, since infrastructure spending is the closest thing to a free lunch in American politics.

If done right, the sky is the limit for U.S. infrastructure. Smart grid technologies, buried electrical lines and well-designed mechanical back-ups could advance both grid resiliency from future hurricanes and the growing threat from cyber-terrorism. New highway construction should help the country transition to electric vehicles and driver automation in the coming decades. Upgraded air traffic control systems could increase the nation’s air capacity by 50 percent, while shortening flights and saving passengers money.

Continue reading.

CITY LAB

by WILLIAM MURRAY

Trump's Apparent About-Face on Partnerships Injects 'Huge Question Mark' into Infrastructure Plan.

The infrastructure industry and public officials are trying to figure out how to interpret President Trump's recent move to back off what had been a major pillar of his $1 trillion infrastructure investment plan.

Trump said he doesn't favor using public-private partnerships to finance infrastructure projects because they don't always work, he told Democrats on the House Ways and Means Committee during a Sept. 26 meeting.

In the spring, the White House released a six-page outline of its infrastructure priorities that encouraged public-private partnerships as part of an incentive program in which the federal government offers up to $200 billion to state and local governments that enter into the agreements and other private sector deals.

It's too soon to know if Trump's seemingly off-the-cuff skepticism toward public-private partnerships represents a policy shift, but key constituents of the infrastructure initiative say the comments inject uncertainty into a slow-moving process that has yet to result in the White House offering a concrete plan.

"It's very dismaying," said Robert Poole, director of transportation policy at the Reason Foundation, a free-market research group. "You saw during the first six months of this year, everyone involved with public-private partnerships, including the construction and finance industries, were all saying, the U.S. will be the big next frontier for these deals. That now has a huge question mark on it," Poole told the Washington Examiner.

A public-private partnership acts as it sounds, with private investors helping fund construction and repair of roads, bridges, and airports in exchange for a share of future revenue. It is not quite privatization, in which a government sells a public asset to a private company.

Lawmakers who participated in the meeting with Trump say he cited the experience of Vice President Mike Pence, who was Indiana's governor when a private group helped the state operate a major toll road and the developers went bankrupt.

The U.S. market for public-private partnerships is barely formed, but supporters say the deals can be quicker and more efficient and entail less taxpayer risk if structured properly.

But such deals are also financially complex, which public officials can struggle to understand, leading to agreements that don't work.

"They are not the answer to the infrastructure needs in this country, but can be a part of some of these projects," said Aubrey Lane, Virginia's secretary of transportation, who has briefed Trump administration officials on infrastructure. "I didn't believe the first hype from the administration that

public-private partnerships would be all the answer, and I don't believe this new hype they aren't good at all," Lane told the Washington Examiner.

Virginia is an outlier in the U.S. with its deep experience with public-private partnerships, which are known as PPPs or P3s in transportation circles.

Since 2007, the state has closed five public-private partnership deals worth more than $9 billion collectively, with more than $2.5 billion coming from private equity, less than $1 billion in public funds, and the remaining from privately backed debt.

The Trump administration had seemed to like such projects before the president's recent comments.

Trump chose an expert on public-private partnerships as his top White House official focused on infrastructure.

D.J. Gribbin, Trump's special assistant for infrastructure policy, previously worked on public-private partnerships for Macquarie Capital and Koch Industries.

Gribbin spoke at the P3 Hub Americas conference, a major industry gathering promoting public-private partnerships, on Sept. 26, the same day Trump met with House Democrats.

"It's so frustrating someone would make off-the-cuff comments like that about P3s," Poole said of Trump. "I can't imagine that he was coordinating with his staff. The whole reason Gribbin was hired was to do P3s. That has been his specialty for the last 20 years both in government and out of it. It's very strange."

The White House did not respond to emailed questions from the Washington Examiner about Trump's comments and whether they represent a policy change.

Experts interpreting Trump's comments have different perspectives on their significance.

Supporters of a more robust federal investment in America's infrastructure say Trump's comments don't necessarily reflect a flip-flop on public-private partnerships, but rather an appreciation for the different funding solutions needed to tackle the issue.

"It just shows the totality of the problem we are trying to address," said Ed Mortimer, executive director of transportation infrastructure at the U.S. Chamber of Commerce. "The private sector has to have a role. It's also a recognition there has to be a significant federal investment in infrastructure."

He said his engagement with the Trump administration has not changed in recent weeks.

"We have not sensed any reticence from the administration to move forward, and we will continue to push them to move forward on this," Mortimer said. "It's too important to economic growth. We cannot continue to to fall behind the rest of the world."

Democratic lawmakers, meanwhile, cheered Trump's comments, viewing them as proof he is willing to extend his recent embrace of bipartisanship to infrastructure, and ready to rely on significant direct federal funding to pay for projects.

"I was actually very encouraged to hear that," said Rep. Peter DeFazio of Oregon, the top Democrat on the House Transportation and Infrastructure Committee. "I guess he is a businessman and can see through that concept as a false promise. Hopefully, he sees infrastructure as capital

expenditures as opposed to operating costs and is willing to get innovative on how we are going to finance it."

But conservatives have long opposed major funding initiated by the federal government, and deficit hawks likely will recoil even more in light of the tax cuts recently proposed by Republicans.

"The president is clearly frustrated with Republicans in Congress," said Michael Sargent, an infrastructure policy expert at the Heritage Foundation. "Doesn't this open the door to working with Democrats on infrastructure? That is something I am wary of. If we are moving away from public-private partnerships, if you want to spend $1 trillion you will need more offsets to raise that money, or tack it onto the debt. Either way, that's a very large bill that will have to come from somewhere."

Infrastructure spending boosters realize they will need conservative support for any plan to become law.

"It's just not going to happen to have an infrastructure bill out of the Republican House and Senate that doesn't have some private financing," Marcia Hale, president of Building America's Future, told the Washington Examiner.

Layne, Virginia's transportation secretary, would just like some clarity, as he prepares to fulfill the infrastructure needs of his state.

"I am glad to hear all the infrastructure talk, but I don't want it to be all talk and expectations and find out nothing is going to happen," he said. "I still don't know where we are nine months into the administration. I don't know what their plan is. I don't see specifics I can act on as the person in charge of the construction program for the state with the nation's third-largest road network."

Washington Examiner

by Josh Siegel | Oct 9, 2017, 12:01 AM

World's First Green Exchange Lists $74 Billion in Its First Year.

The Luxembourg Green Exchange, the world's first bourse for securities related to climate change, listed 63 billion euros ($74 billion) of bonds after one year.

"This far outstripped what we expected," Jane Wilkinson, head of sustainable finance at the Luxembourg Stock Exchange, said in a phone interview. "It clearly outstrips the growth we've seen in Luxembourg on the regular market, which was stable.''

The Luxembourg Green Exchange, also known as the LGX, was set up as a place where investors could be certain that what they were buying was really a green bond. The industry is unregulated to date, although issuers can voluntarily follow frameworks such as the Green Bond Principles or the Climate Bond Initiative. The LGX obliges its issuers to provide full documentation, both before and after issuance.

The 63 billion euros makes up about 1 percent of the Luxembourg Stock Exchange, in terms of value of listed assets, according to Wilkinson. The global green bond market reached $95 billion last year. After a record-breaking 2017 first half, Bloomberg New Energy Finance raised its 2017 forecast for issuance to $130 billion from $123 billion. Wilkinson said the figure could be as much as $140

billion.

The LGX receives as many as two to three questions and requests daily from parties such as treasury departments and law firms that are interested in issuing green bonds, according to Wilkinson.

“There’s definitely an increased interest by potential issuers,’’ Wilkinson said. “New players that are waking up and thinking this could be an interesting market for us and starting to do their homework.’’

There is rising interest in China, U.S. municipalities and Latin American financial institutions, she said. Corporate issuers are also getting more involved.

“It’s still a bit of a nascent market, if you’re a big company I feel like they should lead the way,’’ Wilkinson said. “I understand that they don’t need to list because they have enough interest, but that kind of issuer can use their influence.’’

Some large companies in the clean energy industry haven’t labeled their bonds as green, even if they could, such as Tesla Inc.’s recent $1.8 billion offering. This may be because of the additional reporting that’s generally expected from investors to prove that the funds raised are only being used for environmentally-focused projects, Wilkinson said.

Bloomberg Markets

By Anna Hirtenstein

September 27, 2017, 2:00 AM PDT

Foreign Cash Fleeing Low Yields Flows Into U.S. Muni Bonds.

- **Overseas holdings of state, local bonds hits new record high**
- **Even low payouts look good against Japanese, German bonds**

The era of record low interest rates around the world has unleashed an unprecedented tide of overseas cash for U.S. municipal-bond fund managers like Gregory Gizzi, who hopscotched around Asia this month courting would-be investors.

“We’ve been witnessing a big increase of interest,” said Gizzi, a senior portfolio manager with Macquarie Investment Management, which holds $8.9 billion of municipal debt.

It’s showing no signs of pulling back. Foreign investors increased their holdings of debt issued by states, cities and local agencies by $3.1 billion during the second quarter to $98.6 billion, an all-time high and more than triple what it was a little over a decade ago, according to Federal Reserve data. They’ve added to their holdings every quarter for the past five years.

The globalization of the municipal market, still largely a low-yielding haven for risk-averse Americans seeking tax-exempt income, has helped increase demand for the securities. With the pace of borrowing slowing this year and money still flowing in, state and local bond yields are lower now than they were in January. Even after the market’s recent slide on increased speculation the Federal Reserve will raise interest rates in December, municipal debt has returned 4.8 percent this year, more than twice as much as Treasuries, according to Bloomberg Barclays indexes.

On Thursday afternoon in New York, 10-year benchmark bonds were yielding 1.98 percent, according to Bloomberg indexes, about seven basis points higher than where they stood at the beginning of the week. Even with the rise in yields, that's still about four times what similar German bonds are paying. In Japan, yields barely exceed zero.

The allure for overseas buyers is even larger when it comes to taxable municipal debt, which carry higher yields than corporate debt. A 10-year Illinois bond with payments that are subject to the U.S. income tax yields about 1.3 percentage point more than those issued by Ford Motor Co.

State and local bonds are also carry far less risk than other securities: The 10-year default rate for municipal bonds is only 0.07 percent compared with 10.3 percent for corporate bonds issued in the U.S. and abroad, according to Moody's Investors Service.

"These taxable munis are the cheapest thing around if you're an international investor right now," said Kyle Gerberding, director of trading at Atlanta-based Asset Preservation Advisors, which has more than $3 billion invested in tax-exempt and taxable municipal bonds.

Mizuho Securities' U.S. strategist, Tetsuo "Harry" Ishihara, says he still receives calls from Japanese clients interested in investing after he published research about the sector last year. Ishihara said the municipal market, once obscure in Japan, has gained enough traction that many firms now market them to customers.

"The good thing about Japanese investors is once they like you, they are very loyal," he said in a telephone interview.

"When they know their money is going to bridges and schools, they love that," he said. "It's very deeply indebted in their training from day one. You have a social role."

Bloomberg

By Rebecca Spalding and Carrie Hong

September 28, 2017, 9:19 AM PDT September 28, 2017, 1:38 PM PDT

Bloomberg Brief Weekly Video - 09/28

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

Watch video.

Bloomberg

September 28, 2017

More Questions Surface About Shadowy Public Finance Authority.

[Madison, Wis…] In 2016, the University of Kansas bypassed the state Legislature in securing nearly

$327 million in bonds for a slate of building projects.

Instead of seeking approval from lawmakers, the university appealed to the Wisconsin-based Public Finance Authority, the shadowy, quasi-public agency described as the “bonding house of last resort.”

The PFA came under fire this month, in the closing days of Wisconsin’s extended budget-writing process, when lawmakers slipped in a provision that would have expanded the authority’s powers. Under the measure, the PFA would have been granted the ability to take private property through eminent domain.

Continue reading.

MacIver News Service | September 28, 2017

By M.D. Kittle

What Trump Finally Got Right About Infrastructure.

While I don’t have Maggie Haberman’s fly on the wall access to internal White House process, I will say that President Trump’s decision to jettison his tax credit/private investment based infrastructure plan is sound and its stated rational is based upon a well-informed analysis. Simply stated, the plan wasn’t going to work and the President said just that.

Trump’s original plan, both pre- and post election, was to encourage private investment in infrastructure via a tax credit. More recently, a few more details appeared including pushing the burden of project development down to the states and providing (mandating?) tolling or other revenue generators so as to allow repayment of private investment. While this proposal filled in a few more blanks (tax credits, tolling, states), the basic idea–that a modest amount of public investment combined with modern infrastructure investment models would leverage a much larger amount of private capital to create new bridges, roads, rails and waterworks—is a myth that has been told for year before the 2016 election and by leaders of both major political parties.

In almost every State of the Union message President Obama promoted the concept of leveraging private investment to build infrastructure. Vice President Biden was a major proponent of the concept of an infrastructure bank, a tool that supports private investment in infrastructure.

The problem is not that private investment in infrastructure can’t work. In fact it works quite well. Rather, the issue is not how the capital is raised but how it’s repaid. So while choosing a financing mode for a bridge may be a more impactful decision that picking a paint color, it doesn’t get the bridge built free of cost. The real question is the funding method, whether the money raised will be repaid with taxes or tolls, so by the general public or the using public. Once you have a viable funding plan, you can choose the most efficient financing mechanism.

And if you want to get some projects actually up and running soon, it make little sense to take on the entire government civil works and financial establishment which revolves around the issuance of state and local bonds and bid-based construction and procurement. While many quality projects have been undertaken in the United States using what is known as the “PPP” model, a term of art for a private investment based civil infrastructure procurement, these are outliers, so-called “pilot” projects. The vast majority of state and local government undertakings are done the old-fashioned way.

Indeed, the old-fashioned way enjoys a long-standing federal tax benefit in the tax-exemption of interest paid on municipal bonds, lowering the cost of funds. While Trump's tax credit for private investment may have reduced the comparative value of that benefit, it wouldn't have solved the problem of thousands of financial and procurement officers who would need to be completely retrained to be able to effectively manage an entirely different process and structure. Government is slow to change.

So while private investment and development was never a bad idea, it is an idea whose time has not yet fully arrived in the United States and, moreover, it is an idea which can provide efficiencies of project delivery and performance but will not obviate the need for major direct or indirect public investment.

So will there be a new massive infrastructure program? I doubt it. Congress will not spend the money, particularly after doing tax cuts which will certainly increase the deficit. But I am not alarmed. The most important decision about infrastructure is what to build, not how to pay for it, and while I am momentarily impressed by the White House decision making around the infra funding issue, I have no confidence that a White House that refuses to accept climate science will make the right infrastructure spending choices. Better to wait.

Joel Moser is Founder and CEO of Aquamarine Investment Partners, an Adjunct Professor at Columbia University (International and Public Affairs) and a member of the Council on Foreign Relations.

Forbes

by Joel Moser

Sep 27, 2017

S&P: U.S. Transportation Infrastructure Providers Weather Hurricanes With Ratings Largely Unaffected.

BOSTON (S&P Global Ratings) Oct. 2, 2017–S&P Global Ratings today said it has completed its initial review of U.S. public finance transportation infrastructure issuers affected by Hurricanes Harvey, Irma, and Maria.

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The Week in Public Finance: Trump's Tax Reform Proposal, the Foxconn Deal and More.

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

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 29, 2017

What Are Cities Spending Big On? Increasingly, It's Debt.

Many have gotten themselves into a fiscal squeeze paying bills they ran up decades ago. View data for dozens of cities.

When citizens think about where local taxpayer money goes, they often assume it pays for things like public safety, snow removal and trash collection — routine operating expenses that come with running any big city. And that's mostly true. But what they rarely realize is that legacy costs also eat up large portions of the typical city's budget. Debt accumulated over many years, contributions to employee retirement systems and the expense of fixing long-neglected infrastructure all take a significant toll.

Merritt Research Services provided *Governing* with data on current debt service, pension costs and other post-employment benefit (OPEB) expenses for cities with populations exceeding 500,000. These three cost drivers collectively averaged nearly a quarter of total governmental fund expenditures in recent years. What's worrisome is that legacy costs are rising, taking up ever-larger shares of budgets. For the large cities reviewed, the three line items accounted for a median of 22.4 percent of fiscal 2016 governmental fund spending, up from 19.8 percent in fiscal 2011. In some big cities, the increase has been much greater. Consider Jacksonville, Fla. Debt, pensions and OPEB made up less than 20 percent of expenditures there in 2008. Since then they have climbed to about 32 percent in recent budgets.

Continue reading.

GOVERNING.COM

BY MIKE MACIAG | SEPTEMBER 2017

Hartford Bond Insurers Hire Long-Time Public Finance Turnaround Pro.

NEW YORK, Sept 28 (Reuters) – Bond insurers for the city of Hartford, Connecticut's cash-strapped capital city, have hired a financial advisor with decades of experience working with the state's most distressed municipalities.

Assured Guaranty Ltd and Build America Mutual Assurance Company (BAM), which together insure at least $414 million of the city's roughly $530 million of debt, hired Robert Lamb, who founded Lamont Financial Services Corp in 1987, Lamb confirmed to Reuters on Thursday.

In those cities, Lamb said he created a credit "that we could use to fund a deficit, and use that as a baseline for turning the city around."

Governor Dannel Malloy has proposed a fiscal oversight board for Hartford, where city officials have said they will seek approval for a bankruptcy filing if they do not get enough state aid.

But the state itself is mired in a budget impasse that could delay or slash monetary aid to municipalities. That threat grew on Thursday with Malloy's veto of a Republican-backed budget, putting the state closer to severe automatic spending cuts on Oct. 1.

Earlier this week, Assured Guaranty and BAM offered to help relieve Hartford's mounting annual

debt service payments by refinancing existing bonds.

Currently, the city is to pay about $48 million in fiscal 2019, but the costs are on course to rise significantly in several following years.

The proposed refinancing could create breathing room for the city by leveling out debt payments to $40 million annually for the next 15 years under a new state law.

Such a “scoop and toss” refinancing would also extend the full term of the bonds from 20 years to 30 years.

By Hilary Russ

As Hartford Mulls Bankruptcy, Bond Insurer Offers to Help Postpone Payments.

Assured Guaranty says Connecticut’s capital could delay payment on as much as $300 million in debt

Hartford’s biggest bond insurer said it had offered to help the city postpone payments on as much as $300 million in outstanding debt, in a move designed to help prevent a bankruptcy filing for Connecticut’s capital.

The insurer, Assured Guaranty, made the announcement before a Monday conference call between Hartford and its bondholders.

During the call Hartford Mayor Luke Bronin said postponement of the city’s debt would be inadequate without other fixes such as more revenue from the state, according to a statement released by the city after the call.

“I appreciate Assured’s willingness to have constructive discussions,” the mayor said, according to the statement, but “this administration is not interested in pushing off this challenge for another mayor or another generation to fix.”

Under Assured Guaranty’s proposal, debt payments due in the next 15 years would instead be spread out over the next 30 years without bankruptcy or default. The city would issue new longer-dated bonds and use the proceeds to make the near-term debt payments.

Assured Guaranty and another insurer, Build America Mutual, would insure the new bonds, said an Assured Guaranty spokesman.

Assured Guaranty backs 57% of Hartford’s roughly $550 million in outstanding general obligation debt and would be on the hook for any shortfall in payments should the city enter bankruptcy. Build America Mutual backs $103 million in Hartford debt. About $163 million in Hartford bonds are held by U.S. mutual funds.

Hartford is in the middle of a fiscal emergency because of a weak tax base and a budget deficit of nearly $50 million. It also has one of the lowest credit ratings in the nation. Making matters worse, Connecticut lawmakers have been unable to reach agreement on a state budget more than two months into the fiscal year, leaving Hartford short of state funding.

City officials have warned that the city would likely file for bankruptcy this fall unless the state provides more help. Mayor Luke Bronin has said the city cannot afford to make its bond payments on time and will need to restructure its debt even if Hartford does receive state assistance.

The offer from Assured Guaranty would provide Hartford with short-term budgetary relief but wouldn't reduce the city's total liabilities. In fact, it would add to them because delaying when the debt comes due would increase interest costs.

The city's debt payments are scheduled to jump from $6.6 million to $56 million in the next four years, according to city financial disclosures. Assured Guaranty's plan would lower those payments by pushing some of the debt out as far as 2047.

It is common for states to issue bonds as a way of refunding old debt, both to take advantage of low interest rates and to put off debt payments. But Hartford, which is rated deep in junk status and has hired restructuring advisers, would likely be unable to complete such a deal without insurance.

"Once you hire restructuring advisers, investors steer clear," said Matt Fabian, partner at Municipal Market Analytics, a municipal bond research firm.

Of cities rated by Moody's Investors Service , only Stockton, Calif., which emerged from bankruptcy protection two years ago, and Atlantic City, N.J., which narrowly avoided it, have lower ratings than Hartford.

Assured Guaranty's proposal takes advantage of state legislation passed in July that for the next five years allows cities to refinance debt with 30-year bonds instead of restricting them to 20-year bonds.

Hartford could receive more than $40 million in aid under one version of Connecticut's fiscal 2018 budget, which state lawmakers are still debating. But that alone wouldn't be enough to keep Hartford out of bankruptcy, the city said in a notice about Monday's conference call.

Assured Guaranty's proposal wouldn't help Hartford solve all its problems. A continued delay in the budget could strain the city's ability to make payment on a $20 million short-term loan due on Oct. 31.

The insurer's proposal could be "a part of the solution," said the Assured Guaranty spokesman. "It's not the solution in itself."

The Wall Street Journal

By Heather Gillers

Updated Sept. 25, 2017 3:17 p.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

Bloomberg Brief Weekly Video - 09/21

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

Watch video

Bloomberg

When All Else Fails, Sue Wall Street.

There's a lot of blame to go around, but banks have deep pockets and a history of municipal-debt settlements.

Disagreements about money often have a clear solution: Everyone sues each other. That's the American way.

And so it goes for Puerto Rico, the fiscally crippled island that incurred $74 billion of debt over a period when its population and economy were shrinking. Investors have brought many suits against the commonwealth, which now appears to be setting the stage for its own lawsuit against big Wall Street banks.

After all, going after large banks has turned into standard operating procedure for big municipal insolvencies. Just think of Orange County, California, which worked out $800 million in settlements from Merrill Lynch & Co. and others after going bankrupt in the 1990s.

Continue reading.

Bloomberg BusinessWeek

By Lisa Abramowicz

September 20, 2017

MBTA Plans to Issue First Tax-Exempt Sustainability Bond.

The Massachusetts Bay Transportation Authority plans to issue tax-exempt sustainability bonds Tuesday as part of a $574 million competitive sale.

Officials from the MBTA, which operates mass transit in Greater Boston and whose board authorized the sale on Sept. 11, say it's the first sale in the U.S. for such a bond.

Proceeds of sustainability bonds exclusively fund projects with environmental and/or social benefits. The MBTA has adopted a framework to assure conformance with International Capital Market Association standards for determining project eligibility, tracking bond proceeds and reporting on project impact.

This framework also calls for tracking bond proceeds and reporting on project impact. The MBTA consulted academic leaders, impact investors and sustainability leaders at Fortune 500 companies.

The issuance "represents an exciting market precedent," June Matte, a managing director at financial advisor Public Financial Management, said on an investor call.

Moody's Investors Service and S&P Global Ratings rate the bonds Aa3 and AA, respectively.

According to MBTA treasurer Paul Brandley, the sale will include $233.6 million of subordinated sales tax bonds split into two subseries, which fund capital projects for fiscal 2018 and 2019 and replenish commercial paper capacity. Series A-1 of that component will feature $101 million of sustainable bonds and $132.5 million will be sold in the traditional A-2 offering.

Additionally, $281.7 million of subordinated sales tax bond anticipation notes, along with $82 million of commercial paper, will fund $382 million in interim financing for a $492 million positive train control project.

Positive train control is a GPS-based remote system designed to prevent train crashes. The MBTA faces a federally mandated interim deadline of Dec. 31, 2018, and final deadline two years thereafter, to install it.

In 2021, said Brandley, the MBTA expects to take out the BANs and commercial paper with loan proceeds from the federal Transportation Infrastructure Finance and Innovation Act and Railroad Rehabilitation & Improvement Financing programs.

“TIFIA and RRIF loan agreements should be finalized in the coming weeks,” said Brandley. Climate resilience projects include a $50 million undertaking in Boston’s Charlestown neighborhood to protect a critical bus facility from worsening storms and to minimize runoff, and the continuing $99 million work on the 118-year-old Government Center station in front of City Hall, which in 2016 became accessible to disabled people.

In addition, the MBTA is modernizing its bus fleet, earmarking $332 million for fuel-efficient hybrid vehicles. Its first hybrids entered in 2010 on the “trackless trolley” Silver Line.

The MBTA, the country’s fifth-largest mass transit system, has a $1.6 billion annual operating budget and a five-year capital investment plan of $7.4 billion. About 60% of its capital program funds state-of-good-repair projects such as signaling and tracks, with the balance split between expansion and modernization.

The authority carries about $5 billion in debt, with more than three-quarters of it through its sales-tax credit.

For the past two years the MBTA has operated under a fiscal oversight board that Gov. Charlie Baker and state lawmakers approved after a record 110 inches of snow hit Greater Boston in the winter of 2014-15. The storm paralyzed parts of the transit system and exposed operational flaws.

Former General Electric Co. (GE) executive Luis Ramirez took over last week as the MBTA’s general manager, while Michael Abramo was promoted to chief administrator last July. In addition, the state control board was extended to 2020.

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC is bond counsel for the sale.

The Bond Buyer

By Paul Burton

09/20/17

National IDB Issuance Falls in 2016.

Read the Volume Cap Report.

CDFA | Sep. 21 | Bond Finance | CDFA Original Research

Total National PAB Issuance Returns to Pre-Recession Levels.

Read the Volume Cap Report.

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The Week in Public Finance: Latest Repeal and Replace Proposal Still Damaging for States, Pennsylvania's Downgrade and More.

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

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 22, 2017

S&P: An Overview Of U.S. Federal Disaster Funding.

When disaster strikes, the cost of clean-up can be enormous, creating an unexpected expense for governments and individuals. In the U.S., there are several sources of federal aid grants to help with rebuilding, but for many, the process of accessing these funds is a mystery.

Continue Reading

Sep. 19, 2017

S&P: Cyberattacks Pose A Real, If Varying, Credit Risk Across U.S. Public Finance Sectors.

The recent cyberattack on the personal credit scoring company Equifax has exposed personally identifiable information of over 140 million people in the U.S. and more in Canada and the U.K. Although this breach might not be directly connected to U.S. public finance (USPF) organizations, the broad media coverage has further elevated the public’s cyber risk literacy.

Continue Reading

Sep. 20, 2017

As Flood Risks Intensify, Stormwater Utilities Offer a More Resilient Solution.

The 2017 hurricane season is not yet complete, but Houston's damage from Hurricane Harvey and Florida's fallout from Hurricane Irma have already left a severe economic and environmental toll. Yet as disaster turns to recovery in each state, the storms serve as national reminders of resilience challenges facing the country's most flood-prone areas and the need to help them. Federal recovery efforts are not only receiving more scrutiny, but state and local strategies are also gaining more attention, including adaptive measures and investments in resilient infrastructure.

Flood risks are not just limited to severe storms, though. The ways in which planners, engineers, and other leaders manage and design cities every day plays a huge part too. Houston's urban sprawl over the past few decades, for instance, exposed its most vulnerable households to greater dangers. Meanwhile, aging infrastructure systems designed to handle excess flows of water–and even daily rainfall–failed to protect the environment or mitigate flood risks.

Continue reading.

The Brookings Institute

by Joseph Kane and Ranjitha Shivaram

Thursday, September 21, 2017

CDFA Announces Winners of 2017 Excellence in Development Finance Awards.

The CDFA Excellence in Development Finance Awards recognize outstanding development finance programs, agencies, leaders, projects, and success stories. These awards honor excellence in the use of financing tools for economic development, as well as the individuals who champion these efforts. These awards honor creative use of development finance tools such as bonds, TIF, tax credits, and access to capital. The awards also honor the cutting edge use of development finance tools to support innovation and development. These awards honor individuals and agencies alike to build a distinguished and recognized development finance industry.

CDFA Distinguished Development Finance State Agency Award
New Jersey Economic Development Authority

The CDFA Distinguished Development Finance Agency Award (State Agency) is presented to an outstanding state development finance agency. This year's honor is bestowed to New Jersey Economic Development Authority. As an independent and self-supporting state entity, the New Jersey Economic Development Authority works every day to broaden and expand the state's economic base. They have succeeded in creating public-private partnerships to provide access to capital in the New Jersey business community. In addition to supporting entrepreneurial development through training programs, they also provide access to funds for both small and mid-size businesses as well as non-profits for development. Particular projects that really emphasize the EDA's work include the Strand Theater in Lakewood and the Technology Centre of New Jersey in North Brunswick Township, to name a couple.

CDFA Distinguished Development Finance Local Agency Award
Redevelopment Authority of the City of Milwaukee

The CDFA Distinguished Development Finance Local Agency Award is presented to an outstanding local development finance agency. This year's honor is bestowed to the Redevelopment Authority of the City of Milwaukee. Since 1958, the Redevelopment Authority of the City of Milwaukee, an independent corporation in Wisconsin, has succeeded in being a leader in the field of economic development. Over the years they have issued over $500 million in bonds in an effort to eliminate blighting conditions that inhibit neighborhood reinvestment, promote business expansion and job creation, and facilitate new business and housing development. The Redevelopment Authority has participated directly in many projects and have promoted and attracted development in both stable and marginal markets and have created model solutions for complex challenges in real estate and environmental development. .

CDFA Excellence in Development Finance Program Award
Development Finance Authority of Summit County

The CDFA Excellence in Development Finance Program Award is presented to a development finance agency that has implemented an innovative new or particularly successful program. This year's honor is bestowed to Development Finance Authority of Summit County for their Akron Community Revitalization Loan Fund. The Akron Community Revitalization Loan Fund is a part of the Development Fund of the Western Reserve (DFWR) and is connected to the Development Finance Authority of Summit County. This program has succeeded in providing financing opportunities for business development projects within the distressed and urban areas of Akron, Ohio and was started when the DFWR dedicated $6.75 million to the program. With the high poverty and unemployment rates in the area, this program is helping to provide loans that are between $500,000 and $2 million. The loans have less strict credit requirements, interest rates ranging from 2.5% to 2.75% and more flexibility. From the time that the program began doing business in July, the program now has six projects that are being processed to receive loans.

CDFA Excellence in Development Finance Project Award
Allentown Neighborhood Improvement Zone Development Authority

The CDFA Excellence in Development Finance Project Award is presented to a development finance agency that has implemented a specific project that has used finance to be transformative. This year's honor is bestowed to Allentown Neighborhood Improvement Zone Development Authority for the City Center Allentown Project. In July of this year, the Allentown Neighborhood Improvement Zone Development Authority (ANIZDA) in Pennsylvania issued $210 million in tax revenue bonds to refinance a portion of the debt incurred by City Center Investment Corporation in developing the tremendously successful City Center Allentown project. City Center Investment Corporation had completed approximately $400 million in mixed-use real estate development in the Neighborhood Improvement Zone at that point. Completed and leased projects included 650,000 square feet of class A office space, nearly 100,000 square feet of retail and restaurant space, 237 market rate apartments, and a 170 room luxury hotel. Refinancing a portion of short-term bank loans with long term tax exempt bond financing issued through ANIZDA allowed the developer to continue building new projects within the Neighborhood Improvement Zone. Today, Allentown's resurgence continues as construction is underway on additional City Center Investment Corporation projects including a 142,000 square foot class A office tower, 140 market rate apartments, and co-working space in a vibrant, walkable downtown. The Neighborhood Improvement Zone is a special taxing district created by state law in 2011 that is overseen and managed by ANIZDA.

CDFA Excellence in Development Finance Innovation Award
Greater Cincinnati Redevelopment Authority

The CDFA Excellence in Development Finance Project Award is presented to a development finance agency that has implemented a specific project that has used finance to be transformative. This year's honor is bestowed to Greater Cincinnati Redevelopment Authority for their commercial development loan program. The Greater Cincinnati Redevelopment Authority is an economic development agency in Cincinnati, OH that has found success in initiating projects that promote job creation and improve property value. In 2017, the Kresge Foundation invested $5 million in the Greater Cincinnati Redevelopment Authority to assist in establishing a commercial development loan program that has since begun assisting neighborhood revitalization and transformation through mixed-use and mixed-income projects. This investment has facilitated Cincinnati's ability to make loans to development projects in targeted redevelopment areas. This has allowed the Greater Cincinnati Redevelopment Authority to help break down barriers for entrepreneurs who are setting up local operations. This first of its kind impact investment in a development finance agency will drive urban revitalization and serve disinvested communities, which serves as a model for future engagements between philanthropy and development finance agencies.

The **CDFA Excellence in Development Finance Awards** will be formally presented at the 2017 CDFA National Development Finance Summit, in Atlanta, GA on November 16. In addition to the awards above, CDFA will honor two individuals as recipients of the CDFA Lifetime Achievement Award for their leadership, service, and impact to the industry.

Don't miss your chance to register and get engaged at the **2017 CDFA National Development Finance Summit** in **Atlanta, Georgia**, **November 15-17, 2017**.

Register

Disaster Bonds Proposed for Relief from Hurricanes Irma, Harvey.

WASHINGTON — In the wake of extensive damage caused by Hurricanes Harvey and Irma, the Council of Development Finance Agencies wants Congress to create a new permanent category of federally tax-exempt bonds for disaster rebuilding.

The group is proposing that up to $20 billion in this special category of so-called disaster recovery bonds be made available for annual issuance for future disaster relief. The bonds should not be subject to state volume caps, it said.

"We're sort of in the beginning of coalition building,'' said Tim Fisher, legislative and federal affairs officer for CDFA. He's reached out to the Municipal Bonds for America coalition as well as other state and local groups.

Fisher said his group does not want to slow up any special assistance that Congress might enact for rebuilding in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands.
Instead, the proposal could be addressed as a part of tax reform.

"I don't know where we stand on tax reform in terms of tax-exempt bonds, but this might be something that the administration, with its big infrastructure push, might be intrigued by,'' Fisher said. "Forward thinking or proactive Republican members might be interested in pushing something like this during tax reform.''

The proposal calls for replicating several temporary programs Congress has created in the wake of other recent natural disasters and the terrorist attack of Sept. 11, 2001.

Following the destruction of the World Trade Center by terrorists, Congress also authorized the issuance of $8 billion in tax-exempt Liberty Bonds for use in Manhattan.

And after Hurricane Katrina flooded and devastated New Orleans and other parts of the Gulf Coast in 2005, Congress enacted the Gulf Zone Opportunity Act of 2005. That legislation authorized $14.9 billion in tax-exempt private activity bonds for Louisiana, Alabama and Mississippi. It also provided an additional $7.9 billion in advance refunding bonds.

In addition, Congress has authorized Hurricane Ike Bonds and Midwestern Disaster Area Bonds for disaster rebuilding in recent years.

“Both the Gulf Opportunity Zone Act of 2005 and the Heartland Disaster Tax Relief Act of 2008 allowed affected states to issue tax-exempt bonds to finance qualified activities involving residential rental projects, nonresidential real property, and public utility property located in the disaster area and below market rate mortgages for low- and moderate-income home buyers,’’ the nonpartisan Congressional Research Service said in a report.

“There was not, however, a comparable package of tax benefits provided following tropical storm Irene in 2011 or Hurricane Sandy in 2012,’’ CRS said. “Some general disaster provisions were available for all disasters declared in 2008 and 2009.”

Congressional lawmakers from the Northeast are continuing in their effort to create disaster recovery bonds for rebuilding in the wake of Superstorm Sandy in 2012.

A bill introduced earlier this month by two members of the House Ways and Means Committee proposes $10 billion in qualified disaster recovery bonds for disasters between 2012 and 2015.

“Last Congress we had 41 bipartisan cosponsors in the House and 12 members on in the Senate, Timothy Carroll, a spokesman for Rep. Bill Pascrell, D-N.J., said in an email.

Pascrell is an original cosponsor of the bill, the National Disaster Tax Relief Act of 2017 (H.R. 3679) with Rep. Tom Reed, R-N.Y.

In an issue brief released earlier this month, CRS said, “The National Disaster Tax Relief Act (H.R. 3679) proposes a number of temporary tax relief measures for disasters that occurred in 2012, 2013, 2014, or 2015. The bill also proposes additional permanent disaster relief provisions that could be triggered with a federal disaster declaration.’’

The Bond Buyer

By Brian Tumulty

09/20/17

NABL: Disaster Recovery Bonds Proposed.

he Council of Development Finance Agencies (CDFA) has recommended that Congress create a permanent category of tax-exempt private activity bonds, to be known as Disaster Recovery Bonds,

which would support state and local government recovery efforts. The bonds would be similar to Gulf Opportunity Zone Bonds, Midwest Disaster Area Bonds, and Liberty Bonds.

In addition, earlier this month, Representatives Tom Reed (R-NY) and Bill Pascrell (D-NJ) introduced the National Disaster Tax Relief Act of 2017 (H.R. 3679), which would provide tax relief, including bond provisions, for major disasters between 2012 and 2015 and would also provide additional permanent disaster relief provisions, again including bond provisions, that would be triggered by a federal disaster declaration.

The CDFA press release is available here.

H.R. 3679 is available here.

TIFIA and P3 - Infra Without Undue Fiscal Leverage

Kroll Bond Rating Agency (KBRA) has released a macro-market research report titled, "TIFIA and P3 – Infra Without Undue Fiscal Leverage." The key points made in the report are:

- In the wake of Hurricanes Harvey and Irma, the vulnerability of critical infrastructure assets is once again the focus of policymakers across the U.S. and beyond.
- Slow growth in resources available to support necessary infrastructure has resulted in a significant underinvestment in critical infrastructure.
- TIFIA, or Transportation Infrastructure Finance and Innovation Act, is a Federal credit program that has been particularly successful in helping leverage existing resources and accelerating the delivery of infrastructure projects.
- KBRA has been increasingly active in these public and project finance transactions. Infrastructure challenges concern KBRA's sovereign group, given the importance to macro and fiscal policy developments.

Please click on the link below to access the report:

TIFIA and P3 – Infra Without Undue Fiscal Leverage

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com.

EPA Approves Expedited Loan Funding for Harvey-Related Water Projects.

AUSTIN – The Environmental Protection Agency this week approved a request from Texas officials to expedite funding to help local governments restore water and wastewater systems damaged by Hurricane Harvey.

The Texas Water Development Board, which administers an EPA low-interest loan program for the state, asked the federal agency in a Sept. 1 letter for the flexibility to quicken loan distribution procedures. In the letter, the board said loan money could serve as a bridge to meet immediate recovery needs for damaged water systems while local governments wait for other federal aid.

"We're trying to be another party getting funds to communities when they need them," said Jessica

Zuba, the deputy executive administrator of water supply and infrastructure at the TWDB. “In the past, there’s been a feeling that federal funding can take quite a bit of time lag. We wanted to … use our capacity and funds and bridge some of that time.”

Zuba said the board is reaching out to several cities where Harvey’s flooding impacted water infrastructure — such as Pearland, south of Houston, and Rose City, outside Beaumont — to talk about recovery funding needs.

Harvey’s flooding had a sweeping impact on water systems across Texas. At least five public drinking systems throughout the state were destroyed by flooding, and 14 systems remain inoperable, according to the Texas Commission on Environmental Quality. At least 31 waste water facilities are inoperable.

The Texas Water Development Board has about half a billion dollars in loan capacity through the Clean Water State Revolving Fund. This fund has historically provided low-interest loans to cities, districts and other water authorities to finance wastewater infrastructure. But its scope was expanded last year to include more stormwater projects, potentially meaning a large portion of it could be distributed for post-Harvey infrastructure proposals.

“There’s a need right now for the interim financing to get communities back online and back serving their customers, and there’s also: ‘How do we prepare for the next disaster?’” Zuba said.

The fund’s large loan capacity could be used for long-term stormwater resiliency projects, Zuba said. This could appeal to cities looking to finance the initial phases of large-scale infrastructure projects and then later rely on federal funding from agencies such as FEMA to continue construction.

Since last August, the TWDB has approved three non-Harvey-related stormwater projects, totaling about $35.5 million. The city of Houston has a $47 million loan application pending to finance stormwater control infrastructure including extensions for flood reduction along Brays Bayou. The city filed this application before Hurricane Harvey hit, and the board expects to review it in October. The TWDB anticipates more applications from Harris County, which includes Houston, as the country’s storm recovery plans solidify.

The TWDB has sought assurance from the EPA that its loan financing would not make water projects ineligible for future federal grants as rebuilding from Harvey continues.

Gov. Greg Abbott also got behind the board’s request to get infrastructure funding to communities as quickly as possible. He sent his own letter to EPA chief Scott Pruitt, asking for streamlined loan options.

Zuba said it is hard to speculate how many loans applications the TWDB might receive but that volume is expected to increase and cooperation with the federal government is making the process easier.

“The flexibility that the EPA is willing to work with us is a great achievement,” she said.

The Texas Tribune

by Katie Riordan

September 15, 2017

Expanding Community Development Financial Institutions.

Abstract

Community development financial institutions (CDFIs) provide capital to strengthen communities that are experiencing economic distress or are underserved by mainstream lenders. We find that CDFIs lent more than $34.3 billion between 2011 and 2015, roughly $6.8 billion a year. Sixty-four percent of CDFI lending went to census tracts with one or more indicators of being underserved or distressed. But CDFI activity was not distributed equally across the country, even among economically comparable places. To expand its reach into underserved communities where it has yet to establish a strong presence, the CDFI industry needs further supports.

Download PDF

The Urban Institute

by Brett Theodos & Eric Hangen

September 19, 2017

Recent Hurricanes Strain U.S. Towns' Aging Sewer Systems.

Harvey and Irma caused untreated sewage to be released into streets, rivers and homes of affected towns and counties

In the days after Hurricane Irma slammed Brunswick, Ga, most businesses and restaurants were shut down. The problem wasn't just flooding or hurricane damage, it was also untreated sewage mixing with floodwater, seeping out of manholes and overwhelming an aging system of pipes and pumps.

Residents were asked not to take showers, wash dishes or flush toilets for four days, and schools were closed for more than a week. Crews, facing extensive power outages, worked to bring the sewage system back online in order to restore service.

Downtown sandwich shop Wrap Happy had no damage or flooding, but lost days of business because the water and sewer restrictions made it difficult for evacuees to return home and kept life from getting back to normal.

"It shut down our customer base," said Taneka Beasley, whose family owns Wrap Happy. "We took a really big hit financially."

The Brunswick-Glynn Joint Water & Sewer Commission, which serves about 30,000 residential and commercial sewer customers and treats about 8 million gallons of wastewater a day, said on its website that the area saw widespread sewer overflows but the wastewater "contained very dilute and minimal human waste."

Hurricanes Harvey and Irma killed dozens of people, destroyed thousands of homes, and caused flooding that has lasted weeks in some cases. They also exposed the failings of aging sewer systems that were unable to cope with the heavy rainfall and flooding. As a result, many released untreated

sewage into streets, rivers and homes of affected towns and counties.

Local governments in Florida have filed more than 250 notices of pollution with state regulators in the days since Irma made landfall in southwest Florida. In Texas, two wastewater treatment facilities in Harris County were destroyed by Harvey, and eight others remain nonoperational in five counties including Harris three weeks after the record-setting rainfall.

It is impossible to design sewage treatment facilities that can handle every storm, experts said, and recent hurricanes have delivered unprecedented rainfall and flooding in some areas.

But the recent storms magnified a problem that occurs regularly across the country albeit on a smaller scale: sewage spills from overburdened and underfunded wastewater treatment systems.

“We’re still in a place where there’s not enough funding to really take care of this underground infrastructure,” said Rebecca Shelton, an Atlanta-based member of the American Society of Civil Engineers specializing in wastewater treatment.

Sewage spills can contaminate drinking water, kill fish and close beaches to swimmers. The Environmental Protection Agency, which regulates water quality under the federal Clean Water Act of 1972, said that while sewage spills have significantly decreased over the last 40 years, 23,000 to 75,000 sewer overflows still occur in the U.S. every year.

The EPA works with states to provide low-cost loans to municipal treatment plants for capital and environmental projects, and last year awarded $7.6 billion in funding. But the brunt of operation and infrastructure costs for the nation’s sewer systems are paid by customers.

Most American wastewater treatment facilities are operated by local governments as public utilities that charge rates based on usage, said Matt Fabian, partner at the research firm Municipal Market Analytics. Costs have increased in recent years as sewage systems grapple with meeting new federal environmental regulations and more consistent or extreme weather events as well as regular maintenance costs, he said.

Municipal bond sales for water and sewer projects have increased sharply in recent years, topping $37 billion last year compared with $22 billion in 2013, Mr. Fabian said.

“I wouldn’t say that governments are ignoring the water and sewer problem,” he said. “It is a major issue if you ask any mayor. But there’s so many competing priorities.”

Residential sewer bills, which consistently outpace water costs, soared from about $22 a month in 2004 to more than $42 in 2016, according to surveys by the American Water Works Association, a nonprofit organization of water supply professionals.

“One of the real pressures that governments are facing is that water and sewer rates are not progressive. They’re the same regardless of what your income is,” Mr. Fabian said.

In Georgia’s southeastern Glynn County, residents complained of untreated sewage seeping out of manholes and mixing with floodwater. Evacuee Elle Hammarlund Woodcock stayed several days longer than she planned at her daughter’s house in Enterprise, Ala., to avoid coming in contact with untreated sewage. The ground level of her home flooded and she said she was worried about what the waters may have contained. “I’m wiping everything down,” she said, “with bleach.”

Some components of the Glynn County sewer system date back to the 1940s, such as clay sewer pipes that are more vulnerable to leaks that let in groundwater and overwhelm treatment plants,

said Todd Kline, director of engineering for the Joint Water & Sewer Commission.

Irma brought rainfalls of up to 10 inches of rain to parts of Georgia. Brunswick received 6 inches of rain, according to the National Oceanic and Atmospheric Administration, and average rainfall in Glynn County was more than 9.4 inches, according to National Weather Service estimates.

“Every drop of water that gets into the pipes—be it groundwater or storm water—you’re pumping that and you’re treating that unnecessarily,” Mr. Kline said. “Every drop of water takes up capacity.”

Extensive power outages are also a contributing factor to sewage overflows during storms, because pumping stations lose power and are unable to transport wastewater to the treatment plant.

Glynn County Commission Chairman Bill Brunson said sewer infrastructure faltered for a combination of reasons. Heavy rainfall from Irma as well as earlier storms strained a system already overburdened by fast and dense residential development, And maintenance of the system had been neglected for decades, Mr. Brunson said.

“Politicians don’t typically spend money on infrastructure,” he said. “It’s just easy to ignore.”

THE WALL STREET JOURNAL

By Kate King and Valerie Bauerlein

Sept. 20, 2017 5:30 a.m. ET

Write to Kate King at Kate.King@wsj.com and Valerie Bauerlein at valerie.bauerlein@wsj.com

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States Need $645 Billion to Pay Full Health-Care Costs.

New accounting guidelines urge local governments to put their full health costs on their balance sheets

When Aurora, Ill., closed its books last December, about $150 million disappeared from the city’s bottom line.

The Chicago suburb of 200,000 people hadn’t become poorer. Instead, for the first time it recorded on its balance sheet the full cost of health care promised to public employees once they retire.

States and cities around the country will soon book similar losses because of new, widely followed accounting guidelines that apply to most governments starting in fiscal 2018—a shift that could potentially lead to cuts to retiree heath benefits.

The new Governmental Accounting Standards Board principles urge officials to record all health-care liabilities on their balance sheets instead of pushing a portion of the debt to footnotes.

The adjustments will show that U.S. states as a group have promised hundreds of billions more in retiree health benefits than they have saved up. The shortfall amounts to at least $645 billion, according to a new report from the nonprofit Pew Charitable Trusts based on 2015 data. That is in addition to the $1.1 trillion that states need to pay for promised pension benefits, according to Pew.

The new level of transparency around retiree health expenses for public workers could lower

municipal-bond prices and force new decisions to reduce or scrap retiree health benefits as a way of coping with ballooning future costs, some analysts and researchers said. “I think the market has understated the concern,” said Richard Ciccarone, president and chief executive of Merritt Research Services LLC, a research firm that tracks municipal bonds.

Rising retiree health-care costs are compounding government pressures when many state and local officials are struggling to manage their ballooning pension liabilities and balance their budgets. Waves of baby boomers are already wrapping up their working lives, and expenses are expected to rise in coming years.

“By not dealing with it, we could be setting ourselves up for a very unwelcome surprise,” said New York State Comptroller Thomas DiNapoli.

The change will lower bottom lines by tens of billions for some state governments. In New York, the state’s health-care liabilities as reported on its balance sheet will jump to $72 billion once the new accounting rules are in place, up from $17 billion. That new total would be 10 times the state’s pension liabilities, Mr. DiNapoli’s office said.

Mr. DiNapoli said New York has been upfront with bond-rating firms about its retiree health liabilities, but he hopes the new numbers will provide a wake-up call for policy makers. For the last decade, he has helped draft legislation annually that would establish a fund to set money aside for retiree health costs, but he said those bills have stalled.

“If you can put money towards a school or a senior center today, that has a lot more appeal,” Mr. DiNapoli said.

Most states have almost no money saved up for future retiree health-care costs and treat the benefits as an operating expense. States had just $48 billion in assets set aside as of 2015, compared with $693 billion in liabilities, according to Pew.

One state that has been setting aside more is Michigan, where retiree health-care liabilities have dropped by roughly $20 billion since 2012 partly because of added state payments. The state also stopped offering retiree health care to new employees, instead contributing an additional 2% of salary to their defined-contribution plans to limit the state’s exposure to rising health costs.

“It’s transferring the risk for those inflationary items from the state to the employees,” said Kerrie Vanden Bosch, director of Michigan’s Office of Retirement Services.

Even so, states’ retiree health obligations are still much smaller than future pension promises, which are already reported this way. Even if states were to start setting aside money for future costs, annual state spending on retiree health care would still be just 3.4% of expenditures, compared with 1.4% today, according to a study by the National Association of State Retirement Administrators and the Center for State and Local Government Excellence.

States that want to bring their liabilities down will likely face fewer legal hurdles to benefit cuts than they have with public pensions, which enjoy ironclad legal protections in many states. Courts have often upheld employers’ rights to increase health-care costs and reduce coverage unless the benefits are laid out in explicit detail in a collective-bargaining agreement or protected by a state constitution, said University of Minnesota Law School Professor Amy Monahan.

“It’s going to be really hard to prevent those changes,” Ms. Monahan said.

Among more than 80 state and local governments surveyed last year by Segal Consulting, 57% said

they were somewhat or very likely to reduce benefits in response to the new accounting standards. The guidelines aren't mandatory, though they are widely followed and ignoring them can complicate audits.

The American Federation of State, County and Municipal Employees, which represents public-sector workers, opposed the new Governmental Accounting Standards Board guidelines. It said in a comment letter that "implementing new standards during a fragile recovery may lead to hasty and unwarranted decisions about retiree health benefits."

"If you're going to tell people that you're going to give the best years of your life as a firefighter or cop, you have to figure out a way to bridge those people to Medicare," said Steven Kreisberg, director of research and collective bargaining for the union. "These are manageable expenses, if you want to manage them."

THE WALL STREET JOURNAL

By Heather Gillers

Sept. 20, 2017 5:30 a.m. ET

Write to Heather Gillers at heather.gillers@wsj.com

U.S. Muni Bond Market Edges Up to $3.837 trln in Q2 - Fed

NEW YORK, Sept 21 (Reuters) – The U.S. municipal bond market edged up to $3.837 trillion in the second quarter of 2017 after shrinking slightly during the previous quarter, according to a quarterly report from the Federal Reserve released on Thursday.

U.S. banks' muni bond buying continued to dwindle. Financial institutions added just $10.2 billion in the second quarter, compared to $27.3 billion in the first quarter and $52.9 billion in the fourth quarter of 2016.

Foreign holdings of munis rose to $98.6 billion, an all-time high, after having fallen the previous quarter for the first time in five years.

Households, or retail investors, held $1.627 billion, down slightly from $1.646 billion in the previous quarter, the data showed.

Property and casualty insurance companies added $5.8 billion of munis in the second quarter after having shed $8.4 billion in the first quarter. Life insurance companies picked up $4.2 billion of the bonds.

U.S. mutual funds bought $48.5 billion of munis while exchange traded funds added $5.8 billion.

(Reporting by Hilary Russ; Editing by Chizu Nomiyama)

CUSIP Request Volume Suggest Growth in New Corporate and Muni Bond

Issuance.

NEW YORK, Sept. 13, 2017 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2017. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, found increases in the pre-trade market for municipal and corporate bond issues in August. This increased demand for new CUSIP IDs for corporate and municipal bonds is suggestive of a possible increase in new security issuance volume over the coming weeks.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate offerings, which includes both equity and debt, totaled 4,197 in August, down 2% from July, driven primarily by declines in requests for new corporate equity identifiers. By contrast, requests for corporate debt identifiers increased 43% during the month of August, logging the second-highest monthly count for new corporate debt CUSIP requests so far in 2017. So far this year, demand for new CUSIPs for both corporate debt and equity offerings are up 25% over the same period in 2016.

Municipal CUSIP requests surged in August. A total of 1,141 municipal bond identifier requests were made during the month, an increase of 38% from July. On a year-over-year basis, municipal request volume was down 24% through the end of August 2017, reflecting ongoing volatility in municipal issuance volumes over the course of this year.

“CUSIP request volume for the month of August has stayed true to form with what we’ve seen over the course of this year as issuers of new securities ratchet-up their volume one month, slow-down a bit the next month, and repeat ,” said Gerard Faulkner, Director of Operations for CUSIP Global Services. “As a whole, volumes are strong this year, but the path we’ve taken to get here has been volatile.”

International debt and equity CUSIP International Numbers (CINS) volume both declined in August. International equity CINS decreased 2% and international debt CINS decreased 3% during the month. On a year-over-year basis, international equity requests were down 11% and international debt requests were up 62%, reflecting continued volatility in international markets.

“Market participants are clearly watching interest rates and the broader geopolitical situation to choose their spots to issue new securities optimally,” said Richard Peterson, Senior Director, S&P Global Market Intelligence. “Though the vast majority of asset classes are showing growth in new request volume versus last year, we’re not seeing the same unbridled enthusiasm that was a hallmark of new issuance volume in 2016.”

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

New Mexico's Effort to Hedge Against Higher Rates Backfires.

As borrowing costs have fallen, public agencies from school districts to county and state governments have saved millions of dollars by refinancing debt that carries higher interest rates.

For the state of New Mexico, that has meant savings of more than $300 million for the Department of Transportation alone, which has refinanced or closed out a dozen lines of credit and outstanding bonds since 2010.

But lower interest rates have not been good news in every case for the Department of

Transportation. Taxpayers also have lost millions of dollars by not being able to restructure some debt approved in 2004 under then-Gov. Bill Richardson to pay for highways, bridges and the New Mexico Rail Runner Express.

Despite interest costs being half of what they were a decade ago, refinancing some $400 million in outstanding bonds at substantially lower rates would involve paying a a huge penalty — $80 million to $100 million — because of a complicated hedging strategy between the state and Wall Street banks.

Of the $1.58 billion authorized under Richardson's programs, which included the train, $440 million were part of these interest-rate swap agreements. The average fixed-rate bonds at the time were paying 4.3 percent, but the state decided to sell bonds with a floating interest rate that could have cost more if rates rose. To protect against that risk, the bonds were swapped and taxpayers ended up paying between 3 percent and 5.072 percent on the amount borrowed.

Now the state pays 2.4 percent to borrow money. At times last year that cost was under 2 percent, a rate the Department of Transportation said it would have jumped at had it been able to refinance.

So, while the swaps protected taxpayers against rate increases, the deals backfired because they made it impossible to refinance the debt or obtain a lower floating rate.

"These swaps were intended to protect the state against higher interest rates, but they actually hurt the state because interest rates went down," said Marc Joffe, a policy analyst with the Reason Foundation and a former director at Moody's Analytics.

Any termination costs on bonds that have swap agreements would be paid to Goldman Sachs, Deutsche Bank, JP Morgan Chase, and UBS AG, according to state financial records.

"If they get out of the swaps today, they would have to pay $87 million," said Michael Zavelle, chief financial strategist for the New Mexico Finance Authority. "And you'd have to refinance $420 million, plus the termination cost."

Zavelle said the bond deal that included swaps shifted the risk for the borrowing from the lender to taxpayers, and it came at a time when those in public financing were doing more deals with these sorts of hedges.

Interest-rate swaps or hedges are not part of state debt packages today, though they are still prominent in the portfolio of The University of New Mexico.

"Our philosophy is, if the only way you can do that project is by taking on extra risk, that's probably something you shouldn't be doing," Zavelle said.

Those in state government now see the issue the same way.

"If we were to issue more debt today, we wouldn't do it that way," said Marcos Trujillo, the bond-financing director with the Department of Transportation.

Tom Church, Cabinet secretary of the department, said Gov. Susana Martinez's administration inherited the swaps from a time when concerns about rising rates made them more common. The other advantage is the swaps brought more predictability to costs and allowed more borrowing up front.

"At the time this was a tool being used around the country," Church said. They provided "a comfort

level that you'd never had to pay a lot more in interest."

Zavelle and others tried to calculate what it would cost to refinance the bonds and determined the termination costs would be higher than any interest rate savings, even though borrowing costs are significantly lower.

Church said interest rates have to rise more than 3 percentage points from today's level for refinancing to make sense with the high termination fees.

Most of the initial transportation bonds had an initial interest rate below 4 percent but could have been adjusted. With the swap agreement, the rate the state pays today is more than 5 percent.

Termination costs exist because the banks and lenders that receive interest from the state road fund promise regular money to their investors, often retirees or insurance companies. When rates are low, those banks would not be able to find another borrower to pay them the same amount, upward of 5 percent under the agreement with New Mexico, or they would have to make up the difference.

So the termination fees are built into the swap contract to cover the promised payments until the bonds mature.

At the end of 2016, the interest rate swaps were $119 million underwater, meaning that would have been the loss that would result from terminating the agreements, according to state financial reports.

If interest rates go up, then the termination fees actually go down because it becomes easier for lenders to replace the revenue. At some point when the bulk of interest is paid on the bonds, there will be no termination cost. That is expected to happen in 2024.

"Every year that goes by, the termination value goes down, so there is a benefit in waiting to redo the swaps," Zavelle said.

Joffe said many entities, including the Chicago Public Schools, counties in California and parishes in Louisiana were burned badly by swap deals.

"When it comes to municipal finance, simple is better than complicated. It turns out these things often backfire, and that's what happened here," Joffe said after looking at documents about New Mexico at The New Mexican's request.

Zavelle added: "If they had financed at a fixed rate and paid a bit more, they would have refinanced. Probably overall, they would have been better off with a fixed rate and it would have eliminated all the risks.."

By Bruce Krasnow | The New Mexican

Sep 11, 2017

Fitch: U.S. Toll Road Performance to Remain Strong.

Fitch Ratings-New York-11 September 2017: The ride will remain largely smooth for U.S. toll road performance in the coming months, according to Fitch Ratings in its latest U.S. Toll Roads Peer Review.

Fitch has observed positive operating performance across the sector since the last Peer Review. Favorable growth has led to ratings upgrades on three toll roads (E-470 Public Highway Authority, Rickenbacker Causeway and San Joaquin Hills Transportation Corridor Agency) and Positive Outlook on one other roadway (Central Texas Turnpike System) against zero negative rating actions. The Rating Outlook for Fitch's toll road universe is largely Stable. However, continued positive operating performance could result in Fitch raising the Rating Outlook on several other toll roads to Positive.

Several new toll road projects reached substantial completion this year and show encouraging early signs of ramp-up. 'Major construction works were completed by and large on or ahead of schedule for the vast majority of greenfield toll roads projects throughout the country,' said Director Tanya Langman.

Hurricane Harvey has resulted in Houston area toll roads like Harris County Toll Road, Fort Bend County Toll Road and Grand Parkway either temporarily waiving tolls or closing the roadways outright. 'The extensive flooding brought on by Hurricane Harvey will inevitably result in toll revenue losses and delay construction and passage on Houston-area toll roads for some time, though each roadway has ample financial cushion to absorb a short term interruption in operations,' said Langman. It is important to note, however, that the magnitude of financial impact from demand dislocation and the extent of structural damage may prove to be more extensive than historically seen with toll roads exposed to hurricane damage. Fitch will continue to monitor the aftermath of Hurricane Harvey and will incorporate its findings into its ratings as applicable.

Fitch's toll road universe has also expanded since its last Peer Review with the addition of three new toll roads; Delaware River Joint Toll Bridge Commission, Colorado's C-470 Express Lanes and Riverside County Transportation Commission's I-15 Express Lanes in California. Fitch's peer report provides a snapshot of Fitch's key rating factor assessments as well as selected operating and financial metrics for both large and small network facilities.

Fitch's latest 'Peer Review of U.S. Toll Roads' is available at 'www.fitchratings.com' or by clicking on the above link.

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Additional information is available on www.fitchratings.com

Bloomberg Brief Weekly Video - 09/14

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

Watch video.

Bloomberg

September 14, 2017

U.S. Cities Report Least Optimism About Finances Since 2012.

- Survey finds those seeing improvement falls to five-year low
- Results 'point to the potential start of a contraction'

The financial gains for U.S. cities are showing signs of slowing, with the number reporting improvement dropping to a five-year low as revenue growth slows and they face pressure to spend more on infrastructure, according to a National League of Cities' annual survey.

City general-fund revenues are projected to increase by just 0.9 percent this year, compared with 2.6 percent in 2016, as property-tax growth slows and sales and income-tax collections drop, the report said. The share of cities reporting that they're more able to meet their financial obligations than they were a year ago slipped to 69 percent, the least since 2012, when many were still contending with some of the fiscal aftermath of the housing crash and recession.

"This year's results point to the potential start of a contraction in the municipal sector after optimism about growth hit a peak in 2015," according to the report, which is based on results from 261 cities.

The biggest drags on municipal finances stem from the need to rehabilitate aging infrastructure and the cost of employee wages and benefits: Ninety-two percent of officials reported that the cost of infrastructure increased and 93 percent said wages rose.

The projected pullback from the fiscal gains of recent years may not be as significant as suggested by the survey, given that officials frequently take a conservative approach to forecasting by underestimating revenue growth and overestimating projected spending. Over the past two years, municipal revenue increases have outpaced spending growth, giving governments an opportunity to shore up their reserves, the report said.

Growth in property-tax collections, typically the biggest source of municipal revenue, is anticipated to slow to 1.6 percent in 2017 from 4.3 percent the prior year. Meanwhile, the continued growth of Internet commerce is weighing on sales-tax revenue.

Loathe to raise property taxes or restrained by law from doing so, the most common action taken to boost city revenue is to increase fees. Two in five finance officials said their city raised fee levels, while one in four reported increasing the number of fees that are applied to services.

"Cities are stuck between a rock (property tax caps) and a hard place (limited online sales tax

authority) often resulting in the increase of fees for services," the report said.

Bloomberg

By Martin Z Braun

September 12, 2017, 2:00 AM PDT

The Week in Public Finance: Troubling Economic Update, Major Online Tax Ruling and More.

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

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 15, 2017

Commentary: Move America will Leverage Private Investment in Infrastructure, Complement Strong Public Funding.

The poor state of America's infrastructure has been widely discussed and well-documented. The American Society of Civil Engineers has awarded our nation a cumulative grade of D+ in its 2017 Infrastructure Report Card and estimates that the United States is facing a $2 trillion infrastructure funding gap over the next ten years. This is a serious public safety concern. Moreover, it has severe implications for our economy and our ability to compete in the global market.

To tackle this challenge, it is vital that Congress support and provide strong public funding. That starts by ensuring the solvency of our infrastructure trust funds. But, this is a crisis that will require all hands on deck – we must also empower states and local governments to leverage private investment in public infrastructure. Expanding the tools available to states will give local leaders the ability to address their infrastructure needs in whichever way best meets the needs of their community. We recently introduced the Move America Act of 2017, which will do just this.

The Move America Act would unlock billions of dollars of investment for state and local governments to help grow and repair America's aging infrastructure. The bill expands tax-exempt private activity bonds and creates a new infrastructure tax credit, helping finance infrastructure projects through private-public partnerships. This would help stretch taxpayer dollars by lowering overall costs while also giving state and local governments flexibility to construct the infrastructure they most need, such as roads, bridges, transit, ports, rail, airports, water and sewer facilities and broadband.

Right now, arbitrary tax barriers prevent many cities from even contemplating public-private partnerships. Move America eliminates these barriers, opening the door for cities and states to pursue innovative arrangements to get the most value out of scarce funding dollars. The bill achieves this through an expansion of tax-exempt financing for public infrastructure projects, regardless of whether it is financed solely by the government or through a public-private partnership. Each state receives an annual allocation of these Move America Bonds, based on population, and can hold on to any unused bond authority for up to five years. The bonds' interest

income is exempt from the alternative minimum tax, providing full parity with other forms of state debt.

For states looking for innovative ways to leverage more private equity, Move America Bonds can be traded in at a 25 percent rate for Move America Credits to attract equity investors. Modeled on the bipartisan Low Income Housing Tax Credit, Move America Credits can lower capital costs, reducing or eliminating the need for additional revenue streams like user charges or tolls. Alternatively, states can elect to use Move America Credits to capitalize state infrastructure banks, infrastructure revolving funds or similar entities, pooling capital to use for low-interest loans or grants to projects.

These tools are available for use regardless of who owns the project, making financing, management and leasing arrangements simpler and more cost-effective. An upfront injection of private capital can speed up construction start times and allow governments to more quickly work through the backlog of infrastructure projects. Risk-transfer to private parties can bring increased efficiency to the design, construction and maintenance process, lowering overall project costs.

Momentum continues to build within Congress to address this critical need in a bipartisan way. While there is no doubt that we face many hurdles in this effort, the Move America Act is a strong example of the common ground we should seek. Our measure will be paid for and leverages $8 billion in federal investment into $226 billion worth of bond authority over the next 10 years or up to $56 billion over 10 years in tax credits, according to the Joint Committee on Taxation.

Infrastructure investment creates jobs and grows the economy. Move America would provide a cost-effective complement to increased public funding. We are working to ensure the Move America Act is part of any infrastructure package advanced by Congress.

The Bond Buyer

By John Hoeven & Ron Wyden

September 11 2017, 11:29am EDT

An Overview Of S&P Global Ratings' Proposed Methodology For Special Assessment Debt.

On Sept. 14, 2017, S&P Global Ratings published a request for comment (RFC) on its proposed methodology for rating special assessment debt.

Continue reading.

S&P Request for Comment: Special Assessment Debt.

The proposed criteria would apply to U.S. ratings on debt issued by municipal governments, state governments, or other U.S. public finance obligors secured by special assessments or special, non-ad valorem taxes levied on property or land (special assessments).

Continue reading.

S&P: Are Electric Cars And Charging Infrastructure Bright Spots For U.S. Regulated Utilities?

Electric cars are an energizing disruptor for U.S. utilities. Everyone knows they are coming. Most observers believe that sales of electric cars will grow at an accelerated pace over the next few years.

Continue reading.

The Rise of Public-Sector Crowdfunding.

Around the country, local governments are soliciting donations for everything from dog parks to public defenders. Is this a practical response to budget cuts or a sign that publicly funded services are in trouble?

Earlier this year, when the new sheriff of Travis County in Texas announced that her officers would not cooperate with federal immigration investigators (part of an ongoing battle over sanctuary city issues), Texas Governor Greg Abbott retaliated by slashing the county's criminal justice funding. The remaining $1.5 million in state grants for 2017 would have helped maintain programs for veterans, sex workers, and parents struggling with substance abuse.

Concerned about the loss of those programs, constituents called state Rep. Eddie Rodriguez for help. To try to make up for the governor's cuts, Rodriguez and a local nonprofit, the Austin Community Foundation, launched the crowdfunding campaign Travis County #StrongerTogether in February. By May, they'd raised more than $150,000, which will cover court program costs from October to mid-November.

Continue reading.

CITY LAB

VIRGINIA PELLEY

SEP 15, 2017

What Amazon's HQ2 Wish List Signals About the Future of Cities.

Amazon's big announcement that it will build a second headquarters has caught the attention of local officials, economic development professionals, and pundits across the U.S. and Canada. And for good reason: "HQ2," as it's being called, would create upwards of 50,000 high-paying jobs and billions of dollars of new investment in whichever city it locates in. The city that lands this historic deal will see its economic and physical landscape transformed, albeit for a hefty price tag in the form of tax breaks.

Thus far, public attention has largely focused on two aspects of Amazon's announcement: Speculation about which of the 50 eligible North American metropolitan areas are most likely to be chosen for HQ2, and how much public subsidy the winning city will offer the world's 4th-largest

corporation to seal the deal.

But this announcement carries far more profound implications for regional and local economic developers, Amazon HQ2 hopefuls or not. Amazon's selection criteria, as described in the company's request for proposal, sets out a compelling list of the attributes cities must have if they aspire to be a serious part of the America's growing digital economy.

Continue reading.

Harvard Business Review

by Amy Liu & Mark Muro

September 08, 2017

Some Good News May Be Getting Off the Ground in Washington D.C.

Kroll Bond Rating Agency (KBRA) published a special report today that examines the impact of the U.S. Senate's proposed FY 2018 spending plan on America's airports. The current bill raises the cap on U.S. airports' Passenger Facility Charge (PFC) rate to $8.50 from $4.50 on non-connecting flights. The Senate spending measure also proposes to expand the overall Airport Improvement Program (AIP) grant funding to $3.6 billion from $3.35 billion where it's been stuck since 2012.

The Senate plan would require the thirty largest airports by passenger activity to give up their federal Airport Improvement Program (AIP) entitlement grants if they decide to exercise the right to raise the PFC above $4.50. KBRA estimates that the net effect of giving up the AIP entitlement grant and lifting the local airport PFC could bring more than $6.3 billion of new investment dollars to these airports over the next five years. The FAA will also be able to reallocate the freed up AIP entitlement grant dollars toward other airports' infrastructure needs across the country. So, as written, the Senate spending measure is a win-win for both the largest and for many smaller airports.

If the incremental PFC revenues are committed to funding proposed capital projects, KBRA estimates that at least nine large hub airports could have 25 percent or more of their currently projected five-year capital needs covered by the new PFC revenues.

To access the full report, please click on the link below:

Some Good News May Be Getting Off the Ground in Washington D.C.

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com

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KBRA Releases Methodology for Rating U.S. Third Party Liquidity Facility-Supported Variable Rate Demand Obligations and Commercial Paper.

Kroll Bond Rating Agency (KBRA) announces the release of the methodology for rating U.S. third party liquidity facility-supported variable rate demand obligations and commercial paper.

The methodology describes the major factors that KBRA considers when assigning a rating to these state and local government-issued obligations. In these instances, an external third party (commercial bank or other financial institution) provides a conditional liquidity facility to support the demand feature (optional or mandatory tender) or CP roll-over.

Please click on the link below to access the full report:

U.S. Third Party Liquidity Facility-Supported Variable Rate Demand Obligations and Commercial Paper Rating Methodology

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com.

In the Municipal Market, Green Is the New Black: Fidelity White Paper

Liz Hanify, VP & Manager of Municipal Finance, and Christine LaFrance, Associate, explore the use and considerations related to “Green Bonds” in the municipal marketplace.

Read the White Paper.

Neighborly, Court Street Group Launch Commentary Service.

PHOENIX – Neighborly and Court Street Group have formed a joint commentary service focusing on public infrastructure, socially positive investments and municipal bonds.

The San Francisco-headquartered broker-dealer and the Brooklyn-based consulting group announced the new product, Neighborly Insights, Monday after quietly debuting it earlier this month. The new information platform, featuring commentary from the professionals of both companies, is available for free through Neighborly’s website. The goal of the new venture is to provide to retail investors the kind of analysis that is traditionally mainly available through subscription services.

“Our mission at Neighborly is to provide a better way for individuals to invest directly in the civic projects they care about,” said Jase Wilson, Neighborly’s chief executive officer. “Through our new Insights platform, potential investors are now able to easily find valuable information about the municipal bond market, which will lead to a better understanding of the space, as well as better investments and borrowing decisions.”

Neighborly Insights will feature weekly market commentary and news on federal legislation and policy, a focus on some specific credits, and news tailored for bond issuers.

“I am excited to distribute our industry-leading commentary on the municipal market, policy out of Washington, D.C. and the technological change that awaits the industry,” said Court Street managing partner George Friedlander. “In all of my more than 40 years of experience as a leading strategist in the municipal space, it’s refreshing to have the independence and broad reach through Neighborly to give insightful commentary to market participants, small to large. We hope that you find our reports valuable to your business and know that we are ever-evolving to explore new topics

that will affect issuers, investors and policymakers alike."

BY SOURCEMEDIA | MUNICIPAL | 09/11/17 07:02 PM EDT

By Kyle Glazier

Munis Adapting to E-Trading, But Slowly.

Municipal bonds still lag behind corporates in electronic trading, two years after a prod from the Municipal Securities Rulemaking Board to take advantage of the technology to meet best price, execution, transparency, and liquidity goals. However, muni pros said the movement is still new and could gain in momentum soon.

"You have a lot of people in this industry who have gotten used to doing things the same way for decades now and it's hard to get some of them to change their mind about how they do business," said Robert Novembre, chief executive officer and president of Clarity Bidrate Alternative Trading System, a division of Arbor Research & Trading LLC which won its first municipal deal last year. That's "the challenge that we face each day, and we do our best to fulfill our mission one step at a time," he said.

Continue reading.

The Bond Buyer

By Aaron Weitzman & Christine Albano

September 05 2017, 10:53am EDT

U.S. Conference of Mayors Adopts Recommended National Energy Infrastructure Actions — "The New Bedford Principles"

Washington, DC—Today as part of a two-day national mayors' summit on smart cities and new energy technologies, sponsored by The United States Conference of Mayors (USCM) and hosted by USCM's Energy Chair New Bedford Mayor Jon Mitchell, mayors developed "The New Bedford Principles," a six-point energy recommendation to be included in the USCM National Infrastructure plan that will be presented to the nation by USCM President New Orleans Mayor Mitch Landrieu later this year.

The six principles include recommendations for tax reform and tax laws as well as infrastructure legislation.

The principles are:

1. Seek an energy-friendly tax reform package that doesn't undermine current progress:
2. Keep tax-exemption on municipal bonds
3. Keep state and local tax deductibility
4. Preserve and extend tax credits and other incentives to support renewable energy
5. Authorize additional tax and other incentives to promote more investment in microgrids,

distributed generation, and storage systems.
6. Direct funding to support the development of local energy assurance plans to advance local resiliency efforts, especially those to combat climatic events.
7. Direct funding to municipal utilities or tax incentives to investor-owned utilities to modernize local grids, including microgrids, to increase resilience to climatic events.
8. Direct funding to support local energy block grants to support city energy independence goals
9. Restore federal challenge grants to incentivize smart grid efforts.

"Conference President New Orleans Mayor Mitch Landrieu called for an infrastructure proposal that includes not just roads, airports, and bridges – but to include water, ports, energy infrastructure," said Tom Cochran, USCM CEO and Executive Director. "Today here in New Bedford to answer the call of our President Mitch Landrieu, we have come forth with six points of energy recommendations to be included in our national infrastructure proposal that we hope to push forward after Congress gets tax reform behind them."

Executive Order Set To Expedite Permitting And Authorization Of Infrastructure Projects: Miles & Stockbridge

During the campaign and thus far in the current administration, the President has prioritized the modernization of the Nation's infrastructure and promised a $1 trillion investment plan to help fund that vision. There is rare bipartisan support in Congress for such a measure, as many agree that our roads, bridges, tunnels, railways, airports, energy, and water systems are in need of repair and replacement.

Although no legislation has been proposed to fund such projects, last week the President signed an Executive Order that may lead to a more efficient and effective permitting and authorization process and is viewed by many in Congress as a step toward the introduction of a long-awaited infrastructure funding package.

Executive Order "Establishing Discipline and Accountability in the Environmental Review and Permitting Process for Infrastructure"

The President's Executive Order streamlines the permitting process for infrastructure projects, such as transportation and water systems, by easing several environmental rules, regulations, and policies. The Executive Order states that it will "ensure that the Federal environmental review and permitting process for infrastructure projects is coordinated, predictable, and transparent." You can read the full Executive Order here, but we highlight the critical provisions below. Executive Order highlights:

Continue reading.

Article by Van P. Hilderbrand Jr and Christopher S. Denny

Last Updated: September 5 2017

Miles & Stockbridge

Trump Administration Hosts Forum on State-Federal Relations.

WASHINGTON — State officials from around the U.S. met here Wednesday with senior members of the Trump administration to discuss intergovernmental affairs.

Officials from 44 states and four territories attended the event—chiefs of staff, deputy chiefs of staff and policy directors among them. There were no governors at the meeting, which the White House dubbed a "forum on state and federal relations."

Doug Hoelscher, a deputy director of intergovernmental affairs for the Trump administration, served as a point person for the event.

Energy Secretary Rick Perry, Health and Human Services Secretary Tom Price, Office of Management and Budget Director Mick Mulvaney, and Linda McMahon, who leads the Small Business Administration, were on hand and spoke about White House initiatives and priorities.

Anna Davis, director of the Office of Government Relations at the National Governors Association, attended the event.

"They clearly talked about that the federal government does have a role, but really decisions need to be made at the state level to the extent possible," Davis said as she characterized the comments administration officials made at the forum.

"It was an opportunity for them to discuss how they think they have been successful in that and how they want to engage governors further," she added.

Some of the specific policy areas brought up at the meeting included hurricane response and infrastructure.

Davis wasn't aware of any significant new information that was shared yesterday about the Trump administration's pending infrastructure investment plan, or the timeline for releasing it.

But she did say DJ Gribbin, an assistant to the president who is helping spearhead the administration's infrastructure efforts, made clear in his remarks "rural infrastructure is different."

"He was saying how the money that can be saved from having P3s in appropriate urban settings…can be used to help in the rural areas," Davis said, using an abbreviation for public-private partnerships.

About two weeks ago, state and local leaders visited the nation's capital to discuss the still-emerging White House infrastructure investment plan with administration officials.

Davis said she did not hear the income tax exemption for interest earned on municipal bonds come up Wednesday. Many state and local leaders are concerned about preserving the exemption as Republican members of Congress and Trump push to overhaul the U.S. tax code.

Staff members from the offices of House Speaker Paul Ryan, Senate Majority Leader Mitch McConnell and U.S. Rep. Rob Bishop also participated in the forum. Bishop, a Utah Republican, is currently leading a House task force on intergovernmental affairs.

White House press staff did not respond Thursday to requests for a list of the forum's attendees.

The meeting kicked off around noon and lasted until early evening. It was held at the Eisenhower Executive Office Building, which is located just west of the White House.

“The people that were there on both sides,” Davis said, “both Republican and Democratic governors’ staff, I think, appreciated the thought and effort that went into pulling it together.”

ROUTE FIFTY

by Bill Lucia

September 14, 2017

Bill Lucia is a Senior Reporter for Government Executive’s Route Fifty and is based in Washington, D.C.

GOP Lawmaker Calls For Audit Of Shadowy Wisconsin Bond Agency.

[Madison, Wis…] State Rep. Scott Allen (R-Waukesha) voted against his party’s budget Wednesday for one reason: he couldn’t support a measure that greatly expands the power of the Public Finance Authority – a shadowy, Wisconsin-based agency that he believes has done little to benefit Wisconsin.

Allen tells MacIver News Service that not only is he opposed to giving more authority to the Public Finance Authority, he will issue a memorandum to Assembly Speaker Robin Vos and the Joint Legislative Audit Committee seeking an audit of the PFA.

“I am voting against the budget, an otherwise good budget, because good government is more important than a good budget,” Allen said in an interview Wednesday with MacIver News Service. “This should not be in the budget in my estimation.”

As MacIver News first reported this week, the PFA is involved in some questionable investments around the country.

Allen’s biggest concern, however, is that the Finance Authority, a political subdivision of Wisconsin, has done so little for the Badger State. Just 1.9 percent of the total bond debt issued by the PFA has been for Wisconsin projects, Allen said.

“I had representatives of the PFA in my office this morning and I asked them what is the public purpose of the PFA, and with a little hemming and hawing I got, ‘Well, economic development.’ Okay, great, let’s examine the record.”

The bond broker was ostensibly formed by four Wisconsin counties and the city of Lancaster. The Legislature in 2009 unanimously passed the law that created the PFA. It launched the following year. Its purpose: finding investors for tax-exempt and taxable “conduit bonds” for so-called “public benefit projects.”

What is the public benefit of a Wisconsin organization that has done very little development in Wisconsin? It would seem very little, Allen said. Out of the scores of projects that the Finance Authority has issued bonds for, only two were located within the jurisdictions of the founding Wisconsin local governments, according to the lawmaker.

The PFA has been busy elsewhere. Earlier this year, it issued more than $1 billion in bonds for a 2.9

million square-foot shopping mall in East Rutherford, N.J., known as American Dream Meadowlands. The commerce monstrosity is to include an indoor ski slope and water and amusement rides in the mix of high-end retail.

Last month, Bloomberg reported that Goodwill Industries of Southern Nevada, which runs 50 donation centers and retail stores in Las Vegas, filed for bankruptcy 20 months after issuing $22 million of municipal bonds. The nonprofit issued the debt through the Public Finance Authority, which specializes in serving as a conduit for risky debt.

The PFA is one of more than a dozen third-party bond issuers doing business in the U.S.

“The authority, however, is uniquely lax in its filing requirements and has shown a tendency to issue bonds for projects outside its state when conduits there will not,” Debtwire reported.

Despite its critics, the majority of PFA-connected bonds are performing, according to Debtwire’s breakdown of Bloomberg data. In 2016, the issuer posted a record year of $1.79 billion in bonds issued.

Allen said he’s not going to scrutinize every PFA investment, but he is bothered that the broker has done so much business outside the state that effectively created it.

“If the Wisconsin Legislature is going to act to create or expand the powers of a financing authority whose purpose or mission is economic development, the economic development ought to be occurring in Wisconsin,” the lawmaker said. “Or there ought to be tangible benefits to the citizens and taxpayers of the state of Wisconsin or we shouldn’t be doing it.”

There are tangible benefits to PFA’s founders and sponsors, the National Association of Counties, the League of Cities, the Wisconsin Counties Association, and the League of Wisconsin Municipalities.

Allen said PFA officials provided him a document showing the founding members and the sponsoring organizations help promote the authority’s economic development efforts. For those services, they receive compensation. PFA officials would not disclose how much compensation.

Mark D. O’Connell, executive director of the Wisconsin Counties Association, did not return calls from MacIver News seeking comment. Jerry Deschane, executive director for the League of Wisconsin Municipalities, referred all questions to O’Connell.

“There’s more to this than I have had time to investigate. That’s why I’m calling for the audit because I think it deserves investigation. It deserves scrutiny before we consider expanding its powers,” Allen said.

One of the powers sought in the legislation is the force of eminent domain – the ability of governments to take private property for public use in return for “just compensation” to the owner. Specifically, the provision would authorize “eminent domain to a commission created by contract under current law governing intergovernmental cooperation among Wisconsin entities that are acting under the provision of PFA statute.” That would be the commission that oversees the PFA.

PFA directors have pledged to legislators that the Finance Authority would never actually use the power. Eminent domain is just a tool among a handful of IRS requirements needed to unlock PFA access to new market tax credits and receive tax-free financing status.

“They are giving this quasi-public, shadowy organization the power of eminent domain?” said Eric

Bott, state director of the Wisconsin chapter of Americans for Prosperity. The libertarian organization has voiced its opposition to the Finance Authority legislation, asking Gov. Scott Walker to veto it, if it survives legislative debate.

Allen said the IRS is challenging the PFA's local government status, "and appropriately so." They need to have either the power to tax, policing power or the power of eminent domain authority. There's no specific language in the state statute that requires that, hence the move to change the law, Allen said.

"I don't know whether they have had the authority or whether they are trying to clean up the language to represent their authority," the legislator said. "Either way, it should not be in the budget and we should not be expanding their authority until we do a careful review of their processes and their mission and purpose."

Proponents of the modifications to Wisconsin's PFA statute say they provide greater transparency. The provisions do so by requiring quarterly bond activity reports to the state Department of Administration and the Legislative Audit Bureau. And the commission that oversees the Finance Authority would be considered an "authority" as defined under Wisconsin's open records law, which means it would be subject to the law. It also would be subject to Wisconsin's open meetings law.

In 2011, a year after its creation, the PFA branched out nationwide.

"The (PFA) partners with private borrowers and local governments to provide tax-exempt financing for public benefit projects that create temporary and permanent jobs, affordable housing, community infrastructure and improve the overall quality of life in local communities," according to the organization's website.

Traditional fees associated with securing tax-exempt financing are too often cost prohibitive, particularly for small projects. By "standardizing and streamlining the entire process," PFA claims it can save local governments and nonprofits money. More important, PFA asserts its Wisconsin Small Bond Program can move from application to approval and issuance in "as little as six weeks."

"The (PFA) is out there to create an alternative at a time when communities are really struggling to generate economic activity," Liz Stephens, Finance Authority program manager, told the Bond Buyer investor newspaper in 2011. "Access to capital is really difficult, and the PFA is there to provide another tool and resource to help local governments."

In a press release explaining his no vote on the budget, Allen described the PFA legislation as the "ugly" in the two-year state spending plan.

"What is ugly about this budget is that rather than curbing the authority of this so-called political subdivision the budget, in a non-fiscal item, greatly expands the authority and works to remedy PFA's problems with the Internal Revenue Service," the lawmaker said. "The obscure provision of the budget has been largely undetected by the public or by legislators. It has gained no attention, no debate, and no public scrutiny. It is yet another example of the need for budget transparency."

MacIver News Service

By M.D. Kittle

September 13, 2017

AFP-WI to Lawmakers: Wisconsin Should Not Empower Shadowy Public Finance Authority.

Stealth Motion Gives WI Public Finance Authority Eminent Domain Authority, Expanded Powers to Engage in Foreign Economic Development

MADISON, WI – Americans for Prosperity-Wisconsin today urged lawmakers in the strongest possible terms to reject an 11th hour proposal to give sweeping new powers to the Wisconsin Public Finance Authority (PFA), an obscure, quasi-governmental agency that issues high risk bonds for government and non-profit construction projects. The motion was inserted into the budget after closed door meetings with no public discussion. Unanswered questions abound about the implications of giving the PFA vast new powers including eminent domain and an expanded ability to issue bonds for economic development projects in foreign countries.

Americans for Prosperity-Wisconsin State Director Eric Bott made the following statement:

"There's something rotten in Madison today. This kind of legislative chicanery would make Tony Soprano proud but should outrage taxpayers. Our base of 130,000 grassroots activists is deeply troubled by the vast, unchecked, and undemocratic powers given to the PFA in this budget. They are also disturbed by the sneaky procedural tricks used to slip this motion into the budget with no public debate and countless unanswered questions. Our activists will be working around the clock for the next 48 hours to urge lawmakers stop this motion until some key questions are answered. If it should survive legislative debate in its current form, we will be urging Governor Walker to exercise his veto authority.

Bott continued:

"Wisconsinites have much to lose and nothing to gain by further empowering an entity best known for putting Wisconsin's reputation on the line through dubious, high-risk, out-of-state construction projects like a $1.2 billion bond for a New Jersey shopping mall and a $327 million bond for the University of Kansas campus. This motion invites further suspicion and concern about how it was slipped into the budget in the first place. Someone is trying to pull a scam on Wisconsin taxpayers and property owners and AFP-WI will not rest until we know why this is being done and which individuals or groups are doing it."

Bott added that AFP-WI is demanding that Assembly and Senate leadership provide public answers to the following key questions before any further legislative action takes place:

– Why does the legislature want to expand the PFA's ability to engage in economic development in foreign countries like China or Mexico?

-Why is the legislature seeking to subvert democracy in other states by financing development projects opposed by local officials in those states?

-Why is a so-called conservative majority in the legislature proposing to grant unprecedented new eminent domain authority to a shadow authority?

-Why are conservatives in the legislature going to bat for an organization that reportedly operates out of California, especially when nearly all jobs, profits, and tax revenues associated with the PFA appear to be bled out of Wisconsin and sent to California?

-Who is getting rich off the PFA and why is the legislature helping them get richer when there is little-to-no public benefit to the citizens of Wisconsin?

-Why were the PFA provisions added to the budget under the cloak of darkness without any public debate or discussion what-so-ever?

-Who is the author of the PFA motion? Who asked to put this in the budget?

-What is the public benefit of the PFA to Wisconsin citizens?

-Why is Wisconsin taking on this kind of unnecessary risk with its financial reputation? PFA is viewed by some in the market as a Wisconsin governmental issuer of bonds. Any problems they have will negatively impact the market's view of bonds issued by Wisconsin.

BACKGROUND:

PFA sought a similar but less dramatic expansion of its power through a budget motion inserted into the 2015-17 state budget. Governor Walker vetoed the provision in its entirety, stating:

I am vetoing this provision because I object to broadening the powers of [PFA] and do not support the decreases in accountability that would result from enacting this provision or the loss of local control and loss of state tax revenue. Such sweeping changes to current law decrease transparency and could create unintended consequences, the full extent of which are unknown.

The PFA's involvement in shady projects has been well-documented in recent years.

AMERICAN FOR PROSPERITY

SEP 13, 2017

H.R. 601 Extends EB-5 Program and Provides $15.25B of Disaster Relief Funds: Ballard Spahr

President Trump has signed into law H.R. 601, a continuing resolution that funds the federal government through December 8, 2017, and thereby extends the EB-5 Regional Center Program beyond September 30, 2017—the end of the federal fiscal year.

The resolution—Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017—provides $15.25 billion in emergency funding for the Departments of Homeland Security, Housing and Urban Development, and Small Business Administration to support disaster response and assistance. With the President's September 8 signing, the Act also temporarily suspends the country's debt limit, among other provisions.

The EB-5 Regional Center Program extension comes with no further legislative changes at this time, though passage of an EB-5 reform bill before December 8 is possible. Indeed, H.R. 601 arguably hints at the possibility of legislative reform before its next sunset date in language that states, in part, that "appropriations and funds made available and authority granted pursuant to this Act shall be available until whichever of the following first occurs:

- The enactment into law of an appropriation for any project or activity provided for in this Act;

- The enactment into law of the applicable appropriations Act for fiscal year 2018 without any provision for such project or activity; or
- December 8, 2017."

Ballard Spahr will provide updates on these developments.

USCIS Issues Form I-924A Filing Tips. Also on September 8, 2017, the U.S. Citizenship and Immigration Services (USCIS) issued updated filing tips on its "Annual Reporting Information/Filing Tips" page in preparation for regional center annual compliance by issuing Form I-924A, Annual Certification of Regional Center.

One filing tip of note is the inclusion of supplemental materials to the I-924A. Supplemental documents would be of optimal advantage in any year in which the regional center is overdue to show indicia of economic activity promotion in the center's geographic area, and thus at risk of receiving a Notice of Intent to Terminate (NOIT). USCIS issues a NOIT when a regional center appears not to have promoted economic growth, demonstrated typically by a lack of I-526 filings (or systemic I-526 denials). Supporting documents could include records on pending projects with fundraising underway or imminent. Examples include copies of licenses, permits, record of property purchased in support of a project, or other evidence of ongoing regional center activity. The decision on whether such evidence is sufficient to demonstrate promotion of economic growth is made by USCIS on a case-by-case basis.

The deadline to file a Form I-924A is December 29, 2017, for the current fiscal year (October 1, 2016 to September 30, 2017).

USCIS Stakeholder Meeting. Please mark your calendars for USCIS's next EB-5 Program national meeting of stakeholders on Tuesday, November 7, 2017, from 1 p.m. to 2:30 p.m. ET, at the agency's New York City field office. Participants can attend the meeting in person or through teleconferencing, with the opportunity to send questions in advance to be answered during the meeting. Information on how to dial in will be made available as the date nears.

Ballard Spahr's EB-5 Group brings together attorneys experienced in securities, private equity, business and finance, real estate, tax credits, and corporate law to assist clients with utilizing the EB-5 Program to accomplish their goals. The EB-5 Program has led to more than $15 billion of foreign investment in the United States and more than 220,000 jobs.

Ballard Spahr's Securities Group advises private and public companies, underwriters, selling stockholders, and officers and directors, as well as private equity funds, venture capital firms, and institutional investors in compliance matters, capital-raising activities, and other transactions.

September 13, 2017

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are urged to consult your own attorney concerning your situation and specific legal questions you have.

Risk Expert Says There's One Budgeting Question Every City Must Now Ask.

Michael Berkowitz is no stranger to natural disaster, having responded to a West Nile Fever outbreak, tropical storm and major flooding as a deputy commissioner at the Office of Emergency Management in New York City. Today, as president of the Rockefeller Foundation's 100 Resilient Cities initiative, Berkowitz continues to help cities prepare for and respond to these types of disasters. He has led 100 RC since its founding in 2013. With a network of 100 selected cities across the globe, the program aims to better address the increasing "shocks" — sudden natural disasters like hurricanes, earthquakes and floods — and "stresses" — slow-burning crises like homelessness and water shortages — of the 21st century. 100 RC announced its final cohort of 37 cities last summer, and more than 50 cities, including non-participating cities, have appointed "chief resilience officers" in recent years.

I spoke with Berkowitz on Thursday, while he was in Athens, Greece, meeting with mayors, about a smart recovery strategy post-hurricanes Harvey and Irma, how chief resilience officers can leverage their small budgets to effect change, and projects he admires from New Orleans to Paris to Rotterdam and beyond.

Continue reading.

NEXT CITY

BY KELSEY E. THOMAS | SEPTEMBER 15, 2017

Force Majeure and Similar Considerations for the Energy Industry in the Aftermath of Hurricane Harvey: Mayer Brown

As an initial matter, Mayer Brown offers its greatest sympathies to those affected by Hurricane Harvey. Mayer Brown has been a member of the Houston community for more than 30 years and is deeply committed to helping Houston rebuild.

At this point, it is impossible to assess the full impact of the devastation caused by Hurricane Harvey. However, we can predict that it will have wide-ranging effects on the ability of some members of the energy industry to fully perform contracts—from production, to transport, to the provision of oil- and gas-related goods and services. It is common knowledge that some of the largest oil and gas production operations and refining facilities in the United States were forced to shut in or shut down as a result of the hurricane. What is less obvious—so far—is how many ongoing contracts are likely to be unfulfilled as a result of the shutdowns and what the domino effect will be. It is also unclear how many other companies—including providers of goods and services—will be unable to perform their contracts because of the physical destruction and ongoing infrastructure issues caused by the hurricane and its aftermath. It is predictable, for instance, that manufacturing facilities that have suffered flood damage will suffer both loss of product and loss of or damage to the equipment necessary to manufacture more product quickly.

In short, the energy industry is likely to experience a rise in contract disputes across a range of Hurricane Harvey-related situations that will trigger force majeure or similar concerns, as occurred in the aftermath of Hurricane Katrina and Hurricane Ike. Force majeure concerns are likely to arise from, among other situations, production shutdowns as a result of the hurricane and subsequent flooding; flooding or other damage to the premises of goods and services providers, resulting in delayed or non-delivery of goods; and potential government actions. Of course, every instance of delayed, partial or non-performance by one party is likely to have a detrimental effect on others in the energy value chain.

Force majeure, and the related doctrines of impossibility and/or commercial impracticability, may be viable defenses to failure to perform a contract where the failure to perform is caused by a natural disaster. It is typical for a commercial contract to contain a force majeure clause. Where a contract contains a force majeure clause, under Texas law, the terms of the contractual force majeure clause, as opposed to any common-law definition, generally control the breadth of the defense. See, e.g., *Virginia Power En. Mktg., Inc. v. Apache Corp.*, 297 S.W.3d 397, 402 (Tex. App.—Houston [14th Dist.] 2009, pet. denied) ("The scope and effect of a 'force majeure' clause depends on the specific contract language, and not on any traditional definition of the term.").

Most contractual force majeure clauses cover "acts of god," such as hurricane, flood, other severe weather events, war, terrorist attacks or similar occurrences. Every force majeure clause is different, and the precise language of the clause should be the first consideration when assessing what to do if a company finds itself potentially unable to perform a contract in the wake of a weather event like Hurricane Harvey. Some force majeure clauses will add a specific requirement that the event be "unforeseeable," while others are drawn more broadly (although a court interpreting the provision may still read an unforseeability requirement into the contract). See, e.g., *Valero Transmission Co. v. Mitchell Energy Corp.*, 743 S.W.2d 658, 663 (Tex. App.—Houston [1st Dist.] 1987, no writ); *Hydrocarbon Mgmt., Inc. v. Tracker Expl., Inc.,* 861 S.W.2d 427 (Tex. App.—Amarillo 1993, no writ). Force majeure clauses frequently require the non-performing party to take reasonable steps to minimize delay or damages caused by the force majeure event. The force majeure clause may also require the party claiming force majeure to provide notice to the other contracting party, often by a certain method (for instance, in writing), and possibly within a certain period of time. Close attention should be paid to any such requirements.

Even if there is no force majeure clause in the contract, depending on the jurisdiction, common-law doctrines that are the functional equivalent of a force majeure clause may provide a defense to performance. For example, in Texas, impossibility is recognized as a defense to contract performance. Pertinent to the post-Harvey situation, this defense may be applied where the thing necessary for performance has been destroyed or deteriorated and where the action is prevented by government regulation. See, e.g., *Key Energy Servs., Inc. v. Eustace*, 290 S.W.3d 332, 340 (Tex. App.—Eastland 2009, no pet.). The impossibility defense may also be referred to as a force majeure defense or a "commercial impracticability" defense. Regardless of the nomenclature used by the parties and the court, at common law, a situation approaching true impossibility—as opposed to mere impracticability or inconvenience (such as financial inconvenience)—will typically be required for this defense to be successful.

Similar defenses are recognized across much of the world, which (depending on choice of law issues) may be pertinent when inability to perform is implicated in a transnational contractual relationship. For example, the United Nations Convention on Contracts for the International Sale of Goods (CISG), which applies to certain commercial transactions between parties who are citizens of signatory states, provides that a "party is not liable for a failure to perform any of his obligations if he proves that the failure was due to an impediment beyond his control and that he could not

reasonably be expected to have taken the impediment into account at the time of the conclusion of the contract or to have avoided or overcome it or its consequences." CISG Art. 79(1). Like a typical force majeure provision, the CISG also includes requirements for proper remedial actions and notice to the other party.

Ultimately, whether a force majeure or a similar doctrine will excuse performance is likely to turn on whether the party claiming force majeure could reasonably have avoided either the causal situation or non-performance. Whether the event was foreseeable is one element of this inquiry, but it is not necessarily determinative. For instance, if an unforeseeable event were to cause a contract to become more expensive to perform (but not impossible), a force majeure defense is likely to be challenging to prove. See, e.g., *Valero Transmission Co. v. Mitchell Energy Corp.,* 743 S.W.2d 658, 663 (Tex. App.—Houston [1st Dist.] 1987, no writ) ("[A] contractual obligation cannot be avoided simply because performance has become more economically burdensome than a party anticipated.").

It is best practice for a party considering asserting force majeure to analyze and evaluate whether there are alternatives that would make partial performance possible. Good faith and honest communications with the other party(ies) to the contract are key. It is generally advisable for the non-performing party to retain any written communications detailing the efforts taken to perform; this evidence may become important in defending any resulting breach of contract action. A non-performing party should also be careful about industry perception: performing one's most lucrative contracts, while not performing the less lucrative ones on the basis of a force majeure event, may result in negative visibility if such "most favored nation" status is not part of the underlying contractual relationship(s). While none of these issues alone may be dispositive, they may have a practical effect on the outcome of any resulting disputes.

In sum, if Hurricane Harvey and its aftermath appear to have made performance of a contract impossible, consulting the relevant contract(s) for any governing force majeure language should be the first step. Alternative means of performance, even if difficult, should also be thoroughly considered. Communication with the other contracting party(ies) is key and should be done in as timely a manner as possible. And finally, if the ultimate determination is that performance is not possible due to a force majeure event, notice should be provided to the other party(ies) in the time and manner required by the contract and/or governing law.

Last Updated: September 7 2017

Article by Jessica Crutcher, Micheal P. Lennon Jr. and Charles S. Kelley

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Catastrophe Bonds Avoid Direct Hit From Hurricane Irma.

Recent events appear likely to affect only a few, if any, of the outstanding $26 billion

What looked like a dark turn in the booming market for catastrophe bonds may wind up being little more than a blip.

With damage estimates for Hurricane Irma tumbling, investors in “cat bonds” will likely avoid the significant losses they may have absorbed had earlier, more aggressive estimates borne out.

Cat bonds are essentially a vehicle for insurance companies to transfer some of their financial risk to the global capital markets. Wall Street and other middlemen help insurers sell these bonds to sophisticated investors with the understanding that they could lose some or all of their principal to help pay claims.

These high-yielding bonds have surged in popularity in recent years among investors including pension funds, endowments and wealthy families. The rally has also come during a long stretch of few hurricanes hitting the U.S.

So the past couple of weeks have tested investor appetite as North America suffered three of its worst natural disasters in a decade. Private-sector insurers face as much as about $60 billion in costs in the U.S. from Hurricane Irma, which landed in Florida Sunday, Hurricane Harvey with historic flooding in Houston, and an 8.1-magnitude earthquake in Mexico, according to some risk-modeling firms’ estimates.

But these events appear likely to affect only a few, if any, of the outstanding $26 billion in cat bonds.

The spate of catastrophes “may cause some investors to rethink their positions in the market” and expect a higher rate of return, said Gary Martucci, a director at Standard & Poor’s Global Ratings. But “these bonds are generally two to three times oversubscribed, so even if a few investors walk, there’s still sufficient capital available to buy the risk that is being offered in the market.”

Hurricane Irma made landfall in the Florida Keys early Sunday, then moved up the state’s west coast. Even at the upper end of Monday’s projections of roughly $40 billion of damage, the storm is well below the $130 billion mark that put cat-bond investors on edge last week as Irma barreled across the Caribbean and seemed destined to strike Miami.

Mr. Martucci said he doesn’t expect any of the cat bonds rated by S&P, representing a slice of those outstanding, to suffer a principal reduction based on the current $40 billion upper-end damage estimate.

Many insurance executives and cat-bond promoters are gathered in Monte Carlo for one of the biggest annual industry confabs. As the conference began over the weekend, attendees said they were getting frequent updates on the storm's trajectory from various sources, and using smartphones to stay on top of the U.S. National Hurricane Center's forecasts of Irma's strength.

Which cat bonds might suffer, and how much will have to be paid out, will become clearer in coming days as the industry tallies up actual losses.

"There is a mountain of alternative capital on the sidelines that will be available to be deployed if the insured loss from Irma results in significantly higher expected returns for cat bonds," Tony Ursano, president of TigerRisk Partners LLC, a risk and capital adviser to insurers and reinsurers, said from the conference.

In simplest terms, a catastrophe bond works like this: An investor buys the bond, taking into account a calculation by an independent risk-modeling firm of the odds of a specified disaster occurring. The principal and interest are held in escrow and typically invested in Treasurys.

These bonds are typically sold in tranches, each with a different trigger. Triggers vary across the bonds. Some specify a deductible amount that an insurer must pay before tapping into the principal, while others are based on metrics tied to a weather event. Some are tied to a single event, while others reference damage accumulated over designated periods.

Florida hurricane risk is so large that around half of the $26 billion in outstanding cat bonds include that as a risk exposure. Bonds also cover other types of storms, wildfires, meteorite strikes and even solar flares among a growing array of choices for investors. In return for their investment, owners of the bonds are paid interest rates higher than conventional bonds for taking on the risk.

Aon Benfield's U.S. hurricane bond index had an 8.7% average annual return over the past 10 years, compared with a 6.9% average over the decade for high-yield bonds. But cat bonds returned less over the 12 months through June 30: 6.4% compared with 7.9% for the high-yield index.

Over the years, investors have lost some principal and as Irma barreled toward the U.S. last week, S&P said at the time that 13 cat bonds it rates totaling $1.35 billion could be at risk.

These included $250 million in a class of notes issued in 2014 by Kilimanjaro Re Ltd., an entity affiliated with the reinsurer Everest Re. Payouts from the bond would be made to Everest if insured industry losses in Florida exceed $68 billion, a figure that now seems unlikely.

Last week in thin trading on a secondary market, part of a series of bonds tied to Florida-focused Heritage Insurance Holdings traded as low as about 50 cents on the dollar before recovering to 68 cents, market participants said.

But as estimates of the insurance industry's costs fell Monday, "the cat-bond market has basically recovered," said Dirk Lohmann, chief executive of Switzerland-based insurance advisory Secquaero Advisors AG. Mr. Lohmann was among the pioneers of cat bonds in the early 1990s. "There will be some isolated hits" but not widespread loss of principal, he said.

For insurers, the growth of cat bonds has given them an alternative to traditional reinsurance, in which they pay other insurance companies to take responsibility for some of their claims. Many like that the bonds have increased price competition with reinsurers and make them less dependent on those reinsurers.

The bonds were born in the 1990s, when Mr. Lohmann and other then-colleagues at Hannover Re in

Germany were inspired to turn to the capital markets after Hurricane Andrew hurt many insurers' capital bases. That hurricane, which cut across southern Florida in 1992, counts as the second costliest U.S. storm, behind Katrina in 2005.The securities took off after the 2008 financial crisis because investors were attracted to their relatively high returns and to the fact that their performance was uncorrelated to market swings.

A record $11.3 billion of new cat bonds were issued in the 12 months through June, according to Aon Securities. Cat bonds and other "alternative" reinsurance investments collectively stand at roughly $90 billion, or about 15% of the $605 billion in capital within the global reinsurance industry, according to Aon.

By Leslie Scism and Anupreeta Das

Updated Sept. 11, 2017 10:04 p.m. ET

The Wall Street Journal

After Disaster Strikes, Munis Often Provide New Capital.

It has been a devastating hurricane season so far, and our hearts go out to the people and places for whom Harvey and Irma will be storms of lasting significance.

The first order of the day is to help meet the immediate needs of those affected, and people from across the United States have helped save lives, shipped necessities, and donated to various agencies that provide assistance. In Texas and other areas hit by Harvey, homeowners and businesses are filing insurance claims, and adjusters are busy assessing damages, a daunting task in the country's fourth-largest city.

Longer-term solutions in Texas, Louisiana, Puerto Rico, the U.S. Virgin Islands, Florida and elsewhere will require significant financing: The federal government has already agreed to provide $15.3 billion in disaster aid and that amount will certainly rise as the damage caused by the hurricanes is fully assessed. According to The New York Times, federal disaster aid related to Hurricane Katrina totaled $110 billion, and the $15.3 billion allocated so far represents "the first installment."

Sources of revenue

States typically supplement federal aid with money that has been set aside in aptly named "rainy day funds" for these types of emergencies. The rainy day fund in Texas is officially known as the Economic Stabilization Fund and will likely be tapped. As of June 30, 2017, its balance totaled nearly $10 billion, according to a recent Bond Buyer article by William Glasgall, the director of state and local programs at the Volcker Alliance in New York. Allocations from this fund – the biggest rainy day fund in any state, according to the state's Office of the Comptroller – can be allocated for hurricane relief by a two-thirds vote of the Texas Legislature.

At some point, depending on the degree to which affected municipalities have to (or choose to) retrofit or replace critical infrastructure, or embark on a master plan to rebuild areas that were largely destroyed, the municipal bond market may eventually become a source of capital as well.

In recent history, various restrictions in the Internal Revenue Code of 1986 have been relaxed to

allow for special tax-exempt securities that could “foster economic recovery after natural disasters and other catastrophic events,” according to The Fundamentals of Municipal Bonds, a Securities Industry and Financial Markets Association reference book. As a result, the book explains, the U.S. Congress has occasionally authorized disaster recovery bonds: Gulf Opportunity Zone bonds were first sold in 2005 to help Alabama, Louisiana, Mississippi and other areas affected by Hurricane Katrina, and Midwest Disaster Area bonds were issued in 2008 to finance rebuilding efforts after severe storms, tornadoes and flooding occurred in seven Midwest states. A number of Texas and Louisiana counties that were damaged during Hurricane Ike were also eligible for financing from the 2008 issuance.

The relaxation of restrictions in the Internal Revenue Code of 1986 also helped New York City rebuild after 9/11. Non-rated Liberty Bonds were issued in 2005 by the NYC Industrial Development Agency to finance the completion of 7 World Trade Center, a skyscraper to replace one of the buildings that had been destroyed. By purchasing some of the $475 million in Liberty Bonds, which had coupons ranging from 6.25% to 6.75% and were backed by lease payments on the top 42 floors of 7 WTC, our team delivered shareholder value and something that we believe is equally important—the financing that helped rebuild a city that refused to be shattered by the events of that day.

Liberty Bonds and other bonds issued after natural disasters or catastrophic events, we believe, epitomize the essential character of the municipal bond market.

We believe similar bond structures may be created to help Texas, Louisiana, Puerto Rico, Florida and other areas rebuild, and we are confident that participating in this type of rebuilding will remain highly attractive to many municipal bond investors.

Market impact

Credit rating agencies have already begun to look at the bonds they rate to see if any of their assessments need to be adjusted. These agencies – S&P Global Ratings (S&P), Moody’s Investors Service and other Nationally Recognized Statistical Rating Organizations (NRSROs) – are focused on whether the securities issued by hospitals, toll roads and other issuers in the affected geographies still have the same credit quality after the storm as they did before it.

According to S&P, “There’s no question the hurricane’s devastation of the fourth-largest city in the U.S. could have a negative effect on the credit quality of various local government issuers, but it’s too soon to tell.”

While some credits may see downgrades if an NRSRO perceives a change in an issuer’s likelihood of maintaining its debt-service obligations, Moody’s notes that none of the municipal bonds it has rated has defaulted because of a natural disaster. Additionally, the number of credit upgrades issued by Moody’s one year after Katrina for bonds issued in the New Orleans region was greater than the number of downgrades issued in the hurricane’s wake, according to a report by RSM, which provides audit, tax and consulting services to the financial industry. RSM also reports that no natural-disaster-related defaults have occurred in at least 75 years. Some muni sales were postponed and some bonds experienced brief payment interruptions after Katrina hit, but those events were the result of logistical problems caused by flooding, not by changes in credit quality.

This track record goes a long way toward explaining why the muni market has remained calm amid the storms. Prices in the municipal market and among municipal securities issued in Texas have been rising overall during the third quarter, and Hurricane Harvey had little impact on the trajectory of either the Bloomberg Barclays Municipal Bond Index or its Texas component,

Bloomberg Barclays Municipal Bond Texas Exempt Index.1 The end of summer is generally a quiet time for munis, but the market's reaction to Hurricane Sandy, which struck late October 2012, was similarly muted.

The Handbook of Municipal Bonds, often referred to as Fabozzi – an homage to Frank J. Fabozzi, one of its editors – provides an example of an uninsured Bond Anticipation Note (a BAN) that was issued at par in New Orleans in late July 2005. The evaluation for this BAN was just above par on August 29, 2005, when Katrina made landfall in Louisiana. The evaluation was adjusted after the next trade, at $94.40 on September 21, and again on September 22, when it traded at $98.00. The BAN was subsequently traded actively and quoted, in large part thanks to the extra effort of its evaluator to keep the market apprised of the bond's status.

It is too soon to tell what will happen to the prices of muni bonds in areas affected by this year's hurricanes. Analysts at S&P have cautioned that securities backed by property taxes may be at risk. Many school district bonds issued in Texas are guaranteed by the state's Permanent School Fund, which totaled $37.3 billion as of the latest annual report, according to Glasgall's Bond Buyer article. This fund guarantees more than $4 billion in public and charter school debt and provided $1 billion in state aid as of August 31, 2016, Glasgall reports.

Economic impact

Municipalities that have been damaged by a storm or other catastrophe often see an increase in spending as homeowners and businesses start to repair properties and replace goods that had been lost. Spending on household goods and construction materials often drives economic growth, especially if the population remains relatively constant. In the short term, it is likely that tourism will be adversely affected – which could have an impact on bonds backed by hotel taxes – but Americans have often demonstrated a willingness to show their support by showing up once the catastrophized municipality is back on its feet.

Some municipal officials have embarked on ambitious revitalization plans in the aftermath of a natural disaster, according to a 2013 article in Governing Magazine by Liz Farmer.

In Tuscaloosa, Alabama, city leaders used an ample reserve fund to meet immediate needs after a tornado struck in 2011 and, while waiting for federal funds, began to think about ways to revitalize the parts of the city that had been destroyed. Officials approved a high-density master plan for a mixed-use district. The new district surrounds CityWalk, a nearly 6-mile trail that traces the approximate path of the tornado and is scheduled to be completed next year.

Amid a contentious debate among stakeholders, San Francisco's mayor persuaded federal officials that it was economically sensible to replace (not retrofit) the Embarcadero Freeway, which was extensively damaged in the 1989 earthquake. According to the Governing Magazine article, "the waterfront where the Embarcadero once stood is a model of city planning, attracting billions of dollars in reinvestment and new development," including AT&T Park, home to the San Francisco Giants.

And the 1.5-square-mile farming town of Greensburg, Kansas, transformed itself after a tornado destroyed 95% of it, Governing Magazine reports. The small community took advantage of state and federal grants and appropriations, established a property tax incentive program for businesses willing to adhere to green building standards, and even issued bonds to fund projects that turned Greensburg into "a world model for sustainable, environmentally friendly development."

OppenheimerFunds

September 13, 2017

Municipal Finance is the Key to Rebuilding Cities After Disasters.

Much of our nation's infrastructure is in great need of maintenance, repairs or rebuilding. This will be especially true as cities and communities in Texas, Louisiana, Florida and the Caribbean, as they start recovering after the damage left behind by Hurricane Harvey and Hurricane Irma. I know from personal experience that these communities will face the long and challenging task of rebuilding damaged roads, water and sewer infrastructure, bridges and public buildings to not only restore them to what they were, but also to make them stronger, smarter and more resilient.

In October 2015, my city faced the worst flooding disaster known in our history. More than 11 trillion gallons of water fell from the sky during the historic flood, which saw a record 16 inches of rain and caused $12 billion in damages in Columbia, South Carolina. While the historic flood was an incredibly devastating time for our city, it allowed our resilience to be shown. While this historic event occurred almost two years ago, Columbia residents and businesses still continue to face many challenges as we rebuild our homes, restore our businesses and regain normalcy in our lives.

As a part of our recovery efforts and continued investment in infrastructure, the Columbia City Council last year issued more than $210 million in water and sewer revenue bonds and will issue an additional $153 million in both revenue and general obligation bonds this year that includes $43 million in storm water improvements and $100 million in wastewater and general water improvements. This will help protect future generations from such catastrophes. Infrastructure investments like these could not be made without using tax-exempt municipal bonds.

Tax-exempt municipal bonds are the primary tool that state and local governments use to finance investment in schools, transportation, housing, health care clinics, water and wastewater treatment, police, fire, ambulance services and other public services that are vital support mechanisms to a growing and well-functioning economy. Keeping infrastructure costs low is critical to job creation and to the infrastructure investments that are the backbone of our economy. All Americans benefit from core infrastructure projects financed by tax-exempt bonds.

The City of Columbia and local governments across the nation make responsible public infrastructure investments with tax-exempt municipal bonds to create jobs, improve the quality of life and spur economic development in our communities, and we do not take this responsibility lightly. Our disaster recovery efforts would not be where they are today without the aid of this financial tool.

Removing or capping the tax exemption for municipal bonds would increase our borrowing costs significantly, an increase that would impact our taxpayers and utility ratepayers directly. If either proposal were enacted, we would have to choose between delaying needed investments or pushing these higher costs onto the public.

Taxing municipal bonds for the first time in history would be counterproductive to creating jobs and ensuring American competitiveness. This would ultimately discourage investments in infrastructure and increase costs that will be borne disproportionately by small businesses and low or fixed-income households that can least afford it. Given what is at stake in the Gulf Coast and cities across the nation, I urge members of Congress and the administration to support preserving the tax exemption of municipal bonds as they consider infrastructure financing and tax reform proposals this fall.

THE HILL

BY MAYOR STEPHEN BENJAMIN, OPINION CONTRIBUTOR — 09/14/17 10:00 AM EDT

Stephen K. Benjamin is mayor of Columbia, South Carolina. He is vice president of the U.S. Conference of Mayors and chairman of the Municipal Bonds for America.

Muni Market Holds Up Well During Hurricane Onslaught.

The municipal bond market actually rose last week, even as Hurricane Irma fears and the reality of Hurricane Harvey's path of destruction gripped the country.

The iShares National Muni Bond ETF (MUB) rose 0.38% last week bringing its total return to 4.8% year-to-date.

Much of that gain came because interest rates fell as investors rushed to safe haven government bonds. The The iShares 7-10 Year Treasury Bond ETF (IEF) rose 0.82%.

On Monday morning, when Irma passed through Florida without wreaking as much havoc as feared, the pattern was reversed. Rates were rising and munis were down, but by less than Treasuries.

IEF was down 0.5% to $108.13 at 12:30 p.m. ET, while MUB was down 0.13% to $111.51.

CreditSights' Pat Luby highlights these points Monday:

- Munis rallied last week, but underperformed Treasuries.
- On a relative basis, munis are cheap to Treasuries in the 5, 10 and 30 year spots.
- Muni trading volume last week was the slowest since the week of July 4th.
- The new issue calendar has picked up, with $7.4 bn scheduled for this week, including 20 long-term issues of $100 mn or more.
- Last week was the 9th week in a row with positive muni fund flows, but YTD flows are down 53% versus the same period last year.

And here's how Wilmington Trust summed up last week's muni market action:

> Despite worries over the potential damage caused by hurricanes Harvey and Irma, the tax-exempt municipal bond market forged ahead over the holiday -shortened week, to deliver the best return in seven weeks. In fact, last week ranked twelfth of thirty-six thus far in 2017. Certainly the risk-off tone prompted by the goings on in North Korea, and the consequent rally in the benchmark 10-year U.S. Treasury note helped move municipal interest rates lower. Per se, we think it entirely reasonable for domestic fixed income markets to begin the upcoming week with a positive tone. The new issue calendar for the next five days is heavier than last week's, as we would expect, but supply is running behind 2016 year-to-date levels, and demand appears strong enough to absorb it.

Barron's

By Amey Stone

Sept. 11, 2017 12:47 p.m. ET

How Will the Bond Market Hold Up Against the One-Two Punch of Irma and Harvey?

Investors are wondering how the bond market will handle the one-two punch of Hurricane Harvey and Hurricane Irma.

Some market participants expect the economic impact of the devastation to take a third Federal Reserve rate increase off the table for this year by slowing down the pace of inflation. Others have argued credits for municipalities hurt by the hurricanes may suffer a drop in their ratings, or at least a perceived drop in their ability to pay their debts.

See: Here's what history says about Hurricane Irma and the stock market

To answer the question, John Mousseau of Cumberland Advisors and his colleague Gabriel Hament tested how bond yields reacted in the wake of hurricanes over the past 30 years. To do this, they tracked the 12 most destructive storms during that stretch and tracked how the U.S. 10-year Treasury note yield TMUBMUSD10Y, +0.76% and the Moody's municipal bond yield, a gauge of the average yield for high-grade municipal bonds, changed after landfall.

They acknowledged that their experiment could prove flawed if only because the strength of Harvey and Irma are expected to surpass the strength and ensuing destruction wrought from previous hurricanes.

The pair of bond investors found that the data was more mixed and less conclusive than they had expected, even if the general trend suggested bond markets tended to experience a yield rise, meaning a fall in bond prices, more often than not six months after a hurricane (see table below).

Six months after a hurricane, long-dated Treasury yields increase even as municipal bond yields show little change

Treasurys felt the bigger blow with the 10-year benchmark Treasury yield rising more than 13 basis points after a hurricane. Kotok and Hament think this "points to overall better insurance coverage as well as quicker response by federal agencies with relief dollars. This response translates, of course, into a higher level of economic activity in the years after a storm, and the bond markets perceive a potentially higher level of inflation."

The impact for municipal credits, however, was more muted as changes in muni yields have to be adjusted for their tax-exempt status. In effect, a move in municipal bonds is more pronounced relative to a move in Treasurys. But even after six months, the hurricanes barely moved the needle for municipal credits, in part because hard-hit areas make an eventual recovery.

Kotok and Hament's overall findings jibe with New York Fed President William Dudley's point that hurricanes "unfortunately" lifted economic activity through rebuilding efforts. But other economists have suggested the actual impact wouldn't show up in gross domestic product figures, with the real blow being dealt to levels of household wealth in affected areas.

See: Fed's Dudley says hurricanes Harvey, Irma to give boost to U.S. economy

For example, Mark Vitner, senior economist at Wells Fargo, told MarketWatch a week ago that flooded automobiles after Hurricane Harvey would need to be replaced, putting Texans in a worse position overall. "When they buy a new [car] that shows up as stronger GDP and the person feels better. But the stock of wealth is not better. We destroyed a car," he said.

MarketWatch

by Sunny Oh

Published: Sept 8, 2017 4:23 p.m. ET

Commentary: Historic Hurricanes Present a Challenge for Muni Market.

As Hurricane Harvey's floodwaters begin to recede in Texas and Louisiana and Hurricane Irma bears down on Florida, we are just beginning to focus on the many tasks ahead. The focus of this comment is the consideration of public assets in everyday life; the prospects for accomplishing the rebuilding with municipal financing, and the effect on credit quality for the credits affected by these forceful and devastating storms.

I have a great deal of empathy for the challenges and the suffering that people face in the Greater Houston area and along the coast. Having had to deal with the tragedy of 09/11 and the damage and disruptions of Sandy first hand, I truly know what you are going through and I hope for the best for you.

In Texas, we will need to begin to focus on the fine points of damage estimates and the challenging tasks of recovery, debris removal and rebuilding. Given the fact that access at this point to properties is just not practical, drones are really proving their worth. Assessments must be made by claims adjusters no matter which approach is utilized. Early estimates of industrial and commercial damage have been in the $20 billion range for the commercial insurers, though at this point the number is just an educated guess. The number will be revisited many times before the aggregate total is more accurate.

The damage estimates when they become formal are likely to lead to property tax appeals that are likely to exert additional pressure on local property taxes. The latter is the fundamental support for school districts in Texas and for local governments.

In the municipal market we are concerned about all aspects that will affect the outcomes, especially for public assets. As reported, the preliminary ask to Congress is going to be approximately $180 billion. The rationale for this number will need to be strongly supported with facts and refined damage estimates. In a post Sandy world this aspect has become highly politicized. However, when the final vote comes I would trust that we will do right by the people in the zone.

The Municipal Promise

What can be accomplished by tax exempt financing? The programs authorized for the Sandy recovery were very specific as to amount, time and purpose. In the case of Harvey, this

consideration may take more than one week when Congress is in session. The pressing needs will still dictate that swift action will be a factor in the process. But it is probable that the recovery package that is formulated by Congress will be patterned after what has come before.

The muni industry can get a lot of supply to market very swiftly. The market is starved for supply and a surge of Texas paper could be absorbed easily. It does not matter that the bond paper constitutes national names versus specialty state paper. There is the added kicker to the prospective buyer that in addition to sufficient yield that the buyer is assisting in the effort to rebuild.

The impact on the states and its localities is quite real and discernable. In a different market than the one we are in at present, bonds would potentially trade off more given the potential for credit concerns. In this market now, this condition is not quite the case.

Most local governments have some kind of specific event, blanket insurance, or self-insurance policies against property damage and loss. Flood coverage is often the most difficult to obtain and is not as prevalent. It is impossible to obtain flood when the improvement is in the flood plain. Ultimately, this means that the Issuer is question has to go out of pocket to the extent there are no other reimbursements pending.

In light of this event, we may want to revisit whether relaxing regulations for building in the flood plain should be acceptable. In the event there is no other coverage, FEMA is called upon.

Lessons Learned

The lessons learned from Katrina and Sandy are many. We should hearken back to some of those lessons but we should also be very cognizant of where we may make improvements in the recovery effort so as not to disturb the underlying credit quality.

I had the opportunity to visit New Orleans just a couple of weeks after Katrina. I did not fully appreciate what the Army Corps of Engineers was talking about when they referred frequently to the “bathtub”. There I was standing in the Ninth Ward viewing the destruction. I looked at the one structure that was standing on that block and realized that the lip of the levee was higher than the roof of that structure. All was clear. I just relay this experience because actual inspections will make a difference.

Different structures will have an array of specific damage incidents. Many structures will be affected by electrical and HVAC damage. Concerning the former, in the case of Sandy, the salt water did a great deal to compromise cables and systems. Generators were overcome by the flooding. HVAC systems were water logged.

The Potential Credit Impacts

In Texas, on average, the physical plant is much more youthful particularly in an area such as Houston that has experienced a great deal of growth in recent years. In many cases, the HVAC systems for schools, civic centers, and other important structures are on the roof. It is not likely that all of them are situated this way. Electrical cables generally are run from the street in heavy conduit, but, eventually they have to come above ground.

Primary and Secondary schools for the most part are among the best designed structures around. It is just that there is no way to fully design and prepare for an event such as this one. Most of the schools in the state have the Permanent School Fund backing for their bonds. The integrity of the payment stream for school bond payments is well protected. What will take time is what damage that is not covered by any kind of insurance will have to be repaired with the proceeds of a

financing. Of course, some schools have relatively large fund balances but those balances are primarily maintained due to the unevenness of the cash flow. Some repairs will be done out of pocket or with bank loans. Extensive damage will require bonding of some kind.

I have focused on schools because there are just so many of them. Houston ISD on its own has 283 schools serving over 210,000 students.

Now we need to turn our attention to all of the other public assets out there. We cannot fully cover these in a commentary of this kind but they include roads, bridges, airports, governmental centers, civic centers, police & fire stations, water & sewer systems, levees, etc. You have the picture. Each asset has its own discrete set of considerations and challenges for recovery.

Turning to credit quality of the local issuers, most of the credits in the state are evaluated at an A or higher. Fund balances of 5% or more and relatively steady assessed valuation growth are common features. Most of the GOs at the local level are covered by specific millages that are dedicated to the repayment of debt. What this means is that the damage would have to be very significant before the GOs would have an insufficiency. However, downgrades for localities with weaker financial positions going into the event may be harder to forestall. There may be some cheapening in the trading of local paper.

The state itself is reliant on the sales tax for over 50% of its general fund revenues. A depressed level of activity in the Greater Houston area is likely to have some impact on the state's budget in the near term. In the longer term, the state is likely to experience a boost when the repairing, rebuilding and refurbishing commence. This effect would only be somewhat mitigated by any programs to grant sales tax breaks on the rebuilding materials. However, the hours paid for in the rebuilding will still yield some economic uptick. This effect is likely to be delayed for some months. Given the state is AAA, we do not think that these factors will have an overly pronounced effect on the state's creditworthiness.

Revenue bonds will need to cope with a diminution or cessation of revenues for a period of a couple of months or longer. Some of the outcome depends on whether the asset that is linked to the cash flow is in service or not. This is part of the reason that revenue bonds have excess coverage and reserve funds. Water & Sewer systems tend to operate with somewhat tighter coverage due to rate pressures. Most systems have more coverage than what is called for in the rate covenant as a buffer against events both large and small. Water & Sewer systems are also somewhat easier to repair and need to be due to public health considerations. We could discuss the other sectors, but, you have the idea by now. Some sectors may trade off than others for a time. Analysts will be poring over reports to see which bonds may be more subject to challenges.

Irma in some ways may pose an even greater challenge to Florida, Georgia and the Carolinas depending on the trajectory of the record winds associated with this event. Florida has anticipated a storm such as this one with the creation of the CAT fund. The fund has had the benefit of a long period of time to build assets without the incidence of any major events. The fund has also had a long standing practice of issuing relatively short term debt to have ready cash available for just this kind of event. The protection afforded by the presence of the CAT fund would prove its worth if a major event develops over this coming weekend.

In the end, the repairs and the rebuilding will be pursued apace. Few credits, if any, will experience such a degree of damage that even with the consideration of state and federal aid programs they cannot sustain their operations.

We are hoping for the best outcomes for all. The municipal market will do its best to create and

place any financing that is required and we will do it in a fashion that is efficient and at the lowest possible cost. We know how to deliver.

The Bond Buyer

By John Hallacy

Published September 07 2017, 10:44am EDT

S&P: How Long 'Til We Get There? Major Post-Hurricane Recoveries In Recent Years.

As we write this, we don't know what's going to become of Hurricane Irma, which is currently churning through the Caribbean. But we do know that Hurricane Harvey inundated Houston and its environs with record rains for days last month, and now the fourth largest city in the U.S. is left to clean up and rebuild.

Continue Reading

Sep. 7, 2017

Kroll: Bond Insurers' Exposure to Harvey and Irma.

Kroll Bond Rating Agency (KBRA) has published a comment on the effect of hurricanes Harvey and Irma upon the bond insurers. KBRA sees no rating impact on the bond insurers it rates from the effects of Harvey and Irma. Natural disasters have not led to increasing defaults in the past although they can contribute to financial strain and downgrades. Nonetheless, it remains to be seen how deep and long lasting the impact will be given the scope and severity of these events.

To access the full report, please click on the link below:

The Bond Insurers' Exposure to Harvey and Irma

If you have any difficulties accessing the report, please contact info@kbra.com or visit www.kbra.com

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S&P: No Respite For Re/Insurers As Hurricane Irma Prepares To Give A Big Jolt.

First and foremost, as Hurricane Irma unfolds, S&P Global Ratings continues to hope for the safety and wellbeing of the many people who will be affected by this devastating and potentially deadly event.

Continue Reading

Sep. 8, 2017

S&P: While Hurricane Irma Prepares For Landfall, Florida Is Already Braced For The Assault.

NEW YORK (S&P Global Ratings) Sept. 8, 2017—S&P Global Ratings today said that the State of Florida (AAA/Stable/–) is well-positioned, to the extent possible, to confront the potential demands of a catastrophic storm, namely Hurricane Irma, given the state's governing framework and infrastructure.

Continue Reading.

Credit FAQ: How To Evaluate Potential Rating Impacts For K-12 School Districts In The Wake Of Natural Disasters Like Harvey And Irma.

In the aftermath of any natural disaster such as a hurricane, we acknowledge that leading up to and immediately after the disaster, management teams are focused on emergency responses, public health and safety, and supporting the general welfare of residents in the area. While management teams address these issues, we recognize market participants' desire to understand …

Continue reading.

Sep. 11, 2017

S&P: In A Storm's Aftermath - Assessing The Impact On Local Government Credit Quality.

After tracking toward Miami for days, Hurricane Irma changed direction several times before making landfall and eventually deteriorating to a Category 1 storm before leaving Florida. The sheer size of the hurricane was enough to ensure destruction on some level, but even knowing now where the majority of damage was sustained cannot tell us what the impact on the affected credits will be.

Continue reading.

Sep. 13, 2017

S&P Bulletin: U.S. Virgin Islands Water & Power Authority Revenue Bonds' Credit Quality Will Likely Deteriorate After Irma.

NEW YORK (S&P Global Ratings) Sept. 8, 2017–S&P Global Ratings said today that the impact of Hurricane Irma on the credit quality of U.S. Virgin Islands Water & Power Authority's (WAPA) electric system revenue bonds will most likely be negative. However, we have not taken a rating

action on the bonds as of yet.

Continue reading.

Visualizing Hurricane Harvey's Impact on Houston's Neighborhoods.

Questions loom about the Houston housing market after Hurricane Harvey dumped 9 trillion gallons of water on the city last week.

Questions loom about the Houston housing market after Hurricane Harvey dumped 9 trillion gallons of water on the city last week. Houston is the fifth-largest metropolitan area in the United States, and the housing market has rapidly expanded there in recent years.

Harvey's aftermath puts an enormous hurdle in front of all homeowners and renters but will be a particular setback for low-income, minority families recovering from the 2008 housing bust. As policymakers consider the path to rebuilding, here are five facts to keep in mind about the storm's impact.

(The maps below show the extent of Hurricane's Harvey flooding in Houston, along with key housing variables. Although the flood maps indicate which areas were hardest hit, not all homes in flooded areas will suffer flood damage.)

Continue reading.

The Urban Institute

by Sarah Strochak & Bhargavi Ganesh

September 15, 2017

Hurricane Irma Adds New Fiscal Strain for U.S. Territories.

Hurricane Irma's destructive path through the Caribbean is exacerbating financial crises in Puerto Rico and the U.S. Virgin Islands.

The storm downed power lines and left more than 1 million power customers in Puerto Rico without service on Thursday, forcing hospitals to activate backup generators and disabling water service for more than 221,000, according to the island's government. The coastal capital of San Juan in the north registered waves of up to 30 feet, and Governor Ricardo Rosselló warned of possible landslides and floods on the saturated terrain.

The physical damage is another stress on the island's dilapidated and inefficient power infrastructure, already weakened by years of neglect and underinvestment. Puerto Rico's central government and its public power monopoly are both under bankruptcy protection, the culmination of years of over-borrowing and economic stagnation on the island. Congress last year installed an oversight board to renegotiate roughly $73 billion in debt and coax business interests back to Puerto Rico.

“The government is incurring a lot of expenses to manage the emergency,” said Rep. Jenniffer González (R.), Puerto Rico’s nonvoting representative in Congress. “The major problem is our power grid is down.”

Not all the cost of rebuilding will fall on Puerto Rico. The U.S. Senate on Thursday advanced legislation providing $15.25 billion for relief and recovery efforts for the Harvey and Irma hurricanes as part of a compromise to keep the federal government open and the debt limit suspended until Dec. 8.

But the recovery effort will unfold against a financial crisis that has pitted Wall Street firms demanding repayment on Puerto Rico’s defaulted municipal bonds against its federal financial supervisors, who are trying to minimize obligations to creditors.

How the repair costs will affect this multibillion-dollar standoff will likely be determined by the courts. Creditors have criticized the oversight board’s plans to allow private partners to take over the Puerto Rico Electric Power Authority’s generation assets without fully repaying its $9 billion in debt.

Lengthy power outages “will have negative impacts on Prepa’s revenues” and ”could impact ultimate recovery for bondholders,” Rick Donner, senior credit officer at Moody’s Investors Service, said.

Electrical workers surveying the damage are estimating it may take six days to reconstruct concrete high-voltage lines destroyed in the storm and have no firm estimate on the time to restore service to residential and business consumers, according to a person familiar with the matter.

Gov. Rosselló said Thursday that officials were beginning the process of evaluating the damage and warned that another 5 inches of rain could come as Irma drifted toward Florida. Some regions in Puerto Rico had already received a foot of rain. Emergency officials are bracing for another possible hit from Hurricane Jose, which strengthened to a Category 3 storm Thursday.

Noel Zamot, the oversight board official tasked with encouraging private investment, said he was examining whether an expedited infrastructure permitting process established by Congress could be invoked to help critical energy infrastructure.

The process “was not meant for disaster recovery; it was meant for an emergency,” he said. “But…a disaster can constitute an emergency.”

Power service was also affected in the U.S. Virgin Islands, Puerto Rico’s smaller Caribbean neighbor. The U.S. Virgin Islands has never defaulted on its obligations but shares many of the same fiscal weaknesses as Puerto Rico. Emergency responders on Thursday were clearing roadways, distributing food, removing downed power lines and relocating occupants of damaged shelters.

The Roy Lester Schneider Hospital on the island of St. Thomas was no longer able to care for its patients after its roof was destroyed, the government said in a news release. Emergency responders relocated critical patients to another hospital on St. Croix and were finalizing plans to evacuate all other patients to hospitals in Puerto Rico.

The Wall Street Journal

By Andrew Scurria

Updated Sept. 8, 2017 11:09 a.m. ET

Trump Infrastructure Plan Seeks to Shift Decisions - and Bills - to States, Cities.

White House puts localities in driver's seat for funding as it aims for $1 trillion goal, but some local officials raise alarms

Top advisers crafting President Donald Trump's infrastructure plan say they aim to upend the way U.S. public works are financed, shifting the bulk of the decision-making and costs to states and cities and away from Washington.

The administration is proposing $200 billion in new federal funding as the central piece of its $1 trillion plan to improve the nation's infrastructure. President Donald Trump frequently cited the need for upgrades on the campaign trail.

Most of the $200 billion, White House officials say, will be parceled out as incentives to localities that raise their own funding for building projects, with the aim of reaching the administration's overall goal. Cities and states could turn to private-sector financing or levying tolls and taxes to pay for new bridges and roads instead of relying on the federal government for the bulk of the funding.

"Right now the dynamic is: Come, ask for a whole lot, bang on the table, have your economic studies showing the tens of thousands of jobs that will be created, have your regional study saying this will transform America, bang on the table some more, hire some lobbyists and you get money," a senior White House official said in a recent interview. "We'd rather have people come and say, 'Listen, we're chipping in this much, give us this little increment and we can make this thing happen.'"

The administration's approach—which it hopes to deliver this fall to Congress as a set of "principles" for legislative action—alarms supporters of some of the country's biggest planned projects, who say that local cost-sharing and private financing efforts would fall well short of making up for sharply reduced federal funding.

Funds for roads, bridges and other infrastructure currently come from a variety of sources, including the Federal Highway Trust Fund and formula grants that the administration says it will maintain.

The proposed 20-80 split of federal to local contributions would dramatically change parts of the current system. Though funding levels vary, the federal government generally pays about 80% of highway projects and up to 90% of projects at airports, with the remainder coming from local government. In mass transit and passenger rail, there is no formula funding, and the federal share of funds varies widely, as local systems compete for grants by offering to accept smaller shares of federal money.

The Trump White House wants to continue and expand some priorities of the Obama administration, including encouraging the use of public-private partnerships where possible, and expanding low-cost federal loan programs to help pay for major building projects.

At the same time, the White House wants to change the way states and cities approach the pools of federal capital that are used to initiate large projects, saying Washington can encourage local governments to make smarter investments by awarding grants to communities that compete based on how much of the cost they are willing to take on themselves.

"If we're putting in a dollar, we want a state or a locality to have ideally four dollars that they're putting in," the senior official said. "This gets us to the trillion."

Talking to local government officials about the incentive plan earlier this week, White House Budget Director Mick Mulvaney said he had spoken to a governor who was nearly ready to begin a $200 million bridge project, and needed just $20 million from the federal government to complete the financing.

“That’s the kind of thing that we want to put at the top of the list,” Mr. Mulvaney said.

Still uncertain is whether that approach will work on projects with much larger price tags. Officials working on a proposed new railroad tunnel under the Hudson River and related improvements say they were concerned at the White House’s refusal so far to commit to a large share of the more than $29 billion cost.

Republican New Jersey Gov. Chris Christie and Democratic New York Gov. Andrew Cuomo have said they expect the federal government to cover half the cost of the Gateway project, which also includes bridges and track improvements. The White House looks on such calls for funding as just the sort that they would like to curtail.

“There’s no people or economic activity in that region that could possibly cover the cost of that?” said the administration official, when asked about a recent appeal by Mr. Cuomo for federal aid for the project. “I think that’s a tough sell, would be my response.”

The suggestion that New York and New Jersey could pay their own way on the project, while not a final decision on federal funding, shocked some of the tunnel’s advocates. Already, local officials say the state and local share of infrastructure investment has been rising, thanks to congressional gridlock and no increase in the federal gasoline tax to help pay for public works.

“You’re just not going to be able to raise the level of funding that’s necessary” without federal support for the tunnel, Amtrak Co-Chief Executive Richard Anderson said in an interview.

Even with project leaders seeking private investors to help finance the tunnel project, direct federal funding is essential to making the project feasible, said Scott Rechler, the chairman of the Regional Plan Association, a research organization that studies mobility and transportation in the greater New York region.

“It’s an absolute impossibility for the states to be able to handle these projects on their own,” he said.

There have been early signs of resistance from the Republican-controlled Congress, which will draft and ultimately vote on the administration’s plan. A Senate transportation subcommittee reversed an array of 2018 budget cuts proposed by the White House, including in infrastructure grant programs relied on by states and cities for new transit lines.

The White House also acknowledges that it faces a crowded autumn calendar. The senior official said that the administration still plans to take up infrastructure only after it tackles a proposed overhaul of the tax code. And Congress must also handle more immediate responsibilities first, including raising the federal borrowing limit and agreeing on a budget for fiscal year 2018. The administration still plans to send its principles to congressional leaders some time this fall, but the timeline will be dictated by the progress of the tax bill.

The Trump administration points to the rising number of local initiatives raising funds for infrastructure, including in regions with Democratic leaders, as evidence for the wisdom of its approach.

In Los Angeles, a 2016 ballot initiative to raise taxes for a 40-year, $120 billion plan to maintain and expand the region's mass-transit system passed with more than 70% of the vote. Officials in the administration of Mayor Eric Garcetti, a Democrat, have spoken with Trump administration officials to express their enthusiasm for a federal funding formula that rewarded cities and regions that help raise their own capital, according to city and White House officials.

On top of the local funding, the Los Angeles plan still anticipates billions in grants from the federal government over the next several decades, a city official said.

In West Virginia, Gov. Jim Justice, a Democrat who turned Republican this summer in a show of support for Mr. Trump, helped push through a package of tax and fee increases to expand the state's capacity to repair and extend its highway network.

"The days of the federal government bailing us out on infrastructure are gone," said Illinois Transportation Secretary Randall Blankenhorn, an appointee of Republican Gov. Bruce Rauner.

Mr. Blankenhorn has urged the state legislature to consider options from new tolls to increased taxes to support investment in the state's highways and railroads.

"We're going to have to find other sources" of funding, Mr. Blankenhorn said. At the same time, he said: "I do think that there's still going to be a role for the federal government in those major, mega projects."

THE WALL STREET JOURNAL

by TED MANN

Sept. 1, 2017 2:43 p.m. ET

Fitch Focus on Munis: Shift in Federal Trade Policy Could Hurt Select State and Local Economies.

Fitch Ratings-New York-30 August 2017: Some U.S. States and metropolitan markets could face economic challenges if U.S. trade policy – notably related to NAFTA – shifts dramatically, according to Fitch Focus on Munis, a monthly series that examines the major forces effecting change across municipal finance.

For 2017, the series concentrates on three issues: healthcare, pensions and federal policy.

"Even before taking office, President Trump and his cabinet nominees struck a decidedly different rhetorical tone on trade than their predecessors," said Michael D'Arcy, a Director in Fitch's US Public Finance group. "While many details of the Trump administration's policy shifts remain unclear, current regional exposure to trade and border traffic with Mexico and Canada can illustrate where federal policy change could have the greatest impact."

Michigan is most at risk to changes in NAFTA because its economy is the most interconnected of all U.S. states with Canada and Mexico. Potential risks include lower sales and income tax revenues, which would likely transfer to localities through curtailed state revenue sharing and lower school funding. The tax bases and income tax collections of its most export-dependent localities, particularly those in the Detroit-Warren-Dearborn area, would also be affected.

Other states most at risk include North Dakota, which sends 82 percent of its exports to Canada, and New Mexico, which sends 43 percent of its exports to Mexico.

Texas's vast size and economic diversity, and the global reach of its petroleum and chemical industries, provide it with a degree of insulation from NAFTA, despite sending Mexico 40 percent of its exports.

California would also be isolated by its size and economic diversity, notably its overseas exporting relationships. Border traffic is an economic factor in only a handful of counties and localities situated at the state's southern tip.

Click here to view Fitch's "Trade in the Time of Trump" infographic.

For the September 2017 report, Fitch Focus on Munis will address additional, potential challenges associated with shifts in federal trade policy.

About Fitch Focus on Munis
Fitch Focus on Munis is a monthly report series that explores the critical issues faced by U.S. public finance.

Fitch Focus on Munis leverages Fitch's unique insights backed by data and experience, and a commitment to providing forward-looking analysis, to deliver an in-depth examination of emerging opportunities and challenges in U.S. public finance.

For more information, the special report "Fitch Focus on Munis: Federal Policy – Trade in the Time of Trump, Part 1" is available at www.fitchratings.com.

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Bloomberg Brief Weekly Video - 08/31

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

Watch video.

Bloomberg

August 31, 2017

New Math Deals Minnesota's Pensions the Biggest Hit in the U.S.

- **State's public pensions go to 7th-worst funded from 30th**
- **"It's a crisis," says director of pension commission**

Minnesota's debt to its workers' retirement system has soared by $33.4 billion, or $6,000 for every resident, courtesy of accounting rules.

The jump caused the finances of Minnesota's pensions to erode more than any other state's last year as accounting standards seek to prevent governments from using overly optimistic assumptions to minimize what they owe public employees decades from now. Because of changes in actuarial math, Minnesota in 2016 reported having just 53 percent of what it needed to cover promised benefits, down from 80 percent a year earlier, transforming it from one of the best funded state systems to the seventh worst, according to data compiled by Bloomberg.

"It's a crisis," said Susan Lenczewski, executive director of the state's Legislative Commission on Pensions and Retirement.

The latest reckoning won't force Minnesota to pump more taxpayer money into its pensions, nor does it put retirees' pension checks in any jeopardy. But it underscores the long-term financial pressure facing governments such as Minnesota, New Jersey and Illinois that have been left with massive shortfalls after years of failing to make adequate contributions to their retirement systems.

The Governmental Accounting Standards Board's rules, ushered in after the last recession, were intended to address concern that state and city pensions were understating the scale of their obligations by counting on steady investment gains even after they run out of cash — and no longer have money to invest. Pensions use the expected rate of return on their investments to calculate in today's dollars, or discount, the value of pension checks that won't be paid out for decades.

The guidelines require governments to calculate when their pensions will be depleted and use the yield on a 20-year municipal bond index to determine costs after they run out of money.

The Minnesota's teachers' pension fund, which had $19.4 billion in assets as of June 30, 2016, is expected to go broke in 2052. As a result of the latest rules the pension has started using a rate of 4.7 percent to discount its liabilities, down from the 8 percent used previously. Its liabilities increased by $16.7 billion.

The worsening outlook for Minnesota is in line with what happened nationally. Pension-funding ratios declined in 43 states in the 2016 fiscal year, according to data compiled by Bloomberg. New

Jersey had the worst-funded system, with about 31 percent of the assets it needs, followed by Kentucky with 31.4 percent. The median state pension had a 71 percent funding ratio, down from 74.5 percent in 2015.

For a look at Bloomberg's pension ranking, click here.

While record-setting stock prices boosted the median public pension return to 12.4 percent in 2017, the most in three years, that won't be enough to dig them out of the hole.

Only eight state pension plans, in Minnesota, New Jersey, Kentucky and Texas, used a discount rate "significantly lower" than their traditional discount rate to value liabilities, according to July report by the Center for Retirement Research at Boston College.

"Because of that huge drop in the discount rate under GASB reporting, their liabilities skyrocket," said Todd Tauzer, an S&P Global Ratings analyst. "That's why you see that huge change compared to other states."

Public finance scholars at George Mason University's Mercatus Center have found "considerable variance" in how states were applying the new standards. In Illinois, for example, despite the state's poor history of funding its plans, actuaries project they won't run of money until 2072.

In Minnesota lackluster returns and years of shortchanging have taken a toll. The state's pensions lost 0.1 percent in fiscal 2016.

But other factors also helped boost Minnesota's liabilities: Eight of Minnesota's nine pensions reduced their assumed rate of return on their investments to 7.5 percent from 7.9 percent, while three began factoring in longer life expectancy.

Minnesota funds its pensions based on a statutory rate that's lower than what's need to improve their funding status. School districts and teachers contribute about 85 percent of what's required to the teacher's pension, according to S&P Global Ratings.

"It's woefully insufficient for the liabilities," said Lenczewski, the director of Minnesota's legislative commission on pensions. "You just watch this giant thing decline in funding status."

Bloomberg Markets

By Martin Z Braun

August 31, 2017, 2:00 AM PDT

Trump Wants States and Cities to Pay More for Infrastructure.

The White House said this week that it also aims to cut red tape. Many state and local officials like the idea of less regulations but fear less funding.

The White House envisions that a long-promised infrastructure package would streamline the federal approval process for major projects and also require states and localities to shoulder more of the financial burden for building them. It's a shift in focus from the Obama administration, which had pledged to increase infrastructure funding but never came up with a long-term solution.

“I can assure you that building a road, building a bridge, building a sewer plant, is the easy part,” said Mick Mulvaney, director of the Office of Management and Budget to a gathering of 150 state and local transportation leaders on Wednesday. “Getting permission to build it is the really, really hard part.”

Mulvaney not only said they wanted to reduce Washington’s role in state and local projects but also offer new “incentives” to help them complete projects.

“We’re trying to figure out how to use a little bit of [federal] money to generate a lot of money, to give state and locals the incentives to do stuff you might not otherwise do,” he said.

One East Coast governor told Mulvaney, for example, that his state needed another $20 million to complete a $200 million road project.

“That’s the kind of thing that we want to put at the top of our list, where our money gets you over the edge,” Mulvaney said.

The administration called the group to Washington to gather ideas and feedback for the infrastructure bill that President Trump has talked about since his campaign. Over the last year, though, Trump and his team have provided few concrete details about the proposal.

While many state transportation leaders welcome streamlined regulations, nearly all of them also worry about federal funding for future projects. The federal highway trust fund — the main source of transportation funds — is running a deficit because Congress hasn’t raised the gas tax since 1993. Those fears were compounded by Trump’s budget proposals, which called for cuts in transportation spending, particularly grants to launch new transit systems and other big-ticket projects.

The president insists infrastructure is one of his top priorities, but it is on the legislative backburner for now. Congress must deal with several time-sensitive issues, like hurricane relief, raising the debt ceiling and passing a federal spending plan for the fiscal year starting in October. Republican leaders have also said they would like to overhaul the country’s tax code — no easy task — before moving onto infrastructure.

Trump himself has tried to stoke interest in a new infrastructure initiative. He appeared at Trump Tower earlier this month with a flowchart meant to show the complexities of the federal approval process for major infrastructure projects. He signed an executive order to encourage agencies to speed up their decision-making, by, for example, issuing rulings on environmental issues within two years, on average. The order also instructs the government to designate one lead federal agency to shepherd all of the needed approvals for a project and come up with a single federal decision on whether it can proceed.

Many state and local officials praised those changes, but they were overshadowed when Trump used the press conference announcing them to revive a debate over his response to the white supremacist rally in Charlottesville, Va.

The same executive order has also come under scrutiny, especially since Hurricane Harvey hit Texas and the Gulf Coast, because it revoked a federal flood management standard established by the Obama administration that would require officials to plan for climate change.

At the White House meeting, U.S. Transportation Secretary Elaine Chao said the country needs a new approach for dealing with aging, congested and technologically lagging infrastructure.

“Previous attempts to address this problem relied upon massive borrowing and top-down federal

control. This administration takes a different approach," she said, repeating the administration's pledge that it will use $200 billion in new federal spending to generate $1 billion over the next decade.

"To avoid saddling future taxpayers with unsustainable debt, the plan seeks to unleash billions of dollars in private capital for infrastructure investment," she said.

Along with new incentives, the administration plans on pushing for dedicated funding for infrastructure improvements in rural areas because sparsely populated areas would generally have a harder time coming up with money to match federal dollars, Mulvaney said.

The White House will also push for greater use of loan programs and investments in "transformative" technologies that could make infrastructure projects cheaper in the future. Mulvaney gave the example of NASA's move to privatize missions to Low Earth orbit using prizes and federal contractors.

"We should see if there's not new ways to build bridges, new ways to build tunnels, new ways to build ports and improve the stuff we have," he said.

GOVERNING.COM

BY DANIEL C. VOCK | AUGUST 31, 2017

The Week in Public Finance: Predicting Harvey's Fiscal Impact and More.

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

GOVERNING.COM

BY LIZ FARMER | SEPTEMBER 1, 2017

How Green Bonds Can Bridge Infrastructure Financing Gaps.

The Rockefeller Foundation, along with two financial partners, is launching a new challenge to fund so-called green infrastructure and resilience efforts in the United States.

This comes at a portentous time, given the devastating flooding in Houston and President Donald Trump's rollback earlier this month of an Obama-era order requiring resilient building standards for infrastructure projects in areas exposed to floods or rising sea levels. Trump also promised to allocate $1 trillion to fortify U.S. roads, tunnels and bridges, but has so far failed to offer a plan to funnel public and private investment into these much-needed projects.

With the Rockefeller-backed project, two cities or counties will be selected to issue the first publicly marketed environmental impact bonds (EIBs), enabling them to use a "pay-for-success" model to fund these projects by sharing performance risks with private investors.

By purchasing a bond, investors have a stake in the successful outcomes of local municipal projects — and governments help green infrastructure get off the ground that needs to be piloted before it is

widely adopted.

Continue reading.

GREENBIZ

by Anya Khalamayzer

Thursday, August 31, 2017 – 1:28am

S&P Credit FAQ: What We Look At When Analyzing Cash Flow Notes.

With a sluggish economy leading to sluggish revenue growth, cash and liquidity can be of greater importance when analyzing a state's or local government's (SLG) credit profile. S&P Global Ratings assigns ratings to cash flow notes that local governmental entities use to bridge the cash troughs in their budget cycles …

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Aug. 28, 2017

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