

[Illinois Passes \\$40 Billion Budget Counting on Federal Help.](#)

- **Spending plan allows loans from Fed facility to fill gap**
- **Legislature also approved new tax structure for Chicago casino**

Illinois lawmakers early Sunday approved a budget of about \$40 billion for the year starting in July that relies on federal loans to close the revenue shortfall exacerbated by the coronavirus pandemic.

The budget for fiscal 2021 maintains most funding levels from a year earlier, and boosts pension payments and spending on health and human services along with some other agencies that are seeing increased demand due to the pandemic and resulting unemployment. It expects to close the projected deficit of as much as \$7.4 billion partly by borrowing as much as \$5 billion from the Federal Reserve's Municipal Liquidity Facility.

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Bloomberg Economics

By Shruti Singh

May 24, 2020, 7:28 AM PDT Updated on May 24, 2020, 11:23 AM PDT

[Small Alabama City Says It's Broke, Files for Bankruptcy.](#)

- **City in Jefferson County has \$17 million in outstanding bonds**
- **Mayor says in resolution that city has 'exhausted its options'**

A small city on the outskirts of Birmingham, Alabama, filed for bankruptcy, a rare step by a local government that comes as budgets across the nation are being upended by the coronavirus pandemic.

The city of Fairfield's filing Tuesday in the U.S. Bankruptcy Court for the Northern District of Alabama listed assets and liabilities between \$1 and \$10 million. A resolution signed by Mayor Eddie J. Penny included with the filing said Fairfield has "exhausted its options" after years of financial stress.

"The city has faced a substantial decline in revenues in recent years due to economic forces beyond its control," the resolution says. It was unclear whether the shutdowns intended to mitigate the spread of the coronavirus in the U.S. worsened the city's problems.

Located about eight miles (12 kilometers) from Birmingham, Fairfield is a mostly African-American community with about 11,000 residents. About one-fifth live in poverty, according to the U.S. Census

Bureau. The city is located in Jefferson County, which went bankrupt in 2011.

The city's finances have been troubled for years. In 2016, while it was struggling to make payroll, the Birmingham Water Works threatened to shut off service at city offices because of more than \$128,000 of overdue bills, according to the local newspaper.

Penny, the mayor, said in an interview that the city is looking for a "fresh start" to better align its revenues with expenses. He said restructuring the city's debts will help address the shortfalls.

"I think we should be able to rebound," he said.

While not the cause of its bankruptcy, Fairfield is also being affected by the shutdowns in businesses that are meant to mitigate the spread of the coronavirus, Penny said.

"We are going to be one of thousands of cities all over the United States that are going to feel the impact of that," he said.

Ambac Financial Group Inc. insures some Fairfield city bonds and is listed as a creditor in filings associated with the bankruptcy. The city has about \$17 million in bonds outstanding, according to data compiled by Bloomberg.

Bloomberg

By Amanda Albright

May 19, 2020, 5:34 PM PDT Updated on May 20, 2020, 11:27 AM PDT

— *With assistance by Matthew Begley*

[New Jersey to Delay Billions for Pensions, Trains, Schools and Towns.](#)

- **Murphy extended the fiscal year as coronavirus crisis unfolded**
- **New Jersey Transit, school aid, water-pipe upgrade on hit list**

Governor Phil Murphy is seeking to balance New Jersey's spending for the remainder of this fiscal year in part by pushing off payments to schools, pensions, transit and towns into the next budget period.

Facing billions in lost revenue from the coronavirus lockdown, state Treasurer Elizabeth Muiio released long-awaited plans for \$5 billion in "deep cuts and spending deferrals." The proposal calls for \$2.1 billion of cuts to spending, including property-tax benefits, college operating aid and assistance to schools.

Murphy seeks to save another \$3.2 billion in part by disbursing payments in October that otherwise would be due in September — the last month of an extended fiscal year. New Jersey was the only state to alter its fiscal year amid uncertainty over the coronavirus's impact on revenue and spending. Its fiscal 2020 will end in September, rather than June, and its fiscal 2021 will be nine months instead of 12.

Had the state stuck to the normal fiscal year, lawmakers and the administration would have had to evaluate the numbers immediately and make adjustments far sooner, Senate President Stephen

Sweeney said in a May 20 interview. By now, New Jersey would have had a “much clearer picture” of its finances, he said.

Postponing Payment

A \$951 million pension payment, due in September, will be paid the next month, according to a revised spending plan. Other September-to-October deferrals include \$467 million for school aid; \$354 million for municipal property-tax relief; \$250 million for special education and \$28 million in budget aid to distressed cities.

New Jersey is the second-hardest-hit state after New York, with almost 153,000 Covid-19 cases. In March, Murphy closed nonessential businesses and ordered social distancing — a necessary step, he says, that sent state revenue “off the fiscal cliff.” He has faced increasing pressure in recent days to end the lockdown.

Murphy froze \$920 million in expenditures, including aid to homeowners and cities, in March. He now is proposing \$850 million in other cuts, including \$336 million in local school aid, \$132 million for New Jersey Transit and \$80 million for lead water line replacement.

Dropping Fast

The governor expects revenue to fall short by \$2.7 billion, or 7%, this fiscal year. For 2021, his proposed \$40.9 billion budget is projected to be short by \$7.2 billion, or 18%. His administration will give a revised plan for next fiscal year in August.

The Murphy administration had made “great strides” over the past two years to improve New Jersey’s fiscal condition, building the surplus and making record pension payments, said Muoio, the treasurer. The pandemic “halted this progress in its tracks,” she said.

New Jersey will require “a combination of budget and appropriation adjustments, critically needed borrowing and more robust federal assistance,” she said.

The state constitution bans borrowing to plug budget holes, and federal grants are far from certain. Without the assistance, Murphy has said, the state will have to cut public employees, including teachers and police, firefighters and health workers who have been crucial to combating the new coronavirus.

Bloomberg Politics

By Elise Young

May 22, 2020, 1:40 PM PDT

[New York MTA Asks Federal Reserve to Tap New Lending Program.](#)

- **Agency wants to use the Fed’s Municipal Liquidity Facility**
- **MTA request comes as agency upsizes long-term borrowing deals**

New York’s Metropolitan Transportation Authority, the largest U.S. transit system, is asking the Federal Reserve to allow it to borrow through the central bank’s new \$500 billion lending program.

The Fed currently allows states, some municipalities and multi-state entities to access the program, called the Municipal Liquidity Facility. While the MTA could have the state borrow on its behalf, it's seeking to do so directly.

While the agency has twice sold long-term debt this month, the coronavirus pandemic has challenged the MTA's ability to borrow over the short term, Pat Foye, the agency's chief executive officer, said in a letter Thursday to Fed Chairman Jerome Powell.

"Investors have shown confidence in MTA's long-term prospects but remain concerned about near-term risks," Foye wrote in the letter. "Based on our current surveillance, we believe public issuance of MTA transportation revenue notes would result in a premium incurred well in excess of the MLF pricing grid issued on May 11."

The Fed created the lending program after concerns over the coronavirus shook the \$3.9 trillion municipal-bond market in March. Prices temporarily fell by the most since at least 1980 and investors pulled record amounts out of mutual funds. The market has since recovered, buoyed by the mere prospect of the central bank's unprecedented intervention.

"There's been a disruption in the short-term market," Bob Foran, the MTA's chief financial officer, said during the agency's monthly board meeting on Wednesday. "Effectively right now, the short-term market costs as much to borrow as the long-term market."

The MTA has been able to raise money through the muni market by selling long-term debt, although the difference between the yield it paid on its \$1.1 billion revenue bond sale and the tax-exempt market's benchmark was more than four times greater than when the MTA borrowed in January, before the pandemic hit.

Investors have been willing to lend the MTA money over the long term. It boosted its bond sale Thursday by \$125 million to \$525 million to raise money for bridge and tunnel infrastructure. That comes after the agency nearly doubled the \$1.1 billion issuance on May 5.

The MTA estimates its deficit for 2020 may grow to as much as \$8.5 billion. It's seeking an additional \$3.9 billion of federal funds to help cover lost revenue. Ridership has sunk as people work from home and avoid using the system.

The system services a region of more than 15 million people through its network of subways, buses and commuter rail lines that reach Long Island, the northern suburbs of New York City and Connecticut.

The agency is looking for help from Washington as its transportation services will help restore economic growth in the area.

"The New York metropolitan region represents over 8% of the nation's total gross domestic product, and the MTA's operations are critical to the economic health of the New York region and the country," Foye said in the letter.

Bloomberg Markets

By Michelle Kaske

May 21, 2020, 2:07 PM PDT

[**New York MTA Upsizes Second Bond Sale in Sign of Buyer Demand.**](#)

- **Agency reduces yields by 10 basis points from initial offer**
- **Bond sale is the second deal the MTA increases this month**

New York's Metropolitan Transportation Authority increased the size of its bond sale to \$525 million and reduced the yields from what were initially offered amid confidence by investors that the subway and bus operator will recover once the coronavirus pandemic subsides.

The MTA, the largest mass-transit system in the U.S., boosted the deal Thursday by \$125 million, a sign of strong demand. Debt maturing in 2049 yielded 2.44%, 10 basis points less than those first set on the securities, according to preliminary pricing information viewed by Bloomberg. Yields on bonds due in 2054 were also lowered by 10 basis points.

Proceeds will finance infrastructure needs for the MTA's Triborough Bridge and Tunnel Authority.

It's the second upsized debt sale by the MTA this month. The MTA doubled to \$1.1 billion a transportation revenue bond sale that paid down notes that matured May 15.

New York Public Transport Demand Rises on Week: City Tracker

The transactions show the agency can still garner interest from investors, even though the difference between the yield it paid on the \$1.1 billion sale and the municipal-bond market's benchmark was more than four times greater than when it borrowed in January.

The MTA estimates a potential deficit for the year of as much as \$8.5 billion as ridership plummets amid the coronavirus pandemic. It's seeking an additional \$3.9 billion of federal funds to help cover lost revenue.

Bloomberg Markets

By Michelle Kaske

May 21, 2020, 11:55 AM PDT

[**California's Newsom Seeks to Slash Budget to Close \\$54 Billion Gap.**](#)

- **Revised budget spends about \$12.6 billion less than this year**
- **California governor says needed federal aid could lessen cuts**

California Governor Gavin Newsom on Thursday proposed a budget that slashes spending about 9%, cuts state workers' pay by a tenth and said that most of the government can't be spared from deeper pain unless the federal government does more to help all states.

The \$133.9 billion budget for the year beginning in July will draw down the state's reserves by \$8.3 billion, putting it on track toward exhausting the \$16 billion in the main savings account over three years.

It will redirect payments that were slated to pay off pension debt to now cover obligations due over the next two years and cancel planned program expansions to save \$6.1 billion. Newsom is also

proposing a 10% pay cut to state workers even if labor unions don't agree.

Plummeting tax collections coupled with costs to respond to the novel coronavirus have led to a \$13.4 billion deficit this year and \$40.9 billion in the next. By law, California must balance its budget, which legislators have to approve by June 15. They can change it afterward, however, as was done during the recession.

While a federal package backed by House Speaker Nancy Pelosi that would provide direct cash payments to state and local governments pends in the U.S. Congress, municipalities across the country must balance their books. Local officials are grappling with laying off workers and cutting services to residents facing a deadly virus and business closures that are spurring deep job losses.

"President Trump with the stroke of a pen could provide support for Speaker Pelosi's Heroes Act and these cuts would be eliminated," Newsom said during a Sacramento briefing. "If the federal government does what it must do to help states, these cuts would go away."

California, by virtue of its size, is facing by far the biggest deficits as a result of the pandemic, though the swift loss of tax revenue is delivering large hits to states nationwide. By one estimate, states could face shortfalls of as much as \$650 billion through mid-2022, more than were left by the last recession.

Newsom's budget marks a stunning reversal from January, when he unveiled his preliminary proposal that would have padded its rainy-day account to a record \$18 billion and steer more toward services. Instead, the state would no longer allocate the funds planned then for initiatives such as building new kindergarten facilities, maintaining state parks and boosting sustainable groundwater.

Under state formulas tied to revenue collections, schools and community colleges will receive \$19 billion less than expected in January, although Newsom's budget proposes some measures to alleviate that. The state's universities would be hit with a 10% cut in aid, absent federal action.

Personal income tax collections, a key source of revenue, is estimated to plummet nearly 19% next year from this year, while sales taxes would drop by 17%. Overall, major sources of revenue would decline by 6.8%. The budget expects that by June, one in four Californians will be out of work, and that the unemployment rate will slowly improve to 10.6% by the fourth quarter of 2023.

Bloomberg Politics

By Romy Varghese

May 14, 2020, 12:35 PM PDT Updated on May 14, 2020, 2:47 PM PDT

[San Francisco's Boom Fizzles With \\$3.6 Billion in Shortfalls.](#)

- **Mayor warns that difficult financial choices are ahead**
- **Board of supervisors must approve budget by Sept. 30**

San Francisco expects budget shortfalls of \$3.6 billion over the next four years, showing the extensive impact the pandemic-induced shutdowns will leave even if the health crisis eases.

With restaurants and stores shuttered and hotels vacant, city officials most immediately must resolve the \$1.74 billion deficit for this fiscal year and the next two through June 2022, according to

a report released Wednesday by Controller Ben Rosenfield and budget analysts. The city is projecting a total gap of \$2.11 billion in the following two budget cycles through 2024.

“When we think about how far we’ve come and how we’ve expanded services and what we’ve done as a city and now we’re facing a deficit that is something that we have not experienced before, we have to be prepared,” Mayor London Breed told reporters on Wednesday as she warned of hard financial decisions ahead. “We all have to brace ourselves. Everything is being considered. And it could mean challenges to services with our police department, with our fire department, with our homeless services.”

The grim forecasts from San Francisco come as other municipal governments across the country report unprecedented declines in revenue from the closings of businesses and schools to stem the spread of the novel coronavirus. California Governor Gavin Newsom will announce Thursday how he intends to resolve a \$54 billion shortfall. Congressional Democrats this week announced a \$3 trillion aid proposal that would give state and local governments cash directly.

San Francisco, at the epicenter of the nation’s technology industry, and its surrounding communities have ordered residents to stay home until May 31, a mandate first put in place on March 16 and considered among the most restrictive in the state. Breed by June must present the 2021-2022 spending plan, which is about \$6 billion a year, that the board of supervisors must approve by Sept. 30.

The city’s shortfalls will likely grow because the forecast in the next two years doesn’t account for expenses related to the health crisis, “which are likely to be significant,” according to Breed. Already, San Francisco has spent \$375 million on its emergency response. In addition, in a change from the city’s March report, the controller and budget analysts no longer see a quick economic recovery likely, but one that begins later in 2020.

Breed wants to place a \$438.5 million bond measure before voters in November to spur job growth in the wake of the coronavirus pandemic and to bolster mental health and substance abuse services.

The bond will also “get our economy going and get people back to work right away” in a way that’s financially responsible without raising property taxes, Breed said. “It’s going to be critical to our economic recovery.”

Bloomberg Markets

By Romy Varghese and Joyce Cutler

May 13, 2020, 1:16 PM PDT Updated on May 13, 2020, 2:23 PM PDT

[Illinois Hit with Fat Yields in \\$800 million Bond Sale.](#)

CHICAGO, May 13 (Reuters) – Illinois paid a stiff penalty for its financial woes on Wednesday with yields in the state’s sale of \$800 million of bonds topping out at a hefty 5.85%.

While investor demand lowered yields on the tax-exempt, general obligation bonds in a repricing, they remained at extremely wide spreads over the U.S. municipal market’s benchmark scale.

Illinois is the lowest-rated U.S. state at just a notch above junk due to its huge unfunded pension

liability and chronic structural budget deficits. With its revenue sinking due to the economic fallout from the COVID-19 pandemic, the state risks eventually slipping below investment grade.

The state brought the bonds to market after initially signaling it would first sell \$1.2 billion of one-year, cash-flow certificates, which remain on hold. There was no immediate comment from Illinois officials.

At 5.65%, the yield on 10-year bonds was 452 basis points over the Municipal Market Data (MMD) triple-A scale's 1.13%, and the 5.85% yield for 25-year bonds was 396 basis points over the scale's 1.89%. By contrast, New York State's 10-year bond spread was just 13 basis points.

Greg Saulnier, MMD's managing analyst, said the market is continuing to charge a big penalty for Illinois bonds, noting that the bond sale included coupons above the typical 5% level, ranging from 5.125% to 5.75%.

"(Illinois is) pretty much trading like it's in junk category. That's why you saw the bigger coupons. I think anybody who's going to buy this stuff is demanding the bigger coupon payments just for some sort of peace of mind," he said.

Still, Daniel Solender, director of the municipal bond group at Lord Abbett, said, "Illinois should be happy."

"Given where bonds have been trading in the secondary (market) in recent weeks, these yields are good for them and they have proved that they have market access, which is important," he said.

The deal had originally included \$300 million of taxable GO bonds. That debt, which was expected to attract overseas investors, was not priced.

Proceeds from Wednesday's bond sale will fund summer construction projects.

Reporting by Karen Pierog in Chicago Editing by Matthew Lewis

[With Federal Aid Uncertain, Illinois and New York's MTA Test Muni Market.](#)

The Metropolitan Transportation Authority paid up but attracted investors, while Illinois postponed

Two of the country's largest municipal borrowers asked investors to buy bonds this week, a key test of the \$3.8 trillion market where state and local governments turn to fund themselves.

Illinois and New York's Metropolitan Transportation Authority have been marketing about \$3 billion of bonds in recent days—the state to help plug budget holes and the authority to repay debt that is coming due. The MTA found plenty of investors willing to buy bonds Tuesday, but the debt came at a high cost, and it remains unclear how Illinois's deal will pan out, investors and analysts said.

Financial instability in state and local governments has become a national political issue during the coronavirus pandemic, with both President Trump and Senate Majority Leader Mitch McConnell (R., Ky.) questioning bailouts of municipal entities. The reception for the two deals highlights uncertainty about how long the pandemic's economic fallout will last, how much assistance will be made available for municipal borrowers and which ones will be eligible to receive it.

[Continue reading.](#)

The Wall Street Journal

By Matt Wirz

Updated May 6, 2020 6:01 pm ET

[New York Subway Is Too Big To Fail: Long MTA Bonds](#)

Summary

- Coronavirus is driving down subway and bus ridership.
- MTA bond prices dropped and credit agencies downgraded the bonds because of its budget deficit.
- I bought MTA bonds betting that the MTA is too big to fail and will get a bailout.
- Yields in the 5% range are attractive relative to the MUB ETF and other municipal bond alternatives.
- The MTA comprises 2% of the MUB ETF.

My investment thesis for investing in the Metropolitan Transportation Authority (MTA) bonds is based on:

- MTA is too big to fail. It received \$4 billion from the CARES Act and I expect it to receive more.
- MTA issued new bonds in early May. Bond market investors are supporting the MTA, even before a bailout. Also, MTA bonds have rallied off their lows.
- The drop in prices is driving up yields. Depending on maturity and the type of bonds, there are investment opportunities with yields in the 5% range. This is higher on a tax-equivalent basis.
- Although MTA bonds may have more risk than the MUB ETF and other municipal bond alternatives, the lower price and higher yields compensate investors for this risk.

[Continue reading.](#)

Seeking Alpha

May 8, 2020

[New York MTA May Turn to Riders to Raise Cash in the Bond Market.](#)

- **Smaller-sized debt used in 1970s to help the city raise cash**
- **MTA's borrowing penalty has quadrupled in the market**

The fiscally ravaged Metropolitan Transportation Authority is considering a tool that harkens back to New York City's financial crisis in the 1970s: sell bonds in low denominations so riders and residents can invest in subways and buses.

The MTA, the biggest mass-transit system in the U.S., is having to explore different ways of raising cash as the coronavirus pandemic has decimated ridership and sunk revenue collections. Already, the agency has won approval to sell debt to cover operating costs, or so called deficit bonds; it's

tapped bank loans and is asking for an additional \$3.9 billion of federal funds.

Now the agency is looking at offering individuals tax-exempt MTA bonds in \$1,000 denominations, said Pat Foye, the agency's chief executive officer. The Municipal Assistance Corp., created in the 1970s to help steady the fiscally distressed city, sold a similar type of bond at the time as a way raise cash.

"It's one that we're looking at," Foye said during a web cast with Association for a Better New York. "The MAC experience is well known and that is also on the table and could be part of a portfolio of ideas put together."

The MTA is facing a potential \$8.5 billion deficit this year. Subway ridership is down about 92%, as cleaning and sanitation costs increase, Foye said. The agency this week began closing the subway system down between 1 a.m. to 5 a.m. to disinfect trains, an unprecedented move that suspends its 24-hour service.

Selling tax-exempt debt in smaller sizes would drive more individual investors to participate in the agency's borrowing. The MTA on Tuesday sold \$1.1 billion of bonds in denominations of \$5,000. Smaller allotments can attract a larger pool of investors who may not have as much as \$5,000 to invest.

Still, it's costing the MTA more to borrow. Tuesday's sale included debt maturing in 2045 that priced at a yield of 4.95%, 290 basis points more than top-rated municipals, according to data compiled by Bloomberg. That's more than four times the 69-basis-points spread on 25-year debt the MTA sold on Jan. 9.

Bloomberg Markets

By Michelle Kaske

May 6, 2020, 2:28 PM PDT

[New York MTA Debt 'Priced Attractively' in Upsized Deal.](#)

- **Yield spread on 25-year debt more than four times January sale**
- **MTA nearly doubles deal size to help repay short-term debt**

New York's Metropolitan Transportation Authority boosted its first bond offering since the coronavirus pandemic shut down the city to \$1.1 billion as the additional yield compensation to attract buyers soared to more than four times the agency's last sale in January.

The bonds are backed by fare and toll revenue, which have fallen dramatically. Debt maturing in 2045 sold at a yield of 4.95%, 290 basis points above top-rated municipals, according to data compiled by Bloomberg. That's up from a spread of 69 basis points when the MTA sold 25-year bonds on Jan. 9, Bloomberg data show.

MTA appeared to be "a really cheap bond," John Miller, head of municipals at Nuveen, said in an interview Tuesday before pricing was final. "I would imagine MTA and the underwriter wanted to make sure that this deal would have ample demand," Miller said. "So, it was priced attractively, and they got ample demand."

Miller declined to say whether Nuveen, which holds MTA debt, participated in the sale.

The sale is the MTA's first since the pandemic nearly wiped out ridership on its subways, buses and commuter rail lines. The shutdown has left the MTA facing a potential \$8.5 billion deficit this year. It's seeking an additional \$3.9 billion of federal aid.

The deal comes as the agency this week began closing the subway system from 1 a.m. through 5 a.m. every night to clean and disinfect trains, suspending its 24-hour service.

The agency was able to cut yields from what it originally offered. Bonds due in 2055, the longest maturity, priced at 5.23%, down from an initial offering of 5.3%.

The MTA, which owed \$45.7 billion of debt as of April 29, originally planned to sell \$672 million of securities but boosted the size of the deal. Proceeds will help pay down \$1 billion of notes maturing May 15.

All three credit-rating companies have downgraded the MTA's rating because of the agency's dramatic revenue loss during the pandemic. It still carries single A credit ratings, solidly in the investment-grade rung.

Bloomberg Markets

By Michelle Kaske and Shruti Singh

May 6, 2020, 10:00 AM PDT

[Fear Drives MTA, Illinois Yields to Emerging-Market Heights.](#)

- **MTA offers 30-year tax-exempt bonds at 5.1%, matching Mexico**
- **After tax, Illinois bonds yielding about the same as Ukraine**

To judge by American bond buyers, New York's Metropolitan Transportation Authority is a riskier investment than the government of Mexico, which defaulted on its debt less than four decades ago.

Ukraine was forced to restructure its bonds in 2015 to emerge from a major financial crisis. But it's still paying roughly the same to borrow as Illinois, once the tax breaks on the state's debts are factored in.

A steady drumbeat of headlines about plunging tax revenue, massive budget deficits and sky-high unemployment are pushing yields to emerging-market levels for some of America's most financially stressed municipal borrowers.

The MTA, which is facing a \$8.5 billion budget deficit after the coronavirus decimated ridership, offered 30-year bonds Tuesday at a yield of 5.1%, tax-exempt, the equivalent to more than 10% on a taxable basis for New York investors in the highest tax-bracket. Mexico's economy is reeling from a combination of a plunge in oil prices and declines in exports and tourism. Its 30-year U.S. denominated debt yields 5.1%.

Meanwhile, Illinois's 10-year bonds are trading at 5.7%, akin to a taxable bond yield of 9.3%, roughly the same as Ukraine's dollar denominated debt with the same maturity. Illinois's economy is several time larger than that of Ukraine, which is still at war with Russia. And Illinois, like other states, can't

go bankrupt, nor has it ever defaulted on its debts.

The municipal-bond market “is being hit by these headlines and confusion on what municipal credit is like,” said Dan Solender, head of municipals at Lord Abbett & Co. “The MTA, they have a lot of cash, they have a lot of government support. As soon as things open up, whether people love the idea or not, they’re going to use the subway to get around New York.”

Even though state and local government debt is one of the world’s safest investments, the individual investors who dominate the market are still prone to so-called headline risk, or bad news stories that undermine the market’s well-deserved reputation as a haven.

From 1970 through 2018, the average five-year annual default rate for municipal bonds was 0.09%, according to Moody’s Investors Service. Corporate bonds, which have lower ratings, had a 6.6% default rate over the same period.

Debt costs are typically a relatively small percentage of a state’s or city’s overall budget and is fully amortizing, like a mortgage. Corporations and nations that borrow money that must be paid in one lump sum when the debt comes due may be more vulnerable to rapid shifts in market sentiment.

Illinois spent about \$1.8 billion in interest in 2019, a small share of the government’s \$81.5 billion budget, according to the most recent audited financial statements.

While the MTA’s ridership has declined 95%, it has about \$3.2 billion in cash, reserves and lines of credit to provide a bridge until it can secure more state and federal aid or find other fixes for its deficit, according to bond offering documents. The MTA received \$3.8 billion from the federal CARES Act and has asked for an additional \$3.9 billion. Barring more aid, the MTA would have to make politically difficult choices to cut essential services or raise fares, take on more debt, or defer critical infrastructure spending.

Aaron Donovan, an MTA spokesman, declined to comment on Tuesday’s sale.

Even so, New York state law specifically prohibits the MTA and its subsidiaries from filing for bankruptcy and the authority must pay debt before using revenue for operations. And the big yields appear to have drawn plenty of investors: the size of the deal was boosted to \$1.1 billion from some \$705 million, according to a person familiar with the matter.

Mixed messages from Washington on more aid for states and cities is giving investors pause, Solender said. Democrats want to send as much as \$1 trillion in more aid to deal with the fallout from the coronavirus, while Republican Majority Leader Mitch McConnell has voiced support for giving state’s the power to file bankruptcy.

On Tuesday, Illinois delayed the planned auction of \$1.2 billion of short-term debt after its yield penalties surged to record highs.

“Given this environment, given the confusion and uncertainty, those are the kinds of yields they need to pay to raise money,” Solender said.

Bloomberg Markets

By Martin Z Braun

May 5, 2020, 11:14 AM PDT Updated on May 5, 2020, 12:33 PM PDT

Illinois Delays \$1.2 Billion Debt Sale After Penalty Soars.

- **\$2.2 billion in short- and long-term bonds were slated in May**
- **State's yields surge to record high over benchmark securities**

Illinois delayed the planned auction of \$1.2 billion of short-term debt as it faces record-high penalties to borrow on Wall Street because of the deep financial hit the state is being dealt by the coronavirus shutdown.

The worst-rated state had planned to sell about \$1.2 billion of short-term tax-exempt general-obligation debt on Wednesday, its first borrowing during the pandemic, to ease the revenue shortfall in the last two months of the fiscal year. The deal has been moved to “day-to-day status,” meaning it will be sold if market conditions warrant.

With the economic slowdown raising the risk of Illinois having its bonds cut to junk, investors have driven the yields on its two-year debt to nearly 4 percentage points above benchmark, far exceeding every other U.S. state.

“Their spreads had already widened out dramatically on covid impact, on forecasted budgetary deficits for the next few years, obvious revenue declines,” John Miller, head of municipals at Nuveen, said in a telephone interview on Tuesday. Coming to market now “would be more expensive than it has to be.”

The sale would have marked a major test of whether struggling American governments will be able to borrow easily to cover temporary shortfalls in their budgets as tax revenue disappears. The concern that market access could dry up — or become prohibitively expensive — has prompted the Federal Reserve to roll out plans to lend as much as \$500 billion if needed, though the program has yet to extend any loans.

“The state of Illinois has developed its plan and is positioned to enter the market very soon if needed, but with the flexibility to assess the market as it returns from unprecedented dislocation,” Carol Knowles, a state spokesperson, said in an emailed statement. “Like many issuers, we are going day to day and assessing conditions to determine the best time to enter the market.”

The size, timing and structure of the state's expected deals this month are subject to market conditions, she added. In response to a question about whether the state would consider tapping the Fed facility, Knowles said “Illinois' short term borrowing law requires competitive bidding.”

“We fully intend to do both the short-term and the long-term borrowing,” she said. “The timing is fluid.”

Even before the global crisis, Illinois was deemed among the least prepared of states for a downturn with its \$7 billion in unpaid bills, \$137 billion in pension debt and almost no rainy day fund. Now the economic fallout from the virus is pushing states toward their worst fiscal crisis in decades, and Illinois has been singled out by some Republicans as undeserving of federal budget relief.

Illinois isn't the only cash-strapped borrower testing the municipal market this week. On Tuesday, New York's Metropolitan Transportation Authority increased the size of its revenue-bond sale to

\$1.1 billion from \$705 million in its first long-term borrowing since the coronavirus pandemic, according to a source familiar with the transaction. The MTA lowered initial yields, offering bonds ranging from 2045 to 2055 with various coupons and a top yield of 5.23%, according to the source.

While states nationwide are facing massive deficits because of the economic shutdowns, Illinois has been singled out for its fiscal challenges. Last month, Senate Majority Leader Mitch McConnell said on a radio show that he's open to states filing for bankruptcy in response to a question about those with unfunded pension liabilities like Illinois, and President Donald Trump questioned in a tweet why taxpayers should bail out "poorly run" states such as Illinois.

Illinois, which has among the highest number of Covid-19 cases in the U.S., has received \$3.5 billion from the \$150 billion of federal pandemic aid, which is intended to cover virus response costs not budget gaps. States are seeking \$500 billion of federal aid to help make up for lost revenue as social distancing to curb infections shut down large swaths of the economy.

The delay "could prove to be a positive," said Nuveen's Miller, whose firm is typically involved in longer-term fixed-rate Illinois bonds as part of its \$180 billion in municipal assets under management. Postponing could relieve the technical pressure in the market given the state also has said it is planning another \$1 billion long-term bond issue next week, Miller said.

"That's a lot of bonds that have to be absorbed," he said.

The timing of Wednesday's proposed sale was a little "strange" because there are a lot of short-term unknowns with state finances, said Daniel Solender, head of municipals at Lord Abbett & Co., which owns Illinois debt as part of its \$27 billion in municipal assets under management.

"It's not a complete surprise they delayed it," he said. "There is the Fed program which hasn't really been set up yet and states are still waiting on what Congress is going to do."

Illinois's 10-year penalty over benchmark securities reached a record of 4.4% on Monday, according to data compiled by Bloomberg. Given the relatively high volume of Illinois bonds being offered, analysts said the state would have had to pay a larger premium to float new debt.

"They are in a tough financial spot," Lord Abbett's Solender said.

Bloomberg Markets

By Shruti Singh and Danielle Moran

May 5, 2020, 9:52 AM PDT Updated on May 5, 2020, 4:20 PM PDT

["Everything Happened All At Once": Can California Cities Weather the COVID Recession?](#)

IN SUMMARY

For local governments still sporting the budgetary scars of the last "once in a generation" recession, this downturn is at once familiar — forcing elected leaders to cut, furlough and delay — and entirely new. Never in state history has so much economic activity ground to a halt so fast.

Ever since the end of the Great Recession, Rancho Cucamonga has been on a tear.

New retailers and restaurants have sprung up to serve the residents of its gated 'burbs. The city's population has swelled with Angelenos in search of cheaper housing. And at last count, its unemployment rate sat at just 4%. The city earned an upgraded credit rating earlier this year.

But now that shopping and dining have been deemed non-essential activities, the good times are gone, said Rancho Mayor Dennis Michael.

[Continue reading.](#)

CAL MATTERS

BY BEN CHRISTOPHER PUBLISHED: MAY 8, 2020

[Fitch: California Can Withstand Income Tax Collections Drop-Off](#)

Fitch Ratings-New York-04 May 2020: Fitch Ratings believes that the state of California has sufficient liquidity to absorb the significant drop in personal income tax (PIT) collections being reported by the state Controller for the month of April, an impact of deferring the income tax filing date from April to July. The governor's budget proposal for fiscal 2021, which was published in January and will be revised in May, assumed the state would collect \$18.4 billion in April, or approximately 18% of annual collections. This includes both regular withholding and final 2019 tax payments. According to the Controller's daily informal tally of PIT collections, as of April 29, the state has collected \$5.1 billion, \$13.3 billion below target. PIT collections are down \$8.6 billion year-to-date as compared to last year, having started the month \$5.8 billion ahead of last year's collections. Some portion of this shortfall will be made up by July 15, the new deadline for PIT payments, but a portion will be lost entirely given the significant economic dislocation driven by the coronavirus pandemic.

Fitch believes the state has sufficient internal liquidity to absorb the expected delay and drop in collections between now and the new income tax filing date of July 15, including from borrowable resources, which were \$42.8 billion as of the end of February and are expected to be reduced to approximately \$8.7 billion by the end of the fiscal year. With enhanced cash tools developed both during and after the Great Recession, a strong cash position entering this crisis and the receipt of federal aid, the state does not expect it will need to access external liquidity.

As in California, April revenue data for states across the country is likely to reflect the effect of widespread stay-at-home orders. Fitch is monitoring revenue collections as it is made available.

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S&P: Louisiana's Resilience To Be Tested As Economic Pressures Weigh On Budget Outlook

FARMERS BRANCH (S&P Global Ratings) May 4, 2020—As Louisiana (AA-/Stable) state lawmakers return to Baton Rouge, the task of balancing the state's next budget will be met against a growing cloud of uncertainty with the U.S. economy in recession and the state addressing a COVID-19 hot spot. In S&P Global Ratings' view, Louisiana's liquidity and reserve position will adequately support it through heightened economic headwinds caused by the pandemic and ongoing energy sector volatility in the near term.

Louisiana began the current fiscal year on a positive trajectory for both its revenues and economy, with forecasts for continued modest growth. For the first eight months of fiscal year 2020, the state's principal general fund revenues—sales and individual income tax revenues—were collectively up approximately 5%, compared to the year prior. However, with the onset of the COVID-19 pandemic, S&P Global Economics now forecasts a 5.3% contraction in the U.S. output this year (see "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect). The forecasted economic contraction will, in our view, result in a significant decline in state revenue and economic output. Additionally, given Louisiana's limited industrial diversity, which still leans on chemical manufacturing and petroleum-refining industries, the state faces added pressure as the volatility in the energy sectors intensifies. As noted by S&P Global Ratings researchers, in the first quarter of 2020, the U.S. oil and gas sector experienced the largest quarterly increase in negative bias, up by 32 percentage points as companies coped with volatile energy prices, liquidity issues, high leverage, and limited demand growth expectations in the second quarter of the year due to the pandemic. (For additional, please see "U.S. Corporate Credit Stress Surges To Recession Levels On COVID-19 And Oil Shocks," published on April 14, 2020, on RatingsDirect.) While the state has worked to support additional economic diversity, roughly 25% of its total gross state product (GSP) comes from merchandise exports, including energy products, manufacturing goods, and agricultural products linked to the prominence of shipping along the Mississippi River and Gulf of Mexico.

Favorably, Louisiana entered the recession on a relatively stable footing. As required by its constitution, when a general fund operating surplus occurs in a fiscal year, a deposit equal to 25% of the surplus is deposited into the budget stabilization fund (BSF) the subsequent fiscal year. This has resulted in the state increasing its reserve profile in fiscal 2019 following strong revenue collections in fiscal 2018. The resulting operating surplus in fiscal year 2019—totaling \$535 million—required a \$133 million deposit into the BSF in fiscal 2020, which, coupled with \$24 million in one-time settlement funds, is estimated to bring up the balance to \$565.8 million or nearly 5.8% of general fund expenditures, which we consider good. Absent the required transfers, reserve balances would cover just over 4% of expenditures. Appropriations from the BSF are limited in any fiscal year to one-third of the balance and require a two-thirds supermajority in both houses of the legislature. We anticipate the state will use a portion of its reserves, as it has in challenging economic periods, to help bridge a balance for its 2021 budget.

In addition to the positive budgetary performance coming into the recession, Louisiana's general fund liquidity position remained strong through the first half of the fiscal year, averaging slightly

over \$2 billion, or roughly 1.7x greater than the monthly average in fiscal 2017. This should provide flexibility as it manages its cash-flow difficult revenue periods, especially if the shift in the filing deadline for income taxes to July 15 from May 15 causes temporary disruptions. Federal relief from the Coronavirus Aid Relief and Economic Security Act and increases in the federal medical assistance percentage of Medicaid, will help alleviate some of the fiscal strain. Disbursements from Coronavirus Relief Fund to the state total \$1.8 billion, although limited to direct costs associated with the pandemic. While Louisiana's revenue collections, like those across states, will meaningfully decline given the current economic environment, due to its comparatively stronger budget reserves and liquidity position, we believe it can manage these increased pressures within the short term.

Louisiana's legislative session began on March 9, 2020, but due to safety concerns stemming from the COVID-19 outbreak, legislators have been largely unable to work through the budget development process. Notably, the state's Revenue Estimating Conference (REC)-had been delayed indefinitely. We understand the REC will meet the week of May 11. The constitution requires the state's official revenue forecast to be based on existing, recurring revenues. If the state projects a shortfall, the governor and the Division of Administration can make budget amendments to improve structural budget gaps and officials are required to respond quickly and empowered to cut expenditures directly. The constitution requires the state to pass a balanced budget.

Given that the governor's stay-at-home order is currently in place until May 15, we do not expect the legislature will be able to resume budget talks for fiscal 2021 until at least early-to-mid-May. If legislators are unable to complete their work by the end of current regular sessions, which end June 1, then the governor would have to call a special session to adopt a budget. While we do not anticipate it, in the absence of a budget adoption by the beginning of the fiscal year, resources collected and held in the Bond Security and Redemption Fund would still be available to support debt service on the state's general obligation (GO) bonds. There are no debt service payments that would require a fiscal 2021 appropriation until Aug. 15, 2020.

The governor's initial 2021 budget proposal, released prior to the acceleration of the COVID-19 pandemic, reflected a modest increase in general fund outlays, which we anticipated would have to be revised downward. As the lawmakers work through the next budget, a standing challenge is the relatively limited room they have to cut, given that roughly 70% of the general fund is non-discretionary. Of the state's \$9.72 billion general fund budget in fiscal 2020, the discretionary portion-totaling \$2.78 billion-mostly supports higher education and health care initiatives which may be difficult to cut. In previous periods of budgetary stress, the state resorted to one-time budget measures (including using reserves) to balance its budget, although since fiscal year 2017, it has worked on structural measures to achieve balance.

However, the state's major revenue mix is far removed from what it was decades ago, when mineral-derived revenue accounted for a substantial share; it now relies on sales and personal income taxes, which together account for three-fourths of general fund revenues (net of dedications). While mineral revenues (severance and royalty) account for around 7% of general fund collections, we anticipate the hit to the current and next fiscal year budget will be the ancillary services and payrolls that support the state's energy sector. The state doesn't tax groceries intended to be prepared and consumed at home, so the temporary bump in grocery purchases will not have a meaningful effect on collections, in our view.

Ultimately, the magnitude of the effects of an energy shock and pandemic will depend on their depth and duration, but at present, Louisiana's good financial position, combined with its strong oversight, will, in our view, provide a fair degree of flexibility to manage challenges as they arise.

This report does not constitute a rating action.

Florida Hurricane Season Threatens Second Hit to State Finances.

- **Hurricane season may see ‘above normal’ activity: CSU projects**
- **State’s rainy day fund can be tapped for budget, hurricane aid**

As Florida begins to emerge from the coronavirus shutdown, another unseen threat lays in wait: hurricane season.

The virus has already thrown more than a million Floridians out of work and caused a massive blow to the tourism-driven state where sales taxes provide more than half of the government’s revenue, with beaches, restaurants and amusement parks temporarily shuttered. Even as the state starts to re-open, Florida may see an \$8 billion to \$10 billion hit to its budget because of the virus, amounting to about a quarter of its general fund, according to analysis by Moody’s Analytics.

“Hurricane season is right around the corner,” said Florida Chief Financial Officer Jimmy Patronis, who also serves as the state’s fire marshal, on a Wednesday call with fire chiefs. “Severe weather does not care that our communities are dealing with this pandemic.”

The 2020 Atlantic hurricane season, which begins June 1, is projected to see “above normal” activity, according to Colorado State University researchers. And as hurricanes get more severe, they’re also getting more costly in terms of physical and economic damage.

While the AAA rated state has \$3.7 billion in reserves that could be tapped for disaster relief, those funds are likely to be depleted to make up for lost sales-tax revenue from the virus, said Nick Johnson, a senior vice president for state fiscal policy at the Center on Budget and Policy Priorities. He said that Florida was particularly ill prepared for a recession even before the pandemic and the resulting budget cuts could leave state agencies unequipped for a disaster.

“That’s the problem when you have states not well prepared for one disaster,” he said. “If a hurricane were to hit, Florida would be in even more trouble.”

The economic fallout from hurricanes can be sizable. Hurricane Michael, which devastated Florida’s northern panhandle in 2018, caused an estimated \$25 billion in damage and spurred lawmakers to allocate more than \$1 billion in emergency funds. The state has tapped unspent general-fund reserves for disaster recovery expenses that it expects to get reimbursed for later. All five of the costliest hurricanes on record — Katrina, Harvey, Maria, Sandy and Irma — hit in the last 15 years, according to the National Hurricane Center’s data.

“Hurricanes and hurricane seasons are getting worse and worse,” Johnson said. “It would be a huge problem. I think you would see Florida really scrambling to find the resources to respond.”

Historically, hurricanes and other major weather events haven’t lead to drastic credit issues or lower prices for municipal bond issuers because the Federal Emergency Management Agency provided assistance and the resulting rebuilding led to new jobs and spurred economic development. Because of that, climate change and the risks of weather events aren’t priced into the market, said Cooper Howard, a director at Charles Schwab.

“I don’t think many states, cities, or local governments have done an adequate job of preparing for an issue like this,” Howard said in an interview, referring to climate readiness.

This hurricane season could be worse than prior years with major hurricanes making landfall along

the continental U.S. and in the Caribbean, according to projections from the researchers in the CSU department of atmospheric science. The group said there is a 45% likelihood of a category 3, 4 or 5 storm hitting the U.S. east coast, including the Florida peninsula and a 44% chance of one hitting the Gulf Coast and the Florida panhandle. Both of those estimations are about 15 percentage points higher than the average for the last century.

“It’s a pretty dire situation,” said Eric Glass, a portfolio manager at AllianceBernstein. “So much more needs to be done from a mitigation, resilience, and adaptation perspective and now you have a larger than normal hurricane season bearing down on you with limited resources, that doesn’t add up to sunshine and rainbows.”

Glass, who runs the firm’s municipal impact policy group, said as some investors grow wary of municipal credit amid the fiscal hit to many states and cities, the borrowing costs for governments will increase. It’s already happening: this week, New York’s Metropolitan Transportation Authority saw its borrowing penalty quadruple compared to its previous deal in January.

Some of Florida’s beach towns are among the most exposed cities to climate change in the country, according to an analysis by advisory firm Four Twenty Seven that indexed cities and counties exposure to climate-related risks like sea level rise.

The pandemic is already wreaking havoc on state and municipal finances, spooking investors in the municipal bond market. And Florida’s reliance on now-depleted sales taxes and the looming potential for a major storm may raise the price for the state’s investment in infrastructure, Glass said.

“This will make it more expensive for Florida to borrow to fund any type of resilience to climate change,” he said.

Bloomberg Politics

By Danielle Moran

May 7, 2020, 9:38 AM PDT

[San Francisco Facing Steep Revenue Hit Finds Willing Bond Buyers.](#)

San Francisco is expecting that its deficits from the virus-related downturn will be even greater than the \$1.3 billion over two years it had projected in March. That didn’t dissuade investors from buying its bonds Thursday.

The technology hub sold \$196 million in general-obligation bonds, with one-year notes yielding 6 basis points less than benchmark. The highest yields were 2.27% on 4% coupon bonds maturing in 2035, according to data compiled by Bloomberg. San Francisco sold the debt to refund higher-costing securities.

The reception showed how investors are picking winners and losers among local governments hit by the pandemic in the \$3.9 trillion municipal-bond market, which has yet to return to normal amounts of sales. While San Francisco warned in offering documents that it expects to update the projected budget gaps as early as May 8 and that “the magnitude of such larger shortfalls is uncertain,” buyers are betting that the AAA-rated city would fare better than other localities lacking its

resources.

Eric Friedland, director of municipal research at Lord Abbett & Co LLC, pointed to San Francisco's large reserves and its property-tax base — a significant component of revenue — which is less volatile than sources such as sales taxes. He also noted that it's home to technology jobs that "are well suited for social distancing."

"San Francisco is positioned very well in this period," Friedland said by phone. "We see strong resilience for the city."

Bloomberg Markets

By Romy Varghese

April 30, 2020, 11:26 AM PDT

[NYC Bondholders Pricing In Downgrades on Worst Crisis in Decades.](#)

- **None see repeat of city's 1975 brush with bankruptcy**
- **NYC's finances were solid before pandemic, investors say**

New York City's bondholders have downgraded the city, even if rating companies haven't.

Yields on the city's bonds are rising to compensate for the risks posed by the pandemic lockdown that could destroy an estimated 475,000 jobs this year and cost the government \$7.4 billion in lost tax revenue. That has left New York's general-obligation debt trading at a level akin to A- rated securities, three steps below its current grade from S&P Global Ratings, according to data compiled by Bloomberg.

The coronavirus is providing one of the biggest tests of bondholders' faith in the most-populous U.S. city, which rebounded from a 1975 brush with bankruptcy, the Sept. 11, 2001 terror attacks and the 2008 financial crisis. While investors are confident New York will pay its debts, they're uncertain how long it will take for the economy to regain its footing.

"People who live in New York tend to love it and they have a lot riding on getting it back in place," said Guy Davidson, chief investment officer of municipal investments at AllianceBernstein Holding LP. "Will it come back? Yes. It's just a matter of how quickly."

New York's Office of Management and Budget forecasts the city's economy will contract 13% in 2020, almost triple the decline during the financial crisis of 2009. Job losses of 475,000 projected by the city's Independent Budget Office would be the worst the city has faced since the early 1970s, with the leisure, hospitality and retail expected to be the hardest hit. Budget officials project employment won't fully recover until 2023.

Risk Reflected

The city's bond yields reflect the risk. New York City's 10-year general-obligation bonds yield 1.85%, in line with those on full, faith and credit bonds rated A-, according to Bloomberg BVAL indexes. The city's bonds now yield 0.55 percentage point more than AAA bonds of the same maturity.

Investors' views of the Metropolitan Transportation Authority are more dire. With ridership down

95%, its bonds maturing in 3 years trade at an average yield of 5.1%, or the equivalent of 8.6% on a taxable bond — higher than the 8.3% yield on Nigeria's 5-year bonds.

S&P and Fitch Ratings rate the city's general-obligation debt AA, the third highest level. Moody's Investors Service rates the city's debt Aa1, one step higher. Both Fitch and Moody's changed their outlook on the city's bonds to negative this month.

New York isn't facing an immediate cash crunch. It had \$8 billion available at the end of March, according to Fitch. If necessary, it can borrow from the \$500 billion municipal lending facility set up by the Federal Reserve last month to support the \$3.9 trillion municipal-bond market by extending short-term loans.

Bondholders take comfort in safeguards imposed after the 1975 fiscal crisis. The state would take over the city's finances if it doesn't pay its debts on time. Holders of the city's \$38.8 billion general-obligation bonds are paid before property taxes are released to the general-fund budget.

Stable Source

The property tax, a stable source of revenue during recessions, is projected to raise \$31 billion in the fiscal year starting July 1, more than seven times the debt service on general-obligation bonds. Another \$40.7 billion of revenue bonds are backed by a first claim on personal income-tax receipts and sales-tax revenue.

"We've gone through a financial crisis, so the security on most of the bonds are pretty darn strong," said Davidson, the investor with AllianceBernstein.

Before the pandemic hit, New York City's economy was growing at a solid pace.

Employment grew for a 10th consecutive year in 2019, marking the longest expansion since at least 1950, as an economy long dominated by Wall Street continued to diversify.

Rising personal income-tax collections enabled the city to build up its reserves to about \$10 billion.

"We're not talking about something that was teetering before this happened," said John Flahive, head of fixed income investments for BNY Mellon Wealth Management.

In the short term, New York City is balancing its budget by cutting spending and drawing on reserves. Mayor Bill de Blasio has proposed an \$89.3 billion budget for the fiscal year beginning July 1 that was \$6 billion less than the one planned in January. To bridge an \$8.7 billion gap over the next 14 months, the city is tapping \$4 billion of its reserves and cutting \$2.7 billion in spending. The city expects to receive \$2.6 billion in federal aid.

More Aid

Both de Blasio and Governor Andrew Cuomo are asking the federal government for billions more to make up lost tax revenue and increased spending related to the coronavirus. Without additional aid, the state could cut aid to municipalities by more than \$8 billion, with most of the cuts falling on New York City.

"I'm very, very concerned," de Blasio said Sunday at a news conference, where he announced the formation of advisory councils to guide a reopening of the city's economy. "If New York City can't provide basic services there won't be a restart of the economy in New York City or New York State."

Also on Sunday, Cuomo outlined plans to begin a phased restart, beginning with construction and manufacturing, once the region experiences a 14-day decline in the hospitalization rate. The second phase, separated by a two week gap to assess progress, would open businesses based on how essential they are and the risk levels of infection, Cuomo said.

The phased reopening could begin upstate as soon as May 15. Reopening the densely populated New York City metropolitan area will take longer because of the complexity and need to coordinate with neighboring states, Cuomo said.

Businesses will have to develop plans to protect employees and customers and minimize the risk of infection. Everything from office configurations, to cleaning to transportation will have to be reexamined, Cuomo said.

Investors don't foresee an exodus of companies from New York. In time, commuters will return to the subways, trains and buses, albeit wearing masks and gloves.

"The habits of people in New York City will just adapt as they did after Sept. 11," said Rob Amodeo, head of municipal bond investments at Western Asset Management.

Bloomberg Markets

By Martin Z Braun

April 27, 2020, 10:26 AM PDT

— *With assistance by Henry Goldman, and Christopher Dereza*

[PA Law Allows Municipal Governments to Hold Virtual Meetings for Zoning and Land Development Applications.](#)

On April 20, Pennsylvania Gov. Tom Wolf signed into law Act 15 of 2020 (previously SB 841), which expressly authorizes municipal governments and local agencies to hold virtual meetings during the pendency of the COVID-19 emergency in the Commonwealth. Act 15 may end the current confusion among municipal officials and the real estate developers that have business before them as to how to handle pending matters.

Under the Pennsylvania Municipalities Planning Code, a municipality's governing body must approve or deny a land development plan application within 90 days of the first planning commission meeting following submission. Similarly, a zoning hearing board must commence a hearing on a variance or special exception application within 60 days of submission. If the decisions are not made or the hearings are not held within the statutory time periods, an application is deemed approved. Pennsylvania law also requires a quorum of a municipal agency to be present to take formal action.

Because of the stay-at-home orders in place in the Commonwealth, municipal governments and their agencies, such as planning commissions and zoning hearing boards, have struggled to hold timely meetings and hearings to consider zoning and land development applications. While many meetings and hearings were cancelled or postponed indefinitely with the consent of the applicants, some municipalities have attempted to hold meetings and hearings through virtual means, like Skype or Zoom. But without express statutory authorization for these virtual meetings, the actions taken at those meetings may be invalid. This is concerning to real estate developers that do not want to make

additional investments in a project without certainty that the initial zoning approvals cannot be the subject of a procedural challenge at a later date.

The enactment of Act 15 provides clarity to municipalities and developers alike. Initially, Act 15 authorizes municipal governments and agencies to conduct meetings, hearings and other proceedings during the COVID-19 emergency by means of authorized telecommunication devices. The Act defines “authorized telecommunication device” as including “any device which permits, at a minimum, audio communication between individuals.”

Also under Act 15, all time periods within which a municipality must act on zoning and land development applications are suspended and tolled from March 6, 2020 to May 20, 2020, and each applicant subject to the time extension is to receive written notification of the time extension. These applicants will also receive notice that they may request a meeting or hearing on the application to be held before May 20, 2020, and the municipality or local agency may proceed with such a request at its discretion. Notice of the meeting or hearing must be provided to the public and interested parties at least five days before the meeting or hearing via a post on the municipality’s website or in a newspaper of general circulation. Also, any party receiving actual notice of the meeting or hearing is deemed to waive any challenge based on the Commonwealth’s open meeting laws and other applicable laws governing the notice, conduct or participation in a meeting or hearing.

Although Act 15 does provide some guidance to municipalities and developers alike, as a newly developed law, practical difficulties in holding virtual meetings and hearings will almost certainly arise, such as the presentation of witnesses and evidence by applicants and objectors. Nevertheless, the Act protects municipalities against deemed approvals during these challenging times, and creates a path for developers to move forward with the approval process.

Pepper Hamilton LLP - David J. Tshudy

April 27 2020

[New York MTA Delays \\$1 Billion Bond Sale as It Scrambles for Funds.](#)

Deal postponed until next week as state announces cuts in aid to authority

New York’s Metropolitan Transportation Authority postponed a roughly \$1 billion bond sale this week as it grapples with a drastic reduction in ridership and cuts in state aid, highlighting how the global pandemic is upending the finances of mainstays in the normally staid municipal debt market.

The bond deal would be the first for the state-controlled operator of New York City’s subways and buses since the spread of Covid-19 sparked a selloff in its bonds that significantly increased its borrowing costs. The authority is also seeking additional federal aid to boost cash needed to meet obligations, Chief Financial Officer Robert Foran said in an interview.

The MTA and its investment bank Jefferies LLC told investors Tuesday that they would delay the sale of the debt until next week, people familiar with the matter said. Money from the deal is earmarked to repay \$1 billion of debt that falls due May 15.

[Continue reading.](#)

The Wall Street Journal

By Matt Wirz

Updated April 30, 2020 4:46 pm ET

[Cash Flow and Budget Relief for Local Governments and Borrowers in California: Orrick](#)

As a result of the COVID-19 virus, local governments in California are facing sudden, unexpected, unprecedented, dramatic shortfalls or delays in a number of their core revenue streams, in some cases combined with significantly increased expenses. To assist in addressing these issues, Orrick has published a brochure *Cash Flow and Budget Relief for Local Governments and Borrowers in California*, that identifies potentially relevant financing tools available in California. Some address budget relief, some cash optimization, some structural deficit financing and some cash-flow financing. Some are based on tools used when the State of California was running huge deficits affecting local governments. Some are based on techniques used in the 2008 financial crisis, which also disrupted the municipal bond market. Some are new. Some are also relevant to private nonprofit and other borrowers from state and local government issuers. Some touch on but do not focus on specific CARES Act or Municipal Liquidity Facility programs.

The brochure is available for download [here](#).

Public Finance Alert | April.16.2020

[Short-Term Financing Options for Illinois Units of Local Government: Ice Miller](#)

The State of Illinois (the “State”) is likely to suffer material adverse consequences from the continued spread of COVID-19 and any economic downturn, which would affect the amount of State-shared revenues, such as Local Government Distributive Fund payments, appropriated to units of local government. The spread of the virus could also reduce sales tax, income tax, motor fuel tax, video gaming tax, and other collections dependent on local business activity, which is likely to be slower, and property tax collections could also be adversely affected. While Illinois governmental units are working to identify potential revenue impacts and aligning their budgets accordingly and, to the extent possible, developing reserve funds to assist with potential cash flow issues, units of local government may benefit from borrowing on a short-term basis.

Since local governments are generally labor-intensive, these working capital management measures might also include layoffs and furloughs that necessitate service reductions, payroll deferrals, or delays in vendor payments. Local governments, particularly those governments that do not carry large liquidity balances relative to operating needs, may explore extraordinary cash flow support measures in the near term. These may include financial market solutions such as lines of credit and tax/revenue anticipation notes or warrants issued either through public sales or private placements.

Can Illinois units of government borrow from the Federal Reserve Bank pursuant to the Federal Revenue Act? Under a new lending option called the Municipal Liquidity Facility authorized by the Federal Reserve Act, the City of Chicago and Cook County are authorized to form a special purpose vehicle (“SPV”), said SPV being authorized to then borrow from a Federal Reserve

Bank. Due to population requirements, other units of local government are not authorized to borrow under this program. We are hopeful, however, that some further relief will come from future federal legislative action, because many issuers will have shortfalls and will need tools to deal with those shortfalls.

What tax collection delays have been instituted in Illinois to help taxpayers cope with the stress of COVID-19 and what is the expected impact to Illinois issuers? In order to help businesses cope with lost revenue and prevent layoffs, the State mandated through emergency legislation that certain local governments may delay the collection of some property tax payments. Certain units of local government in Illinois have adopted similar delay policies. Illinois has delayed the income tax filing deadline to align with the new federal filing date of July 15, 2020. Property taxes are typically the largest portion of total tax burdens imposed by Illinois local governments.

What financing tools are available for Illinois local governments to finance short-term obligations?

- 1. Working Cash Fund Bonds** Traditionally, working cash fund bonds have been issued as short-term obligations where the proceeds are used to cover a governmental unit's temporary cash flow or operating deficit. Short-term budgetary deficits also may arise from a mismatch in timing between the receipt of annual revenues (e.g., property taxes) and the incurrence of annual expenditures of the governmental unit within a year. Counties, cities, villages, school districts, library districts, park districts, and community college districts are authorized to issue working cash fund bonds pursuant to statutory requirements.
- 2. Tax Anticipation Warrants** Tax anticipation warrants ("TAWs") often are issued in anticipation of taxes levied, but not yet collected. TAWs may be issued in an amount not to exceed 85% of the issuer's last known equalized assessed valuation ("EAV") multiplied by the maximum permitted tax rate of the issuer for the particular fund against which the TAWs are issued. Counties, cities, villages, school districts, library districts, park districts, and community college districts are authorized to issue TAWs.
- 3. Tax Anticipation Notes** Tax anticipation notes ("TANs") allow a governmental unit flexibility to balance its revenue collections from anticipated levies with anticipated expenditures. A governmental unit may be permitted to incur debt by issuing TANs in an amount not to exceed 85% of the issuer's last known EAV multiplied by the maximum permitted tax rate of the issuer for the particular fund against which the TANs are issued. Unlike TAWs, TANs are required to mature within two years and may not be issued if there is an unpaid note from any prior year. Although TANs are generally a means of balancing a governmental unit's operating expenses with revenue collections, TANs sometimes may be used as a "bridge" to fund a pending capital project while the governmental unit structures more permanent funding. Counties, cities, villages, school districts, library districts, park districts, and community college districts are authorized to issue TANs.
- 4. Lines of Credit - Promissory Notes and Debt Certificates** Many banks offer lines of credit to Illinois units of local government. Typically, these are structured as promissory notes or debt certificates, normally in amounts greater than \$50,000 to be considered as "issued" for tax-exempt bond purposes. Notes and debt certificates are general obligations of the governmental unit, which are payable from all available resources including but not limited to ad valorem taxes, state aid, and the general fund of the governmental unit. Counties, cities, villages, school districts, library districts, park districts, and community college districts are authorized to issue these types of obligations.

What can be used as security for the short-term obligation? The Local Government Debt Reform Act (the "Debt Reform Act") allows flexibility in what may be pledged as a "revenue source"

to the repayment of a debt obligation. "Revenue source" means a source of funds received or available to be received by a governmental unit and available for any one or more of its corporate purposes. Note that the source cannot be an enterprise revenue, for example revenue from a municipal water or sewer plant. The Debt Reform Act further authorizes a governmental unit to direct a county collector to deposit directly ("intercept") any amount of tax proceeds pledged to the payment of warrants into a designated escrow account established by the governmental unit. Utilizing an intercept provides the bondholders the security of having the pledged revenue source wired directly from the respective county collector to an escrow account to be used by the escrow agent for debt service on the obligation before any payment to the governmental unit.

As noted above, loans and debt certificates are general obligations of the governmental unit, which are payable from all available resources including but not limited to ad valorem taxes and state aid and the general fund of the governmental unit.

What is the difference between a debt certificate or promissory note and a TAN or TAW?

Generally, a TAW or TAN is payable solely from the tax levied but not yet collected for a specific fund or funds of the governmental unit and is generally outstanding for a short period of time; while a promissory note or debt certificate is a general obligation of the governmental unit, secured by all sources of the governmental unit and may be outstanding for more than one year.

When can short-term financings be financed as tax-exempt? Federal tax rules allow tax-exempt bonds or notes to be issued to finance working capital expenditures under certain circumstances. Working capital expenditures are expenditures that are not capital expenditures. For example, costs incurred to acquire, construct, or improve land, buildings, and equipment generally are capital expenditures. Costs of operations, debt service, or pension payments are working capital expenditures.

What are the primary tax law issues raised by the use of tax-exempt bond proceeds for working capital expenditures? The sizing of tax-exempt financings for working capital takes into account on a monthly basis the available amounts of revenue, the anticipated expenses, and a permitted working capital reserve that results in a cumulative cash flow deficit. The term is typically limited to 13 months, and certain rebate accounting can be avoided by sizing the obligations to cover a deficit that occurs within six months of the date of issuance of the obligations. The tax law also permits the financing of certain extraordinary working capital expenditures without regard to a cash flow deficit.

Federal tax rules also permit the issuance of longer-term working capital obligations, including extraordinary working capital borrowings. These rules require the issuer on the issue date to determine the first fiscal year following the 13-month period after date of issue in which it reasonably expects to have a surplus (the "first testing year"), which must be within five years of the date of issuance; determine the amount of surplus at the beginning of each testing year; and redeem bonds and/or purchase eligible tax-exempt bonds up to the amount of the outstanding working capital bonds.

What changes can be made to existing tax-exempt bonds to assist Illinois issuers in dealing with budget shortfalls during COVID-19? Any change to payment terms of a bond will require bondholder consent. Issuers may find that it is more difficult to get such consent for public bond issues than it is for private bond issues or bank-purchased bond issues. Some issuers are asking bondholders for accommodations to existing bond documents because of the COVID-19 crisis. Such changes could result in loss of tax-exempt status, so it is best to consult bond counsel first. Most documents will require an opinion of bond counsel, although that could be waived. The deferral of one or more scheduled payments on a bond (either principal or interest) within a safe-harbor period

does not cause a reissuance resulting in loss of the bond's tax-exempt status if the deferred payments are unconditionally payable no later than at the end of the safe-harbor period. The safe-harbor period begins on the original due date of the first scheduled payment that is deferred and extends for a period equal to the lesser of five years or 50% of the original term of the instrument.

A bondholder's temporary forbearance to stay collection or waive default rights for a period of up to two years, plus any additional period during which parties conduct good faith workout negotiations or a bankruptcy case is pending, does not cause a reissuance resulting in loss of the bond's tax exempt status.

Changes to a bond's interest rate, obligor, or security always need to be analyzed, although the rules are different if such changes are permitted by the original bond documents. Some private placement deals contain formulas in the original bond documents which address the possibility of changes to the original structure.

[This chart](#) is intended to show the various options to finance working capital and basic requirements thereof:

Ice Miller LLP - Amy M. Corsaro and James M. Snyder

[S&P: Kentucky's Budget Management Tools Offset Near-Term Fiscal Effects Of COVID-19-Induced Recession](#)

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- Standing authority exists to reduce expenditures and issue TRANs, if needed
- Fiscal 2021 budget adopted with uncertain revenue estimates, but contributes full pension contributions

NEW YORK (S&P Global Ratings) April 15, 2020—S&P Global Ratings believes the Commonwealth of Kentucky (A/Stable) is adequately positioned in the near term to manage fiscal and economic pressures induced by the COVID-19 pandemic. Kentucky has adopted a one-year budget, unlike its typical biennial budget, to be in a position to more effectively make adjustments as conditions change. The enacted budget initially reduces fiscal 2021 estimated revenues from earlier baseline forecasts and further reductions are likely as the pandemic and effects of the economic recession become more apparent.

[Continue reading.](#)

[Murphy Says He Wants to Borrow Up to \\$9 Billion From Fed.](#)

- **'I don't see any other way around it,' N.J. governor says**
- **Other states skipping U.S. route to get private money sooner**

New Jersey Governor Phil Murphy wants to borrow as much as \$9 billion from the U.S. Federal Reserve's first-ever move into the municipal-bond market, with its \$500 billion promise for states and cities.

“I don’t see any other way around it,” Murphy, 62, a retired Goldman Sachs Group Inc. senior director, said at a Trenton news conference. He called it a necessary “tool in our tool kit” as the coronavirus pandemic has shut down large swaths of the nation’s economy, decimating state and local revenue.

Details of his borrowing plan were contained in draft legislation seen by Bloomberg on April 15. His administration would borrow for this fiscal year and next, relying on future revenue to repay. Should income not hit marks, he would raise property and sales taxes. The draft leaves blank the dollar amount sought.

Murphy today said the Federal Reserve would limit New Jersey to \$9 billion in borrowing based on revenue-related caps, though he said he wasn’t sure whether the state would seek that much.

Murphy said he discussed the plan Thursday with legislative leaders and called it “a good discussion.” On April 15, Senate President Steve Sweeney, a fellow Democrat and New Jersey’s highest-ranking lawmaker, said he had many questions about the plan, including how much the state would seek and whether it could repay borrowing without raising taxes. The state also has a constitutional ban on general-obligation borrowing without voters’ consent, but Murphy may have a workaround under emergency or act of God provisions.

The Fed last week said it would extend as much as \$500 billion of loans to states, Washington, D.C., and some of the most-populous cities and counties. The central bank hasn’t released program details, including how much it will charge for the loans. Citigroup Inc. has estimated it could take weeks for the program to start dispensing funds.

At least three states — Hawaii, Massachusetts and Rhode Island — aren’t waiting for the Federal Reserve opportunity. They have taken steps to borrow from Bank of America Corp. to cover temporary cash shortfalls as the wide economic shutdown crimps their tax revenues.

Bloomberg Markets

By Elise Young

April 16, 2020, 11:34 AM PDT Updated on April 16, 2020, 12:25 PM PDT

— *With assistance by Amanda Albright, and Danielle Moran*

[Amendments to CA Proposed Legislation Would Change Municipalization / Eminent Domain Takeovers of Electric, Gas and Water Utilities: Nossaman](#)

We’ve previously reported on [Senate Bill 917](#), which was introduced on February 3, 2020, by Senator Wiener (D-San Francisco) to establish a process for a potential government takeover of investor-owned electrical, gas and water corporations. While the stated intention of the bill was to facilitate an eminent domain acquisition of PG&E by the state government, its wording goes much further. Additionally, on April 3, a series of amendments were introduced that would potentially significantly change the burden of proof on a municipalization takeover effort.

Specifically, the amendments to SB 917 would make changes to Sections 1240.650, 1245.210, 1245.250, and 1268.610 of the Code of Civil Procedure, which govern the standard of proof and different evidentiary presumptions relevant for eminent domain actions. Under existing law, when

the government takes private property for private use, if that property is used for the same purpose (e.g., continuing to use a water supply system to provide water), then there is a **rebuttable** presumption that it is a “more necessary use,” thus fulfilling one of the requirements to allow the government to condemn it. The proposed new language changes that and states:

(c) Where property that has been appropriated to a public use is electrical, gas, or water public utility property which the public entity intends to put to the same use, the presumption of a more necessary use established by subdivision (a) is **conclusive, and not rebuttable**, including in the circumstances when (1) the acquiring public entity is a sanitary district exercising the powers of a county water district pursuant to Section 6512.7 of the Health and Safety Code, and (2) the public utility that owns the public utility property has been convicted of one or more felony criminal violations of laws enacted to protect the public safety within 10 years of the date the condemnation action is commenced.

This proposed language would result in a significant change for investor-owned utilities, as it negates the utility’s ability to introduce evidence and contradict the public agency’s findings regarding whether the agency really needs to undertake the takeover of the utility to provide the same service. The existing “rebuttable” presumption has been used by utilities to defeat a public agency’s right to take, primarily by introducing evidence that the public agency would not be able to provide better or more cost-effective services. By eliminating this rebuttable presumption, and making it “conclusive,” the utility would arguably lose the ability to contest the public agency’s determinations.

While the intention of this proposed new language appears to be aimed at making the conclusive presumption regarding “a more necessary use” applicable to public utilities that have been convicted of a felony, the language is ambiguous in that it uses the word “including” those situations — not “limited to” those situations. Therefore, a government entity may attempt to interpret this proposed statute to make all municipal takeover eminent domain actions involving “electrical, gas, or water public utility property” subject to the same “conclusive” presumption. This would, in effect, make contesting any municipalization takeover effort incredibly difficult and would effectively eliminate a significant potential defense that was previously available.

There are also several other amendments to the initial SB 917 language, including:

- **Community Choice Aggregation Providers (CCAs)** - The amendments would authorize CCAs to own and operate electrical distribution and transmission equipment that they acquire from public utilities. The new amendment would also allow CCAs to take part in the eminent domain acquisitions of electric corporation assets under the process previously contemplated in SB 917.
- **Acquired Employee Protections** - The amendments add several significant provisions regarding employee protections for employees of acquired utility systems, including requiring identical salaries and benefits as they had when they were still employed by the public utility until a collective bargaining agreement can be reached.
- **NCLEUD Participation in Wildfire Fund** - The amendments would authorize the Northern California Local Energy Utility District (NCLEUD) (an entity that would be formed under SB 917 to own and operate the assets) to participate under the wildfire fund created in Assembly Bill 1054 (2019).
- **NCLEUD Low-Income Customer Assistance Program** - Authorizes the Northern California Local Energy Utility District to implement a low-income customer assistance program for any acquired service.

- **Prohibition on Sale of Hydro-Electric Assets by PG&E** - The amendments include language that would effectively prohibit PG&E from selling hydro-electric assets until 2030 except to the Northern California Local Energy Utility District that would be formed under SB 917.

You can view the April 3, 2020 amendments to the initial SB 917 language introduced in February [here](#) or view how the amended language would change existing statutory codes [here](#).

by Bradford B. Kuhn and Willis Hon

April 9 2020

Nossaman LLP

[Puerto Rico Debt Plan at Risk as Economic Outlook Darkens.](#)

(Bloomberg) — Puerto Rico and a group of investors in February agreed to a debt-cutting deal that would allow them to recover as much as 77.6 cents on the dollar from their investment in the island's bonds. But that deal may have to be revisited as the coronavirus darkens the outlook for the economy.

While the commonwealth estimates its economy has been growing after more than a decade of contraction, the coronavirus could exert a considerable drag on Puerto Rico's economy over the next two quarters.

The tentative plan for how to slash nearly \$18 billion of Puerto Rico's debt is on hold after the judge overseeing the record bankruptcy canceled hearings set for early June as island officials work to slow the spread of the disease. They'll also be working with Puerto Rico's financial oversight board to assess the economic impact of the virus on the island's ability to repay bondholders, the commonwealth's Fiscal Agency and Financial Advisory Authority said in a court document filed Thursday.

"This is going to make it harder to give the same level of revenue growth and it's going to force them to cut deeper into bondholder principal," said Matt Fabian, a partner at Municipal Markets Analytics.

Economy Halts

States and cities throughout the U.S. are struggling to get a handle on how bad their finances will be hit as businesses, schools and cultural institutions close. In Puerto Rico's case, it must also work through its nearly three-year old bankruptcy as most economic activity halts.

The latest challenge will likely force island official to place the debt restructuring on the back burner, as it did after being battered by Hurricane Maria in 2017. Depending on how Puerto Rico weathers the economic blow, the amount of money to pay debt service may change.

"It may impact recoveries," said John Ceffalio, municipal credit research analyst at AllianceBernstein, which manages \$47 billion of debt, including Puerto Rico securities. "Our desired outcome from the board's work is sustainability for the island — sustainable economy, sustainable budget, sustainable debt service — and given the uncertainty with the virus there are a lot of questions right now as to what is sustainable."

While addressing Puerto Rico's finances is a central task for the oversight board, the virus has become the main issue in the near term.

"The oversight board's focus right now is on supporting the government to help Puerto Rico through the COVID-19 crisis," Matthias Rieker, a spokesman for the board, said in a statement. "The oversight board's goal continues to be to reduce Puerto Rico's debt to a sustainable level."

The debt restructuring plan faced hurdles even before the coronavirus. Bond insurers hadn't signed on to the tentative deal and Governor Wanda Vazquez criticized the proposal.

The oversight board on Feb. 9 struck the tentative deal with Aurelius Capital Management and other investors. It includes a range of recoveries depending on the security. General obligations sold in 2014 with an 8% coupon would get 65.4 cents on the dollar while Public Buildings Authority debt sold before 2011 would get 77.6 cents.

Trading Below

Some Puerto Rico bonds are trading below those levels following the steep sell-off in the municipal market earlier this month. General obligation bonds with an 8% coupon and maturing in 2035 traded Monday at about 59 cents on the dollar, down from an average 73.8 cents in February, according to data compiled by Bloomberg.

Puerto Rico is set to file by May 1 a status report to the court on the effects of the virus on the economy. Island officials will also be reviewing the debt adjustment plan.

"During this adjournment, the government, in collaboration with the oversight board, will work to assess the economic impact of COVID-19 on Puerto Rico's debt service capacity under the proposed plan of adjustment (or any future plan)," AAFAF, the fiscal agency, said in a court document filed Thursday.

While the oversight board and Puerto Rico will work to achieve the best settlements in their interest, the debt adjustment plan spans many years and doesn't rely just on the economy's immediate performance, said Howard Sitzer, senior municipal analyst at CreditSights Inc.

That longer horizon and the potential federal aid that Puerto Rico will receive along with Governor Vazquez's \$787 million stimulus plan will help support the island's economy, Sitzer said.

"The question is what kind of drag will the pandemic have in terms of the intermediate to longer range economic performance of Puerto Rico?" Sitzer said.

Bloomberg Markets

by Michelle Kaske

March 30, 2020

[Near-Junk Illinois Faces Record Bond Penalties on Financial Risk.](#)

- **10-year spread over AAA rated debt rises to 340 basis points**
- **Higher debt costs mean 'budget balancing harder': Fabian**

The extra yield that investors are demanding to own Illinois bonds has surged to a record high, surpassing even the levels hit three years ago when it was on the verge of seeing its rating cut to junk, as the coronavirus threatens to deal a devastating blow to its precarious finances.

The yield on the state's 10-year debt has climbed to about 340 basis points above the top-rated benchmark, according to Bloomberg's indexes, which were started in 2013. That's above the previous record in June 2017, during the height of a protracted two-year budget impasse that left the government contending with a swelling backlog of unpaid bills and threatened to turn it into the first state to be stripped of an investment-grade credit rating.

Since then, Illinois had gained some ground as lawmakers crafted plans to stabilize its budget and tumbling interest rates boosted demand for higher-yielding securities. But the market since last month has been rocked by a series of sell-offs and investors are on edge about the deep financial hit the pandemic-induced economic slowdown will deliver to Illinois, which already had \$137 billion in unfunded pension liabilities, more than \$7 billion in unpaid bills and almost nothing in its rainy day fund.

With its bonds rated just one step above junk by Moody's Investors Service and S&P Global Ratings, a downgrade could set off a round of forced selling by mutual funds that can only hold investment-grade debt.

"The situation is more precarious because they are currently rated just above investment grade," said Jason Appleson, a portfolio manager for PT Asset Management, which holds Illinois debt. "The more investors fear there's a chance for Illinois to get downgraded to below investment grade, the greater the chance of spread widening."

Illinois 10-year bond spread hits record ahead of tightening cash
Governor J.B. Pritzker has acknowledged the steep economic toll, though he has yet to provide estimates for how severe it will be.

Making matters more difficult, the state has joined those that pushed their annual tax-collection deadlines until July, creating cash-management challenges even with the \$150 billion in federal emergency stimulus money about to flow to states and local governments. Illinois Comptroller Susana Mendoza said Friday the state will delay some payments in the coming months to pay more immediately needs such as equipment and services to curb the outbreak.

During previous fiscal crises, Illinois continued to cover its bond payments, and no state has defaulted on its debts since the Great Depression. Illinois's general-obligation debt is funded a year in advance, effectively insulating bondholders from a near-term default, said Matt Fabian, a senior analyst for Municipal Market Analytics.

"Because of the wider spread, they will have to pay more," he said. "It will make their budget balancing harder. The spread widening does have real world consequences."

Most states are "really cash poor this quarter" but Illinois is "going to have a much tougher time looking for short-term financing" than a highly rated state, said Dan White, head of public sector research for Moody's Analytics.

"There's going to be some real cash crunch time coming," White said.

Bloomberg Markets

By Shruti Singh

April 3, 2020, 10:32 AM PDT

[New York City's Economy Is in the Crucible of the Crisis. The Rest of the Country Is Next.](#)

New York City, as the nation's epicenter of the Covid-19 pandemic, is battling an unprecedented health crisis. It is also grappling with a rapid economic slowdown that is undermining hard-won gains in its fiscal health that have been achieved since the financial crisis of the 1970s.

The country's largest metropolis operates on a massive scale, with an annual budget of \$95 billion that exceeds that of nearly every state. It has a population of 8.4 million, total employment of 4.7 million, public-school enrollment of 1.1 million, a municipal labor force of 327,000, nearly 300,000 retirees drawing from a huge underfunded pension plan, and \$91.6 billion of outstanding debt.

New York's situation is emblematic of the one that many states and cities across the country soon will be facing as unemployment surges and tax revenues drop.

[Continue reading.](#)

Barron's

By Andrew Bary

April 3, 2020 7:01 pm ET

[California Municipal Bond Investors Must Do This While They 'Stay At Home'](#)

Year in and year out, California consistently tops the nation in bond issuance.

The Office of the Treasurer for the State of California notes general obligation and lease revenue bonds outstanding and supported by the General Fund currently total \$80.8 billion so far this year. At the close of 2019, there was another \$35.7 billion in State Revenue Bond Financing Programs as well as \$31.7 billion in through Conduit Financings with outstanding bonded debt.

In addition to these state supported or issued bonds, add outstanding debt of local government, district, agency, and authority, including all general obligation and revenue bonds. In total, it's estimated some \$482 billion in bonds are outstanding—just over 12% of the total municipal bond market.

That's a lot of investors holding a whole lot of bonds. Morningstar reports that as of March 2020, \$82.9 billion were held in California intermediate and long muni mutual funds. Individual bondholders, separately managed accounts, trust accounts, and other institutional investors hold the balance.

Regardless of where the bonds end up, all that debt is held in a portfolio somewhere. California Governor Newsom's "Stay at Home" order is going to affect every last dollar of it in one way or another.

The order sharpens the focus on the vulnerability geographically concentrated portfolios incur when faced with systemic risk.

Diversity Vs. Correlation

Diversification in a California-only municipal bond portfolio generally means maintaining some geographic dispersion within the state as well as sector heterogeneity.

However, with the public policy response to the coronavirus pandemic affecting the entire state, portfolio diversification becomes far less defensive both on individual holdings as well as, and perhaps even more importantly, the portfolio as a whole.

Credits that initially may have seemed unrelated and uncorrelated are now inextricably connected. Prior to this event, the portfolio may have looked like a well-ordered Venn Diagram. The coronavirus now has those circles converging in ways previously not considered.

Defaults Or Downgrades

Default risk among large public service providers of basic infrastructure, such as mass transit, bridges and highways, municipal services and ports, remain low at this time, in my view. The risk of downgrade, however, is significantly higher.

With downgrades comes not only a decline in pricing but also an increase in volatility. Expand that across an entire portfolio's holdings, even a portfolio with shorter (under 10 year) maturities, and the effect can be substantial.

Actions To Take

There are some specific actions investors should consider taking in assessing the risks this order has heightened, both on individual credits and the portfolio overall.

While perhaps prompted to start these due to the coronavirus, note these are good investment and portfolio management practices that any investor should be doing as part of ongoing surveillance. Appropriate for this time, I draw from the scientist who discovered and promoted vaccination, Louis Pasteur: "Luck Favors the Prepared Mind."

Here is an initial list of several key factors to chart:

1. Revenue Security Source (i.e., ad valorem taxes, sales taxes, fees)
2. Underlying economics of the Security Revenue Source (i.e., home values, sales volume, project or service usage)
3. Backstop Security Provisions (i.e., regulation or legislation permitting or limiting fee increases, release of state support funds, imposition of state oversight)
4. Debt Service Reserve Fund
5. Security Liens (i.e., unlimited taxes, first lien on tax revenues)
6. Number of people served by the service, both directly and indirectly.

While there may be no investment buy or sell to take at this time of market dislocation and illiquidity, I am reminded of another quote. As the proverb goes, "Forewarned is forearmed."

In this market, either quote will suffice.

Forbes

by Barnet Sherman

Mar 23, 2020

[CA Legislative Analyst's Office to Issue Briefings on Impact of Federal Actions in California.](#)

As the COVID-19 crisis unfolds, the interplay between federal, state and local law has become increasingly complex. In response, earlier today, the California Legislative Analyst's Office (LAO) announced plans to publish a series explaining how federal actions are affecting California, including "write-ups on the federal emergency declaration, unemployment insurance, health care and public health, food assistance, and others." The LAO also announced that it will update this series as the federal government takes additional action. For businesses impacted by the federal and California COVID-19 responses, this new LAO series should be a useful resource and offer a unique perspective into current and future government actions. Please go [here](#) for additional details.

Manatt Phelps & Phillips LLP - Brandon D. Young and Thomas R. McMorrow

March 23 2020

[Preston Hollow Capital Completes Ohio Hospital Non-rated Bond Financing Under Volatile Tax-exempt Market Conditions.](#)

Preston Hollow Capital (PHC), an independent specialty municipal finance company based in Dallas, announced today the successful completion of a transaction for up to \$61.29 million of tax-exempt non-rated draw-down bonds facilitating improvements to Van Wert Health, a non-profit acute care hospital in Van Wert, Ohio.

Among many uses, the bonds will finance the construction and equipping of approximately 80,000 sq. ft. of additional space for medical, surgical, and labor and delivery services, as well as site work, improved street access, and renovation of current space to accommodate the new configuration.

"It's been a pleasure to work with PHC on this deal," said Karen Shadowens, Chief Financial Officer of Van Wert Health. "Their expertise and proficiency has been remarkable during every step of the process. This expansion project will allow us to move into the next era of health care in our region."

"PHC closed and funded this financing despite the recent disruptions that have roiled the municipal capital markets," said Charlie Visconsi, Co-Head of Transaction Originations at Preston Hollow Capital "Once again, our permanent capital facilitated the execution certainty that Preston Hollow Capital's borrowers need in difficult market conditions."

"Charlie and his team took the time to hear the Van Wert Health story and then dig into the credit," remarked Scott Winter, Managing Director at Ziegler, underwriter of the bond issue. "The PHC team

was extremely thorough and professional throughout the due diligence process and to be able to deliver capital on time and without additional conditions in severe market conditions is extraordinary.”

Business Wire | March 23, 2020

[Puerto Rico Oversight Board to Ask for Delay in Debt Restructuring Due to Coronavirus.](#)

(Reuters) - Puerto Rico’s federally created financial oversight board will ask a court to delay the U.S. commonwealth’s debt restructuring hearing due to the coronavirus outbreak, it said on Saturday.

“The Oversight Board will present a motion in court to adjourn consideration of the proposed Plan of Adjustment’s disclosure hearing until further notice”, the Financial Oversight and Management Board for Puerto Rico said <https://bit.ly/2Ua0dUP>.

Puerto Rico commenced a form of municipal bankruptcy in May 2017 to restructure about \$120 billion of debt and liabilities.

The oversight board said last month it was aiming for Puerto Rico to exit bankruptcy by the end of the year after it had reached a deal with an expanded group of bondholders to cut the commonwealth’s debt by \$24 billion.

The board asked Judge Laura Taylor Swain to approve a schedule that would culminate with a confirmation hearing on a so-called plan of adjustment for Puerto Rico’s core government debt and pension obligations starting in October.

The government of Puerto Rico had objected to moving forward with the new debt plan.

By Reuters

March 21, 2020

(Reporting by Kanishka Singh in Bengaluru; Editing by Sonya Hepinstall)

[Puerto Rico Overseers Hit Pause on \\$35 Billion Bond Restructuring.](#)

Oversight board cites coronavirus pandemic for its action

The board overseeing Puerto Rico’s finances said a push to restructure \$35 billion in debt would be paused indefinitely as the U.S. territory struggles to contain the spread of coronavirus.

The oversight board said Saturday it wouldn’t move forward on a controversial proposed write-down of bond and pension liabilities while Puerto Rico focuses on stopping the spread of Covid-19 cases.

The settlement proposal is backed by competing bondholder groups and representatives of public retirees and was scheduled to be debated in court in October. The oversight board said it would adjourn those court proceedings “until further notice.”

Delaying the restructuring plan puts bondholders at risk of more severe write-downs on their claims if tax revenues are depressed in the fallout from the pandemic and restructuring terms are altered. Bondholders had become more optimistic in recent months about a possible end to the bankruptcy, which began in 2017, as the oversight board built support around settlement terms.

The proposed deal, backed by investment firms including GoldenTree Asset Management LP and Aurelius Capital Management LP, would write down \$35 billion in Puerto Rico debt by 70%, to \$11 billion. Public pensions would also be scaled back, though a majority of retirees would collect their full promised benefits. Some financial creditors, including bond guarantors with billions of dollars on the line, aren't supportive of the proposal.

The broad market turmoil stemming from the pandemic has rocked municipal debt, sparking a selloff even among bonds issued by financially-stable state and local governments. The impact has been more acute for the high-yield bond funds that have sought out less creditworthy borrowers, including Puerto Rico, to generate returns. The S&P Municipal Bond Puerto Rico Index, a broad basket of the territory's debt, has declined more than 20% this month.

Public health authorities on Saturday reported the first confirmed death from Covid-19 in Puerto Rico, an Italian national who had arrived on a cruise ship. Puerto Rico has 21 confirmed cases of coronavirus as of Saturday, according to health officials.

The island territory, still coping with the devastating 2017 hurricane season, has imposed a nightly curfew, closed schools and exempted some basic necessities from sales taxes in response to the pandemic.

The oversight board, which shares power with elected leaders, said Saturday it "will provide appropriate, much needed support for those dislocated as a result of the Covid-19 situation and those that are not able to access eligible federal support."

Before the pandemic reached Puerto Rico, Gov. Wanda Vázquez and top lawmakers said they wouldn't support the oversight board's proposal unless pension cuts were removed. Since the arrival of the pandemic, some lawmakers have advocated sending assistance payments to individuals affected by the slowdown in business activity.

The Wall Street Journal

By Andrew Scurria

Updated March 21, 2020 7:09 pm ET

[New Illinois Executive Order Will Help with Approval of Bond Deals: Ice Miller](#)

Gov. Pritzker recently issued [Executive Order 02020-07](#) (Executive Order), which declared all counties in Illinois as a disaster area (Gubernatorial Disaster Proclamation). The Executive Order, among other things, suspended the requirements under the Open Meetings Act requiring or relating to remote attendance at public meetings. Ice Miller attorneys assisted with the drafting of this legislation. This Executive Order was issued to implement social distancing in response to COVID-19.

Section 6 of the Executive Order specifically suspends, for the duration of the Gubernatorial Disaster Proclamation, the Open Meetings Act requirement that public officials be physically present at public meetings. Public bodies are “encouraged” to: (1) postpone consideration of public meetings whenever possible; (2) provide video, audio, and/or telephonic access to meetings to ensure members of the public can monitor the meetings; and (3) update their websites and social media to keep the public apprised of changes to their meetings and of activities related to COVID-19.

The Executive Order does not relieve public bodies from:

- the requirement that the meetings be open to the public;
- the requirement of holding public meetings at times and places convenient to the public;
- 48-hour public notice and agenda requirements under the Open Meetings Act;
- the requirement that any person shall be permitted an opportunity to address public officials under the rules established and recorded by the public body compliance with open meeting rules adopted by the public body;
- rules of order and procedure that are in effect;
- statutory voting requirements;
- recording and keeping of minutes of the meeting.

We recommend that the agenda for any public meeting be posted at the governing body’s principal office and on its website, and we recommend that the public notice clearly state changes in schedule or format of the meeting. We also suggest that call-in or write-in capability be established for virtual meetings where members of the governing body are attending remotely and that instructions be included in the notice. The media notification requirements still apply. The electronic meeting should be held the same way that an in-person meeting would be held to the extent practicable (welcome, roll call, hearing and closure of the hearing, old business, new business, etc.).

While the Executive Order suspends public meeting requirements under the Open Meetings Act, it also implicates meetings and hearing requirements under other statutes, including those related to municipal bonds. For example, the Bond Issue Notification Act (BINA) requires that the governing body “permit persons desiring to be heard an opportunity to present written or oral testimony.” The hearing may be part of the governing body’s regularly scheduled meeting. All other applicable requirements including notice would still need to be satisfied for any BINA hearing. Similarly, for conduit bond issues, Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) hearings may be done at such meeting or at a different location as authorized by the issuer so long as notice and other applicable federal income tax requirements are satisfied.

We recommend that each public body review its remote attendance rules to see if changes are needed to facilitate the remote participation allowed under the Governor’s Order.

Ice Miller LLP - Michael M. Roth and James M. Snyder

March 19 2020

[**S&P Bulletin: NYC Generally Well Positioned To Handle COVID-19's Near-Term Economic Effects**](#)

NEW YORK (S&P Global Ratings) March 18, 2020—S&P Global Ratings said today that New York City’s (AA/Stable) strong liquidity threshold positions it well for the evolving COVID-19 situation in

the near term.

In support of this view, we cite a high average cash balance of about \$7.6 billion for fiscal 2019, an average daily cash balance of \$5.6 billion (six months ended Dec. 31), and total cash receipts that are up 5.3% in the first half of fiscal 2020 over the prior year. These factors partly offset our belief that New York City could experience acute economic effects amid ongoing severe limitations on global travel, given its role as an international tourist hub and as the No. 1 U.S. port of entry (according to the U.S. Department of Commerce).

Furthermore, the city predicts its cash balances daily, which is operationally instrumental when one-time shock events such as COVID-19 occur. In addition, the city's forecast for wage growth (driving its personal income tax revenue projections) for 2020 is 2.3%, conservatively lower than the nation's forecast of 2.9% (prior to incorporating the events of COVID-19).

Over the short term, we also believe that the federal government could infuse some financial support to stabilize the city's operations, as occurred following the events of Sept. 11, 2001, particularly to assist New York State and the city with Medicaid costs. In addition, with the city's public schools closed at least until April 20, the governor reports that the state will hold districts harmless if they do not meet the 180 days of required instruction; we anticipate that this will translate to no significant loss in state aid supporting the city's education costs (approximately 30% of expenditures in fiscal 2019).

As we stated in our report "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" published March 5, 2020 on RatingsDirect and our updated economic forecast published March 17, 2020 ("A U.S. Recession Takes Hold As Fallout From The Coronavirus Spreads"), we expect the virus to create a material headwind to growth in the near term, leading to negative economic growth in the first two quarters of 2020. We believe New York City's economy will suffer the same if not more significant headwinds over the medium term given the mayor's decision to limit restaurant and bar service to takeout and delivery options and as residents engage in social distancing and corporate directives to work from home, limiting discretionary spending and consumption habits. These changes are expected to lead to softening trends in sales tax revenue. (Collections accounted for about 10% of the city's revenue in fiscal 2019.) Furthermore, with Broadway dark until at least April 12 and a lack of tourism affecting hotel and motel activity, we believe the city's personal income tax receipts will likely show the lingering effects of COVID-19 into fiscal 2021 (which begins July 1, 2020) and calendar 2021 given S&P Global Ratings' expectations for a slow U-shaped economic recovery.

As compared with most local governments, the 'AA' general obligation rating reflects S&P Global Ratings' view of New York City's more pronounced exposure to global events that could affect its operations and revenue projections. We continue to monitor the city's response and economic softening that occurs as a result of COVID-19 and the potential effect on the rating.

This report does not constitute a rating action.

[Los Angeles Metro to Study Proposed 405 Toll Lanes.](#)

The Los Angeles County Metropolitan Transportation Authority (Metro) has authorized a three-year \$27.5 million environmental and engineering study to investigate the replacement of existing High-Occupancy Vehicle (HOV) lanes on the 405 freeway with toll lanes between the 101 and 10 freeways.

According to Metro, the 405 is one of the nation's most traveled urban highways, with more than 400,000 people commuting through this corridor each day. The proposed toll lanes are aimed at creating a faster way for some drivers to navigate the Sepulveda Pass from the 101 freeway in the San ... [Continue](#)

Nossaman Infra Insight Blog

By Joseph Gillman on 03.03.2020

[Illinois Especially Vulnerable to Financial Fallout from Coronavirus, Public Finance Expert Says.](#)

Officials say it's too soon to say how cancellations, overtime costs and other issues brought on by the coronavirus outbreak will affect Illinois' ever-precarious finances, but the state remains particularly vulnerable to volatility brought on by events like a pandemic, said Eric Kim, a senior director of public finance with Fitch Ratings.

"We do absolutely anticipate that Illinois and many other states, likely all states, will be adjusting their revenue forecasts," Kim said. "There's going to be a lot of adjustment, a lot of changes, when it comes to what revenues are actually anticipated to be and what states are going to budget around."

Income tax payments flowing into the state now through April cover last year, so it will be some time before the impact of the COVID-19 crisis is known. One of the early indications will be sales tax collections, but those also lag a bit.

"We only have complete sales tax data from January, as February returns are not due for a couple more weeks," Department of Revenue spokesman Sam Salustro said in an email.

Revenue from Illinois' just-launched sports wagering is likely to take a hit with the NCAA men's basketball tournament and other major sporting events canceled. The new gambling outlet is one of the ways the state is funding a \$45 billion capital construction plan that the Illinois General Assembly approved last year.

"We took a very conservative approach when developing revenue estimates for this year regarding sports wagering, assuming only \$10 million in tax revenues," said Jordan Abudayyeh, a spokeswoman for Gov. J.B. Pritzker. "Multiple revenue sources are supporting the capital plan, and it is not reliant on any one source."

Illinois has a "fairly well-diversified economy," so there's little concern that tourism is "going to dry up, and that in and of itself is going to be some sort of drastic, long-term effect on the state's economy," Kim said.

"That said, we don't know what the depth and breadth of the coronavirus will be in terms of its effects on the overall economy. Obviously, if there's a more widespread recession, that's a concern for all states," he said. "And again, Illinois is less well-positioned."

State and local government spending on prevention efforts and in response to coronavirus spread will also affect Illinois' overall financial picture. Such spending is expected to continue to escalate, but federal aid could offset some of that — although how much the state will get is yet another unknown.

House Democratic Leader Greg Harris of Chicago said sales tax, hotel tax and gaming revenues are all areas to watch closely as the coronavirus continues to spread, and as lawmakers negotiate a spending plan for the next budget year that begins July 1.

“The governor is saying the state’s going to do what it takes to protect folks, so yeah, there may be added expense — there could be additional costs in the Medicaid program or for emergency supplies that kind of thing,” said Harris, who chairs the House Appropriations-Human Services Committee. “So, I think we’re going to be working on it, monitoring it, week by week.”

State Sen. Andy Manar, a Democrat from downstate Bunker Hill who chairs one of the Senate’s two appropriations committees, said Illinois legislators don’t have a clear idea yet how the outbreak will affect the state’s current budget.

“I think the larger impact will be on next fiscal year’s budget, and certainly there will be an impact,” said Manar, who said a significant hit to the state’s sales tax revenue is likely.

“Clearly, one of the largest potential places where the impact of this economic downturn will be felt is in the state’s pension funds,” Manar said.

Chicago Democrat Sen. Heather Steans, who chairs the other Senate appropriations committee, said “we’re going to want to keep things basically functioning and operational, you know. And we’re not going to want to do things that overly impact school districts, for example.”

Steans said revenue from sales taxes, hotel taxes, sports gambling will all potentially be reduced by the pandemic. On the other hand, she said Illinois “may have increases in capital gains, if people are selling things — so there may be some offset as well,” she said.

CHICAGO TRIBUNE

By JAMIE MUNKS, DAN PETRELLA and ANTONIA AYRES-BROWN

MAR 13, 2020 | 9:30 PM

[**Fitch Rtgs: Illinois Governor's Budget Highlights Importance of Income Tax Vote**](#)

Fitch Ratings-New York-02 March 2020: The fiscal 2021 executive budget recently introduced by Illinois’ governor includes a significant \$1.4 billion contingency tied to voter approval of a constitutional amendment in November that would allow the state to implement graduated income tax rates, which are already statutorily approved. Under the governor’s budget proposal, failure of the income tax amendment would trigger fiscal actions that could exacerbate the state’s structural budget challenges and pressure local governments, particularly school districts, says Fitch Ratings. The proposal now moves to the legislature for consideration, and Fitch will evaluate the final budget once enacted.

Illinois’ ‘BBB’ Issuer Default Rating (IDR) reflects an ongoing pattern of weak operating performance and irresolute fiscal decision-making that has produced a credit position well below the level that the state’s broad economic base and substantial independent legal ability to control its budget would otherwise support. The state’s elevated long-term liability position remains a key credit challenge. As of Fitch’s December 2019 State Pension Update report, the state’s combined

debt and Fitch-adjusted pension burden was 27.5% of personal income, well above the 5.7% state median and the highest of the states. Fitch estimates the state's total long-term liabilities at approximately \$200 billion with pensions accounting for 80% of the total.

Response to Income Tax Amendment Vote Will be Critical

Fitch has indicated that the credit implications of the November 2020 vote on the income tax amendment depend on whether Illinois uses any increased revenues to address structural budget challenges, or if the state can adequately adjust its budget to work toward structural balance if the amendment fails. In his executive budget, the governor proposes to hold \$1.4 billion of budget actions in reserve, dependent on voters' decision. If the amendment fails some of the governor's proposals, including deferral of up \$400 million in employee health insurance costs and more than \$500 million of interfund transfers or borrowings, would risk exacerbating the state's structural budget challenges. If voters approve the constitutional amendment the governor's executive budget would avoid such non-recurring measures and appears to continue recent progress towards structural balance.

Pensions Pose Structural Budget Challenge

Importantly, Fitch notes that pension contributions remain a point of structural weakness for the state, regardless of the income tax amendment vote, as the governor's proposal continues the practice laid out in current law of underfunding the systems relative to actuarial determinations. The state currently structures its contributions to pension systems to target 90% funding by 2045, short of the actuarially determined contributions (ADCs), which target 100% funding. Fitch considers full ADC contributions to be a crucial element of structural balance.

Based on analysis of the state's fiscal 2018 CAFR, Fitch estimates Illinois' actual pension contributions totalled approximately \$7.7 billion, 71% of the ADC of \$10.9 billion that year, a gap of more than \$2.0 billion; the gap likely increased since then given the underfunding embedded in the statutory 90% target. Fitch believes the supplemental annual pension contributions of \$100 million-\$200 million proposed by the governor if the income tax amendment passes would be helpful. But on their own, they would not materially affect Fitch's view that the state's budget remains structurally unbalanced given the sizable gap between actual contributions and the ADC. As with other states, Illinois retains substantial budgetary powers allowing it to manage the associated fiscal challenges at a level commensurate with its 'BBB' IDR.

Executive Budget Implications for Local Governments

For local governments, and particularly school districts, the \$1.4 billion of reserved items in the governor's budget proposal pose risks. The 2017 statute establishing the revised evidence-based funding formula (EBF) for K-12 school aid established a target of annual increases of \$350 million. In the current year, the enacted budget included slightly more than that, with a \$379 million increase. For fiscal 2021, the governor's executive budget holds \$150 million of the suggested \$350 million increase, or more than 40%, in reserve, to be released only if voters approve the income tax amendment. The governor's office notes that a \$200 million increase would still reflect a higher annual growth rate than school districts have received over the past decade and the total increase in EBF funding since fiscal 2018 would total \$1.3 billion.

Several additional measures could also affect local governments, but generally to a much less significant degree. The governor proposes holding approximately \$100 million in combined income tax and sales tax revenue shared with local governments in reserve, pending voters' decision on the income tax amendment. Additionally, \$40 million in increased state funding for school districts for

certain mandated categorical items is likewise held in reserve in the executive budget plan.

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[Fitch Rtg's: Virginia Collective Bargaining Law May Impact Local Government Credit Quality](#)

Fitch Ratings-New York-02 March 2020: Fitch Ratings expects Virginia House Bill (HB) 582 and Senate Bill (SB) 939, if signed into law, may somewhat weaken expenditure flexibility for the commonwealth and its local governments. HB 582 would establish collective bargaining rights for public-sector workers at both the state and local levels whereas SB 939 would allow local governments to pass ordinances that permit public employees to engage in collective bargaining. Collective bargaining is explicitly prohibited under existing state law.

However, Fitch does not anticipate any immediate rating actions. If collective bargaining is instituted, Fitch will evaluate the impact of the negotiated agreements for each rated entity in the context of other credit factors. Fitch believes a productive and flexible working relationship can be achieved regardless of the legal structure pertaining to public sector employment.

Virginia, like most state governments, spends less of its budget on employee costs than local governments, and is therefore less exposed to credit risk from changes in the collective bargaining laws. Fitch has historically assessed Virginia local governments' expenditure flexibility to be solid, in part due to the lack of collective bargaining requirements. Fitch undertakes a consistent workforce environment evaluation for each rated local government since labor costs account for the majority of governmental spending. The evaluation focuses on any legal constraints to adjusting workforce spending. Collective bargaining may weaken flexibility to adjust spending during a downturn given contractual obligations for negotiated wages, benefits, staff requirements, and other work rules.

Both bills continue to prohibit public sector employees from striking; however, HB 582 provides for final and binding arbitration on contract matters that become subject to impasse, thereby limiting management's control over workforce terms that could impact the fiscal condition of the local government.

Expenditure flexibility is a component of one of four key rating drivers in Fitch's U.S. Public Finance Tax-Supported Rating Criteria and informs our view of overall financial resilience. In addition to the workforce evaluation, Fitch's assessment of expenditure flexibility also considers the impact of debt service and retiree benefit costs (the actuarial pension contribution and actual payment for other-post employment benefits) on the budget, in addition to the level of pay-as-you-go capital investment and other non-core spending the government may be able to defer during a period of fiscal stress.

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[City of Buffalo to Launch Nation's Largest Environmental Impact Bond.](#)

Mayor Byron W. Brown of Buffalo, N.Y. announced during his 14th State of the City address that Buffalo will launch the largest Environmental Impact Bond (EIB) in the country at \$30 million. The funds from this investment will allow the City of Buffalo and Buffalo Sewer Authority to capitalize on the Rain Check Buffalo program.

EIBs offer a novel approach to pay for high-impact projects based in part on the environmental, social, and/ or economic outcomes they generate. In this way, EIBs can help hedge the performance uncertainty that some developers new to green infrastructure may have, and capitalize on the multiple benefits of innovative projects like green infrastructure.

Buffalo will become the first city where an EIB is used to capitalize on a green infrastructure incentive program, in the form of the Rain Check 2.0 Grant Program, which targets the deployment of green infrastructure on private properties with large amounts of impervious surfaces. These private properties form a key component of the Buffalo Sewer Authority's goal of using green infrastructure to manage over 500 acres of impervious surface area to help eliminate the effects of combined sewer overflows (CSOs) on Buffalo's waterways. However, unlike projects on public property, incentives are required for private property owners to agree to install and maintain green.

"The City of Buffalo, will become the first in the nation to use an EIB to provide property owners the ability to fund green infrastructure projects and help to make our community more resilient to the impacts of climate change" said Mayor Byron W. Brown. "My administration does not view individual projects as activities in isolation, and instead views them as part of a network that functions as a

system-wide improvement to our city's water system."

The City of Buffalo and the Buffalo Sewer Authority were selected as the winner of the Great Lakes Environmental Impact Bond Challenge through the P3GreatLakes Initiative by Quantified Ventures and Environmental Consulting & Technology, Inc. (ECT). Along with the support of the Ralph C. Wilson, Jr. Foundation and the Community Foundation of Greater Buffalo, the City of Buffalo has created a public-private, and philanthropic partnership to tackle our stormwater challenge, ensure that our city's waterways, are protected, and guarantee a more resilient Buffalo.

In its work in Buffalo, Quantified Ventures will build on its previous successes structuring green infrastructure EIBs in cities like Washington, DC, which was also based around CSO issues and the cost-effectiveness of green vs. grey infrastructure to address them, and Atlanta, which was based around the local impacts of green infrastructure in mitigating flooding and providing access to greenspace and workforce development opportunities in underserved neighborhoods.

"Cities face massive stormwater challenges as they respond to a changing climate. Nature-based solutions reduce urban flooding risk and CSOs, and the EIB reduces Buffalo's financial risk," said Eric Letsinger, CEO, Quantified Ventures. "It's a winning combination!"

Like DC and Atlanta, Buffalo will also seek to incorporate economic and community goals as part of the Rain Check 2.0 program, and the EIB used to capitalize it. "We want to see the city transformed at the end of this process, in terms of stormwater management, equity, and innovation," said Oluwole McFoy, General Manager of the Buffalo Sewer Authority. "Our Rain Check 2.0 Opportunity Report along with this EIB allows us to invest in our neighborhoods, increase green jobs and economic prosperity for our residents while directly addressing climate change."

"Our foundation is excited to support the implementation of the City of Buffalo's Rain Check 2.0 program," said Jim Boyle, Vice President of Programs and Communications for the Ralph C. Wilson Jr. Foundation. "These types of projects provide sustainable solutions that can reduce flooding, improve water quality and have a wide range of economic, environmental and public health benefits. Proactively incorporating these types of solutions in new developments, as well as the Ralph C. Wilson Jr. Centennial Park, highlight the City of Buffalo's strategic approach to address some of the effects of climate change."

"We deeply appreciate our project sponsors, namely the Ralph C. Wilson, Jr. Foundation, Community Foundation for Greater Buffalo, and of course, the Great Lakes Protection Fund, for their support. Their contribution will enable more than a hundred-fold investment in climate-resilient infrastructure in the region," says Sanjiv Sinha, PhD., Water Resources National Director, Senior Vice President at ECT. "Buffalo joins a growing number of cities leveraging the EIB as a means to gain access to an emerging field of impact investors who seek not only financial returns, but also measurable environmental impact."

BY WFM STAFF

MARCH 2, 2020

[Nervous Retail Buyers Shy Away From NYC Debt on Volatility.](#)

- **Individuals made up about 9% of orders on this week's sale**
- **Retail Investors represented almost 30% of orders last month**

Individual investors shied away from New York City's general-obligation bonds sale this week and the market volatility spawned by the coronavirus may be to blame.

Individuals placed \$77 million of orders on the \$860 million of tax-exempt general-obligation bonds offered by the largest U.S. city this week — representing about 9% of the securities sold during a two-day retail order period — and \$65 million were filled, according to a city news release. Last month, when the city sold \$1.1 billion of similar securities, individual investors bought \$302 million of them, or about 27%, the city said.

"The sentiment is cash is king and people are nervous about deploying cash in this volatility," said Sweta Singh, a portfolio manager at Wilkins Investment Counsel Inc in Boston.

Jonathan Kahn, an individual investor who lives in Queens, said the lack of retail demand was more likely the result of rock-bottom yields and declining quality of life. New York City crime rose 17% in January from a year earlier, according to the police commissioner and the city's subway chief, who was credited with improving on-time performance, resigned.

New York City bonds maturing in 10 years were priced to yield 1.21%, or 0.22 percentage point more than AAA rated debt.

"As a retail investor, it's not the volatility so much as at these prices, it's all risk and no reward," Kahn said in an email. "NYC GO's always sold a little cheaper and paid a little more during periods of perceived or looming dysfunction. Making a long-term bet on a municipal bond in the current low-rate environment is a bet that things won't unravel. Not as sure a wager as over the recent past."

Yields on 10-year U.S. Treasuries plummeted almost 0.2 percentage point to a record low of 0.975% on Tuesday as investors sought refuge from the financial risks of the coronavirus. Tax-exempt bond yields didn't follow, rising about 0.02 percentage point.

"We received fewer retail orders for the general obligation bonds priced today than the City typically receives, likely as a result of a number of factors, including volatility in the market arising from concerns about the coronavirus outbreak and the low level of tax-exempt rates," Marjorie Henning, deputy comptroller for public finance at the Office of New York City Comptroller Scott Stringer, said in an email.

Laura Feyer, a spokeswoman for New York City Mayor Bill de Blasio, said the demand for the city's bonds is "strong," with retail investors placing \$1.7 billion in orders for the city's general obligation and Transitional Finance Authority bonds in 2019. Institutional investors placed \$4.4 billion in orders for this week's sale, five-and-a-half times the amount of bonds available, according to a news release.

Bloomberg Markets

By Martin Z Braun

March 4, 2020, 1:02 PM PST Updated on March 4, 2020, 3:52 PM PST

[Puerto Rico Bankruptcy Climax Set to Come Amid Island Elections.](#)

- **Federal judge sets schedule for approving debt-cutting plan**

• **Plan backers seek approval before new government comes in**

Puerto Rico's main bankruptcy case could end in early November under a schedule approved by the federal judge overseeing the island's record-setting debt restructuring.

U.S. District Court Judge Laura Taylor Swain adopted the recommendations of a team of court mediators, who have been leading confidential talks aimed at cutting a deal among bondholders, the government and the federal oversight board responsible for steering Puerto Rico out of its long-running debt crisis.

The decision means that a bankruptcy exit plan that cuts pensions for government workers and pays billions of dollars to bondholders will come before Swain for final approval just as lawmakers, whose cooperation is needed to make the plan work, face voters in November.

The Financial Oversight and Management Board pushed for approval of its proposed debt-adjustment plan before the election in order to lock in any deal that may come with the current governor and legislature, the federal panel's lead bankruptcy attorney Martin Bienenstock said in court.

"We don't know who might change in the new government," Bienenstock told Swain. "It's just reality, your honor and we're not afraid to admit it."

Court Battle

Swain said she will release the exact dates for the court battle over the plan in the coming days, but expects to generally schedule the hearing between Oct. 21 and Nov. 6. That hearing would be among the last steps needed to free much of Puerto Rico's government from court oversight.

The current government would still be in office should Swain approve the commonwealth plan after the hearing ends in November. Puerto Rico lawmakers are still negotiating potential changes with the federal oversight board. The government opposes proposed cuts to public worker pensions.

Before she considers approving the debt plan, Swain agreed to try to rule on some of the most important legal disputes between creditors, including bond insurers, and the federal oversight board.

Since the bankruptcy began in 2017, Puerto Rico's government has refused to adopt a number of painful economic reforms demanded by the Financial Oversight and Management Board, the agency set up by the U.S. Congress to restructure the commonwealth's public debt. The board has been wildly unpopular on the island and is a frequent target in the elaborate political graffiti seen in San Juan, the territory's biggest city.

Political Value

Should the legislature refuse to adopt measures needed to implement the plan, the board could try to bypass Puerto Rico's lawmakers, a move that would likely be attacked in court. There is no island-wide political vote on the plan itself.

If lawmakers continue to oppose the debt plan, the board should make more concessions so there's political value in accepting the restructuring deal, said Matt Fabian, partner at Municipal Markets Analytics. Even then, the odds of Swain approving the debt plan in the middle of an election are low, he said.

“It will be a real achievement for the board to be able to get a critical mass of creditors and the commonwealth on board for a plan before the election,” Fabian said. “I think it’s very unlikely.”

The oversight board has cut deals with various factions, including investors who hold general-obligation debt and public building agency bonds, government unions that represent nearly 11,000 people and a committee of retired commonwealth workers.

One of the main settlements was with investors who hold about \$10 billion of general-obligation and public building bonds. The federal board had tried to have much of that debt canceled, arguing it should never have been issued. The deal slashes related principal and interest owed by the commonwealth by 56%, from \$90.4 billion to \$39.7 billion, including the already enacted cuts to its sales-tax debt, according to court documents.

Complex Case

The proposal is also opposed by bond insurers who guaranteed much of the island’s debt against default.

In complex bankruptcy cases, it typically takes months to get a debt-adjustment plan ready for the court to rule on whether it meets all the standards laid out in federal law. For example, creditors must be given an outline of the plan and time to vote on it.

Delaying the start of that months-long process would be a mistake, said Barbara Houser, the U.S. bankruptcy judge who is leading a team of mediators through negotiations between creditors and the federal board.

“If we don’t start, we can never finish,” she told Swain during the hearing Wednesday morning.

The case is *The Commonwealth of Puerto Rico et al*, 17-3283, U.S. Bankruptcy Court, District of Puerto Rico (San Juan)

Bloomberg Markets

By Steven Church

March 4, 2020, 2:37 PM PST

[Puerto Rico Utility Deal Stumbles, Shaking Muni Investors.](#)

Municipal bondholders turned bullish on Puerto Rico’s troubled utility just as elected officials vetoed a politically unpopular repayment plan

Municipal bond buyers thought Puerto Rico was on the cusp of restructuring its troubled power monopoly on their preferred terms. Now they aren’t so sure, as government leaders harden their stance against hiking electricity rates to pay off billions of dollars in debt.

Some of the municipal bond market’s largest investors, including BlackRock Inc. and MacKay Shields LLC, have accumulated hundreds of millions of dollars in claims against the Puerto Rico Electric Power Authority, the public electric monopoly known as Prepa, people familiar with the matter said. They largely have replaced hedge-fund managers that wound down trades on Prepa after several years navigating its bankruptcy, according to court records and the people familiar

with the matter.

Market-leading bond managers have been wary of Puerto Rico for several years while its finances deteriorated and it entered a court-supervised bankruptcy proceeding in 2017. Much of the U.S. territory's debt has been held in hedge funds that bought bonds at discounts in the hopes of producing double-digit returns.

But Prepa became more attractive to municipal investors last year when it won broad creditor support to repay \$8.3 billion in power revenue bonds at no less than 67.5 cents on the dollar, while raising electricity rates to cover settlement payouts. The restructuring proposal required court approval and the cooperation of Puerto Rico's elected leaders to take effect.

Investors turned bullish on Prepa, betting politicians would favor lifting a crown-jewel public asset out of bankruptcy even if electricity bills went up.

BlackRock has bought more than \$800 million in Prepa bonds since the proposed terms were announced, a person familiar with the matter said. Nuveen Asset Management LLC, the biggest player in high-yield municipal funds, also bought \$840 million in Prepa bonds, according to court documents. Hedge funds including Silver Point Capital LP and Knighthead Capital Management LLC sold down their positions.

The turnover among Prepa's investors came as municipal bondholders generally sought out less creditworthy borrowers to generate returns as bond yields, which move in the opposite direction as prices, hit their lowest levels in decades.

But in recent weeks, political leaders including Puerto Rico Gov. Wanda Vázquez and Senate President Thomas Rivera Schatz have all but vetoed the proposed deal and taken an increasingly populist stance against debt repayment. They said they wouldn't accept any hikes in electricity rates, as bondholders have required.

Manufacturers that are some of Prepa's largest clients also are lobbying against any rate increase, citing the impact on corporate budgets. Renewable power companies oppose a provision requiring solar energy users to contribute toward bondholders' repayment.

The oversight board managing Puerto Rico's finances supports the proposed settlement. But without approval from elected leaders, Prepa can't issue new bonds to replace its legacy debts and the restructuring deal can't go into effect, according to people involved in the matter.

Bondholders haven't abandoned the proposed deal in favor of litigation. They have said a rate increase is inevitable and would be several times larger if they win court rulings that require Prepa to repay in full.

Without the debt settlement, Prepa has no clear path out of bankruptcy. The longer it stays under court protection, the longer its bond values will remain depressed.

"It's a combination of bad timing—muni buyers lacking alternative places to steer their high-yield allocations—and maybe a prior lack of understanding of just how unpopular this plan is on the island," said Matt Fabian, a partner with Municipal Market Analytics Inc.

"It's not a hard mistake to make," he added.

Stephen Spencer, a banker advising some of the bondholders, said they are working "constructively and in good faith with the oversight board to build consensus around a path that allows Prepa to

emerge from bankruptcy in the coming months.”

The stalemate also is impacting attempts to dismantle Prepa’s public-monopoly structure. Considered a crown jewel of Puerto Rico’s industrialization efforts in the 1940s and 1950s, Prepa became less efficient over time as generators fell into disrepair and it pared back capital investments. It was widely criticized for its response to Hurricane Maria, the 2017 storm that left some residents without power for 11 months and contributed to a death toll of nearly 3,000.

The utility has spent months negotiating a long-term contract that would put private operators in charge of operating and maintaining the power grid. A consortium of operators led by Quanta Services Inc. has been shortlisted as the preferred bidder, according to people familiar with the matter.

In recent weeks, the oversight board has told contract negotiators the debt settlement could collapse and to account for that possibility, some of the people said. Quanta said it couldn’t comment, citing a confidentiality agreement.

“I don’t see them doing anything definitive until they see what Prepa is ultimately going to look like,” said Rick Donner, a project finance analyst at Moody’s Investors Service Inc.

A spokesman for the oversight board said ending Prepa’s bankruptcy would ease the way for private investment and federal assistance to the electricity system, which sustained severe damage from Hurricane Maria and from more recent earthquakes.

The oversight board said it is trying to convince lawmakers to change their minds while “exploring other options that would allow Prepa to exit bankruptcy and support this transformation.”

The Wall Street Journal

By Andrew Scurria

March 2, 2020 7:10 pm ET

[S&P Pension Spotlight: Texas](#)

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Key Takeaways

- The Texas Municipal Retirement System and the Texas County and District Retirement System are well funded and pose minimal credit pressure on local government issuers.

- The Teacher Retirement System features poor funding discipline. However, recent legislative changes to contributions should improve funding discipline with minimal impact on affordability for participating issuers.
- The Employees Retirement System also features poor funding discipline, as a result of low statutory contribution rates. This has led to a weak funded status and a projected depletion of plan assets.

[Continue reading.](#)

Fitch Rtgs: Binding Arbitration Resolves Impasse over San Antonio, TX Firefighters CBA

Fitch Ratings-Austin-26 February 2020: A new collective bargaining agreement (CBA) for the fire fighters of San Antonio, TX (Issuer Default Rating AA+/Stable) has been established through a final arbitration award announced on Feb. 13, according to Fitch Ratings. The new CBA is a five-year agreement that extends through Dec. 31, 2024 and provides a total of 17% in pay increases (7% in lump sum and 10% in recurring wages). The agreement includes two healthcare plans, one of which is a PPO plan that requires firefighters pay healthcare premiums for their dependents (firefighters previously did not pay any premiums for dependent coverage). The other healthcare plan is a high-deductible consumer driven plan. The new CBA also reduces the evergreen period (during which employee benefits remain in place after the CBA expires and a new CBA is approved) to five years from 10 years. Employee contributions to the PPO plan will increase by 10% annually during both the term of the CBA and the evergreen period.

The option to pursue binding arbitration was imposed by the International Fire Fighters Union as allowed by Proposition C, which voters approved in November 2018. In the event of an impasse during CBA negotiations, Proposition C provides the local firefighter union the authority to require the city to participate in binding arbitration on issues selected by the parties. There are no provisions in the CBA for annual reopeners in the event of economic declines. The previous CBA for firefighters expired in September 2014 and negotiations had stalled as the city attempted to realign the costly benefits for fire employees and their dependents. The city estimates that the firefighters' new healthcare options will result in significant cost avoidance. Inclusive of the pay raises, the incremental cost of the new contract is estimated at approximately \$23 million over the five-year term, a modest amount relative to the city's fiscal 2020 general fund budget of \$1.3 billion.

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[California Gives Wells Fargo First Bond Deal Since Accounts Scandal.](#)

Doug Brown, Wells Fargo public finance managing director, discusses the bank's return to California's municipal bond market after the accounts scandal. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets."

[Watch video.](#)

Bloomberg MarketsTV Shows

February 19th, 2020, 10:38 AM PST

[Illinois Investors Seek Pension Fix Clues in Budget Proposal.](#)

- **Governor Pritzker will deliver 2021 spending plan on Wednesday**
- **Voters won't weigh in on proposed income tax until November**

Illinois Governor J.B. Pritzker will deliver his second budget address on Wednesday, when investors will be looking for specifics on how the Democrat plans to chip away at the government's growing pension debt and raise new revenue for the lowest-rated U.S. state.

- The billionaire will lay out his spending plan for the year that starts July 1 at noon local time in the capital of Springfield.
- During the "State of the State" last month, Pritzker said he plans to focus on education, job training, infrastructure and what he calls a "fairer" tax system in his spending plan. He also wants to work with local governments to lower property taxes.

[Continue reading.](#)

Bloomberg Markets

By Shruti Singh

February 19, 2020, 6:44 AM PST

[Puerto Rico Government Objects to Moving Forward With New Debt Plan.](#)

SAN JUAN — Bankrupt Puerto Rico's government told a federal judge on Wednesday that its opposition to a new plan announced earlier this month to restructure more than \$85 billion of its debt should put the brakes on a confirmation process.

The U.S. commonwealth's federally created financial oversight board had asked Judge Laura Taylor

Swain to approve a schedule that would culminate with a confirmation hearing on a so-called plan of adjustment for Puerto Rico's core government debt and pension obligations commencing in October.

The scheduling motion followed the board's Feb. 9 announcement that it had reached a deal with an expanded group of bondholders to reduce \$35 billion of bonds and claims to about \$11 billion, moving Puerto Rico closer to exiting bankruptcy, which began in 2017.

But Puerto Rico Governor Wanda Vazquez objected to the deal's enhanced recoveries for some bondholders, while certain government retirees would still face the same pension cuts called for in an earlier plan the board announced in September.

In a court filing on Wednesday, Puerto Rico's fiscal agency said the revised plan of adjustment, which the board has not yet filed in court, was "unconfirmable."

"Unless the oversight board clearly articulates how it proposes to confirm the amended plan without government support and cooperation, any confirmation schedule is patently premature," the filing stated.

It added that the deal with bondholders requires legislative action to issue new general obligation and junior lien sales tax-backed bonds, noting the board lacks the power to legislate under the 2016 federal PROMESA Act, which created the board and a form of municipal bankruptcy for the Caribbean island.

There was no immediate reaction to the filing from the board.

James Spiotto, managing director of Chapman Strategic Advisors and a municipal bankruptcy expert, said PROMESA does not allow the board "to enact legislation for a new bond issue or to incur new debt." He added it was doubtful the judge could order the government to take action.

"Hopefully both the oversight board and the legislature and the governor will realize they are all in it together and there is no benefit to delay or obstruction of any reasonable and fair resolution," he said. "But they have to be sure they have a proposed plan that is a reasonable and fair plan."

By Reuters

Feb. 19, 2020

(Reporting by Karen Pierog in Chicago and Luis Valentin Ortiz in San Juan; Editing by Matthew Lewis)

[Puerto Rico Goes to Court Against Debt-Restructuring Deal.](#)

SAN JUAN, Puerto Rico — Puerto Rico's government went to court on Wednesday to fight a deal that a federal control board overseeing the U.S. territory's finances recently reached with bondholders to reduce the island's debt by \$24 billion.

In the motion, attorneys said it's unclear how the board plans to move forward with the deal without government support and cooperation.

The motion was filed more than a week after Puerto Rico Gov. Wanda Vázquez said she opposed the debt-restructuring deal, adding that while bondholders would receive additional benefits as part of

the amended deal, it was unfavorable to retirees, some of whom would receive up to an 8.5% cut in their pension. The public pension system faces more than \$50 billion in unfunded pension benefits.

“The government has made abundantly clear that it will not support any plan proposal that it concludes is not in the best interest of the people of Puerto Rico,” the motion states.

The deal with several groups of bondholders to reduce debt from some \$35 billion to roughly \$11 billion requires in part that Puerto Rico legislators pass a bill to issue new bonds.

Edward Zayas, a board spokesman, told The Associated Press that the board was still in talks with Puerto Rico’s government.

“There is time to obtain government support in this process, but waiting and not doing anything about it in the interim would be a disservice to the goal of getting Puerto Rico out of bankruptcy,” he said. “Puerto Rico needs to exit bankruptcy as soon as possible. to be able to build a foundation for sustainable economic growth and improve the lives of all Puerto Rico residents.”

While the board did not approve of the deal unanimously, its executive director, Natalie Jaresko, has urged the governor to reconsider her position and said it’s unfortunate Vázquez doesn’t see the merits of the agreement.

The deal is one of the largest since officials announced in 2015 that Puerto Rico was unable to pay its more than \$70 billion public debt load after decades of mismanagement, corruption and excessive borrowing to balance budgets. It then filed for the biggest U.S. municipal bankruptcy in May 2017.

Puerto Rico remains mired in a 13-year recession as it struggles to recover from Hurricane Maria and a magnitude 6.4 earthquake that hit last month and damaged hundreds of homes and buildings in the island’s southern region.

By The Associated Press

Feb. 19, 2020

[KBRA Releases Comment - Puerto Rico Restructuring: An Ongoing Legacy of Injecting Uncertainty Into the Municipal.](#)

Kroll Bond Rating Agency (KBRA) publishes its Puerto Rico Restructuring: An Ongoing Legacy of Injecting Uncertainty Into the Municipal Market commentary, following the release of the Commonwealth’s amended plan support agreement (PSA) for certain obligations on February 9, 2020.

KBRA’s principal takeaways from this development are as follows:

- Although the PSA is an important chronological step, the restructuring process is far from complete. Title III proceedings, and related litigation, are unlikely to conclude before 2021 or beyond.
- The challenge to the validity of certain general obligation bonds and the effort to apply lower recoveries based on this assertion, combined with the erosion of special revenue bond protections, all represent significant negative developments that have already roiled the municipal market. In KBRA’s opinion, a knock-on macro effect emerging from these Title III proceedings is the

imposition of rating ceilings by other NRSROs across various municipal asset classes.

- KBRA now expects less uncertainty to the overall outcome in the Title III proceedings. In KBRA's view, recent developments suggest that severely negative recovery scenarios seem less likely, which is clearly positive. Further, very favorable bondholder outcomes seem less likely as well.

KBRA continues to monitor events to assess potential impacts on KBRA's insurance financial strength ratings.

To access the comment, [click here](#).

Business Wire

February 20, 2020

[Puerto Rico Reaches Deal to Settle \\$35 Billion in Debt.](#)

The agreement with general-obligation bondholders gives them more cash up front and more attractive debt, while costing the territory \$1 billion less than previously expected.

Puerto Rico has reached a deal with creditors who hold \$35 billion in its general obligation bonds, passing an important milestone as it tries to resolve its \$129 billion debt crisis.

The agreement, contained in a regulatory filing made Sunday evening by the territory's federal oversight board, revises parts of the [debt-adjustment plan](#) it announced last year and makes peace with some of its most litigious creditors, potentially opening a shorter path out of bankruptcy.

Under the restructuring plan released in September, the board suggested paying the general obligation bondholders \$11.8 billion, including \$2 billion up front. Under the new agreement, the debt would be settled for \$10.7 billion, with \$3.8 billion up front.

José Carrión, the chairman of the oversight board, called the deal "a win for Puerto Rico" that would also shorten the maturities of its new debts by a decade. The new terms, Mr. Carrión said, won "significantly more support from bondholders" than Puerto Rico had until now.

The deal still requires the approval of Puerto Rico's Legislature, but it would provide for holders of the island's general-obligation bonds to exchange them for a combination of cash and new debt. The new debt would be an even split of general-obligation bonds and new bonds backed by Puerto Rico's sales tax — a more attractive option than the old proposal, which included only general obligation bonds.

The new bonds would be for a shorter duration than those they would replace: 20 years instead of 30. That should help prevent the kind of budget deficits that led the island to borrow too much in the past, said Natalie Jaresko, the executive director of the federal oversight board.

"We are doing a great deal in these agreements to protect the people of Puerto Rico," she said.

Although the agreement removes another of the roadblocks facing the island as it tries to claw its way out of debt, a number of hurdles remain.

The agreement does not include bonds issued by Puerto Rico's power authority or the other bodies that provide drinking water and public works on the island. Nor does it apply to the roughly \$50

billion in pensions that the island owes its retired government workers — the territory's biggest debt.

Puerto Rico's governor, Wanda Vázquez, supported the debt restructuring plan last year, but she recently said the retirees should get sweeteners, too.

The territory was able to improve the deal for bondholders because of a recent economic windfall. Though the island's economy remains fragile — it was battered by a major hurricane that caused a monthslong power failure in 2017 and recently by a series of earthquakes — the government has built up a large supply of cash.

That's mainly because it has been sitting on the money it would have been paying to bondholders had it not defaulted in 2016. But the island has also benefited from a flurry of post-disaster rebuilding, which has led to more business-income tax revenue than expected.

The oversight board, which was set up in 2016, has also engaged in strong-arm negotiations, including challenging the supremacy of general-obligation creditors, who are accustomed to being paid first.

It also said general-obligation bonds brought to market starting in 2012 had exceeded the territory's debt limit and would have to be voided. That would have meant the investors holding them — mostly hedge funds and other financial institutions — would have to pay back any interest or principal they had received.

While angry bondholders threatened lawsuits, the board used that threat as leverage. It offered holders of pre-2012 bonds 64 cents on the dollar, and those holding later vintages either 45 cents or 35 cents on the dollar.

Holders of the later bonds were free to pursue their lawsuits, and the oversight board would set up a litigation trust to pay them up to 64 cents on the dollar if they won. But if they lost — if the court confirmed that their bonds were invalid — those bondholders would get nothing.

Those bondholders said the board's offer amounted to illegal discrimination and vowed to sue. Among them were Aurelius Capital Management, which has pursued aggressive litigation strategies in other debt meltdowns, most famously in Argentina, where the lawsuits took years to resolve.

Those suits were put on hold after the judge presiding over Puerto Rico's bankruptcy, Laura Taylor Swain, ordered both sides into mediation.

The agreement grew out of those talks, and it will give all three groups of general-obligation bondholders better recovery rates. Those who were initially promised 64 cents on the dollar would get 74.9 cents, those offered 45 cents would get 69.9 cents, and those offered 35 cents would get 65.4 cents.

The deal must still be incorporated into the overall debt-adjustment plan that requires Judge Swain's approval. She has scheduled hearings on the plan for October.

The New York Times

By Mary Williams Walsh

Feb. 10, 2020

Puerto Rico Oversight Board Eyes Bankruptcy Exit by Year-End.

SAN JUAN — Puerto Rico's long-running bankruptcy could cross the finish line by the end of the year under a schedule proposed by the U.S. commonwealth's federally created financial oversight board, according to a court filing on Monday.

A report filed by a mediation team said exiting bankruptcy prior to the end of 2020 is in "the best interests of all parties" and that it supports the board's schedule, which calls for a federal court confirmation hearing to begin Oct. 13 on a newly revised plan to restructure the Caribbean island's core government debt.

Puerto Rico commenced a form of municipal bankruptcy in May 2017 to restructure about \$120 billion of debt and liabilities.

Mediators acknowledged that confirmation of the so-called plan of adjustment for \$35 billion of bonds and claims and more than \$50 billion of pension obligations will be contested by certain creditors.

Meanwhile, oversight board executive director Natalie Jaresko defended the deal announced on Sunday with an expanded group of investors who own about \$8 billion of bonds as a "significant win" that would reduce the \$35 billion to less than \$11 billion.

"We are doing a great deal in this agreement to protect the people of Puerto Rico and bring us out of bankruptcy," she told reporters.

Approval of the deal by the board was not unanimous, with board member David Skeel tweeting on Monday that he "concluded there still are too many loose ends and I needed to vote no."

Municipal Market Analytics said the agreement "represents a doubling-down on aggressive bets on future growth, forcing future lenders to think of (Puerto Rico) as a permanently speculative credit profile."

Puerto Rico Governor Wanda Vazquez remains opposed. The island's fiscal agency released a statement on Monday reiterating her position that if bondholders get better treatment so should retired government workers.

Under the agreement, general obligation (GO) bondholders would face average value reductions of 29%, which is lower than haircuts of 36% to 65% that were included in a prior plan of adjustment announced in September. Some GO bonds issued in 2012 and 2014 traded at higher prices on Monday.

Jaresko said the treatment of pensions, which includes a maximum 8.5% cut for retirees who receive more than \$1,200 in monthly benefits, would not be revisited.

By Reuters

Feb. 10, 2020

(Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago; Editing by Matthew Lewis)

[**Puerto Rico's Debt Deal Has a \\$16 Billion Unknown.**](#)

General-obligation bondholders reached an agreement, but the bankruptcy may hinge on the treatment of other debt.

The seemingly never-ending saga of Puerto Rico's unprecedented bankruptcy took another turn during the weekend. In what's being hailed as a big step forward for the commonwealth, it reached a tentative agreement with Aurelius Capital Management, Autonomy Capital and other investors who own \$8 billion of the island's bonds.

The move is certainly significant. For one, it appears to end the push to invalidate entirely some of the island's general-obligation bonds. Also, Aurelius is infamous on Wall Street for spending more than a decade in court fighting Argentina for repayment on its bonds, so the fact that it seems to see the limits of a hardball strategy is reason to believe the finish line could be in sight for Puerto Rico. Bloomberg News's Michelle Kaske reported the details:

[Continue reading.](#)

Bloomberg Markets

By Brian Chappatta

February 11, 2020, 7:30 AM PST

[**Fitch Rtg's: Puerto Rico ERS Ruling Consistent with Expectations**](#)

Fitch Ratings-New York-10 February 2020: The U.S. Court of Appeals for the First Circuit Jan. 30 ruling in the matter of the Employees Retirement System (ERS) of the Government of the Commonwealth of Puerto Rico is consistent with Fitch Ratings' approach to considering provisions of the U.S. Bankruptcy Code in local government ratings. The ruling affirmed the District Court's denial of the plaintiff bondholders' arguments on three distinct points. The bondholders argued that their security interests fit within exceptions under section 552 of the Code, which relates to the disposition of postpetition assets of a debtor in bankruptcy. They also argued that the revenues pledged to them were special revenues under section 902 of the Code, exempting them from the automatic stay in a municipal bankruptcy. Additionally, the bondholders argued that since the bonds were issued before PROMESA was enacted, applying section 552 to the ERS bonds to impair retroactively the bondholders' security interests would violate the Takings Clause of the U.S. Constitution. The First Circuit rejected all three arguments.

The First Circuit decision commented extensively on why the section 552 exceptions do not support the continuation of the lien on employer pension contributions following a bankruptcy petition. Among other factors, the First Circuit cited language in the Official Statement for the ERS bonds that makes clear that legislative appropriations for employer contributions could be reduced if funds were insufficient. In fact, as stated in the ruling, the Commonwealth twice amended the Enabling Act after the bonds were issued to address its financial crisis by altering the required contributions.

The bondholders argued that the pledged revenues for the ERS bonds are special revenues under definitions 902(2)(A) and (D) of the code. Since liens on special revenues continue postpetition, a

ruling in favor of the bondholders on this point would have obviated the need for a ruling regarding section 552. Definition 902(2)(A) is generally understood to cover revenue bonds whose pledged revenues are derived from operations of entities such as transportation or utility systems. The First Circuit concluded that 902(2)(A) applies to “physical system[s] of providing services to third parties.” Fitch believes it is something of a stretch to consider legislatively appropriated employer contributions to a pension system to be derived from a system, physical or otherwise, as the funds contribute to, but are not generated by, the operation of the system. The payment amount is derived from a percentage of employee payrolls but is paid with general commonwealth revenues. Similarly, definition 902(2)(D) describes revenues derived from a function of the debtor, which does not seem an apt description of pension contributions. In reaching its holding, the First Circuit cited a standard dictionary definition of “derive” to conclude employer contributions are not within the special revenue definitions in the Code.

Even if Fitch believed there was an argument to be made that employer contributions could fall under either definition in section 902(2), we would not rate such bonds as secured by pledged special revenues as there is no assurance that a bankruptcy judge would have the same interpretation. Fitch has a high bar for considering pledged revenues to be special revenues in its rating analysis, and if we believe there is any ambiguity we perform additional legal analysis.

The First Circuit’s 2019 ruling on special revenues (in the Puerto Rico Highways and Transportation Authority case) challenged the municipal market’s long-held views of the treatment of bonds secured by pledged special revenues in a bankruptcy, but did not alter the interpretation of the definitions of special revenues themselves. As such, Fitch revised its tax-supported rating criteria earlier this year to provide for a notching relationship between dedicated tax bonds and Issuer Default Ratings without changing its method of evaluating whether bonds are secured by pledged special revenues.

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[Puerto Rico Strikes Debt Deal With Aurelius and Autonomy.](#)

Aurelius Capital Management, Autonomy Capital and other investors who own \$8 billion of Puerto Rico bonds struck a tentative pact with the island to reduce the nearly \$18 billion of debt it owes, a major step in the commonwealth’s record bankruptcy.

The potential deal with the commonwealth's financial oversight board brings together rival bondholder groups that had been divided in the past year over whether debt Puerto Rico sold in 2012 and 2014 is invalid. Aurelius and Autonomy, which hold securities sold in those years, joined the tentative agreement, which other bondholders signed in June, according to a securities filing.

While more creditors joined the agreement, Governor Wanda Vazquez said she can't support the deal in its current form because it doesn't ease proposed pension cuts to some retirees and public workers. A debt restructuring requires approval from island lawmakers.

Another group of investors, which includes BlackRock Financial Management Inc., and Brigade Capital Management, have also signed on to the pact, according to the filing. The potential deal would cut Puerto Rico general obligations and debt guaranteed by the commonwealth to \$10.7 billion from \$17.8 billion, about a 40% reduction. The overall plan slashes debt and non-bond claims to \$11 billion from \$35 billion, a \$24 billion reduction.

"The new and more favorable agreement is a win for Puerto Rico," José Carrión, chairman of the island's financial oversight board, which manages the commonwealth's bankruptcy, said in a statement. "It lowers total debt payments relative to the agreement we reached last year, pays off Commonwealth debt sooner, and has significantly more support from bondholders, further facilitating Puerto Rico's exit from the bankruptcy that has stretched over three years."

As part of the plan, the board agreed to end its legal challenge to cancel \$6 billion of debt sold in 2012 and 2014. In return, bondholders agreed to take 65.4 cents on the dollar for the 2014 debt — up from the board's earlier offer of 35 cents — and 69.9 cents for 2012 bonds, up from 45 cents. Investors would receive new bonds as well as a split of a \$3.8 billion cash settlement, according to a new plan support agreement posted Sunday on the board's website.

Major Portion

The newly restructured bonds will include a blend of general obligations and sales-tax bonds with a junior lien. The debt will be repaid over 20 years rather than the 30-year schedule in an earlier plan. Puerto Rico would then pay a maximum \$1.5 billion in annual debt service on the new securities and the island's \$12 billion of outstanding sales-tax debt, down from \$4.2 billion the island paid in 2017.

Puerto Rico owes nearly \$18 billion of general obligations and commonwealth-backed bonds. It's the last major portion of debt that needs to be resolved in order for the island to exit from bankruptcy, the largest ever in the \$3.8 trillion municipal-bond market. Puerto Rico must also fix a broke pension system that's promised \$50 billion to current and future retirees.

It's those public workers that Governor Vazquez says she is trying to protect. If terms for bondholders improve, such as giving new sales-tax debt in exchange for general obligations, than retirees must receive better terms as well, Vazquez said in a statement Sunday.

"After carefully analyzing the terms of this new agreement and given that the fiscal oversight board refused to improve the treatment of pensioners in it, my government has determined to not join this new agreement," Vazquez said in the statement.

The commonwealth's financial oversight board in May 2017 sought bankruptcy for the island after more than a decade of economic decline, years of borrowing to pay for operating expenses and population loss. The board in January 2019 asked the bankruptcy court to invalidate 2012 and 2014 bonds, claiming the sales breached debt limits imposed in the island's constitution.

Prices on some Puerto Rico securities soared amid speculation that additional bondholders,

including Aurelius, were about to sign on to the debt deal. General obligation bonds with an 8% coupon and maturing in 2035 traded Friday at 74 cents on the dollar, up from 69.6 cents on Tuesday, according to data compiled by Bloomberg.

Bloomberg Markets

by Michelle Kaske

February 9, 2020

[Hedge Fund Support For Puerto Rico Bond Deal Is Only Half The Fight.](#)

The tentative agreement between Puerto Rico's financial oversight board and investors holding \$8 billion of the bankrupt commonwealth's debt brings together rival bondholder groups that had been holding out for better terms. Still, that may not be enough to clinch the deal.

Puerto Rico Governor Wanda Vazquez has rejected the pact in its current form, bond insurers are in opposition, and it crimps payouts to other investors holding about \$16 billion of debt with weaker claims who are sure to dispute it.

The deal, if enacted, would help Puerto Rico cut some of its general-obligation and commonwealth-guaranteed bond debt and interest almost in half to \$10.7 billion from \$18.7 billion. The decision by Aurelius Capital Management and Autonomy Capital to sign onto the agreement could help accelerate the island's case, with lead mediator Judge Barbara Houser anticipating much of Puerto Rico's government exiting bankruptcy by the end of the year.

"It's a pretty good recovery for commonwealth bondholders and obviously it comes at the expense of other stakeholders," said Matt Fabian, partner at Municipal Markets Analytics.

Aurelius, Autonomy and other bond investors would get between 65.4 cents to 77.6 cents on the dollar for central-government backed securities, up from an earlier offer of 23 cents to 73 cents. They would receive new bonds — a blend of general obligations and sales-tax bonds with a junior-lien pledge — as well as a split of a \$3.8 billion cash settlement.

Holders of about \$16 billion of other debt, such as highway bonds that are repaid with revenue that Puerto Rico can claw back and use for other spending and pension-obligation bonds, would get about three cents on the dollar. Although there is ongoing litigation that could affect that repayment.

Broader Plan

The tentative agreement is part of a broader plan to cut the island's debt and non-bond bankruptcy claims to \$11 billion from \$35 billion, a \$24 billion reduction. Puerto Rico's congressionally mandated financial oversight board has until Feb. 28 to file a revision that includes fixing its broke pension system that owes current and future retirees \$50 billion.

Getting Aurelius and Autonomy to sign on was key. The two firms have been at odds with other bondholders over who would be left holding the bag after the oversight board last year asked the bankruptcy court to cancel \$6 billion of bonds sold in 2012 and 2014, claiming they breached the island's constitutional debt limit. The proposed agreement would end that challenge.

The next test for the deal is to gain support from island lawmakers. Vazquez said Sunday after it was announced that she wants to see better terms for public workers given how favorably it treats Wall Street. Puerto Rico will hold general elections in November, with its legislators up for re-election and Vazquez seeking to remain in the governor's mansion. This debt plan needs legislative approval unless the oversight board seeks a cramdown from the court.

Bond insurance companies Ambac Financial Group Inc., Assured Guaranty Ltd., National Public Finance Guarantee Corp. and Financial Guaranty Insurance Co. haven't signed on to the deal, claiming the board didn't "meaningfully engage" with them. The agreement is based on inaccurate and incomplete data on Puerto Rico's economy, cash balances and debt capacity, the companies said Monday evening in a joint statement.

"The primary beneficiaries and architects of the plan support agreement are hedge funds, having shaken bonds from the hands of retail and long-term supporters and bondholders of Puerto Rico (many of which are on-island retirees) at pennies on the dollar," the bond insurers said in the statement.

Cancellation Fear

Prices on Puerto Rico securities plummeted to record lows in the aftermath of Hurricane Maria. General obligations with an 8% coupon fell to an average low of 21.8 cents on the dollar on Dec. 18, 2017 and junior-lien sales-tax bonds known as Cofinas dropped to less than 10 cents at that time, according to data compiled by Bloomberg.

While some hedge funds and distressed buyers did scoop up the debt at those levels, others bought 8% general-obligation bonds in the primary market at 93 cents when Puerto Rico issued the debt in 2014.

Bloomberg Markets

by Michelle Kaske

February 12, 2020

[Chicago's Bonds Aren't Akin to Puerto Rico's.](#)

Chicago has been clear that the proceeds will repay higher-cost debt. That's not a con but the equivalent of refinancing a mortgage to help pay for a child's education.

Regarding your editorial "[Chicago's Puerto Rican Bonds](#)" (Feb. 1): Labeling Chicago's new issuance of sales-tax-backed bonds a "shell scheme" is a poor analogy. Chicago has been clear that the proceeds will repay higher-cost debt. That's not a con but the equivalent of refinancing a mortgage to help pay for a child's education. Rather than "diluting" other creditors, the city's move helps it achieve its goals. In positing that investors are so starved for yield that Chicago was able to essentially dupe them, the editorial overlooks key realities.

First, it's wrong to compare the yields on municipal bonds and Treasuries. Chicago's securitization bonds carry a 5% coupon and pay tax-free interest whereas Treasuries are taxable, thereby explaining the heightened demand for the former.

Second, the tax revenues backing the bonds are paid from the state of Illinois, which agreed to help securitize them and promised not to impair bondholders. The U.S. Constitution protects investors against states breaking such promises. And in bankruptcy, the Fifth Amendment would prohibit Chicago from taking property, which is determined under Illinois law.

The notion that a recession could prompt politicians to pick pensioners over bondholders is also a red herring. Investors know—and price in—that the Illinois Constitution prevents the diminishment or impairment of pensioners, as the state’s Supreme Court held in 2015.

That Chicago, working with Illinois, lowered its borrowing costs should be applauded. Puerto Rico’s sales-tax bonds faced unique challenges inapplicable to Chicago. They nevertheless delivered near-par recoveries for senior bondholders.

Wall Street Journal Letters

by Susheel Kirpalani

Quinn Emanuel Urquhart & Sullivan

New York

Feb. 12, 2020 4:56 pm ET

[San Francisco Tries to Rally Public to Buy Piece of PG&E.](#)

- **City creates website touting \$2.5 billion offer for local gear**
- **Bankrupt company has rebuffed offers for bits of its grid**

Beset by fires, bankruptcy and blackouts, PG&E Corp. now faces a marketing campaign from government officials in its hometown bent on replacing the utility giant.

San Francisco has launched the “Our City, Our Power” campaign to rally public support for buying PG&E’s local wires and taking over electricity service within the city. It includes a website asking residents to sign up in favor of the effort, arguing the city can provide better service.

“Local control of the entire San Francisco electric system will provide increased affordability, safety, reliability and accountability,” Mayor London Breed said in a statement on the site.

PG&E, which filed for Chapter 11 last year facing \$30 billion in liabilities from wildfires blamed on its equipment, has already turned down a \$2.5 billion offer from San Francisco to buy the gear, saying it’s worth more. Allowing communities to buy parts of the system could delay needed investments in California’s aging electric grid, the company said in an emailed statement Monday.

“While recent proposals for state or municipal ownership of PG&E’s infrastructure are not new concepts, we don’t agree that the outcomes of this type of framework will benefit customers, taxpayers, local communities, the state or our economy,” the company said.

The utility, founded in San Francisco more than a century ago, has also turned down offers from three other local public agencies in California interested in buying portions of its grid. As part of a proposed reorganization plan, PG&E has called for keeping itself intact and setting up regional divisions to address local concerns.

A San Francisco official, meanwhile, has raised the possibility of seizing PG&E's equipment through eminent domain if the company refuses to sell.

Bloomberg

By David R Baker

February 10, 2020, 2:14 PM PST Updated on February 10, 2020, 3:49 PM PST

[California 2020 Roadmap to Shared Prosperity.](#)

[View document.](#)

[Chicago Lags Behind Other Big Cities in Opportunity Zones Projects.](#)

Investors are looking to other metro areas where investment may be less risky and whose neighborhoods have already gentrified

Opportunity Zone investment in Chicago has lagged far behind other big cities.

The federal tax incentive program established 8,700 designated Opportunity Zones across the U.S. The program used 2010 census data so it includes formerly blighted neighborhoods that have since experienced gentrification, like Houston and Portland.

Meanwhile, most of Chicago's 135 Opportunity Zones are located in distressed areas on the South and West Sides, including Englewood and Auburn Gresham, according to Crain's. That has kept investors from plowing into projects despite recent updated federal regulations that that cleared up many questions.

[Continue reading.](#)

THE REAL DEAL CHICAGO

February 10, 2020 02:00 PM

Staff

[Fitch Ratings: Florida HB 653 May Impact Local Government Credit Quality](#)

Fitch Ratings-New York-13 February 2020: Fitch Ratings does not expect Florida House Bill (HB) 653, if signed into law, to trigger a significant number of rating actions for local governments. The law would prohibit the use of electric enterprise fund revenues to support general governmental functions effective July 1, 2020. It could prove a political challenge to policy makers who have to allocate the cost of government among taxpayers and utility ratepayers, including utility, water and sewer customers, but is unlikely to create financial strain for most local governments. Electric utility

transfers make up a small percentage of most local governments' budgets and these entities typically have offsetting core credit strengths including revenue-raising ability, expenditure flexibility and ample reserves relative to the potential impact of an economic stress.

Complying with the legislation could prove a greater challenge to those local governments that rely on utility transfers as an important general fund revenue source and whose offsetting budgetary flexibility is not as high. Municipal utility transfers range as high as 30% of general fund revenues, allowing for lower ad valorem tax rates than would otherwise be required given the services provided.

The adoption of HB 653 could necessitate immediate increases in those rates, cutting into existing margins within the statutory limit and potentially weakening revenue-raising powers and flexibility to respond to future economic stress. Independent revenue raising ability is a component of one of Fitch's four key rating drivers in its U.S. public finance tax-supported rating criteria and informs Fitch's view of overall financial resilience.

The credit impact of HB 653 on retail electric utilities would be mildly positive in Fitch's view. Transfer payments typically approximate 6% of total system revenues, which Fitch does not consider financially burdensome. However, given their importance to the host government, Fitch views transfer payments as a fixed obligation for retail utilities, and as such includes them in the analysis of financial performance. Systems that elect to return excess cash flow to customers through lower utility rates would likely benefit from improved rate competitiveness, affordability and overall revenue defensibility; whereas systems that elect to use the excess free cash flow to build cash reserves or fund additional capital spending and/or pay-off existing debt would likely benefit from lower system leverage. Fitch views either scenario as positive for utilities.

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[S&P Bulletin: Proposed Sales Tax Changes In Texas Would Transform Revenue Distribution](#)

FARMERS BRANCH (S&P Global Ratings) Feb. 13, 2020- A proposed change to sales tax collections in Texas would likely lead to a modest increases in revenues for most cities. In limited cases where an entity issued debt secured by sales tax and has a concentration of online market places,

warehouses, and distribution facilities, we would anticipate a degree of sales tax volatility which could weaken credit quality.

On Jan. 3, the Texas comptroller proposed changes to the tax code including a change to destination-based sales tax allocations for qualifying internet sales, eliminating origin-based distribution. Currently in Texas, sales taxes on internet purchases are allocated to the city where the online order is received. This favors municipalities with major online market places, warehouses, and distribution facilities that fulfill internet orders. With the proposed change, sales taxes would be credited to the purchase's destination. S&P Global Ratings believes that given this broader geographic reach, a majority of Texas municipalities would benefit from the proposed change.

However, given the shift considered under the proposal, there could be a more significant impact to credit quality for issuers who stand to lose a reliable revenue source. The proposed rule change includes a grandfathering provision that would extend certain economic development agreements until Dec. 31, 2022, allowing affected entities some time to explore alternative forms of revenue and cost saving initiatives. However, any long-term bonds secured by sales taxes could see some impairment after that date.

A number of Texas cities entered into economic development agreements with the understanding that sales taxes derived from online purchases would be sourced from their respective city and assist in managing the total property tax rate. Several cities have publicly indicated the change in the distribution of sales tax collection would result in structural budget gaps due to the lost revenue. We understand, through discussions with city representatives, that sales tax collections derived from business-to-business (B2B) sales could also be negatively affected due to the proposed redefinition of "internet order." Essentially the proposed language defines internet orders as purchases by any method related to the internet regardless of the type of electronic device. As a large number of companies execute commercial transactions via the internet, Texas cities with a large commercial presence could see a loss in annual sales tax revenue derived from B2B sales.

While measuring the effect at this point is difficult given online transactions are not generally disaggregated from total sales tax collection with the continued shift of consumer spending towards e-commerce, we anticipate most Texas cities are likely to experience modest increases in sales tax collections. As noted by the U.S. Commerce Department e-commerce reports, U.S. e-commerce sales as a percentage of total retail sales increased to 11.2% in the third quarter of 2019 from 3.4% in 2009, representing a growing share of the retail market that Texas cities can capitalize on.

The state comptroller is also enacting provisions under precedent set by the United States Supreme Court in *South Dakota v. Wayfair* (2018) and recent Wayfair-related legislation passed during the 2019 Texas legislative session which overruled a longstanding physical-presence statute, allowing states to require remote sellers to collect and remit sales tax. The proposed rule changes is intended to provide guidance to Texas local governments' and to clarify sourcing from online sales tax collections. Regardless of the outcome of the proposed change, our analysis will continue to focus on entities' ability to maintain structural balance while mitigating the impact of lost revenue- sales tax or otherwise. We will continue to monitor the proposed change and its potential effect on Texas local governments' credit quality.

This report does not constitute a rating action.

[Wisconsin Could Be First State To Expand Opportunity Zone Tax Incentives.](#)

Federal Community Development Program Created To Spur Development In Urban, Rural Areas

President Donald Trump touted opportunity zones during the State of the Union Address on Tuesday to improve low-income rural and urban communities.

The community development program was established by Congress with bipartisan support in 2017 to encourage long-term investments in under-developed areas across the country.

In Wisconsin, a bill is working its way through the state Legislature to make the program more enticing to investors. But critics say tax incentives for the wealthy could lead to poorer people being displaced from their neighborhoods.

Wisconsin has 120 opportunity zones that were chosen by former Gov. Scott Walker and certified by the U.S. Department of the Treasury.

Under the federal program, people who invest in development projects happening in the zones can defer capital gains on a previous investment until the end of 2026.

And any taxes on capital gains from investments in the opportunity zones can be avoided if the investments are held for at least 10 years.

Under state [Senate Bill 440](#), Wisconsin could become one of the first states to give even larger tax breaks to the investors who are the primary beneficiaries of this tax policy.

The proposal gives people an additional 10 percent state capital gains tax reduction if they hold an investment in a Wisconsin opportunity zone for at least five years, and an additional 15 percent after seven years.

Jon Peacock, project director with the Wisconsin Budget Project, spoke in opposition of the bill during a legislative hearing Wednesday, Jan. 29.

“Although investments in opportunity zones could theoretically help low-income parts of the state, including some communities of color, early indications are that the law is unlikely to have that effect, and it could contribute to gentrification, as well as further concentration of wealth,” Peacock said.

Peacock gave the example of Madison’s East Washington Avenue headed toward the state Capitol, which is an opportunity zone.

“It’s not the kind of area where wealthy investors should be able to get substantial tax breaks for building new condominiums and apartment buildings,” Peacock said.

Mayors and economic development officials from Stevens Point, Racine and Portage and the Wisconsin Economic Development Association (WEDA) registered letters of support during the public hearing last month.

Michael Welsh, the legislative affairs director for WEDA, said unlike other programs, opportunity zones don’t use taxpayer dollars for economic development.

“The legislation will encourage Wisconsin investors to keep their investment dollars in Wisconsin, funneling much-needed capital to communities in both rural and urban parts of the state,” Welsh

said.

Racine Mayor Cory Mason said a targeted tax cut is the kind of tool municipalities need to accelerate growth in economically distressed areas. Racine has three opportunity zones.

“For the first time in decades, Racine has announced several high-quality economic development projects, including housing, hotels, and mixed-use commercial properties, which will generate construction jobs as well as ongoing employment, including for lower-income individuals living in the immediate area,” Mason said.

Tracy Johnson, who heads the Commercial Association of Realtors for Wisconsin, said adding an incentive could get more people to participate in the program.

“They’re reinvigorating the program,” Johnson said. “You know I think anytime you can talk about the program and incentivize investors, that is going to be a positive thing. Especially in order to achieve the results for urban areas, which is really what this investment fund was created for.”

Wisconsin Public Radio

By Corrinne Hess

Published: Thursday, February 6, 2020, 6:00am

[Research & Commentary: Florida Considers Limiting Taxpayer Funding for Sports Palaces.](#)

In this Research & Commentary, Matthew Glans examines a new bill in Florida that attempts to decrease the use of taxpayer dollars for stadiums.

In recent years, the trend in stadium financing has shifted from private funding to taxpayer subsidies for new stadium construction or renovation. Even more disturbing, nearly all new sports facilities are being built with government subsidies. The primary funding mechanisms for these stadiums are tax-exempt municipal bonds. According to a 2015 Bloomberg article, tax-free bonds used to finance stadiums costs the U.S. Treasury \$146 million per year. From 1986 to 2015, \$17 billion in tax-exempt debt was used to finance stadium projects at a cost of \$4 billion to taxpayers.

Congress attempted to slow this trend with the Tax Reform Act of 1986, which prohibits direct stadium revenue from being used to secure public financing for more than 10 percent of the cost of a stadium. Ending the use of these bonds for stadium construction is one path states can follow to slow the proliferation of these projects.

[Continue reading.](#)

The Heartland Institute

By Matthew Glans

FEBRUARY 14, 2020

Fitch Ratings: JEA's Ratings Unaffected by Recent Resignation of Board of Directors

Fitch Ratings-Chicago-06 February 2020: Fitch Ratings believes the recent resignation of JEA's entire board of directors, culminating from a string of events dating back to 2018, is a distraction for the utility but is unlikely to present near-term credit risks. However, the utility's credit quality could be influenced over the intermediate term by significant changes in the strategic direction of the utility following the appointment of a new board and the hiring of new senior staff, according to Fitch.

Fitch believes the recent management changes, lawsuits challenging the validity of certain purchased power obligations, and the recently abandoned proposal to sell the utility, are all currently credit neutral to JEA. However, the resignation of JEA's board chairperson early last week, followed by notification from the City of Jacksonville's Mayor's office later that same day that the remaining six JEA board members intend to continue in their roles only until Feb. 28, 2020, leaves the utility with the possibility a governing quorum will not be in place starting next month as well as some uncertainty regarding the utility's longer-term strategic direction.

Jacksonville's Mayor and City Council have begun the process to fill all seven board vacancies, with the potential for new board members to be appointed (by the Mayor), and potentially confirmed (by city council) before the current remaining board members leave their posts at month's end. Fitch believes the prospect of appointing and approving a brand new seven-member board to be challenging. However, several key senior managers (including the interim CEO) have been retained, providing JEA some degree of continuity with respect to daily operations during this transition.

The new board will be charged with hiring a new CEO and setting the course for JEA going forward. Fitch will closely monitor the process over the coming weeks and months, with particular interest in the city's timetable for approving an acting board, as well as the board's ultimate composition, level of experience in utility operations and strategic objectives. While Fitch believes the changes in JEA's governance and leadership are unlikely to result in a change in the expected course of operations, any shifts in policy that compromise JEA's financial profile, including a reduction in electric rates (or reticence to increase rates, as needed) or a change in resources that leads to significant stranded costs, could impact future credit quality in Fitch's view.

Fitch recently affirmed JEA's Issuer Default Rating (IDR) and its outstanding ratings on a variety of electric system revenue bonds at 'AA'/Stable Outlook. The electric system's ratings are based on JEA's very strong revenue defensibility, aided by its delivery of monopolistic service to a sound service territory, independent rate setting and consistently solid financial performance.

Also considered in the rating is a steadily declining leverage profile led by the strategic use of excess cash flows to lower fixed costs through early retirement of outstanding bonds over the past several years. There are currently no asymmetric risks affecting JEA's ratings at this time. However, the quality of governance and management is an important consideration when assessing the potential performance of an entity over the life of its debt, where weak attributes could constrain the overall rating.

Fitch further views the litigation with MEAG Power over the validity of JEA's purchase power agreement (PPA) for Plant Vogtle energy and capacity to be neutral to the rating. Fitch believes JEA's Vogtle-related obligations as currently known are manageable given the strong annual cash flows and rate flexibility coupled with rapidly amortizing debt obligations. JEA has publicly indicated

it will continue to honor its obligations under the contract during the litigation process and thereafter as long as the PPA is not determined to be invalid. Any change in JEA's current intention to continue paying its obligations under the PPA absent a court ruling striking down its validity would cause Fitch to reevaluate all relevant ratings.

For more information on JEA's electric system ratings please see Fitch's press release affirming JEA's electric system revenue bonds dated Nov. 22, 2019 at www.fitchratings.com. For more information on how Fitch views asymmetric risks such as governance and management, please see the public power sector criteria dated April 4, 2019.

Swanky Austin Tower Pits Teachers Against a Texas Public Pension Fund.

(Bloomberg) — The biggest public pension fund in Texas plans to move into what is billed as Austin's tallest office tower. It's turning into an enormous quarrel.

The \$160 billion Teacher Retirement System of Texas is taking heat from all sides — the lieutenant governor's office, lawmakers and retired teachers. The focus of their ire: a \$3.9 million-a-year lease to occupy three floors in the gleaming downtown building set to open next year.

"The people who are paying the bills, they're the ones who are saying: 'Hey I taught in the hallway and you aren't able to make this work at a lower price?,'" said Tim Lee, executive director of the Texas Retired Teachers Association.

Both houses of the state legislature have set up hearings to examine the lease. Leaders of the fund, which manages benefits for 1.6 million current and former teachers and school employees, also plan to address the issue at a public meeting.

U.S. pensions have boosted riskier investments while contending with lackluster returns, which has put pressure on their spending decisions. They are also always under the microscope because they operate within government agencies, said Ashby Monk, who consults with institutional investors as executive director of Stanford University's Global Projects Center.

"It's dismaying to all of us that they would commit that kind of money," said Dan Flynn, a Republican in the Texas House of Representatives. "You're talking about public money." The house hearing may occur early next month.

Texas Teachers has built a world-class investment operation, with a satellite office in London and plans for a similar setup in Singapore. In its home state, though, it has occupied a building between the Texas Capitol and Interstate 35 for the last 11 years.

The agency signed up for the new 100,000-square-foot space to accommodate its expansion. It expects to have 230 employees in the next three years up from about 180 today. Those staffers will be treated to amenities including a fitness center, outdoor terraces, and restaurants and stores that will comprise what developers say will be Austin's biggest downtown office complex.

The rent row began last year when the Texas Teachers declined to disclose the lease terms to the Austin American-Statesman newspaper, sparking a months-long standoff. Last month it finally offered some details — the base lease rate — but excluded some costs like maintenance.

That led to public fallout. Last week, Lieutenant Governor Dan Patrick directed lawmakers to

examine the total rental costs, including furnishings. The Senate finance committee will take up the matter during a Feb. 25 hearing, according to spokeswoman Katie Greer. The retirement system's board will also discuss it at a two-day meeting starting Feb. 20, spokesman Rob Maxwell said.

Fund executive director Brian Guthrie said in a statement last month that the Texas Teachers got favorable rates by committing early. The rent, which rises to \$4.6 million by the end of the 10-year contract, is "well below current rates for comparable space in Austin's tight rental market," he said.

"We are aware of member and legislative concerns," Guthrie said in an emailed statement. "I and the board give our fiduciary responsibilities the highest priority."

That assurance is little consolation to retirees who rely on the fund.

"I never believed you need a fancy downtown building to attract people to Austin," Lee said of the Texas Retired Teachers.

Bloomberg

by Michael McDonald

February 7, 2020

[Mass. Appeals Court Broadly Construes Two-Year Bar on Repetitive Zoning Amendments.](#)

In one of its noteworthy zoning decisions of late 2019, the Massachusetts Appeals Court interpreted the "two-year bar" for zoning amendments contained in [M.G.L. c. 40A, § 5, sixth par.](#) In [Penn v. Town of Barnstable](#), the Appeals Court affirmed a summary judgment entered by the Land Court and concluded that the Town of Barnstable's adoption of a zoning amendment calling for the creation of the Hyannis Parking Overlay District (HPOD) violated the two-year bar because the town had rejected a similar proposal just a few months earlier.

In an effort to create uniformity and resolve discrepancies in the management of parking spaces in and around Hyannis Harbor, a subcommittee of the Barnstable Town Council proposed in December, 2015 to amend the town's zoning ordinance to create the HPOD. The proposed amendment, identified as Item No. 2016-54, sought to authorize as-of-right certain parking lot operations, with site-development standards governing operation of the lots within the HPOD. After a public hearing on the proposal, the Barnstable Planning Board voted not to recommend adoption of Item No. 2016-54. The Town Council then rejected the proposed amendment in a split vote in March, 2016.

A few weeks later the Town Council docketed a new zoning proposal concerning parking, Item No. 2016-166, and scheduled it for a public hearing on July 21, 2016. Item No. 2016-166 differed from Item No. 2016-54 in three ways, but the new proposal also dealt with the management of commercial parking. After this public hearing the Planning Board voted to recommend approval of Item No. 2016-166. The Town Council then voted that Item No. 2016-166 was "not a proposed zoning ordinance . . . previously acted upon unfavorably" as Item No. 2016-54, and voted to adopt Item No. 2016-166. Neighboring homeowners challenged the Town Council's adoption of Item No. 2016-166, arguing, among other things, that the vote was invalid under M.G.L. c. 40A, § 5, sixth par., because it came within two years of the council's rejection of Item No. 2016-54.

The statute states:

No proposed zoning ordinance or by-law which has been unfavorably acted upon by a city council or town meeting shall be considered by the city council or town meeting within two years after the date of such unfavorable action unless the adoption of such proposed ordinance or by-law is recommended in the final report of the planning board.

Citing the 1961 Supreme Judicial Court (SJC) decision [Kitty v. Springfield](#), the Appeals Court noted that the purpose of the two-year bar is to “give some measure of finality to unfavorable action taken by a municipal legislative body.” In *Kitty*, the SJC construed the two-year bar to apply to “any new action of the same character” as a previously defeated proposal. Because no reported decision had addressed what it means for proposals to be “of the same character” for these purposes, the Appeals Court examined cases decided in two analogous contexts. The court concluded that proposed ordinances and bylaws are sufficiently identical “if they share the same fundamental or essential character, with little substantive difference.” Applying that standard, the Appeals Court concluded that Item No. 2016-166 was essentially the same as Item No. 2016-54 because the new proposal “did not change the fundamental and essential character of the item – to allow for as-of-right operation of commercial parking lots through creation of the HPOD.”

Unlike the situation presented by [M.G.L. c. 40A, § 16](#) (barring reconsideration within two years of a rejected application for a variance or special permit), where the bar does not apply if the permit-granting authority finds there are “specific and material changes” in the new proposal, M.G.L. c. 40A, § 5, sixth par., gives the municipal legislative body no role in deciding whether a proposed ordinance is the same as one previously rejected. If the two proposals are fundamentally and essentially the same, a proposed zoning bylaw or ordinance cannot be enacted within two years of being rejected by the municipal body.

On December 23, 2019 the SJC denied the Town of Barnstable’s petition for further appellate review, so the Appeals Court’s decision in *Penn* is now final.

Pierce Atwood LLP - Michelle N. O’Brien

February 7 2020

[Rhode Island Driving for a Different Outcome in Federal Truck Toll Lawsuit: Nossaman](#)

Rhode Island is trying to put the brakes on a federal lawsuit brought by the trucking industry that could steer the state’s truck toll system into a ditch. The outcome could create speed bumps for transportation agencies considering deployment of innovative congestion management tools.

In 2016 the Rhode Island General Assembly passed the [Rhode Island Bridge Replacement, Reconstruction, and Maintenance Fund Act of 2016](#) (“RhodeWorks Act”) to fill a funding gap between revenue needed to maintain the state’s bridges in sound condition and the state’s revenue sources. The ... [Continue](#)

Nossaman LLP

Puerto Rico Bondholders Reach Tentative Deal With Oversight Board.

Pact raises recovery for newer general obligation bonds, moving the U.S. territory closer to bankruptcy exit

Competing bondholder groups and the oversight board supervising Puerto Rico's debt restructuring have reached a tentative compromise that moves the U.S. territory closer to leaving bankruptcy, people familiar with the matter said.

The deal settles a dispute between holders of Puerto Rico general obligation bonds that were issued before 2012 and owners of general obligation bonds issued more recently. The oversight board has previously contested the validity of the newer debt and proposed owners of those bonds receive lower recoveries.

The agreement, which requires court approval, is expected to be announced next week. The board and the competing factions worked out the rough terms of their bargain during court-mandated mediation in recent months but are still discussing some legal points of disagreement, people familiar with the matter said.

Hedge funds including Monarch Alternative Capital LP, GoldenTree Asset Management LP and Whitebox Advisors LLC were part of a committee advocating for owners of the older—or legacy—bonds while a group including Aurelius Capital Management LP and Autonomy Capital negotiated on behalf of investors in the newer bonds. Together, the older and newer bonds total more than \$18 billion in debt.

Spokesmen for the oversight board, and both bondholder groups declined to comment.

An early agreement between the legacy group and the oversight board contemplated paying about 64 cents on the dollar for the older bonds and between 45 and 35 cents on the newer bonds. The new deal involves a higher payment on the more recently issued bonds, the people familiar with the matter said.

The price of the U.S. territory's \$3.5 billion bond issued in 2014 has climbed about 11% this year to around 70 cents on the dollar in recent days, its highest valuation since the bankruptcy case began in 2017, according to data from Electronic Municipal Market Access.

Aurelius has waged a legal battle against Puerto Rico and its oversight board that has gone all the way to the U.S. Supreme Court in an effort to increase payouts on their debt.

The Wall Street Journal

By Matt Wirz and Andrew Scurria

Updated Feb. 5, 2020 3:52 pm ET

[For Many California Cities, New Year Brings Higher Pension Bills.](#)

- **Cost of some public safety pensions more than 70% of payroll**
- **Calpers flags concern that rising rates will stress cities**

Cities across California are beginning to draft their fiscal blueprints for the next year — and for many of them, that means paying more to the California Public Employees' Retirement System.

The percentage of payroll that the average police and fire department shells out for pension costs is expected to reach 56% by 2024, with the number of local governments paying more than 70% doubling to 59 by then. That means that for every dollar those cities spend on salaries, they'll need to contribute at least another 70 cents to Calpers, the largest public pension in the U.S.

[Continue reading.](#)

Bloomberg Markets

By Romy Varghese

January 29, 2020, 6:00 AM PST

[California Governor's Budget Proposal: Steady Sailing For Now; Potential Vulnerability To Stormy Weather](#)

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Key Takeways

- California's economic assumptions for fiscal 2021 appear reasonable, with 3.4% general fund revenue growth proposed, adjusted to exclude transfers to the budget stabilization fund.
- The state currently runs a structural operating surplus; however, revenue remains very vulnerable to future cyclical economic or stock market decline due to a high dependence on capital gains tax and a small number of top taxpayers.
- The governor proposes large ongoing increases in health and human services, while other key spending areas would remain largely flat. Combined with a drop in one-time spending and almost \$20 billion of proposed new general obligation debt authorizations, this may reduce future state spending flexibility.
- Overall financial reserves would remain strong and comparable with last year as a percent of budget, but California needs these high reserves to cover potentially above average revenue cyclicity.

[Continue reading.](#)

[State Legislation Prompts San Diego to Explore Creating a City-Owned 'Public Bank'](#)

Proposal could generate revenue, boost community investment; but critics say there are risks

SAN DIEGO — New state legislation allowing cities to establish government-run “public banks” has prompted San Diego officials to begin exploring the idea, including four City Council members who want to spend \$250,000 on a feasibility study.

San Diego would join Los Angeles, Oakland and several other cities that have begun analyzing the pros and cons of public banks, which aim to boost city revenue and direct more capital to priorities like affordable housing.

If approved, San Diego would launch its public bank, which could happen as soon as next year, using hundreds of millions of dollars from city reserves that it now keeps at Bank of America.

By cutting out a commercial bank as the middle man, the city could replace the small interest payments it receives from B of A — currently about 1 percent — with interest revenue as high as 20 percent from loans it would make, supporters say.

Just like a traditional bank, the city’s public bank could lend money in the form of property mortgages, capital needed for housing developments or loans to nonprofits and other businesses.

Supporters say a public bank would strengthen the local economy by making it easier for small businesses to get capital and by directing loans toward projects that address pressing needs, like bike lanes, solar panels and other “green” infrastructure.

In addition, a public bank could provide crucial start-up capital to local credit unions and neighborhood banks. That would make loans and other financial services more widely available, especially in low-income neighborhoods, supporters say.

“There’s really something for everyone in this,” said Jeff Olson, a North Park resident spearheading the effort as head of a new organization called PublicBankSD. “We’re going to make a ton of money out of thin air.”

Critics say previous efforts to launch public banks across the nation have been plagued by large start-up costs, profits that don’t materialize for decades and even complete failures in some cases.

They also say public banks get mired in politics, with decisions on loans becoming political debates instead of sound financial evaluations.

Such concerns prompted the state Legislature to treat the creation of public banks as a pilot project in September when it approved AB 857, which was signed into law by Gov. Gavin Newsom in October.

Only 10 cities will be allowed to establish public banks under the pilot legislation, with a maximum of two banks opening per year until that total is reached.

Olson said Los Angeles officials, who placed an unsuccessful city public banking measure on the ballot in 2018, are further ahead in establishing a city-owned bank than other cities in California.

But San Diego has a chance to join L.A. in the first duo of cities to have public banks approved by the state, he said. If not, Olson said he is hopeful San Diego will be in the second wave, probably with Oakland or San Francisco.

Other cities that have begun exploring the idea include San Jose, Long Beach and Truckee, he said.

Olson said the state limit of two new public banks per year helped motivate four San Diego Councilmembers – Georgette Gómez, Dr. Jennifer Campbell, Chris Ward and Monica Montgomery — to request Mayor Kevin Faulconer include \$250,000 in his new budget for a feasibility study.

“It’s another case where we run the risk of procrastinating so long that the team moves to L.A., and I think that has lit a fire underneath some of the folks at City Hall,” Olson said.

Councilman Ward said he supports the study and plans to have the council’s economic development committee, which he chairs, help make a public bank happen.

“Public banking offers many potential benefits to San Diego, and the committee should explore the necessary steps for identifying these opportunities going forward,” Ward said in his proposed priority list for the committee this year.

Councilwoman Barbara Bry also has agreed to let Olson make a detailed presentation on public banking in March to the council’s budget committee, which she chairs.

None of the council’s Republican members have endorsed the idea, but Republican Mayor Kevin Faulconer sent the city’s lobbyist to Sacramento to advocate for AB 857.

In a letter to the state Assembly, lobbyist Moira Topp said a public bank could be “an innovative municipal finance tool that could allow cities like San Diego to truly invest in its citizens.”

Topp said the state legislation includes many benefits for cities, but it’s also carefully written to avoid financial pitfalls.

“The city could potentially reduce costs and provide access to capital for its residents, businesses and nonprofit organizations,” she said. “The bill includes safeguards and fiduciary requirements to be met before the city could establish a public bank and would require this bank generally comply with requirements in state law for commercial banks.”

San Diego’s first step is hiring a financial firm to determine the estimated start-up costs of a public bank, create a business plan and analyze the potential long-term cost savings and revenue for the city.

AB 857 requires cities to complete such an analysis and submit it to the California Department of Business Oversight, which could then give San Diego permission to open a public bank.

Olson said he’s optimistic about the results of such an analysis, which could be complete by late 2020 if the city makes the \$250,000 available in the new budget it’s scheduled to adopt in June.

“My group paid an economist to do a preliminary business plan where he pulled all the numbers from the city’s comprehensive annual financial report into a banking model, and it shows an immediate 15 percent return on our investments, and in the second year it looks like we get a 24 percent return on our money,” Olson said.

By comparison, the city now gets between half a percent and one and a half percent in interest on its

money at Bank of America.

In addition, the city would get a much better deal when it borrows money, Olson said.

For example, a \$900 million housing bond proposed for the November ballot would only generate about half that amount for housing projects because of interest and financing fees, he said.

But if a city-owned bank handled the bond sales, a much larger share of the money would go toward actual housing construction, he said.

Public bank proponents often tout the Bank of North Dakota, a state-owned public bank that has generated \$464 million since 2000, as a shining example.

But a feasibility analysis by San Francisco last March yielded discouraging results.

It analyzed three models and found that the one providing the most services would require \$119 million in start-up capital and \$2.2 billion in public subsidies — and the bank wouldn't break even for 56 years.

"It's possible the numbers come back and it doesn't work out," said Olson, noting that Washington state postponed plans for a public bank after a similarly discouraging analysis.

But it's worth the cost and effort to conduct a study to see the results, he said.

The city's first public debate on the subject will be Olson's presentation to the council's budget committee, which is scheduled for 9 a.m. on March 11.

SAN DIEGO TRIBUNE

By DAVID GARRICK

FEB. 2, 2020 5 AM

[California State Senator Writes Bill to Take Over PG&E.](#)

(Bloomberg) — California Governor Gavin Newsom has threatened a state takeover of PG&E Corp. if the bankrupt utility giant doesn't shape up. Now he has a framework to do it.

State Senator Scott Wiener will introduce a bill as early as Monday that would kick off a process by which the state assumes control over PG&E by buying its stock, according to his staff.

The utility would be run by a municipal board — enabling access to cheap tax-free financing — but operated by a public benefit corporation, a private entity that would allow PG&E workers to avoid being subject to government employment rules. Municipal bonds paid back over time by ratepayers would finance the transaction.

"PG&E operates a monopoly as a privilege granted by the state of California, and that privilege can be revoked," Wiener, a San Francisco Democrat, said in an interview. "I support public ownership of PG&E."

In a statement, PG&E said it opposes the bill. "Changing the structure of the company would not

create a safer or cleaner operation,” the utility said. “We remain focused on fairly resolving wildfire claims and exiting the Chapter 11 process as quickly as possible.”

PG&E shares rose 14% Monday in New York after the company outlined plans late Friday to overhaul its board of directors as part of a broad reorganization proposal aimed at winning state approval for its bankruptcy exit.

As recently as Jan. 29, Newsom reiterated that if needed he would take over PG&E, whose equipment has ignited devastating wildfires in the state. Lawmakers and municipal leaders have grown impatient with the San Francisco-based company, which plunged millions of Californians into darkness during mass power outages last year in a bid to prevent more wildfires.

The state Senate last week passed Wiener’s bill forcing power companies to compensate residents, businesses and local governments for costs from intentional blackouts. The measure now goes to the state assembly.

It’s not yet clear how much Wiener’s takeover proposal would cost or what it would mean for PG&E bondholders. The company’s market capitalization is about \$9 billion.

There are also time pressures: PG&E has a June deadline to exit bankruptcy to be able to tap a state fund for wildfire damages.

Wiener’s legislation envisions revival of a state power authority, run by gubernatorial appointees, to temporarily take control of the utility.

Ultimately, control would be turned over to a seven-member board, representing the service area in districts divided equally by population. Local governments in each district would elect the board members. A private entity would operate the utility, similar to the way New York’s Long Island Power Authority is run. Liabilities for future fires would fall on the regional board and its ratepayers, not the state.

San Francisco’s Bid

The governor is aware of the legislation, Wiener said. Newsom hasn’t yet taken a position on it, the state senator said.

Wiener said customers won’t pay more under his proposal. “The utility would have more of an incentive to take care of its infrastructure than to pay profits to Wall Street,” he said.

The government of San Francisco has already made a \$2.5 billion bid for the wires that PG&E runs within the city’s limits. It and other localities that want to buy pieces of the system would be allowed to do so under Wiener’s proposal.

A group of 190 city and county officials, meanwhile, has proposed turning PG&E into a giant customer-owned cooperative.

Bloomberg

by Romy Varghese

February 3, 2020

Illinois's Mounting Pension Debt Looms Over Pritzker's Plans.

- **Governor set to deliver 'State of the State' address Wednesday**
- **Stakeholders seek multiyear plan to improve finances: Loop**

Illinois Governor J.B. Pritzker, whose state faces a mountain of pension debt and unpaid bills, may give some clues during his "State of the State" speech Wednesday to how he will deal with those challenges during his second year in office.

- The billionaire Democrat, whose command of a political majority in the legislature has put an end to the political gridlock over the budget that dominated the state under his predecessor and nearly caused Illinois's bonds to be downgraded to junk, will deliver his speech at noon in the state capital of Springfield.
- Pritzker is expected to discuss his bipartisan efforts, balancing the budget, infrastructure investments and consolidation of suburban and downstate first responder pension funds, according to the governor's office. He may also address the need to build on investments in education and comprehensive ethics reform.
- He will give his more detailed budget address on Feb. 19.

[Continue reading.](#)

Bloomberg Politics

By Shruti Singh

January 29, 2020, 7:16 AM PST

BofA Muni-Bond Banker Fink to Seek House Seat in New York.

- **Democrat cites experience with infrastructure, public transit**
- **Says he'd also seek to reinstate subsidies for refinancings**

Washington dealt a major blow to Wall Street's municipal-bond industry with its 2017 tax changes. Now, one banker from New York says he wants to fight back from inside the walls of Congress.

Christopher Fink, a managing director at Bank of America Corp., the biggest underwriter of state and local government debt, said he plans to mount a Democratic primary challenge against longtime Representative Eliot Engel. If Fink wins, he said he'd help reverse the tax-law changes that crimped bond sales by pulling subsidies from a key type of debt refinancing.

Fink, who lives in New York's Westchester County town of Pelham, made the election announcement on Tuesday at an industry conference hosted by the Bond Buyer. "Hopefully I'll come back a year from now and tell everybody that we've reinstated the advance refunding rules," he said to laughs.

It won't be an easy election. Engel has been a congressman since 1989 and is chairman of the House Foreign Affairs Committee. The seat is also being challenged by a middle school principal from the Bronx who is supported by the Justice Democrats, the insurgent group that backed Representative Alexandria Ocasio-Cortez, according to the New York Times.

Fink's campaign website says he'll pull on his banking experience to help improve infrastructure and public transportation. But he's also focused on issues with broader scope, including gun control, protecting women's reproductive rights and pushing back against President Donald Trump's administration.

Bloomberg Politics

By Amanda Albright

January 28, 2020, 8:45 AM PST Updated on January 28, 2020, 9:29 AM PST

[S&P: Governor's Veto Keeps New Jersey School Districts' Budgets Crunched](#)

New Jersey (NJ) Bill S-4289, sponsored by the senate president, would have allowed certain school districts to raise property taxes above the 2% state-mandated levy limit to make up for sharp state aid reductions without seeking voter approval; however, the governor vetoed the bill on Jan. 13, 2020, citing the state's already high local property taxes, and presenting another challenge to school districts. New Jersey school districts are constrained by a state-imposed tax levy limit and aid reductions, and despite the difficult funding environment, have generally maintained steady credit quality and fiscal stability. In the past two years, New Jersey school district ratings have also remained stable: of the 309 districts rated by S&P Global Ratings, only 30 experienced a rating or outlook change. Although our analysis has not assumed school districts would be afforded the flexibility provided in this bill, we still believe the veto could ultimately have negative implications for district operations and finances.

The current state aid disputes trace back to New Jersey's fiscal 2018 budget, which included a state aid realignment that would increase aid for approximately two-thirds of school districts, but would eventually decrease it for nearly one-third of them over the course of seven years. That one-third is now trying to present balanced budgets, and several have implemented or are considering layoffs, program cuts, and school closures to achieve this.

State aid reductions had ratings implications for several New Jersey school districts in the past three years. The majority of affected districts have maintained structural balance either through cost-cutting measures or the modest use of reserves. However, since the aid reductions have been implemented, we have made six negative outlook revisions or downgrades to our rated portfolio. Those include outlook changes to negative from stable for Brick Township Board Of Education (BOE) and Weehawken Township BOE, and downgrades to Freehold Regional High School District, Plumsted Township BOE, and Flemington-Raritan Regional school district. We also lowered our rating on Vernon Township BOE and assigned a negative outlook.

[Continue reading.](#)

['Exit Option' Complicates Picture for Illinois Pension Reform.](#)

Op-ed by Bill Bergman, includes "Union opposition to proposed pension reforms have sparked a new wave of protests in France, a little more than a year after the onset of the 'yellow vest' protest movement. These twin threads of civil unrest followed French government fiscal actions following

the election of President Emmanuel Macron in mid-2017. ... Could protests like these erupt in Chicago and Springfield? ...”

[Read the full article on: Daily Herald \(Illinois\)](#)

Bill Bergman | January 23, 2020

S&P Medians And Credit Factors: California Municipalities

Overview

California municipalities’ credit quality remains very strong, in S&P Global Ratings’ view, supported by a dynamic economy that has been one of the nation’s top performing for the last several years, generally strong budgetary performance facilitated by steady revenue growth, and financial management often supported by formal policies and regular budget monitoring. These conditions have supported municipalities’ efforts to maintain robust available reserves, which have helped more than 83% of California’s municipal issuers maintain general obligation (GO) ratings, issuer credit ratings, or general creditworthiness in the ‘AA’ or ‘AAA’ categories. S&P Global Ratings does not expect any significant changes to the California municipal sectors’ credit quality over the next year, but believes prospects for continued growth are diminishing.

S&P Global Ratings maintains public ratings on 200 municipalities in California. Overall, the credit quality increased recently, with 9% of California cities and towns experiencing upward rating movement or positive outlooks throughout 2019. More specifically, we took 17 positive rating actions and two negative rating actions on municipalities’ GO or appropriation debt.

[Continue reading.](#)

CA Appellate Court Holds Charter Cities Are Bound By State Housing Objectives, Signaling Erosion of Local Discretion.

In *Anderson v. City of San Jose* (2019), the Sixth District Court of Appeal held that California’s charter cities must comply with the Surplus Land Act (Govt. Code § 54220 et seq.).[1] This decision, essentially, ruled that the statewide housing crisis is of paramount importance, and that all cities – even charter cities – must yield to the state law processes governing surplus land disposition and give affordable housing preference when building on surplus city land.

This ruling sets an important precedent establishing that, where there are concerns of statewide importance, a charter city’s authority to control the disposition of its own property may be superseded by state law. In light of California’s ongoing housing crisis and approved legislation designed to address it, the Anderson ruling signals a tightening grip on state control over local municipal land holdings and the related policies that cities use to dispose of real estate.

In 2016, the City of San Jose enacted Policy 7-13, which identified city-specific procedures for disposal of city-owned property. Policy 7-13 was designed to make surplus land more accessible to affordable housing developers mirroring the requirements of the Act. However, pursuant to deference afforded to charter cities for matters that are considered “municipal affairs,”[2] Policy 7-

13 diverged from the Act in several ways. First, Policy 7-13 exempted certain high-rise rental developments from the affordable housing restrictions in the Act for a period of 5 years. Second, it allowed a property to be sold for uses other than affordable housing with City Council approval. Third, Policy 7-13 allowed for changes to the property disposal process. Fourth, it expanded the income range for those eligible for affordable units. In addition, Policy 7-13 omitted the requirement that affordable housing restrictions be documented in recorded covenants for certain projects. As a result, it can be argued, these provisions do not provide comparable opportunities for affordable housing developments, as anticipated in the Act.

Shortly after the City enacted Policy 7-13, two residents and two housing-focused non-profit entities filed a petition for writ of mandate compelling the City to comply with the Act. The City demurred, claiming that it was exempt from the Act under the “home rule” doctrine. The trial court sustained the demurrer, noting that the Act did not apply because the City’s disposal of its own property was a “municipal affair.”

The Court of Appeal disagreed, noting that the Act’s objective of facilitating affordable housing was a matter of statewide concern. Although there is substantial overlap between “municipal affairs” and “matters of statewide concern,” the latter is distinguishable where “under the historical circumstances presented, the state has a more substantial interest in the subject than the charter city.”[3]

The court found it significant that the Act’s affordable housing objectives are consistent with the Legislature’s declarations that (1) providing housing for Californians “is a priority of the highest order” and (2) that surplus government land should be made available for low and moderate income housing prior to disposition.[4] The court also found significant the “urgent statewide housing needs” and potential to address them with surplus government land referenced in the 2019 amendments to the Act.

The court acknowledged that, though legislative declarations are not determinative of “matters of statewide concern,” the Legislature is entitled to deference in this regard. In addition, the court referenced recent case law and legislation further illustrating the scope of California’s housing crisis as grounds to demonstrate that the state’s interest in providing affordable housing with surplus government property is more substantial than identifiable municipal interests. For these reasons, the court held that that the City, and other charter cities, may be restricted by the Act’s affordable housing and property disposal requirements in the interest of facilitating affordable housing.

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

January 13 2020

Sheppard Mullin Richter & Hampton LLP - James Pugh and Sarah Atsbaha

[Chicago’s Bond Penalty Plunges as Investors Hunt for Yields.](#)

Chicago boosted the size of its first sale of general-obligation bonds since March as heavy demand for higher-yielding securities slashed the interest penalty that investors extracted to own the city’s debt.

Chicago, the nation’s third-biggest city, sold about \$466 million of the bonds, according to data compiled by Bloomberg, about \$100 million more than initially had been offered. The yields were

steeply lower than what Chicago paid during its last such sale, with the 10-year bonds priced for yields of 2.38% on Wednesday, or 1.03 percentage point over top-rated debt. That extra interest, a key measure of perceived risk, was down from 1.69 percentage point in March.

By seizing on lower interest rates, the sale will help Mayor Lori Lightfoot close an \$838 million shortfall in the budget of a city that has struggled for years with mounting pension bills. The sale comes as yields in the municipal market hold near a more than half-century low, leaving investors clamoring for lower-rated securities like Chicago's that pay higher yields.

"The investor search for yield continues," Tamara Lowin, an analyst for Belle Haven Investments, which holds about \$11 billion of municipal bonds, including Chicago's. "The the spread tightening since March speaks more to technicals than credit quality."

Chicago is planning to follow Wednesday's sale with an offering of sales-tax-backed bonds this week.

Bloomberg Markets

By Shruti Singh

January 15, 2020

[Wisconsin Bet That Interest Rates Wouldn't Go Down and It Lost Big.](#)

- **Derivative deal left state paying above-market rates for years**
- **It's now planning to call off deal with Citi, UBS, JPMorgan**

In 2003, as the Federal Reserve was easing monetary policy to stave off a recession, Wisconsin placed a nearly three-decade long bet with some of Wall Street's biggest banks that interest rates wouldn't go any lower.

Yet they continued to fall — and the state has been tied to those money-losing derivative trades ever since, paying as much as 5.5% interest on some of the \$475 million it borrowed to shore up its employee pension system. It couldn't refinance without paying Citigroup Inc., UBS Group AG and JPMorgan Chase & Co. steep fees to call off the contracts, which became increasingly valuable to the banks as interest rates declined.

Now, with state and local bond yields holding near more than half-century lows, Wisconsin may finally end its ill-fated experiment with high finance. It's waiting for the chance to refinance the debt, cut its exposure to swings in interest rates and produce savings big enough to cover the \$157 million of termination fees it owes the banks.

"There's a market where we can do that and still maintain or achieve some overall savings, and that's what we're waiting for," said David Erdman, who has been Wisconsin's capital finance director since 2015. "It is market sensitive, and it just hasn't reached our bogeys yet to move forward and complete."

Wisconsin may be among the last wave of states and cities seeking to sever their ties to a financial tactic that has virtually disappeared since it backfired during the chaos of the credit crisis more than a decade ago, when it foisted unexpected costs on governments around the county. It helped push Alabama's biggest county into bankruptcy and drove Detroit deeper into the hole in the run-up to

that city's record-setting collapse. As recently as 2016, Chicago spent heavily to back out of derivative trades after its credit rating was cut to junk.

A key measure of yields is about half what it was in 2003

The strategy involved governments borrowing through the sale of floating-rate bonds. They then entered into interest-rate swaps under which they agreed to make fixed-rate payments to banks in exchange for those pegged to an index. Those variable-rate payments were supposed to cover what was owed on the bonds, leaving the governments effectively paying only the fixed rate. It was supposed to be cheaper than selling traditional fixed-rate debt.

But, other risks aside, the steep cancellation fees kept governments on the sidelines during the refinancing booms that erupted when interest rates fell, keeping them locked into above-market costs. In 2003, for example, 20-year municipal-bond yields exceeded 5%. They're about half that now.

Wisconsin is currently planning to sell \$622 million of new bonds. That would raise cash to pay off \$475 million of variable-rate debt and cover the termination costs owed to the banks for interest-rate swaps tied to the one-month London interbank offered rate.

Wisconsin is looking to squeeze every penny it can from the deal, postponing it until factors like credit spreads and the relationship between Libor and Treasuries are favorable enough to make canceling the swap worth it, Erdman added.

Wisconsin would join a broader push by issuers to seize on low interest rates to exit such derivative-laden bond deals, Moody's Investors Service managing director Timothy Blake said. The Illinois State Toll Highway Authority was among them, issuing nearly \$700 million in fixed-rate debt last year to refinance and cover a \$143 million swap-termination payment. The deal will end up costing the toll authority an additional \$21 million over the 11-year life of the bonds, said chief financial officer Michael Colsch.

"The last five years, maybe even since Lehman, we don't see a lot of governments entering into new swaps," Blake said, referring to the 2008 bankruptcy of the investment bank. "The appetite for these more complex synthetic fixed-rate deals has gone away."

Bloomberg Markets

By Fola Akinnibi

January 14, 2020, 6:00 AM PST

[Fewer Illinois Taxpayers re on the Hook for Growing Public Sector Pension Liabilities.](#)

"The Auditor General reported the state's largest pension fund, the Teachers' Retirement System, increased in overall liability by \$4.5 billion to \$134.4 billion. Around \$3.2 billion of that isn't funded. The total unfunded liability for TRS was \$81.1 billion ... State Rep. Tom Bennett, R-Gibson City, said the growing taxpayer costs for pensions and retiree benefits don't help keep people around to pay the bills..."

Truth In Accounting

Greg Bishop | January 16, 2020

Read the [full article](#) on: Cherokee Tribune & Ledger News (Illinois)

University of Iowa Vows to Go Green with its Utility Public-Private Partnership.

The University of Iowa has entered into a 50-year utility public-private partnership (P3), engaging a private partner to operate, maintain, optimize, and improve the University's existing utility system and help the University transition to coal-free energy production by 2024. ENGIE North America and Meridiam will serve as the University's private partner. According to the University, the deal represents one of the first utility P3s entered into by any university in the country.

Under this 50-year P3 agreement, the University's private partner will provide steam, cooling, water, and electricity to the University's campus and auxiliary facilities. In exchange, the private partners will receive an annual fee, which is reportedly set at \$35 million annually for the first five years with an increase of 1.5% in subsequent years.

The University will retain ownership of its utility system and receive approximately \$1.165 billion in an upfront lump sum payment from its private partner. This payment will be placed into an endowment, which will be managed by a new 501(c)(3) called the UI Strategic Initiatives Fund. After paying off existing utility bonds and consulting fees, the endowment is expected to retain approximately \$999 million. The University anticipates these funds will enable it to invest \$15 million per fiscal year through grants issued to support its strategic plan and core missions of teaching, research, and scholarship.

Public-private partnerships appear to be trending in popularity among public universities seeking an avenue to uncover additional resources through strategic partnerships with the private sector. The first university campus expansion in the United States to be undertaken using the P3 availability payment model was the [Regents of the University of California's \\$1.3 billion UC Merced 2020 Campus Expansion Project](#). That project is expected to be complete in the fall of 2020.

By Joseph Gillman on 01.15.2020

Nossaman LLP

Investors Give Nod to Worst-Rated Illinois With Revenue Growing.

- **State's 30-year bond spread over AAA is tightest since 2015**
- **Pot sales, new taxes may raise funds to help pay pension costs**

As Governor J.B. Pritzker nears his one-year anniversary in office, investors are signaling that Illinois is making some gains even as the worst-rated state grapples with rising pension debt and the highest borrowing costs among its peers.

Pritzker, a Democrat, and other state leaders have earned credit from the \$3.8 trillion municipal market for achieving some fiscal stability. Illinois's bond-market penalty, the premium that investors have long demanded to hold the state's debt, fell to the lowest since 2015 this week, which some

debt holders say is due to optimism for potential new tax revenue and others attribute to overall strong demand for high-yield muni bonds.

“There is distinct improvement” over the past year, said John Ceffalio, a credit analyst for AllianceBernstein LP, which owns Illinois bonds among its approximately \$47 billion of municipal debt. “The big thing from the credit side is increased political stability and economic and revenue growth.”

In the past year, Illinois passed a budget on time, raised gas levies to fund the first capital plan in a decade and legalized recreational marijuana. Looking ahead, in November voters will consider a constitutional amendment to institute a progressive income tax. The new revenue is needed as the state faces roughly \$6 billion of unpaid bills and \$137 billion of unfunded pension liabilities, a drag on its credit rating.

General fund revenues for the state through December for fiscal 2020 rose 5.3% to \$19.2 billion, according to a report from the Commission on Government Forecasting and Accountability.

The yield-penalty on Illinois bonds is still the highest of the 20 states tracked by Bloomberg, but it has narrowed. The spread on Illinois bonds due in 30 years fell to 1.19 percentage points this week, the lowest since March 2015, according to data compiled by Bloomberg.

Illinois has put itself in a “better position” given its revenue gains, willingness to raise taxes and planned infrastructure investment, Ted Hampton, an analyst for Moody’s Investors Service, said in an interview.

Still, Illinois’s “massive pension liability” has made it an “outlier” in terms of the scale of its fixed costs relative to its revenue, Hampton said. Illinois’s so-called fixed-cost ratio is 36.4% in 2018, the nation’s highest and four times the median of U.S. states tracked by Moody’s, which didn’t include a few states in its most recent calculation.

“Governor Pritzker is pleased to see the markets recognizing that Illinois is moving forward,” Jordan Abudayyeh, a spokeswoman for the governor, said in an email.

During his first year in office, Pritzker worked to restore “faith in our government,” raise wages, pass a bipartisan balanced budget, set up a capital plan and invest in education to improve the state’s long-term fiscal health, Abudayyeh said.

Investors are looking for voters to approve the progressive income tax proposal at the ballot box in November.

“There is optimism they will get the votes to create the new tax structure, which will help them raise more revenue and better fund their pension,” said Dan Solender, a portfolio manager for Lord Abbett & Co., which manages \$27 billion of munis, including Illinois debt.

This year’s legalization of recreational adult-use marijuana sales is among the tailwinds that may help. From Jan. 1 through Jan. 5, Illinois dispensaries sold \$10.8 million in adult-use cannabis in 271,169 transactions, according to state records.

Pritzker is set to deliver his state of the state speech later this month and present his budget in February. A central focus is going to be on how the state lines up its revenue with costs, said Eric Kim, a senior director for public finance at Fitch Ratings.

“We want to see the state continue to make progress toward a structural balance,” Kim said.

Bloomberg Markets

By Shruti Singh

January 10, 2020, 10:30 AM PST

[California Eyes Climate Bond to Prepare for Disasters.](#)

California's legislative leaders are considering borrowing money to prepare the state for the next climate-fueled catastrophe

SACRAMENTO, Calif. — In a state burdened by billions of dollars in wildfire damage, California lawmakers are hoping for an advance loan before the next climate-fueled catastrophe hits.

Lawmakers in the Democratic-dominated state Legislature return to work Monday for the second year of a two-year session. Their to-do list includes a \$4.2 billion climate bond, an ambitious proposal to borrow money before they need it to prepare for the types of natural disasters that have plagued the state. The disasters are so destructive they forced the nation's largest utility, Pacific Gas & Electric, to file for bankruptcy last year.

The borrowing proposal is one of dozens of holdover bills from last year that are still alive in 2020 but must pass at least one legislative chamber by the end of January to have a chance at becoming law. The logjam is complicated by an accelerated election cycle that puts many lawmakers on primary election ballots in March instead of June, making it less likely for politically risky proposals to advance.

"We have kind of a perfect storm," said veteran Democratic political consultant Andrew Acosta.

Catastrophic wildfires have destroyed thousands of homes, generating billions of dollars in insurance claims and costing taxpayers billions more in cleanup costs. The bulk of the borrowing proposal, detailed in similar efforts authored by Democrat Ben Allen in the Senate and Democrat Eduardo Garcia in the Assembly, would go toward reducing wildfire risk throughout the state. It also includes money to protect farmland from climate change, bolster the state's scarce water sources and help coastal communities plan for sea level rise.

The \$4.2 billion price tag could grow as lawmakers discuss adding more projects for things like buying solar batteries and fuel cells to keep the lights on at nursing homes and other vulnerable sites when utility companies preemptively shut off electricity to prevent wildfires during windy conditions.

"We've been really good about investing in suppression — in other words, firefighters and helicopters," said Democratic Sen. Henry Stern. "We haven't done that good of a job in prevention."

Passing the Legislature would be the just first step for the climate bond because California can't borrow the funds unless voters approve it. Voters could be weary of more bonds because the state has borrowed so much money in recent years that officials are having trouble spending it all. Of the \$150 billion in borrowing authorized by voters in recent years, more than \$34 billion has yet to be spent.

"We cannot spend money until projects are ready," state Treasurer Fiona Ma said. "Sometimes it

takes 10-plus years to spend money that is authorized in a bond act.”

Plus, voters will be asked in March to borrow another \$15 billion to build more public schools, increasing the chances of spending fatigue — especially as California’s economy continues to grow, producing record budget surpluses.

Supporters in the Legislature, including Senate President Pro Tem Toni Atkins, recognize the potential peril of asking the public to add to the state’s debt. But they believe residents of climate-conscious California will embrace borrowing aimed at protecting the environment.

“I think if members of the public know that this money is going to issues around climate change, they care about that,” Atkins said.

Some Republicans are skeptical, including Assemblyman James Gallagher, whose district includes the town of Paradise, which was mostly destroyed in the deadly 2018 Camp Fire.

Instead of borrowing more, Gallagher said the state should use some of the billions of dollars generated every year by its cap-and-trade system to reduce wildfire fuel by better managing forests. He also wants to temporarily block a state law that requires utilities to buy more expensive solar and wind power and upgrade their equipment to make it less likely to spark wildfires during windstorms.

Gallagher questioned whether borrowing is the best practice “considering the amount of debt we have right now.”

“There are existing dollars in government that I think we could just better target,” he said.

Other proposals in legislative limbo include a controversial bill by Sen. Scott Wiener to boost housing density near public transportation by allowing apartment buildings in areas currently zoned for single-family homes. Atkins said Wiener is working on some amendments around “local flexibility” that she said might help the bill make it through the Senate.

If it does, it could find a receptive audience in the Assembly.

“I don’t like to comment on pending legislation, but I definitely think there is value in increasing housing density along certain corridors,” Assembly Speaker Anthony Rendon said.

Potentially overshadowing pending legislation is the fate of Pacific Gas & Electric Co., the nation’s largest electric utility, which filed for bankruptcy after facing up to \$30 billion in potential damages from wildfires started by its equipment.

Democratic Gov. Gavin Newsom has suggested a potential state takeover if the troubled utility cannot emerge from bankruptcy before the next wildfire season. But legislative leaders have balked at that idea.

Atkins said she has concerns about doing anything that lets PG&E off the hook.

“Then it just transfers the liability to the ratepayers and the taxpayers,” Atkins said. “Isn’t that what we are trying to avoid?”

Other topics generating interest include proposals addressing housing and homelessness, which Republican leaders in both houses say are key goals.

“We’re looking at real solutions that are going to make a difference in Californians’ lives,”

Republican Senate Leader Shannon Grove said.

Associated Press

By ADAM BEAM

January 5, 2020, 8:26 AM

[Sacramento Joins Los Angeles in Spearheading Mobility Innovation.](#)

Watch out Silicon Valley, Sacramento is gearing up to launch a research center and prototype lab focused on developing electric and autonomous vehicle technologies. The California Mobility Center is largely funded by the Sacramento Municipal Utility District and supported by a band of public and private partners, including the City of Sacramento, Greater Sacramento Economic Council, Los Rios Community College District, University of California Davis, California State University Sacramento, PEM Motion, and Valley Vision Inc. EnerTech of Toronto will be managing the ... [Continue](#)

Nossaman LLP

By Stephanie Kam on 01.07.2020

[California Holds Technical PFAS Seminar to Inform Public of State of Science and Possible Future Drinking Water Regulations.](#)

Last month, the California State Water Resources Control Board (State Board) hosted a comprehensive [two-day seminar on per- and polyflouroaklyl substances \(PFAS\) in California](#). PFAS are a family of an estimated 4,000-6,300 chemical compounds that have a variety of applications due to their stability in the environment. Although some reports suggest that these chemicals are ubiquitous in the environment, such pervasiveness may be explained by sampling for parts per trillion, in contrast to the parts per billion or million for which most chemicals are sampled.

Presenters at the California PFAS seminar included staff members from the State Board, as well as staff members the Office of Environmental Health Hazard Assessment (OEHHA), and the Department of Toxic Substances (DTSC). All three organizations are sub-agencies of the California Environmental Protection Agency (CalEPA). A representative from California's Department of Public Health also provided an update on its [California Regional Exposure \(CARE\) PFAS study](#) designed to measure levels of PFAS in people throughout the State. Representatives from the United States EPA (U.S. EPA), and from various members of the scientific, legal, and NGO communities also presented. The conference was widely attended by water supply and waste water treatment providers, technical consultants, NGOs, and lawyers.

[Continue reading.](#)

Squire Patton Boggs

By Jonathan King on January 7, 2020

[Climate Change, Rising Seas Promise to Affect How SC Cities Borrow Money.](#)

In October, for the first time, Charleston County officials were asked by a bond assessing company how the coastal government is responding to climate change.

The questions from ratings agency Moody's came as the county was seeking \$100 million for various projects.

While such a query might have been unheard of 10 years ago, it was the first sign of what could become a sobering future reality: Rising seas, stronger storms and a warmer Earth could make it harder for Lowcountry governments to borrow money.

[Continue reading.](#)

Post and Courier

By Chloe Johnson

Jan 12, 2020

[Fitch Rtg: St Louis Case Highlights Political Barriers to Airport Privatization](#)

Fitch Ratings-New York-08 January 2020: The decision not to pursue a long-term operational lease of the St Louis Lambert International Airport (Lambert) evidences the difficulty of airport privatization for US airports, says Fitch Ratings. For such essential assets, reaching consensus with key stakeholders and determining the value for both the city and for equity investors under a long-term lease are central challenges in these transactions.

At the end of December, the mayor of St Louis decided not to proceed with the request for proposal for the lease of St Louis Lambert Airport operations, citing the lack of public support. Eighteen companies submitted requests for qualifications, which is indicative of the strong private sector interest to participate when such opportunities arise. A private company would have operated the airport under a public-private partnership (P3) in which the city would retain ownership.

Leasing the airport would have required a city ordinance, as one of many steps, and certain government officials did not back privatization. The lack of private interest was not an issue for Lambert's potential P3. Similar to many other city or county-owned airports, Lambert is a core asset and has strong financials, making it attractive to private investors.

Fitch currently rates Lambert's general airport revenue bonds at 'A' with a Stable Outlook following a rating upgrade in 2019. The rating reflects Lambert's continued favorable trends in enplanement growth, stable financial metrics, limited competition from other airports and modes of transportation, and manageable capital needs in the medium term. The airport's leverage is modest, and the outstanding debt is fixed-rate with a declining amortization profile. Lambert has moderate carrier concentration, with Southwest Airlines representing 60% of traffic. The rating does not consider the benefits or risks of privatization.

One of the attractions of privatization to the city was the property associated with the airport that would be eligible for development and the upfront payment to St Louis. A recent proposal from some

counties to buy the airport from the city would place the airport under the control of a regional board that would create a special sales tax district to support the airport. While a future plan for a special sales tax district is uncertain and is unprecedented in the industry for a large-hub airport, Lambert is currently a self-supporting enterprise funded entirely by user fees and federal grants and is not supported by taxpayers.

The Lambert P3 would have been the third full airport privatization under the federal Airport Investment Partnership Program, following Puerto Rico's Luis Munoz Marin International Airport, under a 40-year lease with Aerostar Airport Holdings, and Stewart Airport in New York, which reverted to private ownership after a failed lease. There is historically not a lot of interest in the US for airport privatization. A number of airports, including Chicago's Midway Airport and New Orleans Lakefront Airport considered privatization under this program in the past but did not execute on lease agreements.

P3s on narrower airport assets are more common, with varying degrees of progress. The Los Angeles automated people mover system and car rental facility, and passenger terminal projects at New York City's JFK and LaGuardia Airports are currently in negotiations or in construction phases. The P3 project for terminal redevelopment and concession expansion at Denver Airport was recently terminated by the airport owner, the City and County of Denver, due to construction delays and related disputes that could not be amicably solved.

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

CALmatters Commentary: California Supreme Court Helps Insider Dealing

One should expect the California Supreme Court to protect the integrity of governmental actions.

However, on the day after Christmas, the court, by a 6-1 margin, gave government officials a gift. It decreed that the validity of municipal bond issues can be challenged only by those directly involved in the transactions — freezing out civic watchdogs and other outsiders.

It earned the six majority justices a scathing, much-deserved rebuke from Chief Justice Tani Cantil-Sakauye.

The case at hand involved bonds that the city of San Diego issued in 2015 to refinance bonds that had been issued for the construction of Petco Park, home of the San Diego Padres baseball team.

The refinancing bonds were approved by San Diego's City Council and its Public Facilities Financing Authority. Afterward, a local civic organization, San Diegans for Open Government, sued the city and the financing authority. The group contended that the bonds violated a California law (Government Code Section 1092) dealing with conflicts of interest because one member of the financing team had an "interest in one or more contracts for the sale of the 2015 bonds."

The city won at the trial level by asserting that Section 1092 allowed only parties involved in the transaction to challenge the bonds' legal validity. But an appellate court overturned that ruling, declaring that outsiders could also intervene, and the case spiraled upward to the state Supreme Court.

The conflict hinged on the legal meaning of Section 1092's authorization for "any party" to challenge the transaction.

The Supreme Court took the narrow approach, declaring that "any party" is restricted to just those directly involved, while contending that other authorities, such as district attorneys or the state Fair Political Practices Commission, could investigate conflict-of-interest allegations if needed.

However, Cantil-Sakauye said those supposed remedies are, in a practical sense, largely useless.

"One would think, then, that municipal bond issuances would be subject to the most exacting scrutiny — the kind of scrutiny needed to detect and remedy conflicts of interest that could both undermine public confidence in this crucial financing vehicle and saddle taxpayers with large enduring financial obligations," she wrote.

"Yet, today's majority opinion holds otherwise. The majority interprets Section 1092's language providing that 'any party' may bring a judicial action to avoid a contract involving a prohibited conflict of interest as conferring standing only upon the parties to the very contract to be avoided. I disagree. I do not believe the Legislature created a scheme that counts on the foxes to guard the henhouse, and leaves taxpayers helpless to halt even the most egregiously conflicted government bond issuances. The likely result under the majority's rule is that no one will bring a challenge to avoid a government contract afflicted with a conflict of interest."

"Put differently," she concluded, "today majority's opinion holds that in cases in which government officials make contracts that amount to writing checks on the public's checkbooks, the public cannot stop them."

The chief justice is absolutely correct. All public bond issues deserve scrutiny, but those for essentially private purposes, such as a baseball park, are especially prone to insider dealing.

It now falls to Gov. Gavin Newsom and the Legislature to clarify that the outside public should have the unfettered to challenge the validity of bond issues or other important governmental actions if there are conflicts of interest.

To let the Supreme Court's decision stand would be, as Cantil-Sakauye says, allowing the foxes to guard the henhouse — and perhaps feast on its residents.

Dan Walters, CalMatters Commentary

Published 2:30 p.m. PT Jan. 3, 2020

CALmatters is a public-interest journalism venture committed to explaining how California's state Capitol works and why it matters. For more stories by Dan Walters, go to calmatters.org/commentary.

[PCK: California Muni Bonds Remain Attractive, At The Right Price](#)

Summary

- PCK has been a long-term favorite of mine, although I advised caution on the fund over the summer due to a rising valuation. In hindsight, this was a good call.
- As premiums have risen across the market and PIMCO CEFs, PCK now offers a more compelling relative value going in to 2020.
- California municipal bonds will remain in demand next year due to their tax-exempt status. With supply and defaults both trending at below-average levels, there is positive momentum for this sector.
- PIMCO declared a special distribution for PCK in early December, which makes me confident in the fund going forward.

[Continue reading.](#)

Seeking Alpha

Jan. 2, 2020

[Climate Change Threatens Billions in CalPERS Pension Fund.](#)

California's massive Public Employees' Retirement System has released the first climate risk assessment of its \$394-billion pension fund.

The [draft report](#), which was submitted to the CalPERS board this month, found that one-fifth of the fund's public market investments were in sectors that have high exposure to climate change. Those include energy, materials and buildings, transportation, and agriculture, food and forestry.

"It underscores what a big challenge we have on our hands," said state Sen. Ben Allen (D-Santa

Monica), who wrote the 2018 law that mandated the report. “There’s a lot of money at stake.”

The financial toll of climate change stems partly from its physical impacts, such as rising sea levels, fiercer storms and heat waves. However, companies’ bottom lines can also be affected by new regulations intended to curb warming, by lawsuits that seek to hold polluters accountable for climate damages, and by market trends, like the fast-dropping price of renewable energy.

[Continue reading.](#)

LOS ANGELES TIMES

By JULIA ROSEN

DEC. 19, 2019

[Virginia Governor Looks to Excise Taxes.](#)

Last week, Virginia Governor Ralph Northam (D) presented his [two-year budget](#) for fiscal years 2021-2022. The budget includes, among other things, plans to increase excise taxes on gas, tobacco, and other nicotine products.

If the budget passes, gas taxes would increase by 4 cents per gallon each year for the next three years, after which the rate would be indexed to inflation. In a partial offset for this increase, the governor’s budget proposes repealing the annual safety inspection requirement (a \$16 annual fee) and lowering the cost of vehicle registration by half (the current cost for most cars is \$40.75). The gas tax in Virginia only covers about [42 percent](#) of the costs of running the state’s roads, with the remainder coming from federal funds (23.6 percent) and the state general fund—chiefly from sales tax revenue. Increasing the levy to transform the tax into something closer to a user-pays model can make sense, though ideally, with such a sizable rate increase, there would be more substantial offsets elsewhere (outside of transportation).

This may, moreover, just be the first step. Virginians could expect additional taxes on their fuel if the state joins the Transportation and Climate Initiative (TCI), as Gov. Northam has proposed. The TCI is a regional program aimed at lowering emissions across the region through emissions caps and fees.

An increase of \$0.30 per pack to the state’s cigarette excise would double the tax rate to \$0.60 per pack. In addition, the budget includes a new tax on vapor products of \$0.066 per milliliter. The expected revenue is supposed to cover a 20 percent reduction in insurance premiums.

The governor expects to raise \$250 million over the two fiscal years, but given the regressivity of these taxes and their inherent instability, policymakers are well-advised to avoid relying on this revenue to fund broad-based government programs. As a rule of thumb: sin taxes generally do not generate stable revenue and should not be relied on to do so.

While the introduction of a tax on vapor products could make tobacco smokers less inclined to substitute away from cigarettes, the governor does propose a subcommittee to study tax design in relation to harm-reducing tobacco products. Harm reduction is the theory that it is more practical to reduce harm associated with use of certain goods instead of avoiding it completely through bans or punitive level taxation. It is a shift from the kind of thinking that has previously dominated public health cessation efforts. This is a commendable initiative, which could be copied by states looking to

curb smoking by urging smokers to substitute to less harmful nicotine products.

The proposed budget reflects a growing trend as policymakers across the country look to excise taxes as long-term solutions to budget woes. While excise taxes can be a part of the revenue picture, they are not a sustainable revenue source due to their narrow base, which is easily affected by changes in consumer behavior or market conditions.

Tax Foundation

by Ulrik Boesen

December 23, 2019

[Illinois Municipal Pension Fund Pulls About \\$1 Billion From BMO.](#)

- **Fund cites performance, plans to manage money internally**
- **BMO managed portfolio of U.S. large cap value stocks for fund**

The Illinois Municipal Retirement Fund is pulling about \$1.1 billion from BMO Global Asset Management due to poor performance.

The pension fund is terminating a portfolio of U.S. large cap value stocks managed by BMO and plans to oversee the money internally, according to a statement issued on Monday.

BMO was listed in an Oct. 31 report by the IMRF as among the five worst-performing portfolios versus benchmarks. The firm was also on the pension's performance manager monitoring list.

"Both performance and the opportunity to save fees by managing the money internally were factors," John Krupa, a spokesman for the Oak Brook, Illinois-based organization, said in an email.

Representatives for BMO in Chicago and Toronto weren't immediately available to comment.

U.S. pension funds have been examining ties with outside investment firms and increasingly having their own staff take over management of some assets. Earlier this month, the California Public Employees' Retirement System said it would reduce the use of external emerging equity fund managers.

BMO was paid \$3 million in fees last year for the portfolio, according to an IMRF report.

The pension fund's portfolio was valued at \$43.8 billion as of Nov. 30.

Bloomberg Markets

By Janet Lorin

December 24, 2019, 10:18 AM PST

[University of Oklahoma Sued Over Struggling Dorm Project.](#)

- **Non-profit owner says university broke promise to pay rent**
- **Provident Oklahoma seeks more than \$250 million in damages**

The owners of a struggling luxury dorm at the University of Oklahoma sued the college Monday for allegedly breaking a commitment to rent retail and parking spaces at a 1,230-bed complex at its flagship campus.

Provident Oklahoma Education Resources Inc., a non-profit that financed the \$250 million project with municipal bonds, sued the university in state court, saying that if it had known the school would break its promise it never would have built the dorm, which includes a theater, a hair salon and a fitness center. Baton Rouge, Louisiana-based Provident is seeking more than \$250 million in damages.

“Provident would not have agreed to construct the additional facilities unless it could be assured that the project would be financially viable,” the lawsuit said. “Moreover, bond investors would not have purchased the bonds without being assured of a revenue stream from the commercial space and parking facility sufficient to justify the cost of their construction.”

Colleges from Texas A&M to Kean University in New Jersey have tapped non-profits to finance student housing in an effort to hold down debt as they cope with declining state aid and pressure to limit tuition increases. The University of Oklahoma case highlights the risk of projects that rely on third-party support to ensure bondholders are repaid.

Kesha Keith, a university spokeswoman, said Provident’s lawsuit was an apparent attempt gain leverage in an ongoing dispute and parrots “the same baseless claims” it has made before.

“OU’s obligation remains to its students and the taxpayers of Oklahoma, not to Provident or its debt,” she said in an e-mailed statement.

The offering statement for the bonds makes clear numerous times that the bonds are not obligations of the university or the state and that the debt is backed solely by rents. The commercial and parking rents make up about a third of project revenue while student rent make up the rest.

The dorm at OU’s flagship campus in Norman, known as Cross Village, has struggled to attract students and in late July suffered another blow when the university notified Provident that it wouldn’t renew the annual leases. Cross Village had a 34% occupancy rate as of Oct. 1 and its tax-exempt bonds trade at about 56 cents on the dollar.

The project is suffering because the university doesn’t allow first-year students to live in the dorm, Provident said. The school also wanted suites without kitchens so students would eat at a university-run dining facility located in the dorm. However, upperclassmen overwhelmingly want in-unit kitchens, the lawsuit said. In addition, the university provided a flawed market study that didn’t include fraternity and sorority housing and another dorm traditionally occupied by upperclassmen that competes directly with the project, the lawsuit said.

“As a result of having been constructed to fit the university’s flawed vision, the project experienced low occupancy from day one; it was too large and filled with highly undesirable suites. It is a housing facility suited for freshman students; however the university has refused to allow freshman students to live at the project.”

The University of Oklahoma received \$20 million from proceeds of the 2017 bond issue for the complex for a 50-year ground lease of the site. High ranking university officials, including its chief financial officer promised Provident it would rent the commercial and parking space every year over

the life of the bonds, Provident alleged. The university also said it had obtained authorization to rent the space, which was later “exposed as patently inaccurate” by the university’s Board of Regents, the lawsuit said.

Bloomberg Markets

By Martin Z Braun

December 16, 2019, 11:48 AM PST Updated on December 16, 2019, 2:04 PM PST

[Colorado Considers Rewriting School Finance Formula.](#)

In a change that one lawmaker is calling a “paradigm shift,” Colorado’s school funding formula eventually could take into account how many students in each district are learning English or have disabilities that require additional services — needs with which state funding has not kept pace.

That’s a key component of draft legislation being presented Monday to a special committee tasked with rewriting Colorado’s 25-year-old formula determining how the state distributes money to school districts. There is widespread agreement that the current model is outdated and too often sends more money to well-off districts and less to poorer districts, with little regard for student needs. But changing it has proved politically challenging.

“We have spoken consistently and with unity about making the funding formula first, foremost, and completely about the students,” rather than about institutions like districts, said state Sen. Paul Lundeen, a Monument Republican and vice chairman of the Interim Legislative Committee on School Finance, which has been meeting for three years. “That is a really significant change in language.”

[Continue reading.](#)

THE GAZETTE

By ERICA MELTZER Chalkbeat Colorado

Dec 22, 2019

[Cook County Businesses Hit Hard by New Property Tax Assessments in the Suburbs — But Homeowners Could Catch a Break.](#)

As he took over a system riddled with errors and inequity, Assessor Fritz Kaegi vowed to change the way commercial properties are valued in Cook County.

Now his initial assessments are in, covering the north and northwest suburbs, and they show valuations for commercial, industrial and larger apartment properties increased by more than 74%, compared with less than 16% for homes, a Tribune analysis found.

The result may be a significant shift in how the property tax burden is divided up — with homeowners paying less and business owners paying more. A Tribune analysis shows that if Kaegi’s initial property values stand, businesses would pick up 44% of the combined taxes in those suburbs

next year, up from 34% this year. That would shift 10 percent of the property tax burden from homeowners to businesses.

[Continue reading.](#)

By HAL DARDICK

CHICAGO TRIBUNE | DEC 12, 2019 | 5:00 AM

S&P Medians And Credit Factors: Delaware Counties And Municipalities

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- Overview
- Delaware Counties Data
- Delaware Municipalities Data

Overview

Delaware municipalities and counties' (or local governments [LGs]) have demonstrated stable credit characteristics over the past year and S&P Global Ratings expects credit quality for Delaware LGs to remain stable in the near term. This stability is supported by steady economic growth and typically strong budgetary performance and financial flexibility.

S&P Global Ratings maintains ratings on eight local governments in Delaware, consisting of three municipalities and five counties. Currently 88% of Delaware LGs maintain a high investment-grade rating ('AA-' or above). Overall, credit quality remains stable, with no rating movement since July 2018.

[Continue reading.](#)

S&P Medians And Credit Factors: Maryland Counties And Municipalities

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- Overview
- Maryland Counties Data
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Overview

Maryland local governments' continue to demonstrate strong credit quality, in S&P Global Ratings' view, supported by favorable economic growth, low unemployment, above-average wealth and income metrics, and typically strong reserves. Management teams in Maryland generally adhere to formalized policies and procedures, supporting stability in budgetary balance. S&P Global Ratings does not expect any significant changes to Maryland local governments' credit quality over the next year.

According to the U.S. Bureau of Economic Analysis, Maryland's per capita income stood at 116% of the national level in 2018 (the sixth highest in the nation). The state's unemployment rate of 3.9% in

2018 was equal to the national rate. In addition to strong underlying economic conditions, Maryland counties and municipalities benefit from the lack of state restrictions on increasing property tax rates, providing significant revenue-raising flexibility.

S&P Global Ratings maintains credit ratings on 11 municipalities and 19 counties in the State of Maryland. All Maryland counties and more than 80% of the Maryland municipalities carry high investment-grade ratings ('AA-' or above). In addition, 43% of Maryland local governments are rated 'AAA'. Since June 1, 2018, there have been no rating changes, and there has been one outlook change to positive from stable, demonstrating considerable stability in the portfolio.

[Continue reading.](#)

[S&P: Florida Shines A Light On Education Funding Trends And Credit](#)

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- K-12: School Districts, Charter Schools, And Private Schools
- Public Higher Education
- The Bottom Line
- Appendix: Rating Lists

Key Takeaways

- Opportunities and challenges for traditional public school, charter school, and higher education state funding have evolved nationwide during the past decade.
- We believe the high-growth state is a microcosm for education portfolios around the U.S. experiencing competition for funds, and in some cases, a stifled revenue-raising environment.
- Despite overall enrollment increases and healthy state funding growth since 2013, a seemingly favorable education-funding environment has not yet fully recovered to pre-Great Recession peak funding levels, particularly when it comes to capital funding.
- Recent policy changes and school choice growth have presented some interesting tradeoffs, as the increasing presence of charter schools has led to enrollment and state-funding shifts away from traditional public schools.

[Continue reading.](#)

[Why Utah Has Become America's Economic Star.](#)

From taxes to education to the business climate, the Beehive State has its house in order.

Which of the 50 states has the best economic outlook? For each of the past 12 years, Arthur Laffer, Jonathan Williams and I have answered that question in "Rich States, Poor States," an index of economic competitiveness published by the American Legislative Exchange Council. Every year the top performer has been Utah.

In our 2019 report, Idaho, Arizona and Florida nearly took the top spot, but fell short again. For the other 49 states, outcompeting Utah is starting to look about as futile as beating Rafael Nadal on the

red clay at the French Open.

How does Utah manage to remain so economically competitive? As a destination spot, the Beehive State has natural advantages, including gorgeous red mountains and national parks that make it a scenic and recreational wonderland. But the real secret to Utah's success is disarmingly simple: The state's politicians tend to do everything right to encourage business development and job creation.

Utah has a low, flat-rate income and corporate tax of below 5%. There's no death tax, so wealthy people don't have to flee to Florida after they retire. It's a right-to-work state, meaning workers can't be compelled to join unions. Even though the regulatory touch is light, Utah has some of the best health outcomes in the nation.

The minimum wage in Salt Lake City and Provo is \$7.25 an hour, not the \$10 to \$15 mandated in many blue states and cities. This has allowed employers to respond to labor-market forces. Because jobs are so plentiful, wages are rising briskly. Job growth has ranked second in the nation for the past decade, and the state's population growth ranks in the top three. The Salt Lake metro area has become one of America's fastest-growing tech sectors and is now nicknamed the Silicon Slopes.

Utah's K-12 schools serve families well despite per pupil state spending that is the lowest in the nation and \$4,000 below the national average. Fourth-graders in the state ranked in the top 10 in both math and reading on the 2019 National Assessment of Educational Progress. So much for money buying better school results.

The state government in Salt Lake also has Utah's fiscal house in order. Utah was among the first states in the nation to start erasing public pension liabilities by gradually shifting to a defined-contribution pension system for government workers. Property taxes fund actual municipal services—schools, police protection, hospitals and roads. In other states—most notably, California, Illinois and West Virginia—hundreds of billions of dollars in pension liabilities are draining tax revenues.

"We are unapologetically pro-business and pro-jobs in Utah," Gov. Gary Herbert told me. "And we have a long tradition of being frugal on how we spend tax dollars." Utah spends a third less per capita on state and local government services like housing and education than do New York, Connecticut and Rhode Island. But while their elected representatives are frugal, Utah residents don't feel deprived. According to WalletHub.com Utah is the second-happiest state in the country. Only Hawaiians are happier.

Part of the reason for Utah's consistently strong economic growth is a still-predominant Mormon culture that encourages out-of-fashion virtues such as thrift, delayed gratification and stable families. The state has the nation's lowest median age. There is no dreary Malthusian concern about "overpopulation" in young and vital Utah. Stand outside a church on a Sunday morning, as I did recently, and you will see families with large numbers of kids spilling out of minivans. In the graying Northeast, that's a rare sight.

Many analysts have attributed Utah's prosperity to favorable demographics. But good economic policy leads to favorable demographics. Roughly half of Utah's population explosion has been due to net migration of almost 80,000 newcomers (mostly young) over the past decade from other states. If Utah had New York's or California's tax rates and antibusiness attitudes, the flow of people would likely run the other way.

Progressives dismiss red states like Utah as places that reward the superrich with low taxes at the expense of everyone else. But perhaps the most confounding thing about Utah is that despite (or

because of) its antiprogressive policies, it has the least income inequality in the nation, according to the latest U.S. Census Bureau data.

If the progressive soak-the-rich policies of presidential candidates Elizabeth Warren and Bernie Sanders are really the path to prosperity, why does conservative Utah—which spurns all their ideas—keep coming out No. 1?

Wall Street Journal Opinion

By Stephen Moore

Dec. 6, 2019 6:53 pm ET

Mr. Moore is a senior fellow at the Heritage Foundation and a co-author of "Rich States, Poor States."

Fitch Upgrades Hawaii's IDR to 'AA+'; Outlook Stable

Fitch Ratings-San Francisco-10 December 2019: Fitch Ratings has upgraded the following State of Hawaii ratings:

- Issuer Default Rating (IDR) to 'AA+' from 'AA';
- \$7.7 billion in outstanding general obligation (GO) bonds to 'AA+' from 'AA';
- \$4 million in outstanding certificates of participation (COPs), series 2009A (State Office Building) to 'AA' from 'AA-'.

Fitch has also affirmed the rating on \$408 million in outstanding highway revenue bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The GO bonds are general obligations of the state of Hawaii that carry the full faith and credit pledge of the state. The COPs are secured by lease payments subject to legislative appropriation.

The highway revenue bonds are special, limited obligations of the state, payable from pledged funds that consist primarily of the fuel license (gas) tax, vehicle registration fees and weight taxes, and rental motor vehicle, tour vehicle, and car-sharing vehicle surcharges.

IDR ANALYTICAL CONCLUSION

The upgrade of the state's IDR and GO bond ratings to 'AA+' and Stable Outlook reflects Fitch's expectations for a resilient economy and continued strong operating performance. The upgrade of the COPs rating to 'AA' with a Stable Outlook maintains the one notch distinction below the state's IDR, consistent with Fitch's approach to rating appropriation-backed debt, which has slightly higher optionality. Given the state's solid, increasingly diversified economic base, Fitch expects that the state will maintain its existing strong financial flexibility as it continues to successfully absorb the costs arising from its pension and other post-employment benefit (OPEB) reforms. The state's commitment to elevating pension and OPEB contributions, and a requirement to report to the legislature annually on a range of pension stresses, establishes a solid basis for managing the risks posed by its retirement obligations, which Fitch expects to remain high for the foreseeable future.

DEDICATED TAX ANALYTICAL CONCLUSION

The 'AA' rating and Stable Outlook on the state's highway revenue bonds reflects Fitch's assessment of the strong resiliency of the pledged revenue stream and slow prospects for further growth. The rating is capped by the state's 'AA+' IDR.

(SEE BELOW FOR DEDICATED TAX ANALYSIS)

Economic Summary

The State of Hawaii encompasses seven inhabited islands and a total population of 1.4 million, over two-thirds of whom reside on the island of Oahu. The state's employment base and economy are diverse, with key sources of external support provided by tourism and a substantial federal presence. In the past two years, the state experienced small population declines, which are atypical relative to its history of steady to strong annual population growth. These declines appear largely tied to recent military redeployments to the mainland (which are not expected to continue), reduced international in-migration (in response to current federal immigration policy) and a slightly declining birthrate.

IDR KEY RATING DRIVERS

Revenue Framework: 'aaa'

General excise taxes (GET) and corporate and personal income taxes provided around 88% of Hawaii's fiscal 2019 general fund revenues. Total general fund revenues have performed solidly historically, in line with U.S. GDP over the past 10 years. Prospects for ongoing revenue gains appear strong based on the state's growing economy where long-term diversification trends have bolstered economic resiliency. The state has full control over its revenues with no legal limits on potential increases.

Expenditure Framework: 'aa'

Based on recent spending practices and continued strong revenue performance, Fitch expects that state expenditure increases will be in line with to marginally above revenue growth absent offsetting policy action. Carrying costs for debt service and retiree benefits are somewhat elevated for a U.S. state but are expected to remain manageable.

Long-Term Liability Burden: 'a'

Long-term liabilities for debt and retiree pension benefits are well above the median for U.S. states and are elevated but still in the moderate range relative to total personal income. Fitch's long-term liability burden calculation includes liabilities for the state's public schools, which are paid for by local governments in most other jurisdictions. Reforms to retiree benefits and higher contributions have helped to slow the growth of related liabilities. However, considerable progress on pension system and OPEB prefunding will take place only gradually.

Operating Performance: 'aaa'

The state is well-positioned to address economic challenges as a result of limited revenue volatility and increased reserves. Budget management is guided by frequent revenue forecasts and multi-year financial plans that provide input for policy adjustments as required.

RATING SENSITIVITIES

STRONG LONG-TERM FINANCIAL FLEXIBILITY: The state's IDR and ratings on its GO bonds and COPs are sensitive to changes in overall fiscal and operating performance, particularly in light of the state's commitment to making full actuarial contributions for pensions and OPEB. The current rating assumes the state will maintain a high degree of financial flexibility through economic cycles consistent with the rating level while simultaneously addressing retirement liabilities. Deterioration

in operating performance tied to cyclical performance beyond Fitch's expectations, slower than expected revenue growth, or a diminished commitment to addressing its retiree liabilities, could result in downward rating pressure.

SOLID ECONOMIC PERFORMANCE: Economic performance that does not support Fitch's expectations for revenue growth from a solid, increasingly diversified economic base could pressure the ratings.

PLEDGED REVENUE PERFORMANCE: The highway revenue bond ratings are sensitive to pledged revenue declines, or additional debt issuance beyond current expectations, that materially affect debt service coverage on the bonds.

STATE CREDIT QUALITY: Deterioration in the state's credit quality could affect the highway revenue bond ratings, which are capped by the state's IDR.

CURRENT DEVELOPMENTS

The state has been active in addressing retirement liabilities in recent years. Although the changes made will not meaningfully lower liabilities in the near term, they improve the chances that the liabilities will be sustainable over time. Most importantly, Hawaii remains on the course laid out by 2017 legislation to accelerate the state pension system's funding progress by requiring a four-year phase-in to higher employer contribution rates by fiscal 2021. The June 30, 2018 annual actuarial valuation for the pension system estimated that the remaining rate increases to be made in fiscal years 2020 and 2021, held constant thereafter, would result in a 25-year funding period.

The most recently published, legislatively-mandated annual stress test of the pension system indicates that funded ratios would deteriorate under the test's most severe scenario assumptions, but that sustained payment of higher contributions would prevent the plan's depletion. The most severe alternate stress test indicates that the pension system's funded ratio would dip just below 36% but the trust would not be exhausted. Compliance with both the legislatively-mandated employer contribution increases and annual stress testing supports the pension system's sustainability over time and demonstrates management's ongoing commitment to address the state's long-term liability burden.

The state's irrevocable OPEB trust now has an estimated fiscal 2019 balance of \$1.8 billion (16% funded ratio), up from \$1.3 billion in fiscal 2018 (12% funded ratio), given the state's commitment to making full actuarial contributions. Nevertheless, the net OPEB liability continues to grow (to \$9.4 billion in fiscal 2019), representing a very high 12% of personal income.

ECONOMIC RESOURCE BASE

Hawaii's economic performance has been solid with increasing economic diversification, steady growth in tourism, and a continued substantial military presence. As evidence of increasing economic diversification, state officials calculate tourism's current share of GDP at 17%, compared to 33% in 1988. For the first nine months of 2019, state officials estimate that the leisure and hospitality sector accounted for 18% of the state's employment, comparable to the trade, transportation and utilities sector (17%), but noticeably less than the government/military sector (25%).

Tourism activity has been subject to periodic declines historically but has proven resilient over the long term. Visitor numbers and spending are at record levels, airline seat capacity to Hawaii is growing, and hotel room capacity is expanding. However, the rate of growth for visitor arrivals and spending is expected to slow relative to recent years' rapid growth, in part due to expected national and global economic headwinds.

For well over a decade, the state's unemployment rate has been below the U.S. average and it is now exceptionally low. Personal income levels are above average on a nominal basis, although real spending power is curtailed by the state's high cost of living.

Housing affordability is a growing issue for Hawaii with well above average median single family house prices (when comparing Honolulu with other comparably sized U.S. cities). State officials advise that considerably fewer houses are being constructed than local and out-of-state demand could absorb. Although high construction costs appear to be a barrier for some already permitted projects, many residential, commercial, and hotel projects are currently underway across the state. In addition, significant public sector capital investments are currently being made in the state's transportation infrastructure, schools and universities, and water and wastewater systems, while the military continues to make sizable capital investment in its Hawaiian bases.

IDR CREDIT PROFILE

Revenue Framework

The state relies on general excise taxes (GET) on business income and corporate and personal income taxes for the majority of its general fund revenues. The GET is broad-based and captures income from the sale of services as well as goods, accounting for half of general fund revenues in fiscal 2019. The state continues to focus on improving GET collections from on-line retailers and individual vacation rental units. Net income taxes from corporations and individuals account for over a third of general fund revenues. Policy-adjusted performance for all general fund revenues has been solid historically, exceeding inflation but slightly below overall U.S. economic performance.

Fitch expects Hawaii's revenue growth, absent policy actions, generally to perform in line with GDP based on the state's resilient and growing economy. While revenue gains may be affected by periodic economic shocks, strong growth is expected over the long term. The state's multiyear forecast anticipates general fund revenue growth of between 2.9% and 3.8% annually during fiscal years 2021 to 2025.

The state has full legal authority to raise revenues and has regularly adopted measures to modify revenue sources and amounts.

Expenditure Framework

Hawaii provides a broad range of services to its residents with education and health and human services accounting for the bulk of total governmental fund expenditures (inclusive of federal funding). Elementary, secondary and higher education comprised over a third of total governmental fund expenditures in fiscal 2018. Health and welfare spending combined for another third. The fiscal challenge of Medicaid is common to all U.S. states and the nature of the program as well as federal government rules limit the states' options in managing the pace of spending growth. Federal action to revise Medicaid's programmatic and financial structure appears less likely in the near term given divided control in Congress. The state does not have expenditure risk associated with voter initiatives.

Fitch expects that the natural pace of spending growth will be in line with to marginally above expected revenue growth based on the state's current spending profile. The state will continue to see growth in spending for retiree benefits, education and health care in particular, but ongoing revenue gains are likely to keep pace with expenditure increases. The state's multiyear forecast anticipates general fund expenditure growth of between 1.5% and 2.4% annually during fiscal years 2021 to 2025, which is less than projected general fund revenue growth over that period. There is a constitutional expenditure ceiling that can only be exceeded with a two-thirds vote of the legislature. Apart from fiscal 2007, appropriations for recent years have not exceeded that expenditure ceiling.

The state has a strong track record of making expenditure reductions when needed despite the large share of its budget devoted to education and health and human services. General fund spending fell by approximately 14% during fiscal years 2010 and 2011, largely due to employee furloughs and executive department spending restrictions, in response to reduced revenues.

Looking ahead, the state's substantial expenses for debt service and prefunding of retiree benefits could present a greater challenge for expenditure flexibility. Carrying costs for these items accounted for 16% of governmental expenditures in fiscal 2018, among the highest shares for states. This is partly driven by Hawaii's commitment, unusual for a state, to make actuarial rather than pay-as-you-go contributions for OPEB, necessitated by the size and inflexibility of that liability. OPEB contributions at the full actuarial level from fiscal 2019 onwards and higher scheduled employer pension contribution rates appear likely to increase this ratio further, and therefore Fitch expects carrying costs to remain high relative to other states.

Long-Term Liability Burden

Long-term liabilities for debt and pensions are high for a U.S. state. They are elevated but still in the moderate range at 21% of personal income as of fiscal 2018, more than three times the median for states, as reported in Fitch's 2018 State Pension Update. This ratio excludes the net pension liability attributed to the University of Hawaii. The ratio appears to be on an upward trajectory in the short-term based on debt issuance plans and more conservative assumptions included in recent pension valuations.

Long-term liabilities include debt issued for the state's elementary and secondary schools; historically, almost a third of the state's general fund debt has been for K-12 education (local governments pay for this in most other states). Amortization is moderate, with 62% of outstanding principal due for repayment within 10 years.

The pension system reported a relatively low 56% ratio of assets to liabilities as of its fiscal 2018 measurement date and an assumption of 7% investment returns. Under Fitch's standard 6% return assumption, this would drop to 49%. Contribution rates are determined by statute and adjusted periodically if the actuarial funding period exceeds 30 years. The state increased contribution rates in 2012 and again in 2017. The state remains on track with the current four-year phase-in of higher employer contributions, with the goal of eliminating the UAAL by fiscal 2043.

The state has implemented several rounds of retirement reforms since the Great Recession. Despite the immediate negative impact on the plan's funded condition, Fitch expects that these changes along with rising contributions will position the plan for funding progress, assuming current assumptions are achieved. Fitch views positively the state's proactive support of pension system sustainability, most notably through the contribution increases, and its annual mandate of stress testing pension investments and their impact on contributions. The latter provides significant transparency for the state's management on how contributions would have to change in the event of asset underperformance.

The state also carries a high liability for accrued OPEBs, which it regards as legally protected. Unusually for a state, Hawaii has made notable progress in prefunding OPEBs, moving from pay-as-you-go to full funding of the annual required contribution (ARC). Under the new accounting standard, OPEB liabilities are discounted at 7%, reflecting the actuarial determination of contributions. Legislation adopted in 2013 established a schedule for full ADC funding by 2019, which the state achieved, with full prefunding of accrued benefits forecast for 2045, if plan assumptions are achieved. The 2013 legislation also established an irrevocable OPEB trust that now has an estimated fiscal 2019 balance of \$1.8 billion (16% funded ratio), up from \$1.3 billion in fiscal 2018 (12% funded ratio). Nevertheless, the net OPEB liability continues to grow (to \$9.4 billion in

fiscal 2019) and it represents a very high 12% of personal income.

Operating Performance

Increased reserves and a history of limited revenue volatility contribute to an assessment of strong financial resilience for the state in a moderate economic downturn. Based on historical results adjusted for the impact of policy action, Fitch estimates that a 1% decline in U.S. GDP would reduce state revenues by 2.5%. The state's reserves provide a considerable cushion against revenue declines expected in a moderate recession.

The state made key improvements to financial flexibility in the wake of the Great Recession, increasing budgetary and emergency reserves. A budget reserve policy adopted in 2016 sets a goal of 10% of prior year budgeted revenues for such savings, committing a portion of ongoing tobacco revenues and general fund balance in years of strong revenue performance. Balances in the state's Emergency Budget and Reserve Fund (EBRF) rose to over \$378 million in fiscal 2019 (nearly 5% of prior fiscal year budgeted revenues), from just under \$10 million in fiscal 2011. The EBRF is budgeted to grow to \$391 million (nearly 5% of prior fiscal year budgeted revenues) in fiscal 2020.

In addition, the state has a balance of almost \$184 million in its Hawaii Hurricane Relief Fund, which has functioned as an additional working reserve in times of economic stress. This fund is projected to grow slightly to \$185 million in fiscal 2020.

The state reported a fiscal 2018 net general fund deficit of \$228 million (3% of total general fund expenditures and transfers out), up from a 1% deficit the prior year. These deficits reflect expenditure pressure related to increased pension and OPEB contributions. However, total governmental funds showed only a slight deficit of \$39 million in fiscal 2018 (0.3% of spending) and positive operations in fiscal 2017.

The state's September 2019 revised general fund financial plan projects balanced general fund operations in fiscal 2019 (adding just under \$2 million to the general fund balance), a small deficit in fiscal 2020 and positive operations thereafter. Fitch expects the state to address budget balancing challenges as they arise and to maintain its strong financial flexibility.

DEDICATED TAX KEY RATING DRIVERS

RATING CAPPED BY STATE CREDIT QUALITY: The highway revenue bond rating is capped by the state's general credit quality. Pledged revenues, a relatively narrow basket of motor vehicle-related taxes and user charges, are structurally protected from general government operations and restricted to the support of the state highways system.

SLOW PLEDGED REVENUE PERFORMANCE: Pledged highway revenue growth has been above inflation but less than national economic performance over the past 10 years, in part due to state policy actions to adjust tax rates and charges to offset economic volatility. Pledged revenues have provided robust coverage of debt service in a scenario that considers leveraging up to 4.5x MADS, in combination with revenue declines anticipated in a moderate economic downturn.

DEDICATED TAX CREDIT PROFILE

Legal provisions for the bonds provide solid protection for bondholders. Senior bonds (the only active lien) have a first lien on the pledged funds once deposited in the state highway fund. Subordinate lien debt is permitted, though none has been issued. Hawaii's general revenue bond law requires the state to maintain pledged revenues in amounts sufficient to meet commitments to bondholders. While not anticipated, such commitments could be modified by the state legislature. Pledged revenues are not subject to annual appropriation by the state legislature.

Transfers out of the state highway fund are permitted, but only after senior and subordinate debt service obligations, operations and maintenance expenses, and required capital improvements have been funded. Further, transfers are only allowable if monies remaining in the fund exceed 135% of the next year's revenue requirements. Since 2006, the legislature has supported revenue increases to support the highway fund and transferred \$37 million from the general fund in fiscal 2017.

Highway revenue bonds are supported by both a cash-funded debt service reserve and sureties sized at 50% of maximum annual debt service (MADS). The state has proposed to eliminate the reserve on future debt issuances upon receipt of 100% bondholder consent, which is not expected to occur until the series 2005, 2008, 2011, and 2014 highway revenue bonds mature or are refunded. Such changes are not a rating consideration given the credit's underlying strength.

Pledged revenues consist of highway fuel license taxes assessed at a per-gallon rate; a fixed per vehicle registration fee; a tax based on motor vehicle weight; surcharges on rental motor vehicles, tour vehicles, and car-sharing vehicles applied on a per day, month, or hour basis; and other miscellaneous fines, charges, and fees. In fiscal 2019, vehicle registration and weight fees provided approximately 45% of pledged revenues and fuel taxes accounted for an additional 29%.

Revenues are sensitive to fuel usage and efficiency, vehicle ownership levels, motor vehicle size, total mileage and tourism activity. Revenues dipped by a cumulative 13% between fiscal years 2008 and 2010, during the Great Recession, but the combination of a recovering economy and repeated state policy actions have resulted in cumulative growth of almost 53% over the following eight years.

Between 2008 and 2018, pledged revenues rose at a compound annual growth rate of 2.8%, well above inflation but below national economic growth. The state is projecting future pledged revenue growth at around 1% annually from fiscal 2021 onwards, a more modest rate of growth than historical performance. However, baseline pledged revenues will increase significantly in fiscal 2020 primarily due a 67% increase in the rental motor vehicle surcharge enacted on July 1, 2019 (Act 174). This increase is projected to generate an additional \$33 million annually.

To evaluate the sensitivity of the dedicated tax revenue stream to cyclical decline, Fitch considers both a revenue sensitivity scenario (using a 1% decline in national GDP scenario) and the largest decline in revenues over the 10-year period covered by the revenue sensitivity analysis. Based on this history, Fitch's analytical sensitivity stress test (FAST) generates a 4% decline in pledged revenues during the first year of a moderate recession while the largest cumulative revenue decline historically was the 13% described above.

Management has typically limited debt service expenses to less than 20% of total annual revenues to ensure sufficient funding for operations and maintenance; it plans to continue this practice in the future. The state expects to issue a substantial amount of additional revenue bonds in fiscal years 2020 and 2021. The pro forma debt amortization schedule indicates that pledged revenues held constant at fiscal 2019 levels would maintain a minimum of 5.0x MADS coverage, the state's minimum coverage assumption when evaluating future bonding plans. Fiscal 2019 pledged revenues were 5.6x MADS.

Conservatively assuming leverage down to 4.5x MADS, pledged revenues could withstand a 78% drop before not fully covering MADS. This represents 18.6x the scenario-generated decline and 5.8x the largest recorded decline.

EXPOSURE TO ISSUER OPERATIONS

The dedicated tax bond rating is capped by the state's 'AA+' IDR. While pledged highway revenues are structurally protected from general government operations and restricted to supporting the

state highways system, the state has considerable discretion over the appropriation of state highway fund monies. Transfers out of the state highway fund are permitted once certain conditions are met, and in 2017 the fund received support from the general fund.

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Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3' – ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

California Pension Fund Goes Green With Muni-Bond Debut.

- **Environmentally friendly headquarters apt for Calstrs**
- **Even at just 64% funding, pension would see demand for bonds**

The California State Teachers' Retirement System may have just missed its investment goal but its debut municipal-bond sale Thursday is right on target.

The public pension, the second-biggest in the nation, is selling \$281 million in tax-exempt municipal green bonds at a time when wealthy Californians are snapping up such debt to drive down their tax bills and when buyers are increasingly seeking investments intended to lessen the impact of climate change. The pension, which posted a 6.8% return shy of its 7% expectation for the year that ended in June, is using the bond proceeds for an expansion of its West Sacramento headquarters designed to meet high environmental standards, including the ability to achieve zero net energy consumption.

While investors generally haven't paid higher prices for assets complying with environmental, social and governance principles, that may change in the future, said Eric Friedland, director of municipal research at Lord Abbett & Co. That makes the Calstrs bonds, which are already linked to a strong state credit because of the financing California provides for the pension system, even more appealing, he said.

"If you believe that there will be more of an ESG focus going forward, and that people will pay a premium for green bonds, then you're basically getting that for free right now," Friedland said.

The new building, a 10-story tower, will link to the current headquarters and ultimately encompass 510,000 square feet serving 1,200 employees, according to bond documents. Elements include a child-care center, "irresistible stairwells" to encourage people to take stairs instead of riding an elevator and a cafe offering healthy meals with ingredients from the on-site garden, Calstrs Chief Financial Officer Julie Underwood said during the Environmental Finance conference at the Milken Institute in October.

Vanessa Garcia, a spokeswoman for Calstrs, said in an email that officials wouldn't make public statements on the bond issuance through the California Infrastructure and Economic Development Bank until after the closing of the sale. The building is expected to open in 2022.

The pension hired Kestrel Verifiers to vouch that the securities meet the standards for green bonds from the Climate Bond Initiative. It makes sense that Calstrs would sell green bonds given how it uses its influence as a shareholder to drive social and environmental change, said Ksenia Koban, a municipal-credit analyst at Payden & Rygel Investment Management in Los Angeles. Calstrs, for example, has pressured Duke Energy to cut carbon emissions and retailers to adopt best practices for firearms sales.

Calstrs officials are "putting money where their mouth is in mainstreaming ESG practices and ideas," said Koban, who called the bond offering "a great issuance."

The state, which has booked years of surpluses thanks to its growing economy, plays a large role in the pension's bottom line: it directly made 36% of all contributions Calstrs received last fiscal year and provides significant aid to school districts, which make their own payments to the pension. California lawmakers in this year's budget made a supplemental payment to pay down the state's share of the unfunded liabilities for the organization that represents more than 960,000 educators and their beneficiaries.

The system, which by law has limits on how much it can hike contribution rates, is five years into a plan to reach 100% funded by 2046. It has about 64% of the assets needed to cover its liabilities, according to the latest data.

The new bonds are rated A+ by S&P Global Ratings, which gives the rating a stable outlook because it expects the pension's funded ratio to improve over the next two years. Moody's Investors Service ranks the debt A1 and Fitch Ratings grades it AA.

Bloomberg Markets

By Romy Varghese

December 4, 2019, 6:00 AM PST Updated on December 4, 2019, 10:49 AM PST

[Court of Appeal Affirms California's Interest in Housing Can Override Laws of Charter Cities.](#)

- In *Anderson v. San Jose*, the Sixth District Court of Appeal held that the Surplus Land Act constitutionally applies to California's charter cities. Many prior published opinions have affirmed that various California housing laws constitutionally apply to charter cities, but *Anderson* is the only recent binding precedent addressing whether California's recently amended housing laws validly apply to charter cities as well.
- The decision recognized that the Legislature may advance state land use policy objectives by overriding the laws and policies of charter cities because addressing the shortage of sites available for low- and moderate-income housing is a matter of statewide concern.
- By affirming a state law that directly infringes on charter cities' ability to control the disposition of their own property, *Anderson* sets an important precedent that can be used to defend the constitutionality of other state laws which limit charter cities' authority to deny or delay development projects that meet the state's critical housing shortage.

For decades, the California State Legislature has enacted numerous laws that limit the authority of local governments to constrain the supply and affordability of housing. These include the Housing Element Law, which requires cities to plan for their fair share of regional housing needs; the Housing Accountability Act (HAA), which limits cities' discretion to deny affordable and zoning-compliant development projects; and the Density Bonus Law, which requires cities to grant additional density and other modifications to qualifying affordable housing projects. In recent years as the housing crisis intensified, the Legislature amended these laws and enacted new measures including Senate Bill (SB) 35 of 2017, which creates a streamlined ministerial approval process for qualifying housing-rich development projects. (See Holland & Knight's previous alerts, "[California's 2020 Housing Laws: What You Need to Know](#)," Oct. 18, 2019; "[California's 2019 Housing Laws: What You Need to Know](#)," Oct. 8, 2018; and "[A Closer Look at California's New Housing Production Laws](#)," Dec. 6, 2017.)

In response, some charter cities have argued that these and other state housing laws do not apply to them. Under the California Constitution, cities governed by their own charters are exempt from complying with conflicting state laws, but only "with respect to municipal affairs."¹ The constitution does not define "municipal affairs," but it lists the conduct of city elections and employment of city officials as among the illustrative examples.² Numerous published opinions have held that housing, by contrast, is a statewide concern and that various state housing laws constitutionally apply to charter cities.³ Despite these precedents, charter cities have argued that they are exempt not only from complying with newer housing laws such as SB 35 but also exempt from much older statutes including the nearly 40-year-old HAA.

The ramifications of this debate are profound. As the Legislature found as long ago as 1990, "[t]he excessive cost of the state's housing supply is partially caused by activities and policies of many local governments that limit the approval of housing, increase the cost of land for housing, and require that high fees and exactions be paid by producers of housing."⁴ However, about one-fourth of California's cities, including all of the 15 largest cities in the state, are charter cities. If the Legislature were unable to enact state laws that conflict with charter cities' local ordinances and policies, the State of California would be essentially powerless to address this critical aspect of the statewide housing crisis.

The Anderson Decision

In *Anderson v. San Jose*, the Sixth District Court of Appeal considered the City of San Jose's claim to be exempt from complying with the Surplus Land Act (SLA). The SLA, enacted first in 1968 and amended numerous times in recent years, aims to address the "shortage of sites available for housing for persons and families of low and moderate income" by providing that "surplus government land, prior to disposition, should be made available for that purpose," by requiring a minimum percentage of units to be made available at specified affordability levels when surplus land is sold or leased to develop low- or moderate-income housing, or for general residential development of 10 or more units.⁵ In 2016, San Jose took the position that as a charter city it was not required to comply with the SLA, and the city adopted policies for the disposition of city property which did not comply with requirements of state law. After low-income households and housing advocates sued, a Santa Clara County Superior Court judge agreed with San Jose.⁶

The Sixth District Court of Appeal reversed that decision, holding that "while a city's process for disposing of surplus city-owned land is typically a municipal affair, San Jose's policy here must yield to the state law."⁷ The court applied the Supreme Court of California's four-element inquiry to determine whether state law constitutionally overrides the local law of a charter city: 1) to consider whether the city's local law or policy relates to a municipal affair, 2) to consider whether state law conflicts with the city policy, 3) to consider whether the state law relates to a statewide interest, and 4) to consider whether the state law is reasonably related to resolution of the statewide concern and narrowly tailored to avoid unnecessary interference in local governance. If "the subject of the state statute is one of statewide concern and ... the statute is reasonably related to its resolution, then the conflicting charter city measure ceases to be a 'municipal affair' pro tanto"⁸

The parties did not dispute, and the Sixth District Court of Appeal concluded that the first two elements were met, and so the court proceeded to determine whether the state had the authority to "advance[] state land use policy objectives," and specifically "to address shortage of sites available for low- and moderate-income housing in California."⁹ The court concluded that this was clearly a matter of statewide concern. In so doing, it distinguished the California Supreme Court precedents on which San Jose relied, because these opinions recognized only that charter cities had exclusive authority over the expenditure of their own public funds and over the ability to license taxes on businesses within their jurisdiction.¹⁰ In contrast, the Sixth District Court of Appeal noted that numerous published opinions "have recognized the statewide dimension of the affordable housing shortage"¹¹ The court emphasized that "the regional spillover effects of insufficient housing demonstrate 'extramunicipal concerns' justifying statewide application of the Act's affordable housing priorities."¹²

Finally, the court concluded that the SLA was "sufficiently tailored to its purpose."¹³ In conducting this analysis, the court did not put the state to the burden of proving that its law was the least restrictive means that could possibly be imagined to accomplish the statewide purpose. Instead, the court cited other recent Court of Appeal authority for the proposition that to survive constitutional scrutiny, a state law need only "be reasonably related to the issue at hand and limit the incursion into a city's municipal interest."¹⁴ Here, the court held that the SLA primarily imposed "generally applicable procedural standards" that "impinge[] less on local autonomy than ... substantive obligations."¹⁵ As the court noted, "[w]hether land is deemed 'surplus' is entirely within the local government's discretion," and the SLA only imposes requirements upon those lands which the city has chosen to designate.¹⁶ The court recognized that the SLA also imposes substantive obligations, but concluded that while "the substantive measures are significant in their narrow spheres," they "do not dominate the generally applicable procedural standards" and further noted that many other "substantive" requirements have been upheld as validly applicable to charter cities.¹⁷ Accordingly, the SLA constitutionally supersedes contradictory local laws adopted by charter cities.

Conclusion and Takeaways

The *Anderson* decision only directly addresses the constitutionality of the SLA, and it is possible that other state laws could be assessed differently. However, the opinion provides strong support for the constitutionality of many other state housing laws for several reasons, including:

- The SLA deprives charter cities of authority over a core municipal power: the power to decide how they will dispose of *their own property*. Nonetheless, the SLA was held constitutional in light of the statewide interest in affordable housing. Other housing laws, which do not affect local control over municipal property but merely limit local police power authority over private property, should stand on even stronger constitutional footing.
- By emphasizing that state laws are “sufficiently tailored” if they merely impose procedural obligations, the opinion provides strong constitutional support for laws that limit the ability of local governments to impose excessive procedural roadblocks to housing approvals. Just as the SLA leaves the ultimate decision about whether to designate land as surplus to the city, laws such as the HAA and SB 35 leave to cities the ultimate decision about where housing is to be permitted and at what scale. These laws merely impose procedural limitations on cities’ ability to deny or delay development projects that comply with the zoning rules the cities have put in place.
- At the same time, the opinion also recognized that state laws can still constitutionally apply even if they do impose appreciable substantive requirements on local governments, which provides useful defense to the constitutionality of laws such as the Housing Element Law and the Density Bonus Law.

The court’s emphasis on the “spillover effects” of constrained housing supply is a welcome understanding of the need for statewide housing policy. Indeed, housing policy is the classic example of a collective action problem: many local jurisdictions would prefer, if permitted, to shift the burden onto others to meet the statewide need for more affordable housing. However, as the *Anderson* court recognized, the Constitution does not prohibit the State of California from stepping in to ensure that each locality contribute its fair share.

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

by Daniel R. Golub

December 5 2019

Holland & Knight LLP

[Fitch Upgrades Puerto Rico Aqueduct & Sewer Authority Rev Bonds to 'CC'; Watch Removed](#)

Fitch Ratings - Austin - 04 December 2019:

Fitch Ratings has upgraded the following Puerto Rico Aqueduct and Sewer Authority (PRASA) bonds to ‘CC’ from ‘C’:

-Approximately \$3.1 billion in outstanding senior lien revenue bonds, series A, B, 2012A and 2012B;

-Approximately \$285 million in outstanding revenue refunding bonds, series 2008A and 2008B (guaranteed by the Commonwealth of Puerto Rico).

Fitch has removed the ratings from Negative Watch.

[Continue reading.](#)

Chicago Passes \$11.65 Billion Budget as 2021 Concerns Loom.

- **City closes \$838 million hole with debt refinancing, new fees**
- **Budget contains 'no significant' property tax hikes: Lightfoot**

The Chicago City Council approved Mayor Lori Lightfoot's \$11.65 billion budget for 2020 that raises fees on ridesharing services, refinances more than \$1 billion of debt and merges departments to fill the biggest shortfall in recent history.

Lightfoot is closing an \$838 million budget deficit. The spending plan's reliance on some one-time moves, like debt restructuring, raised questions about how she will plug future shortfalls as pension costs are projected to rise.

"The 2020 budget is a progressive blueprint for the future," Lightfoot said at City Hall after the vote on Tuesday. "We first look inwards and not to the taxpayers."

Chicago is struggling with rising costs and a shrinking population that has already been hit with higher property taxes and other increased levies in recent years. The city's four pension plans are short about \$30 billion, and the city's mandated pension contributions are poised to ramp up. Chicago's annual projected pension contribution climbs to \$1.68 billion in 2020 and tops \$2 billion by 2022, city documents show.

Lightfoot said that the 2020 spending plan has "no significant" property tax increases.

"Overall, this seems to be a reasonable plan to move the city forward," said Laurence Msall, president of the Civic Federation, which analyzes government budgets. "It's a budget that reflects the challenges of these times."

The 2020 spending plan includes about \$40 million more revenue from higher fees on ride hailing services, particularly from single riders in downtown, a move that Uber Technologies Inc. has pushed back against. Next year's budget counts on \$210 million in savings from refinancing more than \$1 billion in debt.

The city is taking all those savings in one year, rather than spreading it out over several years. This planned refunding that seeks to "realize disproportionate savings in the short-run" is "an unsustainable budgetary practice that should be avoided," Matt Fabian, partner at Municipal Market Analytics, said in an emailed report.

Fabian also warned that Chicago's task of balancing budgets in upcoming years, including 2021, may pose challenges.

"A failure to raise taxes now, while the local economy is reasonably strong, raises the risk of an eventual hike being proposed when growth is weaker or even negative: a very hard environment to present recurring budget solutions," Fabian said in his report.

Lightfoot had to balance her budget more with cost cuts after she was unable to gain Illinois legislative support for a graduated real estate transfer tax, which was projected to yield about \$50

million.

She lobbied lawmakers during the six-day legislative veto session in October and November to approve such a tax as well as lower the tax structure on a proposed Chicago casino to increase its appeal for potential operators. Neither initiative got approval. The mayor and city officials may advocate for both measures next year as Chicago needs to find more revenue to pay its future bills.

Bloomberg Markets

By Shruti Singh

November 26, 2019, 11:07 AM PST Updated on November 26, 2019, 11:35 AM PST

[Could California's Public Banks Finance a Statewide Green New Deal?](#)

After years of claiming to be a leader in climate action, California might be finally starting to step into its promised role — and it is bringing a secret weapon to the challenge.

On November 19, Gov. Gavin Newsom announced the state was placing a moratorium on new permits for oil drilling activities that involved steam injection and fracking. The announcement came just a few months after news broke that not only did California's top oil regulators have a vested interest in major oil companies, but since Newsom became governor, the number of oil permits had doubled.

"Governor Newsom has shown the world today that the future of climate leadership means saying 'no' to the fossil fuel industry's dreams of endless expansion," said Stephen Kretzmann, head of Oil Change International, one of the organizations behind the Keep It in the Ground movement. "While there is still a long road ahead, the measures announced today are important steps towards comprehensive action to phase out California's oil and gas production and align its economy with climate safety," he added.

[Continue reading.](#)

Truthout.org

by Carla Santos Skandier,

November 29, 2019

[Wyoming Supreme Court: Jackson Hole Aviation Purchase Legal](#)

Airport board has not yet decided whether to pursue acquisition once again, director says.

Jackson Hole Airport's planned purchase of Jackson Hole Aviation could be back on the table now that the Wyoming Supreme Court has ruled for the airport, deeming the acquisition legal.

Several local pilots — Greg Herrick, Richard Sugden and Brent Blue — challenged the 2018 purchase, arguing that the airport's use of revenue bonds to purchase the nontangible assets and

goodwill of a private business clashed with state statute. Teton County District Court Judge Timothy Day disagreed in February, and on Tuesday the state's highest court affirmed that determination.

"The district court correctly interpreted Wyo. Stat. 10-5-101(a) when it held the term 'other property' authorized the use of revenue bonds for purchases of both tangible and intangible property," Justice Kari Gray wrote in the opinion.

[Continue reading.](#)

Jackson Hole News & Guide

By Mike Koshmrl

Nov 27, 2019

[CalPERS Numbers Tell Costly Pension Story.](#)

Editorial, includes "... On average, local governments in California are paying 50 cents on top of every payroll dollar to cover retirement costs for public safety employees. ... Two dozen jurisdictions are paying 70 cents on the payroll dollar, twice as many as last year, and that number is expected to double again next year to 50. ... The state Supreme Court ducked an opportunity to evaluate the California rule in a case decided earlier this year. The justices will get another crack at the issue in a pending case. If they take another pass, the vicious cycle of rising costs for pensions and cutbacks for basic public services will continue to accelerate."

Read the full article on: [The Press-Democrat \(California\)](#)

November 27, 2019

[North Dakota Gets Top Marks in Financial Transparency.](#)

Includes "North Dakota state government has gotten top marks for financial reporting transparency from the nonpartisan watchdog organization Truth in Accounting ... The organization each year measures each state's Comprehensive Annual Financial Report against a 'best practices' framework. ..."

Read the full article on: [Jamestown Sun \(North Dakota\)](#)

November 27, 2019

[Louisiana's Ransomware Attack Was Largest but 'Not Catastrophic'](#)

During a last-minute hearing Friday, Louisiana Deputy CIO Neal Underwood revealed that last week's ransomware attack was the largest one to impact the state, but he stopped short of calling the attack catastrophic.

Last week's [Louisiana ransomware attack](#) affected approximately 10 percent of the 5,000 servers within the state government's IT infrastructure, making it [one of the largest cyberattacks on the state](#) to date.

Neal Underwood, deputy chief information officer for the Office of Information Technology (OIT), revealed the news during a last-minute hearing Friday morning, in which legislators quizzed numerous agency heads on their operational status following the cyberincident.

"It's not catastrophic," Underwood said, before ultimately concluding that it was "a significant event, much more significant than any we've had in the past." He also called it a "sophisticated, coordinated attack," and not the result of "some malcontent teenager in their parent's basement."

[Continue reading.](#)

GOVERNING.COM

BY LUCAS ROPEK | NOVEMBER 27, 2019 AT 3:01 AM

[Ohio Gears Up Cyber Soldiers for Virtual Defense Tactics in 2020.](#)

- **Ransomware attacks on municipalities have surged in 2019**
- **Cyber group credit positive for Ohio municipalities: Moody's**

Cyberattacks in Ohio have disrupted airport flight displays, led to the shutdown of a help line during a winter storm and cut off access to police investigation reports temporarily.

The Buckeye State is fighting back.

Its first volunteer cyber reservists will be assembled in January, ready to parachute in to get local governments back up and running after computer systems are hacked. The move is among the latest defense plans of local governments across the U.S. as dozens of states and municipalities face cyberattacks this year.

[Continue reading.](#)

Bloomberg Cybersecurity

By Maria Elena Vizcaino

November 25, 2019, 11:11 AM PST

[Gov. J.B. Pritzker Rules Out Constitutional Change to Address Illinois' \\$134 billion in Unfunded Pension Liabilities.](#)

Gov. J.B. Pritzker said Tuesday that a constitutional amendment voters will decide next year will help save the state's finances. He also dismissed any proposal to reduce the state's pension costs through a constitutional amendment to remove the state's pension protection clause.

During a wide-ranging fireside chat at the Economic Club of Chicago Tuesday, Pritzker promoted his constitutional amendment for a progressive income tax. Voters next year will be asked the binding question that Pritzker ushered through the legislature. Pritzker also campaigned on the issue of changing the state's existing flat income tax to a progressive system that has higher rates for higher earners.

During the discussion, Club Chair Debra Cafaro asked Pritzker why lawmakers shouldn't also let voters change the state's pension protection clause to control the growing cost of public sector pensions.

[Continue reading.](#)

By Greg Bishop | The Center Square

Nov 19, 2019

[Ohio Supreme Court Rejects Residency Requirements for Public Construction.](#)

Public construction in Ohio, as in most states, is subject to a myriad of statutory and administrative rules and requirements, many of which can impact a contractor's manner of performance, profitability and in some cases its eligibility to be awarded work. With respect to the issue of eligibility, a public authority mandating that contractors employ a specific number or percentage of its residents as a threshold requirement to perform public improvements is a particularly onerous limitation. Residency preferences or restrictions of this nature can effectively preclude or greatly limit the eligibility of contractors located in other political subdivisions to perform public construction work. This, in turn, reduces competition, could potentially compel the use of unskilled construction workers and could result in increased costs for the construction of public improvements.

In a decision which benefits Ohio and out-of-state contractors as a whole, the Ohio Supreme Court has determined that residency preferences for public improvements imposed by municipalities under their home-rule authority are no longer valid based on R.C. 9.75, enacted in 2016, which prohibits a public authority from requiring a contractor to "employ as laborers a certain number or percentage of individuals who reside within the defined geographic area or service area of the public authority." *Cleveland v. State*, Slip Opinion No. 2019-Ohio-3820 (Sept. 24, 2019).

This case was initiated by the City of Cleveland, which sought to enjoin the enforcement of R.C. 9.75 as an infringement on its municipal home-rule authority, and which it claimed was otherwise unconstitutional. The residency requirement at issue, The Fannie Lewis Law, was enacted in 2003. The law was intended to alleviate unemployment and poverty in Cleveland by providing more employment opportunities to city residents on local public improvements. Specifically, the law required public-construction contracts in an amount of \$100,000 or more to include a provision mandating that city residents perform a minimum of 20 percent of the total construction work hours under the contract. It also required the construction contract to specify penalties for a contractor's failure to comply with this contractual term. Those penalties included damages of up to 2.5% of the final total amount of the contract as well as the possibility of the city withholding payments, terminating the contract or disqualifying the contractor from future bids.

In reaction to these types of residency requirements, the General Assembly enacted R.C. 9.75 premised on its authority to provide for the general welfare of employees under the Ohio Constitution. R.C. 9.75 invalidates such requirements and provides, in part:

(B)(1) No public authority shall require a contractor, as part of a prequalification process or for the construction of a specific public improvement or the provision of professional design services for that public improvement, to employ as laborers a certain number or percentage of individuals who reside within the defined geographic area or service area of the public authority.

(B)(2) No public authority shall provide a bid award bonus or preference to a contractor as an incentive to employ as laborers a certain number or percentage of individuals who reside within the defined geographic area or service area of the public authority.

R.C. 9.75(B)(1-2).

The trial court permanently enjoined the enforcement of R.C. 9.75, finding that the statute “does not provide for the comfort, health, safety, and welfare of its employees; rather, [it] seeks only to dictate the terms by which municipalities may contract for workers in construction projects within their realm.” The trial court also concluded that R.C. 9.75 violated the Home Rule Amendment of the Ohio Constitution as the statute impermissibly limited the city’s exercise of local self-government. On appeal, the Eighth District Court of Appeals affirmed this decision, determining that “R.C. 9.75 does not relate to the right of an individual to choose where to live or a matter implicating the general welfare of all employees,” and further determined that R.C. 9.75 constituted an attempt to preempt the established powers of local self-government.

The Ohio Supreme Court rejected the lower court decisions and found that “the ordinance regulates the employment of workers hired under public-works contracts by requiring those contracts to exact binding promises dictating the eligibility of a worker to be hired on a construction project.” According to the Supreme Court, by imposing a quota for the employment of Cleveland’s residents, “the Fannie Lewis Law directly impacts hiring, the most basic condition of employment, for workers on public-improvement projects. In doing so, the city of Cleveland has legislated within a field subject to regulation by the General Assembly pursuant to Article II, Section 34.” The Court further noted that the legislature expressly stated the intent of R.C. 9.75 was to “provide for the comfort, health, safety, and general welfare of those employees [working on Ohio’s public-improvement projects],” and the Court refused to second-guess such a plain statement of legislative intent. The Court, therefore, determined that R.C. 9.75 is a valid exercise of the power granted by the Ohio Constitution, and it supersedes the Fannie Lewis Law, a local ordinance enacted by a municipality pursuant to its home-rule authority.

With respect to public construction projects, this decision is a definite win for contractors in general. While this decision invalidates similar residency preferences throughout the State of Ohio, contractors should be mindful that not all municipalities may be aware of this decision and they should be prepared dispute such requirements if imposed on a public improvement project. Outside of Ohio, similar regulations may exist and contractors should identify such requirements and determine whether they are enforceable.

by Lowell T. Woods Jr.

November 18, 2019

Taft Stettinius & Hollister LLP

Fitch Ratings: Review Completed for New Jersey Public Universities

Fitch Ratings-Chicago-25 November 2019: Fitch Ratings has completed its review of ratings on five public universities in New Jersey that were placed Under Criteria Observation (UCO) following the publication of revised U.S. College and University Rating Criteria in June. This review resulted in the following rating actions:

- The College of New Jersey, downgraded to 'A+' from 'AA-'; Outlook revised to Stable from Negative;
- Montclair State University, downgraded to 'A+' from 'AA-'; Outlook Stable;
- New Jersey City University, downgraded to 'BBB' from 'A-'; Outlook revised to Negative from Stable;
- Stockton University, affirmed at 'A-'; Outlook Stable;
- William Paterson University, downgraded to 'A-' from 'A'; Outlook revised to Negative from Stable.

Although four of the five ratings were downgraded, for all but one institution (Montclair), the downgrade was driven by changes in underlying credit characteristics rather than implementation of the revised criteria. Montclair's rating change was the result of both credit and criteria considerations. Fundamental credit considerations included a competitive demand environment and challenging demographic characteristics, broad reliance on student-fee generated revenue, and effectively flat state operating support which has not kept pace with expense growth. Importantly, Fitch expects that state support will remain generally flat for the foreseeable future, which may contribute to further pressure on margins. While other specific credit considerations played a role, the ratings reflect an increasingly competitive environment contributing to constrained ability to increase tuition rates and reduced expense flexibility, compounded by the presence of significant long-term liability burdens. High debt loads at most institutions are in part a result of historically minimal state capital support, and Fitch expects that the higher level of state capital support in the past few years will not continue.

Within our criteria framework, Fitch considers leverage only in the context of the institution's revenue and operating profile. While leverage is measured inclusive of all long-term debt and pension obligations, consideration of this metric is strengthened by the state of New Jersey's (IDR of A/Stable) consistent support of pension contributions for university employees, despite the absence of any legal requirement to do so. We also note that the state has taken some action to improve funding of its pension obligations, which should reduce the reported liabilities of the plans incrementally over time. At the same time, Fitch notes that increasing its pension contributions to the actuarial requirement may ultimately squeeze the state's other funding priorities in times of pressure, presenting some risk of volatility in state support of public higher education.

Overall, Fitch has reviewed substantially all 28 institutions placed UCO with release of the revised criteria. Of those, about two thirds saw rating changes with a nearly 60/40 split of upgrades to downgrades. Of the rating changes, approximately 30% were the sole result of the reframing of the criteria while the remainder were a combination of criteria and credit driven actions.

For more information on the individual rating actions, or for more information on the revised criteria, please go to www.fitchratings.com.

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[Will Investors And Insurers Sink Or Save Florida?](#)

New research shows that some 150 million people across the globe are now living on land that will be below the high-tide line by 2050.

That far-off date, huge number and uncertain location are probably too abstract and distant to matter to most, but here's another way to look at it: You, friends or loved ones might already be living too close to the rising high-tide line in Florida. What's more, the fate of Florida's citizens, homes, towns, businesses and overall economy depend on decisions being made right now on 30-year mortgages and bonds that will be critically impaired by that 2050 high-tide line.

Once investors and insurers decide that the value of too many 30-year mortgages face an unacceptable level of risk, many mortgages (including yours?) will go underwater or even be thrown into default. Even worse for the rest of Florida, financing for new long-term mortgages, utility debt offerings, and municipal bonds for schools, roads, bridges, sewers, etc., will dry up. That in turn will deflate real estate values overall and crush the backbone of the Florida economy—and send Florida into a deep and costly tailspin.

[Continue reading.](#)

Forbes

by Chunka Mui

Nov 18, 2019

[S&P Bulletin: New York MTA's Proposed \\$51 Billion Capital Program Indeterminate As A Credit Risk](#)

SAN FRANCISCO (S&P Global Ratings) Sept. 18, 2019—S&P Global Ratings said today that it cannot yet determine if the New York Metropolitan Transportation Authority's (MTA) Sept. 16 announcement of its proposed \$51.5 billion fiscal 2020-24 capital program will affect S&P Global

Ratings' A/Negative long-term rating and underlying rating (SPUR) on the MTA's transportation revenue bonds (TRBs) outstanding. Given the new program's preliminary nature, which still requires approval, timing of its implementation and impact to MTA key credit metrics is not yet available. Potential operating cost savings from MTA's Transformation Plan may offset potential higher debt service expenses from debt-financing the proposed program, if approved. The proposed capital program is 70% larger than the current fiscal 2015-19 program, and, according to the plan, as much as \$35 billion, or 68%, will be debt financed, including as much as \$15 billion secured with future revenue from implementation of congestion pricing. While we already consider the MTA's all-in debt burden of approximately \$40 billion (as of fiscal 2018) very high, the proposed plan could almost double the MTA's consolidated debt burden and place additional pressure on liquidity and already thin debt service coverage metrics, as calculated by S&P Global Ratings on an all-in, net revenue basis. Mitigating this risk is the MTA's ongoing work on its Transformation Plan, which could produce as much as \$530 million of annually recurring savings, once fully implemented, from consolidation and efficiency opportunities. The MTA anticipates that the unprecedented capital investments will result in improved reliability, accessibility, and efficiency of its overall transportation network. The proposed capital program is subject to modification and approval by the Capital Program Review Board later this year prior to finalization. We also understand that, over the next few months, the MTA intends to implement its previously announced Transformation Plan and potentially publish the revised savings estimates in its November 2019 Financial Plan. We believe the November Plan will likely shed additional light on the proposed capital program and its potential timing and impact. Thus, in our view, it is too early to conclude the proposed capital program's potential rating impact until additional information becomes available with regard to forecast bond issuance timing and the Transformation Plan's impact on key financial metrics. We will continue to monitor the developments related to the proposed capital plan and the MTA's progress with regard to the Transformation Plan and their combined impact on the MTA's TRB credit.

For more information with regard to our rating on the MTA's TRBs, see our report published Aug. 7, 2019 on RatingsDirect.

Primary Credit Analyst: Paul J Dyson

Secondary Contact: Joseph J Pezzimenti

[The Curious Case of Aurelius Capital v. Puerto Rico.](#)

How a hedge fund's efforts to take the island territory to the cleaners wound up before the Supreme Court – with ordinary Puerto Ricans arguing in the hedge fund's favor.

Puerto Rico filed for bankruptcy protection at 11:32 in the morning on May 3, 2017; by 11:33, the magnitude was obvious. No American territory had ever defaulted on so much debt. "A bankruptcy without precedent" ran a morning-after headline in the tabloid El Vocero, in an issue that also quoted leftist politicians warning readers not to be fooled: The filing, they claimed, was a prelude to more austerity. The island owed \$72 billion. Already there was out-migration of 60,000 people a year and 10.5 percent unemployment. There were reports that vendors, owed millions of dollars, would no longer deliver food to Puerto Rican prisons.

The following month, an inconspicuous complaint was filed in federal court in San Juan. The plaintiffs were a group of hedge funds that had purchased Puerto Rican bonds around 2015 and were concerned that the bankruptcy would prevent them from recouping the bonds' full value.

According to the complaint, the Puerto Rican Constitution mandated the repayment of certain types of bond debt, but the island's latest budget was instead pouring money into services that were "nonessential," leaving the bondholders high and dry. The hedge funds argued that this was illegal and sought to point out some "nonessential" expenses to the court.

The hedge funds scoured the island's budget. The Department of Sports and Recreation's allotment of \$39.2 million: Nonessential, the lawsuit said. Ditto the \$12.6 million for the Institute of Puerto Rican Culture; \$7.3 million for the Corporation for Public Broadcasting; \$1.8 million for the Boys & Girls Club; and the \$88,000 commitment to a nonprofit ballet company. One assertion in particular stood out. Puerto Rico's budget had set aside \$205 million in discretionary money for things like disaster relief. "While a 'rainy-day fund' is nice to have," the hedge funds conceded in Paragraph 159, "it is impossible to see how this is an 'essential service' or how it can be justified," in part because natural disasters were not "likely to occur" in the coming fiscal year. Three months later, Hurricane Maria made landfall. The presiding judge dismissed the complaint.

[Continue reading.](#)

The New York Times

By Jesse Barron

Nov. 26, 2019, 5:00 a.m. ET

Fitch Ratings' View of Wildfire Credit Risk for LADWP Posed by Getty Fire.

Fitch Ratings-New York-11 November 2019: Fitch Ratings has not taken rating action on the Los Angeles Department of Water and Power (LADWP) or any publicly owned utility (POU) in California, to date, related to wildfire risk and the potential liability resulting from California's strict interpretation of inverse condemnation. However, wildfires have become more prevalent in California and present an ongoing business risk to POUs. POUs in California have inherent characteristics and strategies in place that mitigate wildfire risk and its impact on credit quality. These include largely urban service areas with quick fire service response times, vegetation management and wildfire prevention programs, robust cash reserves and the legal ability to recover costs associated with wildfire related liabilities from ratepayers. The new wildfire liability fund created by California Assembly Bill 1054 in July 2019 is exclusive to investor-owned utilities and not considered one of the strategies in place for POUs. Given these factors, coupled with the low likelihood of a massive liability event, Fitch considers the occurrence of a catastrophic event sizable enough to prompt a rating action as a remote event risk that is therefore not factored into the ratings. If a massive liability event occurs, ratings could be affected.

Getty Fire

The Getty fire that began on Oct. 28 in Los Angeles burned approximately 745 acres and was fully contained as Nov. 5, 2019, according to the Los Angeles Fire Department (LAFD). The LAFD reports there were no fatalities, although five fire-fighters sustained injuries considered to be 'non-life threatening'; ten homes were destroyed and 15 were damaged. According to the LAFD, its preliminary investigation determined the cause of the fire was an accidental start from a tree branch that broke off and landed on nearby power lines during high wind conditions, causing sparking and arcing of the power lines and igniting nearby brush.

The power lines are owned and operated by LADWP. LADWP reports they had recently completed vegetation management trimming and inspection in this area in July 2019. There is no alleged failure to act or failure of equipment. However, due to California's application of inverse condemnation that can impose liability against utilities regardless of fault, LADWP may face financial liabilities as a result of the Getty fire.

What Circumstances Would Prompt Fitch to Take Rating Action

LADWP has an Issuer Default Rating (IDR) of 'AA'/Stable. As Fitch indicated in its rating action commentary on LADWP published earlier this year on April 12 and Aug. 26, a rating action could occur if LADWP is found liable for a specific wildfire event of such a magnitude that it exceeds insurance and liquidity resources and outstrips LADWP's ability to recover the costs through rates and maintain rate flexibility. The potential development related to wildfire risk that could change Fitch's rating is the magnitude of the liability, not whether or not a wildfire occurs. It remains to be determined whether LADWP will face a liability for the Getty fire and, if so, the size of the liability.

Fitch expects that the initial recourse for LADWP will be to seek coverage under its wildfire liability insurance policy (\$177.5 million), with additional coverage available to LADWP through its general excess liability coverage policy (\$160.0 million) and self-insurance reserve (\$192.5 million). In addition to insurance, LADWP has sizable cash reserves that could be used to meet any potential liability, although these reserves protect against multiple business risks and their use may be more of an interim step, depending again on the magnitude of the liability. LADWP's unrestricted cash for the power system at the end of fiscal 2018 was approximately \$1.3 billion, including the debt reduction fund and rate stabilization fund.

If a potential liability exceeds LADWP's insurance policies and cash reserves, Fitch assumes LADWP could borrow to pay part or all of the liability, with repayment expected over the long term. If a wildfire results in a liability that is massive enough to alter LADWP's financial profile, the deterioration would appear in Fitch's net leverage ratio that measures long-term, fixed obligations, net of cash reserves, in relation to annual cash flow.

LADWP's net leverage ratio is currently expected to decline and the 'AA'/Stable IDR is based on that expectation. LADWP's net adjusted debt to adjusted FADS ratio was 7.8x in fiscal 2018. Fitch's Analytical Stress Test (FAST) model, a forward five-year look, indicates that net leverage should trend down slightly, closer to 7x by year three of the forecast period, while liquidity and coverage levels remain robust. Although Fitch assumes that LADWP would spread payment of any wildfire-related liability over the long term and recover those costs through its power rates, a new, large fixed obligation that alters our expectation of lower leverage could be enough to trigger downward rating action.

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[California Governor Newsom Fielding More PG&E Takeover Calls.](#)

- **Governor Gavin Newsom under pressure to act on bankrupt PG&E**
- **Options include turning PG&E into co-op or giant muni utility**

For California Governor Gavin Newsom, sitting back and watching PG&E Corp.'s bankruptcy run its course is no longer an option.

The mayors of 22 cities are pressing him to turn the embattled power giant into a customer-owned cooperative. San Francisco, the city he once served as mayor, wants to take over the company's local wires. On Wednesday, a board member of a statewide consumer group sent Newsom a proposal that would have the state run PG&E like a massive municipal utility. And the former chief of California's utility commission joined a coalition of groups to similarly press him for public control.

"It is time for California to take over PG&E and stop letting profits stand in the way of a safe, clean energy future we all need and deserve," the coalition, including former California Public Utilities Commission president Loretta Lynch, said in its letter to Newsom Thursday.

[Continue reading.](#)

Bloomberg

By David R Baker and Romy Varghese

November 13, 2019, 2:27 PM PST Updated on November 14, 2019, 12:21 PM PST

[California Senator Drafts Bill to Turn PG&E Into Public Utility.](#)

- **Scott Wiener wants to force bankrupt utility to become public**
- **Preliminary plan underscores frustration amid outages, fires**

California State Senator Scott Wiener said he's planning to introduce a bill next year that would force bankrupt power giant PG&E Corp. to become a public utility.

"We are looking at legislation to force PG&E to become a public utility, but that's still in the early planning stages and we haven't settled on the exact details yet," the San Francisco Democrat said in a phone interview. He intends to introduce "some sort of legislation forcing them to become a public utility" by the mid-February deadline for new bills, Wiener said.

The plan, while preliminary, shows the growing impatience lawmakers and municipal leaders have with PG&E, which plunged millions of Californians into darkness during mass power outages last month to prevent wildfires that still occurred. Government leaders representing nearly a third of

PG&E's customers have urged California regulators to consider turning the company into a customer-owned cooperative.

Wiener's proposal would help protect the people of California, since the bankruptcy court's focus is generally to help creditors, he said. Wiener considers some form of public control of PG&E "desirable." The government of San Francisco has already made a \$2.5 billion bid for the wires that PG&E runs within the city's limits. The company has so far rebuffed its efforts.

Cases of successful transitions of investor-owned utilities into public entities have occurred in smaller, more confined areas, said A.J. Sabatelle, an associate managing director at Moody's Investors Service.

Asked if his bill signals that the legislature is showing momentum toward a public model, Wiener said he couldn't speak for others and that lawmakers have "diverse views." California Governor Gavin Newsom pressed PG&E Chief Executive Officer Bill Johnson in a meeting last week to reach a swift resolution to the company's bankruptcy or face a potential state takeover.

"Ultimately, the governor's view is going to be extremely impactful," Wiener said.

Bloomberg

By Romy Varghese

November 12, 2019, 2:01 AM PST

— *With assistance by David R Baker*

[Big Housing Bonds Pass in San Francisco and Durham, N.C.](#)

When you think of a city with a housing market that caters to the wealthy and provides few options for people earning average wages or below, chances are good that you think of San Francisco before you think of Durham, North Carolina. But officials in both cities have good reasons to invest in a range of affordable housing types, and last week, voters in San Francisco and Durham each approved the largest housing bond in their city's history.

In Durham's case, it was a \$95 million bond to be spent over the next five years. Durham Mayor Steve Schewel proposed the bond in February, saying that if Durham carried on its existing housing efforts without an infusion of funding, downtown neighborhoods would remain "the province of upper-middle-class white people, while people of color are pushed to the margins, farther and farther from good jobs and the public transit to get them to those jobs," according to a report in the *Indy Week*.

Durham currently has around 8,600 income-restricted affordable units, according to city estimates. If it wants to provide enough housing just for the residents who are currently facing a severe cost burden — spending more than half their income on rent — it will need to build 16,000 new affordable housing units, the city estimates. Despite being the biggest housing bond the city has ever approved, the \$95 million would still only provide for a fraction of the need.

[Continue reading.](#)

NEXT CITY

by JARED BREY

NOVEMBER 14, 2019

[New Jersey Edges Toward First Public Bank to Bypass Commercial Lenders.](#)

- **North Dakota is only U.S. state to own bank; it opened in 1919**
- **State-run bank would be 'a force for good,' Murphy says**

New Jersey Governor Phil Murphy took a first step toward the potential creation of a state bank that would encourage some loan seekers to bypass commercial lenders.

Murphy, a retired Goldman Sachs Group Inc. senior director, signed an executive order on Wednesday creating a panel to study how to establish the bank, as he had promised prior to taking office in January 2018. A report is due in 12 months.

"I still believe in the ability of a public bank, owned by the people of New Jersey, to be a force for good," Murphy, a first-term Democrat, told an audience Wednesday in Newark.

Such an institution would keep cash in state, Murphy said. Loans likely would be at rates lower than those from commercial banks, contributing to economic growth, he said.

North Dakota is the only U.S. state that permits such an institution, whose risk is shouldered by taxpayers. California Governor Gavin Newsom last month signed legislation allowing counties and municipalities to form public banks.

"We want to work with community banks," Murphy said. "But it turns out a lot of those dollars go to money-center banks, including non-U.S.-headquartered banks."

Bloomberg Politics

By Elise Young

November 13, 2019, 9:51 AM PST

[Proposed Changes to Wisconsin Tax Incremental Financing Laws Could Harm Extra Collateral to Development Loans.](#)

When lenders finance commercial real estate development in Wisconsin, part of the total financing "stack" is often TIF, or Tax Incremental Financing. In essence, TIF is financing provided by the local municipality to help facilitate the project's completion, in return for the local municipality receiving future tax revenues from the new development, after the initial investment is paid back.

TIF grants are often required to bring the property up to the point of being developable, including extending water and sewer lines to the property, expanding roadways and intersections, and resolving contamination or drainage issues. While extending utilities or improving roadways should

be the municipality's job, at its expense, municipalities just do not have the tools to do this work, especially with levy limits in place and very little federal or state infrastructure funding.

TIF financing has been the workhorse for economic development for years, and is used by cities, villages and towns all over the State, large and small. The [State of Wisconsin Department of Revenue TIF page](#) provides detailed, up-to-date information on each TIF in a clear and transparent way.

One of the major benefits of TIF law is it allows local municipalities to determine exactly what is needed for their community, including how to tailor the TIF plan, and any development agreement with a developer to the facts of the specific project at hand: as well as phasing parts of the project; determining what preconditions the developer must meet before it receives any TIF money; and allowing the developer to assign the stream of money payments to a lender as extra collateral for a construction loan.

Over the last several years, a small group of lawmakers in the State Legislature has introduced bills to severely limit the use of TIF. In the last few weeks, another effort began to severely limit TIF in a number of ways.

If you are a bank that lends on new development, you ought to be aware that lending regulations will only permit you to lend a percentage of the total project costs, and the TIF financing is used to fill the "gap" in funding to pay for many of these municipal and infrastructure improvements. If TIF is not available to fill this gap, current regulations may not allow you to lend sufficient funds to make the project happen.

Several trade groups in the real estate field are working to educate legislators on the risks to development and to Wisconsin's ability to be competitive with surrounding states, as well as the benefits of keeping TIF as a necessary tool.

November 11 2019

Michael Best & Friedrich LLP - Nancy Leary Haggerty

[Moore: Michigan Cities Not Ready to Endure Another Long-Lasting Recession](#)

Are Michigan's cities ready for the next recession? Simply put, no. For several years now the Michigan Municipal League, through our [SaveMICity](#) initiative has been sounding the alarm that we need to take steps to fix our municipal finance system.

It is an obsolete and dysfunctional system that doesn't track with the economy, and we need to take some major strides soon to build a system that works before the next recession hits.

Historically Michigan is the first in and the last out of a recession, but what we never experienced before was the apocalyptic declines that occurred during the last recession. It exposed the flaws in our system in a deep and painful way, and we have done nothing to correct it.

The fact is that Michigan was already hurting from the effects of a national downturn before the last recession. Median household income in the Great Lakes State was at its highest point in 1999, where the average household was earning approximately \$67,000 per year.

Michigan's median household income has never truly recovered — in 2018, median household income in Michigan is still only \$57,000 per year — and shows no signs of returning to its previous high in 1999.

Like it or not, an economic recession in Michigan is inevitable. The short and long-term effects damage our communities, and by extension negatively impact our residents and business.

Attraction and retention is ever more difficult if communities aren't thriving. Michigan's leaders need to cut through the partisan gridlock and realize that our cities are not prepared to endure another long-lasting recession.

Our lack of preparation could be a fatal mistake for our state's economy. We need to be focused on real solutions to solve the financial stresses facing our own backyards.

Our challenges are many, but not insurmountable. We believe Michigan and its economy can only be as strong as its communities. It is the very foundation of everything from schools to neighborhoods, storefronts to offices. They all need a strong and vibrant community to thrive.

We must act now to position ourselves differently. Not just for the next recession but for generations to come. Our current system cannot do that.

Aging infrastructure and skyrocketing growth in legacy costs, such as health and retirement benefits for current employees and retirees, constrain a community's ability to invest in critical services that are important to current and prospective residents.

We should change existing laws to discourage wasteful duplication of infrastructure and services and equip local governments with tools to modernize the delivery of legacy benefits.

The state must reverse nearly two decades of disinvestment in our communities and begin restoring revenue sharing. The \$8.6 billion diverted to state programs and away from local services is a bad investment.

Additionally, Michigan places far too many restrictions on local municipalities' revenue-generating options. These rules significantly limit a community's ability to invest in itself.

We should provide more options for communities to fund critical services, including additional special assessment authority, expansion of local taxing authority and grants for public safety.

Property taxes are the largest source of revenue for local government services, but Michigan's current system doesn't allow for property taxes to rebound after a recession.

We need lawmakers to decouple Proposal A and Headlee to allow local governments to grow with the economy when times are good. These laws are antiquated and are our single biggest vulnerability in a recession.

More importantly, they no longer work or deliver value to cities, townships and counties across Michigan and are an impediment to a strong Michigan.

We're encouraging leaders across Michigan to take action, such as the possible solutions mentioned above to ensure that a future impending recession doesn't have a catastrophic impact.

It is a problem we can solve, but only if we come together and are willing to admit the status quo is our enemy and we begin to invest in a better future for Michigan.

Crain's Detroit Business

by Brenda F. Moore

November 17, 2019

Brenda F. Moore is president of the Michigan Municipal League Board of Trustees and mayor pro tem for the City of Saginaw.

Clinton Township Found Liable in Religious Land Use and Institutionalized Persons Act Lawsuit.

The Religious Land Use and Institutionalized Persons Act of 2000 (“RLUIPA”) is a federal law which establishes certain land use protections for religious organizations in connection with land use decisions—such as decisions related to permitting under ordinances—made at the local government level.

On July 24, 2019, the United States District Court for the Eastern District of Michigan granted summary judgment to a religious organization, River of Life Ministries (“River of Life”), in a RLUIPA lawsuit brought by River of Life against Clinton Township.

Background of the Case

In 2001, River of Life’s pastor acquired property located in Clinton Township. The property is located within a “Multiple-Family Low Rise District” zone pursuant to Clinton Township’s Code of Ordinances that governs the use and development of real property located within the township.

The zoning district at issue is intended to promote the development of multiple-family dwelling structures. However, the court found that other uses in the district—outside of “Multiple-Family Low Rise District”—are permitted by Clinton Township as a matter of right, without the need to obtain a special land use permit.

In the court’s order granting River of Life’s motion for summary judgment, it explained that publicly-owned libraries and parks, municipal buildings, and swim clubs, among other things, are allowed to locate and operate within the district as a matter of right. Houses of worship, however, must acquire a special land use permit.

In 2014, River of Life applied for a special land use permit from Clinton Township. In June of 2015, the township board denied the permit request.

In July of 2015, River of Life brought suit alleging, among other claims, that Clinton Township’s zoning ordinance violates the “Equal Terms” provision of RLUIPA because, by requiring houses of worship such as River of Life to obtain a special land use permit, it treats religious uses of property on less equal terms than other, non-religious uses.

The Court’s Decision

On July 24, 2019, the court entered an order granting summary judgment on River of Life’s RLUIPA claim, finding that the Clinton Township zoning ordinance treats churches less favorably than others who are entitled to operate schools, libraries, swim clubs, and other non-religious organizations as a

matter of right within the district.

The court held that the Clinton Township zoning ordinance “fails to treat religious uses on equal terms with comparable nonreligious uses.” It is important for municipalities to consider whether their land use ordinances and practices may give rise to lawsuits under RLUIPA because a judgment can result in significant liability, including a prevailing plaintiff’s legal fees. With proper planning and preparation, however, municipalities can avoid, and, if necessary, defend against these claims.

November 14 2019

Foster Swift Collins & Smith PC - Laura J. Genovich

[Washington, D.C. Joins Muni Selling Spree With Record Bond Deal.](#)

- **City is selling about \$1 billion of bonds on Wednesday**
- **Muni sales increase 20% this year as interest rates fall**

Washington, D.C., is planning its largest-ever bond sale on Wednesday, joining state and local governments that are inundating the market with debt to seize on interest rates that are holding near a more than half-century low.

The nation’s capital plans to sell about \$1 billion of bonds to refinance outstanding debt and pump some money into a community revitalization project. It comes amid a flood of activity from municipalities that’s pushed the amount of bond sales this year to \$338 billion, a 20% increase over the same period last year, according to data compiled by Bloomberg.

Washington’s finances have benefited from the city’s economic boom, marking a stark shift from the period when its chronic fiscal strains left it under the control of a federally appointed management board from 1995 to 2001. Its population has swelled by about 17% since 2010 and its median household income of about \$78,000 a year is some \$20,000 more than the broader U.S.

The improvement has been recognized by Wall Street. S&P Global Ratings grades the new tax-backed securities AAA. Moody’s Investors Service rates the bonds at its second highest level, one step below the city overall.

The city is utilizing that standing to make changes to “an unusually strong set aside structure” in its bond contracts that has required the city to put cash in escrow to make interest and principal payments nearly a year before they are due, according to Moody’s analyst Nicholas Samuels. With that change — which Moody’s expects to occur by 2021 — the city will set aside funds just four months ahead of payments.

District of Columbia bonds trading in line with AAA benchmark

These changes could free \$80 million or more for the city, said Bruno Fernandes, Washington’s deputy chief financial officer and treasurer.

“We’ve been wanting to take advantage of our ratings,” said Fernandes. “That’s really why we took the time to modernize the agreement. There’s been some drastic changes in terms of improvement of the district and improvement of the credit rating.”

A \$944.8 million chunk of the bond sale is tax-exempt and will be used to refinance some of the city’s

outstanding debt and pay for projects, according to documents released ahead of the offering. The remaining \$60 million will be taxable, with some set aside to revamp public housing facilities and provide those communities with increased social services.

The district is selling the bonds in an environment of high demand from investors, who have dumped record amounts of cash into the municipal market as the cap on state and local property deductions leaves some investors looking for other ways to shelter their income. Municipal-bond mutual funds have seen an influx of \$54.1 billion over a 44-week period this year, shattering a record set over a 64-week stretch between 2009 and 2010, according to Refinitiv Lipper.

The Washington bonds could be attractive for investors looking for security as the record-long economic expansion raises speculation about when the next recession will occur, said Karel Citroen, the head of municipal-bond research at Conning. Similar bonds offered by the district last traded at an average yield of 1.56%, four basis points below the top-rated benchmark, according to data compiled by Bloomberg.

There's a strong argument for looking at "high credit quality munis, especially at this part of the cycle when you want to put your money somewhere you're going to feel safe," Citroen said. "It's very good to look at what credits you believe are well positioned during the next downturn."

Bloomberg Markets

By Fola Akinnibi

November 12, 2019, 5:00 AM PST

[Kansas Tax Outlook Improving, But State Still Set To Spend More Than It Receives.](#)

After lawmakers repealed Brownback's signature income tax cuts in 2017, Kansas's cash reserves quickly swelled to \$1.1 billion... He acknowledged the forecast does not take into account the possibility of future recession... Under current spending levels, Kansas will end the next fiscal year with a surplus of \$722 million.

Read the full article on: [The Wichita Eagle](#)

Truth in Accounting

Jonathan Shorman | November 8, 2019

[Fires and Blackouts Pose an \\$11.5 Billion Economic Hit to California.](#)

California's wildfires and blackouts may push the state economy to underperform the U.S. for the first time since 2010.

The state's economic growth rate this year may range from 2% to 2.2%, below the expected 2.3% growth rate for U.S. gross domestic product, according to the latest estimates from Bank of the West's chief economist Scott Anderson. That's due to the combined impact of this year's fires and

blackouts, at up to \$11.5 billion.

That shows the stakes for California's leaders as they struggle to deal with mass power shutoffs and wildfires that have increased in severity due to a changing climate. Unaddressed, the fires and outages can leave the state more vulnerable during the next inevitable downturn should companies, who already chafe under regulations and costs, decide to leave the state, said Howard Cure, head of municipal research in New York at Evercore Wealth Management.

"The state has to approach this for the long term and get more involved than they did already," Cure said. "They have to view this as a continual problem and always look for new solutions. Otherwise, if they are stagnant about the problems, they could really risk hurting the economy."

Bloomberg Markets

By Romy Varghese

November 7, 2019, 11:36 AM PST

[First Foundation Bank Picks Sacramento to Launch Municipal Finance Division.](#)

Irvine-based [First Foundation Bank](#) is launching a niche municipal lending operation out of its Sacramento office.

The bank is part of First Foundation Inc., which entered the Sacramento market with the purchase of Community 1st Bancorp in 2017.

First Foundation (Nasdaq: FFWM) hired former Umpqua Bank municipal lender Trevor Mael to be its director of public finance for the Sacramento Valley.

"It's a new division for us," First Foundation spokesman Tyler Resh said. He said the bank is taking the opportunity in Sacramento because it can market through many trade groups based here.

The target customers will be smaller cities, school and special districts and rural communities that need financing under \$20 million for public works, economic development or transportation projects, Mael said. In some cases, the bank's clients will be contractors on those projects, and the bank will handle escrow accounts and timeline disbursements of payments for milestones achieved on public works projects.

Wall Street banks generally offer bond financing for public works larger projects, but in its municipal deals, First Foundation will be holding the debt on its own books as loans, Mael said.

The division will start with lending, but it is assumed the business will attract deposit relationships with customers over time, Resh said. First Foundation operates a wealth management subsidiary First Foundation Advisors, as well as First Foundation Bank.

First Foundation had \$6.5 billion in assets at Sept. 30. That's up from \$3.7 billion in the first quarter in 2017 when it announced it would buy Community 1st Bancorp for \$50.4 million in stock. At that time, Community 1st had \$373 million in assets and branches in Auburn, Sacramento and Roseville. Those are now the First Foundation branches in the Sacramento region.

Sacramento Business Journal

By Mark Anderson - Staff Writer

Nov 8, 2019, 5:42pm EST

[Illinois' Municipal Market Penalty Eases in \\$750 Million Bond Sale.](#)

CHICAGO (Reuters) - Illinois paid a smaller penalty for its financial woes on Wednesday, selling \$750 million of general obligation (GO) bonds at tighter, but still hefty spreads.

The deal benefited from aggressive bidding by investment banks and yield-hungry investors, according to Daniel Berger, senior market strategist at Municipal Market Data (MMD).

The spread for Illinois bonds due in 10 years over MMD's benchmark triple-A yield scale fell 11 basis points to 150 basis points.

"The penalty eased, but it's still a big penalty," Berger said, noting that Illinois spreads remain the widest among the states.

Illinois also has the lowest credit ratings compared to other states due to its \$133.5 billion unfunded pension liability and chronic structural budget deficit.

Bank of America Merrill Lynch won \$450 million of the bonds in competitive bidding, while Barclays Capital won the remaining \$300 million.

"We were pleased to have entered the market near historic low interest rates and with solid investor demand, and the results reflect a low all-in interest cost that benefits Illinois taxpayers," said Paul Chatalas, Illinois' capital markets director, in a statement.

Proceeds are earmarked in part for a six-year, \$45 billion Rebuild Illinois infrastructure program passed earlier this year by the legislature, which also approved new funding from higher fees and taxes and a gambling expansion that includes additional casinos and sports betting.

The bond sale is Illinois' first since a constitutional challenge to some of its outstanding GO bonds was filed in a state court in July. The case is on appeal after it was dismissed in August.

Last month, the governor's budget office released a five-year forecast that showed the state's general fund deficit reaching \$3.2 billion by fiscal 2025 along with an unpaid bill backlog that balloons to \$19.2 billion. The forecast pointed to the state's "unsustainable" tax structure as a culprit. Governor J.B. Pritzker hopes voters will make a major change to the structure next year by adopting a constitutional amendment for graduated income tax rates.

NOVEMBER 6, 2019

Reporting By Karen Pierog; editing by Diane Craft

Illinois's Road and Bridge Bond Runs Smack Into a Supply Glut.

- **State plans to issue \$750 million in general obligation bonds**
- **Governor Pritzker in June signed a \$45 billion capital plan**

Illinois already has to pay up when the worst-rated state borrows money from Wall Street. Now, as the state kicks off a \$45 billion capital spending plan, it will have to compete with a crowd of issuers flooding the \$3.8 trillion municipal debt market trying to capture cheap rates.

Illinois is scheduled to issue \$750 million in general obligation bonds this week for Governor J.B. Pritzker's six-year "Rebuild Illinois" infrastructure plan, intended to infuse funding into roads, bridges, railways, broadband and schools. The debt likely will need to come with "more attractive yields," amid the supply glut, said Michael Belsky, executive director of the University of Chicago's Center for Municipal Finance. Still, the state could get within 100 to 150 basis points of the benchmark AAA index, he said.

"I anticipate that it'll be well received. It'll probably have some spread," said Dora Lee, director of research for Belle Haven Investments, which holds Illinois bonds among \$10 billion of municipal debt.

[Continue reading.](#)

Bloomberg Markets

By Shruti Singh

November 5, 2019, 10:32 AM PST

Fitch Rtg's: Chicago Teachers Settlement Preserves Expenditure Flexibility; State Aid Key

Fitch Ratings-New York-06 November 2019: Last week the Chicago Public Schools (CPS) and the Chicago Teachers Union (CTU) tentatively agreed to a five-year contract ending an 11-day strike. The contract is expected to be ratified by union members via secret ballot referendum on Nov. 14 and 15 and approved by the Chicago Board of Education (CBOE) on Nov. 20. Annual contracted cost increases start at \$115 million in fiscal 2020 (2% of fiscal 2018 spending) and reach \$504 million (9.1% of fiscal 2018 spending) by the end of the contract — for a cumulative estimated increase of \$1.6 billion. Fitch's 'BB'/Stable rating on CPS assumes management will be able to incorporate the additional contract costs without impairing its recent financial progress — namely the achievement of structural balance and the restoration of reserves to positive but still narrow levels.

The new contract commitments appear manageable within the scope of the fiscal 2020 CPS operating budget, but the additional costs represent a potential pressure on credit quality in the out years should projected state aid increases not materialize. CPS expects to fund the new contract costs from a combination of increased revenues estimated at \$200 million-\$250 million annually (including \$60 million-\$70 million of assumed increased state funding to full statutory levels), and, to a lesser extent, the reallocation of existing spending in the range of \$30 million-\$40 million. CPS has benefited from a new state funding framework enacted in 2018 that has significantly increased its recurring revenue and improved the stability of its cash flows. However, CPS's ability to accommodate the contract costs while maintaining its current level of financial flexibility would be

challenged if the state school funding environment were to weaken.

The bulk of the contract cost increases are tied to cost-of-living adjustments, with annual wage increases of 3% in each of the first three years and 3.5% in each of the final two years. The annual increase in cost associated with high-needs school programs, class size initiatives, and additional nurses, social workers, and case managers is projected to reach nearly \$103 million by fiscal 2024. Another component of the contract increases, totalling about \$50 million or 10% of the fifth-year annual cost increase, relates to the normal cost contributions to the Chicago Teachers' Pension Fund, which will be paid by the state pursuant to the new state funding model enacted in 2018.

The new contract introduces new mandatory staffing requirements for some types of support staff, limiting CPS' ability to make cuts to those positions. However, CPS maintains the ability to enact reduction-in-force savings or to close schools, if necessary, to address future budget gaps, which is important to our view of CPS' credit quality given its already limited expenditure flexibility and its reliance on uncertain state funding increases in future years to pay for the increased contract costs.

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[Bankrupt Puerto Rico Eyes New Debt Policy, Will Pay Holiday Bonus.](#)

SAN JUAN — Puerto Rico would place restrictions on its future debt sales under proposed legislation that won praise on Tuesday from the bankrupt U.S. commonwealth's federally created financial oversight board.

Puerto Rico's bankruptcy takes up the bulk of the island's \$120 billion of debt and pension obligations and analysts have raised questions about the island's future market access due to the board's attempt to void some outstanding bonds.

Under legislation backed by Governor Wanda Vazquez Garced, the Puerto Rico Fiscal Agency and Financial Advisory Authority would be charged with developing a policy for the government and its public corporations that sets a limit on tax-backed debt.

The agency would also have to approve any debt issuance, which would be limited to maturities of no more than 30 years with proceeds allocated for only capital improvements. Principal payments

would be required to begin within two years of issuance.

Debt refinancings would have to produce debt service savings without extending maturity dates beyond those on existing bonds. Exceptions would be made for bond refundings to address natural disasters or emergencies.

“Upon the possibility and need that the government returns to capital markets and in accordance with our public policy, this law establishes uniform and responsible processes for any future debt issuance,” the governor said in a statement.

The board said it welcomed a policy to prevent a repetition of “irresponsible fiscal management and debt issuances” that led to the island’s financial crisis and subsequent 2017 bankruptcy filing.

The bill now heads to the legislature, where support for the measure was unclear.

Concerns have been raised about Puerto Rico’s future ability to access the U.S. municipal market without paying a bruising penalty given the board’s contention that more than \$6 billion of general obligation bonds sold in 2012 and 2014 should be invalidated because they breached a debt limit in the island’s constitution. [nL2N26IOSM]

Meanwhile, the governor and the board announced on Tuesday that public sector workers will receive about \$60 million in Christmas bonuses this year.

In July, the board said its \$20.2 billion, fiscal 2020 budget for Puerto Rico’s central government would prohibit officials from moving money around to pay for things not in the board’s fiscal plan like the bonus, which has been the subject of past spending disputes. [nL2N24211X]

On Tuesday, the board said that the bonus is “part of the routine compensation package provided to public employees,” and that it worked with the governor to identify funding to pay for it.

By Reuters

Nov. 5, 2019

(Additional reporting by Karen Pierog in Chicago)

[Deep in No-Tax Texas, Shale Hub Weighs \\$569 Million School Bond.](#)

- **Midland’s leaders back funding to upgrade outdated facilities**
- **Oil-company honchos worry about quality of tomorrow’s workers**

The hall lockers at Midland High School — Go Bulldogs! — sport a fresh coat of red paint, but the rest of the place looks like its best years were last century.

Some passageways in the West Texas public school are too narrow for wheelchairs and a number of classrooms have just two electrical outlets. A few of the 48 students in an AP economics class are without desks while another sits in the teacher’s chair. Across town, Midland Lee High School — Go Rebels! — isn’t much better.

An overlooked consequence of the American energy revolution is the stretching of municipal resources in small cities like Midland. The Permian Basin hub of 142,000 residents hasn’t kept pace

with the influx of families flocking to the shale patch, and now civic leaders are fretting over the long-term costs of outdated schools. To remedy that, Midland voters will decide Tuesday whether to issue a \$569 million bond to build two new high schools and freshen up the old ones.

Per-pupil spending in Texas, famously hostile to government expansion, was in the bottom fifth of all states in 2016, according to Governing, a public-finance site. Nationally, capital spending on schools slowed after the recession that ended in 2009 and never recovered. The money spent in the U.S. in 2016 was less than it was 10 years ago even as enrollment grew.

Texas has no income tax and property taxes are frozen for senior citizens. Midland, the former home of the Bush family, has voted overwhelmingly Republican for years.

But Midland's antiquated schools are seen as so troubling that the usually tax-averse Chamber of Commerce voted unanimously to support a "yes" vote, and oil-company honchos have publicly backed the bond issue. They say that a lagging educational system is already an issue in wooing talented hires to town and could produce subpar employees of the future.

Biggest Drawback

"We've allowed the conservative nature of our community to not fund the facility improvements that have been needed over time," Travis Stice, chief executive officer of Diamondback Energy Inc., a Midland-based independent with a \$14 billion market value, said in an interview.

"As an employer, that's one of the single biggest drawbacks I have when it comes to bringing people from the outside," said Stice, who, like his wife and three children, attended Midland Lee. "They always ask, 'What the heck is going on with your schools out here?'"

Last week, Scott Sheffield, CEO of Irving, Texas-based Pioneer Natural Resources Co., also came out in favor.

"For Midland to attract the professional and skilled workforce needed to take advantage of this vast opportunity, new modern school facilities providing critical added capacity are required," Sheffield wrote in an opinion piece for the Midland Reporter-Telegram.

Midland is accustomed to fluctuations in fortune. During boom times, restaurants struggle to retain workers who leave for better jobs in the oilfield, traffic mishaps soar as droves of drivers hit the highway with fracking supplies and rents can spike so high that the school district bought apartments just to keep prices from pushing out teachers.

Spigot Off

Busts have kept the city aware that another downturn could always be lurking. But even with shale production growth slowing, folks say that schools could finally use some money.

"When there was the bust in the 80s, the spigot was turned off," Joe Rhone, a 56-year-old Midland resident, said outside an early-voting location where he supported the bond. "The schools are in really bad shape."

Texas employs a so-called Robin Hood funding model for its public schools, allocating tax revenue from wealthy districts to poorer ones. Thanks to shale, Midland ranked seventh in the state last year in revenue and next school year is projected to almost double its payment to the state to \$118 million.

If the bond passes, the city estimates a net property-tax impact of \$5.29 a month for a \$300,000 home. Midland's median home price is \$261,800, according to Zillow.

The bulk of the debt would be used to build two new high schools while renovating the current Midland Lee location. The new Midland High is slated to be built on the 117-acre Ranchland Hills Golf Club, which the school district bought this year for \$9.5 million.

Safety Concerns

The current buildings pose safety concerns for students, said Midland High School Principal Leslie Sparacello. She counts more than 50 entryways — a nerve-wracking layout at a time when school shootings are a concern.

Sparacello, who goes by Dr. S, said she's looking at one workaround by turning a second-floor hallway into an internal entrance to the library. The fire marshal signed off, but the hall is too narrow to comply with the Americans with Disabilities Act.

Not everyone thinks the bond is the best way to turn things around. Tim Bryson, a financial adviser for Merrill Lynch Wealth Management who lives in Midland, says it's "irresponsible" to buy a golf course and then build a school on the land.

"There's only eight people in town who think that's a good idea," he said.

Orlando Riddick, the school superintendent, said he doesn't have a lot of options.

"I'm being just as shrewd a business operator as any of our other industry partners here in the city," he said in an interview. "We kicked the can so far down the road. There are half a billion dollars of needs that we've left behind."

Bloomberg Markets

By Rachel Adams-Heard

October 31, 2019, 4:00 AM PDT

[S&P State Brief: Kansas](#)

[Read the Brief.](#)

[Pension Vise Tightens on Illinois Towns.](#)

As Pritzker considers consolidating hundreds of funds around the state, local governments face an urgent problem: Police and fire pension costs are growing at a greater rate than property taxes. "It's a hornet's nest with a snake inside," says one expert.

In the heart of Illinois, the city of Peoria cut its workforce by almost one-fifth to pay its annual obligations for police and firefighter pensions. In northern Illinois, Waukegan is selling bonds to keep the city operating. In the east, Danville closed one of its four fire stations following mounting

pension bills. And in Springfield—for the first time—the state capital is pouring every dollar it collects in property taxes into public safety pensions.

All across Illinois, in many of the small towns and larger cities that manage some 650 independent police and fire retirement systems, those funds have placed an increasingly tightening vise on municipal finances.

Much of the focus on the pension problem in Illinois has been on the massive liabilities facing the five statewide funds as well as Chicago's citywide pensions. But in many ways, the more pressing pension issues can be found in the towns in every corner of the state.

[Continue reading.](#)

CRAIN'S CHICAGO BUSINESS

by TIM JONES & JARED RUTECKI

October 30, 2019

[**S&P: Chicago Ratings Hinge On Its Ability To Achieve Structural Balance By 2022.**](#)

CHICAGO (S&P Global Ratings) Oct. 25, 2019—On Oct. 23, the mayor of Chicago (BBB+/Stable) detailed her proposal to close a projected historic \$838 million budget gap, or approximately 21.8% of forecast revenue, for fiscal 2020. Her budget would rely on roughly \$313 million in one-time measures, leaving the city with a deep 7% structural imbalance before accounting for actuarial pension funding shortfalls. Looking beyond fiscal 2020, S&P Global Ratings notes that the mayor also stated in her budget speech that if the city secures revised legislation for a Chicago casino and a graduated real estate transfer tax, it will be on a path to structural balance, funding all four pension plans on an actuarial basis by 2022. Based on our understanding of estimates for these two revenue streams, we think that these sources, coupled with continued moderate savings measures or revenue growth, could feasibly address the next two outyear gaps. However, we believe that these revenues carry significant implementation risk, and while the mayor asserts that a property tax increase remains on the table as a contingency, it still would require council support.

In S&P Global Ratings' opinion, the significant use of one-time revenue to close the fiscal 2020 budget gap is a reasonable one-year approach to closing such a sizable gap, particularly at the current Chicago rating level, even if it does not represent best fiscal practices. The current proposal buys the city time to execute structural revenue enhancements and operational efficiencies that require a longer time frame to implement. The city's ongoing ability to demonstrate a credible path to structural balance, including fully funding its pension ramp by 2022, whether it be through garnering state support for new revenue streams or evidence of political willingness to execute such contingent measures as a property tax increase, will be critical to our rating analysis.

Proposed fiscal 2020 structural revenue and savings appear feasible despite implementation risks

The mayor's budget proposal includes a number of structural revenue increases. Highlights include \$163 million from emergency medical transportation and ambulance services reimbursements; \$47 million from congestion initiatives such as increases to certain rideshare fees and new parking meters; \$37.2 million in increases to existing service and sales taxes, including \$20 million from

restaurants and \$17 million from lease transaction; and an \$18 million library property tax levy increase. The proposal also assumes \$50 million from a graduated real estate transfer tax (RETT), which is predicated on simple-majority state legislative approval for a July 1, 2020, implementation date. Other revenues totaling \$23.6 million include a modest \$3.5 million in estimated cannabis tax receipts.

While we don't expect that the city council will "rubber stamp" the mayor's proposal, we think that the proposed revenues are more politically feasible than alternatives such as a large property tax increase. Also, the assumption that the RETT would get a simple majority approval for a July 1 implementation is more conservative than assuming the two-thirds majority required for the law to take effect earlier, on Jan. 1. Although less attractive, the city has the option to enact a graduated RETT for fiscal 2021 without needing state support. In our view, current revenue estimates appear reasonable based on historical performance and implementation time frames.

The budget also identifies \$249 million in structural savings and efficiencies. Highlights include \$148.7 million from zero-based budgeting changes, \$141.0 million from improved fiscal management, \$19.7 million from vacancy reductions and reallocations, \$25.0 million from improved revenue collections, and \$3.2 million from department mergers. Based on underlying details behind savings assumptions, we view the city's expectations as reasonable. Also, in our opinion, efforts to control expenditures not only demonstrate good management but could also prove politically beneficial as the mayor asks for support for new revenue sources.

Identified one-time measures do not impair the city's liquidity or liability profile

Proposed one-time measures include \$200 million from general obligation and Sales Tax Securitization Corp. (STSC) debt refunding, \$31.4 million from a tax-increment finance (TIF) surplus, \$43 million of the proposed ground emergency medical transportation fee, and fund balance sweeps. While we do not look favorably on the use of one-shot sources to close the budget gap, these measures do not materially impair the city's finances beyond prolonging structural imbalance into fiscal 2021.

The city has no plans to extend final maturity dates as part of the refunding structure, and the bonds would still have net present value savings, distinguishing this structure from past "scoop-and-toss" practices. We also expect that the city will preserve capacity within the STSC structure for future capital needs and understand that it maintains sufficient liquidity such that planned further securitization of sales taxes would not result in cash-flow pressures.

Notably, the city did not include certain measures that we have identified as potential contributors to downward rating pressure. We would view negatively any measure that would lower annual contributions into Chicago's pension systems. Particularly given the city's low funded ratios (weighted average of 23%) and the fact that it already must liquidate assets to make annual benefit payments, reductions to annual contributions would increase the likelihood of asset depletion, necessitating contribution spikes in the not-too-distant future. We also consider the city's substantial reserves and liquidity crucial to the current rating, and we would view the significant use of reserves to offset ongoing expenses—rather than for "rainy day" or one-time purposes, such as a temporary shortfall during a recession—negatively.

Lingering structural imbalance is daunting but not insurmountable for 2021 and beyond

We consider the proposed structural imbalance as sizable relative to the city's budget, but manageable relative to potential available revenue sources. The mayor's budget speech identified \$100 million of ongoing annual graduated real estate transfer taxes, potential casino revenue, and a property tax increase as potential revenue measures. In addition to these sources, we expect that the city will benefit from a full year of cannabis revenues although receipts will likely remain small

relative to the budget. It also could receive a share of a statewide graduated income tax if the amendment passes in November 2020. In addition, we understand that the city is looking to identify other expenditure reductions that could offset revenue needs and that some of the structural changes it has already taken will result in additional outyear savings, providing a better course for structural alignment.

Looking ahead to fiscal 2022, the city's projected budget gap actually decreases by \$30 million, even when accounting for \$250 million in increased municipal/laborer contributions for the pension ramp. Therefore, to the extent that Chicago structurally addresses the next two fiscal year gaps, it will have largely tackled the fiscal 2022 budget. Even should an economic slowdown or mild downturn occur, based on its past performance, diverse revenue streams, and limited pension plan invested assets, we don't expect that the city's budget gap will significantly widen over this period.

Potential revenue from a casino remains uncertain given that tax structure negotiations are ongoing. Casino revenue often misses forecasts and takes longer than expected to realize. That said, we understand that if the state were to authorize revised casino legislation, the city could benefit from temporary casino revenues as early as fiscal 2021, providing the same type of short-term boost seen in other municipalities that added casino gaming tax revenues.

In our view, a modest property tax increase still remains a viable part of the solution to closing Chicago's budget gap. We recognize that city residents have property tax fatigue and have voiced a preference for other revenue streams. However, Chicago's property tax rates still remain competitive with those of neighboring suburbs, and its costs of doing business and housing remain affordable relative to those of other large cities such as New York, Los Angeles, Denver, Washington, and Boston. If Chicago were to raise property taxes by \$300 million, this would increase the average tax rate by 0.34% from its current average tax rate of 6.79%.

While the mayor discussed pension reform, it is our understanding that the city's current budget plan does not count on legislated pension savings and that the city remains committed to funding pensions according to the current statutory amortization schedule. To the extent that the city could either trim liabilities through benefit reductions or secure a dedicated revenue stream toward pensions, this would improve its budget sustainability and bode well for long-term credit stability. However, in our view, these measures may prove challenging to attain and may not occur within the 2022 time frame.

Chicago teacher strike could pose indirect risks to the budget plan

The mayor did not propose additional funding for Chicago Public Schools (CPS) in her budget address despite an ongoing teacher strike although we understand that the schools will receive approximately \$66 million more than CPS budgeted of the city's declared TIF surplus in 2020. We note that this is a one-time revenue source. Although the mayor appoints the school board, city and school finances have largely remained separate. The city has historically provided CPS minimal financial support, and the current budget proposal is in line with past practices. However, given the shared tax base, education's causal effects on city demographic and economic trends, and potential consequences for the mayor's political capital, we consider the relationship between the city and CPS significant.

In our opinion, the Chicago Teacher's Union strike has more potential to reverse CPS' recent financial gains than hurt the city's budget in the near term. Given Chicago's history of limited financial support for CPS and challenged financial position, we do not expect it to provide significant, if any, additional funding for CPS. Higher-than-budgeted contract costs for CPS would not necessarily result in the board levying property tax hikes, especially since they are subject to property tax limitations and would need special authorization from the state for additional property

taxes. Therefore, we are not assuming that the strike would measurably reduce the city's tax capacity. The mayor's budget proposal, however, relies on council approval, and the resolution of the strike could potentially undermine public and council member support.

Rating stability hinges on the demonstrated ability to execute any necessary contingency plans

The Illinois General Assembly's veto session begins Oct. 28, and the city will then know whether it has secured state support for both the RETT and new casino tax structure prior to a planned budget vote at the end of November. Given that the city is not relying on casino revenue in the 2020 budget, this provides more time to either consider legislation during a later session or detail a contingency plan for the next two budget years.

Our analysis of rating stability extends well beyond the next fiscal year. If the city fails to receive legislative approval for new revenue streams or if revenues fail to materialize as the city has projected, we will be looking to see if not only the mayor, but also the city council, has the willingness to execute any necessary contingency plans to structurally close the gap by the identified 2022 target, including full statutory pension contributions. As stated in our current outlook (please refer to our full analysis on Chicago, published on RatingsDirect on March 14, 2019) increasing evidence of political resistance to raising revenues or an inability to make expenditure cuts could result in downward rating pressure. The city's long-term fiscal health also depends on major structural changes, and even if it is able to balance its budget by fiscal 2022, we expect that its financial position will remain challenged.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

[A Reasonable Proposal: How U.S. Law Allows Puerto Rico's Legal Bills To Flourish](#)

The Commonwealth of Puerto Rico was once known mostly for tourism, but is now recognizable for turmoil. The U.S. territory has been ravaged by natural disaster and political chaos, all while becoming the test case on how to free a financially overburdened municipality from its crushing debt load.

As Puerto Rico navigates through the first court-supervised public debt restructuring of its kind, one of the most watched aspects of its bankruptcy-style case is the amount of money earmarked to pay the professionals tasked with providing the island with advice. Having already run up a \$400 million tab, current estimates predict the total bill for lawyers and advisors in the case to reach \$1.5 billion through 2024.

For comparison, professional fees in the 2008 collapse of Lehman Brothers - a storied global financial institution that once had more than \$600 billion in assets - amounted to \$1.9 billion over

four years to sort out the largest corporate bankruptcy filing in American history. In the municipal world, Detroit previously held the title of most expensive restructuring, spending \$177.9 million in legal and advisory fees to turn its finances around.

[Continue reading.](#)

Forbes

By Maria Chutchian

Oct 29, 2019

[New York State Is Paying Up to Borrow With a Taxable Bond Sale.](#)

The state of New York will pay high interest rates on \$914 million of bonds it sold this week—high compared with peers, at least.

The extra cost isn't the result of bad credit; the state has the second-best credit rating available from Moody's and S&P Ratings. The typical 10-year muni bond with a comparable rating yields around 1.6%, according to FMSbonds. But New York's 10-year bond yields 2.55%.

Investors demanded higher yields because they will pay federal tax on the bonds' interest income. That is fairly unusual in the municipal bond market, and even more so among "general obligation" bonds, the type of debt New York issued. In other words, most G.O. bonds pay interest that is exempt from federal income tax. For example, the state of Minnesota sold tax-exempt 10-year G.O. bonds at a yield of 1.38% in August.

New York's bonds are taxable because of the way the state plans to use the proceeds from the sale. The state will use that \$914 million to refinance outstanding bonds that mature between four months and 22 years from now. Such transactions are called "advance refundings."

Until 2018, investors could earn tax-exempt income from bonds sold in advance refundings. But a provision in the 2017 Tax Cuts and Jobs Act removed that exemption. That ostensibly killed the market for advance refunding bonds, and meant that municipalities had to find new projects to finance if they wanted the tax exemption.

But then came this year's rally in the Treasury market, which pushed yields lower and reduced interest costs for all types of borrowers, including municipalities. That prompted municipalities to do advance refundings, anyway, and sacrifice the tax exemption altogether. Issuers have sold \$50 billion of taxable muni bonds so far this year, according to Citigroup, the highest volume since a flood of Build America Bonds, also taxable, hit the market in 2010.

Advance refundings are a notable share of the supply of new taxable bonds, said Matt Fabian, partner at Municipal Market Analytics. The spread between yields on taxable and tax-exempt munis has narrowed as well, he said.

Part of the reason for the demand is that taxable munis could provide better value than corporate bonds, which are also taxable. The broader muni market has been trading at expensive valuations of late.

Corporate bonds provide less yield compared to Treasuries than they did at the start of the year, while taxable munis' yield spread has remained mostly steady, according to Citigroup strategist Vikram Rai.

"This is good news for prospective crossover buyers, because this under-performance has led to a moment of cheapness," Rai wrote in a Oct. 28 note.

Barron's

By Alexandra Scaggs

Oct. 30, 2019 12:54 pm ET

[Assured Guaranty Corp. v. Puerto Rico: SIFMA Amicus Brief](#)

Amicus Issue:

Whether Bankruptcy Code Section 928(a), which provides that post-petition pledged special revenue remains subject to a lien, and Section 922(d), which provides that the automatic stay does not stay the application of pledged special revenue, provide authority for a court to either compel the flow of pledged special revenues, or lift the stay to allow bondholders to compel the flow of pledged special revenues.

Counsel of Record:

Chapman and Cutler LLP
Laura E. Appleby
Steven Wilamowsky

[Read the Brief.](#)

[Chicago's New Mayor Grapples With Nation's Worst Pension Debt.](#)

Lori Lightfoot vows to avoid excessive parking fees and other nickel-and-dime strategies

CHICAGO—Mayor Lori Lightfoot has been in office only five months, but she is facing the prospect of having to ask a lot of residents in the nation's third-largest city.

Chicago has the most pension debt of any major U.S. city, a shrinking population and an \$838 million budget gap—and the city's teachers have been striking since Thursday. At the same time, Ms. Lightfoot, a former federal prosecutor, has eschewed some of the nickel-and-dime approaches taken by many cities, ending Chicago's practices of turning off residents' water for nonpayment and suspending drivers' licenses for unpaid parking tickets.

Ms. Lightfoot will deliver her first budget to the city council Wednesday. Her efforts to make the math work as Chicago's pension payments increase rapidly will provide a window into the challenge of addressing the burdensome legacy costs weighing on many older American cities.

“Cities that have pension challenges are facing the same sort of question, which is ‘How do you cover future liabilities and current costs without driving people away with higher taxes?’” said Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois at Chicago.

Cities’ net pension liabilities grew 76% in nominal dollars in the five years ending in 2017, according to a study by Moody’s Investors Service of cities rated by that firm. The number of large cities that have on hand less than half of the assets they need to pay promised future benefits doubled between 2009 and 2015, according to a study by the Pew Charitable Trusts.

Philadelphia, Providence, R.I., and Fort Worth, Texas, are all in that situation, as is Chicago, according to 2018 data from Merritt Research Services.

The reasons: Amounts owed to workers and retirees for pensions have lagged behind the assets on hand to pay them. Losses in 2009, plus years of falling short of investment targets, left pension funds with far less than projected, while governments have also contributed to the shortfall by skimping on annual pension contributions to balance budgets. Court protections in many states have made it difficult to cut benefits for already hired workers.

Rising costs for pensions and other expenses “have become a new normal since the recession,” said Mary Murphy, project director at the Pew Charitable Trusts.

In an effort to shore up Chicago’s finances, former Mayor Rahm Emanuel, a former congressman and White House chief of staff who served eight years, raised property taxes and also helped attract new investment and construction to the city’s downtown. But decades of paltry contributions to the city’s four pension funds have left Chicago \$30 billion short of what it needs by the city’s own estimates. The city has the largest pension liability of any major city, according to Moody’s.

“The pressure is building on Chicago,” said Laurence Msall, president of the Civic Federation.

Now the city’s pension cost jumps each year, and Ms. Lightfoot must find \$1.7 billion for pensions, up from \$1.3 billion last year, according to the city’s 2020 budget forecast. Total spending by the corporate fund, which pays the city’s general operating costs—aside from pensions and debt, is \$3.8 billion this year.

“There’s no more road to kick the can down,” Ms. Lightfoot told attendees at the Chicago Investors Conference last month.

Ms. Lightfoot must also contend with the teachers’ strike, going on since Thursday over pay, class size and other issues.

The school district, which is run by a mayor-appointed board, sets its own budget and levies property taxes that are in addition to the taxes levied by the city on the same properties, and are subject to a state cap. Ms. Lightfoot has more latitude to raise property taxes and has made clear she may do so.

Two strategies touted by Ms. Lightfoot—additional taxes on real-estate sales and a casino in Chicago—will likely require cooperation from state lawmakers. Ms. Lightfoot’s administration has also talked about plans to go after businesses delinquent on their taxes, to add ride-share and restaurant taxes, and to refinance city debt at lower interest rates. Along with pensions, Chicago also faces escalating bond payments.

The city’s finance chief said Monday that 40% of the budget gap will be filled by one-time revenues

and 60% will be structural solutions such as recurring revenues or lasting cuts. She said the city plans to save \$200 million next year by refinancing existing debt. A spokeswoman said Ms. Lightfoot isn't currently considering shoring up the city pension fund with borrowed money, a possibility contemplated by Mr. Emanuel.

Ms. Lightfoot will also forego an expected \$15 million in revenues, following through on a campaign promise to offer relief to residents burdened by parking fines and fees. Ms. Lightfoot has said that she expects the city to recoup some of the revenues as residents take advantage of new installment plans. The initiative has won kudos from residents but attendees at the Chicago Investors Conference were underwhelmed.

"Most of the investors don't live there," said Howard Cure, director of municipal bond research at New York City-based Evercore Wealth Management, which holds some Chicago debt. "They're just looking at 'How best can they pay their debt service and balance their budget?'"

The Wall Street Journal

By Heather Gillers

October 22, 2019

[San Jose to Propose Turning PG&E Into Giant Customer-Owned Utility.](#)

San Jose, California's third-biggest city, is proposing to convert PG&E Corp. into the country's largest customer-owned utility, its mayor told The Wall Street Journal on Monday.

The most populous city served by PG&E hopes to persuade other cities and counties in coming weeks to line up behind the plan, which would strip PG&E of its status as an investor-owned company and turn it into a nonprofit, electric-and-gas cooperative.

The buyout proposal amounts to a revolt by some of PG&E's roughly 16 million customers as the company struggles to keep the lights on and provide basic services while preventing its aging electric equipment from sparking wildfires.

San Jose Mayor Sam Liccardo said in an interview that the time has come for the people dependent on PG&E for essential services to propose a new direction. A cooperative, he said, would create a utility better able to meet customers' needs because it would be owned by customers—and answerable to them.

"This is a crisis begging for a better solution than what PG&E customers see being considered today," said Mr. Liccardo. He said recent power shut-offs initiated by the company were poorly handled, adding, "I've seen better organized riots."

PG&E did not immediately respond to a request for comment. In the past, the company has said its energy systems are not for sale and it has repeatedly beaten back efforts on the part of dissatisfied cities to form municipal electric utilities.

The idea represents a dramatic twist in the debate over how PG&E could emerge from bankruptcy, compensate fire victims and address its many safety problems. It likely will face stiff opposition from PG&E, which sought chapter 11 protection in January from what it estimated at more than \$30

billion in wildfire-related liabilities. The company's bondholders also will likely contest the idea after putting forward a rival reorganization plan in bankruptcy court.

California officials are running out of patience with PG&E after the company shut off power to roughly two million Californians in 34 counties earlier this month to ensure that its power lines, transformers and fuses didn't ignite fires that could spread quickly amid warnings of high winds. PG&E warned Monday that winds could trigger another round of shut-offs for parts of 17 counties later this week.

PG&E may have accidentally galvanized support for the public buyout proposal last week when Chief Executive Bill Johnson told state regulators that the utility may need to rely on power shut-offs for up to 10 years. That is a horrifying prospect for public officials, who note that the blackouts affect public safety and the delivery of other basic services such as clean water.

"We need to align the financial interest with the public interest," Mr. Liccardo said. "We hope there will be recognition that this structure better addresses the public need and we're looking to start the drumbeat to enable all of us to march together."

By Dow Jones Newswires

Oct. 21, 2019 3:43 pm ET

[Is Consolidating the Assets of Illinois' Public Pension Funds a Good Idea?](#)

We don't have enough information to say for certain whether the Pritzker task force recommendations are prudent policy.

On Oct. 10, 2019, the Illinois Pension Consolidation Feasibility Task Force released its [report](#) to Gov. J.B. Pritzker. The Task Force was charged with studying the possibility of consolidating some of Illinois' hundreds of public pension funds and providing recommendations to the governor. The main focus was Illinois' public safety pension funds — there are over 600 individual funds for police officers and firefighters throughout the state.

The public safety funds range significantly in size and financial condition, and each one currently operates independently with its own board of trustees. Most, however, are underfunded, and the financial health of the funds has long been a concern. This is, in part, because municipalities' annual pension payments are linked to the finances of the pension funds — as a pension fund's finances deteriorate, the municipality's payments should increase. State law requires municipalities' contributions to be sufficient so that each public safety fund is 90% funded by 2040 (meaning 90% of the liabilities are matched with assets). Because most public safety pension funds are underfunded, municipalities' contributions are projected to increase significantly over time. The increasing pension contributions are a growing fiscal pressure for municipalities.

[Unfunded liabilities for all public safety funds totaled \\$11 billion as of fiscal year 2017, and between 2012 and 2017 the median increase in unfunded liabilities from year-to-year was nearly \\$400 million.](#) A policy change that boosts the finances of the pension funds—like consolidation—could reduce municipalities' required contributions. However, consolidation should not be thought of as something that will resolve the challenge of unfunded pension liabilities or municipalities' increasing pension contributions.

[Continue reading.](#)

CRAIN'S CHICAGO BUSINESS

by AMANDA KASS

University of Illinois at Chicago

October 16, 2019

[Fitch Rtg's: No Cali Blackout Near-Term Effect on Infrastructure, Municipals](#)

Fitch Ratings-New York-11 October 2019: Blackouts in California as a precaution against conditions conducive to wildfires do not have an immediate effect on infrastructure or municipal credit, says Fitch Ratings. However, over the long term, energy infrastructure projects, municipalities and public power utilities may see revenue pressured due to curtailment and loss of customers and taxpayers. How common and long-lasting wildfires and associated blackouts are and how these conditions are managed in the future may affect credit over a longer period. We believe the financial flexibility of rated local governments, non-profits and utilities, along with the resumption of normal business operations, will mitigate the risk posed by lost revenue, but longer-term negative credit implications could emerge given the potential for economic slowdown.

In the past, Fitch noted that economic effects of natural disasters such as lost tourism income, crop damage and lost revenue due to school closures are likely to be temporary and followed by increases in economic activity as communities rebuild and go back online. However, wildfires are occurring with increased frequency in California due in part to environmental changes, such as drier conditions, leading to longer fire seasons, highlighting the need for state and local governments to maintain reserves for economic or capital emergencies. Businesses and residents may decide to relocate to areas less prone to severe weather and associated catastrophes, reducing the tax base and economic growth in areas viewed as more high risk. Development in fire prone areas contributed to the severity of the effects of disasters on the population, and further growth and development may be limited by practical and economic considerations.

If blackouts become more frequent, consumers may look more to alternative suppliers or self supply. Historically, individuals and businesses turned to diesel generators, but less costly and longer duration residential battery systems are an increasingly viable alternative. These developments could exacerbate the current trend of lower revenue requirements for municipal utilities. Likewise, if utilities increasingly respond to wildfire risk by exercising emergency generation curtailment, Fitch would expect to see lost revenue for independent power producers. Burying transmission lines is an obvious solution for these challenges but remains expensive.

While roads, tunnels, bridges and public transit continue to operate in northern California during the blackout, these entities may see brief volume declines if people decide to stay home during the blackout.

For more information on environmental risk considerations in Fitch's ratings, please see [Environmental Risk in U.S. State and Local Government Ratings](#).

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Major Credit Agency Upgrades California's Credit Rating.

SACRAMENTO - Recognizing California's decisions to build the state's fiscal reserves and pay down long-term liabilities, as well as continued economic growth, a major credit agency - Moody's Investors Service - has upgraded California's outstanding general obligation bonds to Aa2 from Aa3.

The agency has also upgraded the rating on the state's outstanding lease debt, its outstanding appropriation debt and outstanding school fund apportionment lease revenue bonds.

According to the agency, the upgrade "recognizes the state government's disciplined approach to managing revenue growth indicated by its use of surplus funds to build reserves and pay down long-term liabilities."

"While Washington balloons the national debt to pay for tax cuts for the rich, California is showing that it is possible to take bold action to tackle the affordability crisis, climate change, and other challenges all while living within our means," said Gov. Newsom. "We are advancing progressive values while growing our rainy day fund, paying down pension liabilities and eliminating our state's wall of debt."

In August, Fitch Ratings also upgraded the state's credit rating, writing that California has improved its ability to weather an economic downturn.

The 2019 Budget Act signed by the governor made a series of investments in expanding the state's financial security.

The budget will end the year with total reserves of \$19.2 billion, of which \$16.5 billion is in the Rainy Day Fund, \$1.4 billion in the Special Fund for Economic Uncertainties, \$900 million in the Safety Net Reserve and nearly \$400 million in the Public School System Stabilization Account.

The budget makes an extra payment of \$9 billion over the next four years to pay down unfunded pension liabilities. This includes \$3 billion to CalPERS and \$2.9 billion to CalSTRS on behalf of the state, and \$3.15 billion to CalSTRS and CalPERS on behalf of schools.

The budget invests \$4.5 billion to eliminate the Wall of Debt and reverses the decade-old deferral undertaken during the last recession.

The budget prioritizes one-time investments, with 88 percent of new expenditures being temporary rather than ongoing. This addresses the affordability crisis facing Californians while minimizing ongoing commitments to avoid putting the state at fiscal disadvantage in the future.

LAKE COUNTY NEWS

ELIZABETH LARSON POSTED ON WEDNESDAY, 16 OCTOBER 2019 02:23

[The City of San Bernardino's Bankruptcy.](#)

Post the 2008 recession, throughout California, the operating costs of cities and other local governments have been growing faster than their revenues.

These higher operating costs are often attributed to the rising pension costs of employees in addition to adding services throughout their jurisdictions. Furthermore, when there is a financial downturn, similar to the one in 2008, it can impair the main revenue sources for local governments. If a local government isn't thinking long term by either building reserve funds or fostering strategic growth, its financial unpreparedness and structural issues can lead the city into insolvency, which brings us to the case of San Bernardino's bankruptcy.

In this article, we will take a look at the municipal bankruptcy of the City of San Bernardino and what led to the Chapter 9 filings.

[Continue reading.](#)

municipalbonds.com

by Jayden Sangha

Oct 16, 2019

[FERC Affirms Transmission Incentives to California Utilities for Regional Transmission Organization Participation.](#)

On September 30, 2019, FERC issued two orders denying requests for rehearing of orders that respectively granted Pacific Gas & Electric Company ("PG&E") and Southern California Edison Company ("SCE") 50-basis point return-on-equity adders for their continued participation in the California Independent System Operator Corporation ("CAISO") ("RTO-Participation Incentive"). PG&E requested the RTO-Participation Incentive as part of its nineteenth transmission owner tariff filing; SCE requested the RTO-Participation Incentive as part of its 2018 transmission revenue requirement filing. FERC granted both requests in two separate orders issued in 2017. The

California Public Utilities Commission (“CPUC”) and Transmission Agency of Northern California requested rehearing of both 2017 orders; the Sacramento Municipal Utility District (“SMUD”) also requested rehearing of the 2017 order granting PG&E the RTO-Participation Incentive (CAISO, CPUC and SMUD are collectively referred to as the “California Parties”). FERC’s September 30, 2019 orders denying the California Parties’ rehearing requests concluded that it is appropriate to grant both PG&E and SCE the RTO-Participation Incentive because California law does not mandate that either utility participate in CAISO.

In denying the California Parties’ rehearing requests, FERC referred to a separate proceeding that began in 2007 when, following the issuance of Order No. 679 (addressing pricing reforms to promote transmission investment), PG&E first requested the RTO-Participation Incentive as part of its near-annual transmission owner tariff filing. FERC granted PG&E’s request for the RTO-Participation Incentive over objections from the CPUC that California law required PG&E’s participation in CAISO. On appeal, the U.S. Court of Appeals for the Ninth Circuit remanded the proceedings and instructed FERC to develop a record on whether California law permitted PG&E to unilaterally leave the CAISO, and whether the RTO-Participation Incentive could induce its participation in CAISO. In an order on remand issued on July 18, 2019, FERC concluded that the relevant provisions of California’s Public Utilities Code encouraged and facilitated PG&E’s participation in CAISO, but did not require its continuing membership or obligate PG&E to seek CPUC approval before withdrawing from CAISO.

Applying the same reasoning as in the Ninth Circuit proceeding and July 18, 2019 order on remand, FERC’s September 30, 2019 orders denying the California Parties’ rehearing requests concluded that it is appropriate to grant PG&E and SCE the RTO-Participation Incentive because California law does not mandate the utilities’ continued participation in CAISO. FERC also rejected the California Parties’ arguments that FERC has no authority to second-guess the CPUC’s interpretation of California law as requiring PG&E’s/SCE’s membership in CAISO. FERC explained that whether to grant the RTO-Participation Incentive is an issue involving the transmission and sale of energy at wholesale in interstate commerce and is therefore subject to its exclusive jurisdiction. Finally, FERC disagreed with the California Parties’ arguments that granting PG&E/SCE the RTO-Participation Incentive would constitute a failure to comply with FERC’s duties to ensure just and reasonable rates. FERC pointed out that regional transmission organizations benefit consumers by providing open, non-discriminatory transmission service, addressing congestion-related issues, mitigating market power, and managing the transmission planning and generator interconnection processes.

While Commissioner Glick originally dissented from the order granting SCE the RTO-Participation Incentive, he issued a short concurring statement in the September 30, 2019 order denying rehearing of challenges to SCE’s request for an RTO-Participation Incentive. Commissioner Glick explained his belief that it is appropriate to grant SCE the RTO-Participation Incentive now that FERC has developed a record indicating that SCE’s participation in CAISO is voluntary and not required by California law or regulation.

FERC’s September 30 orders are available [here](#) (PG&E) and [here](#) (SCE).

Troutman Sanders LLP

by Katherine O’Konski and Miles Kiger

USA October 9 2019

Cuomo's Hazy Thruway Toll Plan Shadows \$2.7 Billion Bond Sale.

- **Toll hikes needed by 2022 to pay for new Tappan Zee Bridge**
- **Agency plans \$2.7 billion bond sale today and Thursday**

New York Governor Andrew Cuomo's still-unclear policy on future toll increases for the new Tappan Zee Bridge and the 570-mile New York State Thruway is casting uncertainty over the agency's outlook as it returns to the municipal-bond market.

The Thruway Authority, which hasn't raised tolls since 2010, has been able to ward off such hikes through 2020 through a \$2 billion infusion of state aid. But the agency faces steeply escalating debt payments for the \$4 billion bridge over the Hudson River and \$2.2 billion in planned capital projects. The Thruway is selling \$950 million of taxable bonds Wednesday and another \$1.7 billion of tax-exempt securities Thursday to refinance higher-cost debt and repay a federal loan for the span, now known as the Governor Mario M. Cuomo Bridge.

"We don't know what the plan is," on toll increases, said Myra Shankin, a Moody's Investors Service analyst. "And because we don't know what the plan is we can't make projections on what kind of revenue they're going to throw off."

[Continue reading.](#)

Bloomberg Politics

By Martin Z Braun

October 16, 2019, 8:07 AM PDT

Puerto Rico's Messy Bankruptcy May Get Even Messier.

The commonwealth has a crucial case before the U.S. Supreme Court, people are protesting in front of the governor's mansion, and a restructuring plan could wipe out some of its general obligation bonds.

Even for a longtime observer of the U.S. municipal-bond market, it has been tough to keep up with the play-by-play of Puerto Rico's unprecedented bankruptcy.

After all, it has already been more than four years since the commonwealth's governor first declared its debt unpayable and said investors should prepare to sacrifice. Congress passed a law called Promesa in 2016 that allowed Puerto Rico to seek bankruptcy, and in May 2017 it did just that. A federal board overseeing the island's finances has been gradually working with various stakeholders to reach an agreement. On Sept. 27, the board took what appeared to be a crucial step by releasing a full-fledged restructuring plan that laid out how much bondholders and retirees stood to lose.

In an ordinary bankruptcy, it would now be a straightforward question of whether pensioners and creditors agree to the terms and what tweaks might be needed to get to the finish line.

[Continue reading.](#)

Bloomberg Markets

By Brian Chappatta

October 14, 2019, 4:30 AM PDT

[Puerto Rico Bankruptcy Clash Hits Pivotal Point at Supreme Court.](#)

- **Justices to hear arguments on whether board properly appointed**
- **Bondholders seeking to undo board's work to get a better deal**

The U.S. Supreme Court is poised to consider a challenge to the oversight board responsible for pulling Puerto Rico out of its record bankruptcy, hearing a case that could mean a new phase of uncertainty for an island still recovering from a devastating 2017 hurricane.

The high court will hear arguments Tuesday from bondholders who say the seven members of the Financial Oversight and Management Board were appointed in violation of the Constitution because they weren't confirmed by the U.S. Senate. The bondholders, led by Aurelius Investment LLC, are seeking to unravel much of the board's work and eventually get more for their stakes than the oversight panel is offering.

The argument takes place less than three weeks after the board filed its plan with a federal bankruptcy court for restructuring \$35 billion in debt and other liabilities. The proposal would cut that sum, which includes \$17.8 billion in commonwealth-guaranteed debt, by 65% to \$12 billion. It would also address a pension system that owes current and future retirees \$50 billion.

[Continue reading.](#)

Bloomberg Politics

By Greg Stohr and Michelle Kaske

October 15, 2019, 1:00 AM PDT

[Groundwater Contaminant Regulation in California: State Water Board Lowers Notification Levels and Announces First Step Towards Developing an MCL for Certain Compounds.](#)

In June of 2018, the California State Water Resources Control Board (State Water Board) Division of Drinking Water (DDW) provided [recommendations for PFOA and PFOS notification levels](#). On July 13, 2018, the State Water Board [released guidelines](#) based on DDW's recommendations for testing and reporting on two PFAS compounds—PFOA and PFOS. The interim notification level for PFOA was 14 parts per trillion (ppt) and 13 ppt for PFOS. Notification levels are non-regulatory health-based advisory levels established by the DDW for chemicals in drinking water that lack an enforceable regulatory standard called a maximum contaminant levels (MCLs). In addition to setting interim notification levels for PFOA and PFOS, the State Water Board also included an interim response level of 70 ppt combined for PFOS and PFOA whereby if the combined level is exceeded, the State recommended the water system remove the source from service. These guidelines did not

require public water systems to test for PFOA and PFOS, but did require water systems voluntarily opting to test to report if the notification levels were exceeded.

On July 31, 2019, AB 756 passed as the California Legislature's first PFAS-related action. AB 756 adds Section 116378 to the California Health and Safety Code and authorizes the State Water Board to order a public water system to monitor for PFAS in accordance with conditions set by the State Water Board. [Practical detection limitations currently reduce the scope of the law to 14-18 compounds](#). The effect of the legislation is that the State Water Board can now require public water systems to test for PFAS.

[Continue Reading](#)

By Jonathan King on October 4, 2019

Squire Patton Boggs

[Opinion: California pension debt climbs despite strong economy](#)

With nation overdue for next recession, aggressive and comprehensive reforms are needed

['Stunning Rebuke to Predatory Wall Street Megabanks' as California Gov. Signs Law Allowing Creation of Public Banks.](#)

“The people of California just went up against the most powerful corporate lobby in the country—and won.”

California Gov. Gavin Newsom on Wednesday signed into law historic legislation that would allow the state's cities and counties to establish public banks as an alternative to private financial institutions, a move advocates hailed as a “stunning rebuke to the predatory Wall Street megabanks that crashed the global economy in 2007-08.”

Trinity Tran, co-founder of Public Bank LA, said Newsom's decision to sign the Public Banking Act (A.B. 857) despite fervent opposition from the state's business lobby “is a testament to the power of grassroots organizing.”

“The people of California just went up against the most powerful corporate lobby in the country—and won,” Tran said in a statement. “Now is our moment in history to lead the nation by re-envisioning finance and recapturing our money to benefit our local communities by building a new system that works for the greater good.”

The Public Banking Act—which was backed by a diverse coalition of labor unions, climate justice groups, and civil rights organizations—makes California the second state in the U.S. after North Dakota to allow the creation of public banks.

As the Los Angeles Times reported:

Public banks are intended to use public funds to let local jurisdictions provide capital at

interest rates below those charged by commercial banks. The loans could be used for businesses, affordable housing, infrastructure, and municipal projects, among other things.

Proponents say public banks can pursue those projects and support local communities' needs while being free of the pressure to obtain higher profits and shareholder returns faced by commercial banks. Support for public banks also has grown since the financial crisis a decade ago and since Wells Fargo & Co. was embroiled in a slew of customer-abuse scandals in recent years.

The new law sets into motion a pilot program allowing 10 public bank charters in the state over seven years. "These banks can invest in local projects like affordable housing, small businesses, resilient infrastructure, and clean energy, giving communities a voice in their own economic futures," said the California Public Banking Alliance.

Sushil Jacob, senior economic justice attorney with the Lawyers' Committee for Civil Rights of the San Francisco Bay Area, said the law represents the "first step toward repairing communities that were immensely harmed by the 2008 recession, especially communities of color."

"Today, California's communities of color remain disproportionately harmed by Wall Street's predatory practices," said Jacob. "Public banks can make all of our communities whole with equitable lending and non-extractive investing."

In a column for *Common Dreams* earlier this year, Ellen Brown, founder of the Public Banking Institute, applauded states like California and Washington for pursuing legislation to create state-level public banking systems and said their passage could prove a game-changer for the nation's economy.

"The implications are huge," Brown wrote at the time. "A century after the very successful Bank of North Dakota proved the model, the time has finally come to apply it across the country."

Common Dreams

by Jake Johnson, staff writer

October 03, 2019

[California Rebukes Predatory Wall Street Megabanks With New Public Bank Law.](#)

California Gov. Gavin Newsom on Wednesday [signed into law](#) historic legislation that would allow the state's cities and counties to establish public banks as an alternative to private financial institutions, a move advocates hailed as a "stunning rebuke to the predatory Wall Street megabanks that crashed the global economy in 2007-08."

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truthout.org

by Jake Johnson

October 3, 2019

[California Local Governments Gain a Pathway to Establish Public Banks.](#)

Cities and counties would be able to create up to 10 public banks where governments could deposit money under a bill the state’s governor signed into law this week.

Legislation that California Gov. Gavin Newsom signed into law this week clears the way for cities and counties to form and own public banks, an idea that has drawn interest in recent years both in and out of the state, while also spurring opposition from the banking industry.

The law authorizes local governments in California to deposit their money in public banks and to invest in them as well. Supporters say localities are currently forced to deposit their money in large out-of-state banks that prioritize profits rather than local priorities.

Public banks, they contend, would be better positioned to offer financing with attractive interest rates for things like public infrastructure projects, affordable housing and small businesses.

[Continue reading.](#)

Route Fifty

by Bill Lucia

Oct. 3, 2019

[Popular in Wisconsin: Cheese, the Packers and...Risky Bonds.](#)

State agency facilitated some municipal-market deals now going sour

Wisconsin has long been famous for its lakes and cheese. Now it is becoming known for risky debt.

Wisconsin is home to the Public Finance Authority, an agency that has issued billions of dollars in tax-exempt debt across the U.S. for projects ranging from senior-living communities to student housing. Many projects claim no direct economic ties to Wisconsin.

Some of that debt is now starting to sour, one sign of how investors’ hunger for yield has ushered increasing levels of risk into a corner of the municipal market.

The agency's bonds have been the subject of 10 of the 105 reports of impairment in the municipal market so far this year, according to research firm Municipal Market Analytics, by far the highest of any issuer.

[Continue reading.](#)

The Wall Street Journal

By Heather Gillers

Oct. 1, 2019 5:30 am ET

[Editorial: Chicago and Illinois Don't Have Enough Taxpayers to Pay for All This.](#)

Chicago teachers want better pay and working conditions. Mayor Lori Lightfoot has made a generous contract offer, yet the Chicago Teachers Union is threatening to strike. That's but one sequence of current events in this city's, this state's, long-running series of public finance crises. What's the fuller picture? Well, go back decades to when politicians in Chicago and Springfield began skimping on payments to government retirement systems.

Illinois suffers many of these fiscal catastrophes — in its school districts, cities, townships, counties and of course state government. Yet there's only one set of taxpayers to address the layers of distress — the people who live here now.

That's why whatever contract agreement Lightfoot secures with the CTU cannot create even more draconian costs, even more debt: Each Chicago taxpayer who helps fund schools and teacher pensions, mainly through property taxes, has only one household pool of resources. And those taxpayers also are on the hook for all the other irresponsible decisions of multiple local and state governments.

In essence, it's city workers vs. schoolchildren

Take Chicago's sorry situation. As Lightfoot negotiates with teachers, she's struggling to find revenue to close an \$838 million gap in the city's municipal budget. Part of the problem: In 2020, City Hall must contribute an extra \$280 million for police and fire pensions to make up for years of underfunding. Add in two other weak funds — for municipal employees and laborers — and the numbers become dizzying: At the end of 2018, City Hall's pension funds had only 23% of what they should have.

And that 2020 surcharge just buys the cheap seats. By 2023, Lightfoot must find an additional \$989 million a year for pensions, according to the Tribune's Hal Dardick and Juan Perez Jr. Thank you, former mayors and aldermen, for promising more pension benefits than Chicagoans could afford.

Again, this is just to address the city's pension shortfall, which has risen from \$23 billion to \$30 billion. That's after former Mayor Rahm Emanuel raised city taxes and fees to try tame the beast: The pressure on today's and tomorrow's taxpayers only grows. Remember that the state occasionally skipped contributions to its five pension funds for government workers, creating a \$134 billion unfunded liability. That debt alone is more than triple Springfield's annual operating budget.

Which brings us back to Lightfoot's current negotiations: Teachers, school support staff and Park District workers are threatening to strike on Oct. 17 (after their Columbus Day holiday). Three labor groups want costly contracts, but Chicago has only one group of taxpayers to foot the bill. The mayor's essential quandary is a collision of competing demands: Every tax dollar Lightfoot collects for city workers' retirement benefits is a dollar she can't collect for the education of schoolchildren.

A terrible week for the 'Pritzker Tax'

Illinois voters are a year away from deciding whether to amend their constitution and embrace a graduated income tax. Gov. J.B. Pritzker says his tax package would affect only the top 3% of income tax filers. Maybe so at the get-go, but taxpayers are wising up to two realities. First: Freed of the current flat-tax requirement, lawmakers soon would impose higher tax rates on the middle class, too: That's where the money is. Second, even as the Pritzker Tax looms, governments at all levels are squeezing taxpayers with property and other tax increases.

Repeating for emphasis: There's only one set of taxpayers. Springfield's apologists and tax-burden deniers don't want to talk about that. They want to bamboozle Illinois voters with narrow factlets — California still would have a higher top income tax rate! — and pretend their data points prove that, en masse, this state's governments aren't taxaholics. But look around.

On Monday a federal judge rejected a "Hail Mary" lawsuit by four high-tax blue states frantic to kill the \$10,000 cap on federal income tax deductions for state and local taxes, aka SALT. Those deductions had people in low-tax states subsidizing affluent households in high-tax states such as Illinois. Capping the SALT deduction didn't affect most Americans, for whom the 2017 federal tax law delivered lower tax rates and nearly doubled the standard deduction. The nonpartisan Tax Foundation calculated that removing the cap would "almost exclusively provide tax relief to the top 20% of income earners, the largest tax cut going to the top 1% of earners."

We've enjoyed watching Pritzker, New York's Andrew Cuomo and like-minded governors plead that the country's richest families deserve, um, *bigger tax deductions*. As a wry CNBC headline put it: "Blue-state Democrats have a new cause: Helping millionaires."

The mortal threat to the Pritzker Tax referendum: Capping this deduction makes affluent Illinoisans pay more of the full cost of state and local spending. Lawmakers are less able to tell taxpayers, *Yes, we're gouging everyone, but hey, just deduct Illinois' high taxes on your federal return.*

And on Tuesday the business publisher Kiplinger issued its list of "The 10 Least Tax-Friendly States in the U.S." Guess who's No. 1. "The state ranks #50 in the latest ranking of states' fiscal health by the Mercatus Center at George Mason University, and residents are paying the price with higher taxes."

You keep guessing which state while we note that if enough Illinois voters understand the enormity of the state and local spending they support, and learn which state is most hostile to taxpayers, then the Pritzker Tax should face the defeat it deserves.

The Illinois Exodus is driving out taxpayers

We began this editorial referencing contract talks between the teachers union and Chicago Public Schools. But the unheard voice at the table is our real focus: taxpayers.

It isn't just that Illinois residents are overtaxed. The situation is worse than that. Worse, even, than so many Chicago and Illinois units of government that chronically promise too much, spend too much, borrow too much and owe too much. All in the name of that limited pool of taxpayers.

And for five years straight, as Illinois' population shrinks, many taxpayers have departed while prospective taxpayers considered this state but settled elsewhere. Expats often pack up the U-Haul for Indiana or Wisconsin because taxes are lower and the outlook for employers is more stable. Or they go to destinations such as Texas because that's where job growth is livelier.

What happens as the population declines and taxpayers flee? Property values fall, and the tax burden grows for those who remain. Chicago has a lot going for it as a global center of business, but the future economy looks fragile. The city will fight upstream to attract and retain employers (and employees) if City Hall raises the cost of living here to cover that extra \$838 million for next year's budget. Because that money has to come from somewhere. Taxpayers know it, and so do employers who do, or don't, hire workers here. Yes, the Illinois Exodus is real.

The path forward: Growth ... and a pension amendment

Have we alarmed you? The situation is serious but not terminal. Chicago is dynamic. The Illinois economy is vibrant and diversified. The problem is rooted in government dysfunction. For too many years, leaders at the state and city level provided pay and retirement packages to government workers that were unaffordable. Hence all the debt, which must be paid.

The way forward is for government to spend within its means by attacking big structural costs, while at the same time generating more tax revenue by creating more taxpayers. Meaning Illinois must spur faster economic growth to generate more jobs.

Companies are willing, even eager, to locate in Chicago. But they don't want to hitch their futures to a metropolis, a state, where they'll get clobbered by tax increases that don't solve the problems. Uber CEO Dara Khosrowshahi, who's adding 2,000 workers in Chicago, told us this city is a terrific talent hub with a good quality of life and lower costs than coastal cities. Does he fear the unstable and onerous tax burdens? His general stance was instructive: "As long as everyone is lifting their fair share, and the proposals are fair and broad and data-based, I think we will be a reasonable participant."

We're not sure Illinois' leaders recognize what Khosrowshahi and other employers are saying. They want a stable, business-friendly environment. They want Chicago and Illinois to get costs under control and lay out a realistic plan to pay what they owe.

The best way to rescue Illinois governments from themselves is to curb public pension benefits earned in the future. That also requires amending the Illinois Constitution. Giving voters a voice on that amendment — not just on the Pritzker Tax — will help state and local governments survive. So will affordable labor contracts. Mayor Lightfoot's negotiations with Chicago teachers are part of the mix.

Because there's only one set of taxpayers in Illinois.

THE CHICAGO TRIBUNE

By THE EDITORIAL BOARD

OCT 04, 2019 | 5:30 PM

Chicago Teachers Set Strike Date as Investors Eye Costs.

- **Union sets Oct. 17 as strike date as negotiations continue**
- **Bondholders are 'paying close attention': AllianceBernstein**

Chicago teachers have decided to strike in about two weeks, leaving investors in the city's junk-rated school district closely watching the costs of the Chicago Board of Education's efforts to avoid a walkout.

The Chicago Teachers Union said Wednesday it had set a strike date of Oct. 17. The announcement comes after about 800 union delegates representing every school in the district met behind closed doors.

"Strike will be a last resort," Jesse Sharkey, president of the union, said during a Wednesday evening press conference, adding that the group is trying to reach a negotiated settlement. "The city can afford our demands."

About 94% of Chicago Teachers Union members voted last week to authorize a strike to demand higher pay, more support staff like nurses and social workers and better working conditions. Union and district representatives are still negotiating, with school officials enhancing their offer, according to the district.

"We are looking for a settlement that's in the district budget, and the district is able to sustainably fund the contract," said John Ceffalio, a credit analyst for AllianceBernstein Holding LP, which holds \$45 billion in municipal assets including Chicago and the city's school bonds. "If it is more expensive, how are they going to fund it?"

The teachers union has rejected the district's offer for a 16% pay increase over five years and has said its plan for adding support staff falls short. The standoff comes at the same time that city park district workers and other school staff like security guards are also planning to strike at the same time, leaving Mayor Lori Lightfoot facing multiple walkouts this month. The parks have come to agreement with 24 of its 25 union but no deal has been made with SEIU Local 73, which represents two-thirds or 2,400 workers, the district said Wednesday.

"We are going to stick together," Sharkey said.

Contingency Plans

School buildings will be open on normal schedules to give students "a safe place to go should a work stoppage occur," on Oct. 17, according to the Chicago Public School's contingency plan.

"While we are doing everything in our power to reach a fair deal that prevents a strike, we are fully prepared for a work stoppage should one occur," according to a joint statement from Lightfoot and CPS Chief Executive Officer Janice K. Jackson.

School bondholders and credit rating companies are monitoring the teachers' plans, and watching how much the nation's third-largest school district gives in to avoid or end a strike.

Both sides reaching an agreement before a walkout is within expectations, according to AllianceBernstein's Ceffalio. Chicago teachers last had a one-day walkout in April 2016, and in 2012, the union staged the city's first public school strike in 25 years.

"We are paying close attention as bondholders," Ceffalio said.

Since the district introduced its \$7.7 billion budget in early August, its subsequent offers to the union would raise labor costs by tens of millions of dollars in fiscal 2020 and over the next five years, according to a person at the district close to the negotiations. The board still expects to stay in its budget parameters, according to the person who asked not to be named as the discussions are ongoing. Given additional state funding, the district “can more than afford to do better by our students,” according to Chris Geovanis, a union spokeswoman.

Chicago Teachers Union rejected 16% pay increase over 5 years
“We are looking for structural balance,” Blake Yocom, an analyst for S&P Global Ratings, said in a phone interview. “CPS has built in certain assumptions. Anything beyond that that reverses their positive trend or recent improvement in financial position would hold back any future upgrades.”

It wasn't that long ago that the school district was in danger of running out of money. For example, in 2016, the district was facing a \$1 billion deficit and needed to borrow money to stay solvent, the school system's management said at the time. Its finances have improved since the state of Illinois increased its funding to Chicago's schools last year. S&P in August raised its rating on the Chicago Board of Education to BB- from B+ with a positive outlook. Fitch also boosted its rating by one level to BB, two levels into junk.

“They just returned to a positive fund balance,” Yocom said. “Any erosion of that could lead to a revision of the outlook back to stable. If this settlement is successful and achieves a structural balance, they were looking at a likelihood of an upgrade.”

Credit Negative

A strike itself wouldn't necessarily halt the district's upward trajectory, but much higher labor costs could be credit negative, Yocom said, adding that he's watching for any impact on the credit outlook, rather than a rating change.

Lightfoot has said she'll personally come to the table to negotiate to avoid a strike. The labor unrest comes as the first-term mayor is preparing to give her first budget address on Oct. 23. She's looking for cash to close an \$838 million hole in the city's budget, the largest in recent history, according to her office.

While Chicago's spending plans are separate from the budget of the school system, the two entities are intertwined. They share the same shrinking tax base, and both are struggling with rising pensions costs. The mayor appoints the school board members as well as the city's chief financial officer. Chicago CFO Jennie Huang Bennett is the former CFO of the school district.

The labor conflict has been “baked” into ratings but that could change if a prolonged strike occurs or if the final deal far exceeds the board's budget expectations, said Eric Friedland, director of municipal research at Lord Abbett & Co., which holds \$26 billion in muni assets including city of Chicago and Chicago Board of Education bonds.

“The union has to understand that the district has limited resources,” Friedland said. “There is a lot of brinkmanship to play out.”

Bloomberg Markets

By Shruti Singh

October 2, 2019, 12:01 PM PDT Updated on October 2, 2019, 5:20 PM PDT

S&P Medians And Credit Factors: Illinois School Districts

Overview

S&P Global Ratings maintains ratings on 417 school districts in Illinois. Currently, 64% of Illinois school districts are in the 'A' category, 34% are in the 'AA' category or above, and 2% have debt rated in the 'BBB' category or lower. During the period of Jan. 1, 2018 to July 29, 2019, more entities' GO ratings/ICRs were upgraded (27) than downgraded (8).

We anticipate continued overall stability in the Illinois school district portfolio for the coming year. Most Illinois districts continue to see stable and growing tax bases and steady to growing enrollment in most of the state. We note that some districts in Illinois, however, are challenged by stagnant tax bases and declining enrollment. Due to the implementation of the new evidence based funding formula (EBF) that went into effect for school districts in fiscal 2018, declining enrollment is not as big of a factor in district finances as it traditionally has been. Thanks to the "hold harmless" provision, school districts with declining enrollment will not receive less funding than they initially received in fiscal 2018 (this is called the "base funding minimum") for perpetuity. However, these school districts will not receive new dollars released into the school district funding pool. Overall, we believe state sources of revenue should remain stable in the near term, even if the district is in a declining enrollment environment. Long term, we believe the state's financial situation could affect future school funding via the evidence-based formula, whether it is timeliness or ability to fully fund the formula.

[Continue reading.](#)

There's a New Muni-Debt Crisis Brewing in Another U.S. Territory.

- **Moody's cuts Virgin Islands power agency bonds deep into junk**
- **Governor at odds with U.S. Representative over scale of crisis**

An economically struggling U.S. territory. A government-run electricity provider facing potential insolvency. A debate among public officials about whether debts are too burdensome to pay.

That's the situation in the U.S. Virgin Islands, where the power agency is contending with a financial squeeze that echoes what happened in Puerto Rico in the run up to that government's record-setting bankruptcy.

The uncertainty led Moody's Investors Service on Sept. 23 to downgrade the most senior Virgin Islands Water and Power Authority bonds to eight steps below investment grade, indicating a high likelihood of default. Subordinate debt due in 2031 last traded at an average of 92 cents on the dollar, above the 65% to 80% recovery that Moody's rating suggests investors are likely to receive.

[Continue reading.](#)

Bloomberg Markets

By Amanda Albright

October 1, 2019, 5:00 AM PDT

[Assured Guaranty Responds to Puerto Rico Oversight Board's Plan of Adjustment.](#)

Assured Guaranty Ltd. (together with its subsidiaries, Assured Guaranty), released the following statement regarding the Financial Oversight & Management Board's (the "Oversight Board") Plan of Adjustment ("Plan"):

Assured Guaranty does not support the Oversight Board's proposed Plan, which is premised on a number of terms that Assured Guaranty believes violate Puerto Rico law, its constitution and PROMESA. The Plan also ignores the rule of law on which our society and financial systems rely, and constitutional liens and priorities. The Plan was developed in the absence of consensual discussions with the island's long-term and largest creditors and is based at its core on a Plan Support Agreement whose signatories represent only a small fraction of the outstanding debt it purports to restructure.

The Oversight Board has repeatedly produced fiscal plans without appropriate input from the island's long-term creditors, based on unrealistic and inaccurate financial assumptions and projections. These actions in Assured Guaranty's view have cost the island hundreds of millions of dollars in litigation fees and time wasted. Assured Guaranty believes by disregarding basic tenets of PROMESA, Puerto Rico law and the U.S. and Puerto Rico constitutions, the Oversight Board has violated the explicit terms of the Commonwealth's general obligation bonds and special revenue bonds and undermined the underpinnings of the U.S. municipal bond market, potentially raising the cost of infrastructure development nationwide.

An end to the Puerto Rico debt crisis is in sight, one that can reopen Puerto Rico's access to the capital market and encourage investment, but Assured Guaranty believes that solution needs to be driven by consensual resolutions and accurate financial data, and not by attempting a cramdown on investors who have supported the island for decades. Continuing with the Oversight Board's current approach, in Assured Guaranty's view, will not restore capital market access for Puerto Rico or ensure a solid and stable economic future for the island and its residents.

Cautionary Statement Regarding Forward-Looking Statements

Any forward-looking statements made in this press release reflect Assured Guaranty's current views with respect to future events and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. These risks and uncertainties include, but are not limited to, those resulting from adverse developments in Puerto Rico, an inability or failure of creditors to negotiate and implement a consensual restructuring, litigation that has already been initiated or may be initiated in the future, governmental or legislative action or inaction by Puerto Rico or the United States, other risks and uncertainties that have not been identified at this time, management's response to these factors, and other risk factors identified in Assured Guaranty's filings with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of October 2, 2019. Assured Guaranty undertakes no obligation to publicly update or revise any

forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Assured Guaranty Ltd. is a publicly traded Bermuda-based holding company. Its operating subsidiaries provide credit enhancement products to the U.S. and international public finance, infrastructure and structured finance markets. More information on Assured Guaranty Ltd. and its subsidiaries can be found at AssuredGuaranty.com

Business Wire

October 2, 2019

[San Diego Turns to Smart City Tech to Bolster 'Promise Zone'](#)

An initiative to address quality-of-life concerns in an underserved community in San Diego has identified priorities like job creation or affordable housing, and is turning tech to help shepherd those goals.

A neighborhood in San Diego will turn to smart city technologies to improve quality-of-life outcomes around job training, affordable housing and transit access.

The area known as the “Promise Zone” is located in the southeast portion of the city and is home to about 85,000 residents. Formed in 2016, the zone covers about 6.4 square miles and includes ethnically diverse regions as well as underserved populations. The aim is to grow local, state and federal partnerships to promote investment there.

It has been identified as a region where the use of community engagement could formulate a road map for smart city projects as part of San Diego’s goal to build inclusive and smart communities.

“This is really looking at how the city, in partnership with the community, can prioritize investments in technology, within the boundaries of the Promise Zone,” said Jason Anderson, president and CEO of Cleantech San Diego, a smart city projects coordinator for more than a dozen cities and public agencies in the San Diego metro region. “The key to this, and really what the city wanted to start with, is community engagement.”

The city wanted to start with a community that “for the most part has not necessarily been served from a digital perspective,” Anderson explained Tuesday during a Meeting of the Minds webinar. Meeting of the Minds is a nonprofit dedicated to studying smart cities issues and solutions.

“They wanted to make sure that as smart city programs are implemented or deployed throughout the city of San Diego, they’re beneficial to all community members, and wanted to really start within those underserved communities,” he added.

At this point in the process, some of the key priorities — like job training and affordable housing — have been identified. A next step will involve exploring technology-aided solutions to address these priorities, said project team members. Some of those early tech possibilities include the deployment of sensors on LED streetlights to measure traffic counts, or putting out several pilot kiosks to provide various pieces of community information, said Steph Stoppenhagen, director of business development at Black & Veatch, a smart cities consulting company working on the project.

“It should be worth noting that this is a road map. This is a process,” Anderson reminded. “This is really identifying the priorities and the potential technologies that the city should invest in, or could invest in, as it relates to the needs of the community. This is a first step in a many-step process.”

The city will have the final word on how to move forward. This research phase of the project is being funded by the Community Development Block Grant program. Later funding could take a range of paths including public-private partnerships.

A central goal of many smart city projects is putting technology to work to improve the lives of all residents, but especially those who may have been historically underserved. It’s often what’s meant when leaders speak of creating “equity” in cities, and the importance of not always hanging smart city tech in only the most robust neighborhoods.

“Again, going back to that notion of, investment in technology is cool. And it’s bright and shiny and some of those types of things. But if we’re not addressing some of the fundamental needs within the community, and training and employment options being one of those, then we’re really missing the bigger picture,” said Anderson.

“If we’re trying to answer some hard questions about creating technology to help the quality of life, wouldn’t this be the best place to start?” added Stoppenhagen. “And I think that that has definitely caught the eye of a lot of other cities and regions, to follow this project, and to hopefully replicate it.”

GOVTECH

BY SKIP DESCANT / SEPTEMBER 26, 2019

[California’s More Than Dreamin’ about Public Banks.](#)

A bill to set in motion massive structural economic change could easily be hundreds, maybe thousands of pages long. AB 857 — which creates a legal pathway in California for public banks owned by city and county governments, where cities and counties would deposit public dollars — clocks in at a [mere 29 pages](#).

“What we wanted to do was create a very lightweight bill that grafts public banks onto the existing state banking law rather than create a standalone financial code section that only covers public banks,” says Sushil Jacob, who played a lead role in drafting the bill as the legislative committee co-chair for the [California Public Banking Alliance](#), a coalition of grassroots groups hailing from ten cities across the state.

Keeping the bill relatively short and sweet was essential, Jacob says, to crafting something that legislators and legislative staff and lawyers and consultants could digest, deliberate over, and ultimately pass in the same year it was introduced.

[Continue reading.](#)

NEXT CITY

by OSCAR PERRY ABELLO

[New York Report Studies Risks, Rewards of the Smart City.](#)

The New York Office of the State Comptroller commissioned an informational report on the deployment of new technologies in cities statewide, highlighting innovative efforts and the importance of strong cybersecurity.

The New York state comptroller tasked his staff with analyzing the deployment of new technologies at the municipal level while cautioning local leaders and the public about cyberthreats.

New York Comptroller Thomas DiNapoli [announced the report](#), *Smart Solutions Across the State: Advanced Technology in Local Governments*, during a press conference last week in Schenectady, which was featured in the [25-page document](#) for its deployment of an advanced streetlight network.

“New technologies are reshaping how local government services are delivered,” DiNapoli said during the announcement. “Local officials are stepping up to meet the evolving expectations of residents who want their interactions with government to be easy and convenient.”

The report showcases online bill payment for people to resolve parking tickets, utilities and property taxes; bike-share programs using mobile apps to access bicycles in downtown areas; public Wi-Fi through partnerships with telecommunication companies; and more.

Yvonne Martinez, assistant director of operations in the Office of the State Comptroller’s (OSC) division of Local Government and School Accountability, said the comptroller charged her and her staff with educating municipal leaders on methods to modernize local government. Martinez said the team focused on what cities had implemented or were in the process of deploying, regardless of geographic location or demographics.

“Over the past several years, we knew there were different types of local governments moving in the direction of adapting newer technologies to improve the lives and experiences of their citizenry,” Martinez said. “We thought this was the perfect opportunity to do some of the leg work for local officials and help them understand what the lay of the land is in New York, and, more importantly, what does that mean in terms of additional risk that they might have to deal with should they pursue some of these types of programs.”

She said staff wrote the report to be accessible and comprehensible for New York residents and lawmakers. Researchers described projects in layman’s terms and steered away from complex technical terminology, she said.

“It’s one thing to highlight it as informational — this is going on around the state — versus this is absolutely a project that we know was perfectly executed and has a stamp of approval from the comptroller’s office,” Martinez said. “That wasn’t our goal. Our goal was more informational: Here’s what’s going on around the state. It’s a challenge because if the comptroller is speaking to these matters, some people might assume otherwise. We tread very carefully.”

The modernization of communities across New York could create possibilities for partnerships between municipalities, counties and the state, she said. The report details how a city might attempt to emulate some of the projects included. Martinez said local government leaders should collaborate and share best practices if they decide to innovate their jurisdictions in similar ways.

But Martinez warned that interconnected infrastructure comes with new risks that cities need to be prepared for. From the conception of the report, OSC staff meant to dovetail their findings with a cautionary message about cyberthreats, she said.

“We always intended to include that because this is something that’s been going on for years,” she said. “We knew that this report would have to have a dedicated discussion on the risk. In the run-up to the release, we were reminded that those risks aren’t going away.”

OSC has found common cybersecurity weaknesses during its audits of IT systems, such as a lack of data security policies and plans, unsecured networks that could allow unauthorized access, and IT access logs that haven’t been reviewed internally, according to the report.

“That’s a part of our ‘tread carefully’ message: The more data you collect about and on your community, the more at risk you are and your community depends on you to protect their data,” Martinez said.

GOVTECH

BY PATRICK GROVES / SEPTEMBER 26, 2019

[Illinois’s Risk to Bond Buyers Is Getting Hotter - Literally](#)

- **Temperatures on the rise in western Illinois and the Midwest**
- **Moody’s says warmer temperatures could harm local economies**

Wall Street has a number of reasons to be concerned about the credit quality of Illinois, the lowest-rated U.S. state: mounting pension obligations, billions of dollars in unpaid bills and a shrinking population. Now investors can add climate change to that list.

Western Illinois and Missouri are two areas that are expected to experience the greatest rise in extreme temperatures by 2040, according to a report Tuesday by Moody’s Investors Service. Rising temperatures threaten to curb agricultural production and labor productivity, increase the costs for infrastructure and heighten energy demand as residents struggle to cool their homes and businesses.

“If significant enough, now and over ensuing decades, these difficulties have the potential to lower revenue, increase expenses, impair assets and increase liabilities and debt,” along with other effects, Moody’s said in the report. Data was provided from climate intelligence firm Four Twenty Seven Inc., which Moody’s acquired a majority stake in earlier this year.

Climate change has become an increasingly prevalent risk factor in the municipal bond market, where the security of the debt is often based on the health and economic ability of a local tax-base. The destructive nature of extreme weather events exasperated by climate change and the long-dated nature of municipal bonds has driven investors to weigh such risks in their portfolios.

The amount of outstanding debt of local governments that face high projected heat stress is concentrated in the Southeast, particularly Florida, and the Midwest, with nearly half in Illinois, Moody’s said. About 21% of \$895 billion of outstanding local government debt rated by Moody’s is exposed to high or very high heat stress, according to the report. About \$78 billion of that is from the Southeast, and \$69 billion is from the Midwest, Moody’s said.

“Heat stress threatens to cause local governments to pay unanticipated costs for emergency response, infrastructure repair and adaptive strategies,” the report said.

The Midwest will undergo an especially high percentage change in extreme temperatures, according to Four Twenty Seven projections, cited in Moody’s report. Some areas will see the hottest average day in 2030-2040 be about 7% higher than the hottest average day during the 1975-2005 period, according to the report.

Credit is affected as rising temperatures threaten to damage local economies and local government operations, according to Moody’s. “Heat stress will result in both rising temperatures and contribute to a greater frequency and severity of extreme climate events, such as heat waves, droughts or wildfires,” Moody’s said in the report. “Many local governments will face costs from financing adaptation and climate change plans.”

Bloomberg

By Danielle Moran

September 24, 2019, 5:00 AM PDT

— *With assistance by Romy Varghese*

[MTA to Sell \\$25 Billion of Congestion-Fee Bonds in Record Budget.](#)

- **City congestion pricing would pay bulk of \$52 billion budget**
- **Billions could help fix regional transit crisis, officials say**

New York’s Metropolitan Transportation Authority board unanimously approved its largest five-year capital spending plan ever Wednesday, with almost half of it financed through [congestion pricing fees](#) on motorists entering midtown Manhattan.

The \$51.5 billion spending plan for 2020 through 2024 is 70% larger than the current capital budget and relies on \$25 billion of municipal bonds that will be financed by charging congestion pricing fees to enter Manhattan’s central business core. When the state legislature and Governor Andrew Cuomo enacted the law in June, they expected \$1 billion a year in revenue from such fees to pay debt service on about \$15 billion of borrowing. The additional \$10 billion of debt will need to be paid for with higher fees, lower interest rates, or both.

“Much of those funds we’ll receive from the Central Business District Tolling or other revenues are lock-boxed for capital projects,” said MTA Chairman Patrick Foye at a board meeting Wednesday, where he promised changes to reduce construction and labor costs. “Without new funding resources for operations or cost cuts, we will continue to face significant financial constraints with forecasted deficits in future years.”

The steep spending increase would pay for long-term fixes for a regional transit system that officials acknowledge has been underfunded for decades. City subways have been operating with an obsolete signal system developed in the 1930s that needs to be replaced. New subways, buses and commuter train cars are on the shopping list, and repairs include new railroad track and maintenance in the city’s underground tunnels. New York City Transit President Andrew Byford, who runs the subway and bus system, has estimated that his system alone needs as much as \$30 billion over the next

decade.

The agency is also engaged in multi-billion dollar, multi-year projects that have experienced cost overruns, including planned extension of Long Island Rail Road service to Manhattan's east side through Grand Central Terminal. That project, originally scheduled for completion in 2009, is now due to open in late 2023. Another project to extend a Second Avenue subway line north to Harlem's 125th Street from 96th Street still lacks about \$3 billion in sought federal funds.

New York Mayor Bill de Blasio, who has balked at increasing the city's subsidy to the agency's operations and construction costs, said he would back increasing the city's share of agency spending, which amounts to \$3 billion in city tax revenue, up from \$2.66 billion in the current plan. Yet, he warned that city money should not be counted upon in the event the MTA fails to implement congestion pricing on time. The legislature also committed \$3 billion in state tax revenue to the plan, in the state budget it approved in June.

The program to require motorist fees upon entering Manhattan south of 60th Street faces a Dec. 31, 2020 deadline for plans to be drafted. A panel responsible for setting prices and policies has yet to be appointed by the MTA's Triborough Bridge and Tunnel Authority.

The mayor also said the board should have postponed a vote on the capital plan until a forensic audit was completed "to ensure accuracy in MTA forecasts, projections and capital plans."

The agency's capital plan "requires a full review that yields guarantees on the MTA's cost estimates, the agency's ability to execute a plan of this size, and its ability to reform the way it delivers large projects to prevent delays and cost overruns," de Blasio said in a letter to Foye Wednesday. "It is equally important that we respect the city's budget process, the key stakeholders involved in its formulation and adoption, and the need to evaluate how a contribution of this size would compete against other pressing city capital needs."

Foye responded to de Blasio's letter without addressing de Blasio's concerns, emphasizing the mayor's support for the agency's goals. "We look forward to continuing the conversation with the city in the weeks ahead," Foye said during Wednesday's board meeting. "We're continuing to focus on our operating budget deficits and to find ways to reduce costs and balance the budget as statutorily required each year as we work toward the November financial plan."

Bloomberg Markets

By Henry Goldman

September 25, 2019, 12:14 PM PDT

[New Jersey's Debt Is a Hot Commodity in Hunt for Higher Yields.](#)

- **N.J. agency increased bond sale after seeing strong demand**
- **Buyers are hungry for yield amid lowest rates since 1960s**

New Jersey's debt is a hot commodity.

Investor demand for the New Jersey Transportation Trust Fund Authority's bond sale on Tuesday was so strong that the agency was able to add \$200 million to the \$800 million offering. And it

repriced the \$1 billion at lower yields than initially offered, a positive for a state beset by large debt and pension costs.

The demand came as investors seek refuge from municipal-bond yields that are the lowest since the 1960s. The Garden State agency offered two attractive features: a BBB+ credit rating and a unique structure.

The deal included debt with 3.25%, 3.5% and 4% coupons, straying from the 5% coupon that state and local debt issuers typically offer. Investors look to such structures as a way to pick up extra yield to account for the risk of interest rates rising. That risk includes the chance that a steep drop in prices could cause some of their income to be taxed under a provision of U.S. law known as the de minimis rule.

That meant the \$1 billion offered yields as much as 1.67 percentage points higher than AAA rated issuers, according to data compiled by Bloomberg. The Trust Fund Authority also sold \$150 million in fixed-rate notes Tuesday with yields ranging from 2.48% on securities due in 10 years to 2.79% on those maturing in 2034.

About 100 different investors submitted orders totaling \$4 billion for the two series of debt, Wells Fargo & Co. spokeswoman AnnMarie McDonald said in an email. Wells Fargo served as senior manager on the deal.

Other issuers have also benefited from state and local debt rallying this week after the release of weaker-than-expected consumer confidence data, Janney Montgomery Scott noted in a Sept. 25 report. The Texas Water Development Board lowered yields on its bond sale this week in light of strong demand for its bonds, Janney said.

Bloomberg Markets

By Amanda Albright and Michelle Kaske

September 25, 2019, 10:30 AM PDT

[Federal Board Files Plan to Reduce Puerto Rico Debt by 60%.](#)

SAN JUAN, Puerto Rico — A federal control board that oversees Puerto Rico's finances filed in court Friday a long-awaited plan that it says would reduce the U.S. territory's debt by more than 60 percent and pull the island out of bankruptcy.

The plan comes three years after the U.S. Congress created the board and would reduce \$35 billion in liabilities to \$12 billion, a move that some believe would help ease Puerto Rico's financial crisis amid a 13-year recession, pave the way to the board's departure and allow Puerto Rico to regain fiscal autonomy.

"Today we have taken a big step to put bankruptcy behind us," said board chairman José Carrión. "Three years after Congress passed PROMESA and two years after the most severe hurricane in more than 100 years hit Puerto Rico, after more than a decade of economic decline and fiscal disarray, after tens of thousands of Puerto Ricans left their island to find prosperity elsewhere, we have now reached a turning point."

Puerto Rico was dragging more than \$70 billion in public debt after decades of mismanagement, corruption and excessive borrowing to balance budgets. In June 2015, the government declared the debt unpayable, and in May 2017, Puerto Rico filed for the biggest U.S. municipal bankruptcy in history.

Since then, deals totaling more than \$23 billion have been reached with creditors holding bonds issued by certain Puerto Rico government agencies. The newest plan targets general obligation bonds and other debt held by the government, and it still has to be approved by a federal judge overseeing a bankruptcy-like process as Puerto Rico still struggles to recover from Hurricane Maria.

The island's infrastructure remains weak as evidenced by Puerto Rico's Electric Power Authority announcement late Thursday about selective power cuts given high demand and an overwhelmed power grid that has left tens of thousands without power overnight.

In addition, the fiscal crisis has crippled Puerto Rico's ability to recover from the Category 4 storm that hit in September 2017 because it cannot borrow money since it doesn't have access to capital markets, officials said.

Board members met on Friday to talk about the plan's details, noting that while they expect creditors to fight back, the restructuring is needed.

Natalie Jaresko, the board's executive director, said Puerto Rico's bankruptcy is larger than that of General Motors in 2009 as she praised the aim to reduce the island's debt by 60%.

"Those are huge numbers," she said. "It's a very important day for Puerto Rico."

However, Carrión acknowledged that the plan itself would not lift Puerto Rico's economy or spur economic development.

"It's not a panacea," he said, adding, "Nothing can happen unless we get out of bankruptcy."

If approved, the debt restructuring plan would reduce Puerto Rico's annual debt service to under 9%, down from almost 30% prior to Congress approving a financial package that led to the creation of the board.

The plan also would restructure general obligation bonds and others issued in previous years by Puerto Rico's government, with creditors who hold bonds issued after 2011 facing bigger cuts since that debt has been challenged as unconstitutional.

In addition, the plan would impose an 8.5% in pension cuts for retirees that receive more than \$1,200 a month, a move that Puerto Rico's government has opposed. Puerto Rico's public pension system currently faces more than \$50 billion in unfunded pension benefits.

The island's previous governor, who resigned in August amid political turmoil, vehemently opposed pension cuts. However, the new governor, Wanda Vázquez, said in a televised address on Friday that she supports the plan in part because it will help guarantee the continuation of government services and warned retirees would face deeper cuts if it's not approved.

Vázquez said she's convinced the plan is the best option, adding, "We cannot remain stuck in bankruptcy for much longer."

By The Associated Press

Sept. 27, 2019

Fitch Ratings: Fiscal Renaissance Continues for California

Link to Fitch Ratings' Report(s): [Are All California Credits Ready for the Next Recession? \(Levels of Government Exhibit Different Strengths, Weaknesses\)](#)

Fitch Ratings-San Francisco-20 September 2019: Strong budget management contributed to California's rating upgrade last month and have positioned the state quite well for the next economic downturn, according to Fitch Ratings in a new report.

Fitch upgraded California to 'AA' in August 2019, reflecting improved fiscal management that has become institutionalized across administrations. In Fitch's view, this allows the state to better withstand economic and revenue cyclicalities. "California has repaid all budgetary borrowing accumulated through two recessions and now has a structurally balanced budget, which is a big plus this late in the broader economic cycle," said Senior Director Karen Ribble.

"Fitch-rated cities and counties have increased their financial resilience throughout the economic expansion, increasing available fund balances to 35.5% and 23.5% of spending at the end of fiscal 2018, respectively," said Ribble.

While the state and cities and counties appear well-prepared, risks remain. Median available fund balance for Fitch-rated California school districts declined in fiscal 2018 compared to fiscal 2017, though they are still above fiscal 2008 levels. The median available fund balance finished at 16.4% at the end of fiscal 2018, down from 17.9% of spending at the end of fiscal 2017. "Slower growth in school funding and continued pension cost pressures are leading many school districts to draw more out of their reserves," said Ribble.

'Are All California Credits Ready for the Next Recession?' is available at 'www.fitchratings.com' or by clicking on the link.

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[California Backs Big Bond Deal for Virgin Trains' Las Vegas Line.](#)

A California agency on Wednesday approved the first step in the plans of Virgin Trains USA to sell \$4.2 billion in tax-exempt debt to build a high-speed train to Las Vegas from a desert town in southern California.

The state's Debt Limit Allocation Committee staff recommended that the company, backed by Fortress Investment Group's private equity funds, receive half of its request for now, contingent on it submitting an economic development plan. Combined with an expected allocation from the federal government, a California agency would issue up to \$3.2 billion of tax-exempt debt on the train's behalf.

The company in November will also ask Nevada to issue up to \$800 million for the railroad, plus part of the federal allocation, so the company's tax-exempt financing plans total \$4.2 billion for the \$4.8 billion project. Virgin Trains would be on the hook for debt payments, not the government agencies selling the bonds on its behalf.

"Today's approval is a major milestone in connecting Las Vegas and Southern California with intercity high-speed rail," Ben Porritt, a spokesman for Virgin Trains, said in a statement after the vote. "This is a significant private investment that will generate thousands of new jobs, spark new mixed use and housing development and remove nearly 4.5 million cars off the road each year."

Virgin Trains, which in Florida launched the nation's first privately-owned intercity passenger railway in more than a century, plans to lay tracks mainly along the median of Interstate 15 to Las Vegas from Apple Valley, California, 85 miles northeast of downtown Los Angeles. Construction will take three years and trains will run in 2023, the company said.

Apple Valley and other officials from the San Bernardino County community known as Victor Valley at the meeting touted the project's ambitions of sparking development.

"It's a regional kick starter that will usher in a new era of economic development in San Bernardino County by creating jobs, housing, retail, and commercial activity," California Treasurer Fiona Ma said in a statement.

Bloomberg Markets

By Romy Varghese

September 18, 2019, 1:53 PM PDT

[The GM Strike Poses A Tax Threat To Michigan: Albright \(Radio\)](#)

Amanda Albright, Municipal Bond reporter, on Chicago's budget gap, and the GM strike posing a tax threat to Michigan. Hosted by Lisa Abramowicz and Paul Sweeney.

[Play Episode](#)

Bloomberg

September 20, 2019 — 8:56 AM PDT

[General Motors Strike Poses Tax Threat to Michigan.](#)

- **More than 20% of Michigan wages come from manufacturing**
- **Moody's says work stoppage 'poses outsized economic threat'**

The federal bailout of General Motors Co. helped prevent Michigan from sinking deeper after the recession. Now, the strike by its workers is threatening to exert a drag on the state and its local governments amid the record-long economic recovery.

General Motors employees stopped working on Sept. 16 as United Auto Workers union leaders negotiate with the car manufacturer over wages and benefits. If the standoff continues to drag on, Michigan officials anticipate that the state could lose as much as \$4.6 million a week in tax revenue, according to Moody's Investors Service.

"The work stoppage poses an outsized economic threat to the state of Michigan as well as local governments in the state such as Detroit that have above-average economic exposure to the automotive giant," Moody's analyst Ted Hampton wrote in a report.

Michigan is the birthplace of the American automobile industry and remains heavily tethered to it. More than 20% of Michigan wages in 2017 came from manufacturing, including more than 5% from car makers, according to Moody's. That makes it twice as dependent on manufacturing and the auto industry than the overall U.S.

Unemployment has tumbled since depths of Great Recession

If the strike negatively affects the state's revenue, the record-long economic expansion has left Michigan with a significant cash cushion to weather it: It had \$1 billion in its rainy day fund at the end of June 2018, compared with \$2.2 million in 2008, according to Moody's.

The bond market has also brushed off the potential impacts of the strike. Debt sold in Michigan has gained 6.5% this year, more than the 6.3% advance for the broader municipal-bond market, according to Bloomberg Barclays indexes.

General Motors' offer to end the strike includes 5,400 new and retained jobs and \$7 billion in U.S. investment during the next four years, the Detroit Free Press reported Thursday. The parties resumed talks Thursday morning following negotiations late Wednesday night.

Bloomberg Markets

By Michelle Kaske

September 19, 2019, 10:34 AM PDT

[S&P Medians And Credit Factors: Massachusetts Municipalities](#)

Overview

Massachusetts local government credit quality remains stable, supported by strong economic growth, with low unemployment, leading to wealth and incomes that are among the highest in the country. S&P Global Ratings maintains long-term ratings on 222 municipalities in Massachusetts. Of these, two ratings have positive outlooks. Of those municipal ratings, 11 ratings changed since the beginning of 2019, eight were upgrades, and three were outlook revisions. There were no downgrades.

As the current economic cycle continues, we anticipate that the pace of upgrades will continue to exceed that of downgrades, particularly as governments bolster their financial positions following several years of robust taxable value growth. However, we believe the delta may begin to narrow as upgrades may become less frequent given GDP projections are falling and the risk of recession is rising. (See “U.S. State And Local Governments Will Need To Keep Their Hands On The Wheel,” published on July 31, 2019, on RatingsDirect.)

[Continue reading.](#)

S&P Medians And Credit Factors: Rhode Island Municipalities

Overview

S&P Global Ratings maintains long-term ratings on 22 of the 39 cities and towns in Rhode Island. Since the beginning of fiscal 2019, there were only two rating revisions--Johnston and Providence--each received a one-notch upgrade, primarily for increased reserves and budgetary flexibility.

As the current economic cycle continues, we anticipate general rating stability as many governments look to maintain their financial positions following several years of modest taxable value growth. However, we believe there may be budgetary pressure on the horizon as GDP projections are falling and the risk of recession is rising. (See “U.S. State And Local Governments Will Need To Keep Their Hands On The Wheel,” published on July 31, 2019, on RatingsDirect.)

Management teams throughout the state have adopted formal financial management policies and practices, helping to ensure continued stable financial operations. Of all Rhode Island municipalities, 65% score strong or good in our Financial Management Assessment methodology, demonstrating the strength of reporting requirements, long-term forecasting documents, and debt and reserve policies. Additionally, 100% of the state’s cities and towns participate in a broad and diverse metropolitan statistical area (MSA), providing additional rating stability. While Rhode Island’s manufacturing sector was particularly hard hit in the recession and we believe the state’s economy is still vulnerable to economic shocks, recent growth in health care and high-technology sectors has helped diversify the economy.

[Continue reading.](#)

S&P Medians And Credit Factors: New Jersey Municipalities And Counties

Overview

New Jersey municipalities and counties (or local governments [LGs]) generally have high credit quality, and S&P Global Ratings expects credit quality for New Jersey LGs to remain stable in the near term despite the fact that they face several potential challenges. These challenges include actions at the state level that may affect local government finances (for more information, see “New Jersey’s State Budget Offers Flat Aid, Uncertain Revenue For Local Governments,” published Aug. 19, 2019, on RatingsDirect). The stability is supported by above-average wealth and income levels and access to strong, broad, and diverse metropolitan statistical areas (MSAs).

S&P Global Ratings maintains ratings on roughly 290 LGs in New Jersey. Overall, the LG portfolio retained stable credit quality in the last 12 months, with only 5.8% experiencing rating movement, including 11 positive rating actions and six negative rating actions. Nine of our positive rating actions reflected strengthening financial performance and reserve positions among the rated municipalities. All six negative rating actions were at least partly due to inconsistent budgetary performance. Nearly 98% of ratings carry a stable outlook, while 1% have negative and 1% have positive outlooks.

[Continue reading.](#)

[Detroit Mayor Wants to Wipe Out Residential Blight With Bonds.](#)

CHICAGO — Detroit Mayor Mike Duggan unveiled a plan on Monday to sell up to \$250 million of bonds to tackle the city’s remaining blighted and abandoned houses over the next five years.

If approved by the Detroit City Council, a bond measure would be placed on the March ballot, marking the first vote by residents on bonds since the city exited municipal bankruptcy in 2014.

“This is a day we have been waiting for,” the mayor told a news conference in front of a boarded-up house. “No child should grow up surrounded by this kind of blight.”

Proceeds from the 30-year bonds, along with annual appropriations from the city’s budget, would be used to accelerate the demolition of 19,000 structures and the rehabbing of 8,000 others, according to a statement from Duggan’s office.

Without the bond funds, the process would take 13 years to complete, it added.

Since 2014, Detroit has mainly relied on \$265 million of federal money for the 19,000 vacant structures torn down in a program restricted to certain areas of the city.

Detroit’s time in federal bankruptcy court included a default on millions of dollars of voter-approved general obligation (GO) bonds and an attempt by the city’s state-appointed emergency manager to have the debt considered unsecured. Settlements with bond insurers and bondholders resulted in a 26% reduction in value.

Detroit’s first post-bankruptcy sale of GO bonds solely under its junk-rated credit in December 2018 found investors eager to snap up fat yields.

David Massaron, Detroit’s chief financial officer, said the new unlimited-tax GO bonds would be paid off within the city’s existing property tax levy.

“I think the city has, A., proven that the investor community is comfortable with this credit, and B., has shown through its actions over the last several budgets that it is acting in a prudent and fiscally sound way,” he said in a telephone interview.

Michigan’s largest city was able to terminate active post-bankruptcy oversight of its finances in April 2018 after concluding three-straight fiscal years with balanced budgets.

By Reuters

Sept. 16, 2019

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

[California Lawmakers Pass Bill Rolling Back Bond Disclosures.](#)

Californians will see less information when voting on bonds and tax increases if Governor Gavin Newsom signs a bill the legislature passed Friday that rolls back disclosure requirements on the ballots.

The bill removes the obligation that schools and municipalities must disclose the fiscal impact of their measures in the questions put to voters. State senator Scott Wiener, a Democrat and backer of the bill, said trying to explain that in 75 words, the limit of a ballot question, creates confusion, may cause more measures to lose and makes it virtually impossible for tiered parcel taxes to pass. His legislation delegates the description to the guide or another separate document.

The retreat was a setback for Republican assemblyman Jay Obernolte, who had pushed for the disclosure that had passed unanimously two years ago. He said voters should have all the information when they read the ballot questions — not just in voluminous election guides they may not review.

“Californians deserve to know if a measure they’re voting on will increase their property taxes,” Obernolte said in a statement. “Opponents have argued that voters are confused with this extra level of information, but the truth is that they just want to make it as easy as possible to raise your taxes.”

Newsom’s finance department said in August that it opposes the bill because adding more information to the voter guides may result in additional production costs that the state has to cover.

Bloomberg Markets

By Romy Varghese

September 13, 2019, 5:54 PM PDT

[S&P Charter School Brief: Illinois](#)

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As of Sept. 9, 2019, S&P Global Ratings maintains three public ratings on Illinois charter schools. The Illinois legislature first approved the state's charter school law in 1996, and approximately 65,000, or about 3%, of the state's kindergarten through 12th-grade (K-12) students were enrolled in 141 Illinois charter schools during the 2017-2018 school year. The vast majority (about 90%) of Illinois' charter schools are located in Chicago.

Total enrollment at Chicago Public Schools (CPS) has dropped by nearly 10% over the past five years, while charter school enrollment has grown by about 5% over the same period. Charter schools in Chicago serve approximately 13% of total K-12 Chicago students, the majority of which are located in low-income neighborhoods, serving a high free and reduced lunch population, where a quality education is in high demand.

[Continue reading.](#)

[Stung Luxury Dorm Bondholders Say University Broke Promises.](#)

- **University of Oklahoma had 'moral obligation' to renew leases**
- **Trustee calls the university's decision a 'belligerent act'**

The trustee representing bondholders who invested \$250 million in a luxury dorm at the University of Oklahoma accused the college Monday of breaking a promise to lease retail and parking spaces over the 40-year term of the bonds.

The dorm at OU's flagship campus in Norman has struggled to attract students and in late July suffered another blow when the university notified the complex's non-profit owner that it wouldn't renew the annual leases. Bonds issued in 2017 to finance the 1,230-bed complex known as Cross Village, which had a 27% occupancy rate at the end of March, lost a third of their value after the university terminated the agreement.

The rental payments, projected to make up a third of the dorm's revenue, were a "moral obligation" of the university, lawyers for the trustee, UMB Bank, wrote in a letter to the university's outside counsel Monday. Failure to renew the leases could result in a downgrade of the university's bonds, driving up borrowing costs, the letter said.

[Continue reading.](#)

Bloomberg Markets

By Martin Z Braun

September 9, 2019, 9:22 AM PDT Updated on September 9, 2019, 11:40 AM PDT

[University of Oklahoma Fires Back at Trust Bank in Muni Bond Dispute.](#)

The University of Oklahoma is pushing back against complaints about its termination of a lease on

commercial space in a troubled student-housing development on its campus.

That development was financed with \$250 million of bonds, so the commercial property's rent is important for debt service. The university is arguing that it has no obligation to the bondholders, largely because the debt was issued by a subsidiary of private nonprofit organization Provident Resources Group that was formed in 2016 to support the university.

Trust bank UMB disagrees. In a recent letter to the university, its attorney, David Dubrow of Arent Fox, called the lease cancellation a "betrayal" and threatened legal action. Dubrow claimed in the letter that the university "assured investors that even though the leases for the commercial space and parking were renewable on an annual basis, [it] intended to rent all of the commercial spaces for the life of the bonds."

[Continue reading.](#)

Barron's

By Alexandra Scaggs

Sept. 12, 2019 3:40 pm ET

[Moody's Views Addition of Bond Insurers for Prepa RSA as 'Significant Progress'](#)

Credit-rating agency points to uncertainties in outcome of Puerto Rico utility restructuring plan

SAN JUAN — The addition of two monoline bond insurers to the Puerto Rico Electric Power Authority's (Prepa) restructuring support agreement (RSA) represents "significant progress" toward completion of the public corporation's debt restructuring process and transformation, including averting the possibility of the utility being forced into receivership, credit rating agency Moody's Investors Service said in a report Tuesday.

The island's Financial Oversight and Management Board (FOMB) announced Monday that, together with the Fiscal Agency and Financial Advisory Authority (Aafac by its Spanish acronym) and Prepa, it reached an agreement with bond insurers Syncora Guarantee Inc. and National Public Finance Guarantee Corp. to join the RSA that certain Prepa bondholders and Assured Guaranty Corp. reached earlier this year.

"The addition of national and Syncora to the RSA demonstrates further progress toward Prepa's debt restructuring and a subsequent emergence from bankruptcy," Moody's report states. "As part of this agreement, National and Syncora agreed to drop their previous litigation seeking a court motion to appoint a receiver for Prepa."

Moody's notes that the agreement does not change the economic terms of the RSA announced in May, which among other things, calls for existing bondholders to exchange their bonds for new securitization bonds that will be issued by a "new special purpose vehicle" that is separate from Prepa.

The debt service on the new securitization bonds will be covered with additional revenues raised

with a “transition charge” on Prepa customers.

With the addition of the two bond insurers, the RSA has the approval of about 90 percent of the uninsured bonds and all of Prepa bond insurers, which exceeds the minimum 67 percent threshold needed for approval. Nevertheless, the rating agency cautions that completion of the debt restructuring process is still subject to a number of conditions, including approval from “the court overseeing the bankruptcy as well as the approval of the legislature.”

Moreover, Moody’s states that “there remains a high degree of uncertainty about whether this restructuring plan can or will be implemented,” noting the issue of “affordability” of the agreement for Puerto Rico’s “struggling economic base.”

In fact, many economists and consumer advocacy groups have warned that the RSA is a sweet deal for Wall Street banks but bad for Puerto Ricans, who will end up seeing significant hikes to their utility bills. An independent analysis by the Institute for Energy Economics & Financial Analysis (IEEFA) has projected lower rates for only a short-term basis, with increases down the road.

Puerto Rico Manufacturers Association President Carlos Rodríguez on Wednesday reportedly called on Gov. Wanda Vázquez and the FOMB to reveal the charges that would be included in Prepa customers’ bills as part of the RSA, noting that the effects of such increases could be detrimental to industries on the island. It would also hamper efforts to attract business to the island, he added.

IEEFA and other organizations have questioned the legality of \$5 billion of the Prepa debt in question. MBIA Insurance Corp. and its National Public Finance Guarantee Corp. had filed a lawsuit, citing flaws and conflicts of interest plaguing the \$8.3 billion Prepa restructuring deal.

The Moody’s report states that “there is the potential for additional litigation as other creditors, including the remaining unsecured creditors, might seek to challenge the settlement in court.”

The rating company maintains a classification of “Ca” with a negative outlook on Prepa debt. The rating is given to debt that is “highly speculative and likely in, or very near, default, with some prospect of recovery in principal and interest.” Meanwhile, Moody’s rating for National Public Finance is “Baa2,” or moderate credit risk, with a stable outlook.

Execution of the RSA would represent the third debt exchange by Puerto Rican entities after the court approved settlements for the Government Development Bank in November, and the Puerto Rico Sales Tax Financing Corp. (Cofina by its Spanish acronym) in February.

William C. Fallon, chief executive officer of National Public Finance Guarantee, said that following the Cofina transaction earlier this year, it is “a step closer to resolving all of National’s Puerto Rico exposure.”

“We look forward to working cooperatively with the Government of Puerto Rico, the Oversight Board and other creditors on the closing of this transaction, and to restructuring our remaining exposure to the island,” Fallon said in a statement to Caribbean Business, in which he noted that the RSA “provides a blueprint for the restructuring of our insured Prepa bonds.”

The Prepa RSA before the bankruptcy court covers \$8.26 billion of debt. A hearing on the RSA is scheduled for Oct. 30.

Caribbean Business

By José Alvarado Vega on September 11, 2019

Shifts in Tax Policy Need to Address Puerto Rico's Status.

Treasury Secretary Steven Mnuchin recently met with Puerto Rico Gov. Wanda Vázquez and other officials to inform them of the need to phase out the 4 percent excise tax imposed on American Foreign Controlled Corporations (CFC). This tax was conceived in 2010 by then Gov. Luis Fortuño as a short-term measure to generate additional revenues to the failing Puerto Rican government, which the IRS has allowed the CFC's to take as a tax credit.

Since then, this excise tax generates an estimated \$1.8 billion yearly to the commonwealth's coffers. CFC's in Puerto Rico report approximately \$40 billion yearly in profits, most of it generated outside of the island but reported in Puerto Rico for its tax advantages.

The Obama's administration had withheld a ruling on the constitutionality of the issue under the assumption that it was a temporary measure. Each governor since has extended the law, which is now set to expire in 2027.

This taxation news would appear to be of little consequence for the greater part of the population. In fact, Mnuchin's statements constitute a shift in Treasury policy and invites welcome attention to the current constitutional underpinnings of how the United States exercises its authority over Puerto Rico.

Underlining this shift in tax policy is the unincorporated nature of the Territory of Puerto Rico. This judicial doctrine developed by the Supreme Court in the so-called insular cases at the turn of the 20th century, was created to address tariff and tax matters on goods imported to the United States from Puerto Rico. This doctrine holds that not all constitutional protection are applicable to the territories. The unincorporated territory doctrine is the ghost in the machine that has allowed for congressional discretion — some would argue justifiably “colonial” — in its treatment of Puerto Rico.

With the approval of the Supreme Court, Congress has discriminated for 120 years in favor of powerful economic forces at the expense of the general welfare of American citizens in Puerto Rico. First were the sugar barons, now it's the pharmaceutical companies. In the recent past, Section 936 of the Internal Revenue Code allowed for significant tax credits and incentives — aptly referred to at the time as “corporate welfare” — for American based manufacturers that were constitutionally unavailable in the rest of the country.

The triple exempt tax advantages of Puerto Rico's bonds, which made them so attractive in the municipal bond market and contributed to our decades long public debt financing addiction, are also based in this same constitutional justification.

Puerto Rico's current fiscal and economic crisis is due in great part to the unincorporated territory doctrine, that until recently benefited the short-term interests of investors and manufacturers, at the expense of long-term economic stability and growth. It is perfectly understandable why the defenders of the status quo lobby to obtain preferential tax treatments. These preferential tax treatments, however, have likely lead Puerto Rico to PROMESA and the Financial Oversight and Management Board (FOMB).

Within this context, Mnuchin statements that the federal government will not continue to give tax credit to CFC's — which make payments made under local law 154, and that the government of Puerto Rico must phase it out within 6 months — are a welcomed first step in leveling the playing field between Puerto Rico and other state jurisdictions. Puerto Rico legislative leadership has already said it will be filing the required legislation.

Under the existing 2017 Internal Revenue Code, the Puerto Rico government can make up its revenues shortfalls by imposing a 10.5 percent income tax on its foreign corporation's intangible assets, which will receive an 80 percent credit from the IRS. This income tax is estimated to produce close to \$3.7 billion to the commonwealths revenues. Of course, many of these same "foreign corporations" have individual agreements with the Puerto Rico Treasury that inure them from taxation and may not be constitutionally impaired.

This been said, a change in tax policy that fails to address how Puerto Rico is classified under the Internal Revenue Code — that is, as a foreign jurisdiction — will always be subject to modifications as Congress sees fit at any given moment. As long as Puerto Rico is kept as an unincorporated territory, which gives Congress the constitutional cover to treat it as a foreign jurisdiction, it will remain hostage to the vagaries of special interests.

Any proposed changes in the Internal Revenue Code must begin with an explicit acknowledgment by Congress that Puerto Rico is an incorporated territory that needs to be treated as any other stateside jurisdiction.

.THE HILL

BY ANDRÉS L. CÓRDOVA, OPINION CONTRIBUTOR — 09/15/19 02:00 PM EDT

Andrés L. Córdova is a law professor at Inter American University of Puerto Rico, where he teaches contracts and property courses. He is also an occasional columnist on legal and political issues at the Spanish daily El Vocero de Puerto Rico

[Bondholders With \\$1.1 Billion Riding on N.J. Mall Get a Peek.](#)

- **Muni investors invited to visit American Dream this week**
- **Bond prices have soared since unrated, \$1.1 billion bond sale**

Wall Street has over \$1.1 billion riding on the success of New Jersey's American Dream mega mall, the massive consumer utopia outside New York City that's been in the works for nearly two decades.

So on Thursday, bondholders will get a sneak peek at the retail and entertainment hub to see what their investments helped create.

Bondholders have been invited to visit the complex in East Rutherford, New Jersey, ahead of its much-anticipated opening next month, according to a regulatory filing. Among the firms sending someone is Nuveen, one of the biggest holders of debt issued in 2017 to complete the American Dream.

[Continue reading.](#)

Bloomberg Markets

By Amanda Albright

September 11, 2019, 7:22 AM PDT Updated on September 11, 2019, 8:31 AM PDT

S&P Medians And Credit Factors: Maine Municipalities And Counties

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- Overview
- Rating Changes And Distributions

Overview

Maine local government (LG) ratings remain stable, in S&P Global Ratings' view, characterized by strong wealth and income indicators, low unemployment rate, and generally strong budgetary flexibility supported by positive financial performance. Overall, we do not expect any significant changes to Maine LGs' credit quality over the next year.

Supporting Maine local governments' credit quality are low pension costs, with almost no other postemployment benefits (OPEB) liabilities. Most LGs contribute to the Participating Local Districts Plan, administered by the Maine Public Employees Retirement System, which is funded at 83% as of fiscal 2018. The plan's good funded ratio has kept pension costs manageable for LGs. In addition to manageable retirement costs, LGs continue to benefit from an overall stable economy experiencing modest employment growth and increases in assessed values (AVs) over the past few years, which have contributed to generally strong budgetary performance. However, we believe the economic growth experienced by LGs will be challenged by aging workforce participation and slow population growth that is expected to remain among the lowest in the nation over the next 10 years. In addition, we believe many Maine LGs will continue to face long-term climate change related risks due to rising sea levels, which could require further investments in infrastructure projects and sustainability initiatives requiring increases in property taxes, higher debt burdens, use of reserves, or a combination of all three. Furthermore, we believe future AV growth could be hampered by federal caps on the deductibility of state and local taxes that could weaken local revenue sources and population rates especially given the large number of second-homes throughout the state.

[Continue reading.](#)

S&P: Oklahoma Court Ruling On Johnson & Johnson In Wake Of Opioid Crisis Is Not Likely To Affect Municipal Credit Quality

NEW YORK (S&P Global Ratings) Aug. 27, 2019-S&P Global Ratings does not expect Monday's court ruling in Oklahoma imposing a \$572 million judgment on Johnson & Johnson for contributing to the state's opioid crisis to affect municipal credit quality.

Although the opioid crisis is real (see "The Opioid Crisis Is Real, But Not Yet A Threat To State Credit Quality," published Oct. 31, 2017, on RatingsDirect), the direct financial impact on the various states for the costs of the crisis has not been high enough to date to affect a municipal bond rating. In this particular case, the judge has ruled that judgment proceeds should be directed to opioid mitigation programs; therefore we believe it would be unlikely to affect state unreserved fund balances. The size of the judgment also needs to be placed in context with Oklahoma's \$8.1 billion enacted fiscal 2020 budget, assuming the judgment is not reduced on appeal. We rate Oklahoma's general obligation debt AA/Stable.

In the wake of this ruling, other states and other opioid manufacturers might pursue private legal

settlements that could impose fewer restrictions on the use of settlement proceeds, similar to settlements reached in earlier state litigation over the costs of tobacco use. That master tobacco settlement essentially imposed no restrictions on state use of settlement proceeds. Some minor favorable increase to state budgets is possible if opioid settlements increased state coffers, but as has happened following the earlier tobacco settlement, we do not expect to change an individual state rating based on expected settlement outcomes. That tobacco settlement provided ongoing state revenue from continued smoking consumption, while in the opioid situation the states' goal is to end misuse of opioids. As a result, opioid settlement proceeds are likely to be of a one-time nature, and even less likely to affect long-term credit quality.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

[S&P: Despite ERCOT's Price Spikes, Texas Public Power Utilities Remain Resilient](#)

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- ERCOT's Price Spikes And Low Reserve Margins
- Exposure To Increased Power Costs
- Common Strategies To Mitigate Market Price Spike Exposure

In mid-August, S&P Global Ratings observed price spikes in the Electric Reliability Council of Texas Inc. (ERCOT) market, which exposes utilities short on energy to increased power costs. Because the ERCOT market does not compensate generation owners with capacity prices that might provide incentives to encourage new market entrants, regulators use scarcity-pricing signals and energy conservation measures to ensure system reliability of the electric grid. Despite the recent price spikes and ERCOT's recent energy emergency alerts (EEA1) on Aug. 13 and 15, 2019, ERCOT has not had to implement systemwide rotating outages this summer. Although ERCOT's market dynamics present cost-recovery challenges to utilities for a period when reserve margins are thin and energy demand peaks, we observe public power and electric cooperatives in Texas sufficiently managing power supply needs and using power cost recovery mechanisms to recover increased power costs. We also observe that these spikes tend to be short-lived. Utilities with surplus capacity to sell might benefit during these spikes, but at other times, they face cost-recovery challenges because prices are generally low in the ERCOT market due to an abundance of renewable generation and natural gas relative to pipeline capacity. We're following the ERCOT market price spikes to better understand utilities' power supply strategies and the extent to which they are exposed to cost recovery challenges.

[Continue reading.](#)

[Final Bond Insurers Join Deal Over Puerto Rico Electric Utility Debt.](#)

SAN JUAN, Sept 9 (Reuters) - Two holdout bond insurers have agreed to a previously announced deal to restructure more than \$8 billion of revenue bonds issued by Puerto Rico's bankrupt electric utility, the U.S. commonwealth's federally created financial oversight board said on Monday.

The action by National Public Finance Guarantee Corporation and Syncora Guarantee Inc to join a definitive restructuring support agreement (RSA) reached in May with other creditors moves the Puerto Rico Electric Power Authority (PREPA) closer to exiting a form of bankruptcy filed in July 2017.

"The addition of Syncora and National to the RSA provides significant certainty to the restructuring not only of PREPA's bonds, but to the transformation of PREPA to a modern, efficient power utility able to deliver clean, reliable and affordable energy to the people and businesses of Puerto Rico," a statement from the oversight board said.

It added that all of the insurers guaranteeing payments on the utility's debt and holders of about 90% of PREPA's other, uninsured bonds have now joined the agreement.

National Public Finance, a subsidiary of MBIA Inc, is PREPA's largest single creditor, owning or insuring about \$1.4 billion of the utility's bonds, according to the company, which claimed earlier this year it had been excluded from negotiations as it sought a court-appointed receiver for the utility.

With the PREPA restructuring, National is another step closer to resolving all of its exposure to Puerto Rico debt, Bill Fallon, the insurer's CEO, said in a statement.

The oversight board said the economic terms of the RSA, originally reached with bond insurer Assured Guaranty Corp and bondholders, have not changed. That deal would reduce PREPA's debt by up to 32.5%. Under the agreement, investors would exchange their PREPA bonds at 67.5 cents on the dollar for new Tranche A bonds and 10 cents on the dollar for new Tranche B bonds. The latter would be contingent on full payment of Tranche A bonds and future electricity demand on the island.

PREPA would pay off the new bonds through a special charge levied on its customers.

If approved in federal court, a plan of adjustment for PREPA would mark the third major deal in Puerto Rico's efforts to restructure about \$120 billion of debt and pension obligations.

PREPA's financial and operational problems were compounded by 2017's Hurricane Maria, which decimated an electric grid already struggling due to poor rate collection, heavy management turnover and lack of maintenance.

(Reporting by Luis Valentin Ortiz in San Juan and Karen Pierog in Chicago Editing by Matthew Lewis)

[S&P Medians And Credit Factors: Illinois Municipalities And Counties](#)

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- Overview
- Rating Changes Due To GO Credit Factors
- Rating Changes Owing to Criteria

Overview

S&P Global Ratings maintains ratings on 238 municipalities and 21 counties in Illinois. Currently, 58% of Illinois municipalities and counties are highly rated ('AA-' or above), and 8.5% have debt rated in the 'BBB' category or lower. During the period of Jan. 1, 2018 to July 29, 2019, only about 8% experienced changes in their general obligation (GO) rating or issuer credit rating (ICR). More entities' GO ratings/ICRs were downgraded than upgraded during the year.

We expect generally stable conditions in the Illinois municipal portfolio in the coming year, despite significant challenges, particularly with regard to many municipalities continuing to grapple with large unfunded pension liabilities. With regard to its economy, the state has continued to see a large divergence between the generally higher-growth economy in the Chicago metropolitan area and tax bases downstate, which are marked by weaker growth and less economic diversity. Overall, the state's economy, similar to the Great Lakes region as a whole, is expected to see slower economic growth than most other parts of the nation. The state passed its 2019-2020 budget on time, and while it still has a lingering structural imbalance, the budget includes a significant increase in state gas tax, which is expected to be used for capital projects in the coming years and will benefit local communities. The state continues to reduce the local government distributive fund by 5% for municipal governments, which is the same reduction that occurred last year. State legislators also authorized a referendum for a statewide graduated income tax, which will go to voters in November 2020.

Illinois' pension funding challenges remain acute, particularly with regard to single-employer public safety pension plans. Estimates indicate that the over 650 public safety pension plans statewide are 55% funded in aggregate. We anticipate that Illinois municipalities' attempts to remedy these funding deficiencies will absorb a sizeable portion of their budgets next year.

[Continue reading.](#)

Illinois' Financially Distressed Municipal Laws Need 'Teeth' Before Next Downturn, Expert Says.

Some Illinois municipalities, mired in debt with declining populations, could lose their ability to provide core services and pay debts amid a national economic downturn a situation made worse because the state's laws lack the instruments to intervene and stave off insolvency, according to a professor and municipal finance expert.

Illinois has two different laws meant to provide help for units of government that have reached budgetary crisis levels. The Local Government Financial Planning and Supervision Act, applicable to municipalities of fewer than 25,000 people, and the Financially Distressed City Law for cities with more than 25,000 people.

Both of the laws are elective, meaning the state cannot impose them on municipalities.

Michael Belsky, executive director at the Center for Municipal Finance at the Harris School at the University of Chicago, said state lawmakers need to give these laws "teeth" before the next

economic downturn.

“Their tax bases have been ravaged and they have high levels of poverty. It’s troubling,” he said. “In other states, they have these fiscal emergency laws. We have this stewardship, but it doesn’t have any teeth. I really think that’s needed for these poorer communities.”

East St. Louis is the only city to have used one of Illinois’ financial stewardship laws, doing so shortly after the law was enacted in 1990. East St. Louis later fought back against the advisors, even suing them to stop some of the financial constraints they were attempting to put on city officials. The city was able to shed state oversight 23 years later when it was able to pay off the money it borrowed from the state.

Belsky said states like Michigan have financial intervention laws that Illinois should emulate. Michigan’s laws allow the state to impose the edicts of an appointed commission upon the city found to be approaching insolvency as demonstrated in Detroit shortly before it declared bankruptcy.

Illinois has no law allowing municipalities to file Chapter 9 bankruptcy. While some municipalities have filed, they were only allowed to do so for lack of legal challenge.

The Illinois Municipal League, which represents the interests of the state’s town and city governments, said the assistance provided by the acts aren’t adequate compared to their current struggles.

“We’re not looking for more “teeth” necessarily, but making it more applicable to what cities are needing and actually beneficial to their residents,” Illinois Municipal League Executive Director Brad Cole said. He added that the league plans to work on legislation that would give better state assistance for municipalities that enlist the state’s help via the Financially Distressed Cities Act and allow smaller units of government to qualify for the same assistance.

The lack of Chapter 9 accessibility leaves municipalities that don’t reach out to the state for assistance to plod along in a form of walking insolvency, paying bills as revenue arrives and surviving largely on accounting gimmicks and state assistance, something referred to as a “zombie municipality” by Truth in Accounting.

By Cole Lauterbach | The Center Square

Sep 3, 2019

[Fitch Downgrades Alaska Again for State Budget Problems.](#)

Alaska’s financial situation got a little bit tougher Thursday afternoon when Fitch Ratings downgraded a suite of credit ratings tied to state debt.

Most notably, Fitch downgraded Alaska’s general obligation, or GO bond rating from AA to AA- on \$724 million worth of bonds.

Another roughly \$1.1 billion in state appropriation bonds was downgraded from AA- to A+ and more than \$1.1 billion in Alaska Municipal Bond Bank Authority resolution bonds also went from AA- to A+.

Fitch gave the ratings a stable outlook.

As with other ratings downgrades from Fitch and other agencies in recent years, the downgrade is tied to the State of Alaska's continued inability to balance its budget, according to a statement accompanying the announcement.

"To date, (state budget) operating revenue remains anemic, and the administration's commitment to funding a full Permanent Fund dividend despite projected revenue loss has contributed to the enactment of a fiscal 2020 budget that includes deep cuts to core state services," Fitch analysts wrote. "Fitch expects this will be followed by comparable actions in fiscal 2021. Despite the expenditure reductions, appropriations from the state's Statutory Budget Reserve Fund and Constitutional Budget Reserve Fund are required to fund the dividend payment and the capital program, reflecting the state's ongoing structural deficit."

Department of Revenue officials have said a one-notch downgrade such as this one roughly equates to a 0.25 percent increase in the interest rate on money the state borrows often through bonds for capital projects. Local governments and school districts also piggy-back on the state's rating and use the moral obligation of the state to secure lower interest financing for their projects.

The Revenue Department is looking to sell up to \$700 million in revenue bonds to pay off the state's remaining oil and gas tax credit obligation after the refundable tax credit program was ended in 2017 due to budget constraints. However, it's unclear exactly when, or if, that bond sale will take place as the legality of the plan has been challenged and is currently under review by the Alaska Supreme Court.

State debt manager and Alaska Municipal Bond Bank Authority Executive Director Deven Mitchell said via email that he was surprised and disappointed by the downgrade because even though getting to a final 2020 budget was "a painful process" the state ended up with a budget that is pretty much balanced.

"The report was based on negative 'beliefs' and 'potentially expected futures' rather than the reality of today," Mitchell said.

The state's credit rating has been on a downward trajectory since early 2016 when oil prices dropped to less than \$30 per barrel and the state's budget deficit was more than \$3 billion. Alaska had sterling AAA ratings prior to 2016.

Moody's and Investors Service currently has an Aa3 (comparable to AA-) rating for the state's GO bonds, while Standard and Poor's has an AA rating for the state.

In February, Dunleavy proposed closing the state's roughly \$1.6 billion deficit without tax increases or reducing PFD payments by drastically cutting state services and pulling local tax revenue into state coffers.

According to Fitch, Gov. Michael J. Dunleavy's desire to pay a full, statutorily calculated PFD "elevates the state's fixed cost burden and reduces its ability to respond to future economic weakness as revenue growth is expected to be modest."

The agency's analysts also believe that "substantial reductions" to the state's health care and university budgets could have consequences for future economic growth in the state.

A prolonged budget debate resulted in Dunleavy vetoing \$50 million from the state's Medicaid budget in addition to a \$70 million cut instituted by the Legislature. Dunleavy agreed to a \$25

million cut — part of \$70 million over three years — to the state's support of the University of Alaska.

Dunleavy was upbeat in a statement issued late Thursday responding to Fitch's criticisms of the state's fiscal situation.

"In reading this report, it's clear this is the result of what has - or has not - occurred over the last several years," the statement said. "My administration is determined to get our fiscal house in order. Alaska has struggled with fiscal imbalance for years and we must continue moving forward on necessary steps to put in place a stable and reliable fiscal plan. I continue to be optimistic for Alaska's future: unemployment is at its lowest rate in nine years; GDP is on the rise; billions in new oil and gas investment are being made on our North Slope; the Ted Stevens Anchorage International Airport - the 2nd busiest for air cargo in the US, 5th busiest in the world - continues to expand and bring new business to Alaska. Once our fiscal house is in order, I have no doubt Alaska will once again top the rating agency charts."

Moody's downgraded the University of Alaska's bond ratings several notches in July following the governor's initial \$130 million, or roughly 40 percent, cut to its state budget.

The agency also lowered the state-owned Alaska Industrial Development and Export Authority's bond rating two notches — from Aa3 to A2 — in late July despite its generally solid financial performance because the authority is ultimately tied to the state's budget situation, analysts wrote. AIDEA routinely finances infrastructure and real estate development projects through its roughly \$1.3 billion Revolving Fund. Dunleavy proposed using a portion of the Revolving Fund to pay for other state government expenses in his original budget plan but the idea was not part of the final state budget.

Alaska Journal of Commerce

By: Elwood Brehmer

Thu, 09/05/2019 - 3:41pm

Elwood Brehmer can be reached at elwood.brehmer@alaskajournal.com.

Updated:

09/06/2019 - 10:25am

[Atlanta Sells Airport Bonds, But Council Has Some Questions On How It Was Done.](#)

Atlanta City Council OK'd the sale of about \$700 million in bonds this week on behalf of the airport — and airport revenue will pay off the borrowing. The market considers the airport just about as safe as U.S. Treasury bonds.

But members of Atlanta City Council had some questions about when the bond information was put together and who did it.

So first, the bonds: the yields vary, but for some of the bonds with a maturity date of 10 years, the rate is as low as 1.37% — lower than the rate on 10-year U.S. Treasury bonds. Tax treatment of

municipal bonds is a little different from federal bonds, but still, the rate suggests investors think Hartsfield-Jackson Atlanta International Airport is pretty low-risk. The bond rating agencies rate the airport as having a very strong capacity to meet financial commitments, so that's near the very top of the rating pile.

In a statement, Moody's justified its rating. On up side, there's stable demand for flights in and out of HJIA, which has a "monopoly on air travel to the region." On the down side, a total \$4.1 billion in works underway at the airport are in early stages, and costs might go up.

Not important in the rating: noise about a possible state takeover of the airport. Fundamentals of airport economics would be the same, no matter who the owner is.

The bonds will help pay for Concourse T's extension, upgrades to other concourses, modernization and maintenance, a replacement fire station and other things.

But on to Atlanta City Council, which must review and approve the work of the executive branch on the bond.

Councilmember Antonio Brown said he wanted to have the documents longer before being asked to vote, pointing to a thick stack of hundreds of pages of paper.

That stack had been out for about a week and a half, said city CFO Roosevelt Council, presenting the bond documents to City Council at a Wednesday hearing.

Much of the information, like the general intent of the bond and roughly where the money would be spent is known earlier than that, said Councilmember Howard Shook. Things like the yields on the bonds down to the last decimal, or the date of sale, might not be known with more than a few days' notice. But, still Shook and others commented that there are details about spending and names that they feel arrive to Council uncomfortably late in the process.

"This is the second one that I've voted on, the day of when I'm provided the documentation, the bones of what we're voting on. I'm just not OK continuing to do that," Brown said.

Some of his colleagues piled on questions, mostly about the "transaction team:" the contractors who act as lawyers and advisors on the bond sale.

Like, who picks the team and how much they're paid.

The co-bond counsel are Hunton Andrew Kurth and The Kendall Law Firm. The co-disclosure counsel are Greenberg Traurig and Riddle & Schwartz. The Financial Advisor is Frasca & Associates. The airport consultant is LeighFisher.

Councilmember Natalyn Archibong said she wanted to see the minority- or female-owned business certification for all transaction team firms claiming that status. She was looking at some of the transaction team websites during the meeting and said she wasn't seeing the diversity pieces of all of them.

She also wanted to know how the transaction team is selected.

It's a mix, according to answers given by members of the administration who answered. For some posts, it's via a request-for-proposals process. For bond counsel, proposals are solicited and the city attorney makes the final decision.

Council President Felicia Moore wanted to know how much the team is paid.

Council said he could get her that information. He also said he and his team could communicate more with Councilmembers if they like.

Documents:

[Preliminary official statement on the bonds](#) (large file 428 pages)

[Federal filings on Atlanta airport revenue bonds](#)

Saporta Report

By Maggie Lee

August 30, 2019

[What Will Be the Fallout from Denver Airport's Great Hall P3 Termination?](#)

Dive Brief:

- Moody's Investors Service reported on the credit impact of Denver Airport Enterprise's (DEN) decision to terminate for convenience Great Hall Partners' \$1.8 billion contract for renovation of the airport's Jeppesen Terminal and 34 years of concession management. The bond credit rating business believes the move will have minimal negative financial and credit impact for the city and the airport. DEN severed its relationship with Great Hall amid the possibilities of a three-year schedule delay and up to \$300 million of change orders.
- Moody's said despite the exposure to higher construction costs as the airport searches for a new contractor, the facility has more than \$900 million in liquidity and should easily be able to make an early termination payment to Great Hall, which Moody's estimates will be between \$140 million and \$180 million, and issue bonds to cover the termination payment and any extra construction costs. Moody's said the exact amount of the termination payment should be finalized closer to Great Hall's official Nov. 12 exit date.
- Moody's said the failed relationship between DEN and Great Hall highlights the risk inherent in using public-private partnerships (P3) for some projects, especially those with the relatively higher risk of "designing for and building in a dynamic operating environment," such as the airport, which has remained open during the project. DEN understood the risks, Moody's said, indicated by its inclusion of a \$120 million contingency in Great Hall's contract. Moody's added that P3 projects for construction of new assets are likely to see more success.

[Continue reading.](#)

Construction Dive

by Kim Slowey

Aug. 28, 2019

Chicago Mayor Searches for Answers to Gaping Budget Hole.

Lori Lightfoot says residents should prepare themselves for tough choices as city looks to close a \$838 million shortfall

CHICAGO—Mayor Lori Lightfoot warned that residents needed to be prepared for hard choices to tackle an \$838 million budget hole, the largest in the city's recent history.

On Thursday evening, Ms. Lightfoot, who in May became the first black woman and first gay mayor of Chicago, said she was open to every possibility for closing the gap. But she said she wanted to avoid hurting low-income residents or risk driving away businesses with overly burdensome taxes.

"I cannot in good faith promise you that I will take any option off the table to tackle this crisis, whether it's through budget reductions or by raising revenue," Ms. Lightfoot said.

Despite a thriving downtown and prosperous North Side, the city's population has been shrinking for years, eroding its tax base.

Chicago has the largest net pension liability of any major U.S. city at \$41.7 billion, according to a 2017 analysis by Moody's Investors Service. That estimate surpasses the city's projection of around \$30 billion. Moody's rates Chicago's bonds at "junk," or below investment grade.

Ms. Lightfoot said residents should be prepared for painful choices if new sources of revenue, like a new casino proposed for the city, didn't come to fruition.

Ms. Lightfoot said the original budget gap was \$1 billion, but as a result of new forecasts and some changes implemented so far—such as crackdowns on worker absenteeism and vendors who fail to deliver—that shortfall has been narrowed to \$838 million. A third of the deficit is due to higher pension payments, another third from increased labor costs, a nearly \$100 million jump in debt servicing, and \$90 million from lawsuit settlements, she said.

"To put this into perspective, folks, for every dollar you pay to the city, 80 cents goes to pay for the cost of personnel and benefits, along with pensions," she said.

Laurence Msall, president of the Civic Federation, a business-backed watchdog, said "it is a frightening and dangerous place where the city of Chicago is right now."

Ms. Lightfoot said she couldn't rule out raising property taxes, a controversial measure, because her predecessor Rahm Emanuel already increased property and other taxes to fund pensions. Ms. Lightfoot brought up other possibilities for new sources of revenue, like a graduated real-estate transfer tax on expensive homes or some sort of congestion tax.

The mayor said she planned to address the substantial drag on the city's finances created by its bond and pension liabilities but gave few specifics.

She said the city could save \$100 million by refinancing higher-cost debt and another \$22 million by curbing short-term borrowing.

She said pension costs are expected to grow by \$200 million in 2021 and \$400 million the following year, adding that she hoped revenue produced by the legalization of cannabis, set to take effect in January, and the proposed casino would help fill the resulting budget gap. She said cooperation with lawmakers in Springfield would also be key.

Michael Belsky, executive director of the center for municipal finance at the University of Chicago, said the mayor was “very frank and honest about the scope of the problem and that new taxes will be on the table.”

The Wall Street Journal

By Shayndi Raice and Heather Gillers

Updated Aug. 29, 2019 8:53 pm ET

[Editorial: Pension, Bond Lawsuit Should Get Its Day In Court](#)

A Sangamon County Circuit Court judge is expected to decide soon whether to allow an unconventional lawsuit that challenges Illinois’ borrowing habits to proceed.

We’ll cut to the chase: We hope Judge Jack Davis Jr. allows the case to move forward. Why? About 244 billion reasons. That’s how many dollars the financial watchdog group Truth in Accounting estimates Illinois taxpayers eventually will owe due to unfunded pension liabilities, health care obligations and unpaid state bills. The debts have piled up over decades but accelerated since the early 2000s, dragging the state’s credit rating to near junk status.

So yes, taxpayers deserve a shot at having someone contest Illinois’ tradition of overborrowing. The case is considered a Hail Mary attempt, even though it raises legitimate concerns about the manner in which Illinois politicians have borrowed money in the bond market to balance budgets and pay for operations.

[Continue reading.](#)

By THE EDITORIAL BOARD

CHICAGO TRIBUNE

AUG 26, 2019 | 5:50 PM

[Illinois Bonds Gain as Judge Denies Petition to Void Debt.](#)

- **Tillman, who sought to file lawsuit, says he plans to appeal**
- **‘Risk is taken off’ for bondholders, Belle Haven says**

Illinois bonds rallied after a judge denied an effort by the head of a conservative think tank to invalidate more than \$14 billion of debt issued by the worst-rated state.

Sangamon County Associate Judge Jack Davis late on Thursday rejected the petition filed by John Tillman, head of the Illinois Policy Institute, and backed by Warlander Asset Management, a New York-based hedge fund, that sought to “restrain and enjoin the disbursement of public funds,” according to court documents. Tillman had claimed that Illinois’s record pension bond sale in 2003 and debt issued in 2017 were deficit financing that violated the state constitution, which says bonds must be issued for “specific purposes.”

“The court finds that to allow the filing of the Complaint would result in an unjustified interference with the application of public funds,” Davis wrote in an order on Thursday. “The court finds reasonable grounds do not exist for filing the proposed Complaint.”

Tillman said in an emailed statement that he plans to appeal and “strongly” disagrees with the court’s decision, adding that it was “premature for the Court to decide the case on the merits at the petition stage.”

Some of the bonds targeted by the suit, which had been trading at slightly lower prices than other Illinois securities, gained after the decision. Bonds sold for the pension system that come due in 2033, one of the most actively traded, traded for about 109 cents on the dollar early Friday, up from an average of about 106 cents before the ruling. That cut the yield to about 4.25% from 4.5% on Wednesday.

“There was an inefficiency in the market based on the potential for the bonds being invalidated,” said Brian Steeves, portfolio manager for Belle Haven Investments in Rye Brook, New York. “That risk is taken off the table.”

During a hearing on Aug. 15, Davis had said Warlander backing the case was a distraction, and the issue warranted further review. The judge had said at the time he would issue an order in 14 days.

“Tillman’s proposed Complaint is chock-full of conclusory and argumentative statements describing the financial condition of the state that are irrelevant and which the court must disregard,” Davis wrote on Thursday. “Indeed, it resembles far more of a political stump speech than it does a legal pleading.”

Illinois officials had rejected the suit as politically-motivated and said the borrowings were valid.

Bondholders Nuveen Asset Management LLC and AllianceBernstein LP had alleged that Warlander, which also owns Illinois debt, stood to profit if the case succeeded because the hedge fund purchased credit-default swaps that would pay off if the court forces the state to stop making payments on the 2003 and 2017 debt. An attorney representing Warlander and Tillman acknowledged at an Aug. 15 hearing that the hedge fund bought credit default swaps on the challenged bonds.

Hedge Fund Seeking to Void Illinois Debt Made Wager on Default

The case had been closely watched as litigation is a new risk for investors in the \$3.8 trillion U.S. municipal-bond market, long considered a haven given that no state has defaulted since the Great Depression. Borrowers are under increasing scrutiny after high-profile municipal bankruptcies such as the one in Puerto Rico, where a federal oversight board and group of hedge funds want more than \$6 billion of bonds declared null and void.

“There was no question that they were” issued legally in Illinois, said Chris Mier, chief strategist at Loop Capital. He said a trial over the bonds would have been “a television soap opera for finance people.”

Mier said the decision is reassuring because the municipal-bond market would not have to deal with the ramifications of another major lawsuit. Puerto Rico’s record-setting bankruptcy has cast doubt over the legal protections investors have in the safe-haven market.

It’s “one less sideshow that market does not need,” Mier said.

Bloomberg Markets

By Shruti Singh

August 29, 2019, 2:56 PM PDT Updated on August 30, 2019, 5:51 AM PDT

— *With assistance by Danielle Moran, and Amanda Albright*

Illinois Debt Boosted After \$14 Billion Bond Challenge Dismissed.

An Illinois judge rejected attempts to question the validity of bonds sold in 2003 and 2017

Illinois municipal bonds rallied Friday after a judge dismissed a petition that sought to restrain state borrowing and prohibit Illinois officials from making any more payments on \$14 billion in debt.

After Sangamon County Circuit Court Judge Jack D. Davis II threw out the complaint challenging the validity of \$14 billion in Illinois general obligation bonds, their prices rose modestly, according to Municipal Securities Rulemaking Board data. A \$7.65 billion bond sold in 2003 to shore up the state's pension funds fetched as much as 108.9 cents on the dollar early Friday, up from 107 cents on Thursday before the ruling.

Those were among the securities that John Tillman, chief executive of the conservative Illinois Policy Institute think tank, had challenged in a lawsuit claiming the state had piled more debt on the state's taxpayers than its constitution allowed.

Mr. Tillman, joined by New York hedge-fund manager Warlander Asset Management LP, said Illinois broke a state rule prohibiting deficit financing by selling debt in 2003 to close a pension gap and in 2017 to pay down government vendors.

Mr. Tillman, a prominent foe of public sector unions in Illinois, had asked the county court for permission to move forward his arguments that the two issuances should be invalidated and further payments to bondholders stopped.

But Judge Davis found no reasonable grounds for the complaint, saying on Thursday it would "result in an unjustified interference with the application of public funds" and draw the courts into political questions that should be left to lawmakers

"Indeed, it resembles far more of a political stump speech than it does a legal pleading," the judge said.

In a statement, Mr. Tillman said he would appeal and disagreed with the conclusion that the validity of bond deals was outside the realm of the judiciary to decide.

His lawsuit revolved around a provision in the Illinois constitution barring the state from taking out long-term debt except for "specific purposes" or to refinance other obligations. If successful, the complaint would have declared the 2003 and 2017 debt sales unconstitutional and unenforceable.

Nuveen Asset Management and AllianceBernstein LP, which own those bonds, came to the state's defense and questioned whether Warlander had placed a short bet in the form of credit default swaps that would pay out if the lawsuit were successful. Under questioning from Judge Davis this month, an attorney for Mr. Tillman said Warlander did indeed own those instruments.

While state and local governments nationwide are grappling with how to cover bond payments, pension benefits and infrastructure needs, few are as strained as Illinois, where state courts have largely barred lawmakers from scaling back retirement obligations.

Illinois has found willing lenders despite its precarious finances, demonstrating how investors' appetite for returns can help governments borrow even with credit ratings teetering above junk territory. Yet analysts have questioned how long the municipal market will continue lending to Illinois at reasonable rates, especially if the economy dips into recession and the state's tax base shrinks.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the U.S. island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

The complaint mirrors efforts by the board supervising Puerto Rico's finances to have certain bonds declared invalid. In January, the board filed court papers arguing that \$6 billion in general obligation bonds should be considered worthless because they layered more debt on Puerto Rico than its constitution allowed.

While no court has ruled on those arguments, a bankruptcy-exit framework proposed by the board last month takes them into account and offers a comparatively lower recovery to investors whose claims have been challenged.

The Wall Street Journal

By Andrew Scurria

Aug. 30, 2019 12:24 pm ET

[Judge Slams Petition Challenging Illinois Bonds as Political.](#)

CHICAGO — An Illinois judge on Thursday ruled that a petition by taxpayers aiming to challenge the constitutionality of \$16 billion of the state's general obligation bonds was political in nature and cannot proceed in court.

Sangamon County Circuit Court Associate Judge Jack Davis II denied the petition filed in July by the head of an Illinois-based conservative think tank, along with an investment firm.

"Indeed, it resembles far more of a political stump speech than it does a legal pleading," the ruling stated. It added that allowing a complaint to be filed "would result in an unjustified interference with the application of public funds."

John Tillman, CEO of the Illinois Policy Institute, and New York-based investment firm Warlander Asset Management, which owns \$25 million of unchallenged Illinois bonds, had sought the court's permission to file a taxpayer lawsuit against state officials to stop billions of dollars in future payments on the approximately \$14.35 billion of bonds that remain outstanding.

Tillman said the ruling will be appealed.

"It was premature for the court to decide the case on the merits at the petition stage," he said in a statement, adding he was confident he will prevail.

Meanwhile, Democratic Governor J.B. Pritzker's office said it was pleased "the judge repudiated this sham lawsuit brought on by the same far-right actors whose pathological desire to bankrupt the state brought us four years of devastation under (former Republican Governor) Bruce Rauner."

The petition claimed bonds Illinois sold in 2003 and 2017 violated the state constitution because the proceeds were not used to fund specific purposes like capital improvements.

Illinois used proceeds from 2003's \$10 billion bond sale for its underfunded employees retirement system. Money from \$6 billion of bonds sold in 2017 was used to pay overdue bills that had reached a record-high \$16.67 billion as a result of a two-year state budget impasse between Rauner and Democrats who control the legislature.

News of the litigation had pushed yields on the state's bonds higher in the U.S. municipal market, where Illinois already pays the biggest yield penalty among states due to its financial woes and low credit ratings.

Ted Hampton, an analyst at Moody's Investors Service, which rates Illinois one notch above junk, called the ruling a positive development, while noting that an appeal "could still complicate the state's near-term debt issuance plans."

Those plans include \$1.2 billion of general obligation bonds to dent the state's big unpaid bill backlog.

By Reuters

Aug. 29, 2019

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis and Lisa Shumaker)