U.S. Municipal Bond Issuance Falls to $23 Bln in November.

Dec 1 The sale of municipal bonds by states, cities, schools and other issuers fell to $23 billion in November, a drop of 30 percent from October's $33 billion of issuance, according to Thomson Reuters data on Tuesday.

Supply last month was also 18 percent lower than in November 2014. Still, 2015 issuance of $357 billion as of Monday was 28 percent higher than the same period in 2014.

Refundings continued to account for a majority of the volume at $226.2 billion versus nearly $131 billion in new money issuance.

Reuters

(Reporting by Karen Pierog in Chicago; Editing by Lisa Shumaker)

Bloomberg Brief Weekly Video - 12/03

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

Watch the video.

December 3, 2015

Detroit Water and Sewer Authority Washes Off Bankruptcy Stain.

The Detroit Water and Sewerage Department is washing off the taint of its city's notorious financial reputation as it refinances debt a year after emerging from the worst-municipal bankruptcy on record.

The $324 million in tax-exempt revenue bonds sold through the Michigan Finance Authority on Wednesday were priced at a top yield of 3.71 percent for securities maturing in July 2035, according to preliminary data compiled by Bloomberg. That's about 1 percentage point more than 20-year benchmark municipal bonds.

"For an issuer with the word Detroit in it, that's a pretty attractive spread" from the issuer's perspective, said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Fargo Asset Management, which manages about $39 billion of municipals, including some Detroit water and sewer debt. He didn't buy Wednesday's deal. "That's the tightest we've seen in a while for that name."

The authority said the deal "far exceeded," their expectations, according to Nicolette Bateson, chief financial officer for the water and sewer department. The proceeds are going toward a refinancing, and the deal generated net-present-value savings of about $29.3 million, according to Jon Wheatley, the department's public finance manager.

The deal "kind of speaks for itself," said Daniel Solender, who oversees about $17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey, including some Detroit water and sewer securities. "It's really recovered a lot from where it was during the bankruptcy."

Bloomberg Business

by Elizabeth Campbell

December 2, 2015 — 2:58 PM PST Updated on December 3, 2015 — 4:41 AM PST

U.S. High Court Set to Act on Puerto Rico Restructuring Bid.

The U.S. Supreme Court may announce as soon as Friday whether it will hear an appeal by Puerto Rico to reinstate a law that would allow some island agencies to restructure their debts.

The high court is scheduled to review Puerto Rico's appeal during a private conference Friday, when it often issues a list of new cases. The disputed law would affect $22 billion of Puerto Rico's $70 billion in debt. That includes $8.2 billion owed by the Puerto Rico Electric Power Authority, known as Prepa, which is negotiating with its creditors and would gain new leverage from a ruling upholding the law.

Puerto Rico is seeking to reduce its debt load by asking bondholders to take a loss on their investments through a debt exchange. Officials have said easing the island's debt payments would help improve the commonwealth's economy, which has shrunk by about 15 percent in the past decade. As its cash dwindles, Governor Alejandro Garcia Padilla on Monday averted a default and signed an executive order to redirect revenue that backs some agency bonds to repay direct debt of the commonwealth.

The case centers on the power of the Puerto Rican government to fill what it says is a gap in federal bankruptcy law, which bars filings by the commonwealth agencies and municipalities. If the high court agrees to hear the case, it may hear arguments in March. The high court would rule by late June.

Under federal law, states can authorize bankruptcy filings by their municipalities, including public utilities, but Puerto Rico and the District of Columbia can't. Puerto Rico sought to get around that provision in 2014 by passing a local law known as the Recovery Act, which was modeled after the federal bankruptcy code.

The commonwealth appealed to the U.S. Supreme Court in August. A U.S. appeals court rejected the Recovery Act in July, upholding a ruling by a federal trial judge in San Juan.

Puerto Rico general obligations with an 8 percent coupon and maturing July 2035 traded Thursday at an average price of 75.5 cents on the dollar, up from 71.7 cents on Monday, the day before the governor signed the executive order, data compiled by Bloomberg show. The average yield was 11.1 percent.

Bloomberg Business

by Michelle Kaske and Greg Stohr

December 3, 2015 — 8:38 AM PST Updated on December 3, 2015 — 9:17 AM PST

[Illinois Judge Keeps Chicago Retiree Healthcare Case Alive.]

CHICAGO — A lawsuit challenging Chicago's move to save money by phasing out lifetime subsidized healthcare for its retired workers can move forward in part, an Illinois judge ruled on Thursday.

Cook County Circuit Court Judge Neil Cohen found that a portion of a constitutional claim in the lawsuit can proceed, according to Clint Krislov, an attorney for city retirees who filed the lawsuit. The ruling cited a 2014 Illinois Supreme Court decision that public sector workers' healthcare benefits are protected by the state constitution's pension clause.

The judge dismissed two contractual claims, but is allowing the city retirees who filed the lawsuit to submit amended claims, which Krislov said will be done.

"We're pleased we will be able to go forward to enforce the lifetime benefits these wonderful people earned," Krislov said.

Chicago and its four retirement systems had filed motions to dismiss the entire complaint.

"We are pleased the court dismissed most of the remaining claims against the city, but are disappointed the court did not dismiss all of the plaintiffs' claims with prejudice," said Chicago Law Department spokesman Bill McCaffrey.

The retirees are seeking refunds for rising health insurance premiums because of a phase-out of a city subsidy. Krislov has said the refunds would date back to 2013 and total about $110 million and that Chicago Mayor Rahm Emanuel included $31 million in retiree healthcare savings in his budget for the fiscal year that begins Jan. 1.

With its finances buckling under a $20 billion unfunded pension liability, Chicago has been scrambling to reduce costs. The upcoming budget includes a record $543 million phased-in property tax hike dedicated to public safety worker pensions.

Chicago is also awaiting a decision by the Illinois Supreme Court on the constitutionality of a 2014 law that boosted funding for the city's municipal and laborers' pension systems and reduced cost-o--living increases for retirees. The high court in May used the state constitution's pension clause to toss out a 2013 law that unilaterally cut benefits for state workers.

By REUTERS

DEC. 3, 2015, 7:03 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by David Gregorio and Lisa Shumaker)

Moody's: Credit Pressure for Michigan School Districts Continues.

New York, November 30, 2015 — The ongoing loss of general funds, declining enrollment, and a lack of flexibility to raise revenue will continue to place significant stress on the credit quality of Michigan schools, Moody's Investors Service says in "K-12 Public School Districts: Michigan Schools' Widespread Credit Weakness Persists."

Moody's has downgraded 47 of the 206 Michigan (Aa1 stable) school districts it rates this year, and anticipates that number will rise over the remainder of fiscal 2016. Since 2009, Moody's has downgraded 150 Michigan school districts.

"The loss of fund balance serves as the largest driver of credit stress and downgrades. From fiscal 2005 through fiscal 2014, traditional Michigan school districts have lost 46% of their aggregate General Fund reserves," says Moody's Analyst Andrew Van Dyck Dobos.

Moody's says 41 of the 47 districts downgraded in 2015 have experienced a loss in General Fund reserves over the last five years, with a median decline of 45%.

The school districts have also endured additional difficulties, including sizable declines in their tax base, growing unfunded pension liabilities, and elevated debt ratios. Moreover, stagnant per-pupil state funding remains barely above the fiscal 2009 level.

"The current funding environment makes it extremely difficult for districts to significantly rebuild fund balances given the sector's lack of revenue-raising flexibility, decreasing enrollment, and increased fixed costs, including increases to annual pension contributions," Van Dyck Dobos says.

School district revenues have also suffered due to a statewide 12% enrollment decline during the last 10 years. Competition by charter schools and Michigan's "Schools of Choice" program allowing students to enroll in schools outside their residential district have benefitted some, while being a detriment to others. Statewide, 10% of Michigan students attend charters while 7% participate in Schools of Choice.

Despite these challenges, some districts are effectively tackling financial difficulties. Of the 58 that ended 2014 with a deficit, 41 improved or eliminated their deficit in fiscal 2015. The financial improvement of these districts points to the moderate effectiveness of the state's Deficit Elimination Plan (DEP) process.

The report is available to Moody's subscribers here.

Washington Divided on Response to Puerto Rico Debt Woes.

Puerto Rico faces rolling defaults on its debt and cutbacks in public services, but Congress remains divided about what should be done to address the crisis.

The Obama administration and Puerto Rico want Congress to provide a pathway for the commonwealth to restructure some of its $72 billion in debt, and Gov. Alejandro García Padilla appealed again to a Senate panel this week, saying the island has "no more cash."

Forced to choose between paying creditors and paying teachers, police and firefighters in the coming months, the governor he said he would easily choose the latter. He signed an order this week that allowed Puerto Rico to make its latest $355 million debt payment only after it clawed back revenue used to pay debt for public corporations such as transit and tourism authorities. The government and various agencies face an additional $950 million due Jan. 1.

Republicans reacted coolly to legislation introduced this year to allow the island's public corporations to restructure debt. Municipal entities in the 50 states have that right under Chapter 9 of the U.S. bankruptcy code, which Detroit invoked in 2013, but it isn't available to federal territories.

The White House this fall endorsed an even bolder step, calling for a new regime allowing federal territories to restructure debt issued by the central government, a power not available to states. The proposal is unpopular with the mutual-fund and hedge-fund firms that hold the island's general obligation bonds.

Some GOP lawmakers say that would set a dangerous precedent for states. "It's a ludicrous idea," said Rep. Tom Marino, (R., Pa.), who is chairman of a House panel with jurisdiction over the bankruptcy code.

Puerto Rico's financial advisers painted a bleak picture this summer when they said more spending cuts, revenue increases and economic growth could close just half of the projected cumulative deficits of $28 billion in the next five years.

Debt forbearance and restructuring would be needed for the other half because the commonwealth has lost access to bond markets. The island's economy has been in recession since 2006, and in that time its population has fallen 7% while its debt load has grown 64%.

The White House plan would also expand Medicaid subsidies and make federal tax credits available to the island's residents. The breaks are designed to boost the island's unusually low workforce participation rates, but are controversial as Puerto Ricans don't pay federal income tax.

Aides to some GOP lawmakers acknowledge that Puerto Rico's fiscal situation is unlikely to improve on its own, potentially leading to federal intervention. But for now those lawmakers have coalesced around the need for stronger oversight of the island's finances. Some worry local officials won't follow through with cuts in government expenses or ramped-up tax collection, requiring a federal control board as part of any congressional response.

Democrats say efforts to maintain the status quo will exacerbate the economic crisis and drain urgency from talks between Puerto Rico and its creditors to complete a voluntary restructuring. Some lawmakers have pushed for Congress to attach a relief package to spending bills it must pass before adjourning this month.

Others have criticized the Obama administration for not promising to act unilaterally. "I urge Treasury to be just as creative in coming up with solutions for Puerto Rico as it was when the big banks called for help," Sen. Elizabeth Warren (D., Mass.) told a Treasury adviser at a recent hearing.

While Washington hasn't intervened in other municipal debt crises like Detroit, Puerto Rico is an anomaly because it is a U.S. territory. The commonwealth has maintained local autonomy since the 1950s, but governance of the island, whose residents are American citizens, ultimately rests with Congress and the president.

Analysts say Congress isn't likely to take action, absent signs of a much more acute humanitarian emergency.

“A crisis to D.C. politicians is Jurassic Park on the island,” said Stephen Myrow, managing partner at Beacon Policy Advisors, a research firm. “Until you have that, you don’t have the pressure that Congress would need to build a consensus.”

Further reducing any urgency: Puerto Rico isn’t viewed as a systemic threat to the U.S. economy. Europe ultimately moved to bailout Greece because the risk the crisis would spread through its banking system was high, said Mr. Myrow.

Federal Reserve officials saw “minimal” risks that Puerto Rico’s debt crisis could spread through U.S. financial markets at their October meeting, according to minutes released last month.

THE WALL STREET JOURNAL

By NICK TIMIRAOS and AARON KURILOFF

Dec. 3, 2015 8:35 p.m. ET

Write to Nick Timiraos at nick.timiraos@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

---

Supreme Court to Examine Puerto Rico Effort to Restructure Some Debts.

WASHINGTON—The Supreme Court agreed Friday to hear Puerto Rico’s effort to restructure its public utilities’ debts by enacting its own bankruptcy law.

As an unincorporated territory, Puerto Rico lacks the authority that U.S. states and their municipalities hold to restructure their debts under chapter 9 of the federal bankruptcy code.

To fill that gap, the territorial legislature adopted Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which authorizes several public agencies and utilities to discharge most of their debts over their creditors’ objection.

Bondholders, including the Franklin Funds and BlueMountain Capital Management, sued, arguing the federal bankruptcy code pre-empts the Puerto Rico statute. Lower courts agreed.

The bondholders include mutual funds holding tax-free state and municipal bonds. Because Puerto Rico bonds are exempts from all state and federal taxes, Franklin and other funds focused on a particular state’s municipal bonds have filled out their portfolios with Puerto Rico bonds.

The Supreme Court will hear the appeal in early 2016, with a decision expected by June.

Puerto Rico continues to struggle over its fiscal situation. The governor this week signed an order allowing the territory to make its latest $355 million debt payment only after it clawed back revenue used to pay debt for public corporations such as transit and tourism authorities. The government and various agencies face an additional $950 million due Jan. 1.

THE WALL STREET JOURNAL

By JESS BRAVIN

Dec. 4, 2015 2:22 p.m. ET

—Nick Timiraos contributed to this article.

[Puerto Rico Avoids Default on Over $350 Million in Bond Payments.]

Prices of some Puerto Rico bonds rallied after Gov. Alejandro Garcia Padilla said the U.S. Commonwealth would begin clawing back revenue from other debt to provide for essential public services and pay obligations backed by the government's full faith and credit.

Some Puerto Rico bonds maturing in 2035 traded at about 75 cents on the dollar, up from around 71.75 cents Monday, according to the Electronic Municipal Market Access website. The rally came as Puerto Rico's Government Development Bank said it had paid principal and interest on the bank's debt due Tuesday.

The clawback would default on some debt "in an effort to attempt to repay bonds issued with the full faith and credit of the Commonwealth and secure sufficient resources to protect the life, health, safety and welfare of the people of Puerto Rico," the governor said in written testimony.

"Today's debt service payments reflect our commitment to honor our obligations notwithstanding the extreme fiscal challenges we face in an effort to facilitate a voluntary restructuring process with our creditors," said Melba Acosta, the GDB president, in a news release. "However, make no mistake, Puerto Rico's liquidity position is severely constrained at this time despite the extraordinary measures the Government has taken to improve it."

Puerto Rico is negotiating with bondholders over restructuring the commonwealth's debt, which exceeds $70 billion, and paid only a fraction of around $58 million due in August. While those bonds had weak legal protections for investors, a default on government-guaranteed debt could have disrupted talks and provoked lawsuits.

The more-than $350 million due Tuesday included about $270 million of the bank's debt guaranteed by the government, according to a report by Moody's Investors Service. Prices on government-backed debt rose as investors were reassured that the island was increasing efforts to pay its general obligation bonds while restructuring talks with investors continue, said John Miller, co-head of fixed income at Nuveen Asset Management LLC, which manages more than $100 billion of municipal bonds. That means taking money from sources such as highway or convention center bonds, he said.

"It's a sign that, at least for now, the risk of general obligation default has been greatly reduced," said Matt Fabian, partner at the research firm Municipal Market Analytics. "Near-term payments in those bonds have become more likely, but the long term picture is less clear."

Moody's Investors Service said in a prepared statement that the governor's move to redirect money from nongeneral obligation debt "underscores the severity of the commonwealth's liquidity issues." Puerto Rico now owes $945 million due Jan. 1, 2016, including $363 million in general obligation debt service, and the ratings firm continues "to view default as likely" on future payments.

The governor's comments came at a Senate Judiciary Committee hearing on Puerto Rico's fiscal crisis. He also said the government was out of cash and that, after Tuesday's payment, he would choose to fund essential public services before making payments to bondholders, triggering a default.

"If anyone put me into position of selecting to pay a creditor, or a policeman, teacher or firefighter, I will pay the policeman, the teacher and the firefighter. There is no doubt about it," he said. "And we are running out of cash. There's no more cash."

Mr. Garcia Padilla said that he would soon be forced to make that choice.

"There's no more tricks to be able to sustain the essential services to the people of Puerto Rico and pay the debt in the future. I have been saying this and inviting creditors to the table," he said. "Maybe now they will understand."

THE WALL STREET JOURNAL

By AARON KURILOFF and NICK TIMIRAOS

Updated Dec. 1, 2015 1:52 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com and Nick Timiraos at nick.timiraos@wsj.com

---

Pension Cuts Win Federal Court Support in Chattanooga.

In a big win for Chattanooga Mayor Andrew Berke's administration, a federal court judge dismissed a lawsuit filed by four retired police officers and firefighters that challenged the city's decision to reduce the cost-of-living adjustments to their pensions.

U.S. District Court Judge Curtis Collier granted the city's motion for summary judgment in a decision issued Tuesday.

Mayor Berke praised the ruling, saying it preserved his pension reform plan. "Last year, the Fire and Police Pension was reformed to ensure the longterm fiscal health of the city and meet our obligations to first responders," he said in a statement. "We are excited this solution was validated by the court today, ensuring the city will be able to continue to provide competitive benefits for our police and firefighters for years to come."

View Full Story from the Times Free Press

California Debt Foe Campaigns to Block Billion-Dollar Bond Deals.

Dino Cortopassi, who lives near Stockton, watched as the California city loaded up on debt for amenities like a waterfront ballpark, only to slash services after the community went bankrupt. So he's spending $4 million in an effort to give the state's voters more power to curb bond sales.

The 78-year-old farmer turned businessman placed an initiative on the November ballot that would require voter approval for revenue bonds exceeding $2 billion. That could set up roadblocks for billions of dollars of planned public projects, including California's high-speed railroad and the vast network of tunnels and water works that Governor Jerry Brown, a Democrat, wants to build across the drought-stricken state.

"This is an effort to halt California's rush into deeper and deeper debt," Cortopassi said. "It is to instill some discipline in a totally undisciplined feeding off the public trough."

The measure is part of a decades-long tradition of using the ballot box to exert influence over fiscal policy in the most populous U.S. state, sometimes with long-lasting consequences. Already, labor unions and the California Chamber of Commerce are lining up to defeat the initiative, which the state's nonpartisan Legislative Analyst's Office said would cast "substantial uncertainty" over the financing of infrastructure projects.

"You don't know what type of initiative can pop up and what the implications are fiscally for the state," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $5.9 billion of investments. "A lot of them could ultimately result in limiting the flexibility of the legislature to deal with financial problems."

Cortopassi's campaign against profligacy comes as public finances are reviving in California, which was hit particularly hard by the real estate crash and recession. As the recovery provided California with a tax windfall, Brown has used the surplus to pay off debt and bolster savings.

In July, Standard & Poor's raised its bond grade to the highest in 14 years, marking the eighth upgrade from one of the three biggest credit-rating companies since 2010. California 10-year bonds yield about 2.34 percent, or 0.27 percentage point more than top-rated debt, down from a gap of as much as 1.7 percentage point six years ago.

Voter Approval

California voters already must approve general-obligation debt, which is backed by the government's full faith and credit. Revenue bonds are repaid through money generated by the projects being financed, such as tolls on roads or fees from water customers.

California and local agencies have sold $310 billion of the securities since 2008, data compiled by Bloomberg show. Even so, the state has relied more heavily on general obligations: As of November, California had $76 billion of general obligations outstanding, almost seven times what it owes for revenue bonds.

Cortopassi, a son of Italian immigrants who started out on rented land before acquiring his own farm and stakes in local agricultural businesses, said the level of debt will take decades for future generations to repay. State and local governments are already contending with swelling liabilities to workers' pension funds, he said.

Last year, he bought full-page advertisements in California newspapers with "Liar, Liar, Pants on Fire!" emblazoned in capital letters across the top. Written as columns from Cortopassi, the ads detailed the state's debts and urged voters to reject every bond proposition. He followed that with a successful drive to put on the ballot his constitutional amendment, which would apply to debt sold by California and some local agencies.

Close to Home

One bond-funded project would run right through the Central Valley, the agricultural heart where Cortopassi made his fortune. Brown's effort to improve the state's water supply includes building two $15 billion tunnels under the Sacramento-San Joaquin delta. Cortopassi said he opposes the project because of its environmental impact and has raised funds for a group that's against it.

The Central Valley will also carry a major leg of California's high-speed railroad. Voters have already approved the sale of $10 billion of bonds for the $68 billion project, which would run from San

Francisco to Los Angeles. Private investors, who will be needed to help pay for the rail line, have said they won't sign on unless taxpayers pitch in even more.

The consequences of Cortopassi's initiative, if approved, could have a broad reach. A review by the Legislative Analyst's Office said it may wind up reducing funding for large-scale projects, though the effects will hinge on how it's interpreted by courts and governments. Such constitutional changes can have lasting repercussions: Proposition 13, a property-tax limit that was passed in 1978, made local governments more dependent on sales taxes.

"It's making it harder to finance these kinds of infrastructure needs, which I think everyone acknowledges are pretty critical for the state," said Stephen Walsh, a director with Fitch Ratings in San Francisco.

It may also leave California projects dependent on more expensive forms of financing, according to the Citizens to Protect California Infrastructure, a coalition of business groups and labor unions organized to sway voters against it. It would impose "costly delays in repairing our roads, colleges and water systems and make it harder to respond to natural disasters," said Gareth Lacy, a spokesman for Brown.

Cortopassi is unmoved by such arguments. He said those who benefit from bond-funded projects don't want residents to have a say.

"This is the people's chance to choose their own destiny," he said.

Bloomberg Business

by Romy Varghese

November 30, 2015 — 9:01 PM PST Updated on December 1, 2015 — 11:11 AM PST

Puerto Rico Makes Bond Payment by Redirecting Revenue.

NEW YORK — Puerto Rico on Tuesday made bond payments on $355 million worth of debt maturing on Dec. 1 that was issued by its Government Development Bank by diverting revenues pledged to other debt.

A default could have triggered lawsuits, further spooked investors and undermined the island's efforts to climb out of $72 billion in debt.

MARKET REACTION: Puerto Rico's 8 percent General Obligation Bond rallied to trade at an average price of 75 cents on the dollar, with a yield dropping to 11.168 percent versus a yield of 11.809 percent on Monday.

COMMENTS:

TED HAMPTON, ANALYST, MOODY'S INVESTORS SERVICE:

"The Commonwealth of Puerto Rico's Government Development Bank made full payment of debt service to its note holders today, despite its strained liquidity. The payment, which was disclosed in a press release, indicates the commonwealth is making an effort to avoid litigation and prevent further deterioration in relations with its creditors."

“Puerto Rico’s financial situation remains pressured and today’s payment does not change Moody’s current ratings or outlook on the commonwealth’s debt. Moreover, the governor’s executive order to redirect revenues allocated to certain non-general obligation bonds underscores the severity of the commonwealth’s liquidity issues. Puerto Rico now must make $945 million in total bond payments on January 1, including $363 million in general obligation debt service. We continue to view default as likely on future commonwealth debt payments.”

DAVID TAWIL, PRESIDENT AT MAGLAN CAPITAL IN NEW YORK:

“This just really buys a bit more time for the Commonwealth, but the PR leadership better act fast with respect to bond holder negotiations if they want these payments to have been worthwhile. Otherwise, if there is an eventual default, then that was good money thrown after bad.”

MIKHAIL FOUX, MUNICIPAL RESEARCH DIRECTOR AT BARCLAYS CAPITAL, NEW YORK:

“The more important thing is the actual claw back… We were saying they were going to do that. It’s just a question of when. And they just decided to do that before the January payments. Come January we’re going to see some defaults, which was always our base case scenario on certain entities … By clawing back on certain entities they’re showing their intent.”

PHILIP FISCHER, HEAD OF MUNICIPAL BOND RESEARCH, BANK OF AMERICA MERRILL LYNCH IN NEW YORK:

“I think the essential question from the hearing is where are the financials (Puerto Rico’s latest audit)? Absent the financials it’s extremely difficult for Congress to come to an exact assessment of where Puerto Rico stands. Absent the financials we have difficulty judging all the issues related to remedies.”

ROBERT AMODEO, FUND MANAGER, WESTERN ASSET MANAGEMENT, NEW YORK:

“Ultimately this is going to be a messy situation we believe and one that is protracted. You have the GO (general obligation) debt holders saying, ‘look, we have the constitutional rights, you have to find revenue from every available source’, and then you have the COFINA bondholders saying, ‘we have these nice bond documents that say these are not available revenues’.”

JAMES COLBY, SENIOR MUNICIPAL STRATEGIST, VAN ECK GLOBAL, NEW YORK:

“When we saw the initial headlines, we were exhaling a sigh of relief – we don’t have a monetary default. But now we go to the next month. Come January 1, we’ve got another very significant commitment that they have to address… by no means is this to be construed as anything but just a momentary blip in what’s been a continuing litany of confusing positioning and comments from the leadership” in Puerto Rico.

ROBERT RAUCH, SENIOR PARTNER AND PORTFOLIO MANAGER, GRAMERCY FUNDS MANAGEMENT, GREENWICH, CONNECTICUT:

“Padilla’s comments were a game-changer. He admitted essentially that Puerto Rico is out of cash. They have no recourse but to put off the day of reckoning. They have already defaulted on a non-GO obligation. It is just a matter of time at this point.”

“We’ll start to see things quickly unwind and then everything goes back to the U.S. Congress. They are the only ones who have the ability to actually legislate and give Puerto Rico the tools to address the financial stress they are under. It will have to be bespoke legislation to address this.”

"We have examined Puerto Rico but did not invest because of a lack of clarity on the process."

By REUTERS

DEC. 1, 2015, 1:09 P.M. E.S.T.

(Reporting By U.S. Municipal Markets Team; Editing by Daniel Bases and Bernard Orr)

Puerto Rico Avoids Second Default, but Future Payments Uncertain.

NEW YORK/SAN JUAN — Puerto Rico made a crucial debt payment on Tuesday but warned that its deteriorating finances could trigger future defaults, as the governor granted the U.S. territory power to take revenues from public agencies.

There had been speculation Puerto Rico would default on all or part of the $355 million notes issued by its financing arm, the Government Development Bank. The U.S. territory said in a statement that it made the Dec. 1 bond payment despite "extreme fiscal challenges."

While Puerto Rico first defaulted in August, failure to make the payment on Tuesday would have been more significant because part of that debt was protected by the commonwealth's constitution.

Another default could have triggered lawsuits, further spooked investors and undermined the island's efforts to climb out of $72 billion in debt and forced it to take drastic measures to keep public services running.

But Moody's said the ratings agency would "continue to view default as likely on future commonwealth debt payments."

Puerto Rico's next deadline is $945 million in total bond payments on Jan. 1, including $363 million in general obligation debt service, Moody's said.

A Puerto Rico executive order signed on Monday by Governor Alejandro Garcia Padilla said it gives the commonwealth the ability to claw back revenues from certain government agencies, including the highway authority HTA and the infrastructure authority PRIFA.

Garcia Padilla told a U.S. Senate Judiciary Committee that Puerto Rico would have to "claw back revenues pledged to certain bonds issued in order to maintain public services" and to repay bonds issued with the full faith and credit of the commonwealth.

An imminent default "looms large," Garcia Padilla said.

"In simple terms, we have begun to default on our debt in an effort to attempt to repay bonds issued with the full faith and credit of the commonwealth and secure sufficient resources to protect the life, health, safety and welfare of the people of Puerto Rico," the governor said in written testimony.

Justice Secretary Cesar Miranda said that the clawbacks "could be interpreted as a technical default, in the way that we retain money destined to eventually pay a debt when due" and said it could open the door to litigation.

Puerto Rico's 8 percent General Obligation Bond rallied to trade at an average price of 74.9 cents on the dollar, with a yield dropping to 11.2 percent versus a yield of 11.8 percent on Monday, on news that it did not default on the GDB debt.

With 45 percent of its 3.5 million population in poverty, Puerto Rico is a meteorological paradise mired in economic purgatory. Years of over-spending and the expiration of corporate tax incentives stuck it with debt that gets harder to pay as residents increasingly emigrate to the United States.

“Puerto Rico’s debt crisis didn’t happen overnight, it’s been years in the making,” said Senator Chuck Grassley, who chaired the committee at Tuesday’s hearing. “The starting point is to identify the problem.”

Puerto Rico is in the process of trying to negotiate a debt restructuring with investors which could involve a so-called superbond that provides just one credit for various existing bonds. One source familiar with the situation said negotiations had been going slowly and will now probably drag into next summer as the GDB payment buys some time.

“This just really buys a bit more time for the Commonwealth, but the Puerto Rico leadership better act fast with respect to bond holder negotiations if they want these payments to have been worthwhile,” said David Tawil, president at hedge fund Maglan Capital.

Of the $355 million paid on Tuesday, $81.4 million was to service non-general obligation-backed debt and $273.3 million was for notes backed by the commonwealth’s general obligation guarantee.

The payment on bonds issued by the GDB was crucial as Puerto Rico tries to stretch its liquidity into 2016 to provide more time to restructure debt.

In August, Puerto Rico paid only $628,000 of a $58 million payment due on its Public Finance Corp bonds.

By REUTERS

DEC. 1, 2015, 12:57 P.M. E.S.T.

(Reporting by Megan Davies and Nick Brown; additional reporting by Daniel Bases and Edward Krudy in New York and a contributor in San Juan; Editing by Lisa Von Ahn, Grant McCool and Bernard Orr)

[Puerto Rico's Dec. 1 Deadline: A Guide as Possible Defaults Loom.]

Pensioners form a long queue to collect their pensions from a National Bank of Greece SA bank branch in T
Puerto Rico faces a dilemma: pay bondholders $354 million on Dec. 1 or hold on to the cash to ensure it can keep the government running.

The decision may mark a turning point in the long-simmering fiscal crisis for the Caribbean island, which is seeking to cut its $70 billion of debt by persuading investors to accept less than they’re owed. While it began skipping payments on bonds backed only by legislative appropriations in August, next week’s payment includes debt that the central government has guaranteed, giving investors legal recourse. Another $957 million is due from Puerto Rico and its agencies on Jan. 1.

If there’s a default, bondholders may sue for repayment, igniting a legal battle that could upset efforts to negotiate a debt-restructuring agreement. Talks with creditors are only just beginning, and Puerto Rico has yet to disclose the terms it will offer investors to exchange their debt for new securities.

The commonwealth is doing “everything possible” to make the payment, according to Jesus Manuel Oritz, spokesman in San Juan for Governor Alejandro Garcia Padilla.

The payments Tuesday are all due on bonds sold by the Government Development Bank, which lends to the island’s central government and its agencies. That includes $267 million of maturing debt that’s guaranteed by the commonwealth. The securities are insured by MBIA Inc.’s National Public Finance Guarantee Corp., which would be on the hook if Puerto Rico doesn’t pay.

The GDB is likely to default on at least a portion of what’s due, Genevieve Nolan, a Moody’s Investors Service analyst, wrote in a Nov. 11 report. That wouldn’t be a surprise to the $3.7 trillion municipal-bond market: Puerto Rico’s debt has been trading at distressed levels for more than two years and officials for months have said maintaining essential services and programs is the commonwealth’s first priority.

Avoiding a default in December or January — the busiest months for debt payments until July — would give the commonwealth time to negotiate with investors and insurance companies that guarantee its securities. It may also cause prices to rebound, which would provide investors with an opportunity to sell ahead of a restructuring, according to Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.
Such a reprieve may only prove temporary. Standard & Poor’s said in a September report that all of Puerto Rico’s tax-backed debt is highly vulnerable to default.

One Island, Many Bonds

Here’s a list of the island’s debt, how much is outstanding, when major monthly payments are due, and the source of funds that back the securities, according to data compiled by Bloomberg. Also included are the bonds’ most recent yields. A higher yield indicates that investors see more risk of non-payment:

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. The bonds, known by the Spanish acronym Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. $1.2 million of interest is due in February and again in May. Senior Cofinas maturing in 2040 last traded for an average yield of 9.5 percent, while subordinate ones yielded 18 percent.

General-obligations: $12.6 billion. The debt backed by the commonwealth’s full faith and credit. The island’s constitution says general obligations must be repaid before other expenses. Puerto Rico owes $357 million of interest in January and an additional $805 million of principal and interest is due July 1. Securities due in 2035 last traded for an average yield of 11.5 percent.

Puerto Rico Electric Power Authority: $8.2 billion. Prepa, as it’s called, is the island’s main supplier of electricity and repays the debt from what it charges customers. The utility owes $196 million of interest in January and $420 million of principal and interest July 1. Prepa is negotiating with bond-insurance companies after reaching an agreement with some of its bondholders, who agreed to take a 15 percent loss.

Bonds maturing in 2040 last traded at an average yield of 9.2 percent.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The bank owes $354 million in December and $422 million in May. Federally taxable bonds maturing in 2019 last traded for an average yield of 57 percent.

Puerto Rico Highways & Transportation Authority: $4.6 billion. The highway agency repays its debt with gas-tax revenue. It owes $106 million of interest in January and $220.7 million of principal and interest in July. The commonwealth has the ability to divert revenue that cover some highway bonds to pay its general-obligation securities, if there are no other available resources, according to the island's most recent financial disclosure. Bonds maturing July 2028 last traded for an average yield of 32 percent.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue that public agencies pay for their office buildings. The agency owes $102.4 million of interest in January and $208 million of principal and interest in July. Bonds maturing 2042 last traded for an average yield of 10.4 percent.

Puerto Rico Aqueduct & Sewer Authority: $4.1 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes $86.5 million of interest in January and $135.1 million of principal and interest in July. Bonds maturing in 2042 last traded at an average yield of 8.7 percent.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's nearly depleted pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The system pays $13.9 million of interest every month in this budget year. Securities maturing in 2038 last traded for an average yield of 22 percent.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Prifa owes $37.2 million of interest in January and $77.8 million of principal and interest in July. Bonds maturing in 2046 last traded for an average yield of 28 percent.

Puerto Rico Public Finance Corp.: $1.09 billion. The bonds are repaid with money appropriated by the legislature. The agency has defaulted every month since August on its debt-service payments because lawmakers failed to allocate the funds. It owes interest every month, the largest being a $24 million payment in February. Bond maturing in 2031 last traded for 7 cents on the dollar, according to trade reports. The yield wasn't disclosed.

Bloomberg Business

by Michelle Kaske

November 24, 2015 — 9:01 PM PST Updated on November 25, 2015 — 6:52 AM PST

Bloomberg Brief Weekly Video - 11/25

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

Watch the video.

November 25, 2015

[Moody's: Illinois' Inherent Credit Strengths Help Offset Pressures, But Do Not Create 'Rating Floor.']

New York, November 24, 2015 — Following its October downgrade, the State of Illinois (Baa1 negative) is the only state rated below single-A, exemplifying how a combination of pressures can offset typical sources of a state's credit strength, Moody's Investors Service says in a new report.

Illinois benefits from a diverse and wealthy economy as well as strong legal protections for general obligation (GO) bondholders, but these intrinsic strengths do not provide a credit quality "floor" that keeps the state's ratings at investment grade, Moody's says in "FAQ: The Future of Illinois' Credit Position."

"There is no floor for US state ratings, despite states' inherent credit strengths and typically very high ratings," Moody's VP-Senior Credit Officer Ted Hampton says. "The majority of states are rated either Aaa or Aa1, and this concentration at the top of our rating scale reflects states' powers — such as the ability to cut general spending — and positive features that include prudent governance practices, moderate debt burdens, and stable, diverse economies."

The factors that have eroded Illinois' credit standing in recent years could drive the state's credit closer to speculative-grade, Moody's says. These interrelated factors are governance weaknesses, bill payment deferrals, chronic structural budget gaps, and soaring unfunded pension liabilities.

The FAQ also says despite these pressures, Illinois has a significantly higher credit rating than Chicago (Ba1 negative) because the state's pension funding crisis is less immediate, its funding burden is significantly less in relation to its resources, and because of the state's broader fiscal powers including the ability to shift its funding burdens onto lower levels of local government with separate revenue sources.

"Chicago faces a near-term threat of pension plan asset depletion, while the state does not," Hampton says. The report notes that Chicago's pension plans face substantially higher annual outflows to pay benefits in relation to their assets.

The FAQ also discusses whether political division within a government creates credit-negative situations and if a budget compromise in Illinois improve the state's credit standing.

The report is available to Moody's subscribers here.

[Virginia Extends Existing P3 to Toll I-395 HOV Lanes.]

DALLAS – Virginia will extend an existing transportation public-private partnership to add eight miles to its system of high-occupancy tolled traffic lanes near Washington, D.C.

Transurban has agreed to finance the $200 million to $250 million project to add a new high-occupancy lane to the existing two-lane HOV system on Interstate 395 and to convert all three to reversible HOT lanes, Virginia Transportation Secretary Aubrey Layne said on Nov. 20.

The Transurban-led 95 Express Lanes LLC, which includes Fluor Corp., maintains and operates the 28 miles of managed toll lanes on Interstate 95 that opened in late 2014 with a concession that extends to 2087. The $950 million project was financed and built under Virginia's Public-Private Transportation Act.

Motorists could use the existing free lanes on the I-395 segment or opt to pay a toll on the three reversible HOT lanes that increases as free-lane road congestion worsens, Layne said in a letter to local officials in Alexandria, Va., and Arlington and Fairfax counties. Vehicles with at least three passengers can continue to use the HOT lanes without charge.

"This proposal is not the same as proposals in the past," Layne said in his letter.

The state originally proposed extending the HOT system to the Potomac River, which separates the District of Columbia and Virginia, but dropped that plan when Arlington County filed an environmental lawsuit to block the project.

The tolled lanes on I-395 would connect with the I-95 high-occupancy lanes and extend to near the Pentagon under the new plan.

The revised proposal will provide funding for transit improvements and commuter parking lot expansions, but requires only minimal interchange construction, Layne said.

"The McAuliffe administration believes that this corridor needs new and expanded transportation options for drivers, sluggers, and transit users," he said.

Sluggers are commuters who congregate along the road to catch a ride with motorists seeking additional passengers so they can qualify for the high-occupancy lanes.

Jennifer Aument, general manager of Transurban's operations in North America, said the project will benefit residents and travelers for decades.

"By funding improvements through a public-private partnership, we are able to preserve scarce public transportation dollars to be used on other regional priorities and provide a revenue stream for transit that will continue to fund new options for travelers in the I-95 corridor for many years to come," she said.

The tolled HOV lanes will provide area motorists with new choices, said Joe Vidulich, vice president of government relations at the Fairfax County Chamber of Commerce.

"This innovative public-private partnership will result in a dedicated corridor for carpoolers and buses, while also providing new transportation choices for all motorists to reach their destination faster," he said.

The state will conduct an environmental assessment of the lane project and study other ways to improve travel along the I-95/395 corridor before construction begins, Layne said.

"The Commonwealth and its private partners are committed to a robust public engagement effort," he said.

Work could begin in 2017 and be completed in two years, Layne said.

Meanwhile, the Maryland Transit Administration last week received initial proposals from the four teams shortlisted as contenders for its Purple Line P3 light rail system. The 16-mile system in the northern suburbs of Washington is expected to cost more than $2 billion, but the project cost won't be known until the teams submit their financial plans on Dec. 8.

Maryland Gov. Larry Hogan in June cut the state's contribution to the Purple Line to $168 million from the original $700 million pledge and cancelled the Red Line light rail project in Baltimore.

The MTA plans to select a preferred partner for the Purple Line in February, subject to a review by the Maryland Board of Public Works in March. Work is expected to begin next year with completion in 2021.

THE BOND BUYER

BY JIM WATTS

NOV 24, 2015 2:07pm ET

Decision Time in Puerto Rico.

Puerto Rico is facing another potential default in about a week as it has a $355 million debt payment due on Dec. 1. The troubled territory defaulted for the first time ever back in August when the government's Public Finance Corporation didn't meet a $58 million debt payment. This time, the Government Development Bank (which is Puerto Rico's main financier) is the one in trouble.

The GDB announced that it is meeting with bondholders who hold the majority of Puerto Rico's debt on Friday, Nov. 20 in New York. The meeting is not open to the public, although a statement issued by the GDB said they would be discussing a previously announced restructuring plan. That plan seeks to adjust the territory's debt in a way that maximizes creditors' recovery while "preserving the government's ability to serve its citizens."

It's hard to be hopeful that Puerto Rico will find a sustainable solution to its problem in the near future since lately the territory seems to just lurching now from one disaster to the next. It has been in a recession for nearly a decade and it has racked up debt of about $72 billion. It has less than $1 billion in cash — far less than it needs to run the government. Earlier this month, Moody's Investor Service issued a statement predicting the island would default on at least some of its debt due Dec. 1. Puerto Rico's credit rating is already well into junk bond territory.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 20, 2015

Christie Skeptical of Cost to 'Pay for Success.'

New Jersey Gov. Chris Christie recently vetoed a bill that would have created a fund to promote Pay for Success (PFS) programs in the state. Called the "New Jersey Social Innovation Act," the bill would have created a five-year social innovation loan program in the New Jersey Economic Development Authority to promote preventive health service programs. The fund would have been used for things like guaranteeing loans made by private financiers and paying for expenses related to the administration of the loan guarantees. (PFS programs seek private financing to fund preventative government programs. The financiers are paid back only if the program achieves the desired result.)

Christie didn't nix the entire bill but he did gut key parts and instructed staff to consider ways to use existing resources to accomplish the same goal. He noted that the fiscal note accompanying the bill was inconclusive about how much the program would cost (or save) the state. While noting the "possibility for cost savings through more efficient health care provision," the note went on to say that the details of the loan and loan guarantee agreements "will be significant factors in determining whether those cost savings may be realized."

In his veto, Christie said the finances were too vague. "While I agree that preventative health services are a valuable piece of the State's overall healthcare picture, I am concerned that establishing such a new financial structure requires further consideration before enactment," his letter said. "There have been mixed results concerning the true benefits of these programs in extensive studies conducted by the most respected experts." Indeed, PFS is still a nascent idea with just two projects in five years yielding results: one is working, and one didn't.

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 20, 2015

Alaska Endowment Double-Check.

Alaska Gov. Bill Walker is moving forward with a rescue plan for the state's finances that would convert the state's Permanent Fund into an endowment that absorbs oil income and generates billions of dollars in annual revenue for the state's treasury. The state's $52 billion Permanent Fund was created via a constitutional amendment in the 1970s and automatically receives about one-quarter of the state's oil revenue each year. It's used solely to pay out annual dividends to residents and payments have averaged $1,400 for the past decade. The shift into one large endowment that the state government can access would reduce the resident payments to about $1,000, the governor's office estimates.

More than any other state, Alaska's budget has been hammered by the drop in oil prices. The state relies on oil revenues to fund nearly all of its operations. Last year it withdrew $2.7 billion out of its savings to close a budget gap and for this year's budget Walker relied on a similarly large withdrawal. His staff estimates that by moving all oil revenues into an interest-bearing endowment fund and withdrawing annually from that fund, the state would become less reliant on oil. His office estimates the fund would early about $3 billion in annual interest — a little larger than the amount the state withdrew from savings in the past two budgets.

But it doesn't hurt to double check. This week the administration said it had issued an RFP asking financial consultants to vet Walker's plan. It seems the governor's office wants as solid backing as it can get on a proposal that would overhaul the state's financial structure. Jerry Burnett, deputy revenue commissioner, told the Alaska Dispatch consultants would "vet our models, look at what we've done and what our assumptions are, and assuming that we go forward with this and that everything works out, be available to explain to the legislature that the Walker administration is telling you the truth."

GOVERNING.COM

BY LIZ FARMER | NOVEMBER 20, 2015

[SEC Charges Brogdon With Misleading Investors, Obtains Freeze on Assets.]

WASHINGTON – The Securities and Exchange Commission has obtained an emergency freeze on the assets of an Atlanta-based businessman and filed a lawsuit charging him and his associates with fraud for misusing investor proceeds that were supposed to finance the purchase and renovation of senior living facilities.

The SEC filed its complaint with the United States District Court for the District of New Jersey and is requesting a jury trial. It is also requesting that Brogdon return his ill-gotten gains with interest and penalties and be barred from serving as an officer or director of a public company. The SEC also wants the court to impose a receivership on the entities that Brogdon owns or controls.

At the same time, the Financial Industry Regulatory Authority filed a complaint against Cantone Research Inc. in Tinton Falls, N.J. its majority owner and wife in connection with Brogan's transactions.

The SEC found that since 1992, Christopher Brogdon raised more than $190 million for his nursing home and retirement community projects through 54 conduit municipal bond transactions and private placements. In total, the SEC alleged Brogdon committed fraud through at least 43 entities he owns or controls.

The offering documents given to investors for these projects said that the money to be raised would be used for purchasing, constructing, or renovating specific projects. The investors were supposed to receive interest from the revenues generated by the projects in which they believed they were investing. Instead, Brogdon, as early as 2000, commingled the investor funds and used the money for personal expenses and other business ventures, including restaurants and commercial real estate holdings, the SEC said.

Brogdon also consistently failed to file required financial statements and drew down on debt service reserve funds to make interest payments to his investors, without disclosing his actions or replenishing the funds. As a result, there were multiple times when interest or principal payments were due and he relied on third-party lenders to make his payments, according to the commission.

"As alleged, Brogdon deceived investors about the true nature of these investment opportunities," said Sanjay Wadhwa, senior associate director of the SEC's New York Regional Office. "Brogdon falsely promised investors they were investing in specific senior living projects when in reality they also were funding his personal expenses and other businesses, including some that are struggling financially."

Brogdon has been in the nursing home, assisted living, and retirement home community business for more than 25 years. He owns seven other real estate and restaurant business ventures throughout Georgia and the surrounding states and has been associated with retirement and healthcare companies since the early 1990s.

He was censured, fined, and barred from the securities industry by NASD, the predecessor to the Financial Industry Regulatory Authority, in 1986 when he was found to have effected transactions in securities while failing to maintain adequate net capital. NASD additionally found he had withdrawn cash and securities investments from the firm's accounts while the firm was deficient in net capital.

The SEC's complaint also names Brogdon's wife Connie Brogdon, who had a majority equity interest in many of the entities Brogdon uses to own, operate, or lease his facilities. His son Tygh Brogdon is named in the complaint as well because of his role as president of Brentwood Healthcare, which managed at least six facilities cited in the SEC's complaint. In addition to his family, the complaint also names several other business entities associated with Brogdon as defendants.

In total, Brogdon was found to have raised at least $168 million through municipal revenue bonds issued in conduit deals, or certificates of participation in the bonds. He also raised at least $22 million through private placement offerings, usually comprised of equity and debt. The SEC found that Brogdon continues to control the borrower entities in each of the offerings they cited.

The SEC cited several examples of Brogdon's misappropriation of offering proceeds. In the spring of 2013 he raised money through two offerings for a retirement housing development referred to as the "Arcadia Project" in Conyers, Georgia. The offerings included COPs in the Development Authority of Clayton County, Ga.'s revenue bonds and in the Savannah Economic Development Authority's subordinated mortgage healthcare facility revenue bonds, as well as Cherokee Financial's COPs in a 10% promissory note issued by Arcadia Partners.

The confidential disclosure memorandum given to investors, said that $1.4 million of the proceeds would be used to construct the Arcadia Project and that the private placement investors would be paid interest and principal from the revenues of the project. Instead $177,936 of the proceeds were used to make quarterly interest payments back to the investors in the Cherokee Financial private placement and $644,158 of the proceeds financed undisclosed expenses and payments, including some associated with his restaurants and his wife's personal account.

In another example, Brogdon raised $2.15 million through COPs in the Development Authority of Clayton County, Ga.'s first mortgage revenue bonds. Instead of using $425,000 of the proceeds as working capital for the facility that served as the source of payment of debt service on the bonds, Brogdon used the money to pay loans on an unrelated nursing home and commercial property owned by his Brogdon Family Company LLC. He also used the money to pay an employee's salary at one of the companies he co-founded and transferred $74,000 to his wife's personal account.

His misconduct continued through at least Oct. 8 of this year, according to the SEC. As recently as September 2015, he used commingled funds from unrelated facilities to satisfy debt service obligations on three outstanding bond offerings and as recently as November he used a personal line of credit to make debt service payments on two bond offerings that did not include that source of funding in their official statements.

"Unless the defendant is permanently restrained and enjoined, [he] will again engage in the acts, practices, transaction and courses of business set forth in this complaint," the SEC said.

The commission found Brogdon violated Section 17(a) of the Securities Act of 1933, which prohibits fraud and misrepresentations in the offer or sale of securities, and Section 10(b) of the Securities Exchange Act of 1934 as well as Rule 10b-5 in that section, which refer to manipulative and deceptive devices. He also violated Sections 20(e) of the Exchange Act, on liability of controlling persons, and Section 15(b) of the Securities Act, on registration of municipal dealers, according to the commission.

Meanwhile, FINRA charged Cantone Research majority owner Anthony Cantone, and his wife Christine, with making fraudulent misrepresentations and omissions of material facts in connection with the sales and extensions of more than $8 million of COPs in certain promissory notes that were executed on behalf of one of several entities controlled by Brogdon.

According to FINRA, four of five of the promissory notes have defaulted, resulting in about $6 million of losses to investors, while CRI and Cantone received commissions and other payments of more than $1 million from the offerings.

FINRA said CRI and Cantone failed to disclose to investors, among other things, that Brogdon had twice been barred from the securities industry, once for "egregious misconduct" involving unauthorized transactions and later for a separate "scheme" involving financial misconduct.

They also did not disclose that Brogdon had been indicted for racketeering, theft, and Medicaid fraud, that he had been found liable for breaching a stock repurchase guarantee agreement, and that several entities he controlled had filed for bankruptcy.

THE BOND BUYER

BY JACK CASEY

NOV 20, 2015 7:11pm ET

California LAO's Report Confirms State's Favorable Credit Position.

SAN FRANCISCO (Standard & Poor's) Nov. 19, 2015—Standard & Poor's Ratings Services said that the upbeat report issued yesterday by the nonpartisan California Legislative Analyst's Office confirms our interpretation of the state's finances that we published in August.

The findings in the new LAO report coincide with what we said in our Aug. 18 analysis of California (AA-/Stable) that we anticipated. Most significantly, the rules around how much of new revenue growth are mandated by Proposition 98 to go toward education are set to relax a bit. Essentially, in recent years, the state has paid down large obligations left over from the financial crisis that it owed to the schools. Now that the state has funded most of those requirements, the rules under Proposition 98 change and provide lawmakers with considerably more discretion over how to allocate revenues in the budget.

The fact that the state is in this position is favorable. Lawmakers have managed the state's finances well over the past several years, taking advantage of the requirement to allocate new revenues to education to reverse payment deferrals and pay down funding gaps dating to 2009. But it's clear that the sense of urgency in Sacramento is shifting away from ensuring the state's fiscal solvency toward addressing some of California's pressing needs in other policy areas. With high rates of poverty and a chronic shortage of affordable housing, there is an understandable demand from some in the legislature and other policy advocates for increased spending on various social services.

When we look at the state's credit profile overall we still see some meaningful long-term challenges. From a credit perspective, Governor Jerry Brown's first few budget proposals appropriately focused on stabilizing the patient, so to speak. California had deep cash and budgetary deficits that amounted to financial crisis. As time has passed, the governor's priorities have gradually evolved, from focusing on the immediate fiscal crisis to the longer-term issues facing the state. He has pushed for and achieved certain pension reforms and the rainy day fund measure—which voters approved last November. He also called a special session of the legislature to try to identify a source of funding for the backlog of deferred maintenance on the state's transportation infrastructure. The administration has also been working with the labor unions to try to get agreement on prefunding the state's retiree health care liability.

Some of those longer term liabilities and other challenges—along with the state's underlying propensity for revenue volatility—still weigh on California's credit rating. There is a zero-sum element to the upcoming budget negotiations. To the extent the state makes new spending commitments on the social service front, they would crowd out some of its fiscal capacity to address the longer term impediments to a higher rating. This dilemma is in a way the optimistic scenario. It's in the context of an ongoing economic expansion—now in its seventh year. The choices would become much more difficult if the economy—or stock market—were to go into a slide.

While the LAO report paints a relatively sanguine picture of the state's fiscal condition, the budget process is not likely to be any easier and may be even more complicated now. In a few years we might look back at this period as having been pivotal. The tradeoffs that lawmakers face are difficult. They can place a newfound dollar in the state's OPEB trust for retiree health care or they can spend it on expanded social services. In other words, does the state follow through on its multiple-year fiscal recovery project or does it turn its attention to addressing other policy priorities? While we recognize that it's far from the only consideration, the resilience of California's credit rating under certain potential stress scenarios could hang in the balance.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee. Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. 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 and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Primary Credit Analyst: Gabriel J Petek, CFA, San Francisco (1) 415-371-5042; gabriel.petek@standardandpoors.com

Secondary Contact: David G Hitchcock, New York (1) 212-438-2022; david.hitchcock@standardandpoors.com

---

LBJ Express a P3 Benchmark.

Cintra's LBJ Express managed lanes toll road was opened to traffic in north Dallas three months ahead of schedule on Sept. 10, marking another major P3 milestone in Texas for developer-operator Cintra and its sister company, Ferrovial Agroman.

According to Russell Zapalac, Chief Planning & Project Officer for the Texas Department of Transportation (TxDOT), neither TxDOT nor Ferrovial requested any change orders to the $2 billion design-build contract signed in 2011 to rebuild 16 miles of I-635 and I-35E north of Dallas. Among other things, 10 miles of cantilevered structures were built under traffic that peaked in the corridor at about 270,000 vehicles per day.

Likewise, Cintra opened 13.5 miles of its North Tarrant Express managed lanes project in Dallas on Oct. 4, 2014, almost nine months ahead of schedule and with contractor change orders of only $5 million, according to Zapalac. Ferrovial started construction in May 2014 on a second segment of the North Tarrant Express on I-35W north of Fort Worth.

The on-time completion of LBJ is significant in many ways. It is one of the most technically complex transportation projects ever attempted in the U.S. under a fixed-price contract. The dynamically priced managed lanes will double the capacity of the corridor, and operate in direct competition with eight general-purpose lanes, which are being rebuilt next to and, in some sections, above the managed lanes.

LBJ Express is the largest greenfield toll road project financing P3 ever closed in the United States. Cintra assembled $2.2 billion in nonrecourse debt and investor equity for a financial close in July 2010. Including a TIFIA loan, those private funds were supported by $490 million in public grants committed by TxDOT.

LBJ's timely completion vindicates a big bet made by TxDOT and Ferrovial in 2009 that a large segment of the project could be built in a narrow section of the existing right of way without putting it in an expensive tunnel.

TxDOT conceived of LBJ as a tunneling project. In discussions with TxDOT, Ferrovial proposed instead to put the managed lanes in a trench and cantilever the general purpose lanes above them. Many U.S. contractors believed that Ferrovial had made a $1-billion mistake — the difference between Dragados's tunnel price and Ferrovial's price to stay above ground and work around the relentless traffic there. Its on-time completion suggests Ferrovial was up to the traffic management challenge.

The DBFOM contract price of $2.485 billion includes 47 years of O&M by Cintra, including dynamic toll operations and most back office functions. Billing will be done by the North Texas Tollway Authority, which operates most of the region's toll roads along with TxDOT. Total cost of the project including ROW and other owner costs is $2.983 billion.

NCPPP

November 16, 2015

By William Reinhardt

Gundlach Joins Lasry Scooping Up Puerto Rico Debt as Prices Fall.

Even though Puerto Rico may be just weeks away from defaulting on some of its $70 billion of debt, a couple of the biggest names in the bond market are swooping in to buy its securities.

Jeffrey Gundlach of DoubleLine Capital LP and Avenue Capital Group's Marc Lasry both said this week that they're buying bonds from the commonwealth as prices take a new turn lower. Puerto Rico owes a combined $1.4 billion on those securities and others in the next six weeks, compared with just $209 million of payments since Sept. 1.

The purchases show how some distressed-debt investors are betting that prices have fallen too far and Governor Alejandro Garcia Padilla will have trouble following through on his pledge to prioritize public services and force losses on bondholders with constitutionally protected securities. Puerto Rico's benchmark general obligations traded Wednesday near the lowest price since August, data compiled by Bloomberg show.

“Entering at this point, the risk-reward calculus may make sense because it’s pricing in as much of the downside risk possibility that there is,” said David Tawil, who manages $80 million as co-founder of hedge fund Maglan Capital LP in New York.

“Distressed buyers have to be buyers when things are super out of favor — that’s how they make real money,” said Tawil, who used to own Puerto Rico debt but doesn’t anymore. “A lot of time has passed, a lot of rhetoric has come and gone, and we’re at do-or-die time.”

Payment Schedule

Puerto Rico bond prices have plunged over the past two years as the commonwealth’s economy staggered under its debt load. They fell to new lows after Garcia Padilla said in June that he wants investors to take a loss and delay principal payments. About one month later, the island defaulted for the first time on appropriation bonds from its Public Finance Corp.

Investors are watching to see if Puerto Rico will pay $467 million due Dec. 1, its biggest obligation since August, and then $958 million owed on Jan. 1.

Those funds focused on the $3.7 trillion municipal market who purchased the bonds at full value for their high tax-free yields have fared the worst as bond prices plunged. Speculative-grade Puerto Rico bonds have lost another 11 percent this year, according to Barclays Plc data.

General Obligations

Puerto Rico’s benchmark 8 percent general obligations due in July 2035 traded Wednesday at an average 71.6 cents on the dollar, near the lowest price in three months, data compiled by Bloomberg show. Similarly, uninsured sales-tax and highway bonds that were the most-traded of the past month fell to the weakest since mid-September.

Those declines have lured hedge funds and distressed-debt buyers, who now own about one-third of the commonwealth’s securities, according to Mikhail Foux, head of municipal strategy at Barclays.

There’s “a substantial probability” that the island makes payments on general-obligation, general-obligation-guaranteed and sales-tax debt in the coming months, Foux wrote in a report Tuesday. Other issuers are at risk.

Lasry, the co-founder of hedge fund Avenue Capital, is buying more bonds because “it’s hard to get hurt now in Puerto Rico,” Reuters quoted him as saying at a conference it hosted Tuesday in New York.

Avenue Capital owned some Government Development Bank debt as of last month, people familiar with the holdings told Bloomberg News. Lasry didn’t say which Puerto Rico bonds his firm was buying, according to Reuters. He said he thinks he knows all the different options at the commonwealth’s disposal.

Todd Fogarty, a spokesman for Avenue Capital, said the company had no further comment.

Gundlach, DoubleLine’s chief investment officer, said in a conference call Tuesday that he was buying more Puerto Rico securities, though not large amounts and not for his core funds.

‘Smart Money’

He purchased $45 million of the commonwealth's benchmark general-obligation debt for his $2 billion Income Solutions Fund in the first three months of 2015, according to data compiled by Bloomberg. He hasn't reported adding any more since, though it remains the sixth-largest part of his fund by market value.

Loren Fleckenstein, an analyst at Los Angeles-based DoubleLine, didn't respond to an e-mail or phone call seeking comment on the firm's purchases.

Puerto Rico's general obligations are where the "smart money" is going, said Mark Palmer, a managing director at BTIG LLC, a brokerage firm. Those bondholders can go on the offensive to divert money from highway and sales-tax debt, while investors in those securities have to defend their claims, he said.

"We think that ultimately the defenses the creditors have are going to be sufficiently strong," Palmer, who analyzes the bond insurers backing some Puerto Rico securities, said in an interview at Bloomberg's New York headquarters Wednesday.

"It's becoming clear that it's going to be extremely difficult, outside of U.S. government intervention, to bring upon its creditors any sort of restructuring that's going to involve deep haircuts without their consent," Palmer said. "And they're not inclined to accept that."

Bloomberg Business

by Brian Chappatta

November 18, 2015 — 9:00 PM PST Updated on November 19, 2015 — 5:57 AM PST

Bloomberg Brief Weekly Video - 11/19

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

Watch the video.

November 19, 2015

Fitch: Revenue Bond Loss Would Slow California's Infrastructure.

Fitch Ratings-New York-19 November 2015: A proposed California ballot initiative could limit financing for the state's major infrastructure projects, Fitch Ratings says. The measure to amend California's constitution to require voter approval of revenue bonds for projects with total costs exceeding $2 billion will likely appear on the November 2016 ballot.

Fitch has often cited voter initiatives as a key factor limiting California's budgetary flexibility. This legislation would also delay infrastructure policy and expose it to the political process.

If the measure becomes state law, it would constrain infrastructure financing and likely result in reduced investment over time, particularly for major water projects. Revenue bonds have played a limited role in the state's infrastructure financing overall but have been essential for financing water projects. In the absence of revenue bonds, water projects have few other funding options.

Water projects have gained importance during California's historic drought. In addition, the ongoing rise in the state's population (approaching 40 million) and deferred maintenance has left an estimated $750 billion in funding needs over the next ten years. California's 2015 Five-Year Infrastructure Plan (a portion of the state budget) proposed investing just $57 billion over that term.

The proposed ballot measure is an effort to halt the California Water Fix (formerly known as the Bay Delta Conservation Plan). The project is a controversial effort to construct twin tunnels through California's Sacramento-San Joaquin Delta. Agricultural and residential ratepayers would finance a large share of the project's estimated $25 billion cost if necessary regulatory approvals and political support can be obtained. The proposed initiative would present an additional hurdle of statewide voter approval and would extend this requirement to other large infrastructure projects supported by revenue bonds as well.

Contact:

Stephen Walsh
Director
US Public Finance
+1 415 732-7573
650 California Street
San Francisco, CA

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

Fitch: Texas School Districts Should Weather Tax Revenue Drop.

Fitch Ratings-New York-10 November 2015: A decline in Texas school district revenue streams of approximately $1.2 billion per biennium should not affect their bond ratings, Fitch Ratings says.

Texas voters last week approved an increase in the residential homestead exemption from $15,000 to $25,000 for public school purposes. The impact will likely be largest for suburban school districts that are primarily residential. The legislation includes a requirement that the state make whole any revenue shortfall and the fiscal 2016-2017 state budget includes this additional funding amount.

Most Texas school districts levy taxes at the maximum statutory amount for operations of either $1.04 or $1.17 per $100 of taxable assessed value (TAV), depending on prior voter approval of an additional $0.13. Districts typically have more flexibility on debt service, although a number of districts levy debt service tax rates at or near the statutory cap of $0.50 for new issuance approval. Nine districts rated by Fitch currently levy at the $0.50 cap. The debt service make whole provision applies only to debt issued (and first payment made) prior to Sept. 1, 2015, so any declines in taxable value from the increased exemption may affect the timing and size of new borrowings for those districts with tax rates at or near the statutory cap.

Generally strong economic conditions in Texas over the past several years have contributed to solid gains in TAV for local governments (the exceptions being those areas with large mineral value concentrations). These TAV gains, along with funds made available through the make whole provision, will cushion the blow from the homestead exemption increase. For the many districts with limited debt service tax rate flexibility, TAV gains will shorten or eliminate delays in borrowings that might have otherwise occurred.

Contact:

Steve Murray
Senior Director
U.S. Public Finance
+1 512 215-3729
111 Congress Ave
Austin, TC

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

Houston's Conundrum: Closing Its Pension-Funding Gap.

Houston is weathering a prolonged plunge in oil prices, but the city may have an even bigger problem: its pensions.

Though economic growth has only slowed, not stalled, in Texas' largest city, its finances are showing what several investors and analysts describe as warning signs.

Those include a rapidly growing gap in funding its retirement plans for public workers and a limit on its revenue-raising capabilities imposed by a voter-approved cap on property taxes.

The $3.2 billion pension-funding gap is threatening Houston's Aa2 credit rating from Moody's Investors Service, hurting demand for its debt and emerging as an issue in the city's mayoral race.

Moody's this summer warned it may downgrade the city's debt if Houston fails to address its pensions, noting the cap limits the city's financial flexibility.

A downgrade could lower prices for outstanding bonds and increase Houston's borrowing costs at a time when it needs improved infrastructure.

Some investors are backing away from the city's debt, saying there are better deals on similarly rated municipal bonds elsewhere. Guy Davidson, director of municipal investments at AllianceBernstein LP, said his firm trimmed its holdings of Houston's debt earlier this year.

"We want to be compensated for those pension liabilities and at current levels, we don't think we are," he said.

Houston is the latest U.S. city to face threats from credit-rating firms and investors over bulging pension obligations. Investors have grown concerned about state and local governments' ability to address unfunded retirement costs. Examples include Chicago and the states of Illinois and Connecticut, whose unfunded retirement costs have ballooned after investing losses from the 2008 financial crisis and chronic underpayments by policy makers.

Houston's predicament also shows how the decline in oil prices is forcing some U.S. state and local governments to re-evaluate their spending priorities.

Houston residents are reluctant to support any tax increases, including raising the property-tax cap, said Mark Jones, a political-science professor at Houston's Rice University.

At the same time, unsustainable pension costs have contributed to reductions in hiring of police officers and spending on pothole repairs, which have become issues in the mayoral race.

Houston's unfunded pension liabilities grew at a faster clip relative to its revenue than in any of the other 50 largest U.S. local governments rated by Moody's, the firm said in a July report, citing data from fiscal 2013.

The city also projects deficits in coming years despite revenue growth, Moody's said in October.

Before 2001, Houston had enough assets to fund future retirement payouts. But an across-the-board boost to retirement benefits around that time, plus losses from two recessions, have weighed on the city's pension funding. The city now only has about 75% of the funds it needs. That places Houston at the average level of funding among city and county plans, according to Wilshire Consulting.

While the city has paid contractually required amounts to plans for municipal employees and police officers over the past five years, the total falls short of fully funding the systems. A state law overseeing the firefighters' plan has resulted in better funding while reducing the city's financial flexibility, Moody's said.

City officials have argued for greater control over pensions and revenue. Ronald Green, Houston's controller, said that while investors in the city's debt can remain confident they will get paid, the city should act soon to improve its finances.

"You don't fix the roof when it's raining, you fix it when it's dry," he said.

Absent a concerted effort to adjust course, the city is headed toward Chicago-level distress, forced to choose between benefit cuts, tax increases and reduced public services, according to a report by the Houston-based Laura and John Arnold Foundation, which funds research on the fiscal health of public pensions.

Houston's pension parameters are set by state law, adding to the complexity of seeking a solution, while the drop in oil prices could magnify problems more quickly than expected, said Josh McGee, a vice president at the foundation.

Among other concerns, the city's plans assume relatively high investment returns of 8% or above, meaning the funding gap may be understated, said Marc Watts, chairman of the Greater Houston Partnership's Municipal Finance Task Force.

"The new mayor, unless this is addressed, isn't going to have any resources to work with," he said.

Some plan officials said retired city workers aren't the problem. Max Patterson, executive director of the Texas Association of Public Employee Retirement Systems, called such warnings “grossly misleading” and said any discussion of pension changes should be considered in a broader conversation about city finances.

Todd Clark, chairman of the Houston Firefighters’ Relief and Retirement Fund, said the plan has met and exceeded its assumed returns historically and the board will make any needed adjustments in consultation with an actuary going forward.

The issue is playing into the mayoral runoff between State Rep. Sylvester Turner, a Democrat, and former Kemah Mayor Bill King, a fiscal conservative.

Mr. Turner, running with the support of the city’s three major public-sector unions, said the pension issues should be debated with all stakeholders in concert with the city’s other fiscal concerns.

After that, he would consider raising the property-tax cap for public safety or paying down debt.

“In order to be successful in addressing the pension issue, you have to engage in comprehensive financial reform,” he said.

Mr. King favors adjusting pensions by offering 401(k)-style defined-contribution plans for new hires. He supports maintaining the cap, saying the city raises plenty of tax money and needs to spend less.

“We’ve got time to turn the boat around and not go over the falls, but we don’t have a long time,” he said.

Houston’s situation highlights the need to address pensions and other fixed costs before they become an economic drag, said John Bonnell, senior portfolio manager of tax-exempt investments with San Antonio-based USAA Investments, which doesn’t own the city’s bonds.

“If they end up doing nothing to address this budget issue, 10 years from now Houston could be facing the same problem Chicago is now,” he said. “I think they have the ability to address their issues prudently, it just hasn’t gotten to the point where they’ve been forced to do it.”

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Nov. 15, 2015 9:48 p.m. ET

—Timothy W. Martin contributed to this article.

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com

Pension Blues in the Bluegrass State.

Kentucky now carries a dubious distinction: home to the worst-funded U.S. pension in at least 14 years.

On Thursday, Kentucky officials presented the dire financials of its large state-employee fund. It has just $2.4 billion in assets to cover $12.4 billion in future liabilities for the year ended June 30.

The Kentucky Employees Retirement System plan, covering the benefits of around 120,000 state workers, has a funding ratio—the basic measure of assets against liabilities—of just 19%.

That puts it in historically woeful shape versus other large state and local pension funds tracked by the Public Plans Database since 2001. A national database of pension-fund finances doesn't exist for years prior to then.

"It's very bad. I don't think (Kentucky) has a peer in terms of this low level of funding," said Jean-Pierre Aubry, an assistant director at the Center for Retirement Research at Boston College.

Kentucky's 19% is one-tenth of a percentage point lower than the 2003 status of the West Virginia Teachers plan. Other grim years at public-pension plans, according to the Public Plans Database, are: Chicago Police's 29.7% in 2013, the Illinois State Employees Retirement System's 34% in 2014; and the Chicago Municipal Employees' 37% in 2013.

A decade of Kentucky lawmakers short-changing on pension contributions, plus investing losses from the most recent financial crisis, have pummeled a state-employees plan that was close to fully funded in the early 2000s.

In the prior year, the Kentucky fund only had 23.9% of assets needed to cover future liabilities—making it the then-second lowest ever recorded by the Public Plans Database.

A spokeswoman for the Kentucky Retirement Systems, which oversees the state-employees plan, did not respond to a request for comment.

Pension experts say a funding ratio of 80% is an indicator of relative fiscal strength.

At 19%, the Kentucky state workers' plan can't easily make bets in private equity or real estate, because their finances are so tight they need assets that can be quickly converted into cash—in case those funds are needed to cut pension checks to retirees, Mr. Aubry said.

"You're getting close to a pay-as-you-go status, where the money coming in needs to paid out immediately," Mr. Aubry said.

The Public Plans Database is produced by the Center for Retirement Research and partners with the Center for State and Local Government Excellence and the National Association of State Retirement Administrators. It tracks 150 state and local plans.

THE WALL STREET JOURNAL

By TIMOTHY W. MARTIN

Nov 19, 2015 FUNDS

Chicago in Tough Battle to Overturn Ruling on Pension Reforms.

CHICAGO — Chicago tried to convince a sometimes skeptical Illinois Supreme Court on Tuesday that a 2014 law deserves to survive a constitutional challenge because it aims to save two of the city's retirement funds from insolvency by guaranteeing adequate funding.

The city, which is struggling with a $20 billion unfunded pension liability in its four retirement systems, is appealing a Cook County Circuit Court judge's July decision voiding the law.

In oral arguments on Tuesday, Chicago's top city attorney, Stephen Patton, said while the law includes "modest reductions in future automatic increases" in retiree pensions, it differs from a 2013 law that unilaterally cut benefits for Illinois' retirement systems and was struck down as unconstitutional by the state high court in May.

"This case is unique, it is different because the act here overwhelmingly benefits fund participants and avoids insolvency. It does not diminish or impair benefits under the plan language of the (Illinois Constitution's) pension clause," Patton told the court.

The supreme court in May tossed out the 2013 law that reduced retirement benefits for state workers to ease Illinois' $105 billion unfunded pension liability. All seven justices agreed that the Illinois Constitution protected public sector workers against pension benefits cuts.

At Tuesday's proceeding, some of the justices appeared to key off that ruling in questions posed to Patton and attorneys for Chicago's municipal and laborers' pension funds.

Justice Robert Thomas questioned how guaranteeing to fund existing promised pension benefits constituted an enhancement for workers. "How is that a plus?" he asked.

Patton contended that without the law, the legal responsibility to pay out pensions lies with the two funds alone and not with the city.

"What use is a benefit unless the money is there to pay it?" the attorney said, noting that under the law the city assumes an obligation it never had before to pay pensions.

John Shapiro, an attorney at Freeborn & Peters representing some of the unions and retirees who filed challenges to the 2014 law last December, told the justices that Chicago merely wishes to avoid paying for benefits promised to its workers, in violation of the pension protection clause.

"The city wants to use monies that would otherwise be contributed to these funds for other services," he said.

Cook County Judge Rita Novak in July rejected the city's argument that the law provided a net benefit by saving the municipal and laborers' retirement systems from insolvency in the next decade.

She also rejected the city's argument that the law should stand because it was backed by a majority of labor unions.

The law required Chicago and affected workers to increase their pension contributions and replaced an automatic 3 percent annual cost-of-living increase for retirees with one tied to inflation. The increase would be skipped in some years.

Chicago Mayor Rahm Emanuel's fiscal 2016 budget incorporates the law, as well as pending legislation that would reduce city contributions to its two public safety worker funds. The budget was approved by the city council on Oct. 28.

By REUTERS

NOV. 17, 2015, 2:15 P.M. E.S.T.

(Editing by Peter Cooney and Matthew Lewis)

Fitch: Texas School Districts Should Weather Tax Revenue Drop.

Fitch Ratings-New York-10 November 2015: A decline in Texas school district revenue streams of approximately $1.2 billion per biennium should not affect their bond ratings, Fitch Ratings says.

Texas voters last week approved an increase in the residential homestead exemption from $15,000 to $25,000 for public school purposes. The impact will likely be largest for suburban school districts that are primarily residential. The legislation includes a requirement that the state make whole any revenue shortfall and the fiscal 2016-2017 state budget includes this additional funding amount.

Most Texas school districts levy taxes at the maximum statutory amount for operations of either $1.04 or $1.17 per $100 of taxable assessed value (TAV), depending on prior voter approval of an additional $0.13. Districts typically have more flexibility on debt service, although a number of districts levy debt service tax rates at or near the statutory cap of $0.50 for new issuance approval. Nine districts rated by Fitch currently levy at the $0.50 cap. The debt service make whole provision applies only to debt issued (and first payment made) prior to Sept. 1, 2015, so any declines in taxable value from the increased exemption may affect the timing and size of new borrowings for those districts with tax rates at or near the statutory cap.

Generally strong economic conditions in Texas over the past several years have contributed to solid gains in TAV for local governments (the exceptions being those areas with large mineral value concentrations). These TAV gains, along with funds made available through the make whole provision, will cushion the blow from the homestead exemption increase. For the many districts with limited debt service tax rate flexibility, TAV gains will shorten or eliminate delays in borrowings that might have otherwise occurred.

Canadian Pension Funds Buy Chicago's Toll Road for $2.8B.

Three of Canada’s largest pension plans have agreed to buy Chicago toll-road operator Skyway Concession Co. for $2.8 billion from a group led by Spain’s Ferrovial SA.

Canada Pension Plan Investment Board, Ontario Municipal Employees Retirement System, and Ontario Teachers’ Pension Plan said they will each own a third of Skyway under the terms of the deal, contributing $512 million each.

“Skyway represents a rare opportunity for us to invest in a mature and significant toll road of this size in the U.S.,” Cressida Hogg, Canada Pension’s head of infrastructure, said in a statement Friday. “This investment fits well with CPPIB’s strategy to invest in core infrastructure assets with long-term, stable cash flows in key global markets.”

The Canadian pension funds, which collectively have about C$499 billion ($374 billion) in assets under management, have been acquiring alternative assets, such as toll roads, ports, and other infrastructure, for the long-term, stable returns they offer.

Canada Pension, for example, is currently part of a group led by Qube Holdings Ltd. that is trying to acquire Australian rail and port operator Asciano Ltd.

Madrid-based Ferrovial is selling its 55 percent stake alongside its partners Macquarie Atlas Roads

Group and Macquarie Infrastructure Partners, which own the remaining stake. The transaction is expected to close after it receives the necessary approvals from the City of Chicago, Ferrovial said in a statement. Ferrovial said the sale will return roughly $269 million to the company.

Skyway is a 7.8-mile (12.6-kilometer) toll road that forms a link between downtown Chicago and its south-eastern suburb. The Chicago Skyway Concession was awarded to Ferrovial and its partners for $1.83 billion in 2005. The concession was the first privatization of a highway in the U.S. and the sale process began in June, Ferrovial said.

Ferrovial, through its subsidiary Cintra, manages 1,300 miles of highway across 28 concession in Canada, the U.S., Europe, Australia and Colombia, including the 407 ETR concession, which it owns in partnership with Canada Pension and SNC-Lavalin Group.

BloombergBusiness

by Scott Deveau

November 13, 2015 — 10:09 AM PST Updated on November 13, 2015 — 10:43 AM PST

[Philanthropies Rise as Source of Revenue for Pressed U.S. Cities.]

Flint, Michigan, faces a $12 million cost to replace its lead-contaminated water system, and the Charles Stewart Mott Foundation will pay a third of the price.

“When we saw blood levels in children exceeded safety standards, we just said we have to come to the table,” said Ridgway White, president of the foundation, which has for decades supported educational and community development programs in this impoverished birthplace city of General Motors Co.

The aid from the 89-year-old Flint-based philanthropy last month demonstrates the changing role of nonprofit foundations. Where once they might have spent on a symphony hall or museum, they now pick up the tab for health, safety and infrastructure in U.S. cities that have seen their tax bases erode and state assistance dwindle.

As part of Detroit’s exit from bankruptcy a year ago, foundations pledged to contribute about $360 million over 20 years to shore up public-employee pensions. A growing number of cities are relying on private money for the purchase of police surveillance cameras and other equipment. Madison, Alabama, for instance, received $320,000 from the Huntsville-based Alpha Foundation Inc. for eight patrol cars.

“It’s the new way of doing business,” said Mayor Zachary Vruwink of Wisconsin Rapids, where the Incourage Community Foundation bought an abandoned downtown newspaper building with plans to open a microbrewery, a cafe and other shops.

“Government-funded programs will go only so far, and philanthropic support is required,” said Vruwink, whose city of 18,000 in central Wisconsin still deals with the impact of three paper-mill closings in the past decade.

Basic Functions

While there's nothing new about charitable giving to public institutions, such as Facebook founder Mark Zuckerberg's $100 million gift in 2010 to public schools in Newark, New Jersey, more recent grants have moved nonprofit foundations into spending that, in more prosperous times, would have been handled by taxpayers.

"Government gridlock has left many communities looking for solutions to some of the big challenges they face," said Vikki Spruill, president and chief executive officer of the Council on Foundations, in Arlington, Virginia. "The limitations of political leaders to address the pressing needs of communities have increased pressure on foundations to assume roles that government has historically taken."

Municipalities have shown modest improvement in their fiscal conditions, according to a September report from the National League of Cities. Still, the gains have "not been substantial enough to restore revenue declines" from the 18-month recession that began in 2007.

Eight years hence, cities are operating at about 90 percent of 2006 revenue levels, the report said. Since 2010, 30 states have reduced aid to local governments at least once, according to the National Association of State Budget Officers.

The risk for cities receiving foundation assistance is that they become reliant on the kindness of strangers rather than the taxpayers they serve. Rob Collier, president and chief executive officer of the Council of Michigan Foundations, said there is "a huge problem of sustainability" because municipalities can't assume support will continue.

"Philanthropy cannot replace government," Collier said.

In important ways, it has. In Flint, the Mott Foundation has also provided dollars to hire police officers.
"We're starting to see more foundations step up and provide government services," said Jim Ananich, a Democratic state senator who represents his hometown of Flint. "It's a trend that's going, in my opinion, in the wrong direction. It's supplanting large amounts of what government used to do."

Poverty Town

Flint, an industrial ruin about 68 miles (109 kilometers) northwest of Detroit, has lost almost half its population since 1960. It was "Buick City," once the home base of GM's Buick and Chevrolet divisions. Now, 42 percent of its 99,000 residents live in poverty. The city has twice been under the direction of a state-appointed emergency manager because of chronic financial distress.

The Mott foundation is a descendant of Flint's glory days. Charles Stewart Mott, an original founding partner of GM, created the organization in 1926. In recently picking up one-third of the water-system improvement cost — Michigan is paying half, or $6 million — the foundation is changing out of necessity, said White, its president.

"Some of the traditional role that philanthropy is trying to play has been to stay out of government," White said. "But when you look at some hard-hit communities, it's a challenge to stay out of it."

After samples taken in September from the Flint River showed lead exceeded federal safety standards in the city's main source of drinking water, officials decided to switch to the Detroit water system. That water comes from Lake Huron and is treated by the Detroit Water and Sewerage Department.

The philanthropic contributions in Flint and Detroit may raise the expectations of other municipalities in financial trouble.

"You will see more pressure from cities to do that sort of thing, especially with foundations in their backyard," said Bill Schambra, a senior fellow at the Hudson Institute, a Washington-based research organization.

Seeking help is one thing; getting it another.

"America's foundations and charities can complement the work of government, not replace it," said Spruill.

BloombergBusiness

by Tim Jones

November 13, 2015 — 2:00 AM PST

[Puerto Rico Electric Extends Bondholder Restructuring Pact.]

Puerto Rico's main electricity provider extended an agreement with some bondholders to Nov. 20, giving the utility more time to negotiate with insurers that guarantee a portion of its debt against default.

The Puerto Rico Electric Power Authority, known as Prepa, is trying to restructure $8.2 billion of debt to reduce its costs and free up cash for plant upgrades. Investors holding about 35 percent of its debt on Nov. 5 agreed to take losses of as much as 15 percent by exchanging their bonds for new securities.

The deal was set to lapse Thursday if Prepa couldn't win the support from companies that insure about $2.5 billion of the utility's debt. The new deadline is Nov. 20, Prepa said in a statement.

"Prepa will use the extension to continue discussions with its monoline bond insurers, while the legislative process to approve the Prepa Revitalization Act continues," according to the utility.

The restructuring would be the largest ever in the $3.7 trillion municipal-bond market and mark a first step by Puerto Rico to reduce a $70 billion debt load that Governor Alejandro Garcia Padilla says the island can't afford to pay.

Debt Exchange

If MBIA Inc., Assured Guaranty Ltd. and Syncora Guarantee Inc. don't sign on to the Nov. 5 agreement, the negotiations between Prepa, its fuel-line lenders and bondholders may ultimately be resolved through the courts, according to a notice posted on the Municipal Securities Rulemaking Board's website.

Prepa bonds maturing July 2040, the utility's most-actively traded uninsured security by volume in the past three months, changed hands Thursday at an average 58.6 cents on the dollar, for an average yield of 9.7 percent, according to data compiled by Bloomberg. The bonds traded at an average 50 cents at the start of the year.

The debt exchange would need to be approved by Puerto Rico lawmakers, who have until Nov. 17, the end of the current legislative session, to vote on Prepa's Revitalization Act, which would change Prepa's operations and allow it to restructure debt. Garcia Padilla could call a special session of the legislature to give lawmakers more time to work on the Prepa bill.

The new bonds must receive an investment-grade rating, and the exchange will be voided if more than $700 million of the utility's uninsured bonds aren't sold back, according to the terms of the agreement. The three largest rating companies grade Prepa at junk-bond levels.

BloombergBusiness

by Michelle Kaske and Laura J Keller

November 12, 2015 — 12:57 PM PST Updated on November 13, 2015 — 6:09 AM PST

Bloomberg Brief Weekly Video - 11/12

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

Watch the video.

11:02 AM PST
November 12, 2015

Puerto Rico Is Running Out of Options.

Puerto Rico doesn't look as if it's on the verge of economic disaster. Tourists are still flocking to its beach resorts. Malls, anchored by department stores like Macy's and JCPenney, are full of shoppers. At rush hour, roads are clogged with late-model luxury SUVs. But after years of borrowing to prop up the island's stagnant economy, the government faces $720 million in debt payments in the next two months, and it may run out of cash as early as December.

Government officials say meeting those obligations may leave them short of the cash they need to cover payroll, retirement benefits, and Christmas bonuses. Governor Alejandro García Padilla has said he'll consider cutting hours for public workers to keep essential functions running. García Padilla has already closed some schools, delayed tax rebates, and suspended payments to government suppliers.

The Obama administration has offered a way out. On Oct. 21 the Treasury Department put forward an assistance package that would sustain the island's medical system by increasing reimbursement rates for Medicaid, the public-health program for the poor. It serves 46 percent of Puerto Ricans and is paid at rates 70 percent lower than in any U.S. state, according to the Puerto Rico Healthcare Crisis Coalition, a group of doctors, hospitals, and insurers. It would also offer some bankruptcy protections to help the government restructure more than $70 billion in debt—more than any state's except New York and California. In return, Congress would gain more say over the island's finances. "The situation in Puerto Rico is urgent," says Brandi Hoffine, a White House spokeswoman.

So far, Congress, which would have to approve the changes, hasn't responded. A bill that New York Democratic Senator Chuck Schumer introduced in August to equalize Medicaid and Medicare rates has stalled. So has a bill by Connecticut Democratic Senator Richard Blumenthal that would allow Puerto Rico's municipalities to file for bankruptcy protection. A bill introduced on Oct. 8 in the House by Puerto Rico's nonvoting member, Democratic Representative Pedro Pierluisi, would guarantee some of the island's debt, but it hasn't attracted any co-sponsors. "We are fast approaching a catastrophe," says Melba Acosta, president of the Government Development Bank, which oversees the island's finances and debt. "We cannot wait any longer."

Republicans say they won't approve assistance to Puerto Rico unless its government provides audited financial statements giving a complete picture of its finances. Puerto Rico, a self-governing U.S. territory, missed a self-imposed Oct. 31 deadline for submitting statements from fiscal year 2014 and hasn't yet prepared documents for the 2015 fiscal year, which ended June 30. Congress "is waiting for some good-faith effort from Puerto Ricans," says Iowa Republican Chuck Grassley, chairman of the Senate Judiciary Committee.

Alaska Republican Senator Lisa Murkowski, whose Energy and Natural Resources Committee oversees U.S. territories, says she's still reviewing the administration's proposals. "The one thing we all agreed on is that Puerto Rico is in a world of hurt right now," she says. Utah Republican Orrin Hatch, who as chairman of the Senate Finance Committee held a hearing on the island's travails in September, says he's receptive to the administration's proposal to establish a control board to oversee the island's finances. "We're not moving very fast on that," he says. "I'm not sure what we should do there."

Democrats say hedge funds, which hold as much as a third of Puerto Rico's debt, have discouraged action that would make it harder for them to get paid. "It has become increasingly clear that hedge funds, which have purchased a sizable part of Puerto Rico's debt, are exacerbating the crisis," says Representative Nydia Velázquez, a New York Democrat who introduced a bill on Nov. 4 that would increase disclosure requirements for hedge funds' debt holdings.

Investors and hedge funds holding bonds from the Puerto Rico Electric Power Authority, or Prepa, agreed on Nov. 5 to a restructuring plan that would require them to take losses of up to 15 percent. "Blanket statements criticizing the role of bondholders aren't just factually inaccurate, they are a clear example of damaging political rhetoric," says Stephen Spencer, a managing director at Houlihan Lokey who is advising Prepa bondholders.

Puerto Rico's economy has shrunk about 15 percent since 2006, when Congress ended tax breaks for manufacturers there. The unemployment rate stands at 11.4 percent, more than twice the national average. Forty-five percent of families live below the poverty line. Last year the island lost an average of 1,200 people each week to the mainland, the most since the U.S. Census Bureau began tracking departures a decade ago. "We're on the verge of becoming a ghetto of old poor people," says Elías Gutiérrez, an economics professor at the University of Puerto Rico.

Marielys Feliciano, a single mother of four who works in construction, sees no reason to stay. This summer, her neighborhood school outside the well-off city of Manatí was closed to cut costs. Now she has to wake up at 4 a.m. to get her children to another school and pays for a baby sitter to pick them up. When she called to ask about government assistance, she was told she'd be better off moving to the U.S. "I see the future here, and the doors are closing," she says, folding her hands together. "I can't limit my kids to a place where there's no future."

The bottom line: Puerto Rico's government says it could run out of cash to pay its debts in December, and Congress has yet to offer assistance.

Bloomberg Businessweek

by Ezra Fieser, Michelle Kaske, Kasia Klimasinska, and Jim Rowley

—With Angela Greiling Keane

November 12, 2015 — 2:00 AM PST

Airbnb to Work With Cities Amid Efforts to Regulate Home Sharing.

Airbnb Inc. pledged to join with local governments and improve transparency as it faces scrutiny from hotels and policy makers who argue the home-sharing startup is driving up rental prices and failing to pay taxes like the hotel industry.

The company on Wednesday released the “Airbnb Community Compact,” a statement outlining its plan to cooperate with cities, and defending the positive economic impacts of its business.

“We will partner with individual cities to address their policy needs, and work with cities to help ensure the efficient collection of tourist and hotel taxes,” the company said in its statement. “We will also release regular economic activity reports in key markets.”

Airbnb said its short-stay home rental service has contributed $5.82 billion in economic benefits in five of its most-active cities: $1.96 billion in New York, $1.95 billion in London, $890 million in Los Angeles, $510 million in Berlin and $510 million in San Francisco. The company said those calculations include money that hosts make on Airbnb and its estimates for guest daytime spending during their visits.

Hosts’ Benefits

The San Francisco-based business, founded in 2008 and now operating in more than 34,000 cities globally, said it is “expanding the economic pie” for ordinary Americans by allowing the average host to generate the equivalent of a 14 percent annual raise.

The startup said it will release economic data to demonstrate the value of its home-sharing model. The annual reports will include information such as the company’s total economic activity, the average income earned by hosts and the geographic distribution of listings.

Airbnb defeated a San Francisco ballot measure last week to limit its service as a surge in highly paid technology workers has driven up housing prices and sparked protests over income inequality and evictions.

The legislation would have imposed a 75-day-per-year limit on Airbnb rentals and forced hosts to register with the city. The company spent $8.4 million to defeat the measure and hired Chris Lehane, a former White House crisis manager, to spearhead efforts to block regulations that could impede its business.

The startup has mostly gotten along with municipal officials. Airbnb has struck deals with Paris, Chicago, San Francisco and others to collect taxes on behalf of the hosts using its platform. In the community compact, the company said it will share more data with cities, prevent some hosts from renting out multiple units and make sure taxes are paid.

BloombergBusiness

by Lily Katz and Eric Newcomer

November 11, 2015 — 8:53 AM PST Updated on November 11, 2015 — 11:18 AM PST

How Much Will San Diego, St. Louis, Oakland Pay to Keep NFL?

In the 21 years Los Angeles has been without an NFL franchise, plenty of cities have gone into debt to keep their teams from relocating to the second-biggest American media market. Today, delegations from St. Louis, San Diego, and Oakland will make their case to the NFL that they should be allowed to do the same.

This is as close as Los Angeles has come to getting a team back, as the owners of three teams have stated their intentions to move. The Chargers and the Raiders have proposed a $1.7 billion stadium in the Los Angeles suburb of Carson, which they would share, and Wednesday announced that Robert Iger, CEO of Walt Disney Co., would lead the joint venture. Rams owner Stan Kroenke, who is worth $5.6 billion, in January put forward plans to build an 80,000-seat stadium on land he owns in Inglewood, California.

Whether Los Angeles gets one or two new teams, or none at all, is up to the rest of the NFL owners, who could vote on relocation as soon as January. In general, the NFL prefers teams to stay put, as long as the host cities can craft a generous-enough plan for a new stadium.

Missouri: $388 Million

At Missouri Governor Jay Nixon's request, a statewide task force created a plan for a $1 billion stadium and the redevelopment of 88 acres of blighted property along the Mississippi River. To finance the project, Missouri would issue $135 million in state bonds, St. Louis would issue $66 million in city bonds, and the Rams would get $187 million in tax credits and other incentives, according to state documents.

With $388 million in public funding, the Missouri plan is the most generous of all the cities trying to keep a team, but a group of state legislators is demanding that Nixon take his proposal to the voters, or to the legislature, or else.

"We're not going to pay on those bonds," said state Senator Rob Schaaf, Republican from St. Joseph, in a phone interview. "They're going to have to find buyers who are just so gullible to believe we won't play the game of chicken with them."

San Diego: $350 Million

The city and county of San Diego have offered $350 million toward a new $1.1 billion stadium near Qualcomm Stadium, where the Chargers have played since 1967. Both would finance their contributions — $200 million from the city, $150 million from the county — with municipal bonds. Standard & Poor's rates San Diego AA, its third-highest rank. The city still owes $52 million for the team's current home.

"Our best chance to keep the Chargers from moving to L.A. is to show San Diego's proposal is real and ready to move forward in 2016," San Diego Mayor Kevin Faulconer said in an e-mail. "We have a fair and common-sense plan and can break ground on a new stadium as soon as 2017 – if the Chargers work with us in good faith."

Chargers spokesman Mark Fabiani has said the team will file paperwork with the NFL to relocate to Los Angeles. The Chargers broke off negotiations with San Diego in June after contending that the city had run out of time to conduct a legal environmental review for a new stadium.

Oakland: $0

In Oakland, Mayor Libby Schaaf isn't proposing public subsidies to build a replacement for the Raiders' O.co Stadium. Taxpayers in the Oakland area still owe $99 million on the coliseum the Raiders share with the Major Baseball League's Athletics. Through a spokeswoman, Schaaf (no relation to the Missouri state senator) said the city would pay for infrastructure improvements that would serve a new stadium, but she plans to make a case to team owners that Oakland is still the best place for the team.

"Everything from Oakland's growing economic momentum and urban vitality to the team's die-hard regional fan base make it clear that there is no better time for a major league team to be located in, or associated with Oakland," Schaaf said in a Nov. 3 statement.

And the winner is …

The NFL owners will convene in December to get updates from the various committees focused on L.A. None of the proposals are obvious winners. Sports economist Victor Matheson of College of the Holy Cross said teams outside of major media markets generally want subsidies of up to $500 million, a threshold all the cities in question fail to meet by more than $100 million.

"No one is really wild about coming up with $400 million to $500 million to keep a stadium," said Matheson. "That's proving to be very difficult."

If Los Angeles does finally get a team, NFL owners may lose their strongest leverage.

"Having Los Angeles in play has brought the NFL hundreds of millions of dollars in stadium subsidies," said Matheson. "If they finally get a team, they will no longer have that bargaining chip."

BloombergBusiness

by Darrell Preston, Tim Jones and James Nash

November 11, 2015 — 6:30 AM EST Updated on November 11, 2015 — 11:34 AM EST

Puerto Rico Electric Needs Insurers on Board by Thursday

The Puerto Rico Electric Power Authority needs to get insurance companies that guarantee a portion of the utility's debt against default to endorse a conditional restructuring agreement by Thursday to avoid the risk of the deal with bondholders falling apart.

If MBIA Inc., Assured Guaranty Ltd. and Syncora Guarantee Inc. don't sign on to the debt exchange finalized with some investors last week, then the utility known as Prepa, its fuel-line lenders and the bondholder group will work to implement a recovery plan "through a mechanism to be agreed among the parties that may include, without limitation, a judicial process, including an enforcement proceeding under applicable law," according to the Nov. 5 agreement posted on the Municipal Securities Rulemaking Board's website.

"It produces some pressure on Prepa to hurry up," said Philip Fischer, head of municipal research for Bank of America Merrill Lynch in New York. "The insurers would have a disproportionate amount of insurance liability and they're trying to negotiate their way around that."

The insurers run the risk being liable for the repayment of about $2.5 billion of bonds if Prepa fails to make payments and the restructuring is viewed as a default. Under the agreement, about 35 percent of the utility's bondholders agreed to absorb losses of as much as 15 percent and delay repayment to give the struggling utility more breathing room to restructure its finances as well as time to improve operations.

The agency is hampered by its inability to reorganize in bankruptcy court as utilities in the mainland U.S. can.

Possible Extension

A restructuring of Puerto Rico's main electricity provider would be the largest ever in the $3.7 trillion municipal-bond market. The utility has $8.2 billion of debt. It would be the first commonwealth entity to reduce its obligations. Puerto Rico and its agencies racked up $70 billion in part by borrowing to balance budgets. Governor Alejandro Garcia Padilla is seeking to cut that debt load and revive an economy that's struggled to grow since 2006.

An extension beyond Thursday wouldn't be a surprise, Fischer said. Bondholders and fuel-line lenders extended a forbearance accord 13 times since August 2014 until reaching the Nov. 5 pact. That contract kept discussions out of court. Bond insurers also participated in those extensions through September.

"All of these agreements have been extended repeatedly," Fischer said. "The idea that this one might also be extended is realistic."

Insurer Talks

A bondholder or fuel lender can withdraw from the agreement if insurers fail on Thursday to reach an accord with Prepa. The bondholder pact will automatically terminate if there's no monoline plan and also no strategy for how to implement a recovery plan without the insurers, according to the restructuring support agreement.

"While no agreement has yet been reached, negotiations are productive and ongoing," Lisa Donahue, Prepa's chief restructuring officer, said Tuesday before a Senate hearing in San Juan about talks with the bond insurers. "Any agreement that is ultimately reached with the monolines is contemplated to become part of the existing RSA."

Greg Diamond, a spokesman for MBIA and Michael Corbally, a spokesman for Syncora, declined to comment. Ashweeta Durani, spokeswoman for Assured, declined to comment.

Possible Liability

A compromise with bond insurers is taking longer to reach than with the bondholder group because many of those investors purchased Prepa's securities at distressed levels and are willing to accept less than 100 cents on the dollar, Fisher said. Monolines would be required to make up to investors whatever principal or interest the utility fails to pay on time and in full. The bondholder plan includes delaying certain payments for five years.

MBIA insures almost $770 million of Prepa debt-service payments in the next five years, Edwin Groshans, an analyst at Height Securities, a Washington-based broker dealer, wrote in a Nov. 9 report. Assured guarantees payment on $262 million of Prepa principal and interest due in the next five years.

Bondholder Group

Prepa faces a $196 million interest payment due Jan. 1. The proposed debt exchange involves bondholders of uninsured debt swapping their existing securities for new securitization bonds that pay, for the first five years, only interest at a rate of 4 percent to 4.75 percent. Or investors can exchange for other securities, called capital-appreciation bonds, that will accrue interest for the first five years. The bondholder group will negotiate with Prepa to backstop a cash tender for bonds held by non-forbearing investors.

Members of the bondholder group include Angelo, Gordon & Co., BlueMountain Capital Management LLC, D.E. Shaw & Co., Knighthead Capital Management LLC, Marathon Asset Management LP, Franklin Advisers Inc., Goldman Sachs Group Inc. and OppenheimerFunds Inc., according to the restructuring support agreement. The group held about $3 billion of uninsured Prepa bonds, as of Nov. 3, according to forbearance documents.

Along with legislative approval, the new bonds must receive an investment-grade rating and the exchange cannot leave more than $700 million of the agency's current uninsured debt remaining. The utility's debt is rated at junk-bond levels.

Prepa "would like help from the insurers to essentially allow the restructuring bonds to be investment grade," Fischer said. "That appears to be a very sticky thing for them to get resolved. What is clear to us is they simply need to move forward."

Prepa bonds maturing July 2040, the utility's most-actively traded uninsured security in the past three months by volume, changed hands Monday at an average 60.5 cents on the dollar, to yield of about 9.4 percent, according to data compiled by Bloomberg. The debt traded at about 50 cents at the start of 2015.

BloombergBusiness

by Michelle Kaske

November 10, 2015 — 9:17 AM PST Updated on November 10, 2015 — 10:15 AM PST

David Beckham Seeks Assist From Miami Schools for MLS Soccer Stadium.

Trying to close a stadium deal with local governments, David Beckham this week greeted the man who would be his landlord: Miami-Dade School Superintendent Alberto Carvalho.

The Wednesday meeting was at Miami Beach's SoHo Beach House, the luxe hotel and private club that is Beckham's regular base of operations during visits to the Miami area.

"We spent a lot of time talking about kids," Carvalho said Thursday night. "I came away feeling very comfortable about the decency of this guy."

The unannounced meeting was one stop on Beckham's Miami swing, which included filming part of a soccer documentary for UNICEF and a nighttime visit with the University of Miami women's soccer team. Beckham, a global fashion icon, was photographed wearing an orange T-Shirt emblazoned with "The U" in photos posted on Twitter from the encounter.

Beckham's appearances come as his two-year stadium quest has never been closer to a final deal, but also as his negotiators warn it could still fall apart over real estate prices.

The plan is for his investment group to pay for a $200 million stadium to rise next to Marlins Park on a mix of privately-owned land and parcels currently owned by the city of Miami. Beckham's group has agreed to pay Miami for the real estate, while negotiating separate deals with the private owners.

The stadium and site would be transferred to the school system in order to shield it from property taxes, and in exchange Beckham's group would provide free space for large school events and some form of sports-related education for visiting classes and students. The Beckham group would also sponsor some school activities, including buying band uniforms and supplies.

Carvalho said Beckham's people contacted him early in the week about a meeting.

The sit down marks something of a do-over for the Beckham group, which failed to invite school officials to a VIP reception with the soccer star in early 2014. The who's-who event launched Beckham's extended pursuit of a stadium site, and the stream of party pics of politicians and business leaders posing with the soccer celebrity came to represent the limits of star power to overcome political complications and commercial interests in Miami.

Carvalho said no photos were taken at his afternoon meeting with Beckham. "When I met Mr. Beckham, I was clear in telling him that I've seen how he comes to town, and everybody wants a Beckham kiss and a hug and a Beckham selfie. I said I'll take a Beckham handshake. He laughed."

A Beckham representative confirmed the meeting, but declined to provide other details. Carvalho said the 45-minute conversation mostly involved the two outlining their visions for the stadium: Carvalho on what it could do for the local school system, and Beckham on why he wants to bring Major League Soccer to Miami.

"He told me this is the one place in the world where he wants to have his name associated with a soccer team," Carvalho said.

Carvalho had initially sought a magnet school within the stadium itself, but that provision has been publicly rejected by Beckham's local negotiators. Carvalho said the alternative is a large amount of "educational" space within the stadium. Carvalho said the total benefits to schools would top $1 million, roughly equal to what the stadium would pay to the school board if subject to property taxes. Beckham's group also agreed to continue paying the same amount of property taxes the current land owners pay to local governments.

Insiders say the bulk of the deal with Carvalho is done, and that approval by the elected school board is considered a certainty. But people involved in the talks say there is significant concern that negotiations with the site's private land owners could fail as the would-be sellers demand higher prices than the Beckham group is willing to pay.

After resisting a stadium next to Marlins Park since early 2014, Beckham partner Marcelo Claure and Miami Mayor Tomás Regalado summoned reporters to City Hall in July to announce the site next to the baseball park had become the top choice for soccer.

That's left Beckham's real estate team to negotiate sales prices for land targeted for a stadium deal that's attracting global attention.

Even if the landowners come to terms with Beckham, another hurdle remains: a referendum in the city of Miami. It would be held March 15, the same day as the presidential primary.

BY TRIBUNE NEWS SERVICE | NOVEMBER 13, 2015

By Douglas Hanks

Florida Faces Second Suit Over Conservation Spending.

BRADENTON, Fla. — A second Florida environmental group is suing to block spending decisions by the Legislature related to a 2014 constitutional amendment earmarking funds for conservation purposes.

The Gainesville-based Florida Defenders of the Environment filed a lawsuit Nov. 9 in Leon County Circuit Court seeking an injunction to prevent state agencies from spending what the group considers misappropriated funds.

At issue is the fiscal 2016 state budget, and how the Legislature allocated the revenues authorized by Amendment 1, a ballot measure passed by 75% of those voting last year.

The amendment directs 33% of taxes collected on real estate sales to the Land Acquisition Trust Fund to acquire and improve conservation and recreation lands. The revenues can be used as cash for related expenditures, or to pay debt service on bonds.

The Florida Defenders' suit argues that the Legislature improperly allocated $237 million from the $740 million in the Trust Fund to offset expenses normally be supported by the general fund, such as salaries, benefits, vehicles, insurance and certain capital projects.

Thomas Hawkins, executive director of the organization, said that his group fundamentally supports the protective environmental measures that Amendment 1 was designed to achieve.

"Environmental conservation in Florida is strongly supported by the voters," Hawkins said in an interview. "We want the will of the voters implemented."

The suit names as defendants the heads of the Florida Department of Environmental Protection, Department of State, Department of Agriculture and Consumer Services, and the Florida Fish and Wildlife Conservation Commission.

A day after Gov. Rick Scott signed a record $78.4 billion fiscal 2016 state budget into law on June 23, Earthjustice filed a lawsuit charging that lawmakers "defied" voters and the constitution by wrongfully diverting the $237 million.

The suit was filed on behalf of the Florida Wildlife Federation, St. Johns Riverkeeper, Environmental

Confederation of Southwest Florida, the Sierra Club, and Manley Fuller, who is president of the Florida Wildlife Federation.

The Earthjustice suit, which names the Legislature and Chief Financial Officer Jeff Atwater as defendants, also seeks an injunction ordering Atwater "to remedy the Legislature's misappropriations" by transferring the misspent revenues from agency budgets to the Land Acquisition Trust Fund.

Attorneys for the Legislature and Atwater have filed motions to dismiss the Earthjustice suit. A hearing is scheduled Dec. 3 in Tallahassee.

Florida Defenders takes a different legal tack than Earthjustice by arguing that certain state agencies should be forbidden to spend what the group believes are misappropriated funds, Hawkins said.

While the group believes that the Legislature violated the state's constitution, it also accuses lawmakers of improperly using the appropriations bill to impermissibly spend Amendment 1 revenues, he said.

"What we have done is complementary to the Earthjustice suit," Hawkins said. "We think there is a greater likelihood of success for what we are asking, and that is for agency heads to stop spending the misappropriated money."

Scott, a Republican, signed the fiscal 2016 budget into law after vetoing $461.4 million of line-item expenditures sought by lawmakers.

In a letter accompanying the budget, Scott wrote that the spending plan fully complied with Amendment 1 by including more than $740 million to support land and water programs. The program's expenses included debt service on outstanding conservation bonds.

Scott and the GOP-led Legislature did not authorize the issuance of bonds for any new environmental programs under Amendment 1.

The Bond Buyer

by Shelly Sigo

NOV 12, 2015 2:29pm ET

Puerto Rico Electric Extends Bondholder Restructuring Pact.

Puerto Rico's main electricity provider extended an agreement with some bondholders to Nov. 20, giving the utility more time to negotiate with insurers that guarantee a portion of its debt against default.

The Puerto Rico Electric Power Authority, known as Prepa, is trying to restructure $8.2 billion of debt to reduce its costs and free up cash for plant upgrades. Investors holding about 35 percent of its debt on Nov. 5 agreed to take losses of as much as 15 percent by exchanging their bonds for new securities.

The deal was set to lapse Thursday if Prepa couldn't win the support from companies that insure about $2.5 billion of the utility’s debt. The new deadline is Nov. 20, Prepa said in a statement.

“Prepa will use the extension to continue discussions with its monoline bond insurers, while the legislative process to approve the Prepa Revitalization Act continues,” according to the utility.

The restructuring would be the largest ever in the $3.7 trillion municipal-bond market and mark a first step by Puerto Rico to reduce a $70 billion debt load that Governor Alejandro Garcia Padilla says the island can’t afford to pay.

Debt Exchange

If MBIA Inc., Assured Guaranty Ltd. and Syncora Guarantee Inc. don’t sign on to the Nov. 5 agreement, the negotiations between Prepa, its fuel-line lenders and bondholders may ultimately be resolved through the courts, according to a notice posted on the Municipal Securities Rulemaking Board’s website.

Prepa bonds maturing July 2040, the utility’s most-actively traded uninsured security by volume in the past three months, changed hands Thursday at an average 58.6 cents on the dollar, for an average yield of 9.7 percent, according to data compiled by Bloomberg. The bonds traded at an average 50 cents at the start of the year.

The debt exchange would need to be approved by Puerto Rico lawmakers, who have until Nov. 17, the end of the current legislative session, to vote on Prepa’s Revitalization Act, which would change Prepa’s operations and allow it to restructure debt. Garcia Padilla could call a special session of the legislature to give lawmakers more time to work on the Prepa bill.

The new bonds must receive an investment-grade rating, and the exchange will be voided if more than $700 million of the utility’s uninsured bonds aren’t sold back, according to the terms of the agreement. The three largest rating companies grade Prepa at junk-bond levels.

Bloomberg Business

by Michelle Kaske and Laura J Keller

November 12, 2015 — 12:57 PM PST Updated on November 13, 2015 — 6:09 AM PST

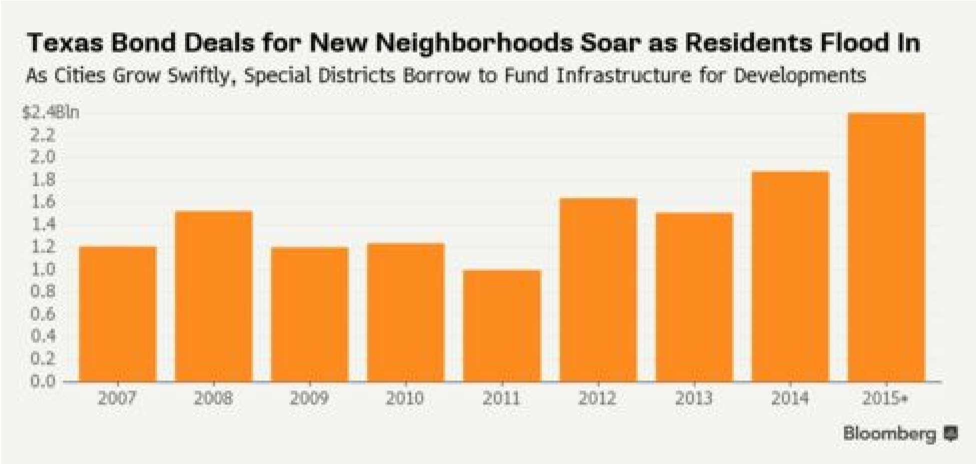
Texas Selling Dirt Bonds at Record Pace as Residents Flood State.

On Election Day this month, just two Conroe, Texas, voters were the entire electorate for one of the biggest bond proposals on U.S. ballots, a $468 million sale that will transform the pinelands around a former Boy Scout camp into a sprawling community. Both of them approved.

The small-scale referendum is part of a record-setting trend in the Lone Star State, which has been picking up more than a thousand new residents a day. Texas special districts like the one in the Houston suburb, drawn up around virtually unpopulated tracts owned by developers, are borrowing billions to build roads, sewers and water lines needed for new houses. It’ll be repaid — eventually — by property owners.

With its population growing more than any other state, Texas is awash in the type of municipal bonds that flourished in Florida and California during the housing bubble, only to burn investors with losses after real estate prices crashed. Its districts are on pace to sell more than $2.5 billion of the securities this year, the most since at least 2007, according to data compiled by Bloomberg. At least $1.7 billion more were approved on Nov. 3.

"It's been a busy 10 years," said Richard Muller Jr., a lawyer in Sugar Land, Texas, who works with about 20 districts, including the one in Conroe. "We're still catching up to all the new jobs the state added."



The securities have been a draw to tax-exempt bond buyers who are looking for higher yields as interest rates in the municipal market hold near a five-decade low. When the Fort Bend County Municipal Utility District No. 194, some 23 miles (37 kilometers) southwest of Houston, sold $5.1 million of bonds on Nov. 5, the 10-year debt yielded 3.2 percent. That's a percentage point more than top-rated securities.

"If you have the skill set you can pick up some additional yield, as long as you do your homework," said Colby Harlow, president of the hedge fund Harlow Capital Management in Dallas. "You have to be super selective and look at them on a case by case basis."

So-called dirt bonds are paid through a special tax levied on the property, which is typically covered by the developer until the homes are sold. The risk: That the homes never sell or tax bills aren't paid.

While sales of the bonds shriveled in Florida and other states after the housing-market rout left new developments vacant, they've continued in Texas, home to five of the 10 fastest-growing cities last year.

After the oil-industry bust of the early 1980s pushed more than a dozen districts into bankruptcy, Texas lawmakers provided safeguards for investors: It required developers to begin paying for the infrastructure up front. They're reimbursed later when bonds are sold.

"Dirt districts are dirt districts no more," said Omar Tabani, an analyst with Standard & Poor's in Dallas. "The developer fronts the cost and doesn't get reimbursed until the district results in enough taxpayers to pay the debt."

Surviving Recession

In March 2009, S&P raised the ratings on 250 of the Texas districts because few homeowners were falling behind on their tax bills, even though the recession still hadn't ended. Since then, property values have continued to rise in the Houston area, where 80 percent of the districts are based, to more than $500 billion from a little over $300 billion in 2007.

"MUDs were the ugly stepsister of the municipal-bond market for many years," said David Jaderlund of Jaderlund Investments in Santa Fe, New Mexico, who invests in Texas debt for clients. "The debt was issued, but there weren't any buyers for the property. Now that's not true any more."

In Conroe, a city with some 66,000 residents about 40 miles north of downtown Houston, the debt will help build a 2,046-acre planned community called Grand Park Central, which will include residential neighborhoods, retail shops, office space, hotels, restaurants and a conference center. It's not far from one of Exxon Mobil Corp.'s offices.

Oil's Impact

One risk looming over the Texas real estate boom is the oil-price bust. A sustained decline in crude would eventually hurt employment and drive down property values, said Tabani, the S&P analyst. In the Houston area, home prices have continued to rise, even though oil is trading for about $40 a barrel, less than half what it was about a year ago. New home construction in the state rose 7.5 percent in August, according to the Federal Reserve Bank of Dallas.

"Today the land developer has skin in the game before they even sell bonds," said Doug Benton, senior municipal credit manager for Cavanal Hill Investment Management, a Tulsa, Oklahoma-based company that handles about $6 billion, including Texas municipal bonds. "If we feel there is value that can be had, it is definitely a bond we will look at."

Bloomberg Business

by Darrell Preston

November 15, 2015 — 9:01 PM PST Updated on November 16, 2015 — 6:39 AM PST

Investors Demand Greater Premium from Connecticut in Bond Sale.

Nov 17 – The premium Connecticut pays to borrow money in the municipal bond market rose on Tuesday as the state tapped investors for $650 million amid concerns about its weakening revenues and underfunded public pension system.

Investors have been penalizing states with poorly funded pension systems this year and recent news that Connecticut will see a budget shortfall of over $600 million over the next two years has added an extra layer of scrutiny.

Connecticut paid a premium of 0.56 of a percentage point over top-rated states to borrow for 10 years compared to a spread of 0.47 of a percentage point in the secondary market, according to Thomson Reuters data. Connecticut is paying interest of 2.72 percent on the ten-year bonds.

Lyle Fitterer, a fund manager at Wells Capital Management, said the wider spreads were "not a surprise based on what's happened to other states that have pressing pension issues."

Fitterer said he had not brought the bonds as the yield was still not attractive enough given the risk.

"In all honesty I'd rather own something like Illinois where, while it's lower rated and has similar pension issues, at least your getting paid to take that risk," he said.

The state’s Treasurer’s office, which is responsible for organizing bond sales, did not immediately return a request for comment.

REUTERS

NEW YORK | BY EDWARD KRUDY

(Reporting by Edward Krudy; Editing by Bernard Orr)

Houston's Conundrum: Closing Its Pension-Funding Gap.

Houston is weathering a prolonged plunge in oil prices, but the city may have an even bigger problem: its pensions.

Though economic growth has only slowed, not stalled, in Texas largest city, its finances are showing what several investors and analysts describe as warning signs.

Those include a rapidly growing gap in funding its retirement plans for public workers and a limit on its revenue-raising capabilities imposed by a voter-approved cap on property taxes.

The $3.2 billion pension-funding gap is threatening Houstons Aa2 credit rating from Moodys Investors Service, hurting demand for its debt and emerging as an issue in the citys mayoral race.

Moodys this summer warned it may downgrade the citys debt if Houston fails to address its pensions, noting the cap limits the citys financial flexibility.

A downgrade could lower prices for outstanding bonds and increase Houstons borrowing costs at a time when it needs improved infrastructure.

Some investors are backing away from the citys debt, saying there are better deals on similarly rated municipal bonds elsewhere. Guy Davidson, director of municipal investments at AllianceBernstein LP, said his firm trimmed its holdings of Houstons debt earlier this year.

We want to be compensated for those pension liabilities and at current levels, we dont think we are, he said.

Houston is the latest U.S. city to face threats from credit-rating firms and investors over bulging pension obligations. Investors have grown concerned about state and local governments ability to address unfunded retirement costs. Examples include Chicago and the states of Illinois and Connecticut, whose unfunded retirement costs have ballooned after investing losses from the 2008 financial crisis and chronic underpayments by policy makers.

Houstons predicament also shows how the decline in oil prices is forcing some U.S. state and local governments to re-evaluate their spending priorities.

Houston residents are reluctant to support any tax increases, including raising the property-tax cap, said Mark Jones, a political-science professor at Houstons Rice University.

At the same time, unsustainable pension costs have contributed to reductions in hiring of police officers and spending on pothole repairs, which have become issues in the mayoral race.

Houstons unfunded pension liabilities grew at a faster clip relative to its revenue than in any of the other 50 largest U.S. local governments rated by Moodys, the firm said in a July report, citing data from fiscal 2013.

The city also projects deficits in coming years despite revenue growth, Moodys said in October.

Before 2001, Houston had enough assets to fund future retirement payouts. But an across-the-board boost to retirement benefits around that time, plus losses from two recessions, have weighed on the citys pension funding. The city now only has about 75% of the funds it needs. That places Houston at the average level of funding among city and county plans, according to Wilshire Consulting.

While the city has paid contractually required amounts to plans for municipal employees and police officers over the past five years, the total falls short of fully funding the systems. A state law overseeing the firefighters plan has resulted in better funding while reducing the citys financial flexibility, Moodys said.

City officials have argued for greater control over pensions and revenue. Ronald Green, Houstons controller, said that while investors in the citys debt can remain confident they will get paid, the city should act soon to improve its finances.

You dont fix the roof when its raining, you fix it when its dry, he said.

Absent a concerted effort to adjust course, the city is headed toward Chicago-level distress, forced to choose between benefit cuts, tax increases and reduced public services, according to a report by the Houston-based Laura and John Arnold Foundation, which funds research on the fiscal health of public pensions.

Houstons pension parameters are set by state law, adding to the complexity of seeking a solution, while the drop in oil prices could magnify problems more quickly than expected, said Josh McGee, a vice president at the foundation.

Among other concerns, the citys plans assume relatively high investment returns of 8% or above, meaning the funding gap may be understated, said Marc Watts, chairman of the Greater Houston Partnerships Municipal Finance Task Force.

The new mayor, unless this is addressed, isnt going to have any resources to work with, he said.

Some plan officials said retired city workers arent the problem. Max Patterson, executive director of the Texas Association of Public Employee Retirement Systems, called such warnings grossly misleading and said any discussion of pension changes should be considered in a broader conversation about city finances.

Todd Clark, chairman of the Houston Firefighters Relief and Retirement Fund, said the plan has met and exceeded its assumed returns historically and the board will make any needed adjustments in consultation with an actuary going forward.

The issue is playing into the mayoral runoff between State Rep. Sylvester Turner, a Democrat, and former Kemah Mayor Bill King, a fiscal conservative.

Mr. Turner, running with the support of the citys three major public-sector unions, said the pension issues should be debated with all stakeholders in concert with the citys other fiscal concerns.

After that, he would consider raising the property-tax cap for public safety or paying down debt.

In order to be successful in addressing the pension issue, you have to engage in comprehensive financial reform, he said.

Mr. King favors adjusting pensions by offering 401(k)-style defined-contribution plans for new hires. He supports maintaining the cap, saying the city raises plenty of tax money and needs to spend less.

Weve got time to turn the boat around and not go over the falls, but we dont have a long time, he said.

Houstons situation highlights the need to address pensions and other fixed costs before they become an economic drag, said John Bonnell, senior portfolio manager of tax-exempt investments with San Antonio-based USAA Investments, which doesnt own the citys bonds.

If they end up doing nothing to address this budget issue, 10 years from now Houston could be facing the same problem Chicago is now, he said. I think they have the ability to address their issues prudently, it just hasnt gotten to the point where theyve been forced to do it.

Reporter Esthi Maharani – November 16, 2015

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com

Chicago Pension Payments Will Lag Despite Legal Outcomes: Moody's

CHICAGO — Chicago’s contributions to its four retirement systems will be too skimpy to curb unfunded pension liability growth in the next 10 years regardless of how state lawmakers address the problem and how the court system rules, Moody’s Investors Service said on Tuesday.

The third-biggest U.S. city has been mired in a financial crisis largely fueled by its $20 billion unfunded pension liability.

Moody’s, which dropped Chicago to the “junk” level of Ba1 with a negative outlook in May, laid out four scenarios facing Chicago based on the fiscal 2016 budget it passed last month.

That spending plan for the fiscal year beginning on Jan. 1 includes a record $543 million, phased-in property tax increase dedicated to public safety worker pensions.

Mayor Rahm Emanuel linked the size of the tax hike to an Illinois bill reducing the city’s contribution to its police and firefighter retirement systems initially by $220 million. Senate bill 777 passed the House and Senate, but is on hold due to an ongoing budget battle between Democratic lawmakers who control the legislature and the Republican governor, who has been critical of that measure.

If the bill fails to become law, the city would remain subject to a 2010 state law that mandates an immediate $550 million increase in contributions, leaving the property tax hike initially $220 million short.

Emanuel’s budget also assumes the Illinois Supreme Court will find a 2014 state law that boosted contributions and reduced benefits for the city’s municipal and laborers’ retirement systems constitutional after a lower court tossed out the law.

Moody’s said the most positive outcome would be a high court ruling in favor of the 2014 law without the enactment of SB 777.

“Although it would require larger pension contributions than currently budgeted, the higher payments would achieve the slowest and least extensive growth in unfunded liabilities among the four scenarios,” said Moody’s analyst Matthew Butler.

Negative outcomes would involve the state supreme court’s rejection of the 2014 law with or without the enactment of SB 777.

“This would exert additional negative credit pressure on Chicago’s credit quality because it would likely remove all flexibility to reduce unfunded liabilities through benefit reform and raise the probability of plan insolvency,” Butler said.

The city plans to defend the 2014 law before the Illinois Supreme Court next week, claiming that without it the police and firefighter retirement systems will run out of money in the next decade.

By REUTERS

NOV. 10, 2015, 11:55 A.M. E.S.T.

(Editing by Matthew Lewis)

Illinois Agency Readies Bond Issue for Unpaid State Vendors.

CHICAGO — The Illinois Finance Authority took steps on Thursday to speed funds to local emergency call centers and providers of essential state services that are in dire need of cash due to the state’s ongoing budget impasse.

A stalemate between Republican Governor Bruce Rauner and Democrats who control the legislature has left Illinois without a budget for the fiscal year that began on July 1. While various court orders and ongoing appropriations have kept money flowing to some services, bond payments and worker salaries, other items have not been funded, prompting Rauner’s office to enlist the IFA’s assistance.

The IFA board agreed to move forward with a plan to pay vendors for essential state goods and services through the authority’s issuance of up to $115 million of bonds backed by Illinois’ moral obligation pledge. The IFA would pay off the bonds through a state appropriation based on the amount of money Illinois owes the vendors.

IFA Executive Director Chris Meister said critical services would include snow plow repair companies and food suppliers for veterans’ facilities and prisons.

In the case of a debt service shortfall on the IFA bonds, the moral obligation pledge requires the governor to request an appropriation from the legislature, which is not legally obligated to act.

IFA Chairman R. Robert Funderburg noted the irony in the risk that money for the bonds might not be appropriated.

“An agency of the state of Illinois is discussing the relative risk of doing business with the state of Illinois,” he said at a board meeting.

Meister said that once structured, the bond deal would need final approval from the IFA board at or before its December meeting. The board approved Citigroup Capital Markets as the underwriter for the bonds, which could be sold in the U.S. municipal market or structured as a direct purchase or private placement.

Meanwhile, the IFA will tap in to its $12 million of available cash to immediately loan at no interest up to $3 million to local 911 call centers relying on a state pass through of revenue from a phone surcharge that has been held up due to the lack of an appropriation, according to Meister. Another allotment of up to $3 million would be made available to state vendors “at the end of their rope” in return for their state receivables and a 1 percent per month late payment penalty that kicks in after 90 days, he added.

By REUTERS

NOV. 12, 2015, 4:12 P.M. E.S.T.

(Editing by Matthew Lewis)

Largest Muni Sale Next Week is $1.75 bln for Florida Rail.

The largest deal to hit the U.S. municipal market next week is $1.75 billion of private activity bonds to help fund All Aboard Florida, a 235-mile (378 km) passenger rail project that will connect Miami to Orlando.

The bonds will be sold by the Florida Development Finance Corporation, a state authorized issuer of industrial revenue bonds, and the sale will be managed by Bank of America Merrill Lynch.

All Aboard Florida is a privately owned, operated and maintained passenger rail system with stations planned in Miami to Fort Lauderdale, West Palm Beach and the Orlando International Airport.

The express train is expected to take approximately three hours, move at speeds up to 125 mph (201 kph), and be completed by early 2017.

A handful of express and high-speed rail projects are currently planned to be built across the country, including projects in California, Texas, and Nevada.

Siemens Corporation will manufacture All Aboard Florida’s trains in Sacramento, California. Archer Western is upgrading rail infrastructure along the corridor.

Altogether, U.S. municipal bond issuers are expected to offer over $6 billion of municipal bonds and notes next week, according to Thomson Reuters preliminary data.

Reuters

Nov 6, 2015

(Reporting by Robin Respaut; Editing by Alan Crosby)

Moody's Withdraws 3 U.S. Public Finance Local Government Obligors for Lack of Sufficient Information.

New York, November 04, 2015 — Moody's Investors Service has withdrawn the ratings of 3 U.S. public finance local government obligors, affecting approximately $30.5 million of outstanding debt, due to insufficient information.

The affected obligors are:

- Canton, MS
- Lamar County, TX
- Mabank, TX

SUMMARY RATING RATIONALE

Moody's has withdrawn the ratings because it believes it has insufficient or otherwise inadequate information to support the maintenance of the ratings. Please refer to the Moody's Investors Service's Policy for Withdrawal of Credit Ratings, available on our website, www.moodys.com.

REGULATORY DISCLOSURES

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Sarah Jensen
Associate Analyst
Public Finance Group
Moody's Investors Service, Inc.
600 North Pearl Street
Suite 2165
Dallas, TX 75201
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

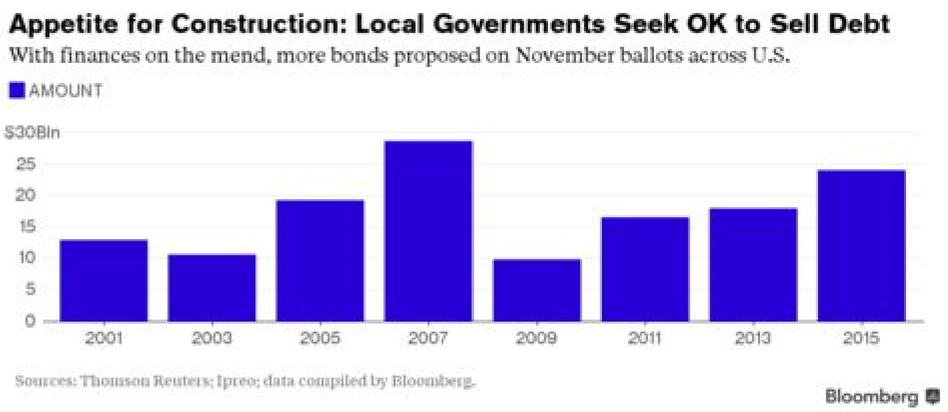
Vanessa Youngs
Analyst
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

U.S. Voters Approve $10 Billion of Bonds in Top Ballot Contests.

U.S. voters approved more than $10 billion of new municipal bonds for local governments, with returns showing strong support for large debt issues for Dallas schools, Houston roads and Denver's stock show and convention facilities.

With interest rates near 50-year lows, localities nationwide sought authority Tuesday to issue $24 billion of debt for water systems, roads and economic development, according to Ipreo, a New York-based financial-market data provider. It was the most in an odd-year November election since 2007, before the worst recession since the 1930s cut tax revenue and pushed states and cities into a period of austerity.



While municipalities have been borrowing to take advantage of low rates to cut the cost of existing debt, they've been reluctant to take on new obligations. Borrowing costs have averaged just under 4 percent since 2012, the lowest since the mid-1960s, according to the Bond Buyer's index of 20-year yields.

"The best case would be a wave of supply that pushes yields and spreads meaningfully higher," said Matt Fabian, a managing director at Concord, Massachusetts-based research firm Municipal Market Advisors. "Unfortunately we are probably stuck with low yields for a while, regardless of what supply might come."

Dallas Schools

A strengthening economy gave government officials confidence to ask voters for permission to borrow. The approved borrowings would make a small contribution toward some of the $3.6 trillion of investment in infrastructure that the American Society of Civil Engineers estimates the U.S. needs by 2020.

For Dallas Independent School District, the $1.6 billion of new debt will be used to replace and renovate schools that are more than a half-century old. Denver voters approved $778 million of debt to upgrade a facility for the National Western Stock Show and for improvements to a convention center. Meanwhile in Harris County, where Houston is located, voters approved $848 million of debt for road improvements, parks and flood control, according to county election returns.

Debt sales were also approved for the Aldine Independent School District, North East Independent School District and Conroe Independent School District, all in Texas, and the Fairfax County schools in Virgina. Nine Texas districts were among the largest approved.

Voters in Maine, the only state with bond questions on its ballot, also supported $100 million of debt for transportation and senior housing.

Rejected Proposals

Two of the largest issues that failed to pass included $816 million of bonds in Pima County, Arizona, which sought to use the proceeds for roads and highways, economic development and tourism, and other purposes. In Travis County, Texas, voters rejected $287.3 million for a new courthouse in downtown Austin.

Six years after the recession ended, state tax revenue is only 5 percent over the prior peak and far lower than in past recoveries, according to data released in July by the Nelson A. Rockefeller Institute of Government, which tracks state and local revenue and spending. The long recovery from the recession that began in late 2007, followed by a sustained decline in investment by state and local governments in infrastructure, has created demand, said Donald Boyd, director of fiscal studies at the Rockefeller Institute.

The record for bond proposals in a November general election was in 2006, when municipalities asked for $78.6 billion and voters approved $69.6 billion, according to Ipreo. November general-election ballots typically contain more debt in even years, when congressional and presidential elections are held, than in odd-numbered ones. Last year voters were asked to decide on $44 billion of bonds, more than twice the amount sought in 2010, and passed about 85 percent, according to Ipreo.

Bloomberg

by Darrell Preston

November 3, 2015 — 8:57 PM PST Updated on November 4, 2015 — 9:35 AM PST

Puerto Rico Debt Tragedy's Second Act is Close. Here is the Cast.

NEW YORK – The second act of Puerto Rico's long- building debt drama is about to begin, and waiting in the wings is a veteran cast. It includes an embattled politician, his foe, the former executive of a failed bank, and those with roles in the Wall Street bailout, Argentina's default and America's biggest municipal bankruptcies.

Locked out of the capital markets as it edges toward a record-setting default, the Caribbean island of 3.5 million people may run out of cash as soon as this month. With $354 million of debt payments due on Dec. 1, Gov. Alejandro Garcia Padilla would have to decide whether to pay bondholders or conserve whatever funds he can find to keep the government running.

While Puerto Rico has already defaulted on securities backed by legislative appropriations, it may mark the first time the government has failed to make good on obligations guaranteed by its full faith and credit — a pivotal moment that could haunt it for years.

With a debt load of $73 billion, more than any state but California or New York, and an economy that's contracted in all but one year since 2006, Garcia Padilla says the island can't afford to pay back what it owes. Puerto Rico expects to have a negative cash balance of $30 million this month, the governor told a U.S. Senate committee on Oct. 22, and the administration may cut civil servants to a three-day work week to conserve cash. The debt restructuring the governor wants to push through would be by far the largest ever in $3.7 trillion municipal market.

Here are the men and women who will chart the way:

-Alejandro Garcia Padilla, governor. Before becoming governor in January 2013, Garcia Padilla, a graduate of the Interamerican University of Puerto Rico School of Law, served in Puerto Rico's senate. The 44-year-old is a member of the Popular Democratic Party, which is aligned with Democrats in the U.S. and favors keeping the island a territory over pushing for statehood. He raised excise taxes, increased the retirement age for government workers, and pushed to change the sales tax to a value-added tax, a step aimed at cracking down on widespread evasion.

He's been unable to revive the economy or eliminate chronic deficits that have left the government reliant on borrowed money. In April, Garcia Padilla said it would be "folly" to default. By late June he reversed course, saying the deep spending cuts or tax increases that would be required to pay its debts would be too much to bear.

His administration plans to offer investors a chance to exchange their bonds for new securities that will be less costly to the government, though no details have been released and it's unclear how many bondholders will go along. Facing re-election next year, Garcia Padilla hasn't said whether he'll run again. El Nuevo Dia, the island's biggest newspaper, reported that he won't so that his handling of the debt crisis is freed from the pressure of election-year politicking. About 12 percent of Puerto Ricans approve of Garcia Padilla's performance, according to a poll published by El Nuevo Dia.

– Pedro Pierluisi. Puerto Rico's sole representative in Congress since 2009 and president of the New Progressive Party that favors statehood, Pierluisi, 56, is planning his own gubernatorial run and has been critical of Garcia Padilla, giving the island a somewhat divided voice in Washington. With Garcia Padilla's support, he proposed a bill that would allow the government-run power company and other struggling agencies to file for bankruptcy protection in U.S. court.

It's gone nowhere for lack of a single Republican co-sponsor. In testimony prepared for a September hearing, he said debt guaranteed by the central government should be "sacrosanct" and that the governor had "badly tarnished" the island's reputation by not standing firmly behind it.

A graduate of Tulane University, he has a degree from George Washington University Law School and worked as a lawyer in private practice before taking office.

– Melba Acosta, Government Development Bank. A Harvard University MBA, Acosta has been president of the GDB, which handles the commonwealth's financial affairs, since October 2014 and previously worked as Puerto Rico's Treasury Secretary. From 2004 to 2010, she was a vice president, chief operating officer and chief financial officer with R&G Financial Corp. and its subsidiary R-G Premier Bank, one of three Puerto Rico lenders that closed following the island's severe recession. While at the GDB, she attempted to negotiate a restructuring of some of the agency's debt in a trial run of what may be attempted on a larger scale. The talks collapsed last month.

In addition to her MBA, Acosta, 49, has degrees in accounting and law from the University of Puerto Rico.

– Jim Millstein, Millstein & Co. Millstein, the founder and chief executive officer of the financial advisory firm that's serving as Puerto Rico's main debt adviser, has experience with high-profile financial messes. Before starting his firm, from 2009 to 2011 Millstein served as the U.S. Treasury's chief restructuring officer, responsible for monitoring the financial-industry bailouts from the 2008 credit- market crisis. He was the principal architect of American International Group Inc.'s recapitalization.

Millstein, 60, is a former co-head of Lazard's restructuring group and before that was head of the corporate turnaround practice at Cleary Gottlieb Steen & Hamilton. At Lazard, he represented Argentina in connection with the exchange offer for its international bonds, which may serve as a template for Puerto Rico. A Princeton University graduate, he has a law degree from Columbia Law School.

– Antonio Weiss, Treasury Dept. After his nomination to serve as undersecretary for domestic finance was blocked by Sen. Elizabeth Warren over his long career on Wall Street, Weiss joined Treasury as an adviser to Secretary Jack Lew and serves as the point person for Puerto Rico. The Obama administration has suggested that Congress give Puerto Rico's entire government the power to file for bankruptcy to allow for an orderly workout in court, a broader scope than Pierluisi's stalled bill. It's also proposed increasing health-care spending and tax credits for the island to help boost the economy.

At Lazard, Weiss was the head of investment banking, advising Walgreen in its acquisition of Alliance Boots and cigarette maker Reynolds American in its takeover of rival Lorillard. He was formerly publisher of the storied literary magazine The Paris Review, where he worked as assistant to founder George Plimpton just after graduating from Yale University. Weiss, 49, also has an MBA from Harvard.

– Lee Buchheit, Cleary Gottlieb. Buchheit, 65, who worked on the restructuring of Greece's debt, is partner in the sovereign practice group at the firm, which is serving as legal adviser to Puerto Rico. Over three decades his clients have included Russia, Mexico, the Philippines, Iraq and Iceland. Buchheit received International Financial Law Review's inaugural Lifetime Achievement Award for his contributions to international finance. Buchheit earned an undergraduate degree from Middlebury College and a law degree from the University of Pennsylvania Law School.

– Harrison Goldin, Goldin Associates. Harrison Goldin, 79, the firm's managing director, was involved in one of the biggest municipal financial crises: New York City's mid-1970s meltdown. Known as "Jay," he served as the city's comptroller when it was pushed to the brink of bankruptcy by years of unsustainable borrowing to pay bills, just like Puerto Rico. Goldin's firm was hired to advise a group of investors holding some of Puerto Rico's $13 billion of general- obligation bonds, the second biggest chunk of the island's securities. He's a graduate of Princeton and Yale Law School.

Bondholders, however, are far from unified. That's because some 17 arms of the commonwealth have sold securities that are backed by different legal protections and revenue streams, setting up a clash between various bondholders over who will be saddled with the steepest losses. Case in point: a group formed to represent more than three dozen hedge funds holding $5 billion of Puerto Rico bonds disbanded, with the firms breaking into smaller alliances that would better represent their interests.

– Lisa J. Donahue, AlixPartners. Donahue, a managing director of the advisory firm's turnaround practice, serves as the chief restructuring officer for the Puerto Rico Electric Power Authority, the government-run electric company that's been negotiating for over a year in an effort to cut its $8 billion of debt. She was appointed in September 2014. She previously served as executive vice president and CFO at Calpine Corp., an independent power producer, and CFO for the Atlantic

Power Corp. The authority has reached an agreement with some bondholders to restructure the agency's debt, which would leave investors taking losses of as much as 15 percent. Finishing the rest of the deal has proved difficult. The utility still needs to get agreements with insurers that guarantee the debt against default. Donahue has a degree in finance and accounting from Florida State University.

– David Brownstein, Citigroup. Brownstein is head of public finance at the New York-based bank, the third-largest underwriter of U.S. municipal bonds during the first half of the year. Citigroup was hired to be the lead banker for the restructuring of Puerto Rico's debt and hosted a July meeting between investors and officials at its Manhattan headquarters. Brownstein was the top banker to Jefferson County, Alabama, on the water and sewer refinancing that brought it out of the second-biggest U.S. municipal bankruptcy. He also worked with Detroit following its financial collapse. Brownstein has a bachelors degree from Beloit College.

Bloomberg

by Martin Z. Braun

Contributors: Michelle Kaske and Laura J. Keller in New York and Catarina Saraiva in Washington.

Nov. 6, 2015

Vanguard Steps Into Muni-Bond Indexing.

Long associated with index funds, Vanguard Group didn't launch its first municipal-bond index fund until this past August.

At an annual cost of 0.12%, Vanguard Tax-Exempt Bond ETF (VTEB) tracks the S&P National AMT-Free Municipal Bond Index, the same one tracked by iShares National AMT-Free Muni Bond ETF (MUB), which has a 0.25% expense ratio .

Vanguard, which already had active mutual funds for the sector, hasn't set off fireworks with the ETF so far. The iShares fund dwarfs the Vanguard ETF in assets ($5.6 billion to $60 million) and average daily volume, where differences in expense ratio can be made up in trading spreads.

Yet, Vanguard's launch is sure to bring added focus to muni-bond indexing and passive-investing strategies. Through Sept. 30, actively managed municipal-debt funds held $573 billion, compared with just $20 billion for index funds, the largest active/passive discrepancy for eight distinct fund types tracked by Morningstar Inc. And 85% of those passive funds were in ETFs.

Muni bonds (and funds) are typically held by investors in higher marginal tax brackets, those who benefit the most from the state, federal and local tax-exempt status of interest income from munis. Moreover, the muni market isn't nearly as large or as liquid as those for federal or corporate debt—so trading individual bonds can be a challenge.

"In a more fragmented market, the sampling approach a manager uses to align with an index is extremely important," says Peyton Studebaker, managing director of Caprin Asset Management in Richmond, Va. His clients are invested in the $1.2 billion Market Vectors Intermediate Municipal ETF (ITM). The fund, which costs 0.24%, has an effective duration of 7.1 years compared with 4.7 years for the more broadly based MUB.

“Intermediate muni ETFs offer a more-reasonable risk/reward in today’s interest-rate environment,” adds Mr. Studebaker. ITM yields 2.1%, or 3.52% tax equivalent at the 39.6% marginal federal rate. MUB yields 1.63%, or 2.89% tax equivalent as of Nov. 2, according to each company.

It remains to be seen whether Vanguard’s entry into the market will win over customers from existing funds, including the $1.5 billion SPDR Nuveen Barclays Municipal Bond ETF (TFI), or expand interest in muni-bond indexing generally.

THE WALL STREET JOURNAL

By ARI I. WEINBERG

Updated Nov. 8, 2015 10:02 p.m. ET

Mr. Weinberg is a writer in New York. He can be reached at reports@wsj.com.

Sizing Up Dallas' Massive Pension Problem.

The short of it is this: Dallas’ pension fund for police and firefighters is in big trouble. This week, the City Council heard from an outside auditor that the fund has $5 billion in commitments that it doesn’t have assets to pay, based on the new way the Governmental Accounting Standards Board will begin calculating pension liabilities. Previously, those commitments were calculated to be $1 billion.

In light of the $4 billion reassessment, both the Moody’s and Standard and Poor’s ratings services downgraded the city’s credit rating. Moody’s downgraded the city’s bond rating from its second highest level, Aa1, to its third highest Aa2. S&P did the same, using a slightly different lexicon — Dallas went from AA+ to just AA. The downgrades come less than a week after the city released $227 million in capital improvement bonds. Matt Fabian, a municipal finance analyst with Municipal Market Analytics, said that the credit downgrades in and of themselves shouldn’t cause an immediate crunch for the city, thanks to a friendly bond market and the high perch from which Dallas’ bond rating has only slightly dropped.

“Right now [municipal bond] yields are at or near an all-time low. That means that there aren’t enough bonds available for all the investors that want to buy them. They’re falling all over each other to buy bonds, to buy income for their municipal bond accounts, and so the penalty that Dallas is apt to pay is minimal,” Fabian says. “[Dallas’] ratings are still very solid in the AA category. That’s still an excellent rating. Typically, a city with a rating in the AA category or above receives minimal credit scrutiny from anyone.”

The ratings themselves, as they stand, are not a big problem, but things could get worse, Fabian says, if the city doesn’t show the political will to deal with the massively underfunded system.

“Investors are becoming a lot more sensitive to headline risks related to pensions, because pensions can create political instability. The debate about pensions can have a meaningful impact on how the city does business. Investors have been far more cautious on this topic than almost any other,” he says. “If the city lets things fester and get worse, a penalty that it pays could easily become much larger and the rating downgrades could accelerate. [The ratings cut] is a clarion call to the city to take action.”

Unfunded pension liabilities pile up, in part, because cities defer current costs (salaries) and take on future costs (pensions), Fabian says. Dallas pays its police officers some of the lowest salaries in North Texas but has one of the most generous pension systems. Given appropriate circumstances, it is possible for Dallas cops and firefighters to retire as millionaires, something Dallas police representatives have cited as one of the few things that can keep officers in the department. No matter how much retirees expect to get paid, it won't matter if the pension system goes broke, something Moody's warns could happen by 2038. Dallas can come out of the mess no worse for the wear, Fabian says, if it takes aggressive action to limit new liabilities and pay off old ones.

"Dallas could be a poster boy for fiscal management if it addresses this problem aggressively, but more likely than not, how these situations work out is that the large liabilities are very difficult to service," he says.

So far, Dallas has hired a new executive director, Kelly Gottschalk, for the pension fund and suspended enrollment in the lucrative "DROP" program, which allowed police officers and firefighters to collect and reinvest retirement benefits at high rates while they were still on the job. According to Fabian, one way or another, the only way to save the fund is to cut benefits, potentially through negotiations with the city's uniformed personnel, or increase income, which could happen through increased taxes or better performance from the funds investments.

THE DALLAS OBSERVER

BY STEPHEN YOUNG

FRIDAY, NOVEMBER 6, 2015

Texas Approves New Road Funding Plan.

Voters approved a way to increase transportation funding without raising taxes or tolls. But some say it's a bad approach.

Texas voters approved a measure Tuesday to provide more money for roads without raising taxes, adding debt or adding toll roads. The measure could add as much as $2.5 billion a year for the next decade toward building and repairing the state's congested roads, and even more after 2019.

The voters' approval is a major victory for Republican Gov. Greg Abbott, who vowed in his campaign last year to address the traffic problems that have come along with the state's recent population surge. Legislators ultimately crafted the measure that went to the voters, which was called Proposition 7.

When it became clear that Prop. 7 and six other ballot measures passed Tuesday night, the governor expressed his gratitude on Twitter. "THANKS Texans for making Texas freer & stronger with lower taxes & better roads. Texas remains best state in U.S.," he wrote.

The measure is the latest effort by Texas leaders to cope with the stresses more residents put on the state's transportation networks without raising taxes. After all, part of the reason to move to Texas is that the state has low taxes. Texas hasn't raised its gas tax since 1991.

But more than 1,000 new people a day mean bigger traffic jams in the Austin, Dallas and Houston regions. The additional taxes they pay don't cover the cost of expanding and maintaining roads. The recent increase in oil production, which began with widespread adaption of fracking technologies, also strained roads that connect oil fields to the rest of the state.

Texans have turned increasingly to toll roads to handle the increase in traffic. But toll roads are unpopular. Voters may not way to pay higher taxes, but they also don't want to have to pay just to drive on their roads (which explains a prohibition on Prop. 7 money going toward toll roads). Last year, the state used its flush rainy day fund to direct up to $1.7 billion more a year toward transportation. But that still fell short of the $5 billion a year that state transportation officials say is needed to maintain current levels of congestion. And the gap grew even bigger after oil prices fell this year, because oil tax revenues fund the rainy day fund.

So rather than adding new taxes, Prop. 7 will pull new money from certain existing taxes and direct it toward transportation. So, for example, once the sales tax — the state's main source of tax revenue — brings in more than $28 billion a year, the next $2.5 billion will be devoted exclusively for transportation every year for the next 10 years. A similar mechanism will apply to the vehicle sales tax starting in 2019: Once collections reach $5 billion a year, 35 percent of the receipts beyond that will go toward roads.

It's a more complicated solution than simply raising the gas tax or increasing vehicle registration fees, acknowledged Jack Ladd, the president of Move Texas Forward and the treasurer of a related political action committee backing Prop. 7. "There is no political will in Austin to do that" among Democrats or Republicans, he said. Conservatives don't want to increase taxes at all, while liberals worry that gas taxes and registration fees hurt poor people.

"It's also a question of priority: How big of a priority is transportation funding in Texas?" Ladd said. "You have to say, if you know the facts, it's a really big problem and it should be addressed." Prop. 7 puts transportation funding ahead of other priorities, like health care and education. But Ladd said those areas would also benefit from better roads.

"You can't get to a hospital, you can't get to a school without roads," he said. "It's not just a quality of life issue, it's also a jobs issue." There was little organized opposition to the measure, but critics worried that the measure will be too strict, because it puts roads ahead of schools, health care and even other kinds of transportation for new state money.

Jay Crossley was one of those who expressed doubts. Crossley, executive director of Houston Tomorrow, which promotes urban issues such as walkable neighborhoods, worried the ballot measure would promote bad transportation policy for a decade, because Prop. 7 specifies that the designated money could only be spent on roads — not on public transportation, bike paths or sidewalks.

The Texas Department of Transportation "has made it very clear that, if they could have a decade of guaranteed funding, it makes all the finances work better to build a lot of unnecessary roads," Crossley said before the vote. According to Crossley, supporters of the measure essentially said, "We don't want people to be able to change their mind.

We don't want the people of Texas to be able to say, 'Maybe we want transit. Maybe we would rather have safe streets. Maybe we want a transportation system that doesn't subsidize sprawl.'"

(Crossley stressed that he was speaking for himself; Houston Tomorrow did not take a position on Prop. 7.)

But Ladd, the proponent of Prop. 7, said lawmakers made sure the measure would expire after 10 years, so lawmakers will review the approach later. "Future legislators who may not have been around when Prop. 7 passed … could look at it and say we want to raise taxes instead, we want to do something else, we don't want to do this anymore," he said. "There are other ways to solve this problem, but we have to fix it now."

GOVERNING.COM

BY DANIEL C. VOCK | NOVEMBER 4, 2015

S&P: Atlantic City, NJ GO Rating Remains On Watch Neg Pending Key Report, Action On Approved Bills.

NEW YORK (Standard & Poor's) Nov. 4, 2015 — Standard & Poor's Ratings Services today said that its ratings on Atlantic City, N.J. remain on CreditWatch with negative implications, pending the release of an updated report from the city's Emergency Manager and action on several bills approved by the state legislature. Standard & Poor's expects to resolve or update its CreditWatch within the next 60 days.

We lowered the general obligation (GO) bond rating to 'B' and placed it on CreditWatch with negative implications on Aug. 3, 2015 (for more information on the GO rating, please see the summary analysis on Atlantic City, published on Aug. 3, 2015, on RatingsDirect).

While the state's Local Finance Board approved the city's fiscal 2015 budget last month, an anticipated updated report from the city's Emergency Manager has not been released and there has been no action yet on several bills passed by the state legislature.

In compliance with state law, the city's 2015 budget is balanced. However, this is achieved through anticipated revenues of $33.5 million in redirected casino taxes and $38.9 million in deferred pension and health care expenses. The governor hasn't signed into law the legislature-approved redirection of casino taxes. The Atlantic City budget fully funds its annual requirements for settled tax appeals and was adopted in time for the mailing of fourth-quarter tax bills. The city reports that it will be able to make its $11 million December 2015 debt service payment if it does not receive the anticipated redirected casino tax revenue.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

Primary Credit Analyst: Timothy W Little, New York (212) 438-7999;
timothy.little@standardandpoors.com

Secondary Contact: Lisa R Schroeer, Charlottesville (1) 434-220-0892;
lisa.schroeer@standardandpoors.com

S&P: Dallas GO Debt Rating Lowered to 'AA' on Rising Pension Costs.

DALLAS (Standard & Poor's) Nov. 4, 2015 — Standard & Poor's Ratings Services said today it lowered to 'AA' from 'AA+' its long-term rating and underlying rating (SPUR) on Dallas' parity general obligation (GO) bonds. We also assigned our 'AA' rating to the city's series 2015 GO refunding and improvement bonds. The outlook is stable.

In addition, Standard & Poor's lowered to 'A' from 'A+' its long-term rating and SPUR on the Downtown Dallas Development Authority's (DDDA) tax increment contract revenue bonds, issued on behalf of the city of Dallas. We also lowered to 'A' from 'A+' the rating on the Dallas Convention Center Hotel Development Corp.'s series 2009A, B, and C hotel revenue bonds, issued on behalf of Dallas. The outlook for both ratings is stable. (For more information, see the summary analyses on DDDA and Dallas Convention Center Hotel Development Corp. published Nov. 4, 2015.)

Standard & Poor's also affirmed its 'A-1+' short-term rating on Dallas' series 2010A and C GO commercial paper notes The rating reflects our view of the city's strong general creditworthiness and liquidity.

"The GO debt downgrade is due to the city's rising pension liabilities and lack of a sufficient plan to address them in the near term," said Standard & Poor's credit analyst Jennifer Garza. "The stable outlook reflects our view of the city's consistent financial performance and economy, which is supported by very strong management."

The pledge of an ad valorem property tax, limited to $2.50 per $100 of assessed valuation (AV) by state law, secures the GO bonds. In our opinion, the city has ample flexibility under the tax cap given its current tax rate of 79.7 cents per $100 of AV.

The GO debt rating reflects the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 14.4% of operating expenditures;
- Very strong liquidity, with total government available cash of 46.0% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges of 14.6% of expenditures and net direct debt that is 145.3% of total governmental fund revenue, as well as a large pension and other postemployment benefit liability and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

'Smart Poles' Will Earn City Money While Improving Quality of Life.

Los Angeles is starting to host a new type of hybrid infrastructure — a street light that doubles as a mini-cell tower — through a public-private partnership.

Royal Philips, which makes energy-efficient LED light bulbs, has teamed up with communications technology firm Ericsson to create the "smart pole," which features energy-efficient lighting and 4G

LTE wireless service, reported Los Angeles Magazine. The poles also can "monitor and regulate energy usage in real time," reported Annenberg TV News.

Philips will cover the costs of providing and installing the poles on city streets and pay Los Angeles a portion of the rent it charges wireless carriers to use the cell towers. The city expects to receive $1,200 per year from each of the 100 poles to be installed this year. Revenues will rise to $720,000 annually from a network of 600 poles by 2018, said Ed Ebrahimian, director of the city's street lighting bureau.

Ebrahimian hopes to negotiate additional P3s to continue expanding coverage. "I would think two or three thousand over the next five years. We are working with other carriers, not just Philips or Ericsson," he said.

San Jose is preparing to install this infrastructure as well.

The smart pole concept is just one of the P3-based approaches states and cities are using to provide universal access to wireless technology. Kentucky is conducting a partnership to install statewide broadband and Lake Oswego, Ore., is considering a deal to install its own network as well.

NCPPP

November 6, 2015

Orrick Opinion Helps SDUSD GOs to AAA.

Changes Rating Prospects for other California General Obligation Bonds

For the last several years, Orrick's General Obligation Bond Group has led an effort to improve the rating agencies' understanding of the special character of California local agency general obligation bonds. The purpose of the effort was to improve the ratings and reduce the borrowing costs associated with California General Obligation Bonds for all school and community college district, city, county, and other local governments that issue General Obligation Bonds. Today that effort has borne fruit.

In partnership with San Diego Unified School District, Orrick drafted and assisted in the enactment of Senate Bill 222, which established a statutory lien for the benefit of bondholders on the property taxes levied to pay general obligation bonds. SB 222 was signed into law on July 13, 2015. Several rating agencies reacted by saying that while SB 222 was positive, it was not likely sufficient to change the ratings on California General Obligation Bonds because, while the property taxes levied to pay California General Obligation Bonds would ultimately be required to be applied to pay the bonds, the application of the taxes to the payment of the bonds could be temporarily interrupted by the automatic stay in the event of an issuer bankruptcy.

In response to the ratings agencies, Orrick drafted and delivered an opinion to certain rating agencies addressing whether the property taxes levied to pay general obligation bonds would be considered "special revenues," and thereby not subject to the automatic stay.

Orrick and San Diego Unified School District presented the opinion and its bankruptcy analysis to several rating agencies. On November 4, 2015, Fitch assigned a "AAA" rating to $550 million of San Diego Unified School District 2016 General Obligation Bond (Dedicated Unlimited Ad Valorem

Property Tax Bonds). Fitch's announcement refers to and concurs with the opinion it received that the property taxes levied to repay the bonds would be "special revenues" in the event of a district bankruptcy, and states that "as a result, the rating is based on special tax analysis without regard to the District's financial operations."

This signals what should become a sea change in the rating and sale of school district, community college district and other local agency general obligation bonds in California.

Please contact any of the following members of the Orrick General Obligation Bond Group with questions or for further discussion:

Mary Collins
415-773-5998
marycollins@orrick.com

Eugene Clark-Herrera
415-773-5911
ech@orrick.com

Don Field
213-612-2287 / 949-852-7727
dfield@orrick.com

John Palmer
415-773-4246
jpalmer@orrick.com

11-04-2015

Hawkins Delafield & Wood LLP Opens Michigan Office.

Hawkins Delafield & Wood LLP, a national leader in municipal finance and public law, announced today that it will open a new office in Ann Arbor, Michigan. The new office will be the firm's first office in the Midwest region. A new partner, Lisa Hagan, will be resident in the Ann Arbor office. She previously was a senior principal in the Ann Arbor office of Miller, Canfield, Paddock and Stone, P.L.C.

Howard Zucker, a member of the Hawkins management committee, commented on the new office and the lateral hire: "For many years, Hawkins has enjoyed an active public finance practice in the Midwest. The opportunity to welcome a new lawyer to our firm, and to open an office near so many of our valued clients at the same time, is extraordinarily exciting. For existing Hawkins clients, this represents yet another example of Hawkins' continued commitment to public finance and public projects."

Lisa Hagan received her LL.M. in Taxation from Georgetown University Law Center, her J.D. from Michigan State University College of Law, and her B.A. from Michigan State University. Her practice is focused primarily on health care, higher education and housing financings.

Hawkins is of the municipal industry's more storied law firms. Founded in 1854, the firm gained a reputation in the 19th Century for specialized expertise in the area of governmental finance. The firm continues to break new ground for its clients in finance transactions, including public power, transportation, housing, health care, higher education, cultural institutions and public contract representation, including public/private partnerships. Hawkins is perennially rated among the very top bond counsel and underwriters' counsel nationally.

Hawkins has more attorneys (approximately 100) devoted to public finance and public projects than any law firm in the nation. The new Ann Arbor office will be the firm's ninth office, joining New York, Washington D.C., Newark (NJ), Hartford, Los Angeles, San Francisco, Sacramento and Portland (OR).

Beer Bonanza Has Virginia Capital Backing Bonds for Craft Brews.

Virginia's capital is raising beer money — $23 million of it.

Richmond will sell bonds next week to build a brewery for Escondido, California-based Stone Brewing Co., the ninth-largest U.S. craft-beer maker, on property that's been vacant for four decades. Stone will pay the 218,000-person city to lease the facility and won't be on the hook to repay investors. Taxpayers will.

It may be the first time a U.S. city has put its credit on the line for a maker of the beverage Americans swill millions of barrels of, and it shows how the craft-beer boom has been drafted into the long-running bidding wars among states and cities for businesses. Elsewhere, the decision to stand behind less-flourishing corporations hasn't always panned out: Rhode Island is stuck with debt that lured a now-bankrupt video game startup, while Moberly, Missouri, was burned by issuing bonds for an artificial-sweetener plant that was never built.

"There's a growing movement for craft brewing, and if there are cities and states out there trying to encourage it, it's a way of creating a new revenue base," said Howard Cure, managing director of municipal research in New York at Evercore Wealth Management, which oversees $6 billion. "These companies are smart and they play one city against another."

Craft beer, which comes from breweries that make no more than 6 million barrels a year, is the fastest-growing segment of the $102 billion U.S. market.

With the deal, Richmond is counting on the popularity of Stone's brands such as Arrogant Bastard Ale and Stone Cali-Belgique IPA. The 19-year-old company's production jumped 35 percent last year, twice as fast as craft breweries nationwide, despite a surge in competition from upstarts and behemoths such as Anheuser-Busch InBev NV.

With 22 million barrels produced in 2014, such small-scale producers account for 11 percent of the U.S. beer market, up from 5 percent in 2010, according to the Boulder, Colorado-based Brewers Association.
The growth of the industry — and its power as a tourist draw — has caught the attention of elected officials across the country, said Bart Watson, the chief economist for the association, which represents more than 2,800 companies.

"As the craft beer market has grown and these companies have grown into bigger job creators and bigger sources of economic impact, the reception from government officials has grown as well," Watson said. "We've entered this era of second facilities in different parts of the country. There's a lot more courting going on."

Sierra Nevada Brewing Co. and New Belgium Brewing Co., the third- and fourth-largest craft brewers, have begun operating East Coast facilities in North Carolina after receiving government incentives. Lagunitas Brewing Co., the sixth-largest, set up its second facility in Chicago, though it rebuffed the junk-rated city's offers of assistance.

Job Creator

Stone picked Richmond over more than 300 other potential sites for the brewery, which will also have a restaurant and beer garden. It's projected to create 288 jobs.

Economic incentives were available at all of its other top sites, said Pat Tiernan, Stone's chief operating officer. What set Richmond apart was the opportunity to revamp an area near the James River that was never rebuilt after flooding in the 1970s, he said.

"We wanted to gauge where we got the most buzz and enthusiasm and excitement, not just with fans, but with the community, the governments at the state and local level," Tiernan said. "How they decided to fund it really had nothing to do with the selection of the site."

Tammy Hawley, a spokeswoman for Richmond Mayor Dwight Jones, said no one from the city finance department was available to comment until after the bond sale, which is scheduled for next week. Moody's Investors Service rates the $23 million of taxable debt Aa2, its third-highest grade. The credit-rating company said Stone's payments to lease the brewery will match or exceed what the city will spend on principal and interest.

"The dollar amount for the city of Richmond is not particularly burdensome, and the city of Richmond is budgeting to pay for debt service every year," said Julie Beglin, a Moody's analyst. The city has $740 million of general obligations. "That's different from other projects that we've occasionally seen where the anticipation is the project will pay and the city may or may not have available funds to pay debt service if that project failed."

One example of a bust: Key West Brewery Inc. Based near the southernmost point of the continental U.S., it defaulted in 2001 on $7.4 million of revenue bonds that it was responsible for repaying. That company was tiny in comparison to Stone: By borrowing the money, it was seeking to boost production to 39,600 barrels a year from 3,000.

By contrast, the California brewer's output will exceed 300,000 barrels for the first time in 2015, Tiernan said. He said the Richmond facility will eventually be able to make 700,000. Stone is also planning to open a brewery in Berlin.

Beer Lovers

In a sign of Stone's influence in the industry, it has the fourth-most-popular India pale ale on the website BeerAdvocate and the three most-noted American strong ales. The brewery is known for flaunting the superiority of its beers with names like Sublimely Self-Righteous.

Stone even taunts its customers, questioning whether they should drop the bottle and pick up something a bit more banal.

"It is quite doubtful that you have the taste or sophistication to be able to appreciate an ale of this quality and depth," says the Arrogant Bastard label.

Richmond is betting on the opposite.

Bloomberg

by Brian Chappatta

November 1, 2015 — 9:01 PM PST Updated on November 2, 2015 — 7:31 AM PST

Hedge-Fund State Stung as Stock-Price Swings Leave Budget Gap.

Connecticut passed a budget in June that boosted funding for transportation projects, made required pension contributions and scaled back a tax increase on businesses. It appeared balanced, removing the risk of a downgrade from Fitch Ratings.

The good news didn't last long.

Four months into the fiscal year, Connecticut is facing a $118 million deficit, thanks in part to a stock-market slide that erased more than $3 trillion from share prices before it ended in late September. With just $406 million in its rainy-day fund, about one-third of the pre-recession peak, Democratic Governor Dannel Malloy and lawmakers are working this week to figure out how to shore up the finances of a state that's home to more hedge-fund money than any state but New York.

With Illinois and Pennsylvania still without budgets for the year that began July 1, Connecticut's struggle shows that passing a spending plan isn't enough if projected revenue doesn't materialize. To stabilize the state's finances, Malloy, who has already cut funding for hospitals and welfare programs, is aiming to eliminate 500 government jobs, overhaul the retirement system and change the way businesses are taxed to keep companies from leaving.

"That a budget gap has opened up so early in fiscal 2016 is definitely concerning," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds the state's bonds among its $11 billion of local debt. "You have revenue coming in below projections, low reserves and political pressures not to cut social services. It's when you combine all these things together that you get concerned."

Connecticut is the wealthiest U.S. state by per-capita income, with an economy fueled by the finance industry. It had some 250 hedge-fund companies overseeing about $335 billion in 2013, according to the Connecticut Hedge Fund Association. Only New Yorkers rely on capital gains for a greater share of their income, said Carl Thompson, a municipal analyst in Boston at Eaton Vance Management, which oversees about $30 billion of local debt.

That leaves the government's revenue sensitive to market routs like the one in August, when the Standard & Poor's 500 index lost 11 percent in six days. The bout of selling, the worst in four years, wreaked havoc with the Connecticut's tax-collection forecasts, despite the rebound that's left stocks with gains for the year.

Rippling Down

That volatility is one reason tax collections will likely fall short of expectations, Office of Policy and Management Secretary Ben Barnes said in a letter to Comptroller Kevin Lembo last month. Lembo said the state's economy has also been restrained by the disappearance of 14,900 financial-services jobs since the recession, which has weighed on wage growth.

“Until the overall growth in the state employment numbers results in higher wage growth, which is consistent with an expanding economy, the withholding portion of the income tax will continue to present significant budget challenges,” Lembo wrote.

Municipal-bond investors are demanding higher yields to hold Connecticut debt instead of other securities. Ten-year Connecticut general obligations yield 2.61 percent, about half a percentage point more than benchmark debt. That gap is near the most since Bloomberg data begin in January 2013 and up from as little as 0.27 percentage point in January.

Stable Outlook

Fitch took Connecticut away from the brink of a downgrade in July, when it lifted the outlook on its AA rating to stable because of the balanced budget. Under that plan, Malloy kept his pledge to maintain full pension contributions. He also won a higher sales-tax rate for transportation projects, one of his biggest initiatives, and reduced business-tax increases after companies including General Electric Co. threatened to move.

Connecticut has ample time in the current year to make adjustments to the deficit, said Douglas Offerman, the Fitch analyst in New York who monitors the state. It’s easier to tweak a passed budget than govern without one, like Illinois and Pennsylvania, he said.

“This was from all perspectives a pretty decent budget that happens to be in a state that has very volatile revenue streams,” said Thompson, the analyst at Eaton Vance, which owns Connecticut bonds. “With the stock market, their revenue projections change and that can really be a very sudden, unpredictable thing.”

Faced with the latest deficit forecast, Malloy said Oct. 28 that the state should cut its workforce by 500 in the current fiscal year. Connecticut is also deferring scheduled raises for 1,600 managers and negotiating over contracts with most bargaining units, according to a presentation titled “Connecticut’s Economic and Budgetary Reality.”

Barnes, Malloy’s budget official, is involved in negotiations over curbing the deficit and wasn’t available to comment, said Christopher McClure, a spokesman for the office of policy and management. Connecticut will release new revenue estimates on Nov. 10.

“Our plan is to set priorities and make smart, pragmatic decisions about spending cuts now, so that Connecticut continues to live within its means,” McClure said in a statement.

Bloomberg

by Brian Chappatta

November 3, 2015 — 9:01 PM PST Updated on November 4, 2015 — 5:58 AM PST

Puerto Rico Governor Submits Electric Utility Restructuring Bill.

Puerto Rico Governor Alejandro Garcia Padilla’s administration sent to the island’s legislature a bill that would give its main electricity provider power to restructure about $8.3 billion of debt.

The Puerto Rico Electric Power Authority, known as Prepa, has been negotiating since August 2014 with its creditors on how to ease the utility's debt payments and modernize a system that relies heavily on crude oil to produce electricity. Prepa faces a $1 billion shortfall for the fiscal year ending June 30, 2016, according to the governor's legislation. The utility has a $196 million interest payment due to bondholders on Jan. 1.

"With this legislation we can realize the debt relief and savings offered by the creditor compromises and make the changes and investments needed to ensure that Prepa can provide the people and businesses of Puerto Rico with reliable power, stable rates and outstanding customer service for generations to come," Javier Quintana Mendez, Prepa's executive director, said Wednesday in a statement.

The utility has been hindered in its attempts to reorganize its finances because the commonwealth's agencies don't have access to bankruptcy, as do their counterparts in the U.S. A restructuring of the utility's debt, which would be the largest ever in the $3.7 trillion municipal market, would serve as a key first step in Garcia Padilla's plan for the island to reduce its $73 billion debt burden. The governor said in June that the island's debt is unsustainable and has sought to gain concessions from creditors.

Electric Rate

The legislation will seek "a reasonable and stable electric rate" Jesus Manuel Ortiz, a spokesman for Garcia Padilla, told reporters Wednesday in San Juan.

Prepa should submit a request to change energy rates so revenue will cover annual debt servicing, "including principal, interest, reserves and other requirements imposed by the accords with creditors," according to the legislation. Revenue should also cover costs such as the purchase of fuel, investments and general administration, according to the bill.

The legislation would enable Prepa to invest $2.4 billion to upgrade plants and give Prepa the authority to enter into public-private partnerships to help finance infrastructure improvements. Prepa's new board would consist of seven members, including two people to represent citizens, Ortiz said.

The bill also seeks to improve Prepa's process for collecting outstanding bills from public and private entities and change the utility's ability to collect payments from municipalities.

Prepa and some of its bondholders reached a temporary agreement in September that would require investors to take a 15 percent loss in a debt exchange. The utility is also negotiating with bond-insurance companies that guarantee about $2.5 billion of Prepa debt against default.

The bill would give legislative authority to a deal that may emerge from the negotiations.

Bloomberg

by Michelle Kaske and Alexander Lopez

November 4, 2015 — 10:22 AM PST Updated on November 4, 2015 — 1:31 PM PST

[The Teacher Who Could Gut Unions.]

Rebecca Friedrichs's challenge to mandatory fees could reduce labor's political clout.

A Supreme Court decision coming by the end of June could be devastating for organized labor. The case, *Friedrichs v. California Teachers Association (CTA)*, challenges a 1977 ruling allowing public-sector unions to charge nonmembers covered by union contracts mandatory fees to pay for the costs of collective bargaining. The lead plaintiff, Rebecca Friedrichs, is an elementary school teacher. She claims that being forced to pay money to California's politically powerful and overwhelmingly Democratic teachers' union as a condition of her employment violates her First Amendment rights.

Conservatives want the court to ban the mandatory fees. That would create a crisis for organized labor, about half of whose members are in the public sector; dues and fees made up $174 million of CTA's reported $186 million in revenue in 2013. It could also cause trouble for Democrats, who depend on union support during elections. CTA reported spending $211 million on campaigns and lobbying from 2000 to 2009, according to Friedrichs's suit, including $26 million to oppose a school-voucher proposition.

The Supreme Court has already said government workers can't be required to fund union activities if they're unrelated to collective bargaining. But the plaintiffs argue that collective bargaining is inherently political when the government is the employer. "One of the things people fight about in politics is, should you spend more money on teachers or police?" says Ronald Cass, a former dean of Boston University School of Law, who co-wrote an amicus brief in support of Friedrichs.

Unions' best hope of winning rests with an unlikely ally: Antonin Scalia. He wrote in a 1991 case that, because the government requires public-sector unions to provide equal representation to nonmembers, it has an interest in making sure that service is paid for. "Where the state imposes upon the union a duty to deliver services, it may permit the union to demand reimbursement for them," he wrote.

Scalia has also argued that the government has much more leeway to exercise control over its employees than over private citizens, a view that could help unions. "Private citizens perhaps cannot be prevented from wearing long hair, but policemen can," he wrote in a 1990 dissent involving public employees in Illinois.

Scalia brought up police officers' First Amendment rights again last year in a union fees case involving home-health-care workers supported by Medicaid. In oral arguments, Scalia posited a discontented cop who insisted on meeting over and over with the police commissioner to bug him for a raise: "The commissioner finally is fed up and tells his secretary, I don't want to see this man again—has he violated the Constitution?" In that case, Scalia ended up joining the 5-4 majority opinion, which found that "quasi-public employees," like home aides, can't be required to pay union fees.

The biggest public-sector unions, including the American Federation of State, County & Municipal Employees (AFSCME), are already canvassing workers, asking them to become dues-paying members before the court rules on the case. Even pro-union workers may be tempted by the chance to have their representation for free, says Lee Saunders, president of AFSCME. "That's going to be a hard choice for some people."

by Josh Eidelson

Bloomberg Businessweek

November 5, 2015 — 4:06 AM PST

[Puerto Rico Exodus a Boon for Florida Counties, Moody's Says.]

The migration of Puerto Ricans to the U.S. mainland in search of work and better living conditions is proving to be an economic benefit to growing Florida municipalities such as Orange and Hillsborough Counties, according to Moody's Investors Service.

The number of employed Puerto Rican workers in Orange County increased by almost 18 percent between 2010 to 2014, according to a Moody's report released Tuesday. Coastal Hillsborough's work force from the commonwealth has increased 31 percent during the period. The state's September unemployment rate was 5.2 percent, less than half Puerto Rico's 11.4 percent rate.

"With the in-migration feeding the ongoing expansion of industries in Orange County, the resulting dynamic is positive for the county's credit strength," Nisha Rajan, a Moody's analyst in New York wrote in the report. "This expansion further increases the need for goods and services, augmenting sales tax and other local government revenues."

Puerto Rico's out-migration has increased by 40 percent from 2010 to 2014, according to Moody's. The island's economy has struggled to grow since 2006. Officials have increased taxes, curbed government hiring and cut social programs to help fix budget deficits. The commonwealth is seeking to reduce its $73 billion debt load by negotiating with bondholders to accept losses.

Transportation and tourism-related jobs in Orlando, the center of Orange County and home to Disney World, are attracting Puerto Ricans to the area. Puerto Ricans comprised 14 percent of the population of Orange County and 8.4 percent of Hillsborough, Moody's said.

Residents of Puerto Rico are U.S. citizens and many are bilingual, making it easy to leave the island for work on the mainland. Moody's estimates the commonwealth's negative migration will continue through at least 2020. About 5 million Puerto Ricans lives in the U.S., compared with about 3.65 million in the island.

Bloomberg

by Michelle Kaske

November 3, 2015 — 2:54 PM PST

[Illinois Faces Millions in Extra Debt Costs From Budget Fiasco.]

When Illinois returns to the municipal market after its unprecedented 18-month borrowing drought, it may find its budget impasse will cost taxpayers millions of dollars in the coming decades.

On a $1 billion offering of 25-year tax-exempt bonds, it would cost about $175 million more now than if an equal amount was issued with spreads at 2014 levels, based on data compiled by Bloomberg that assumes the yield equals the interest rate paid. Now in its fifth month without a spending plan, signs are mounting that debt sales for cash-strapped Illinois are only going to get more expensive.

After initially planning to sell $1.25 billion in general obligations for capital needs, the governor's office said in September that it wasn't ready to announce any amounts or sale dates. The state's credit rating has been cut by two of the three largest rating companies, it's missing pension payments, and yield premiums demanded by investors are hovering near the highest since 2013. Illinois last sold debt in April 2014 for a top yield of 4.5 percent, about 1.1 percentage points more than benchmark securities. That spread has widened by about 70 basis points.

"Investors are going to ask for wider spreads over the near term if there's not a resolution for this budgetary crisis," said Dennis Derby, a money manager in Menomonee Falls, Wisconsin, at Wells Fargo Asset Management, which holds some of the state's bonds among its $39 billion of municipal debt. "It's a headline risk. It's the potential for spreads to widen out even further."

The Land of Lincoln's lack of borrowing contrasts with localities nationwide that are selling bonds at the fastest pace since at least 2003. That's saving states and cities millions of dollars as interest rates are near the lowest in half a century. Meanwhile, Illinois is sidelined by political gridlock. Republican Governor Bruce Rauner and the Democrat-controlled legislature are showing no signs of nearing an agreement for a spending plan.

Catherine Kelly, Rauner's spokeswoman, said Illinois plans to sell bonds this fiscal year, which ends June 30. She declined to comment on why the state has gone so long without borrowing. Illinois can legally still borrow.

"Speaking very generally, state law allows bond sales in these circumstances," according to an e-mailed statement from the Office of the Attorney General Lisa Madigan.

Kelly Hutchinson, formerly of A.C. Advisory Inc., started Monday as Illinois's director of capital markets and will handle bond sales for the state.

But returning to the market would come at a cost, and the state doesn't have extra money to spend these days. Investors demanded 1.7 percentage points more yield to own Illinois 30-year bonds on Nov. 3 versus benchmark munis. That's the most of all 20 states tracked by Bloomberg.

Debt Service

Illinois is running out of funds on a daily basis, according to Comptroller Leslie Geissler Munger. Unpaid bills totaled $6.8 billion, as of Nov. 3. Still, debt service remains a priority "above everything else," Munger said Oct. 14, after announcing the delay of a $560 million monthly pension payment in November because of the cash crunch. The December payment may also be postponed.

The postponed contributions led the State Employees' Retirement System to request the largest-ever sum of cash from the Illinois State Board of Investment to cover retiree benefits. Its pensions are already underfunded by more than $100 billion after years of skipped contributions.

Moody's Investors Service slashed Illinois's rating to Baa1, three steps above speculative grade, on Oct. 22, following a downgrade from Fitch Ratings three days earlier to an equivalent BBB+. Moody's also lowered the ratings of six public universities less than a week later, citing their exposure to the budget turmoil.

"The state's low rating and trading levels preclude them from taking much advantage, if any, of lower interest rates," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds Illinois debt among its $11 billion of state and local securities. "It does hurt that way."

Market Access

In the past, credit downgrades have delayed bond deals for the state. Illinois had to cancel a planned

$500 million general-obligation bond sale in January 2013 because Standard & Poor's dropped its rating five days before. Yet about two months later it returned with an even bigger $800 million offering that had narrower 10-year yield spreads than the market average.

Not everyone expects Illinois will stay a stranger to the $3.7 trillion municipal market despite its financial woes.

"We've seen them in the past when market access seemed to be somewhat tenuous come to market with a big deal that they priced very cheap," said Jason Diefenthaler, who runs a high-yield muni fund at Wasmer Schroeder & Co. in Naples, Florida. The company owns Illinois bonds. "Problem issuers tend to come to market more often."

Long-term, the budget situation is fixable, according to Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments LLC, which holds some Illinois debt among its $30 billion of municipal holdings.

"As long as there's adequate compensation in price, in addition to us having a view that they will ultimately come to a fix and get past this political gridlock, we certainly would consider additional purchases," said Schoback. "You need to be compensated for the headline risk and the political uncertainty and these BBB+ downgrades."

Bloomberg

by Elizabeth Campbell and Brian Chappatta

November 4, 2015 — 9:00 PM PST Updated on November 5, 2015 — 6:30 AM PST

Munis Least Attractive to Treasuries Since 2014 as Payrolls Jump.

Prices in the $3.7 trillion municipal-bond market are the most expensive of 2015 relative to Treasuries after U.S. payrolls increased by the most this year, causing yields to jump on federal government debt on bets that stronger employment data will spur the Federal Reserve to raise interest rates.

Benchmark 10-year munis yield 2.18 percent, compared with 2.31 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio is a measure of relative value between the asset classes. It touched 93.7 percent Friday, the lowest since December 2014, signaling that tax-free bonds are pricey relative to their federal counterparts.

Ten-year Treasury yields jumped as much as 0.1 percentage point after a Labor Department report showed the U.S. gained 271,000 jobs, the most this year and higher than all estimates in a Bloomberg survey of economists. Average hourly earnings climbed from a year earlier by the most since July 2009, signaling Fed officials may move forward with a December rate increase.

Muni yields rose 0.05 percentage point to 2.18 percent on Thursday, the largest increase since July, data compiled by Bloomberg show. The figure, which was little changed as of 9:09 a.m. in New York, is the highest since Sept. 24.

The 10-year muni-Treasury ratio was as high as 111.3 percent in March. Over the past decade, the figure has averaged 97 percent.

Bloomberg

by Brian Chappatta

November 6, 2015 — 6:34 AM PST

Bloomberg Brief Weekly Video - 11/05/15

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

Watch the video.

9:28 AM PST
November 5, 2015

Puerto Rico Government Development Bank at Risk of Receivership.

Puerto Rico's Government Development Bank, which oversees the island's finances, said it may fail to comply with legal reserve requirements by the end of December, putting the bank at risk of falling into receivership.

Puerto Rico's Commissioner of Financial Institutions is examining the financial condition of the GDB, according to the commonwealth's most recent financial disclosure, posted on the bank's website late Friday.

The GDB serves as a source of liquidity for the Caribbean island and its municipalities. The bank estimates it may fall short of its legal reserve requirement by the end of 2015, according to the filing. That would put the bank in danger of operating under a receiver and further limit the commonwealth's access to funds.

"If GDB is not in sound financial condition or becomes insolvent, the Secretary of Treasury may file a petition to a Puerto Rico court for the appointment of a receiver to suspend GDB's operations and settle its obligations," according to the filing.

The bank's net liquidity as of Sept. 30 was $875 million, down from $1.1 billion in March. The GDB faces a $354 million debt-service payment on Dec. 1 and is working to raise funds to meet that obligation, according to the filing.

Outstanding Debt

Puerto Rico and its agencies had $70 billion of debt, including $12.7 billion of general-obligation bonds, as of Sept. 30, according to the filing. Commonwealth officials are seeking to reduce that debt load by asking bondholders to take losses or wait longer for repayment through a voluntary debt exchange. The island's economy has contracted every year since 2006. It has $357 million of general-obligation interest due Jan. 1, yet the commonwealth's cash flows show a negative balance in November, according to the filing.

Some investors believe general-obligation bonds would receive the strongest repayment because the commonwealth's constitution stipulates that those securities must be repaid before other expenses. Yet bondholders cannot require Puerto Rico to raise taxes and no physical assets of the commonwealth may be foreclosed on to raise cash to pay general obligations, according to the filing.

Available Resources

If Puerto Rico failed to make a general-obligation payment, "the bondholders are only entitled to require the Secretary of the Treasury to apply available resources according to the constitutional priority provisions and do not have the right to compel the exercise of any taxing power of the commonwealth," according to the filing.

Puerto Rico may take revenue currently used to repay certain highway bonds and convention center debt and redirect it to pay down general-obligation securities, if there are no other available resources, according to the filing.

"It is not certain what steps a commonwealth bondholder would be required to take or what proof such bondholder would be required to produce to compel the diversion of such funds from any such instrumentality to the payment of public debt," according to the filing.

Bloomberg

by Michelle Kaske

November 6, 2015 — 7:20 PM PST

Voters Approve 79% of U.S. Municipal Debt Ballot Measures.

U.S. voters approved 79 percent of the $23.8 billion in municipal debt that local governments sought permission to sell on Tuesday's ballots, according to Ipreo, a New York-based financial-market data provider.

The $18.9 billion included new bond authorizations for roads and water systems, economic development and other capital projects. The amount sought was the most in an odd-year November election since 2007, before the worst recession since the 1930s cut tax revenue and pushed states and cities into a period of austerity.
In this year's biggest proposal, the Dallas Independent School District, won approval to sell $1.6 billion of debt to be used to replace and renovate schools that are more than a half-century old. Denver voters approved $778 million of debt to upgrade a facility for the National Western Stock Show and for improvements to a convention center. Meanwhile in Harris County, where Houston is located, voters endorsed $848 million of debt for road improvements, parks and flood control, according to county election returns.

Voters last year approved about 85 percent of the $44 billion on the ballot, more than twice the amount sought in 2010, according to Ipreo.

Bloomberg

by Darrell Preston

November 5, 2015 — 8:31 AM PST

Illinois Bond Sale Drought Hits Schools, Mass Transit.

ALGONQUIN, Ill. — District 300, Illinois' sixth-largest public school system, has been waiting a decade for state dollars to complete a construction and improvement project that began with voter approval of $185 million of bonds in 2006.

The 21,000-student district in Chicago's far northwest suburbs sold the bonds and was able to build, expand and update schools, officials said.

But not all of the projects that the district promised to parents, teachers and students were completed, and hopes for state money any time soon have been dampened by Illinois' prolonged absence from the bond market and exacerbated by an ongoing state budget impasse.

District 300 had been counting on $30 million to $40 million in state construction grant money intended for roofs, asbestos abatement and heating and cooling systems for schools.

"There is part of us that feels we haven't fulfilled the obligation to the community 100 percent," said district Superintendent Fred Heid. "We were counting on leveraging those (state) dollars."

A budget stalemate between Illinois' new Republican governor and Democrats who control the legislature has led to gridlock and fed into last month's downgrades of the state's general obligation bond ratings to just three steps above the "junk" level by Fitch Ratings and Moody's Investors Service.

Illinois, once a top issuer of municipal bonds, has been absent from the debt market for a year and a half despite having more than $4.8 billion of untapped bond authorization left from a $31 billion, partially bond-funded "Illinois Jobs Now!" program the state enacted in 2009.

Money on hand from state bond sales shrank to $552 million at the end of fiscal 2015 from $2.68 billion at the end of fiscal 2014, according to Moody's.

Bruce Rauner, the state's first Republican governor in 12 years, had pledged to pour "billions" into infrastructure. He has signaled Illinois will be resuming debt sales despite the lack of a state budget five months into fiscal 2016.

BIG SCHOOL CONSTRUCTION GRANT BACKLOG

In 2006, District 300 passed a "fairly contentious" referendum, and wants to avoid going back to voters for more money, Heid said.

He added that going back to voters could impede the district's ability to finance future growth in students.

District 300 is one of 52 Illinois school systems on a 2004 list for grants funded through state bond sales. Lists maintained by the Illinois State Board of Education show 228 additional and unfulfilled grant requests made by schools between 2005 and 2015.

INFRASTRUCTURE PROJECTS STALLED

Metra, the Chicago area's commuter train operator, said about $400 million of projects, including improvements to 16 stations, two rail yards and a major bridge replacement program, are on hold due to the lack of state bond money.

The transit agency, which is in the midst of a multiyear fare increase, said fares may have to rise even higher than expected in 2017 if it does not obtain proceeds from state bond sales next year.

"If you don't take care of things in the beginning stage, they tend to need more comprehensive work done on them," Metra Executive Director Donald Orseno said.

Illinois' finances are sagging under a $105 billion unfunded pension liability and a chronic budget deficit that have left it with the lowest credit ratings and highest borrowing costs among the 50 states.

While the budget battle will delay a pension contribution, state bond payments are continuing.

A package of fees and taxes meant to pay off the "Jobs Now" bonds has fallen short of its revenue target. This is largely due to underperformance of a video gambling tax as some communities, most notably Chicago, blocked the gaming machines.

The package is expected to generate $830 million this fiscal year, short of legislative projections from 2009 that it would raise $943 million to nearly $1.2 billion annually, according to the Chicago-based Civic Federation.

By REUTERS

NOV. 3, 2015, 5:48 P.M. E.S.T.

(Editing by Daniel Bases and Matthew Lewis)

Federal Lawsuit Questions St. Louis Suburb's Municipal Fines.

ST. LOUIS — A federal lawsuit filed Wednesday alleged a St. Louis suburb whose population is largely black relentlessly tickets for things such as mismatched curtains, walking on the wrong side of a crosswalk and barbecuing in front of a house.

The Arlington, Virginia-based Institute for Justice, a public interest law firm, filed the suit on behalf of two Pagedale residents and is seeking class-action status. The lawsuit also asks a judge to halt the 33,000-resident suburb that's just north of St. Louis from future enforcement of codes that the suit considers an unconstitutional tactic to feed city coffers.

The number of non-traffic municipal fines issued in Pagedale, which has a roughly 93 percent black population, has soared by nearly 500 percent in the past five years, the lawsuit said, with revenue from non-traffic tickets making up nearly one-fifth of the city's budget.

Last year, the lawsuit said, 2,255 non-traffic tickets were doled out under the municipal code that authorizes citations for such things as having mismatched curtains, walking on the left side of a crosswalk, wearing saggy pants, having holes in window screens and having a barbecue in front of a house, according to the lawsuit.

"This case demonstrates that property rights are fundamentally civil rights," said William Mauer, the law firm’s senior attorney and the plaintiffs’ lead counsel. “Pagedale treats its residents like walking, talking ATMs, making withdrawals by issuing tickets for ridiculous things that no city has a right to dictate.”

An Associated Press message seeking comment from Pagedale Mayor Mary Louise Carter was not immediately returned.

The lawsuit comes four months after Missouri Gov. Jay Nixon signed into law a measure that limits cities’ ability to profit from traffic tickets and court fines. That marked the first significant step taken by state lawmakers to address concerns raised after the August 2014 police shooting in the St. Louis suburb of Ferguson. Eighteen-year-old Michael Brown, who was black, was unarmed when he was shot to death by white Ferguson police officer Darren Wilson during a confrontation in a street.

A St. Louis County grand jury and the U.S. Justice Department cleared Wilson in Brown’s death, concluding evidence backed his claim that he shot Brown in self-defense after Brown first tried to grab the officer’s gun during a struggle through the window of Wilson’s police vehicle, then came toward him threateningly after briefly running away.

But the Justice Department issued a report in March, saying there was racial bias and profiling in Ferguson’s policing as well as a profit-driven municipal court system that frequently targeted blacks, who make up about two-thirds of Ferguson’s populace.

Since then, practices of many municipal court systems throughout the St. Louis area came under increased scrutiny.

Wednesday’s lawsuit was filed on behalf of Valarie Whitner and Vincent Blount, housemates who the suit alleges have received more than $2,800 in fines for such alleged infractions as having a downspout with chipping paint, not having a screen door behind their home and having weeds in their vegetable garden.

By THE ASSOCIATED PRESS

NOV. 4, 2015, 5:43 P.M. E.S.T.

Lawsuit Accuses Missouri City of Fining Homeowners to Raise Revenue.

PAGEDALE, Mo. — This spring, officials in this tiny city near St. Louis ordered Valarie Whitner to replace her siding; repaint her gutters, downspout and foundation; and put up screens or storm covers outside every window and blinds or curtains on the inside.

And that was before the list of demands moved on to her roof, fence and yard.

Ms. Whitner, 57, who works nights at a hospital, said she and her longtime partner felt swamped beneath the costs of paying for the city-mandated repairs and for fees, fines and court costs, which her lawyers say included at least $2,400 in violations. She took out a high-interest payday loan, which she still owes hundreds of dollars on and calls her “Pagedale money.”

“It was horrible,” Ms. Whitner said the other day from her living room, which she has decorated with do-it-yourself vases and paintings. “Pagedale just kept coming back to us, bothering us. At some point, this is all just a way for the city

In the aftermath of the fatal shooting of an unarmed teenager named Michael Brown by a white police officer in Ferguson, residents in this region described a pattern of mounting traffic fines, fees and arrests in the 90 municipalities that make up St. Louis County. Many such abuses were described in a scathing Justice Department report about Ferguson.

But the problems facing Ms. Whitner in Pagedale represent another issue: what many residents consider the abusive levying of fines or fees for minor nontraffic ordinances, often involving unsightly lawns or houses.

On Wednesday, lawyers from the Institute for Justice, a libertarian public-interest firm based in Arlington, Va., filed a civil rights complaint against Pagedale, which like Ferguson is in north St. Louis County. The complaint, filed in United States District Court for the Eastern District of Missouri, accuses the city of violating due process and excess-fines protections in the Constitution by turning its code enforcement and municipal court into "revenue-generating machines" to go after residents.

The complaint, which seeks class-action status, calls for an injunction against the city's reliance on such fines.

"We hope that if the court agrees with us, the residents of Pagedale will no longer be treated as walking cash machines by their city government and that the city will limit its regulatory authority to things that actually affect health or safety," said William R. Maurer, the managing attorney of the Institute for Justice's office in Washington State. The three named plaintiffs in the lawsuit include Ms. Whitner and her partner, Vincent Blount.

Sam Alton, the city attorney for Pagedale, said the city strongly disagreed with any assertion that it had pursued housing violations to make money. The portion of revenue the city derives from such tickets is small, Mr. Alton said, adding: "It's got nothing to do with driving up revenue. And it's got everything to do with making the properties code compliant and safe."

After the Justice Department's report, which asserted that Ferguson was using law enforcement to generate revenue for its budget, Missouri lawmakers enacted legislation that lowered a cap on how much of a city's revenues may come from traffic fines; in St. Louis County, cities were limited to 12.5 percent of their revenues.

But that law addresses only traffic violations, and some here worry that St. Louis County municipalities are turning to nontraffic fees and fines to make up the lost revenue. In the case of Pagedale, Mr. Maurer said he believed the city had begun doing that years ago when an earlier limit on traffic revenues was imposed. In the mid-1990s, the traffic-fine cap had been 45 percent until legislation began gradually reducing it.

"I think it's appropriate for policy makers to be mindful that there may be another wave of profiteering that manifests itself in a different form, and continues to create a cycle of poverty," Eric Schmitt, a Republican state senator who had pressed for the tougher limits on traffic fines, said in an interview. "If we see that, all options are on the table."

The practice of many St. Louis County municipalities of using traffic and nontraffic fines and fees to finance their budgets has also led to calls for some of those towns to consolidate operations as a means of reducing government costs. A commission assigned by Gov. Jay Nixon to study the underlying causes of the Ferguson unrest issued a long list of recommendations that included consolidating some of the 60 police departments and 81 municipal courts that serve the county.

Residents here say leaders in Pagedale, a predominantly black city of trim homes and about 3,300 people a few miles south of Ferguson, pride themselves on the city's appearance and on a recent burst of new development, which includes a grocery store and a movie theater that was set to open this week. Some spoke with pride of the city's Police Department and carefully kept sidewalks.

Yet in recent years, some here say, warning notices have begun appearing on house after house. In 2013, the city generated 17 percent of its $2 million in revenue from all fines and fees, documents show, though Mr. Alton said the portion was lower now. According to an article in The St. Louis Post-Dispatch that first described the rise in nontraffic cases in the region's municipalities, Pagedale officials issued 495 percent more tickets and citations unrelated to traffic in the years since 2010. City officials dispute that claim, saying the increase was smaller.

To hear residents here tell it, the violations can seem endless: having a wading pool in front of the front line of the house; having a dish antenna on the front of the house; wearing pants below the waist in public; having a hedge above three feet in the front yard.

Mildred Bryant, who has lived here for nearly 47 years, got a warning letter in May. Her house is old, she says, but not unsafe. Still, she was given no more than 30 days to fix a dozen violations, the letter said, or face a court summons.

"I've never really gotten in trouble before," said Ms. Bryant, 84, the third plaintiff in the class-action lawsuit. "I wasn't sure what to think. What is this all about all of the sudden? Is it about wanting more money?"

Ms. Bryant said she found several of the violations baffling, not to mention beyond her limited retirement income. "All windows need screens and window treatment such as blinds and or matching curtains, slats, etc.," the letter said. She also was ordered to repaint her porch and building foundation, "touch up paint or repaint entire house," cut back weeds and "treat fence line with brush killer."

In the months since, Ms. Bryant said, her sons have helped her try to meet the requirements.

Mr. Alton said that the city was working with Ms. Bryant to help her get her home up to code, as it is with other residents. She has not been fined, only warned. The point, Mr. Alton said, is to make sure properties are safe and code compliant, not to collect money.

"You have a city that's trying to live within the law and to make the city nice for its residents and make its properties safe," he said.

THE NEW YORK TIMES

By MONICA DAVEY

NOV. 4, 2015

[U.S. Voters OK 81.6 Percent of Bonds in Tuesday Elections.]

(Reuters) – U.S. voters gave the green light on Tuesday to the sale of $18.9 billion or 81.6 percent of the about $23 billion of bonds cities, schools, parks and other issuers in the municipal debt market placed on ballots, according to results on Thursday compiled by data company Ipreo.

Nearly $3.2 billion of proposed bond issuance was rejected by voters while election results for about $1 billion of bond issues were still pending, Ipreo data showed.

Chris Mier, a muni analyst at Loop Capital Markets, said while the approval rate was a little higher than in recent years, the amount of bonds put up for voter approval has been dropping from a peak of over $100 billion in 2006.

The biggest issue winning approval was $1.6 billion of bonds for the Dallas Independent School District, while the biggest single referendum to lose was $287 million of bonds for a courthouse project in Travis County, Texas. Voters in Arizona's Pima County rejected seven bond referendums totaling $815.7 million.

Issuance of muni bonds in 2015 totaled $332.5 billion as of the end of October, up 32.9 percent from the same period in 2014, according to Thomson Reuters data.

By REUTERS

NOV. 5, 2015, 5:30 P.M. E.S.T.

(Reporting By Karen Pierog; Editing by Bernard Orr)

U.S. Muni Market Ends October with $31.56 bln Supply.

Oct 30 U.S. municipal bond issuance totaled $31.56 billion in October, the biggest monthly supply since July, while November will launch next week with an estimated $6.61 billion in bond and note sales, according to Thomson Reuters data on Friday.

Sales of debt by U.S. states, cities, schools and other issuers this month totaled less than the nearly $35 billion sold in October 2014. Still, issuance of $332.5 billion so far in 2015 is up 32.9 percent over the same period last year, with refundings outpacing new money deals.

In the coming week, Massachusetts will sell $450 million of triple-A-rated commonwealth transportation fund revenue bonds through Citigroup, starting with a presale period on Wednesday, followed by formal pricing on Thursday. The bonds will be offered in serial maturities from 2017 through 2035 and term maturities in 2040 and 2045, according to the preliminary official statement.

The biggest competitive issues are from Nevada's Clark County School District, which will offer $541.8 million of limited-tax general obligation new and refunding bonds in two deals on Tuesday.

Flows into municipal bond funds remained positive for the fourth-straight week with net inflows of $349 million in the week ended Oct. 28, according to Lipper, a unit of Thomson Reuters.

REUTERS

(Reporting by Karen Pierog; Editing by Dan Grebler)

S&P: Chicago's Ratings Unaffected By City Council's Budget Approval.

CHICAGO (Standard & Poor's) Oct. 28, 2015 — Chicago's City Council today approved Mayor Rahm Emanuel's 2016 budget, ahead of its Dec. 31 due date, with minimal changes. Standard & Poor's Ratings Services' ratings are unaffected by the approval of this budget.

Despite Chicago's efforts to address its longer-term structural issues (starting with the approval of the 2016 budget), we still consider the city's financial problems substantial, particularly because we anticipate that the city's required pension contributions will continue to increase and place pressure on the city's budget–one of the primary drivers of our rating. In our view, the extent of the city's structural imbalance, when factoring in required pension contributions, will take multiple years to rectify.

Most notably, and as an important first step to address Chicago's longer-term pension costs, the city council approved the mayor's proposed property tax increase, which will be used to make over $300 million of additional payments on city's pension obligations. The budgeted pension contributions are based on the assumption that the state will approve a level of pension relief on the city's police and fire pension obligations. However, if the state ultimately rejects the revised payment plan, and if that decision occurs before the mayor's proposed tax rate is finalized, the city would have the option to further increase its property taxes by roughly $200 million in order to satisfy the higher pension contributions currently mandated under state law in 2016; although it is questionable whether the city would propose that option or approve it before the Dec. 31, 2015 budgetary deadline and the Dec. 29, 2015 tax levy deadline.

If the city does not or is not able to accommodate the currently mandated police and fire pension contributions in its budget, its intergovernmental revenues will be intercepted to cover the pension contributions. At this time, the likelihood of this scenario is uncertain, but the risk is partly reflected in our negative outlook, which takes into account the possibility of budgetary pressures from pension costs.

The 2016 budget adopted by the city council closes the roughly $233 million corporate fund budget gap and implements increased property taxes to bear the bulk of the city's rising pension obligations to its police and fire funds. The 2016 budget allocates $978 million in total pension contributions across all of its pension funds, a 78% increase from its $550 million total pension contributions in 2015.

The budgeted 2016 contributions meet current state requirements for the municipal and laborers plans, but they are below what current state statutes require on the police and fire plans and below actuarially determined amounts for all four of the plans. The city is assuming the state will approve SB777, which calls for a five-year step up to the amounts currently required under state law for the police and fire pension funds. Current state law calls for a roughly $550 million increase in the city's annual contributions to its police and fire plans starting in 2016; under SB777, the amount is $328 million. Under the adopted 2016 budget, the majority of the assumed $328 million police and fire contributions will be covered by $318 million of additional property taxes. The 2016 contributions to all four plans are well below the actuarially determined amount of $1.7 billion, according to the actuarial valuation dated Dec. 31, 2014.

While the actions taken in this budget to raise property taxes are intended to address the cost pressures in 2016, they may not be sufficient to mitigate the city's financial stress. The city's required pension contributions escalate each year, and each subsequent budget for the next five years will need to address these increased contributions. In our view, the city has historically been reluctant to raise taxes, which limits our view of its budgetary flexibility and management. While raising taxes is politically unpopular, we view property taxes as one of the more predictable and reliable choices of revenues. The phased-in approach to the pension contributions (which is also

utilized in the city's municipal and laborers pension plans) provides for larger contributions, but they remain at levels lower than actuarially
determined amounts. Overall, a phased-in approach could still be viewed as deferring payments because phased-in contributions would be less than the actuarially determined annual required contributions. Given the extent of city's contribution increases, these obligations will likely be an impediment to the city achieving significant future budget surpluses and improving its budgetary performance, which we currently view as very weak.

The city faces additional budgetary pressure if the state does not approve SB 777 and the city is required to make the pension contributions currently required under state law. In this scenario, the city's required pension contributions would increase by $200 million to $1.178 billion in 2016, putting even more stress on the city's budget.

The 2016 budget also assumes that the Illinois Supreme Court will uphold the 2014 state law reducing benefits under the city's municipal and laborers pension plans, which the Illinois Circuit Court previously struck down as in violation of the state constitution. While the city has budgeted for the increased contributions to those plans that accompanied the benefit reductions under the 2014 law, it is possible that the law may not survive court challenge. If the Illinois Supreme Court strikes down the law, the city's contributions to the municipal and laborers' pension plans would revert to the original, and lower, formula. In the short-term, this would benefit the city's budget, but it would have negative overall ramifications because it would set the stage for greater budgetary pressure in the medium to long term as pension plan assets are depleted.

Given the uncertainty regarding the reform of its police, fire, municipal, and laborers pension plans, we expect city management to consider contingency plans for addressing its pension contributions and liabilities. We expect the city to continue to address the structural cracks in its corporate fund budget, as exemplified by budget gaps, which the city forecasts will continue for the next two years, and to find additional solutions to manage its pension and debt obligations in a structurally sound way.

We have determined, based solely on the developments described herein, that no rating actions are currently warranted. Only a rating committee may determine a rating action and, as these developments were not viewed as material to the ratings, neither they nor this report were reviewed by a rating committee.

Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. 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 and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Primary Credit Analyst: Helen Samuelson, Chicago (1) 312-233-7011;
helen.samuelson@standardandpoors.com

Secondary Contacts: John A Kenward, Chicago (1) 312-233-7003;
john.kenward@standardandpoors.com

Jane H Ridley, Chicago (1) 312-233-7012;
jane.ridley@standardandpoors.com

Orrick: KentuckyWired P3 Project Wins Top Award From CDFA.

KentuckyWired, the innovative P3 project to expand high-speed Internet availability statewide, won the Excellence in Development Finance Project Award from the Council of Development Finance Agencies. The $324 million project, which will add over 3,200 miles of fiber optic cable statewide, is the first U.S. public-private partnership concession executed to fund the construction of a fiber optic network, and it was financed using a unique tax-exempt structure that was designed by Orrick's Tax Group.

Congratulations to our team, which was led by Dan Mathews and Chas Cardall and included Ken Schuhmacher, Susan Long, Benjamin Bass and Walter Alarkon of the Energy & Infrastructure Group, Sarah Rackoff, Marc Bauer and Jennifer Grew of the Public Finance Group and Greg Riddle, Wolfram Pohl, George Wolf and Ashley Rodriguez of the Tax Group.

Contact

For more information, please contact us by e-mail pr@orrick.com or by phone: Ashley Laputka at (415) 773-5725 in San Francisco or Adi Weisman at (212) 506-5122 in New York.

10-23-2015

Kentucky Internet P3 Project Wins CDFA Award.

BRADENTON, Fla. – Kentucky's novel statewide Internet project earned a top award from the Council of Development Finance Agencies.

The CDFA announced Oct. 22 that the KentuckyWired public-private partnership between the Commonwealth and Macquarie Capital won its Excellence in Development Finance Project Award.

"The work of our award winners is cutting edge, innovative, and an example of best practices in our industry," said CDFA president and chief executive officer Toby Rittner.

The KentuckyWired P3 will install the 3,200-mile-long fiber optic backbone infrastructure to bring high-speed Internet service across the state, which currently ranks 46th in the country in broadband availability.

"The total project is the largest P3 fiber partnership in the country, and estimated to cost $324 million," the CDFA said.

In August, the Kentucky Economic Development Finance Authority issued $232 million of 30-year tax exempt bonds to finance the project, which is the Bluegrass state's first availability payment P3.

The deal received investment grade ratings of Baa2 from Moody's Investors Service and BBB-plus from Fitch Ratings, which called the P3 a unique, first-of-its-kind approach to broadband connectivity on a statewide basis.

CDFA also named four other award winners.

The Excellence in Development Finance Program award went to the South Carolina State Small

Business Credit Initiative Loan Participation Program.

The Excellence in Development Finance Innovation Award went to the Colorado Creative Industries Division while the Distinguished Development Finance State Agency Award went to the Colorado Housing and Finance Authority.

The Philadelphia Industrial Development Corp. received the Distinguished Development Finance Local Agency Award.

The winners will be honored during the CDFA's National Development Finance Summit Nov. 3-6 in Charleston, SC, Rittner said.

THE BOND BUYER

by Shelly Sigo

OCT 23, 2015 3:08pm ET

USC Seeks Developer for Massive Student Housing P3.

The University of South Carolina (USC) is seeking a developer to replace four residence halls on its south campus with student housing towers containing up to 4,000 beds. The 18-22-acre campus village also would feature dining facilities, recreation and study space and parking.

The selected developer would lease the property from USC and design, build, finance, operate and maintain the buildings — ranging in size from three to six stories — for up to 40 years, according to the request for qualifications the university issued Sept. 23. Construction would be done in at least two phases over 10 years with a building containing the first 1,500 beds available for occupancy by July 2018. Responses to the RFQ were due Oct. 16.

The developer will pay USC a base rental fee each year and share profits. The university will set rental fees during the first year of operation — potentially after negotiating this issue with the developer — and the two would negotiate subsequent annual rent increases during the selection process.

USC is willing to consider several approaches to the delivery of operations and maintenance services during the lease term. Under the first option, the university would maintain and operate the village and be reimbursed for all costs by the developer. Alternatively, the developer would be responsible for operating and maintaining the village in accordance with university standards or could hire a third party to provide these services. A combination of these approaches also could be negotiated.

USC plans to issue a request for proposals to a select group of developers after reviewing the RFQ responses.

NCPPP

By October 21, 2015

Hamptons' Home County Turns to False-Alarm Fees After Downgrade.

For the billionaires with homes in Long Island's Hamptons, a $50 fee for false security alarms won't mean much. For Suffolk County, it would mean $7.3 million to help close a deficit that's triggered a cut to its credit rating.

The fee is part of County Executive Steve Bellone's $2.9 billion proposed budget that local lawmakers will vote on next month. If it's adopted, the county would join a long-term push by local governments from Los Angeles to Cincinnati to claw back the more than $1.8 billion spent annually when police respond to phantom burglaries.

Suffolk's government, despite the wealth of its beachfront communities, has been struggling with budget shortfalls since the end of the recession more than six years ago. Facing a $49 million deficit after already cutting the county's payrolls by more than 10 percent, Bellone is searching for revenue to keep his promise not to raise property taxes by more than 2 percent a year.

"They're really going to nickel and dime their people just to try to avoid whatever semantics they have on tax increases," said Howard Cure, managing director for research in New York for Evercore Wealth Management, which holds some of the county's debt among its $6 billion of investments. "You have to wonder whenever the next recession is, how prepared a county like Suffolk will be."

Credit Impact

The persistent strains in the county of 1.5 million have tarnished its standing on Wall Street. On Oct. 8, Standard & Poor's downgraded Suffolk County for the second time since 2012 by reducing the rating to A, the fifth-lowest investment grade. When it sold bonds this month, investors demanded yields of 2.9 percent on securities due in 2028, about a full percentage point more than benchmark debt, according to data compiled by Bloomberg.

With the false-alarm fee, Suffolk County is borrowing a tactic that's long been used elsewhere. Los Angeles started billing alarm owners in 2004 because only about 5 percent of the calls police were responding to were actually burglaries. Cincinnati imposes a similar charge.

Such unnecessary dispatches are legion. Between 91 percent and 99 percent of security-alarm calls to police are false, said Simon Hakim, an economist at Temple University in Philadelphia. Fees like those being considered by Suffolk County — which will be $100 for businesses — still aren't high enough to cover the cost, he said.

"Police should stop responding to false alarms," Hakim said. "If they choose to maintain the service, they have to charge the full cost and some profit above it."

In Suffolk County, about 14 percent of calls from security systems are false, which amounted to about 90,000 unnecessary ones in 2014 alone, said Vanessa Baird-Streeter, a county spokeswoman. Under the proposal, residents and businesses would also have to register their alarms, and the first two false calls would result in only warnings, she said.

Seeking Revenue

The alarm cash is part of a wider plan by Bellone to add an additional $42.2 million in revenue from new fees and increases to existing ones, including one aimed at the cost of billing residents for unpaid traffic and parking violations, according to an Oct. 16 report by the county's Budget Review

Office.

As the county legislature considers Bellone's proposed spending plan ahead of next month's vote, the Budget Review Office said it will have to find additional ways to cut spending or raise revenue after sales-tax collections fell short of expectations in the third quarter of this year. The drop indicates the county may miss Bellone's sales-tax targets for 2015 and 2016 by a combined $48.6 million, the Oct. 16 report said.

Standard & Poor's said that while the county has made progress since 2012 to balance the budget, further steps are still needed to bolster its reserves and make up for the slow pace of revenue growth. Fitch Ratings ranks Suffolk County at the same level as S&P, citing the persistent deficits and its high dependence on sales taxes.

The financial pressure has led investors to demand extra yields to hold its bonds instead of other securities, said Charles Grande, head of municipal research in New York at UBS Global Asset Management, which has $13 billion under management. That includes $13 million of Suffolk bonds.

"You take into account that you're talking about a noteworthy credit in the muni market, and you're fighting headline risk in terms of negative news on the county's fiscal situation," Grande said.

Bloomberg Business

by Freeman Klopott

October 26, 2015 — 9:01 PM PDT Updated on October 27, 2015 — 5:52 AM PDT

Jacksonville Pension Bled Money as Funding Shortfall Doubled.

Jacksonville, Florida's police and firefighter pension's poor results led it to underperform the market by hundreds of millions of dollars as its board failed to provide oversight of outside managers and out-of-control travel spending by its own staff.

Those are the conclusion of an audit of the underfunded $1.43 billion Jacksonville Police and Fire Pension Fund released on Wednesday. Poor investment decisions contributed to under performance of at least $370 million and failure to scrutinize investment management led to $36 million in excess fees over six years, according to the report by Benchmark Financial Services Inc., hired by the city this year to audit the pension fund.

"You can look at this board and see profound fiduciary lapses over the decades," said Edward Siedle, president of Benchmark, in an interview. "The performance of the fund is a very clear example of the lack of oversight. They didn't adhere to minimal standards they were legally bound to."

Unfunded Liability

The pension liability, which has risen to $1.65 billion from $798 million in 2008, has caused a drop in the city's bond rating, which drives up borrowing costs in the municipal-debt market. Meanwhile rising pension costs are crowding out spending for raises for city workers, street repairs, children's programs and other city services, said Bill Gulliford, a councilman who pushed Jacksonville to hire Benchmark, according to remarks to be released with the report.

"A vast and staggering sum of money has been recklessly squandered, and now lost forever to this community," said Gulliford. "I feel a profound sadness for our citizens."

A Moody's Investors Service report in July found that the city has the fifth highest pension liability as a percentage of operating revenue, at 403 percent, behind Chicago, Dallas, Houston and Los Angeles. "Pension payments will continue to constrict the city's financial operations," Moody's said when cutting the city debt rating to Aa2 from Aa1 last year.

Mayor Lenny Curry declined to comment until he reviewed the report, said his spokeswoman, Marsha Oliver.

John Keane, the fund's executive director since 1990, who is now a consultant, didn't respond to a telephone call requesting comment. Keane retired in September only to be hired as a consultant during the transition to a new top executive.

Poor Decisions

Since 2000, the pension's so-called funded ratio, or the amount of assets needed to cover future payments, fell to 39 percent from 87 percent in 2000, according to the report. The board failed to provide fundamental oversight for such things as verifying and reporting how well its investments performed or even how much it paid in fees to manage and track money under its control.

"Poor investment decision making by the board" contributed to its underfunded status, the report said, citing the example of $27 million of losses on energy master limited partnerships.

The board's failure to scrutinize fees paid to investment managers cost $6 million a year in excessive charges over the past six years. It's failure to review the damages to the fund caused by its former investment consultant over two decades cost an estimated $300 million to $500 million in under performance losses, the report said.

Keane as executive director has been controversial, the report said, because of his frequent travel to conventions, $400,000 in unused vacation pay and a personally created pension within the plan. The administrator has made 31 trips since 2010 to Canada, Scotland and other places, staying in hotels operated by Caesars Palace, Hotel Frontenac, Four Seasons and Trump Tower. Keane was also the lead negotiator for police and fire unions in efforts to reform the pension, according to the report. And it found that trustees and staff traveled to conferences put on by investment and law firms seeking to get hired as asset managers and for legal work.

Documents Subpoenaed

The report cited a host of documents the board and the pension fund failed to provide, including accurate performance and return information and key contracts used to procure services. The fund refused to turn over some of the records needed to fully conduct the audit, the report said. In some cases it didn't have fee analysis prepared by investment consultants or other third parties that would allow the board to monitor the reasonableness of fees, the report said.

The city council is subpoenaing documents the fund failed to turn over and Siedle has agreed to review them and supplement the audit, Gulliford said in his remarks.

"While we have estimated fund under performance losses of approximately $370 million, we simply do not know for certain how well, or badly, the fund's investments have performed over the decades," the report said. "And, based upon the information we were provided, apparently neither does the board nor anyone else currently involved with the fund."

Bloomberg Business

by Darrell Preston & Neil Weinberg

October 28, 2015 — 10:00 AM PDT

[Chicago Tax Increase Spurs Bond Rally as Pension Debts Lingers.]

Chicago Mayor Rahm Emanuel pushed through the biggest property-tax increase in the city's history to help pay its annual pension-fund bills. Eliminating the $20 billion debt to retirees that's pushed its bond rating to junk will still have to wait.

The city's aldermen Wednesday voted 35 to 15 to boost real-estate levies by $543 million over the next four years. Emanuel, a Democrat who won re-election this year, said it will steady the city's finances and avoid the need for police and firefighter layoffs.

The push has driven a rebound in the price of Chicago's bonds, which tumbled after Moody's Investors Service in May pulled the city's investment-grade rating because of escalating retirement costs. It marks one of the strongest efforts yet to deal with financial pressure that built over the past decade as Chicago shortchanged employees' pensions by billions, even though it may do little to cut the obligation that was left behind.

"No one should think that as a result of passing this property-tax increase and this budget that the city has accomplished stabilization of the pension funds or its overall finances," said Laurence Msall, president of the Civic Federation in Chicago, who supports the tax increase, calling it a positive, needed step. "That is going to have to be worked on and evaluated every year going forward."

Chicago has contributed $7 billion less than actuaries recommended over the last decade, which by last year left the public-safety, municipal and laborers funds with about 35.5 percent of what they need for retirement checks that will be due in the coming decades, city documents show. As the annual payments rise, the squeeze that has been put on the budget triggered a series of downgrades this year that have left Chicago with a lower rating than any big city except Detroit.

The tax will be increased by $318 million in 2015, followed by additional jumps of $109 million in 2016, $53 million in 2017 and $63 million in 2018. The funds will go to the police and firefighter pensions.

Emanuel praised the "decisive and determined" action by the council to address years of deferred payments and rising costs.

"I do believe the city of Chicago's public finances are more secure, more stable, and stronger today than they were before," Emanuel told reporters at City Hall after the passage of the real-estate levies and his $7.8 billion spending plan for 2016.

The uncertainty surrounding Chicago's finances has been heightened by a political impasse in Illinois's state capital, where Republican Governor Bruce Rauner and the Democrat-led legislature have been unable to pass a budget for the year that started four months ago. Emanuel has been counting on a law that would cut the city's 2015 contribution to the public-safety pensions to $619 million from current law's $840 million.

While lawmakers passed the bill in May, they haven't sent it to the governor for his signature.

Kicking Can

Rauner in June called the plan "a kick the can down the road pension bill" without saying what he would do. Catherine Kelly, his spokeswoman, referred to those comments when asked whether he would sign it.

The nascent effort by Chicago to cope with the retirement strains has been welcomed by investors and credit-rating companies. Fitch Ratings called Emanuel's budget a "positive credit development." A portion of Chicago's general-obligation bonds due in 2035 traded for an average of 98 cents on the dollar Tuesday to yield 5.2 percent. That price is up from 84 cents on May 18, soon after Moody's cut the city to junk.

"Undoubtedly it's the responsible thing to do," said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, whose company manages about $30 billion in municipal bonds, including some Chicago debt. "At the end of the day, businesses and individuals just want to see that government is making steps toward stabilizing their financial situation."

Emanuel has sought to shelter lower-income residents from the impact of the tax increase. His administration has asked Illinois lawmakers to allow Chicago to double the homestead exemption to $14,000. A bill that would do so was approved by a House committee last week.

Business groups argued that the higher taxes will punish employers already affected by a higher minimum wage that Emanuel championed. In January, Chicago will also have the highest sales tax in the nation because of an increase taking effect in Cook County, which needs to stem its own pension crisis.

"It's another expensive burden," said Michael Reever, vice president of government relations at the Chicagoland Chamber of Commerce. "It's not good for the overall economic climate of the city, county and state to shift more of that responsibility and costs of these mandates onto businesses."

Still Short

While the property tax increase shows that Chicago is willing to deal with its obligations, its annual payment is still "significantly short" of what actuaries would likely recommend, said Richard Ciccarone, chief executive officer of Merritt Research Services.

Chicago has budgeted $978 million in 2016 for its four pensions, up from $885.7 million in 2015, according to city documents. That still falls behind the 2014 actuarially-required contribution of $1.7 billion, according to bond documents.

"Taxpayers are going to be paying for past service for years to come after they've been retired," said Ciccarone, who is based in Chicago. It's "falling short while they leave a burden for the future."

Bloomberg News

by Elizabeth Campbell

October 27, 2015 — 9:01 PM PDT Updated on October 28, 2015 — 1:15 PM PDT

Puerto Rico Leaves Bondholders Guessing on December Payments.

Puerto Rico Government Development Bank's disclosure of its available cash is leaving investors wondering if they'll be paid on Dec. 1.

The bank, which oversees the island's borrowings, had $875 million of net liquidity as of Sept. 30, according to a posting Wednesday on the agency's website. That's more than twice the $354 million of principal and interest due in 33 days, with $276 million of the bonds guaranteed by the commonwealth. A spokesman for Puerto Rico's governor reiterated Thursday that while the government plans to make its general-obligation bond payments, it may run out of cash in November and the administration will focus on providing essential services over paying creditors.

"I don't trust anything they send out," said Daniel Solender, who oversees about $17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey, and holds the commonwealth's debt. "It's just hard to tell what's real or not anymore. It's almost more political than anything as to what they decide to do with the next payments."

Governor Alejandro Garcia Padilla's administration is seeking to reduce the island's $73 billion debt load by asking investors to take a loss and delaying principal payments. Officials and commonwealth consultants met Tuesday with bondholder advisers that have signed non-disclosure agreements to discuss a potential debt restructuring after talks with GDB bondholders fell through the week before.

Available Funds

"Certainly it's a possibility that the government will run out of money, and we've said that several times, but we're trying to make sure that does not happen," Jesus Manuel Ortiz, the governor's spokesman, said in San Juan. "If we arrive at that moment, we will have to choose whether to pay the creditors or to continue providing essential services. The governor has always been consistent in his position that we will continue to provide government services."

The GDB serves as a measure of Puerto Rico's available funds. The Sept. 30 net liquidity level was the first monthly disclosure of the GDB's available cash since June, when it gave the May 31 net liquidity amount of $778 million.

"We're working in two ways," Manuel Ortiz said during a press conference at the governor's residence. "As much as in the negotiations with creditors, as in finding measures that will help us maintain the liquidity as quickly as possible to avoid a closing."

If the GDB and Puerto Rico were to not repay the commonwealth-backed securities maturing Dec. 1, it would be the first default on the island's direct debt. A Puerto Rico agency in August failed to repay principal and interest on bonds backed by legislative appropriation.

Obama Proposal

Prices on commonwealth bonds differ, depending on whether they are insured against default. The commonwealth-backed GDB bonds maturing Dec. 1 are insured by National Public Finance Guarantee. The securities last traded Tuesday at an average price of 99.8 cents on the dollar, for an average yield of 6.9 percent, according to data compiled by Bloomberg.

GDB bonds without Puerto Rico's repayment pledge or bond insurance and maturing Dec. 1 last traded Tuesday at an average price of 47 cents on the dollar, Bloomberg data show.

The governor and Antonio Weiss, counselor to U.S. Treasury Secretary Jacob J. Lew, last week at a Senate committee hearing urged Congress to assist the island in its financial crisis. The Obama administration wants Congress to give Puerto Rico broad bankruptcy powers, increase health-care funding, and create a federal fiscal control board that would weigh in on the commonwealth's spending.

Lord Abbett held, as of Aug. 31, the GDB bonds maturing Dec. 1, including securities guaranteed by the commonwealth and insured by National Public Finance Guarantee and also GDB bonds without Puerto Rico's repayment pledge, according to data compiled by Bloomberg. Lord Abbett hasn't participated in talks with the GDB because the firm declined to sign non-disclosure agreements and restrict itself in trading the securities, Solender said. He has yet to hear from the commonwealth or the bond trustee regarding the Dec. 1 payment.

"It just seems like all they're doing is trying to build their case for Washington and it seems like the odds are pretty low," Solender said. "And they're waiting until the last possible minute to take any action."

Bloomberg Business

by Michelle Kaske

October 29, 2015 — 11:42 AM PDT

[Bloomberg Brief Weekly Video - 10/29/15]

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

[Watch the video.]

October 29, 2015

[Fitch: Chicago Budget Passage Positive, Faces Significant Tests.]

Fitch Ratings-New York-30 October 2015: The Chicago City Council's passage of the 2016 budget, including a significant property tax increase, is positive as it would create a recurring revenue stream to address the city's rising pension expenses, Fitch Ratings says. However, it faces funding challenges in the near term. If an Illinois Senate bill is not signed by the governor this year, the city would be required to fund a much larger amount for public safety pensions in 2016. The state's Supreme Court is hearing a case that could push reforms for the city's other two pension plans back to their starting points.

The property-tax increase would raise $543 million and it would be phased in over four years. The forecast shows the average property tax bill would rise by 12%-13%. The budget also created new garbage and rideshare and taxi service fees.

However, significant challenges remain. The property tax increases are matched to the general government portion of the phased-in increases for police and fire pensions that would be required under Senate Bill 777. It was passed by the House and Senate in the spring of this year but has not been sent to the governor for his signature. Prospects for passage grow dimmer as time goes by. If it does not become an Illinois law in 2015, the city would be required to fund the entire incremental payment amount of approximately $543 million in 2016 from additional property taxes or other potentially nonrecurring means.

The sizable increase in the city's pension obligations is largely due to a state law passed in 2010 requiring Illinois municipalities to shift to actuarially based annual contributions for policemen's and firemen's pension funds next year. A smaller portion is due to increased contributions for the city's other two pension plans that are required under pension reform that is under legal challenge.

Efforts to shore up those non-public safety pension plans could be put into disarray if the Illinois Supreme Court rules against the city's reforms to the Municipal and Laborers' pension plans. That decision could cause the city to revert to an actuarially inadequate funding structure which would leave those two plans on a path toward depletion, or identify other sources to make even larger actuarially based deposits into the funds. Fitch maintains a Negative Rating Outlook on the city's 'BBB+' rating. The ability of the city to meet all of its obligations, including actuarially based funding of its pension obligations, in a structurally balanced manner is paramount to the rating. The city's reserves, including those in the general fund as well as the long-term reserve funds are an important aspect of the city's overall credit quality. Drawing on them could trigger a rating downgrade.

Chicago Approves Emanuel's City Budget, Property Tax Increase.

CHICAGO — Chicago Mayor Rahm Emanuel's $7.8 billion fiscal 2016 budget and a historic property tax increase to pay for public safety worker pensions easily cleared the city council on Wednesday.

But the spending plan for the fiscal year that begins on Jan. 1 still faces uncertainties in the Illinois Legislature and supreme court that could impair the mayor's plan to address the city's $20 billion unfunded pension liability.

Emanuel last month proposed a $543 million property tax hike phased in over four years, as well as fee increases and spending cuts in an attempt to fix the city's financial crisis linked largely to pensions.

"The city council today took a big step forward in providing more stability and more certainty and a strong financial footing for the city going forward," Emanuel told reporters after the 35-15 vote.

Some aldermen said there were no other viable options.

"This is the equivalent of a municipal illness," said Alderman Patrick O'Connor. "We don't have the option of saying no. We have the option of picking our choices for staying alive."

Alderman Carrie Austin, who heads the council's budget committee, said there was no place left to scour for savings or revenue.

"If there was a dollar to be found, we would've found it," she said.

Ahead of the vote, Emanuel offered a stark choice – either slash vital public safety and other services or enact Chicago's biggest-ever property tax increase.

If Chicago cannot get its finances under control, the third- largest U.S. city faces further downgrades by credit rating agencies, making it more expensive to raise funds through bond sales. The city's rating was already dropped to "junk" by Moody's Investors Service earlier this year.

Both Moody's and Fitch Ratings said the use of higher property taxes to pay pensions is a positive step for the city. But the credit rating agencies noted parts of the mayor's pension strategy are dependent on actions by the Illinois Legislature and the state supreme court, which will take up the constitutionality of a 2014 city pension reform law next month.

"Should these decisions not match the city's assumptions, new operating pressures could materialize in the immediate- and longer-term," Moody's said in a statement.

Standard & Poor's said Chicago's financial problems remain "substantial," and that given the pension uncertainties, it expects the city to have contingency plans.

"In our view, the extent of the city's structural imbalance, when factoring in required pension contributions, will take multiple years to rectify," S&P said in a statement.

Property taxes will be boosted between now and 2018 to cover state-mandated contribution increases to police and firefighter pensions. But the tax increase will fall short if Illinois' governor does not enact a state law that would spread out annual contributions. The mayor is also pushing the state legislature for a bill to shield residential properties valued at $250,000 or less from the tax hike, although the city could consider a rebate program if that measure is not enacted.

The spending plan, which includes a $3.63 billion operating budget for fiscal 2016, creates Chicago's first-ever garbage collection fee and generates new revenue from taxis and ride-sharing businesses. It also reduces the city's dependence on so-called scoop and toss bond restructurings to $125 million from $225 million this fiscal year.

The budget includes an additional $45 million property tax increase to pay for Chicago Public Schools' capital projects.

By REUTERS

OCT. 28, 2015, 5:03 P.M. E.D.T.

(Editing by Matthew Lewis)

[Puerto Rico Faces Humanitarian Crisis Without Federal Action: Treasury]

NEW YORK/SAN JUAN — U.S. Treasury Secretary counselor Antonio Weiss warned that Puerto Rico faces a humanitarian crisis without federal action, as he appealed to Congress to help the debt-ridden U.S. territory, in comments to a Senate committee hearing on Thursday.

Puerto Rico, a U.S. territory home to 3.5 million, is buckling under $72 billion in debt and a 45 percent poverty rate. With financial creditors resisting reductions to debt payments and political gridlock threatening proposed spending reforms, some Puerto Rican leaders have called on the U.S.

government to step in.

Weiss said that without action by Congress, Puerto Rico's crisis would escalate and reiterated that the Obama administration's policies were "not a bailout" for the island.

He repeated the key points of a plan released by the Treasury on Wednesday, saying Congress should provide tools for Puerto Rico to restructure its liabilities, increase Medicaid support and boost economic growth through tax credits.

A key element of Treasury's proposal is its endorsement of extending bankruptcy protections not only to Puerto Rico's public agencies, but to the island's government itself – a notion championed by some Puerto Rican leaders but seen as too radical to be politically practical.

Cities, towns and municipal agencies can file for under the U.S. Chapter 9 bankruptcy code, while states cannot. Puerto Rico is exempt from Chapter 9 because it is a commonwealth.

"Bankruptcy is not a bailout," Weiss said, according to testimony released ahead of his remarks. "Allowing Puerto Rico to resolve its liabilities under the supervision of a bankruptcy court involves no federal financial assistance whatsoever. Instead, bankruptcy requires shared sacrifice from both Puerto Rico and its creditors."

By REUTERS

OCT. 22, 2015, 10:45 A.M. E.D.T.

Obama Administration Draws Up Plan to Help Puerto Rico With Debt.

Looking for a way to help debt-ridden Puerto Rico, administration officials on Wednesday proposed an ambitious — if politically perilous — plan that stops short of a direct federal bailout but that its backers hope is sweeping enough to keep the island from becoming America's Greece.

The plan would create a new territorial bankruptcy regime and impose new fiscal oversight on Puerto Rico, which is mired in the depths of a decade-long recession, running out of cash and struggling to make payments on $72 billion of debt. It represents an urgent bid by President Obama to offer a way forward. But it requires cooperation from a Republican-led Congress bent on imposing spending restraint.

In describing the package on Wednesday, administration officials emphasized that they had exhausted the limits of their own authority to help Puerto Rico, and needed quick action by Congress to avoid a catastrophe.

"Administrative actions cannot solve the crisis," Jacob J. Lew, the Treasury secretary, said in a joint statement with Jeffrey D. Zients, the National Economic Council director, and Sylvia Mathews Burwell, the health and human services secretary.

"Only Congress has the authority to provide Puerto Rico with the necessary tools to address its near-term challenges and promote long-term growth," the statement said.

The situation in Puerto Rico "risks turning into a humanitarian crisis as early as this winter," one senior administration official said, speaking on condition of anonymity because the person was not authorized to speak publicly. Antonio Weiss, Mr. Lew's counselor, will explain the administration's plan in Capitol Hill testimony on Thursday.

The Puerto Rican government has already "done a lot" to restore fiscal order, the official added, but "Puerto Rico cannot do it on its own, and the United States government has a responsibility to 3.5 million Americans living in Puerto Rico" to step in with additional help.

The plan was shared late Wednesday with The New York Times and Agencia EFE, a news organization in Puerto Rico. On the same day, the island's Government Development Bank said it had ended weeks of fruitless negotiations with certain creditors, aimed at persuading them to voluntarily accept lower bond payments. The bank has a bond payment of about $300 million coming due on Dec. 1.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH, MICHAEL CORKERY and JULIE HIRSCHFELD DAVIS

OCT. 21, 2015

U.S. Treasury Supports Broad Bankruptcy Protection for Puerto Rico.

SAN JUAN/NEW YORK — The U.S. Treasury on Wednesday urged Congress to help debt-stricken Puerto Rico, saying the U.S. commonwealth needs the ability to file for bankruptcy protection, changes to Medicaid funding and access to the Earned Income Tax Credit.

"Only Congress has the authority to provide Puerto Rico with the necessary tools to address its near-term challenges and promote long-term growth," Treasury said in a statement.

Puerto Rico, a U.S. territory home to 3.5 million, is buckling under $72 billion in debt and a 45 percent poverty rate. With financial creditors resisting reductions to debt payments and political gridlock threatening proposed spending reforms, some Puerto Rican leaders have called on the U.S. government to step in.

A bailout by the United States is seen as unlikely, but Wednesday's statement from Treasury is the strongest indication yet that President Barack Obama's administration supports some form of federal assistance for the island.

A key element of Treasury's proposal is its endorsement of extending bankruptcy protections not only to Puerto Rico's public agencies, but to the island itself – a notion championed by some Puerto Rican leaders but seen as too radical to be politically practical.

Cities, towns and municipal agencies can file for under the U.S. Chapter 9 bankruptcy code, while states cannot. Puerto Rico is exempt from Chapter 9 because it is a commonwealth.

"With the escalating crisis, bankruptcy protection is now needed for the commonwealth as well," Treasury said in a 10-page proposal. "Congress should authorize a broader legal framework that allows for a comprehensive restructuring of Puerto Rico's debts."

Treasury would be a key ally for Puerto Rico in Washington, where the island has struggled to find powerful supporters.

Antonio Weiss, a counselor to Treasury Secretary Jack Lew, is scheduled to testify on Thursday at a hearing on Puerto Rico before the Senate Committee on Energy and Natural Resources.

Treasury's proposal also calls on Congress to create a fiscal control board for Puerto Rico.

In a statement, Puerto Rico Governor Alejandro Garcia Padilla said his administration would seek to ensure that any such board respected Puerto Rico's autonomy.

Still, Garcia Padilla lauded the Obama Administration for taking what he called the "historic step" of presenting a set of recommendations to help Puerto Rico.

The department's proposal makes clear its view that resolving Puerto Rico's crisis requires a debt restructuring and concessions from bondholders, and that pension benefits should be protected.

While Treasury has also called on Puerto Rico to fix its traditionally opaque financial reporting practices and instill more credible fiscal oversight, the proposal is generally in line with what the island itself has said it needs from Congress and its creditors.

By REUTERS

OCT. 21, 2015, 8:15 P.M. E.D.T.

(Reporting by Nick Brown in San Juan and Megan Davies in New York; Editing by Chris Reese, Diane Craft and Leslie Adler)

Moody's: Pension Underfunding, Potential Cost Shift Could Increase Credit Risk for New Jersey's School Districts.

New York, October 19, 2015 — Potential pension reforms to fix New Jersey's (A2 negative) chronic teacher pension underfunding could lead to higher credit risk for the state's school districts and their finances, Moody's Investors Service says. A state commission is recommending reforming pensions by creating a new plan to be paid by school districts through savings realized from proposed, concurrent district and municipal health benefit reform.

The largest component of New Jersey's FY 2014 $80.5 billion unfunded pension liability is the Teacher's Pension and Annuity Fund (TPAF) at $53.8 billion, Moody's says in "New Jersey Pension Underfunding Poses Risk to School Districts." New Jersey currently pays all teacher pension and retiree health care costs.

"Since 2010, state pension contributions to TPAF have averaged only 15% of the annual required contribution (ARC), resulting in rapid liability growth. As the state has made efforts to increase its contributions, spending on pensions and other post-employment benefits have increased to 8% of the fiscal 2015 budget from 4.9% in 2010," Moody's Vice President Josellyn Yousef said.

The commission intends for the pension shift to be cost neutral for school districts through savings on benefit cuts at school districts and municipalities. However, if reforms fail or if the state decides to offload the pension burden in some other fashion, school districts can raise taxes, cut costs, borrow, or spend reserves to raise funds to cover the gap.

"Each option offers potential downsides or limitations," Yousef said. "For example, raising taxes would be simplest but the ability and willingness of taxpayers to accept a higher levy may be limited."

Further, Moody's notes a potential wildcard via an ongoing lawsuit New Jersey faces regarding outstanding pension litigation which could meaningfully worsen the pension funding position owing to a 2011 cost-of-living adjustment (COLA) freeze. If the COLA freeze is reversed, it would materially increase the pension funds' unfunded liabilities and annual contribution needs for TPAF by roughly 35%.

The report is available to Moody's subscribers here.

Bloomberg Brief Weekly Video - 10/22/15

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

Watch the video.

October 22, 2015

Puerto Rico Agency Said in Talks With Insurers to Raise Cash.

The Puerto Rico Electric Power Authority and insurance companies that guarantee repayment on some of its bonds are in talks to delay payments to free up cash and and help restructure $8.3 billion of debt, according to two people with knowledge of the matter.

A compromise with MBIA Inc., Assured Guarantee Ltd. and Syncora Guarantee Inc. is the missing piece in a plan announced last month in which some holders of uninsured bonds agreed to take a 15 percent loss in a debt exchange. The parties are working out details that would ease near-term debt payments, said the people, who asked for anonymity because the talks are private.

The negotiations come as Prepa, as the agency is known, won another eight days from investors that hold about 35 percent of its debt, and fuel lenders, to negotiate how to restructure its securities. The forbearance agreement, which now expires Oct. 30 and was set to end Thursday, keeps discussions out of court. This is the 11th extension since the parties first signed the agreement in August 2014. A Prepa restructuring would be the largest ever in the $3.7 trillion municipal-bond market.

Prices Increase

Lisa Donahue, Prepa's chief restructuring officer, said Tuesday at a meeting organized by Puerto Rico's Chamber of Commerce in San Juan that she's confident the utility will come to an agreement with its bond insurers. Jose Echevarria, a spokesman in San Juan for Prepa, declined to comment Thursday.
The utility's bonds maturing in July 2040 traded Thursday at an average price of 61 cents on the dollar, to yield 9.3 percent, according to data compiled by Bloomberg. The debt changed hands at about 50 cents at the start of the year.

"We continue to work with Prepa on a broad consensual settlement that would provide support from

Assured Guaranty, and would put the utility on a sound financial footing," according to a response from the bond insurer posted to its website Thursday night following a U.S. Senate committee hearing on Puerto Rico's finances.

Michael Corbally, a spokesman for Syncora declined to comment. Greg Diamond, a spokesman for MBIA, reiterated that the insurer continues to work with Prepa, local government officials and other creditors toward a consensual solution.

Bankruptcy Proposal

The monolines, which insure about $2.5 billion of Prepa debt, are considering embedding in the potential debt exchange an instrument that would provide liquidity, one person said. Prepa and the bond insurers may reach a tentative agreement as soon as Friday, the other person said. The utility faces a $196 million interest payment on Jan. 1.

Doubts about the oversight of Puerto Rico's broader finances is a sticking point in the discussions with the insurers, one person said. Governor Alejandro Garcia Padilla has filed legislation that would create a fiscal oversight board, with the five panel members selected by the governor and approved by the commonwealth's Senate. A board on which members are separate from political leadership would provide better transparency and management of the island's finances, the person said.

Prepa bondholders have objected to an Obama administration proposal released Wednesday that asks Congress to give the commonwealth and its municipalities access to bankruptcy protection to help reduce the island's $73 billion debt load. The governor announced in June that debt payments were unsustainable.

Bloomberg News

by Michelle Kaske

October 22, 2015 — 2:07 PM PDT Updated on October 23, 2015 — 6:44 AM PDT

Mets Postseason Run Raises Fortunes of Citi Field Bondholders.

The New York Mets swept their way into the franchise's first World Series in 15 years, and Citi Field bondholders are cheering along with the team's fans.

Riding on this season's playoff run, the team projects total 2016 attendance will rise by 500,000 to 3.1 million, generating an additional $25 million in revenue, according to a person familiar with the estimate. That's on top of a 20 percent attendance increase this year.

The Mets beat the Chicago Cubs 8-3 on Wednesday night in Chicago, taking the seven-game series 4-0 and qualifying for the World Series. That's good news for fans who suffered as the team cut payroll after the the majority owners of the club, led by Fred Wilpon, lost millions investing with Ponzi scheme swindler Bernie Madoff. It's also good news for holders of almost $700 million Citi Field bonds, who've seen the ball park's attendance and revenue fall below projections.

When the 42,000-seat Citi Field opened in 2009, the team projected an average attendance of about 37,980 in 2013, according to a bond offering statement. Instead, the Mets sold an average of 26,366 tickets per game that year, according to Baseball-Reference.com, falling short of projections by 31 percent. Last year, the Mets sixth consecutive losing season, turnout averaged 26,528.

Royals Boost

Boosting attendance to 3.1 million in 2016 would bring the average to 38,272. The Mets didn't project attendance beyond 2013 in their bond offering statement. Mets spokesman Harold Kaufman declined to comment.
Attendance at Kansas City Royals games has increased almost 40 percent this year to 2.7 million, one year after they won the American League championship. The Royals lost to the San Francisco Giants in last year's World Series. The Royals are one game away from the World Series.

A 500,000 increase in Mets attendance would result in a 'meaningful" increase in the ratio of revenue available to pay debt service, said John Miller, co-head of fixed income at Nuveen Asset Management in Chicago. Nuveen is the largest holder of the longest-dated Citi Field bonds.

"I'm sure this season is going to help," he said.

Scarcity Value

The Mets sold $613 million municipal bonds in 2006 backed by payments in lieu of property taxes, lease revenue and installment payments to finance the construction of Citi Field. The team also issued $82.3 million of insured debt in 2009, the year the ballpark opened. The 2006 bonds are rated Ba1 by Moody's Investors Service and BB+ by Standard & Poor's, one step below investment grade.

Citi Field bonds don't trade frequently because investors hold them for their higher yields, Miller said. Citi Field bonds with a 5 percent coupon and callable in January 2017 traded Monday among dealers at a yield range between 2.8 percent and 3.4 percent. Top-rated bonds maturing in one-year yield 0.3 percent.
"There's certain scarcity value to them that's helping their performance," Miller said.

In 2014, Citi Field generated about $117 million in revenue and had about $84 million in expenses, including a $43 million payment in lieu of taxes, according to a financial statement filed by Queens Ballpark Company LLC, a Mets subsidiary.

Citi Field bonds are rated below investment grade in part because of inadequate reserves to make up any deficits that may result from a players' strike or an economic downturn, according to S&P. Debt-service reserves are guaranteed by a unit of Ambac Financial Group Inc., which had its rating cut to junk in 2009 because of losses it suffered insuring derivatives during the financial crisis.

An attendance boost alone won't be enough for a rating change, said S&P analyst Ben Macdonald. "If there was enough liquidity then it could be higher," Macdonald said. "There isn't at this point."

Bloomberg News

by Martin Z Braun

October 21, 2015 — 12:42 PM PDT Updated on October 22, 2015 — 7:20 AM PDT

Puerto Rico Development Bank Ends Debt Talks With Creditors.

Puerto Rico's Government Development Bank said talks with a group of bondholders over a restructuring of the agency's debt and potential financing have ended after they failed to reach an agreement.

The development bank, which is closely tied to other government borrowers because it acts as a lender to the commonwealth and its localities, said in an e-mailed statement Wednesday that it continues to focus on a broader restructuring that would allow bondholders to voluntarily exchange their securities for new ones.

All seven of the members in the bondholder group exited the talks, according to two people with knowledge of the matter. The investors include Avenue Capital Management, Brigade Capital Management, Candlewood Investment Group, Claren Road Asset Management, Fore Research & Management, Fir Tree Partners and Solus Alternative Asset Management, said the people, who asked not to be named because the investor identities weren't made public.

Representatives for each of the investment firms either declined to comment or didn't immediately return messages left for comment.

Senate Hearing

The debt-swap talks ended as the GDB faces a $345 million principal and interest payment due Dec. 1, with $267 million of the bonds guaranteed by the commonwealth. The breakdown comes a day before Governor Alejandro Garcia Padilla, who is seeking to reduce the island's $73 billion in debt, is scheduled to testify at a Senate hearing on Puerto Rico's financial crisis. Officials have said the island may run out of cash in November.

"We do not believe that Puerto Rico has the ability to offer a strong enough exchange security to incentivize legacy holders to trade in their paper," Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said in a note. "We further believe that the negotiating creditors, who likely made this clear to the GDB before beginning their negotiations, might be annoyed that the GDB did not have a good faith plan for exchanging debt when they sat at the negotiating table."

Exchange Proposal

GDB bonds maturing February 2019, the bank's most-actively traded security in the past three months, sunk nearly 3.3 cents when they were last traded Oct. 15 to an average of about 36.8 cents on the dollar, to yield 41 percent, according to data compiled by Bloomberg. That was the lowest average in more than five weeks, the data show.

The proposed transaction would have exchanged existing debt at prices equal to 130 percent of market value, according to an event filing posted on the Municipal Securities Rulemaking Board's website, called EMMA. The new cash notes would have been priced with an 8.5 percent coupon at a 10 percent yield.

"We strongly believe that a voluntary adjustment of the terms of the commonwealth's debt that allows the measures contained in the Fiscal and Economic Growth Plan to be implemented is the best way to maximize recoveries for creditors," Melba Acosta, president of the GDB, said in a statement. "The GDB and the Working Group are engaging constructively with key stakeholders to achieve a comprehensive path forward, and we have begun the process of signing non-disclosure agreements and initial due diligence with a number of creditors."

The U.S. territory had been seeking to restructure some of the development bank's roughly $5.1 billion of obligations. The GDB on Sept. 30 offered the group of bondholders to exchange $850 million of existing GDB notes and sell $750 million of new tax-exempt debt issued by the

Infrastructure Financing Authority and backed by taxes on petroleum products and guaranteed by the commonwealth, according to the filing.

The GDB has been working with Citigroup Inc. to help oversee its financial restructuring.

Bloomberg News

by Michelle Kaske and Laura J Keller

October 21, 2015 — 6:19 AM PDT Updated on October 21, 2015 — 10:18 AM PDT

California's Zombie Agencies Beat Rally as Mass Defaults Averted.

Since California shut down 400 authorities that redeveloped blighted neighborhoods, the $30 billion of bonds left behind have rallied as local governments defied speculation about widespread defaults.

Debt from the agencies returned 42 percent in the four years that ended Aug. 31, almost double the overall municipal market and beating the 28 percent for California tax-exempt bonds, according to an analysis by Nuveen Asset Management. Only two cities have missed payments on the securities since Governor Jerry Brown shuttered the agencies in early 2012 to help close the state's budget shortfall.

The bonds, which are financed with local property taxes, have benefited from an orderly payment process overseen by the state and surging real estate prices. The assessed value of California properties increased 4.4 percent to $4.8 trillion in the year ended June 2014, exceeding the peak reached in 2009 before the full impact of the housing-market crash rippled through local tax rolls.

"Whenever there's noise, there's often opportunity," said Stephen Candido, senior research analyst in Chicago at Nuveen, which holds the debt among its $230 billion of assets. "The market is often fearful. We were more focused on the long-term upside, knowing from early on that repaying these bonds would be a priority."

Brown and his fellow Democrats in the legislature abolished the agencies to redirect about $1 billion of their funds to schools, which eased the financial pressure on the state in the aftermath of the recession.

Some consultants to cities warned at the time that they may be unable to cover the agencies' debt bills. In 2012 Moody's Investors Service downgraded $11.6 billion of the securities to junk, citing uncertainty about whether localities would renege on the obligations.

While San Bernardino, a city of 215,000 east of Los Angeles, said the burden contributed to its 2012 bankruptcy, elsewhere the impact has been more limited. The only cities that have missed bond payments are Riverbank, near Modesto with $15.4 million of the debt, and Monrovia east of Los Angeles, which has $11.75 million, according to Municipal Market Analytics in Concord, Massachusetts.

Legacy Debts

Municipalities once used the agencies to borrow for projects that improved blighted areas. A portion of the real-estate taxes that resulted were used to pay off the bonds. Since the agencies were closed, local governments have been required to outline their obligations every six months to the state Finance Department, which has the authority to require them to prioritize payments to bondholders.

The process has gone smoothly, said H.D. Palmer, a spokesman for the department.

The outcome contrasts with investors' initial concerns, said Matt Fabian, an analyst with Municipal Market Advisers.

"RDAs are performing better in the market because much of the uncertainty about the sector's transition has gone away," Fabian said by e-mail. "Plus the turmoil in the last few years likely shook loose a fair bit of the retail owner base, leaving the bonds in institutional hands, implying a bit more trading and liquidity than most municipal sectors."

Bonds Gain

The $85 million of San Jose redevelopment agency bonds maturing in 2030 traded Tuesday for an average price of $1.04 on the dollar, up from 77 cents in December 2011. That reduced the yield to 2.1 percent from 6.4 percent. Bonds sold by Stockton's authority, which come due in 2036, traded Wednesday for 100 cents on the dollar, up from 87 cents in late 2011.

Moody's no longer takes a dim view of the sector, said Robert Azrin, a senior analyst for the company. The median rating for California redevelopment debt is Baa1, three ranks above junk, he said.

"At the time, they were valid concerns, but with each year that's passed, we've seen that these payment schedules have gone smoothly," Azrin said. "With the passage of time, a lot of the risks we identified haven't come to fruition."

Many redevelopment bonds may also be refinanced in the next couple of years as securities issued in 2006 and 2007 reach their 10-year calls, which allow the local governments to pay them off early at face value, said Candido, the Nuveen analyst. He said he expects the bonds to remain popular among investors because governments have been meeting their obligations.

"Here we are in 2015 and they're finally addressing the concerns of investors," he said.

Bloomberg News

by James Nash

October 20, 2015 — 9:01 PM PDT Updated on October 21, 2015 — 10:03 AM PDT

Banks May Balk at Financing $68 Billion California Bullet Train.

California is counting on private companies to kick in as much as $35.5 billion toward the most expensive public-works project in U.S. history, a proposed high-speed rail line linking San Francisco with Los Angeles. Banks and other contractors who've studied the plan say not so fast.

Even as builders clear land and begin work on viaducts near Fresno for the bullet train's initial segment, financiers solicited by the state rail agency are calling on California to pitch in more than the $10 billion in bond funds already committed in order to give potential investors confidence that the project will become reality.

Their responses point out a dilemma for Democratic Governor Jerry Brown and other supporters of the line: persuading reticent taxpayers to ante up more than already approved under a 2008 bond measure as support for the project declines, though private investors may stay away unless they see a bigger public buy-in.

“We still have a funding gap,” rail authority chairman Dan Richard said at an Oct. 6 board meeting at which officials outlined responses from 36 firms and groups of companies asked to outline potential funding packages. “But we’re going to build this project notwithstanding that, because we can close that funding gap.”

Barclays Plc, AECOM and Kiewit Corp. were among the builders, lenders and contractors who responded to the California High-Speed Rail Authority’s request for expressions of interest by companies. The authority released the responses under a public-records request.

Large Financing

“Given the proposed delivery approach and available funding sources, we believe there are a number of concerns which the authority must address,” Kiewit, which reported $10.4 billion in revenue last year, said in its response. “The ability to service raised financing does not mean that such a large financing amount could in fact be raised.”

Backers of the train are counting on the private sector to finance most of the costs, after voters in 2008 authorized $9.95 billion in general-obligation bonds. Other sources of money include $3.2 billion in federal grants and 25 percent of the proceeds from auctioning credits to emit greenhouse gases under the state’s cap-and-trade program, which is estimated to yield the project $500 million a year.

Brown spokesman Evan Westrup did not immediately respond to an e-mail asking whether the state could increase its funding pledge. Lisa Marie Alley, spokeswoman for the rail authority, said the responses from the firms confirmed that “ridership and revenue would be available once the system is in operation and revenue is demonstrated.”

Critics including Congressman Jeff Denham, a Turlock Republican who represents an agricultural area to be bisected by the rail line, have called the project a “boondoggle” that will run out of money before it reaches population centers. Construction is under way in the lightly populated San Joaquin Valley on the first 29 miles (47 kilometers) of what’s envisioned as an 800-mile network with trains speeding as fast as 220 miles per hour.

Richard said that the state is constrained because the 2008 ballot measure approved by 53 percent of voters allowed only for $10 billion. Several polls since then have shown support for the project slipping below 50 percent.

Boost Commitment

Even so, the state and federal governments need to boost their commitment both to narrow the funding gap and persuade investors that the train will pay dividends, several companies said in their responses to the authority.

As of 2012, there were no similar projects anywhere in the world where the government paid less than half of the cost, according to John Laing Group Plc, a London-based investor and manager of infrastructure projects, including rail in its home country.

“Thus, we would anticipate the project would require comparable levels of capital contributions during construction," the company said.

AECOM suggested that the state break down financing into a series of smaller segments of no more than $5 billion to attract investors. The Los Angeles-based infrastructure company also advised "significant" government contributions.

The state should be able to borrow $10 billion to $12 billion against the annual cap-and-trade revenue, Barclays said. The London-based bank invested in a high-speed rail project in South Africa that linked Johannesburg and Pretoria in 2010, and has underwritten municipal bonds in California.

Legal Challenges

California will need to prevail in legal challenges against devoting cap-and-trade proceeds toward rail, create a mechanism to borrow against the proceeds, extend the carbon-trading program beyond 2020 and lock in a 25 percent commitment of the revenue for high-speed rail as long as the obligations are outstanding, Barclays said.

California also would need to subsidize operations for at least a decade, according to Cintra Infraestructuras SA, a subsidiary of Ferrovial SA, a Spanish builder of roads, rail and airports in Europe, North America, Australia and the Middle East.

"It is doubtful that there is enough capacity in the debt markets for this type of project," Cintra concluded.

Bloomberg News

by James Nash

October 19, 2015 — 2:00 AM PDT

Without Ticket Revenues, St. Louis Area Having Trouble Funding Police.

The aftermath of racial turmoil in Ferguson, Mo., is exacting a toll on St. Louis-area communities that built their finances around speeding tickets, thanks to a state law limiting the income they can draw from traffic fines.

The city council of Charlack last week decided the community of 1,400 can't afford an eight-officer police force under the new law, which says traffic citations in St. Louis County municipalities can't exceed 12.5 percent of annual operating revenue, down from 30 percent. Policing in Charlack and in nearby Wellston, which dissolved its 23-officer force in May, is now handled by a recently created cooperative of local departments.

The 2014 police shooting of 18-year-old Michael Brown in Ferguson forced a national re-examination of what critics call "taxation by citation," a situation exacerbated by the sheer number of departments, 18,000 throughout the U.S. A bill is pending in Congress to restrict the amount of revenue local governments can collect from traffic citations. In St. Louis County, which has 90 municipalities and 59 individual police departments, more communities are expected to follow the lead of Charlack and Wellston.

"This will have lawmakers around the country taking a second look at their agencies and making certain that the sole purpose of their existence is not for revenue, but to serve the public interest," said Chuck Wexler, executive director of the Police Executive Research Forum, a Washington nonprofit. "Police departments should not exist if their sole purpose is to generate revenue. That's what we have tax collectors for."

Tense relations between the majority-black residents of Ferguson and the city's mostly white police force grew in part from the excessive issuance of tickets. Some area municipalities were generating more than half their annual operating revenue from citations.

Charlack Mayor Frank Mattingly said disbanding the police and joining the local cooperative will save the city about $170,000. There was no alternative to shutting the department, which cost $520,000 to operate, roughly half the town's annual budget.

"A lot of police officers aren't writing tickets because they're afraid they'll get in trouble," Mattingly said. "Why were we singled out?" Mattingly said more towns will be forced to consolidate their police with neighboring communities, which he said he believes is the intent of the new law.

"There's nothing else they'll be able to do," he said.

St. Louis County, a suburban area of 1 million people, forms a crescent around its namesake city. About a third of the 59 departments cover less than one square mile, according to an April 30 report from the Police Research Forum.

"In many municipalities, policing priorities are driven not by the public safety needs of the community, but rather by the goal of generating large portions of the operating revenue for the local government," the report said.

Missouri state Sen. Eric Schmitt, a Republican from St. Louis County and sponsor of the new law, said some municipalities have "broken down the trust" between residents and the police.

"Some of these communities have used their citizens as ATMs with these speed traps," Schmitt said, pointing to economic pressures.

In the six years since the closing of the Northwest Plaza mall, the suburb of St. Ann increased the number of traffic citations 10-fold. Edmundson Mayor John Gwaltney reminded his town's sergeants and patrolmen in an April 2014 memo that "tickets that you write do add to the revenue on which the P.D. budget is established and will directly affect pay adjustments at budget time."

The Ferguson turmoil has expanded the national focus beyond frictions between blacks and police departments to the practice of ticket-writing, regardless of race.

In Colorado, the town of Nunn, which is about 31 miles south of Cheyenne, Wyo., depends on speeding citations for about 30 percent of its revenue, said Police Chief Joe Clingan. With 440 residents _ mostly senior citizens _ and few businesses, the city lacks the revenue sources that support most municipal governments, he said.

"We don't have any tax base and no retail," Clingan said. "If they want a town government, someone has to pay for it."

It shouldn't be drivers, said U.S. Rep. Emanuel Cleaver, a Missouri Democrat and sponsor of the proposed federal law restricting ticket revenue.

"That is a poor excuse and a bad plan for economic development," Cleaver said.

Cleaver’s bill would establish a 30 percent limit on all municipalities and, he said, would have the effect of encouraging small police departments to merge with those of neighboring towns or have their patrolling done by the county.

“It would cost a lot less for these small towns to pay money to the county and have the county police patrol the area than to do it on their own,” Cleaver said.

BY TRIBUNE NEWS SERVICE | OCTOBER 23, 2015

By Tim Jones

(With assistance from Jennifer Oldham in Denver.)

A Bullet Train Into a Fiscal Swamp?

Construction is underway on California’s $468 billion bullet train connecting Los Angeles and San Francisco. But the closer you look at the project, the shakier its finances appear.

The good news is that 36 companies from around the world responded to the California High-Speed Rail Authority’s request for suggestions about how to complete the project, and many expressed a willingness to participate. The bad news is that several of the respondents expressed serious concerns about the bullet train’s finances.

Perhaps the biggest concern was whether fare revenues would cover operating costs. The plan that state voters approved to fund the project bans the use of public subsidies for the operation of passenger service. State officials have long claimed that the line will turn a profit as soon as the first 300-mile segment between the San Fernando and Central valleys opens, but that hardly seems certain.

In its response to the authority’s request, Spanish construction company Sacyr wrote that “it is our opinion that revenue from ridership may not be sufficient to cover all [operation and maintenance] cost.” If Sacyr is right, does anybody doubt that maintenance is what would lose out? Skimping on maintenance saves money in the short run but dramatically increases costs over time and degrades service quality.

Subsidiaries of the Spanish company Ferrovial SA wrote that “it is highly unlikely that the [California system] will turn an operating profit within the first 10 years of operation and that “more likely, [the system] will require large government subsidies for years to come.”

The Ferrovial subsidiaries also noted that most high-speed rail systems around the world require operating subsidies and suggest that the same will probably be true for California’s. That is certainly at odds with High-Speed Rail Authority Chair Dan Richard’s assertion that every major high-speed rail system in the world operates without subsidies. It’s also at odds with the argument made by other high-speed rail boosters, that “every form of transportation requires government investment.”

If any high-speed rail line is likely to require subsidies, it’s California’s. The Los Angeles Times looked at a number of major rail corridors. Fares range from 25 cents per mile on Italy’s Milan-t--Salerno line to 50 cents per mile for Amtrak service between Boston and Washington, D.C.

California's bullet train plans to charge 20 cents per mile.

There is also uncertainty around the project's capital funding. The state is committed to provide up to $500 million per year until at least 2020 from money it expects to collect from companies to offset carbon emissions. But these greenhouse gas fees are untested as a funding source, and post-2020 public funding is uncertain. While a number of firms have expressed a willingness to participate in the project, none have yet offered to put up their own money.

Since what feels like the beginning of time, governments have built transportation assets with revenue sources that are inadequate to fund ongoing operation and maintenance costs. California's bullet train takes this bad practice a step further because the state only has on hand about half of the $31 billion needed to build the initial segment of the line.

Few public assets are more important to regional economies than transportation infrastructure. But moving forward on those projects without sufficient revenue sources usually results in a trip to a quagmire.

GOVERNING.COM

BY CHARLES CHIEPPO | OCTOBER 23, 2015

BlackRock Infrastructure Joins Michigan's Freeway Lighting P3.

BlackRock Infrastructure will participate in a public-private partnership to upgrade and maintain Michigan's freeway lighting system.

The international investment management firm will join forces with the Michigan Department of Transportation (MDOT) and Freeway Lighting Partners, which announced the P3 in August.

BlackRock-managed funds will finance the replacement and upgrade of approximately 15,000 freeway and tunnel system lights in the metropolitan Detroit region with energy-efficient LED lights. Blackrock will be responsible for ensuring that 95 percent of the lights remain operational for a 15-year term, which includes a two-year construction period.

More than 85 percent of metro Detroit's freeway lights are outdated high-pressure sodium or metal halide fixtures, and about 30 percent of them don't work. The state expects to save $35 million by using a P3 to replace and maintain them, MDOT spokesman Jeff Cranson said, according to Crain's Detroit Business.

The contract is valued at $123 million. MDOT will receive an additional $79 million in federal funds for the project, which, with energy consumption factored in, has an estimated cost of $145 million.

NCPPP

October 23, 2015

Broward County Airport Deal is Largest U.S. Muni Sale Next Week.

Oct 22 – Broward County, Florida, plans to issue $488.9 million of airport system revenue bonds, the largest sales to hit the U.S. municipal market next week, according to Thomson Reuters data.

Altogether, U.S. municipal bond issuers are expected to offer about $4.1 billion of municipal bonds and notes, down from about $8 billion this week, the data showed.

The sale in Broward County, which operates the Fort Lauderdale-Hollywood International Airport and the North Perry Airport, comes as the municipal airport sector has recently seen signs of improvement. The 20 busiest airports have all experienced growth in passenger boarding revenue and above-average growth at international gateways. Two of the nation's largest airports, Chicago's O'Hare and Atlanta's Hartsfield Jackson, were upgraded.

Airport bond volume is on pace to be flat in 2015 and 20 percent below average since 2008, according to Wells Fargo Securities. Primary market issuance was $12.1 billion in 2012 and $18.6 billion 2010.

"We see airports as resistant to the challenges faced by state and local governments with respect to post-employment benefits," Wells Fargo reported last week. "Demand is not all that surprising as investors in municipal airports have been rewarded over the past three years with relatively attractive returns as have toll road investors."

Airports have benefited from lower energy prices and a gradually improving economy. They have also weathered the most recent cycle of airline consolidation, which added stability to the sector, according to Janney Fixed Income Strategy.

The mergers may impact airports disproportionately, however. American Airlines, for example, now has nine hubs, which "may be more than needed," Janney noted in a report earlier this month. That may leave airports, such as Philadelphia, particularly vulnerable to traffic decline if American Airlines were to cut back.

The Broward County airport sale is rated A+ by Standard & Poor's Ratings and A1 by Moody's Investors. The lead manager is Raymond James.

REUTERS

(Reporting by Robin Respaut; Editing by Frances Kerry)

Municipal Bond Sales Poised to Decelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $7.8 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.2 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Broward County, Florida, Airport System plans to sell $489 million of bonds, Tennessee has scheduled $416 million, Florida State Board of Education will offer $230 million and California State Public Works Board will bring $223 million to market.

Municipalities have announced $13.8 billion of redemptions and an additional $10.6 billion of debt matures in the next 30 days, compared with the $21.3 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $2.63 billion, followed by California at $1.15 billion and Michigan with $695 million. New York City Transitional Finance Authority has the biggest amount of securities maturing, with $767 million.

Fund Flows

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors added $617 million to mutual funds that target municipal securities in the week ended Oct. 14, compared with an increase of $558 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $211.3 million last week, boosting the value of the ETFs 1.19 percent to $18 billion.

State and local debt maturing in 10 years now yields 100.4 percent of Treasuries, compared with 102.3 percent in the previous session and the 200-day moving average of 102.6 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 7 basis points to 2.05 percent while Michigan's declined 2 basis points to 2.32 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 64 to 10.67 percent and Illinois's rose 28 basis points to 3.96 percent.

Bloomberg News

by Kenneth Kohn

October 26, 2015 — 3:59 AM PDT

Montgomery County, Md., Must Meet MS4 Permit Obligations Despite Rulings: Holland & Knight.

HIGHLIGHTS:

- Maryland courts have issued two important decisions regarding assessing and collecting stormwater management fees in Montgomery County.
- Court rulings have held that Montgomery County must do a better job explaining how it will achieve its water restoration goals and how it charges its Water Quality Protection Charge (WQPC) to ultimately fund such work.
- Given the rising costs of compliance, Montgomery County and other counties across Maryland may best be served by greater private sector participation in the delivery and financing of stormwater projects.

Maryland courts have issued two important decisions pertaining to the ability of Montgomery

County, Md., to assess and collect stormwater management fees from a private landowner and the validity of the Municipal Separate Storm Sewer System (MS4) Permit issued by the Maryland Department of the Environment (MDE) to Montgomery County.

MS4 permits are required under federal and state law to address stormwater runoff impairing water quality and to ensure that the municipalities manage, implement and enforce stormwater management programs to comply with Maryland's receiving water quality standards. In *Maryland Department of the Environment, et al. v. Anacostia Riverkeeper, et al.*, the Maryland Court of Special Appeals held that the MS4 permit requires the county to "implement or install best management practices on 20 percent of the impervious surfaces within the county in an effort to restore the pollution reductions functions performed by undeveloped land" and to submit "a long term schedule for completion of detailed assessments of each watershed in the County." In order to fund these projects, Montgomery County assesses a Water Quality Protection Charge (WQPC) against all property (including businesses, HOAs and non-profit organizations) based on the potential for a property to contribute to stormwater runoff.1

In one case, the court held that the MS4 permit was faulty because it was not specific enough concerning the manner in which the county measures compliance with water quality goals. In the other, the court held that the county's collection of a fee from a developer was inconsistent with state law. While these cases may be seen as a setback to Montgomery County, they do not alleviate the need of the county (and like counties in Maryland) to continue retrofitting impervious acres and finding a way to pay for it. Assuming the decisions stand, both the county and state can address the courts' concerns with greater explanation of the rationale behind their decisions. Meanwhile, jurisdictions and counties across the region have begun looking at unique, alternative delivery mechanisms, such as public-private partnerships as a means to adhere to MS4 requirements while being more cost-effective. Given that overall requirements to clean up the Chesapeake Bay remain, creative solutions such as public-private partnerships may look increasingly attractive. These court rulings should not affect such creative solutions. In fact, they may make them more attractive.

Stormwater Fees

In *Paul N. Chod v. Board of Appeals for Montgomery County*, the Montgomery County Circuit Court heard a challenge to Montgomery County's stormwater remediation fee (Section 19-35 of the County Code), also known as the WQPC. The challenge was brought by developer Paul Chod in response to an $11,000 WQPC bill assessed against his Shady Grove Development Park in Gaithersburg. Chod's property had several stormwater management ponds that collect and treat all of the stormwater that drains from the park and surrounding private and public properties. In 1991, Chod entered into a Declaration of Stormwater Management Facility with the county that obligated Chod to provide landscaping and trash removal maintenance and the county to provide structural maintenance of the ponds, at the county's discretion. In 2013, the county assessed a WQPC on the petitioner's property for $14,932.17, and the petitioner applied for a credit of the charge. The county eventually proffered a partial credit, which prompted Chod to file suit.

At issue is §4-202.1 of the State Environment Article, the recently amended law2 requiring all 10 local jurisdictions subject to a MS4 permit to adopt a stormwater remediation fee. The underlying Maryland law provides the following:

(e)(3)i) If a county or municipality establishes a stormwater remediation fee under this section, a county or municipality shall set a stormwater remediation fee for property in an amount that is based on the share of stormwater management services related to the property and provided by the county or municipality.

(ii) A county or municipality may set a stormwater remediation fee under this paragraph based on:

1. A flat rate
2. An amount that is graduated, based on the amount of impervious surface on each property
3. Another method of calculation selected by the county or municipality

Typically, a larger, more developed property produces more runoff, and therefore, is assessed a higher WQPC. During trial, the county indicated that it uses the amount of impervious surface on a property to calculate the WQPC. The county further testified, however, that Chod's retention ponds control the quality and quantity of stormwater for the entire 150-acre drainage area and that the county's services are "essentially nonexistent."

The court considered the following two questions concerning the WQPC: (1) whether the WQPC is invalid for failing to adhere to §4-202.1; and (2) whether the petitioner, Chod, was entitled to a full credit for the fee.

Consistency with §4-202.1

The county took the position that §4-202 was inherently flexible, allowing a charge to be imposed as a fee unrelated to the services provided. The court rejected this argument, holding that "the WQPC is not valid simply because it uses one of the methodologies permitted in subsection (e)(3)(ii), which in this case was the amount of impervious surface on the property. The statute still requires that the WQPC be based on the county's stormwater management services that are related to the property." Thus, the court "finds that the WQPC is invalid per se because this Charge need not reasonably relate to the stormwater management services provided by the County."

WQPC as Applied to Chod

Chod also challenged the WQPC under the theory that the county's stormwater management services to the property were essentially nonexistent. The court noted that the stormwater retention ponds service an area three times the size of the Shady Grove Development Park and receive essentially no services from the county in return. It found that, "as applied, the Charge does not take into account the services provided by the property owner compared with the services provided by the county. Property owners like the Petitioner are thus being burdened with the same charge as other property owners despite bearing the cost of managing the property themselves. Such an application of the statute clearly violates the intentions behind the law, thus creating an arbitrary and onerous burden on the Petitioner."

Significance

While the court did set aside the WQPC as applied to Chod, it did not enjoin the county from continuing to assess stormwater fees. Therefore, this decision should be considered limited to the facts and circumstances of Chod. The county is free to continue assessing WQPCs consistent with the ruling (i.e., making sure that they address the services they provide related to the property – such as maintenance, repair and inspection of BMPs). While parties may see Chod as a roadmap to argue that no fee should be assessed if their system retains all stormwater on site, the county, equipped with information regarding the specific services provided related to the properties, is well positioned to argue that WQPCs are valid.

MS4 Permit

In *Maryland Department of the Environment, et al. v. Anacostia Riverkeeper, et al.*, the Maryland Court of Special Appeals held that the MS4 permit issued by the MDE to Montgomery County violated the Federal Clean Water Act (CWA) and state law.

Montgomery County obtained its MS4 permit in 2010, requiring the county to restore 20 percent of impervious surfaces and complete a 10 percent restoration requirement from its previous permit term. In December 2013, Montgomery County Circuit Court Judge Ronald B. Rubin held that the MS4 permit did not meet federal or state requirements. The lower court judge found that MDE improperly failed to spell out how the agency would measure compliance. The court further held that "the permit's requirements to restore 20 percent of impervious surface is simply too general to show how permittees will meet water quality standards."

Level of Specificity in Permit

On appeal, the Court of Special Appeals held that the permit was not specific enough to allow for adequate public comment and did not provide meaningful deadlines to measure compliance with water quality goals. Specifically, the court held that permit "fails as a substantive matter because it does not contain ascertainable metrics that defines how the County must comply, or whether at some point it has complied with what all agree are two of the Permit's most important terms: regulation of TMDLs and the twenty percent requirement." The court reasoned that the permit does not "connect specific or measurable BMPs or various management programs [and] requires no justification for why a BMP strategy was selected and how that program or strategy will reduce discharges to the maximum extent practicable." The court concluded that the permit fails to explain how "anyone can define the universe of impervious surfaces or how specific BMPs will achieve the 20 percent impervious restoration requirement under the permit." The court appeared troubled by MDE's reliance on references to the stormwater manual and other BMP guidance documents, which it found "indecipherable," and expressed frustration that there is no way of knowing which BMPs the county will select until after the work is completed.

Significance

The court sent the permit back to MDE, but held the following:

Importantly, though, we hold that the Department and the County had the law right: the Permit falls short not for failing to hold the County to State water quality standards, as the challengers urge, but because it did not afford an appropriate opportunity for public notice and comment and because it lacks crucial details that would explain the County's stormwater management obligations.

Thus, the overall impact of this ruling implicates the process and the level of detail in the permit. Upon remand, MDE must do a better job of explaining its calculations and BMP assessments. It is unclear how specific MDE can actually be given that BMPs usually are applied on a case-by-case basis. In turn, while the court found MDE's guidance documents "indecipherable," stormwater professionals have relied on them for years and appear to have little difficulty applying such documents.

Conclusion

Montgomery County experienced a one-two punch in the courts over the past several months. If the decisions stand upon appeal, the county will have to do a better job demonstrating how it will achieve its restoration goals and how it charges its WQPC to ultimately fund such work. Regardless, the obligation to continue the restoration work remains while MDE makes changes to the permit. Given the rising costs of compliance, Montgomery County may best be served by allowing for greater private sector participation in the delivery and financing of stormwater projects in conjunction with, or exclusive of, its current efforts. Counties in Maryland and elsewhere across the country can look to the green stormwater retrofit public-private partnership in Prince George's County, Md., as an example of how to involve the private sector in developing innovative solutions to help meet their MS4 requirements.

Footnotes

1 Under recent revisions to State law sought by Governor Hogan, other Maryland counties may, but are not obligated to, assess stormwater fees. They do, however, have to ensure adequate funding for MS4 restoration work.

2 While Montgomery County was exempt from amendments to Section 402.1 pursuant to the Watershed Protection and Restoration Programs Revisions, under the law, the county is obligated to file a financial assurance plan that clearly identifies actions it will take to meet its MS4 permit; projected five-year costs; projected annual and five-year revenues; sources of funds to meet the requirements and actions and expenditures undertaken the previous fiscal year. In addition, the county has to demonstrate that it has "sufficient funding in the current fiscal year budget to meet its estimated annual costs." MDE must approve the plan.

Last Updated: October 16 2015

Article by Rafe Petersen

Holland & Knight

Illinois Bond Rating Cut Again Over Budget Impasse.

CHICAGO — Illinois' ongoing failure to enact a fiscal 2016 budget due to political wrangling led to a second major credit rating agency downgrading the state's debt to the low investment grade triple-B level this week.

Moody's Investors Service cut the state's general obligation bond rating one notch to Baa1 with a negative outlook on Thursday. The move occurred three days after Fitch Ratings dropped Illinois to BBB-plus.

Both ratings are now just three steps above the "junk" level.

Moody's cited the potential that Illinois' financial position could weaken further due to an impasse between the state's Republican governor and Democrats who control the legislature that has left Illinois without a budget for the fiscal year that began on July 1.

"What we are seeing is the very real possibility of deterioration as the finances weaken with no plan in place," said Moody's analyst Ted Hampton.

The downgrade by Moody's, which affects $26.8 billion of GO bonds, also pointed to Illinois' inaction on its huge $105 billion unfunded pension liability. An Illinois Supreme Court ruling in May voided a law aimed at reducing that liability by cutting benefits, leaving the state limited options for dealing with the problem.

Worsening pension problems and a growing pile of unpaid bills could result in a further downgrade, Moody's cautioned. Illinois' bill backlog stood at $7 billion on Thursday, according to the state comptroller.

The downgrade by Moody's marked the 17th by major credit rating agencies for Illinois since 2003 and the second under Governor Bruce Rauner, a political newcomer who took office in January with an agenda to turn around the state's sagging finances.

A spokeswoman for Rauner said the latest downgrade confirms his contention the state needs pro-business and structural reforms that Democratic lawmakers have rejected.

Democrats, in turn, pointed the finger of blame at Rauner.

"Since Governor Rauner has taken office, revenue is down, the bill backlog is up, services are cut, jobs growth has slowed and now our credit rankings are lower," said Rikeesha Phelon, a spokeswoman for Senate President John Cullerton.

Even before this week's downgrades, Illinois had the lowest credit ratings among the 50 U.S. states. Ratings histories from the three major credit rating agencies indicate few states have ever had their GO ratings fall below the A level.

Robert Amodeo, a portfolio manager at Western Asset in New York, said bond investors are frustrated by the lack of progress in the fifth-largest U.S. state. Still, Illinois is contemplating a return to the municipal bond market this fiscal year after an absence of nearly 1-1/2 years.

"They will find a clearing level even at triple-B, but they will be penalized for it," Amodeo said.

Illinois has been paying a hefty market penalty for a while. Its so-called credit spread over Municipal Market Data's benchmark yield scale for triple-A-rated bonds is 190 basis points for 10- and 30-year debt.

Moody's also downgraded Illinois' sales tax revenue bonds to Baa1 from A3 and cut the rating on state appropriation dependent Metropolitan Pier and Exposition Authority bonds to Baa2 from Baa1.

By REUTERS

OCT. 22, 2015, 6:06 P.M. E.D.T.

(Additional reporting by Dave McKinney in Chicago; Editing by Bill Rigby and Matthew Lewis)

This U.S. State Could End Up Like Debt-Troubled Puerto Rico.

Like the U.S. territory, New Jersey is borrowing to cover its budget holes.

Mike Myers' 1997 movie Austin Powers has a scene in which a character is squashed by a steamroller. The film is a comedy, and the humor in the scene comes from how avoidable the tragedy is. The steamroller starts far away, and moves pretty slowly. But instead of moving to avoid the steamroller, the victim just stands there, screaming "Oh no!" until he's flat.

Puerto Rico and its creditors are now under the steamroller. As in Austin Powers, the steamroller did not move very quickly. Analyst Sergio Marxuach, for example, warned in 2006 that the

Commonwealth's finances were on an unsustainable path. Marxuach pointed out in his warning that in other cases of municipal distress, for example New York in the 1970s, fiscal discipline had been imposed from above. Puerto Rico's peculiar status as a commonwealth has meant that discipline from above has so far been unavailable. And discipline from capital markets, though now severe, has been late to arrive.

So after years and years of borrowing, including borrowing to cover operating deficits, Puerto Rico and its government-chartered corporations now have a total debt of $72 billion. This is approximately a year of the island's Gross National Product. As former U.S. Congressional Budget Office director Douglas Holtz-Eakin said in his September testimony before the Senate Finance Committee, a 10% ratio of interest payments to revenues marks something of a 'bright line' way to identify distressed sovereign borrowers, and Puerto Rico crossed that threshold in March of 2015. In August, Puerto Rico Governor Alejandro Garcia Padilla announced that the island's debt was unpayable.

So I believe that it is now safe to describe the situation as a crisis. Two competing teams of former IMF economists are now laying out their prescriptions. One team, commissioned by the Commonwealth's Government Development Bank, says that the only way forward is to impose some debt restructuring on the island's bondholders. The release of this report coincided with Governor Padilla's announcement that the island's debt was unpayable. A second team of former IMF economists, commissioned by a group of hedge funds that hold some of Puerto Rico's debt, claims that with sufficient fiscal austerity the island can, in fact, pay its capital market obligations. I conclude this from the two competing reports: the end of a long career at the IMF does not mean the end of opportunities to do well-compensated work in warm places.

One can create caricature versions of these two different views that are not as far apart as they seem at first glance. The (caricature) first report: the current debt is unpayable without imposing unprecedented and unacceptable austerity on the island's residents. The (caricature) second: the current debt can be paid. You just have to impose unprecedented austerity on the island's residents. The second set of economists make the point that stiffing today's creditors will make it much more expensive to borrow in the future. The island must choose between firing its teachers today and being unable to finance new schools for the children of tomorrow.

Regardless of which generation of children we decide to punish in this crisis, the blame belongs to yesterday's and today's adults. This steamroller did not fall out of the sky – year after year the island failed to balance its books, and closed the difference by borrowing. Without a change in this pattern, the crisis was inevitable.

Whatever happens to the debt, some restructuring of the Puerto Rican economy is essential. Inefficient government monopolies raise the cost of electricity and water on the island. The Puerto Rican minimum wage is the same as in the mainland U.S., even though labor productivity is much lower. And I cannot imagine any serious economist coming out in support of the Jones Act, a protectionist measure that protects the U.S. shipbuilding industry. This much-discussed policy hurts the mainland economy a bit, but is much more damaging for Puerto Rico because of the island's greater dependence on shipping.

Returning to the debt, competing reports now emerge about potential federal intervention in the situation. Democrats in Congress have introduced legislation that would give government entities in Puerto Rico access to Chapter 9 bankruptcy protection, but this legislation does not appear to have a realistic path towards enactment. Apparently credible reports of a Treasury-sponsored 'superbond' plan, through which the island's debt would be consolidated, have now been denied by Treasury spokesperson, although officials have met with the indebted U.S. territory's leadership to discuss how the federal government could help.

One type of federal intervention would be a bailout, but the current prices of Puerto Rican bonds seem to indicate that this is unlikely. On the other hand, a presidential election is on the horizon, and Puerto Rican voters in Florida are an important group in a potentially decisive swing state. I suspect that either of our political parties, if offered the presidency for the price of a bailout, would find a way to get comfortable with it. But Puerto Rico is just one issue in a very complicated election season, so I think that any help from the federal government simple enough to be described only with the word 'bailout' seems unlikely.

All that I am confident about now is that there will be litigation, that the litigation will be expensive, and that the people of the island, one way or another, will bear most of the costs.

Are there any lessons in the Puerto Rican experience that might be applied elsewhere? Well, at the end of 2010, Meredith Whitney created a stir in the municipal finance market, warning, in effect, that the steamroller was upon us. She claimed that a massive wave of municipal defaults would materialize in a matter of months.

At the time, many market participants argued that Whitney's predictions were way off the mark. Harvard's Randy Cohen and I wrote a paper in response to her statements, but our voice was just one among many. We argued then that in most places, there was still time, with responsible political behavior, to avoid the steamroller. Now five years later, the massive wave of defaults Whitney predicted has not materialized on anything close to the timetable she described.

But we are now five years on, and there are certainly places where the steamroller is closer in 2015 than it was in 2011. One feature of American municipal finance is that states and municipalities, in general, have rules that prevent them from borrowing in order to cover budget deficits. In practice, this rule means only that they have to employ trickery in order to accomplish the economic substance of borrowing to cover deficits while technically complying with balanced budget rules. The most important channel for this trickery has been through pensions, as Robert Novy-Marx of the University of Rochester and Joshua Rauh of Stanford have highlighted in a series of papers. There are other channels as well.

In the humorously named 'Truth and Integrity in State Budgeting,' the Volcker Alliance examines the situation in New Jersey. The report focuses on the recent financial chicanery that the state has employed in order to 'balance' its budget. A relatively simple example (and New Jersey is not alone here) is the issuance of bonds whose above-market coupons mean that they can be issued at prices above par, with the difference between the offering price and par value being used as revenue in the current fiscal year. This trick is just a back-door way for New Jersey to do borrow to close a budget shortfall, just like Puerto Rico.

Other examples are more complicated. The coverage of New Jersey's catastrophic recent tobacco bond refinancing by Cezary Podkul of ProPublica has been an example of great journalism about an extremely convoluted financial topic. I think that only the deal's complexity has prevented this and other similar transactions from becoming even greater national scandals than they have been. Tobacco bonds stem from the 1998 Tobacco Master Settlement Agreement, through which states gave up legal claims against tobacco manufacturers in exchange for future payments tied to tobacco consumption. Like many states, New Jersey years ago securitized much of it future payment stream, selling the future receipts off to investors in exchange for upfront cash.

The recent tobacco bond refinancing transaction boils down to this: New Jersey received $93 million in budget relief today in exchange for $400 million over the next several years. Some additional net payments based on smoking patterns decades into the future give the deal enough complexity that, should the need arise, a team of suitably incentivized experts will be able suppress their laughter while certifying that the deal was a good idea for the state.

But it's bogus. It is borrowing to cover a budget hole, like Puerto Rico in 2006. It is a step in the direction of the steamroller that is now on top of Puerto Rico.

FORTUNE

by Daniel Bergstresser

OCTOBER 19, 2015, 12:11 PM EDT

Daniel Bergstresser is an associate professor of finance at Brandeis International Business School. The views expressed here are his own and not necessarily those of Brandeis. Bergstresser is also engaged in consulting activities for financial institutions, but he has no direct or indirect financial stake in the performance of municipal bonds issued out of either Puerto Rico or New Jersey.

Illinois Will Delay Pension Payment Because of Cash Shortage.

Illinois will delay payments to its pension fund as a prolonged budget impasse causes a cash shortage, Comptroller Leslie Geissler Munger said.

The spending standoff between Republican Governor Bruce Rauner and Democratic legislative leaders has extended into its fourth month with no signs of ending. Munger said her office will postpone a $560 million retirement-fund payment next month, and may make the December contribution late.

"This decision is choosing the least of a number of bad options," Munger told reporters in Chicago on Wednesday. "For all intents and purposes, we are out of money now."

Munger said the pension systems will be paid in full by the end of the fiscal year in June. The state still is making bond payments, and retirees are receiving checks, she said.

"We prioritize the bond payments above everything else," Munger told reporters.

The pension payment delay was inevitable, said some who have been watching the budget gridlock.

"This is just the tip of the iceberg," said Ralph Martire, executive director of the Chicago-based Center for Tax and Budget Accountability, which monitors Illinois finances.

"Every month they go without resolving the impasse on the budget means it'll cost more to ultimately resolve it," Martire said. "This is a natural, predictable consequence if you do something called math."

Bond Doldrums

Investors have long penalized the state for its fiscal woes. Illinois holds the lowest credit rating among U.S. states with an A3 from Moody's Investors Service, four steps above junk, and an equivalent A- from Standard & Poor's. Municipal investors demand an extra 1.9 percentage points to buy 10-year Illinois bonds instead of benchmark munis, according to data compiled by Bloomberg.

“We’re looking for signs that the we’re going to hit a level patch,” said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds Illinois debt among its $11 billion of municipal securities. “But this is an indication we’re still going down the hill.”

Bloomberg News

by Elizabeth Campbell and Tim Jones

October 14, 2015 — 11:39 AM PDT Updated on October 14, 2015 — 1:21 PM PDT

Puerto Rico Bonds Show Skepticism for Relief From Treasury.

Puerto Rico bond prices suggest that investors are doubtful of a proposal being floated that would have the U.S. Treasury assist the commonwealth in the restructuring of its debt.

General obligations maturing July 2035, the most actively-traded Puerto Rico securities in the last three months and originally sold at 93 cents on the dollar, changed hands at an average price of 74.7 cents, little changed from Wednesday, data compiled by Bloomberg show. Trades of at least $1 million on taxable pension bonds maturing July 2038 show the bonds changed hands Thursday at an average price of 30.5 cents, up from 25 cents on Tuesday, Bloomberg data show.

“It’s still new,” said Gary Pollack, who manages $6 billion of municipal debt, including Puerto Rico bonds, as head of fixed-income trading at Deutsche Bank AG’s Private Wealth Management unit in New York. “It’s still in its infancy, so you can’t get too excited about it as a bond investor. I would hold and wait for this thing to play out more.”

Puerto Rico and federal officials are discussing the possible issuance of new bonds administered by the Treasury to help restructure the commonwealth’s debt, with federal officials overseeing a portion of the island’s tax collections that would be used to repay the securities, a person familiar with the discussions said Wednesday. Treasury officials said in a statement Wednesday that while its inaccurate to suggest the U.S. is in talks to undertake any of Puerto Rico’s obligations, it continues to work with island officials to help the commonwealth return to a sustainable economic path.

The plan would face obstacles. It may require Congressional approval and Puerto Rico’s legislature would need to sign off on allowing the federal government to monitor its revenue collections and direct them to investors. Governor Alejandro Garcia Padilla’s administration faced a backlash from investors after he said in June that the island could no longer afford to repay all of its obligations and would seek to delay principal payments for a number of years. Puerto Rico has also failed to gain support in Congress for legislation to allow some of its agencies to reorganize under Chapter 9 bankruptcy.

Such a restructuring plan may be too late to help Puerto Rico pay investors in December and January. Officials have said the island may run out of cash in November. The Government Development Bank owes $354 million of principal and interest on Dec. 1, with $267 million of bonds maturing on that date guaranteed by the commonwealth. Another $357 million of general-obligation interest is due Jan. 1.

“It would probably take some kind of Congressional intervention in order to make this type of transaction take place,” Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said Thursday. “And Congress certainly doesn’t have the bandwidth between now and the end of the calender year to really seriously dig into Puerto Rico."

Garcia Padilla met with Treasury officials in Washington on Wednesday to discuss the commonwealth's debt crisis, Jesus Manuel Ortiz, the governor's spokesman, told reporters Thursday in San Juan.

"The governor emphasized the need for the government of Puerto Rico to reach some kind of structured agreement to organize its debt," Ortiz said.

Moody's Investors Service wrote in a report Thursday that the deepening crisis might prompt U.S. intervention at some point, though lawmakers remain wary of providing any assistance that resembles a bailout.

Bloomberg News

Michelle Kaske

October 15, 2015 — 11:21 AM PDT Updated on October 15, 2015 — 1:59 PM PDT

Bloomberg Brief Weekly Video - 10/15/15

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

Watch the video.

Moody's: U.S. Initiatives Could Help Puerto Rico's Fiscal Recovery and Debt Restructuring.

New York, October 15, 2015 — While the United States (Aaa stable) is unlikely to provide a financial bail-out for Puerto Rico (Caa3 negative) as the territory tries to restructure some of its $73 billion in debt, media reports suggest the US Treasury Department is considering taking a more active role, Moody's Investors Service says, as the deteriorating fiscal situation leads to increasing pressure on Congress to take actions to stabilize the island's economy or finances.

"A combination of federal initiatives could encourage Puerto Rico's return to solvency and market access with little or no incremental cost to US taxpayers beyond current levels of support," Vice President — Senior Credit Officer Ted Hampton says in "Puerto Rico (Commonwealth of):Deepening Fiscal Crisis Might Prod US Intervention."

Current proposed legislation to amend the bankruptcy law would authorize Puerto Rico's public corporations to file for Chapter 9 bankruptcy protection if they can demonstrate insolvency. While corporations like the Puerto Rico Electric Power Authority (PREPA — Caa3 negative) and Puerto Rico Highways and Transportation Authority (PRHTA — Ca negative) would likely qualify under the legislation, almost 80% of Puerto Rico's debt probably would be ineligible for restructuring under Chapter 9, unless the legislation was to be broadened in scope.

Some in Congress have also suggested implementing a federal financial control board to put the commonwealth on a path to fiscal health. However, this is likely to meet heated opposition in Puerto Rico since the commonwealth has governed itself for many years. Congress instituted a control board for the District of Columbia (Aa1 stable) in 1995.

The treasury is reportedly considering a "superbond" proposal, where the US Treasury would hold certain pledged commonwealth revenues in trust for payment on debt service on newly issued securities.

Hampton says if a "superbond" came to fruition along with a financial control board, it could accelerate the restructuring negotiations.

Other measures to provide relief for Puerto Rico without burdening US taxpayers include loosening federal minimum wage requirements, or granting the commonwealth's employers a reprieve in future minimum wage increases. Congress could also exempt Puerto Rico from Jones Act shipping restrictions.

Moody's says the largest and most immediate impact would be stabilizing current federal healthcare funding on the island, which is scheduled to decline in coming years even as the share of citizens participating in Medicaid is higher in Puerto Rico (48%) than in any US state.

"However, any actions by the federal government will take time to implement," notes Hampton, "given the current partisan gridlock in Congress and a lack of transparency on the commonwealth's finances."

Moody's also notes that even as the commonwealth faces a liquidity crisis and potential new defaults, Congress is less likely to offer Puerto Rico assistance if it encumbers US taxpayers.

The report is available to Moody's subscribers here.

Puerto Rico, Treasury in Talks to Restructure Island's Debt.

Puerto Rico and U.S. officials are discussing the issuance of a "superbond" possibly administered by the U.S. Treasury Department that would help restructure the commonwealth's $72 billion of debt, people familiar with the plan said.

Under the plan, the Treasury or a designated third party would administer an account holding at least some of the island's tax collections. Funds in the account would be used to pay holders of the superbond, which would be issued to existing Puerto Rico bondholders in exchange for outstanding debt at a negotiated ratio.

Investors would receive less debt, likely taking an effective "haircut" on the value of their holdings, but would have higher expectations for getting repaid.

The proposal would mark an important change in Puerto Rico's relationship with the U.S. government, which has resisted wading into the island's debt morass. A superbond would need to clear high political hurdles in Washington and Puerto Rico to become a reality. Discussions with bondholders over the size of any haircut could present further challenges to reaching a deal.

Talks between Puerto Rico's representatives and Treasury officials are preliminary, and any plan wouldn't include financial aid or a U.S. guarantee of Puerto Rico debt, the people said. They said the proposed bond would be just one piece of a restructuring puzzle that the island's government is trying to assemble, after admitting this year that it cannot pay its debt in full.

The plan has no immediate precedent but echoes in some respects the Brady bonds used in Latin American debt restructurings of the 1980s. One major difference: Those bonds, named for former Treasury Secretary Nicholas Brady, were backed by Treasury-issued zero-coupon bonds, which guaranteed repayment of the principal and part of the interest of the Latin debt.

The Obama administration "has said repeatedly that it has no plans to provide a bailout to Puerto Rico," and the Treasury Department isn't engaged in talks to "undertake any of Puerto Rico's financial obligations," a Treasury spokesman said Wednesday.

The Treasury and the commonwealth are debating how much of Puerto Rico's taxes would be funneled to the account and who would collect the taxes, the people said. Puerto Rico's leaders may not be willing to surrender control of tax revenue as required by the deal, the people said. Depending on how it is structured, it could also require congressional approval.

Puerto Rico hasn't been able to sell bonds after years of issuing new debt to fund budget deficits. The commonwealth and its advisers have been working for months to develop a package of fiscal and financial overhauls.

A superbond could be appealing to creditors. Hedge funds that own billions of dollars of Puerto Rico debt have been pushing the idea of a superbond for months, hoping it would prevent a default and boost the value of their investments. Bondholders have been unwilling to swap the debt they hold for new bonds backed only by tax revenues under Puerto Rico's supervision because they fear the money could be diverted.

Puerto Rico is working with law firm Cleary Gottlieb Steen & Hamilton LLP, a specialist in government defaults, and Millstein & Co., a financial-advisory firm founded by the Treasury's former chief restructuring officer, Jim Millstein, who ran the successful turnaround of American International Group Inc.
Puerto Rico cannot restructure its bonds in bankruptcy court because it is a commonwealth, not a state. Democratic lawmakers have proposed bills making the island's municipal entities eligible for bankruptcy protection. Republicans in Congress have floated the idea of a federal control board and have said they want Puerto Rico to produce a more detailed plan to balance its budget before they support the legislation.

Concerns about a potential default intensified over the summer as it became clear Puerto Rico was using tax revenue earmarked for debt payments to plug budget gaps. The commonwealth disclosed in September that it expects a $205 million shortfall this year when large bond payments are due.

Government Development Bank of Puerto Rico bonds that mature in 2016 traded at 49 cents on the dollar this month compared with 77 cents on the dollar in June, according to data from Electronic Municipal Market Access.

Fears of a default are intensifying divisions between different types of bondholders who are splitting into various factions, each of which claims priority in the event of a restructuring.

"Our view has always been that there's a high probability of disorderly litigation here, and we see this looming now as imminent," said Ted Hampton, an analyst at Moody's Investors Service.

In September, a bondholder group represented by GLC Advisors & Co. with more than $5 billion in bonds of different stripes split into separate groups. Mutual funds managed by OppenheimerFunds

Inc. and Franklin Advisers Inc. also own billions of dollars of Puerto Rico debt, while bond insurers Assured Guaranty Ltd., MBIA Inc. and Ambac Financial Group Inc. have guaranteed billions of dollars of bonds.

Puerto Rico is attempting to capitalize on the divisions by agreeing to negotiate only with bondholders who agree not to discuss terms with investors holding different types of bonds, a person involved in the talks said.

THE WALL STREET JOURNAL

By MATT WIRZ, NICK TIMIRAOS and AARON KURILOFF

Updated Oct. 14, 2015 8:47 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com, Nick Timiraos at nick.timiraos@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

---

Most California Cities Back New Pension Strategy Despite Cost.

SAN FRANCISCO — Most California cities support a new strategy by the nation's largest public pension fund to make its investment portfolio more conservative, even though the move could gradually increase how much employers pay into the fund.

Still, some cities expressed serious reservations about a California Public Employees' Retirement System plan to incrementally lower the $293 billion fund's assumed rate of investment returns following periods of strong performance.

The League of California Cities surveyed its members, which have been struggling to shoulder the burden of growing pension costs. The survey found that many cities prefer a more gradual increase in costs, as opposed to spikes following market downturns, said Bruce Channing, Laguna Hills city manager.

"As employers, more predictability and less spiking of rates from one year to the next is preferable," said Channing, who is also chair of the league's city managers pension reform task force.

Next week, the Calpers board will consider a new policy to gradually reduce the assumed return rate from 7.5 percent to 6.5 percent over a few decades. The average return rate across 126 funds tracked by the National Association of State Retirement Administrators was 7.68 percent as of May.

Calpers intends to reduce portfolio volatility as California's baby boomers retire and payouts exceed active workers' contributions. The idea is similar to that of an individual nearing retirement adopting a more conservative investment strategy.

But a lower, albeit less volatile, rate of return will necessitate higher contributions from local governments and public workers.

The league said 77 percent of those surveyed supported Calpers' strategy to reduce portfolio risk, even though the move would over time raise pension contributions more than currently planned. Ten percent of respondents opposed the strategy, and the rest were unsure, the survey of 115 cities found.

Opponents of higher contributions included Alameda, a city of nearly 76,000 near San Francisco. Its pension costs for safety workers like police and fire consume 48 cents of every dollar paid in salary and are expected to grow to 65 cents in five years.

"It's devastating on our bottom line," said Alameda Interim City Manager Liz Warmerdam. "We have very little input. Whatever they want to do, local governments have to sit here and deal with it. It's extremely frustrating."

Massive pension costs contributed to a handful of recent municipal bankruptcies across the country, including in the California cities of Vallejo, Stockton and San Bernardino.

Stockton and Vallejho have emerged from bankruptcy. Vallejo City Manager Daniel Keen said he supports actions to ensure Calpers' ability to pay benefits, but added it may require sacrifices.

"While this plan does cause us more pain on the part of our budget, it is pain we were anticipating," said Keen. "It is going to require adjustments in our budget and might result in cuts to some services."

"It's undeniable that we have to deal with the fact that there are significantly fewer active employees paying in," said Leyne Milstein, Sacramento's finance director. "We need to make sure this system is sustainable."

But like many cities across the state, Sacramento's budget is not keeping pace with rising pension costs. Next year, the city's expenses are expected to exceed revenues by $8.8 million, of which $5.8 million is pension growth, Milstein said. In five years, Sacramento expects to pay close to $80 million in pension costs from its general fund, up from $60 million today.

"This will be extremely painful on local government budgets, but it's the honest approach to address the large unfunded liabilities," said Senator John Moorlach (R-Costa Mesa), a pension reform supporter. "Unfortunately, it's the taxpayers who are on the hook as pension debt eats up public funds meant for police and fire protection, as well as other services."

By REUTERS

OCT. 16, 2015, 3:42 P.M. E.D.T.

(Reporting by Robin Respaut and Rory Carroll; Editing by David Gregorio)

S&P: California's $961 Million GO Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Oct. 6, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $961 million of general obligation (GO) bonds, consisting of $855 million in tax-exempt various purpose GO refunding bonds and $106 million in taxable variable purpose GO bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $75.6 billion of GO bonds outstanding as of Sept. 1, 2015.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

“The GO rating is also based on our view of the state’s diverse economy, which is currently expanding faster than the nation’s; demonstrated commitment in five consecutive budgets to aligning recurring revenues and expenses while paying down budgetary debts; good budgetary reserves; strong enough overall liquidity that the state’s typical intra-year general fund cash deficits can be financed entirely from internal sources; and declining, but still moderately high debt ratios,” said Standard & Poor’s credit analyst Gabriel Petek.

“Somewhat offsetting these strengths, in our view, are the state’s persistently high cost of housing relative to other states that contributes to a relatively weaker business climate in California, volatile revenue base, large retirement benefit liabilities, limited prefunding of retiree health care benefits to date, and large backlog of deferred maintenance and infrastructure needs across the state,” added Mr. Petek.

Under current conditions, the state’s fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state department of finance’s forecast, than the state has had in recent memory. Passage of Proposition 2 in 2014 helped institutionalize a more disciplined approach by requiring annual deposits to the reserve fund. In addition, the measure captures capital gains-related revenue spikes, thereby discouraging the state from building instances of extraordinary revenue growth into its budget base. The state has also restored considerable fiscal flexibility by retiring much of its budgetary debt.

S&P: Nevada's $344 Million GO Bonds Assigned 'AA' Ratings.

SAN FRANCISCO (Standard & Poor’s) Oct. 6, 2015–Standard & Poor’s Ratings Services assigned its ‘AA’ long-term rating and stable outlook to Nevada’s planned approximately $334 million issue of general obligation (GO) debt. We simultaneously affirmed our ‘AA’ rating on Nevada’s GO debt outstanding and our ‘AA-‘ long-term rating and underlying rating (SPUR) on the state’s appropriation-backed certificates of participation. The outlook on all ratings is stable.

“The state has taken steps to bring its fiscal structure into alignment,” said Standard & Poor’s credit analyst Gabriel Petek. “This, along with Nevada’ s demonstrated commitment to adhere to its policy of achieving an ending balance equal to at least 5% of appropriations (even if it potentially fell short in fiscal 2015) helps underpin the state’ s strong credit quality, in our view,” added Mr. Petek. “Also adding to credit stability, in our view, is the state’s recent record of good liquidity and a mechanism to prefund a significant portion of its annual debt service. In our view, these characteristics reduce the risk that an unanticipated revenue shortfall could result in strain on the state’ s ability from a cash flow perspective, to fund its debt service.”

The current bond offering consists of:

- $256.3 million of GO (limited-tax) capital improvement and refunding bonds, series 2015D;
- $20.94 million of GO (limited-tax) natural resources and refunding bonds, series 2015E;
- $47.1 million of GO (limited-tax) bonds (issued for Nevada Municipal Bond

Bank Project Nos. 87, 88, and 89) series 2015F; and
- $10.1 million of GO (limited-tax) open space, parks, natural resources, and refunding bonds, series 2015G.

The 'AA' rating reflects our view of the state's:

- Demonstrated willingness to address budget gaps with both cuts to spending and increased revenue measures when necessary;
- Consistently good financial liquidity on both an intra- and inter-year basis;
- Good constitutional protections, which require balanced budgets and give tax preference to debt service;
- Commitment to and track record of maintaining positive ending balances;
- Nascent signs of employment diversification; and
- Low total debt relative to the state's economy and a low debt burden as a portion of the state's budget.

Partly offsetting the above strengths, in our view, are the state's:

- Depleted rainy day reserve fund, which it used during fiscal 2015 to address a biennium operating deficit that had emerged;
- Still slow economic growth despite population growth rates above the national average; and
- Still relatively narrow economy that relies on sectors sensitive to changes in discretionary consumer spending (tourism and gaming) and those with volatile performance (construction and real estate) — although we see evidence that this has begun to change.

S&P's Public Finance Podcast: (California's Redevelopment Sector and Bank Loan Market Trends).

In this week's Extra Credit, Associate Director Sarah Sullivant discusses what's driving California's redevelopment sector and Senior Director Lisa Schroeer reviews the trends shaping the bank loan market.

Listen to the Podcast.

New Jersey Uses Eminent Domain Against One of Its Own Beach Towns.

A week after calling this well-heeled beach town "selfish" for refusing to give up land needed for the state's dune project, Gov. Christie on Thursday moved to give Margate no choice.

The state said it had filed an eminent domain action against the City of Margate to gain access to city-owned beachfront easements needed for the project. The city's opposition has caused the Army Corps of Engineers to abort plans for dunes for Ventnor, Margate, and Longport.

Prior to the filing, the state had offered Margate $29,000 for nine beachfront easements, based on an appraisal, the city said. When that was rejected, the Christie administration took the action in Superior Court, saying it was seeking 87 municipally owned lots. Margate officials could not explain what 87 referred to. “I am aware of nine,” said Richard Deaney, city business administrator.

Margate voters have twice passed questions in referendums opposing dunes and authorizing their government to wage a legal battle against the state.

The state had been threatening to file eminent domain against Margate since January, when a federal judge in Camden told the state that eminent domain would be the proper, and perhaps only, way to get control of the easements. The state had attempted to take the land through an administrative order, which prompted Margate to file a lawsuit in U.S. District Court.

Thursday night, the city issued a response saying it was “prepared to defend in any court at any time the legal rights of the people of Margate to provide the best, safe and most effective storm protection.”

“The people of Margate know and love their community . . . and appreciate the need for the best protection against the storms,” the statement said. The city contends that its bulkhead system is sufficient and that dunes “eventually wash out to sea.”

“Margate’s opposition to the dunes is not based on a vain desire to preserve oceanfront views,” the statement said.

Deaney said the city had requested to negotiate the terms of the shore protection project in response to the $29,000 offer, but that the state had filed for eminent domain as soon as a 14-day time required by law following an offer had passed.

“We sent them a letter saying we’d like to negotiate with them,” Deaney said. “They ignored it.”

Deaney said the city was not against shore protection but wanted a chance to discuss changes in the technicalities of how that is done. Residents argue that dunes will be a costly, unsightly, and ineffective way of protecting the town. Most of the flooding issues from past storms have been from the back bay.

The Army Corps of Engineers had to put aside its Absecon Island protection project last winter after Margate fought the state to essentially a stalemate in federal court. Longport voluntarily gave the state access to its easements following Hurricane Sandy, after opposing the dunes for years. Ventnor has long cooperated with the state and federal agencies, and has had dunes on most of its oceanfront for years.

The release, issued directly from the governor’s office, tallies the amount of property at 87 lots owned by Margate, saying action “builds upon the ongoing work the Christie administration has been undertaking to secure easements necessary to construct these vital coastal protection projects.” The filing covers easements “over all city-owned properties east of the Margate bulkhead, south of Ventnor and north of Longport.”

Of 4,279 beachfront easements statewide, 366 are outstanding, owned by 239 property owners. Environmental Protection Commissioner Bob Martin said in the release that the state was “very disappointed” that Margate forced the state to go to court to protect its citizens and promised to “continue to be very aggressive in using eminent domain as a tool to obtain the easements.”

Also holding out in Margate are 10 private owners with beachfront easements. Those properties are being appraised, the state said.

Margate has been represented by former U.S. Rep. Robert E. Andrews of the Dilworth Paxson law firm. The state had been reluctant to take the case to state court, where eminent domain fights can drag on. The state will argue that the project is necessary “to protect lives, homes, businesses, and infrastructure.”

“We’ve never been happy with the design and proposal for shore protection,” Deaney said of the city. “We’re willing to negotiate the concept of shore protection. We have a lot of ideas as to how that can be accomplished. We don’t believe in their single arbitrary project.”

He called the $29,000 offered for access to the easements “low” but said price was not the issue.

The state declined to comment beyond the news release. The release noted that property owners in other municipalities voluntarily provided easements to allow the Army Corps to erect dunes. It said Longport and Margate both suffered “significant overwash” of its beaches and “damage to its bulkhead” during Sandy, “which required Federal Emergency Management Agency funds for the cleanup.”

The state’s release also notes a New Jersey Supreme Court ruling in July 2013 in which the Borough of Harvey Cedars acquired an easement through eminent domain, but the parties could not agree on fair compensation. The court reversed a jury ruling valuing the easement at $375,000, saying homeowners “were not entitled to a windfall” for a project they also benefit from. The couple subsequently settled for $1 as compensation.

In addition to the Absecon Island project, beach and dune construction projects are stalled in Monmouth County and in northern Ocean County, where residents are also fighting the state’s efforts to use their properties to construct dunes.

BY TRIBUNE NEWS SERVICE | OCTOBER 9, 2015

By Amy S. Rosenberg

O'Hare Bonds Avoid Chicago Stain in City's Biggest Offering Ever.

Even as Chicago confronts a fiscal crisis, investors are looking beyond its turbulent finances with anticipation toward the city’s biggest bond deal ever.

Chicago sold about $2 billion of securities for O’Hare International Airport, backed by revenue from the nation’s busiest airport and sheltered from the mounting pension obligations squeezing the third-most populous U.S. city. Fund managers at Wells Fargo Asset Management and Conning say any yield premium resulting from the city’s tainted reputation is likely a buying opportunity given the airport’s rising traffic and hub status.

“Just looking at the nuts and bolts of the deal, it’s been pretty impressive what’s going on there,” said Paul Mansour, head of municipal research at Hartford, Connecticut-based Conning, which holds O’Hare debt among its $11 billion of tax-exempt securities and is reviewing the deal. “There will be a certain amount of firms, individuals who say no Chicago under any circumstance. That will add some value for those that look through to the underlying credit.”

Chicago has the worst-credit rating of all major U.S. cities except Detroit, and had to pay yields approaching 8 percent for a taxable offering in July. Wednesday's issue is raising $1.6 billion to refinance higher-cost bonds and about $330 million to cover costs of projects such as terminal improvements.

A portion of federally tax-exempt securities due in January 2046 were sold with a yield of 3.9 percent, according to preliminary data compiled by Bloomberg. That's about 0.7 percentage point more than 30-year benchmark municipal bonds.

During the city's last bond sale for O'Hare in November 2013, 20-year securities were issued for yields as high as 5.53 percent, about 1.7 percentage point more than benchmark debt, according to data compiled by Bloomberg. That premium has since narrowed by almost a third, trading for an average yield of 4.1 percent on Sept. 11.

The offering follows sales from the city and related agencies such as the Chicago Park District that have had to pay up to borrow. The O'Hare bonds are rated as much as two levels higher than the city's general-obligation debt. The sale comes as U.S. airport bonds are outperforming the broader $3.7 trillion tax-exempt market for a fifth consecutive year amid an improving economy and falling energy costs.

Mayor Rahm Emanuel is working to ease Chicago's fiscal challenges and convince the city council to pass the biggest property tax increase ever to help cover retirement costs. O'Hare is sheltered from the fallout of the city's $20 billion pension hole because the Federal Aviation Administration limits the use of airport revenue to facility purposes. That prevents the city from taking excess O'Hare monies to fix its finances, Standard & Poor's said in a Sept. 30 report.

Historical Premium

Even so, issuers associated with distressed situations typically have to pay up, and that's what Merritt Research Services expects.

"It's just a historical premium that they'll have to pay because of their association with Chicago," said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance. "It may end up for a yield investor more attractive than an average airport."

That wasn't the case with Michigan's Wayne County Airport Authority, which runs the airport serving once-bankrupt Detroit. The authority wasn't penalized when it sold about $522 million last month despite the county's fiscal distress. Wayne is in a consent agreement with the state because of its ongoing budget deficit.

Airliner Hub

S&P raised its outlook on O'Hare general revenue bonds last month by one level to A, five steps above junk and two levels higher than its rating on the city's GO debt. The credit rater cited the airport's high traffic. Fitch Ratings assigned an A- ranking to the debt, four steps above junk, and notes the airport general revenue bonds are secured by a first lien on airport net revenues.

O'Hare is a hub for American Airlines Group Inc. and United Continental Holdings Inc., the largest carriers. The airport is the biggest worldwide when measured by operations, according to bond documents. In 2014, O'Hare had the busiest airport measured by flight operations, according to FAA data.

Municipal airport bonds have climbed 2.2 percent this year, compared to a 1.8 percent gain in the broader market, according to Bank of America Merrill Lynch data. Crude-oil prices have tumbled 8.6 percent in 2015, and sliding fuel costs have benefited municipal airports in particular, Janney Fixed Income Strategy said in an Oct. 5 report.

Chicago is expecting more than $150 million in present-value savings from the refinancing with interest rates near generational lows, said Molly Poppe, a city spokeswoman.

O'Hare's capital projects have shown progress and been within budget, according to bond documents. Three of four runways and one runway extension for the O'Hare modernization project are complete as of this month. Airfield improvements funded by the 2015 bonds include installation of runway status lights, maintenance of terminals, and fixes to roadways.

"Airport debt has had a strong bid from investors looking for income, and that should certainly benefit the pricing on this Chicago transaction," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Fargo Asset Management, which holds some O'Hare's bonds among its $39 billion of munis, and is considering buying the deal. "The essential nature of the airport and the size of it are going to overwhelm any bias against the city of Chicago."

Bloomberg News

by Elizabeth Campbell

October 6, 2015

Puerto Rico Claw Back Wouldn't Pay Debt Costs, Barclays Says.

Puerto Rico wouldn't be able to repay the $5.5 billion of principal and interest due on its general-obligation bonds in the next five years even if the commonwealth diverted sales-tax revenue pledged to cover payments elsewhere, according to Barclays Plc.

The general obligations due through fiscal 2020 surpasses the $4.2 billion of revenue, including sales-tax receipts, that commonwealth officials calculate Puerto Rico will have to pay down central government and some agency debt during that period, Mikhail Foux, a municipal-debt strategist at Barclays in New York wrote in a report Wednesday. The island's sales-tax collections repay bonds, known as Cofina because of their Spanish acronym, that are backed by that revenue stream.

"Even if Cofina's cash flow stream is invaded, there would still not be enough value to fully cover principal and interest for GOs and commonwealth guaranteed debt in fiscal year 2016 through fiscal year 2020," Foux wrote in the report. "This suggests that some type of haircut would be needed," over those five years, he wrote.

Puerto Rico officials haven't said that they plan to redirect, or "claw back," sales-tax collections to pay down general-obligation debt before Cofina bonds. The island's constitution states that general-obligations must be repaid before other expenses. The commonwealth on Sept. 25 said it would take into account the constitutional priority given to general-obligation bonds as it seeks to restructure $73 billion of debt.

Prices on some Cofina debt would fall if the government uses the sales-tax receipts to repay general obligations first, Foux said. Subordinate Cofinas, which are repaid after senior-lien sales-tax bonds, would drop in value, he said.

“If Cofina is pierced, subs would be severely affected, allowing for more downside even at current depressed levels,” Foux wrote.

Subordinate Cofinas maturing August 2039 traded Wednesday at an average price of 44.5 cents on the dollar, to yield of 12.9 percent, data compiled by Bloomberg show.

Puerto Rico had $13 billion of general obligation debt and $15 billion of sales-tax bonds, as of March 31.
Commonwealth general obligations sold in March 2014 and maturing July 2035 traded Wednesday at an average price of 75.3 cents on the dollar for a yield of 11.1 percent, according to data compiled by Bloomberg.

Bloomberg

by Michelle Kaske

October 7, 2015 — 2:35 PM PDT Updated on October 8, 2015 — 6:20 AM PDT

Scandals Leave Port Authority Bondholders Undaunted Before Sale.

To Wall Street, the scandals engulfing the Port Authority of New York & New Jersey are nothing but noise.

As the agency sold $2 billion of bonds Thursday, its biggest offering since 2012, investors weren’t focused on the federal and state investigations that spurred the resignation of United Continental Holdings Inc.’s chief executive officer and tarnished Governor Chris Christie’s presidential bid. Instead, they looked at a near monopoly on getting into New York that brings in more than $12 million a day.

The upheaval at the agency may even have a financial upside: It’s searching for a CEO to replace the two top officials who were hired by political appointment and faces pressure to improve its management of the region’s bridges, tunnels and airports.

“They certainly have a lot of work to do,” said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6 billion. “But the hope is that this additional scrutiny will make the organization more transparent and better able to provide for its core mission.”

The Port Authority’s bonds have the fourth-highest rating from Moody’s Investors Service, Standard & Poor’s and Fitch Ratings with a stable outlook, indicating no changes are imminent. The agency’s 10-year tax-exempt bonds were sold at yields of 2.33 percent, or 0.25 percentage point more than top-rated munis, according to data compiled by Bloomberg.

The Port Authority receives revenue from almost everyone who comes to the biggest U.S. city, as well as from cargo ships. It runs a commuter train, bridges and tunnels connecting New York and New Jersey, the world’s busiest bus depot in Manhattan, marine terminals, and the region’s three major airports — John F. Kennedy International, LaGuardia, and Newark Liberty International. It also owns the World Trade Center site.

Major Projects

Even with a constant stream of revenue, the Port Authority is facing financial challenges in the coming decades. In addition to its usual upkeep, the agency is moving to replace its bus terminal, which may cost $10 billion, as well as a bottleneck-prone rail tunnel under the Hudson River. Christie and New York Governor Andrew Cuomo want the federal government to pay half of the $20 billion cost of the tunnel.

The agency's current operating results have been on the upswing. Operating revenue rose 8 percent to $2.3 billion during the first six months of the year, according to Moody's, as New York's strong economy fueled an increase in plane travel. At the same time, its operating expenses climbed by 1.3 percent to $1.4 billion.

The agency's finances stand in contrast to the agency's battered political reputation. In May, former Deputy Executive Director Bill Baroni and former Christie aide Bridget Kelly were indicted for snarling traffic leading onto the George Washington Bridge in 2013 to punish a New Jersey mayor who didn't back Christie's re-election. David Wildstein, a former Christie ally at the agency, pleaded guilty to participating in the scheme. Baroni and Kelly are fighting the charges.

Widening Investigation

Last month, United CEO Jeff Smisek stepped down amid an investigation into whether the airline ran a money-losing flight from Newark, New Jersey, to South Carolina, where former authority Chairman David Samson had a vacation home, in an effort to secure funding for projects. Prosecutors haven't alleged wrongdoing.

The Securities and Exchange Commission, which polices fraud in the municipal-bond market, is also investigating the agency's disclosures to investors.

The Port Authority's finances show that the management turmoil hasn't hurt its operations, said Dan Solender, head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey. In an Oct. 6 report, S&P said the agency has kept expenses below its target during the first eight months of the year while revenue exceeded forecasts.

"We really care about the finances and how much leverage they're taking on, how they're controlling expenses and things like that," said Solender, who owns some agency bonds. "For us, those are the bigger issues than the political headlines."

Bloomberg

by Romy Varghese

October 7, 2015 — 9:01 PM PDT Updated on October 8, 2015 — 11:17 AM PDT

Muni Funds Draw $714 Million, Largest Inflow Since January.

Investors added the most money to municipal-bond mutual funds since January in the past week as state and local government bond yields fell to the lowest level in five months.

Individuals poured $714 million into muni funds in the week through Wednesday, Lipper US Fund

Flows data show, marking the second inflow in three weeks. Those funds investing in the longest-dated debt fared the best, capturing $685 million of the cash, as the Federal Reserve continued its almost decade-long policy of keeping borrowing costs close to zero.

Benchmark 10-year munis yield 2.09 percent, close to the lowest level since April, data compiled by Bloomberg show. That's pushed the return on state and local debt to 1.9 percent this year, better than the 1.6 percent gain for Treasuries and 0.1 percent for investment-grade corporate securities, Bank of America Merrill Lynch data show.

In the four weeks through Sept. 16, the day before the Federal Open Market Committee released its policy statement leaving its benchmark rate unchanged, individuals withdrew $1.4 billion from muni mutual funds, Lipper data show.

Bloomberg

by Brian Chappatta

October 8, 2015 — 2:49 PM PDT Updated on October 9, 2015 — 6:39 AM PDT

Bloomberg Brief Weekly Video - 10/08/15

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

Watch the video.

October 8, 2015

Down Payment on Detroit: Charting the Next Steps in the Detroit Housing Recovery.

As Detroit continues a journey toward economic recovery, the housing market in many parts of the city remains a serious challenge. In particular, mortgage activity is stuck at historically low levels, even as jobs and investment continue to grow throughout the city and the region. What steps—policies, programs, and products—should we take to stabilize and improve the homebuying market while ensuring affordable options for homeowners and renters alike?

Continue reading.

Connecticut, America's Richest State, Has a Huge Pension Problem.

The state with the richest population may not have enough money in its own pockets.

Connecticut has roughly half of what it needs to pay future retirement benefits for its workers, meaning the home to scores of hedge funds and some of the country's wealthiest towns is wrestling with financial distress rivaling that of Kentucky or Illinois.

Some investors concerned about the size of Connecticut's pension hole are backing away from bonds issued by the Constitution State or demanding bigger rewards to hold them. Investors in some Connecticut state bonds now get a premium of about half a percentage point above benchmark bonds from other states, up from 0.28 percentage point a year ago, according to Thomson Reuters Municipal Market Data. Only four other U.S. states are now priced as riskier bets.

Still, some in the state say Connecticut's affluence is making it difficult to overcome complacency about fiscal problems. Yields on the state's debt would be even higher and budget problems would be worse if not for a deep pool of wealthy in-state investors willing to gobble up Connecticut's tax-deductible debt, according to analysts.

"There's almost limitless money to buy Connecticut bonds," said Matt Fabian of research firm Municipal Market Analytics. Investors "are getting less of a risk premium than I think you deserve because of the high demand created by the wealth of the taxpayers in the state," added Paul Mansour, head of municipal research at Hartford, Conn.-based Conning.

Connecticut's surprising pension predicament shows how even the wealthiest parts of the U.S. are struggling to keep pace with ballooning retirement obligations that now amount to $1 trillion nationally.

Connecticut's unfunded pension liabilities more than doubled over the past decade to $26 billion as the state's retirement system reeled from inadequate state contributions, a subpar investment record and longer lifespans for its retirees.

The state, boosted by wealth concentrated in towns such as Greenwich and New Canaan, has a per capita income of $64,864, the highest in the U.S., according to a Fitch Ratings analysis of Bureau of Economic Analysis data. But the state still finished the fiscal year ended June 30 in the red as tax revenues fell below expectations, and has projected annual deficits of $650 million or more after its current two-year budget cycle ends, according to a report by the state's Office of Fiscal Analysis.

The state's pension problems represent "a ticking time bomb," said State Sen. L. Scott Frantz, a Republican whose district includes the wealthiest section of the state. He is worried residents will leave and Connecticut will "end up as another Detroit," a city that filed for bankruptcy protection in 2013, absent more dramatic changes.

Some Connecticut officials and union leaders said they are unfazed by the pension problems and pledge to reverse the deficit in the coming decades. Their strategy hinges partly on predictions the various state retirement systems will be able to earn 8% or more annually, a goal that is more optimistic than most public pensions across the U.S. The average target for all state plans is 7.68%, according to the National Association of State Retirement Administrators.

"The truth of the matter is that the state of Connecticut can afford to make up the difference over time," said Dan Livingston, a Hartford-based labor attorney who has negotiated on behalf of the state's public workers for decades.

Connecticut's pension gap developed as a result of decisions made over decades to scrimp on payments when the economy sputtered and to cut taxes, according to state leaders and public-finance experts. And there is a quirk: Connecticut officials contributed almost no money to the state's various public pensions from the late 1930s until the early 1980s, meaning little had been saved up because the state had chosen not to prefund the retirement system for future payouts.

The smaller base of assets hurt Connecticut during the 1990s when a run up in the stock market pushed most pensions around the U.S. to fully funded status—meaning they had more assets than liabilities, according to Gregory Mennis, director of Pew Charitable Trusts' public-sector retirement-systems project. Connecticut's ratio of assets to liabilities, meanwhile, was just 72% in 2001, according to Pew, which tracks pension-fund finances.

Furthermore, according to the Center for Retirement Research at Boston College, Connecticut's annual investing returns have trailed the national average by a full percentage point since 2000, because of a heavy allocation to stocks that inflicted deep losses first during the dot-com bust and then the 2008 financial crisis. Connecticut pensions eventually shifted some bets to nontraditional investments, like hedge funds, but those produced lower returns as the equity markets rallied in recent years.

Connecticut only has 51.9% of the assets it needs to pay future obligations to workers, lower than all states except for Illinois and Kentucky, according to the National Association of State Retirement Administrators.

Connecticut has scaled back pension benefits in recent years, reducing cost-of-living adjustments for retirees and pledging to make the appropriate annual payments to fully fund the system by 2032. State officials have raised taxes twice since 2011 as a way of covering some liabilities, reduced its workforce by more than 3% and held back on deeper spending on education and local aid.

Connecticut now allocates 10% of its budget to paying down unfunded pension obligations, up from about 7% four years ago, according to Connecticut Office of Policy and Management Secretary Ben Barnes, who oversees the budget.

"We have plenty of resources to address whatever shortfalls, or whatever fiscal crisis might develop in the short run," Mr. Barnes said.

But there are signs that the pressure on Connecticut could intensify absent deeper changes. Standard & Poor's Ratings Services lowered the outlook on Connecticut's bonds in March to negative from stable, meaning they could be downgraded from their current double-A rating. Moody's Investors Service already has placed Connecticut among the lowest-rated states. And Fitch Ratings, although it removed Connecticut's negative outlook in July, warned the state has a "narrow margin of flexibility."

States rarely default and generally carry higher ratings as a result. Moody's, which changed the way it calculates pension costs two years ago, has been more aggressive at downgrading states and cities with sizable unfunded obligations, while S&P and Fitch have generally taken a more optimistic view.

Fredrena deGraffenreaidt, a 61-year-old state retiree from East Hartford, is worried about whether future benefit cuts would force her to sell her house and move to a cheaper state, she said.

"Everyone sees us as this very wealthy state and yet our pension isn't 100% funded," Ms. deGraffenreaidt said. "How is that possible?"

THE WALL STREET JOURNAL

By AARON KURILOFF and TIMOTHY W. MARTIN

Updated Oct. 5, 2015 12:36 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com and Timothy W. Martin at timothy.martin@wsj.com

---

Puerto Rico Electric Utility Wins Extension From Bondholders.

Puerto Rico's main electric provider won a two-week extension from bondholders to negotiate how to restructure $8.3 billion of debt.

Investors holding about 35 percent of the utility's debt and its fuel lenders agreed to delay until Oct. 15 the expiration date on an agreement that was set to end Thursday, Lisa Donahue, the power provider's chief restructuring officer, said in a statement. The contract, called a forbearance agreement, keeps discussions out of court. The parties first signed the accord in August 2014. It is the ninth extension.

Puerto Rico Electric Power Authority, known as Prepa, and the bondholder group on Sept. 1 reached a tentative agreement that would require investors to take losses of about 15 percent in a debt exchange. Bond insurers Assured Guarantee Ltd., Syncora Guarantee Inc. and MBIA Inc. have balked at the plan and declined to continue the forbearance.

"We continue to work with the monolines in an effort to reach a consensual agreement on terms that would be beneficial to all parties involved," Donahue said.

Below Proposal

A Prepa restructuring would be the largest-ever in the $3.6 trillion municipal-bond market. Puerto Rico and its agencies, including Prepa, owe about $73 billion after years of borrowing to delay debt payments and fill budget deficits. The utility restructuring is the first step toward Puerto Rico's goal to lower its debt burden.

Prepa bonds maturing July 2040 traded Friday at an average of 59.2 cents on the dollar, according to data compiled by Bloomberg. That's higher than an average 53.5 cents on Aug. 28, the last time the bonds traded before the Sept. 1 agreement. But that's still lower than the 85 cents that bondholders would receive in a proposed debt exchange.

The bonds yielded 9.59 percent.

Bloomberg News

by Michelle Kaske

October 1, 2015 — 3:46 PM PDT Updated on October 2, 2015 — 9:32 AM PDT

Bloomberg Brief Weekly Video - 10/01/15

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

Watch the video.

October 1, 2015

[Puerto Rico Debt Crisis Eludes U.S. Fix, Top Republicans Say.]

Top Senate Republicans showed no intention of acting soon to rescue Puerto Rico from its escalating financial crisis, saying there's no easy way for the federal government to steady the Caribbean island pushed to the brink by $73 billion of debt.

Republicans who lead both chambers of Congress have signaled little urgency in aiding Puerto Rico, and the White House has made it clear it won't bail out the commonwealth. The reticence was on display Tuesday at a Senate Finance Committee hearing, the first in Congress since Governor Alejandro Garcia Padilla said the island can't afford to repay what it's borrowed.

While Puerto Rico officials are pushing for more funding for some federal programs, Senator Orrin Hatch of Utah, the chairman of the finance committee, expressed skepticism that additional money would be sufficient. He noted that it's received billions in additional federal funds since 2009.

"Even with those boosts in federal funding and the related increases in commonwealth spending, all we see is added commonwealth debt," he said at a hearing in Washington Tuesday.

Providing more money for health-care programs, for example, "would necessarily mean reduced funding for other priorities, increased taxes, or even more federal debt," he said. "That is the unpleasant budget arithmetic that we face. There are no easy answers."

The commonwealth of 3.5 million people is teetering because of years of borrowing to cover budget shortfalls as the economy stumbled and residents left for the U.S. mainland. Garcia Padilla is seeking to postpone or reduce the government's debt bills, moving the island toward what would be the biggest restructuring ever in the $3.6 trillion municipal-bond market.

Senator Charles Grassley, the Iowa Republican who chairs the judiciary committee, during the hearing stopped short of endorsing legislation Puerto Rico is seeking that would allow its publicly owned corporations, such as the power company, to file for bankruptcy, as U.S. cities can.

Instead, he recommended exempting Puerto Rico from the minimum wage and shipping laws that drive up the cost of goods. He also suggested setting up a federal board to oversee its finances, though he said any Congressional steps would depend on whether Puerto Rico moved to eliminate deficits at the root of the crisis.

"Congressional help without meaningful reform by the Puerto Rican government won't work," Grassley said at the hearing.

The commonwealth is rapidly draining its cash. Unless it can raise money in the capital markets, it could run out of money by the end of the year, just before a large payment is due on its general-obligation bonds, Government Development Bank President Melba Acosta said.

She told the senators that "federal action is essential," including giving it the same access to the Medicaid and Medicare health-care programs that states have and extending municipal bankruptcy access to the island.

"Puerto Rico has passed the tipping point and faces an immediate liquidity crisis," she said. That's “threatening the ability of the government to continue to provide essential services to its residents and to pay its debts when due.”

In addition to approximately $73 billion of public debt, Acosta said Puerto Rico has a $45 billion shortfall in its workers’ retirement system that’s threatening to put more strain on the budget.

Bankruptcy Bill

Puerto Rico, which has already defaulted on some bonds, wants Congress to approve the legislation giving some entities access to Chapter 9 bankruptcy protection. That could avoid a protracted legal fight by allowing the government to restructure some debt in court, rather than through individual negotiations. That bill has yet to advance for lack of Republican support.

With bonds sold through more than a dozen agencies, Puerto Rico has yet to say which securities could be affected and by how much, which has left investors speculating about the scale of losses they may be asked to take. The administration plans to ask investors to exchange their bonds for new debt with lower interest rates or longer maturities. Such a plan may come in the next few weeks.

Going Alone

During the hearing, Puerto Rico’s representative in Congress, Pedro Pierluisi, said lawmakers should end the disparate treatment that applies to the island with respect to federal programs.

“Any notion that the territory alone got itself into this situation and the territory alone must extricate itself from this situation is totally false,” he said. “The truth is that the federal government bears tremendous responsibility for the crisis in Puerto Rico, and so Congress and the president must be part of any solution.”

Bloomberg News

by Kasia Klimasinska

September 29, 2015 — 7:13 AM PDT Updated on September 29, 2015 — 11:39 AM PDT

[Stalemate Over Tax Increases Pushes Pennsylvania Yields Higher.]

As Congress races to avert a government shutdown, what may be a more prolonged political fight over the budget is dragging on in the state capital 120 miles (193 kilometers) to the north.

In Harrisburg, Pennsylvania, the state government is almost three months into the fiscal year without an agreement on what it can spend because of a divide between the Republican-led legislature and Governor Tom Wolf, a Democrat. At least two school districts say they may soon have to close. Some debt has been downgraded. And investors have pushed yields on the Keystone State’s bonds close to recent highs over top-rated securities, a measure of the perceived risk.

Pennsylvania is the only state aside from Illinois that’s still locked in a stalemate over the budget, a standoff reminiscent of those that once played out in statehouses around the nation after the recession. While public finances have recovered along with the economy, Pennsylvania lawmakers are contending with a $53 billion pension-fund shortfall that’s threatening to hit the state with rising bills, as well as pressure to steer more money into schools.

As a result, investors are demanding yields on 10-year Pennsylvania bonds of 2.71 percent, 0.56 percentage point more than AAA municipal securities, according to data compiled by Bloomberg. That's just shy of the 0.61 percentage point reached in June, which was the highest since the data began in 2013. Only Illinois and New Jersey, which have even larger pension shortfalls, pay more, according to data on 20 states.

"Pennsylvania is not in as bad a situation as New Jersey or Illinois," said Scott McGough, director of fixed income for Glenmede Trust Co. in Philadelphia, who is reducing his holdings of Pennsylvania debt. "But clearly, the trend is poor at this point."

The legislature took a step to temporarily ease the crunch last week, when it passed a budget to provide about four months of funding to schools and other agencies. Wolf, who took office in January, rejected it on Tuesday, saying he wants a comprehensive spending plan.

"The citizens of Pennsylvania want more than half measures, and they deserve better than the status quo," Wolf said in his veto message to the legislature. The temporary budget locks in human services cuts and is "an avoidance maneuver that fails to adequately fund education."

Pension Politics

Since March, Wolf and Republicans have been at loggerheads over how to shore up the retirement system, which has less than two-thirds of the assets needed to cover the benefits promised to about 700,000 employees. Wolf vetoed a Republican bill that would have put new workers into defined-contribution plans similar to 401(k)s. He wants to sell $3 billion of debt to inject cash into the retirement system to make up for years of shortchanging it.

Republicans have also balked at his proposal to implement a new tax on natural-gas drillers and raise levies on income and retail sales to fund schools.

The effects are starting to be felt beyond the capital. This month, Moody's Investors Service lowered the credit ratings of schools that sell bonds through a program that diverts state aid to investors if the districts default. The credit rater said the lack of a budget has cast uncertainty over the funding, heightening the risks to bondholders. Standard & Poor's has put the districts' ratings on watch, a first step toward a downgrade.

School Closings

School districts in Carbondale, in the northern part of the state, and to the west in Erie, have warned that they may temporarily close without funds if the budget impasse continues. By October, 41 school districts may see "significant cash-flow difficulties," according to a senate Republican committee memo. Another 120 would be added to the list by December.

By next month, school districts would be running without more than $3 billion in state aid that was anticipated for the year, according to the Pennsylvania Association of School Business Officials. Administrators have been tapping reserves and lines of credit to compensate, the Harrisburg-based group said.

Schools have borrowed at least $347 million so far and may run up an additional $122 million of debt in October to keep classrooms open, State Auditor General Eugene DePasquale said Tuesday.

Some are pushing down the pain to charter schools. About 24 school districts have eliminated or reduced payments to charter schools, said Tim Eller, executive director of the Keystone Alliance for Public Charter Schools.

Pennsylvania is graded two steps below the state average, in part because of the deficit in its retirement system. S&P and Fitch Ratings cut the state last year to AA-, the fourth-highest level. Moody's grades Pennsylvania Aa3, the same rank.

Glenmede's McGough said investors may continue to demand higher yield premiums if the Pennsylvania's leaders don't repair the government's finances.

"You have to address the budget as is, given the revenue coming in, and really right-size your budget," he said.

Bloomberg News

by Romy Varghese

September 28, 2015 — 9:01 PM PDT Updated on September 29, 2015 — 9:25 AM PDT

Ohio Firefighter and Police Pension Fund to Put Spending Records Online.

The Ohio Police and Fire Pension Fund volunteered to put its spending records online as part of a partnership with State Treasurer Josh Mandel's online checkbook program.

The announcement comes exactly a week after Mandel criticized the Ohio Public Employees Retirement System for not joining his initiative, which can be accessed at OhioCheckbook.com.

Mandel accused OPERS of trying to hide information from the public, which OPERS officials quickly denied.

"The executive director of OPERS feels that taxpayers do not have a right to see this information and she's just flat out wrong," Mandel said today during a press call. "It's dumfounding that they still refuse to volunteer to put their finances online."

OPERS officials have continued to say they support transparency, as evidenced by "extensive financial information" provided on their own website.

"It's disappointing to be continually mischaracterized by the treasurer of state," said Julie Graham-Price, a media representative from OPERS. "We intend to evaluate the online checkbook initiative; unfortunately, it's not on the treasurer's timeline."

OPERS and Mandel have a history of disagreement. The two sides have clashed over who should control where the multibillion-dollar pension fund's resources should be invested among other disagreements over reforms.

The police and fire fund is the first pension fund in the United States, according to Mandel, to volunteer to put their financial information online.

"We see no reason why our members as taxpayers should not be able to see what vendors we use, what services we use, what consultants we use, how much we're paying for our paperclips and pencils, things like that," said John Gallagher, executive director of the fund. Gallagher added that confidential information would not be put on the website.

The pension fund joins more than 100 state and local government entities that have volunteered to put their spending habits online.

"Obviously we're a huge fan of the local government stuff … but it really is important for the pension funds to step it up," said Greg Lawson of the Buckeye Institute, a Columbus-based free market think tank. "It's just a great example of good government."

Mandel's initiative helped the state jump from No. 46 to No. 1 on a U.S. Public Interest Research Group list of transparent states providing online access to government spending.

BY TRIBUNE NEWS SERVICE | OCTOBER 2, 2015

By Dina Berliner

S&P's Public Finance Podcast (Garden City Schools, Michigan, And The Town Of Lawrence, Wisconsin)

In this week's Extra Credit, ratings analysts Anna Uboytseva and Michael Furla discuss what spurred our rating actions on Garden City Schools, Michigan, and the Town of Lawrence, Wisconsin.

Listen to the Podcast.

Oct. 2, 2015

Munis Cheapest in 5 Weeks to Treasuries as Payrolls Fall Short.

Prices in the $3.6 trillion municipal-bond market are the cheapest in five weeks relative to Treasuries after U.S. payrolls rose less than projected in September, spurring a rally in federal government debt on signs the global slowdown is affecting the world's largest economy.

Benchmark 10-year munis yield 2.09 percent, compared with 1.92 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio is a measure of relative value between the asset classes. It reached 109 percent Friday, the highest since August, signaling that tax-free bonds are cheap relative to their federal counterparts.

Ten-year Treasury yields plunged 0.11 percentage point after a Labor Department report showed the U.S. added 142,000 jobs, lower than the median forecast of 201,000 from a Bloomberg survey of 96 economists. Weakening foreign markets, a stronger dollar and lower oil prices raise the risk that employers will hold off on adding workers.

Munis rallied to a smaller degree. As prices rose, the yields on both 10-year and 30-year AAA bonds fell 0.02 percentage point to the lowest since April, data compiled by Bloomberg show.
The 10-year muni-Treasury ratio was as low as 94 percent in July. Over the past decade, the figure has averaged 97 percent.

Bloomberg News

by Brian Chappatta

October 2, 2015 — 6:49 AM PDT

Port Authority Leads Rise in Muni Sales; Redemptions Decline.

Municipal bond sales in the U.S. are set to increase in the next month by the most since March, while the amount of redemptions and maturing debt falls.

States and localities plan to issue $15.3 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $12.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Port Authority of New York and New Jersey plans to sell $2 billion of bonds to refund older securities, Chicago O'Hare International Airport has scheduled $2 billion of mostly refunding debt, Texas Water Development Board will offer $862 million and California will bring $446 million to market.

Municipalities have announced $8.3 billion of redemptions and an additional $8.4 billion of debt matures in the next 30 days, compared with the $25.1 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $2.03 billion, followed by California at $1.16 billion and New Jersey with $602 million. New York City Transitional Finance Authority has the biggest amount of securities maturing, with $916 million.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors added $628 million to mutual funds that target municipal securities in the week ended Sept. 23, compared with a reduction of $589 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $243 million last week, boosting the value of the ETFs 1.4 percent to $17.6 billion.

State and local debt maturing in 10 years now yields 103.873 percent of Treasuries, compared with 103.631 percent in the previous session and the 200-day moving average of 102.526 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 16 basis points to 2.00 percent while Michigan's declined 9 basis points to 2.30 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 72 to 10.69 percent and Illinois's rose 22 basis points to 3.92 percent.

Bloomberg News

by Kenneth Kohn and Luis Daniel Palacios

October 5, 2015 — 4:36 AM PDT Updated on October 5, 2015 — 8:21 AM PDT

How to Pay for Local California Infrastructure Projects? New Website Offers an Answer.

Downtowns are back in demand. After decades of urban sprawl—and the long commutes, high infrastructure and housing costs, and loss of open spaces that accompany it—Californians are ready for something different. It's fair to say that there is a growing consensus among the state's civic leaders that vibrant, walkable communities will be a vital part of sustaining the economy and improving our quality of life.

The question is, how to pay for it?

While market demand for walkable urban places is climbing rapidly—prompting new interest in infill development—this demand has not been supported by reinvestment in the critical infrastructure that denser neighborhoods demand. Nor have communities had access to all the planning and financing tools they need to move ahead quickly with infill projects.

Until now, that is. With the governor's signature last week on a package of legislation that will expand local governments' infrastructure financing powers, civic leaders now have at their fingertips everything they need to begin making investments in projects from transit stations and housing to next-generation water facilities.

On the financing side, the new Enhanced Infrastructure Financing Districts may offer the most exciting possibilities. The California Economic Summit has been working over the last year to strengthen these powers, highlighting how they work and identifying the types of projects that could benefit from them. Mark Pisano, co-lead of the Summit Infrastructure Action Team and professor of the practice of public administration at the USC Sol Price School of Public Policy, recently said the new authority had the "potential to be one of [California's] most significant innovations in public finance over the last decade."

Now, it is time to spread the word—and show every community in California how they could benefit from this new authority. That's why Crowdbrite, a longtime partner of the Summit with a strong track record of expanding civic engagement around public projects, has created a new interactive website for these enhanced districts: www.eifdistricts.com.

Designed for city leaders and residents alike, the site provides details on the new statute, summarizing what types of projects communities can finance with these new authorities and providing short videos with frequently asked questions about the new powers. (No, they're not quite the same as redevelopment).

The site's Infill Score tool also offers a survey that allows users to assess their own community's infrastructure needs, to consider what types of projects could earn community support, and to think about how they might be able to deploy these new financing tools to revitalize their neighborhoods and support infill development. This infill-readiness assessment, which calculates a score based upon a community's record of using 30 unique strategies for incentivizing infill development, builds on the work of the U.S. Environmental Protection Agency and was developed in partnership with the Local Government Commission and a group of city managers and national advisers.

While several major California cities are making plans to use their new EIFD authority (including

Los Angeles, Sacramento, and San Jose), Crowdbrite's new online tool is already beginning to increase awareness of its potential for infill development. Since the website was launched ten days ago, 11 California cities have already completed the survey. Internationally, nearly 1,500 cities have signed up, with 50 cities taking action on this first step to community revitalization.

Now, it's your turn.

Take a moment to calculate your city's Infill Score to gauge your community's readiness for new infill development—and then use the online tool to establish priority projects and identify how to leverage public investment your community's infrastructure projects require.

After that, it may be time to reach out to your city's leaders—and to start reinvesting in your community and building a brighter future.

SEPTEMBER 30, 2015 BY DARIN DINSMORE

Darin Dinsmore is the CEO of Crowdbrite. An urban planner and landscape architect with over 15 years experience in community-based planning and design, Dinsmore is also a member of the Summit Infrastructure Action Team.

CUSIP Request Volume Shows Fourth Consecutive Monthly Decline Among Corporate and Municipal Bond Issuers.

"Everyone in the financial markets – including issuers of new debt – is focused on the prospect of the Fed raising rates in September; we're seeing that reflected in the CUSIP data," said Richard Peterson, Senior Director of Global Markets Intelligence, S&P Capital IQ. "The combination of increased market volatility and uncertainty around interest rates has created a perfect storm for a slowdown in new issuance. The question now is: how long will it last?"

Read the Press Release.

September 15, 2015

Chicago Okays $2.7 Billion in Bond Sales Amid Credit Rating Warnings.

CHICAGO — Chicago is poised to issue more than $2.7 billion of debt amid warnings that its core credit ratings could be downgraded depending on the outcome of the city's fiscal 2016 budget.

Both Standard & Poor's and Fitch Ratings said this week they could downgrade Chicago's BBB-plus general obligation ratings if the city does not adequately address escalating pension payments.

"If the final budget that is adopted by the end of the calendar year fails to cover the larger pension payments with an identifiable and reliable revenue source, it would likely strain the rating, potentially resulting in the rating being lowered by multiple notches," S&P said in a report.

Fitch Ratings said Chicago risks a downgrade if it fails to put pension payments on a solid funding path or raids budget reserves. Moody's Investors Service, which dropped Chicago's rating to junk in May, withheld comment until a final budget is enacted.

Mayor Rahm Emanuel proposed a budget on Tuesday that includes the biggest-ever city property tax hike to cover increased contributions to public safety worker pensions.

To make the $543 million tax hike, phased in through 2018, palatable to city aldermen, Emanuel is seeking an expanded tax exemption in the Illinois Legislature to shield homes valued at $250,000 or less from the increase. His budget also counts on enactment of a bill that spreads out the city's police and fire pension payments.

Additionally, Chicago is betting the Illinois Supreme Court will uphold the constitutionality of a state law aimed at shoring up the sagging finances of its municipal and laborers' retirement systems, partly through benefit cuts.

S&P said that given these "uncertainties," it expects city officials to consider contingency plans for addressing a $20 billion unfunded pension liability.

At a press conference on Thursday, Emanuel said the city is "on strong ground" with its legislative efforts.

Earlier, the city council gave final approval to the sale of up to $500 million of general obligation bonds in a deal that will push out payments on $225 million of outstanding debt and refund the rest for possible savings.

Aldermen also approved up to $2 billion of new and refunding O'Hare Airport revenue bonds and up to $225 million of sewer bonds, including $125 million to end interest-rate swap agreements. The airport and sewer bonds are expected to price in October, with the GO bonds selling in the coming months, a city spokeswoman said.

By REUTERS

SEPT. 24, 2015, 3:33 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by David Gregorio)

Chicago Faces Tax Increase, Rise in Fees.

CHICAGO — Mayor Rahm Emanuel is proposing a historic property tax increase, while expanding fees on trash collection and taxi rides under a plan to confront a growing fiscal crisis in the nation's third largest city.

The proposal comes months into the second term of Mr. Emanuel, a former congressman and chief of staff to President Barack Obama, as he runs out of options to address ballooning pension costs that are coming due.

During his first term, the mayor focused on trying to gain concessions from city workers and retirees, but was stymied by the courts and organized labor.

Mr. Emanuel's plan would raise an additional $544 million from property taxes alone phased in over four years under what is being described as the largest tax rise in city history. He also proposes raising additional revenue by taxing e-cigarettes, expanding fees on garbage pickup, and adding fees on taxi and ride-sharing services.

“As we continue to grow our economy, create jobs and attract families and business to Chicago, our fiscal challenges are blocking our path,” Mr. Emanuel said in a statement.

Details of the proposal were released by the Emanuel administration Monday ahead of his budget address to the city council on Tuesday.

Parts of the plan leaked in recent weeks have faced pushback from some aldermen and public rebuke at hearings. Many have voiced concerns about the cost to working families.

“We must ask the very wealthy and big corporations to pay their fair share in taxes so we can finally fix our structural deficit and get on track to fiscal sanity,” said Alderman Leslie Hairston, who is among the council members pushing for tax rebates for working families and changes in how commercial buildings are taxed.

The Emanuel administration said it would seek changes in state law to protect those who own homes valued at $250,000 or less from the brunt of the tax increase.

The proposal comes as Mr. Emanuel looks to keep Chicago from becoming an increasing outlier among U.S. cities. The Midwest hub faces many of the challenges that other aging cities are experiencing, from population declines to crumbling infrastructure.

But sharply rising municipal pension costs and mounting state fiscal problems have helped set Chicago apart. Moody’s Investors Service dropped the city’s credit rating to junk earlier this year.

Mr. Emanuel’s proposal includes cost savings from eliminating vacant positions to redesigning how streets are swept, but largely relies on new revenue to confront its fiscal problems.

The property-tax boost would go to pay for a $550 million increase in pension costs for police officers and firefighters required by the state to ensure their retirement systems remain solvent. The Emanuel administration is lobbying the state to allow the hike to be phased in over time, matching the property-tax-increase schedule.

Administration officials said the mayor has few options.

During his first term, Mr. Emanuel had focused on reaching agreements with city workers to lower pension expenses by reducing cost of living increases and requiring current employee to increase their contributions. But a court ruling in July derailed such efforts, saying the city couldn’t change already promised retirement benefits.

Monday’s proposal is separate from the Chicago school district’s budget, which isn’t funded through the school year and is counting on help from the state.

THE WALL STREET JOURNAL

By MARK PETERS

Updated Sept. 21, 2015 8:07 p.m. ET

Write to Mark Peters at mark.peters@wsj.com

Puerto Rico Sends Reassurance as Debt Talks Poised to Begin.

Puerto Rico's pledge to take the constitutional priority of its general-obligation bonds in consideration is seen as a message that the commonwealth is willing to work with investors as debt restructuring talks begin.

"It's an important step for them just to reinforce that there are rules and that they know that there are rules and that they're going to be trying to work around them with bondholders," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "Maybe that works, maybe it doesn't."

Administration officials tasked with reducing the island's debt load or suspending debt-service payments met Thursday with Governor Alejandro Garcia Padilla and lawmakers to develop guidelines for a potential voluntary exchange of existing debt for new bonds with possible security improvements, according to a document released late Thursday. Those principles include seeking to take into account the priorities of the debt that creditors hold.

Puerto Rico has $13 billion of general-obligation debt outstanding, which the island's constitution stipulates must be repaid first. Other securities are backed by specific revenues and lack that protection. Acknowledging that it would seek to respect the constitutional priority of its general obligations may help Puerto Rico in the future when it looks to borrow through the capital markets, said Fabian.

Puerto Rico's government and its advisers said on Sept. 9 that a proposal to pare the commonwealth's debt would be released in a few weeks. The government plans to start meeting with investors by mid-October to begin negotiations.

Puerto Rico has already initiated talks with advisers to bondholders of Government Development Bank debt, seeking to potentially exchange those obligations for new securities. About $336 million of GDB debt matures Dec. 1.

Here's a list of the island's biggest bond issuers, how much long-term debt they have, and when major monthly payments are due, according to data compiled by Bloomberg.

General-obligations: $13 billion. The debt backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Puerto Rico owes $357 million of interest in January and an additional $805 million of principal and interest is due July 1.

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. The bonds, known by the Spanish acronym Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. After paying $12.5 million of principal and interest in August, $1.2 million of interest is due in November, February and again in May.

Puerto Rico Electric Power Authority: $8.3 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. The utility owes $196 million of interest in January and $420 million of principal and interest July 1.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The GDB is seeking to restructure its obligations through a debt exchange. The bank owes $354 million in December and

$422 million in May.

Puerto Rico Highways & Transportation Authority: $4.7 billion. The highway agency repays its debt with gas-tax revenue. It owes $106 million of interest in January and $220.7 million of principal and interest in July.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue from public agencies and departments of the commonwealth. The agency owes $102.4 million of interest in January and $207.6 million of principal and interest in July.

Puerto Rico Aqueduct & Sewer Authority: $4 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. The water agency owes $86.5 million of interest in January and $135.1 million of principal and interest in July.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's main pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The next maturity is July 2023 and the system pays $13.9 million of interest every month in this budget year.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Prifa owes $37.2 million of interest in January and $77.8 million of principal and interest in July.

Puerto Rico Public Finance Corp.: $1.09 billion. The PFC bonds are repaid with money appropriated by the legislature. The agency defaulted on its Aug. 3 and Sept. 1 debt-service payments because the legislature failed to allocate the funds. It owes interest every month, the largest being a $24 million payment in February.

Bloomberg News

by Michelle Kaske

September 25, 2015 — 12:59 PM PDT

[Bloomberg Brief Weekly Video - 09/24/15]

Taylor Riggs, an editor at Bloomberg Brief, talks with reporter Kate Smith about this week's municipal market news.

[Watch the video.]

September 24, 2015

[Puerto Rico's Bonds Overshadow Pension Fund Poised to Go Broke.]

Puerto Rico's $72 billion debt burden overshadows another financial threat to the Caribbean island: a government workers pension fund that's set to go broke in five years.

As Governor Alejandro Garcia Padilla prepares to push for bondholders to renegotiate debts he says the commonwealth can't afford, he's also contending with an estimated $30 billion shortfall in the Employees Retirement System. The pension, which covers 119,975 employees, as of June 2014 had just 0.7 percent of the assets needed to pay all the benefits that had been promised, a level unheard of among U.S. states.

If not fixed, the depleted fund could jeopardize a fiscal recovery by foisting soaring bills onto the cash-strapped government even if investors agree to reduce the island's debt. The system is poised to run out of money by 2020, which would leave the government on the hook for more than $2 billion in benefit payments the next year alone, according to Moody's Investor's Service. That's equal to about one-fourth of this year's general-fund revenue.

"As Puerto Rico shoulders that burden of paying for pension benefits outright, that's obviously going to cripple their budget," said Ted Hampton, a Moody's analyst in New York.

Crisis Builds

The debt crisis gripping the island, with a population of 3.5 million, is the outcome of years of borrowing to pay bills while the economy stumbled and residents left for the U.S. mainland. In August, Puerto Rico defaulted on some bonds for the first time, and Garcia Padilla has said that reducing its debt is crucial to the island's economic recovery.

His administration and outside advisers on Sept. 9 released a plan to repair the island's finances, which included closing schools and reducing benefits to the poor. It also envisions making increased pension payments that have been delayed because the government hasn't had the money.

"We believe this plan addresses the system's needs and assures pensioners and participants that their benefits will be paid," Pedro Ortiz Cortes, administrator for the retirement system, said in an e-mail Thursday.

Workers' Doubts

Puerto Rico's failure so far to address its long-building pension shortfall has fostered anxiety among workers, who are concerned that their benefits will be reduced amid competing demands from creditors. "A reduction in benefits would be horrible," said Eduard Rodriguez Santiago, a 38-year old firefighter. "Things are getting more expensive."

Garcia Padilla, in a speech after the release of the fiscal plan, said that workers have already sacrificed enough. In 2013, the government raised the retirement age, increased employee contributions and reduced or eliminated retiree bonuses.

"Solving the pension problem is almost tougher than debt because people will take to the streets if you start seeing pension checks quit going out," said Tom Schuette, co-head of credit research at Solana Beach, California-based Gurtin Fixed Income Management LLC, which manages $9.6 billion of municipal securities. "It's almost much easier to anger investors on the mainland as opposed to residents who can vote you out of office."

Current and prior administrations have implemented changes to improve the pension system, including by closing it to new employees and offering them annuities instead. To give it cash to invest, it sold $2.9 billion of bonds in 2008, just before the credit crisis caused stock prices to plunge. The system is now obligated to repay the securities, which have tumbled in value amid doubts about its ability to do so.

As Puerto Rico has cut the number of workers on its payrolls, there are fewer paying into the retirement system. The island had 116,000 central-government employees in May 2015, down 27 percent from seven years earlier, according to the report by the government and its advisers.

While new employees haven't been eligible for traditional fixed-benefit pensions since 2000, the step didn't stop Puerto Rico's growing liabilities. The new employees, called System 2000 participants, will receive an annuity instead. Their contributions are being used by the pension system to meet its obligations.

New Liabilities

"They're using these payments to shore up their existing defined-benefit plan," said Hampton, the Moody's analyst. "Their defined-contribution plan isn't really taking hold. It's just creating new liabilities for the central government."

Puerto Rico is facing more immediate concerns because it may be short of cash as soon as November. That may leave it forced to choose between paying workers and retirees or bondholders, with $357 million of interest on its general obligations due Jan. 1.

"If the government has to decide between making a big general-obligation payment in January or making sure they have enough for payroll or for pensioners in December, I think they're going to go with the pensioners or payroll," Sergio Marxuach, public-policy director at the Center for a New Economy, a research group in San Juan. "You're not going to send government workers home without money during Christmastime."

Bloomberg News

by Michelle Kaske

September 24, 2015 — 9:01 PM PDT Updated on September 25, 2015 — 5:33 AM PDT

Puerto Rico Agency Reaches Tentative Pact With Fuel Lenders.

Puerto Rico's main power utility reached a tentative agreement with lenders on fuel purchases that would reduce interest rates on $700 million of debt that has already matured and extend repayment for at least six years.

The Puerto Rico Electric Power Authority and lenders including a unit of Bank of Nova Scotia and Solus Alternative Asset Management agreed to convert the debt, which matured in 2014, into six-year term loans with a 5.75 percent interest rate or exchange all or part of the principal due under existing credit agreements for new bonds. The securitized debt would include a 15 percent principal reduction and a five-year moratorium on payments.

The principal reduction is equal to the amount accepted by holders of about 35 percent of its $8.3 billion in bonds earlier this month. The utility, known as Prepa, is still in talks with tax-exempt bond insurers in what would be the largest-ever restructuring in the $3.6 trillion municipal-bond market.

The utility restructuring is the first step toward Puerto Rico's goal to lower its debt burden.

"The terms for those lenders are very attractive in this agreement, but the total amount is small and

Prepa needs access to fresh fuel financing," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

The tentative pact comes a year after the fuel lenders entered a forbearance agreement, where they pledged to not file suit against Prepa while the debt talks were ongoing. That accord was set to expire Sept. 25.

Bond Insurers

"The best path forward for Prepa, as well as the creditors, involves sharing the burden among all stakeholders. We continue to negotiate with our monoline bond insurers in an effort to reach agreement that will allow Prepa to continue to implement its transformation," said Lisa Donahue, Prepa's chief restructuring officer, said in a statement Tuesday.

Prepa owed Scotiabank de Puerto Rico about $550 million as of August 2014, according to the forbearance agreement. The utility owed another $146 million to Citigroup Inc. as of that period. Solus bought that loan from Citigroup earlier this year. The agreement would lower interest rates to 5.75 percent from 7.25 percent, according to Prepa's statement.

"We are pleased that the syndicate of fuel-line lenders and Prepa have reached a mutually beneficial agreement in principle to support Prepa's ongoing operational transformation," Marcelo Gomez-Wiuckstern, a spokesman for Scotiabank, said in an e-mail.

Solus declined to comment through Julia Kosygina, a representative at Abernathy MacGregor Group Inc.
Bond insurers including Assured Guarantee Ltd. and Syncora Guarantee Inc. declined to extend their forbearance contract beyond Sept. 18. MBIA Inc. dropped out of the forbearance earlier this month. An accord with bondholders will expire Oct. 1 unless the parties extend it.

Bloomberg News

by Michelle Kaske

September 22, 2015 — 1:27 PM PDT Updated on September 22, 2015 — 2:43 PM PDT

BlackRock Sees Higher Puerto Rico Gap Than Morgan Stanley.

Puerto Rico's five-year budget deficit leans closer to the commonwealth's $14 billion forecast rather than a Morgan Stanley estimate that cuts that figure by more than half, according to BlackRock Inc.'s Peter Hayes.

Commonwealth officials and their advisers, called the Working Group, unveiled on Sept. 9 a five-year fiscal and economic growth plan that projects the island's budget will be short $14 billion because of increasing health-care expenses and retirement costs. The report's base-case scenario estimates the island's gross national product will decline by one percent and may increase by as much as 2 percent in a high-growth scenario, according to the plan.

One Morgan Stanley scenario takes a different view. Puerto Rico has overestimated its funding gap, according to a presentation distributed Sept. 11 by Ryan Brady, an analyst on Morgan Stanley's municipal-debt trading desk in New York. The bank estimates a $5.57 billion deficit through fiscal

2020, according to the report. Yet that forecast may be too low, Hayes said Tuesday on Bloomberg Television.

“We’re on the higher side,” said Hayes, who helps oversee $116 billion as head of municipal debt, including Puerto Rico securities, at New York-based BlackRock. “We think some of the economic assumptions are well founded,” Hayes said about the Working Group’s estimates.

How to best gauge Puerto Rico’s estimates are even in dispute within Morgan Stanley. Research analysts led by Michael Zezas, who work separately from the trading desk, put out a note the day before Brady’s presentation stating that “we could not patch together a budget baseline with a strong enough degree of confidence.”

Puerto Rico and its agencies owe $72 billion. Officials plan to offer investors a debt-restructuring proposal in the next few weeks after saying the commonwealth will only have $5 billion in the next five years to repay $18 billion of principal and interest coming due. Governor Alejandro Garcia Padilla in June said Puerto Rico and its localities were unable to repay all of its obligations on time and in full.

The Working Group’s five-year plan follows a report compiled by former International Monetary Fund economists led by Anne Krueger and commissioned by Puerto Rico. The Krueger report calculates a five-year deficit of $9.6 billion.

“When you look at the economy of Puerto Rico, there’s a lot of reforms that need to take place,” Hayes said. “And if they don’t, it’s likely that deficit is going to be higher rather than smaller.”

Bloomberg News

by Michelle Kaske

September 22, 2015 — 11:48 AM PDT Updated on September 22, 2015 — 12:32 PM PDT

Goldman Sachs to Extend Maturity Date of Headquarter Bonds.

Goldman Sachs Group Inc. is extending the life of some debt that financed its downtown Manhattan headquarters.

The New York Liberty Development Corp. plans to issue $22 million of tax-free debt on behalf of a Goldman Sachs subsidiary that funded construction of the firm’s 1.9 million-square-foot building at 200 West Street. The 20-year bonds will be tacked onto its outstanding $1.24 billion of securities due in 2035 that were sold 10 years ago. Proceeds will pay off owners of obligations that mature Oct. 1, according to offering documents.

The New York agency, which was created to spur development after the terrorist attacks on Sept. 11, 2001, is an example of conduit agencies across the U.S. that give companies access to the tax-exempt securities market to reduce interest costs. Goldman Sachs initially borrowed about $1.3 billion in 2005 through the Liberty Bond program, which was projected to save it at least $100 million over the life of the debt.

Trade Center

"This is a relatively small chunk of the deal that's coming due and to try to re-market that separately can be difficult," Jonathan Beyer, senior legal counsel at Empire State Development, said at a Sept. 1 meeting. The Liberty Development Corporation is a subsidiary of the firm. "The idea is to extend the maturity and consolidate it in a larger package for sale."

Others who have tapped the public corporation for financing include developer Larry Silverstein, who sold $1.6 billion of tax-exempt bonds last year to finance the construction of 3 World Trade Center, and Bank of America Corp., which borrowed for its tower across from Bryant Park in midtown Manhattan.

The new bonds for Goldman Sachs are considered a second tranche of the 2005 borrowing and will carry the same 5.25 percent interest rate as the 2035 debt. The securities could still be priced at a lower yield. Municipal debt due in two decades yield 0.6 percentage point less than 10 years ago, Bond Buyer data show.

While a security reopening is common in the U.S. Treasury market, it's rare in the $3.6 trillion municipal market. In such a transaction, a borrower sells an extra portion of previously issued debt with the same maturity and interest rate, even though it comes to market later at a different price.

The bonds have the same ratings as Goldman Sachs, which guarantees the debt service payments of its subsidiary. Moody's Investors Service has the debt at A3, four steps above speculative grade and equivalent to the A- rank from Standard and Poor's.

Tiffany Galvin, a spokeswoman in New York for Goldman Sachs, declined to comment on the deal beyond the offering statement.

Bloomberg News

by Brian Chappatta

September 22, 2015 — 9:07 AM PDT Updated on September 22, 2015 — 1:38 PM PDT

[Bloomberg Video: What's Behind the Municipal Bond Mess?]

BlackRock Municipal Bond Head Peter Hayes discusses municipal bonds and Puerto Rico's debt. Bloomberg's Kate Smith also reports on "Bloomberg Markets."

[Watch the video.]

September 22, 2015

[Chicago Faces Record Tax Hike as Pensions Compound Deficit.]

Chicagoans are bracing for the biggest property tax increase in the city's history as Mayor Rahm Emanuel contends with a budget shortfall and soaring retirement bills that have sent its credit rating tumbling.

Emanuel, a Democrat, on Tuesday proposed raising property taxes by $588 million over the next four years. That would inject cash into the city as it faces a $426 million deficit and a pension-plan debt that's grown to $20 billion, more than $7,000 for each resident.

The tax increase would mark one of the biggest steps yet by Emanuel to shore up the finances of the third-largest U.S. city, which is under pressure from Wall Street as investors demand higher yields to buy its securities. Moody's Investors Service, Standard & Poor's and Fitch Ratings have all downgraded Chicago this year, giving it the lowest rating of any big U.S. city except for once-bankrupt Detroit.

"Our greatest financial challenge today is the exploding cost of unpaid pensions," Emanuel said during his budget speech, which ended with a standing ovation from the packed city council chamber. "It's a dark cloud that hangs over the rest of our city's finances."

"The bill is due today," Emanuel said. Without the new revenue, the city would need to lay off 2,500 police officers, close 48 fire stations and cut 2,000 firefighting jobs to cover pensions costs, he said.

Welcomed Move

The prospect of higher taxes has been welcomed by investors. Federally tax-exempt Chicago bonds maturing in 2035 traded Tuesday for an average of 94.6 cents on the dollar, up from 88.7 cents on Aug. 27. That lowered the yield to 5.5 percent, about 2.5 percentage points more than top-rated debt, according to data compiled by Bloomberg.

"This is not kicking the can down the road," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which holds Chicago debt among its $11 billion of municipal securities. "We're actually going to do something here that is going to sting. We're moving from gamesmanship to action steps."

The financial squeeze on Chicago emerged after officials shortchanged the pension funds by more than $7 billion over the past decade, freeing up cash for other uses. That's caused the projected retirement bill to swell to about $1 billion next year, more than doubling since 2014, as it makes up for years of failing to set aside enough to cover pension checks for police officers, firefighters and other city employees.

The move to raise taxes, which needs the approval of the city council, is a shift for Emanuel, who won re-election in April after touting his record of not lifting property, gas or sales taxes. In May, Moody's cut Chicago's bonds to junk, saddling the city with higher interest bills as it refinanced debt.

"I think that public service requires people to display courage and to take tough votes," Alderman Edward Burke, chairman of the finance committee told reporters after Emanuel's address. "This is going to be a tough vote."

The property tax hike, which will be used for pensions, will start with a $318 million increase in 2015 followed by an additional $109 million in 2016, $53 million in 2017 and $63 million in 2018. A $45 million special real-estate levy that state lawmakers approved in 2003 would also be enacted to ease overcrowding at schools.

"It's a good faith example of what Chicago needs to kind of right their ship and improve their finances," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "It's not going to solve all the problems of the world, but they're taking the right steps and that's important."

Chicago’s next annual pension payment will jump 10 percent $976 million, according to an annual financial analysis released July 31. That’s on top of the $549 million it still owes to police and firefighter retirement funds for this year. While state lawmakers approved lowering this year’s payment to $328 million, Republican Governor Bruce Rauner has yet to sign it.

The city is also fighting a court challenge to its effort to cut some employee benefits and require them to pay more into the retirement system. A state judge in July ruled that the steps are illegal, siding with the workers.

Business Opposition

The tax-increase plan has already drawn some opposition from businesses. The burden may fall largely on commercial property owners, said Ron Tabaczynski, director of government affairs for the Building Owners and Managers Association of Chicago. Emanuel wants to exempt owners of homes valued at $250,000 or less from the hike.

“Businesses start rapidly approaching that tipping point where it’s just not worth doing business here,” Tabaczynski said.

The fiscal pain is being shared in other ways. Residents who don’t already pay for garbage pick-up will have to pay $9.50 a month for refuse collection, generating about $62.7 million, according to Emanuel’s proposal. He’s also pitching higher fees on taxis and ride-hailing services like Uber Technolgies Inc. to produce about $48.6 million.

This tax increase is welcome step toward dealing with Chicago’s financial strains, said Dan Heckman, senior fixed-income strategist in Kansas City, Missouri, at U.S. Bank Wealth Management, which oversees about $127 billion of bonds.

“Doing nothing is not going to solve it, and doing only a little will only prolong this,” said Heckman, whose firm doesn’t hold Chicago debt. “That’s a concern on a lot of investors’ minds.”

Bloomberg News

by Elizabeth Campbell

September 21, 2015 — 3:46 PM PDT Updated on September 22, 2015 — 10:36 AM PDT

PortMiami Hoping to Continue P3 Success.

A new public private partnership (“P3″ or “PPP”) is coming to PortMiami. Royal Caribbean Cruises, LTD (“RCCL”) seeks to design, build, finance, operate, and maintain a new cruise terminal in the northeast section of the Port. RCCL’s plans have been preliminarily memorialized in a non-binding Memorandum of Understanding that was approved at this Wednesday’s Miami-Dade County Commission meeting. Subsequent Commission approvals will be needed for the binding deal documents and agreements.

Typical of a P3, RCCL will do more than simply enter into a ground lease for space in a terminal. It will share the risk of designing, constructing, operating, and most importantly to the Port, financing the terminal. The maintenance responsibilities will be split between maintenance of the leasehold improvements by RCCL and maintenance of the common areas outside the leased premises by the

County, satisfying the remaining “M” element in the DBFOM (design, build, finance, operate, maintain) acronym that is used to characterize a P3.

The P3 with RCCL comes after the successful completion of the Port Tunnel P3 that has garnered a visit and praise from President Obama who extolled it as an example of the kind of P3 that should be used around the country to modernize aging transportation infrastructure. The $1 billion P3 was built because it was expected to divert vehicles from and reduce congestion in Downtown Miami and reduce travel time to and from the Port. In less than a year, the Port Tunnel met and even exceeded many expectations.

The Port Tunnel P3 was structured as an availability payment-based concession agreement. With this financing structure, the private-sector partner constructs, operates, and maintains the facility with its own funds, and the public agency (in the case of the Port Tunnel, Florida Department of Transportation) makes payments to its partner based on the project’s availability for use by the public. The public agency bears risks pertaining to the demand for the facility because the amount it pays to the private sector party does not change even if the project is not used to the extent anticipated, though the availability fee may be offset with user fees received from public use of the project or facility. The risk for the private party includes the fact that this fee structure relies on the public budget, which may be subject to budgetary conditions and constraints and political pressure. There are also risks pertaining to delays, repairs, and increased costs that could lead to the private-sector partner missing key deadlines or taking the project out of service, which would lead to penalties for unavailability.

PortMiami is likely to also have new commercial development on its southwest corner given the interest that has been expressed by several groups, including one whose request for waiver of a competitive process was rejected. As Miami-Dade County continues to make strides in financing projects and providing solutions to infrastructure problems with P3s, it can look to the success at the Port as assurance that P3s can do well in Miami-Dade County.

posted on: Monday, September 21, 2015

The National Law Review

[S&P's Public Finance Podcast: (The Rating Action On New Mexico State University).]

In this week’s Extra Credit segment, Director Bianca Gaytan-Burrell discusses what prompted our recent rating action on New Mexico State University.

Listen to the podcast.

Sep. 25, 2015

Rhode Island Averts Pension Disaster Without Raising Taxes.

Chicago is facing its biggest tax increase in memory, to raise money for pension payments. Illinois is stymied by a $110 billion pension shortfall. In New Jersey, public workers are in court over a failed pension deal. From Pennsylvania to California, pensions costs are crowding out aid for public education.

But even as pensions keep squeezing budgets and setting off court battles around the country, Rhode Island, America's smallest state, appears to have found its way out of the quagmire. Its governor, Gina M. Raimondo, has finished a four-year pension overhaul without raising taxes or issuing risky pension-obligation bonds. Union leaders who fought her at first ultimately negotiated the terms, deciding that a court fight over her plan might do more harm than good.

"Raimondo had the highest hill to climb," said Daniel DiSalvo, a senior fellow at the Manhattan Institute who has been comparing different states' efforts to rein in pension costs. Her initiative was among the most ambitious, he said, and she started "from what was, in many respects, the weakest institutional position."

Her experience, Mr. DiSalvo and others say, could be a case study for other states and municipalities struggling with pensions and other long-term obligations that cost much more than expected. And the timing could hardly be more critical, given predictions that the fiscal health of state and local governments is likely to remain under stress for years as the population ages.

"We may be entering a new fiscal ice age," a long period when demographic forces will make financing cities and states even harder than it is now, Mr. DiSalvo said.

That is not to say everyone is happy with the result. To the contrary, bitterness remains in Rhode Island, where public retirees' annual increases have been suspended, and public workers have had to trade in part of their defined-benefit pension plan for a 401(k)-style benefit, where they must bear investment risk.

"No other entity would get away with what the State of Rhode Island is doing to their retirees," said Louise Bright, a retired state financial manager, who had wanted a trial to resolve key legal issues. "A contract is a contract, even when that contract involves senior citizens."

Ms. Raimondo, who started her battle as state treasurer, faced obstacles not unlike those confronting Mayor Rahm Emanuel of Chicago: entrenched political machinery, powerful unions, a decades-old practice of promising rich pensions without setting aside enough money to pay them, truculent taxpayers, record numbers of retirees and an all-enveloping fog of discredited numbers. Both are Democrats in blue states. Both had to deal with "mature" pension systems that were paying out more in benefits than they were receiving in contributions, a situation that can quickly become unmanageable.

But Ms. Raimondo was able to revamp her state's pension system, keeping some of the traditional structure while lowering the cost, and surviving lawsuits by workers and retirees who called her moves unconstitutional.

Mr. Emanuel's attempts to rein in pension costs, in contrast, have been thrown out by a judge, leading to his appeal this week for a big tax increase.

"Our greatest financial challenge today is the exploding cost of our unpaid pensions," he told the Chicago City Council on Tuesday. "It is a big dark cloud that hangs over the rest of our city's finances." Without raising taxes, he warned, Chicago will have to finance its pension promises by laying off thousands of police officers and firefighters, ending rat-control programs and letting street repairs lapse, among other cost-cutting measures.

“Our city would become unlivable,” he said.

That is the bullet Ms. Raimondo has dodged. A former venture capitalist and Rhodes Scholar with an economics degree from Harvard, she could see early on that her state’s cheery pension disclosures were papering over a crisis.

Ms. Raimondo was also willing to rest her case for a pension makeover on a contrarian interpretation of the law and hold firm when the unions sued.

“We thought we had a good case,” she said, “but most important, I knew I couldn’t be afraid of a potential lawsuit.”

Ms. Raimondo also had a quirk of the law on her side. In most states, lawmakers or the courts have taken steps to make public pension systems creatures of contract law, as opposed to mere creatures of statute. This may sound obscure, but the difference is critical. Statutes are relatively easy to change — lawmakers just amend the law. But states that want to tear up pension contracts face an uphill fight, because of a clause in the United States Constitution that bars them from enacting any law that retroactively impairs contract rights.

The clause dates to post-Revolutionary America, when the framers wanted to stop the states from giving themselves debt relief. Since then, similar clauses have been added to state constitutions as well. And over the last century, many states have extended the contract clause to cover their pension systems.

But in Rhode Island, Ms. Raimondo said, lawmakers never got around to making the state pension system contractual. “In every state it’s different, but in Rhode Island, the whole pension system is set out in statute.”

Unions disputed that, but Ms. Raimondo forged ahead based on her conviction. That gave her a big tactical advantage: All she had to do was persuade the state legislature to amend the pension law, something it had already done many times.

Compare that with Mr. Emanuel’s predicament.

Unlike Rhode Island, Illinois did make public pensions contractual. Its constitution bars cities like Chicago from imposing pension cuts on their workers.

So while Ms. Raimondo was able to move toward her statutory goal in Rhode Island, Mr. Emanuel has been left haggling with 33 unions in Chicago, trying to find common ground for a makeover that would shrink pensions but fund them properly.

Eventually, he did get buy-in from all but three unions and from state lawmakers in Springfield. The city even programmed pension changes into its computers. But then the deal fell apart, when a small number of holdouts won an injunction. Chicago was ordered to wait for the State Supreme Court to decide the constitutionality of a separate pension overhaul by the state. The court found it unconstitutional and not long after that, a Cook County judge said the ruling was binding on Chicago, too.

And that is why Mr. Emanuel is calling for a big tax increase.

For Ms. Raimondo, persuading the state legislature to do radical pension surgery was a matter of explaining the depths of the problems. She began a series of town hall meetings, where she said that the state had promised its workers far more than it could deliver. The mismatch was so big that if the pension system collapsed, it could take the state down with it, she warned.

And then, in the middle of her road show, the small city of Central Falls went bankrupt. It had never joined the state pension system, preferring to run its own plan, and now its pension fund for police officers and firefighters had run completely out of money. The pensions of retirees, some elderly and infirm, were cut sharply.

"You'd see them interviewed on the nightly news," Ms. Raimondo recalled. "These were guys who did everything right. They followed all the rules, and then their city went bankrupt and their pensions were cut in half."

That was a persuasive moment for lawmakers. In November 2011, Gov. Lincoln Chafee called the legislature into special session. Amendments to the pension law passed overwhelmingly, allowing cuts to be made.

Unions and retiree groups sued, and the judge hearing the dispute, Sarah Taft-Carter, said early on that unlike Ms. Raimondo, she saw an "implicit contract" protecting public pensions in Rhode Island. But that was not the end of it. Contract jurisprudence still gives a state some wiggle room to unilaterally impair contracts, under narrow circumstances and with close judicial supervision.

Judge Taft-Carter ordered the state and the unions to try to resolve their disputes in mediation, warning that if they failed, there would be a jury trial.

Confidential talks began, but in the meantime, the state was permitted to carry out the changes.

A settlement finally emerged this year, which, among other things, gave one-time payments to current retirees, to soften the blow of losing their cost-of-living adjustments. Judge Taft-Carter held a "fairness hearing," giving those affected a chance to sound off. Many expressed anger. But one union leader, Robert Walsh of the National Education Association of Rhode Island, said that after much soul-searching he had decided to support the settlement as the best deal for his 7,500 members.

A settlement, he said, "can be fair and heartbreaking at the same time."

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

SEPT. 25, 2015

U.S. Municipal Debt Sales to Hit $6.9 Billion Next Week.

Next week's sale of $6.9 billion of bonds and notes in the U.S. municipal market will feature hefty debt offerings from two states, according to Thomson Reuters estimates on Friday.

Washington state tops the week's calendar at $944 million.

This includes $497.8 million of general obligation bonds it is offering via competitive bid in part on Wednesday and through Bank of America Merrill Lynch in part on Monday. Those bonds carry serial maturities from 2016 through 2040, according to the preliminary official statement.

The state will also competitively sell nearly $192 million of motor fuel tax GO bonds due from 2016 through 2040, $60.7 million of taxable GO bonds maturing from 2016 through 2021, and $193.7 million of GO refunding bonds maturing from 2016 through 2024.

The bonds are rated AA-plus by Standard & Poor's and Fitch Ratings, and Aa1 by Moody's Investors Service.

Connecticut will sell $840 million of new and refunding special tax obligation bonds for transportation infrastructure through lead underwriter RBC Capital Markets. The deal is structured with $700 million of new bonds with serial maturities from 2016 through 2035 and $140 million of refunding bonds maturing from 2018 through 2027, according to the preliminary official statement.

Moody's rated the bonds Aa3, and Fitch rated them AA.

Meanwhile, flows into U.S. municipal bond funds turned positive in the latest week after four straight weeks of outflows, according to Lipper.

Net inflows totaled $231 million in the week ended on Sept. 23, the most since the week ended on April 29.

REUTERS

Sep 25, 2015

(Reporting by Karen Pierog; Editing by Lisa Von Ahn)

Senate Finance Panel Hearing Set On Puerto Rico's Fiscal Health.

WASHINGTON – The Senate Finance Committee will hold a hearing on Sept. 29 to discuss the "dire financial situation" in Puerto Rico, committee chair Sen. Orrin Hatch, R-Utah, said Tuesday.

The situation "facing Puerto Rico's economy and its citizens underscores the alarming consequences of crippling debt," Hatch said. "With outstanding debt greater than its economic output, the territory faces default unless a responsible long-term fiscal path forward is found."

The committee has not announced witnesses for the hearing, but Resident Commissioner Pedro Pierluisi, D-PR announced that he has been invited to testify. Gov. Alejandro Garcia Padilla, a Democrat, has also been invited to testify, according to Pierluisi, who said he expects the governor to send a representative.

Hatch said members of the Finance Committee will "have the opportunity to explore how the territory manages its finances and government-backed borrowing entities as well as the interplay between federal entitlement and tax programs and Puerto Rico."

In addition to chairing the Finance Committee, Hatch also sits on the Senate Judiciary Committee, where a bill to extend Chapter 9 bankruptcy protection to Puerto Rico authorities and municipalities has not moved since it was introduced July 15.That bill was introduced by Sens. Richard Blumenthal, D-Conn., and Chuck Schumer, D-N.Y.

A companion bill introduced in February by Pierluisi, has similarly remained stagnant in the House Judiciary Committee.

Sen. Chuck Grassley, R-Iowa, and Rep. Bob Goodlatte, R-Va., who chair the two committees, have said they do not intend to advance the bills unless other avenues are considered.

While the Obama administration and others, are pushing for Congress to extend bankruptcy protections to the territory, groups such as 60 Plus Association, a seniors' advocacy organization, want to see the creation of a federal financial control board.

Puerto Rico continues to struggle with $71 billion in public debt. Gov. Alejandro Garcia Padilla has repeatedly said the debt is not payable without restructuring. Officials on the island recently made numerous suggestions for remedying the situation in the form of an economic growth plan a government working group released Sept. 9. The plan incorporates stimulus measures, spending cuts, fiscal reforms and the creation of a local financial control board.

THE BOND BUYER

BY JACK CASEY

SEP 22, 2015 6:06pm ET

[Puerto Rico Utility Fails to Extend Contract With Insurers.]

Puerto Rico's main electricity provider failed to extend a contract with its bond insurers that has given the power company time to negotiate a way to restructure its $8.3 billion of debt.

The Electric Power Authority's failure to extend the forbearance agreement with the insurers marks a setback for the utility, which earlier this month struck a tentative deal with some of its bondholders to reduce its debt load. Insurers that guarantee $2.5 billion of the utility's debt balked at extending the talks. The forbearance keeps negotiations outside of court.

The bond insurers "are trying to apply more pressure on Prepa," Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, said in a telephone interview Saturday. "Now they have the ability to exercise remedies. They could look now to forming a bondholder committee to try and impose a receiver and raise rates."

Bondholders agreed to extend the forbearance contract to Oct. 1, while fuel-line lenders pushed the expiration deadline to Sept. 25. The agreement was set to expire late Friday night. The power provider will continue negotiations with its bond insurers even without a forbearance agreement, Lisa Donahue, Prepa's chief restructuring officer, said in a statement Saturday.

Making Progress

"We are making progress and will continue working towards a consensual resolution that benefits Prepa and all of its stakeholders," Donahue said in the statement.

A Prepa restructuring would be the largest ever in the $3.5 trillion municipal-bond market, surpassing Detroit's record bankruptcy in July 2013. Puerto Rico and its agencies owe $72 billion. Commonwealth officials plan to offer investors a debt-restructuring proposal in the next few weeks

that's separate from Prepa's negotiations and would reduce the government's obligations and delay payments to bondholders.
The utility, bondholders, banks and insurers have repeatedly extended the forbearance agreement, which was first signed in August 2014.

Assured Guaranty Ltd. and Syncora Guarantee Inc. declined to extend that accord beyond Friday. MBIA Inc. dropped out of the forbearance earlier this month. National Public Finance Guarantee Corp., an MBIA unit that insures Prepa debt, filed a petition Thursday to the island's energy commission, asking it to temporarily add at least 4.2 cents per kilowatt hour to the agency's base electricity rate so Prepa can repay its bonds, according to a copy of the request provided by the commission.

Exercise Authority

"While National is continuing its discussions with Prepa in good faith to accomplish a consensual restructuring of Prepa, National has petitioned the Puerto Rico Energy Commission to exercise its statutory authority to impose a modest and temporary rate increase and to impose deadlines for the completion of Prepa's rate case," Greg Diamond, a spokesman for MBIA, said in a statement.

The expiration with the insurers may imperil the tentative agreement that Prepa and some of its bondholders reached on Sept. 1 that would require investors to take losses of about 15 percent in a debt exchange.
Ashweeta Durani, a spokeswoman for Assured, and Michael Corbally, a spokesman at Syncora Guarantee Inc., didn't immediately respond to e-mails. Dan Zacchei, a representative in New York at Sloane & Co. for the forbearing bondholders, declined to comment.

Bloomberg News

by Michelle Kaske

September 19, 2015 — 9:19 AM PDT Updated on September 19, 2015 — 10:48 AM PDT

Orrick Advises on First of a Kind Statewide Telecommunications Network in Kentucky.

Orrick, Herrington & Sutcliffe LLP represented KentuckyWired Operations Company, LLC, indirectly owned by Macquarie Infrastructure Developments, LLC, First Solutions LLC and Ledcor US Ventures Inc., as bond counsel in the US$300 million financing of a high-speed, open access, middle-mile fiber optic network with excess capacity with the Commonwealth of Kentucky. The project, which is expected to be completed in 2018, will add over 3,200 miles of fiber optic cable statewide.

Kentucky currently ranks 46th in the U.S. in terms of broadband availability, and approximately 23% of the state's population (mostly located in rural areas) has no broadband access at all. The statewide fiber optic network will make high-speed internet accessible throughout Kentucky's 120 counties by 2018, including 1,098 government and public facilities such as academic institutions, public libraries and governmental agencies, with the excess capacity to be made available through wholesale access to local Internet service providers who can extend fiber to homes and businesses. The project is a first of its kind in the U.S. in that it involves an underground fiber optic cable for part of the system, and was financed using a unique tax exempt structure that was designed by

Orrick's Tax Group. In particular, the structure eased regulatory hurdles which enabled a statewide project to be completed in a short time frame.

"We are thrilled to handle such a unique and groundbreaking transaction," said Dan Mathews, partner and co-Head of Orrick's Energy & Infrastructure Group, who led the infrastructure team. "This project is expected to significantly improve Kentucky's education, health access and economy through increased connectivity to high speed internet, and we hope it will set precedent for improvement of telecommunications networks in additional states."

"This deal was successful due to the cross-practice support of our Tax, Energy & Infrastructure and Public Finance Groups," said Chas Cardall, partner and Chair of Orrick's Tax Group and a member of the Public Finance group, who led the tax aspects of the transaction. "We were able to leverage the expertise of our lawyers in each of these areas to create a unique tax exempt structure, which was a key aspect of the transaction."

In addition to Dan and Chas, the team was comprised of Ken Schuhmacher, Susan Long, Benjamin Bass and Walter Alarkon of the Energy & Infrastructure Group, Sarah Rackoff, Marc Bauer and Jennifer Grew of the Public Finance Group and Greg Riddle, Wolfram Pohl, George Wolf and Ashley Rodriguez of the Tax Group.

About Orrick

Orrick is a leading global law firm focused on counseling companies in the Energy & Infrastructure, Finance and Tech sectors. The firm's client work is divided equally between transactional advice and litigation. Law360 recognizes Orrick among the "Global 20" law firms and named the firm a "Technology Practice Group of the Year" in 2014. The firm's platform includes offices across the US and in the UK, France, Switzerland, Germany, Italy, Belgium, Russia, China and Japan. The firm also has an affiliated office in Abidjan, Cote d'Ivoire. Financial Times consistently recognizes Orrick among the 10 most innovative North American firms, and BTI Consulting recently named Orrick to its Client Service All Star List.

Contact

For more information, please contact us by e-mail pr@orrick.com or by phone: Ashley Laputka at (415) 773-5725 in San Francisco or Adi Weisman at (212) 506-5122 in New York.

09-16-2015

Republican Governors Use Pensions to Oppose Iran Deal.

After Congress's deadline to block President Barack Obama's nuclear deal with Iran expired Thursday, Republicans are taking the fight to the states by vowing to preserve local sanctions.

Thirty states and the District of Columbia restrict investments by pensions and public entities in companies doing business in the country, according to the group United Against Nuclear Iran. Fifteen Republican U.S. governors, including four presidential candidates, last week sent a letter to Obama saying they would fight to keep their constraints if the administration lifts its nuclear-related sanctions.

A new nonprofit, Defund Iran, is also seeking state constitutional amendments next year that would mandate divestment. Florida alone has withdrawn more than $1.1 billion since 2007 from companies involved with Iran including Royal Dutch Shell Plc, Cnooc Ltd., and Daelim Industrial Co., according to Chief Financial Officer Jeff Atwater.

Republicans say Obama's agreement won't prevent nuclear proliferation, and will unleash Iran's economy and its ability to support terrorism. Focusing on states gives the party another angle of attack.

"It enables them to take a stand against President Obama and, in the bargain, take a stand for the rights of the states," said Jack Pitney, a political science professor at Claremont McKenna College near Los Angeles.

The lifting of federal sanctions would allow a few U.S. aerospace companies to seek business in Iran, such as Boeing Co. and General Electric Co., according to a report from Bloomberg Intelligence. Overseas firms including Shell and BP Plc also could seek business there, it said. States shouldn't help, said Sarah Steelman, chairwoman of Defund Iran and a former Republican candidate for U.S. Senate in Missouri.

The governors, including presidential aspirants Bobby Jindal of Louisiana, New Jersey's Chris Christie, John Kasich of Ohio and Wisconsin's Scott Walker, point to a provision in the deal that says the federal government will "actively encourage" state and local officials to "take into account" U.S. policy lifting some sanctions.

"We intend to ensure that the various state-level sanctions that are now in effect remain in effect," the governors said in their Sept. 8 letter.

BY TRIBUNE NEWS SERVICE | SEPTEMBER 18, 2015

By Mark Niquette

With assistance from Darrell Preston in Dallas.

Illinois Forces Towns to Either Eat Higher Costs or Avoid Market.

Illinois's budget stalemate is leading investors to demand higher yields to lend to its towns and villages, causing bond sales to tumble while borrowers outside the state rush to capture the lowest interest rates in a generation.

The drop in issuance this year stands in contrast to the rest of the $3.6 trillion U.S. municipal market, where bond offerings are on pace to reach the highest level since at least 2002, according to data compiled by Bloomberg. Illinois is one of only five states where they've fallen: issuers have sold $8.4 billion of debt through Sept. 11, down from $9.9 billion a year earlier. It's the biggest decline nationwide.

When municipalities do borrow, investors are requiring higher yields because of the association with the state, said Tim McGregor, head of municipals at Northern Trust Corp. in Chicago.

Illinois, with the lowest credit rating of any state, has been without a budget since the year began on July 1 because of a political standoff. That's forcing Illinois to leave some bills unpaid and casting doubt over how it will close a $6.2 billion shortfall.

“You’re definitely getting a little extra yield as an investor, even in credits that may not have a direct link to the state,” said McGregor, who oversees $27 billion of state and local government securities.

The financial pressure on the local governments has been underscored by Chicago, whose credit rating was cut to junk by Moody’s Investors Service in May because of the soaring bills the city faces from its underfunded employee pension funds. It isn’t alone: Half of the state’s local retirement systems have less than 60 percent of the assets needed to cover all the benefits due as workers retire, according to a commission created by the legislature.

Bond buyers will have their choice of two large deals from the state this week. The Metropolitan Pier and Exposition Authority, which runs Chicago’s convention center, is selling $223 million of bonds Wednesday.

OSF Healthcare System, a hospital operator, plans to offer $368 million of tax-free debt through the Illinois Finance Authority on Thursday.

McGregor said Illinois hospitals are being penalized for the state’s crisis.

“Health-care bonds in Illinois are probably trading 25 to 50 basis points cheaper, just because of the situation in Illinois, than they would be otherwise,” said McGregor.

There’s no sign of a resolution to the budget impasse, which has lasted longer than any in the state’s history, according to the Civic Federation, a Chicago-based research group. Republican Governor Bruce Rauner and the Democrat-led legislature can’t agree on how to fix a deficit left after temporary tax increases expired.

Illinois’s bills are piling up without a budget, with the unpaid tab set to reach $8.5 billion by the end of the year from $5.5 billion in August, state comptroller Leslie Geissler Munger said last week. The state is paying about 90 percent of what it owes even during the standoff, she said.

The budget delay has already dealt a blow to the Metropolitan Pier and Exposition Authority, which was unable to make a deposit into its debt-payment fund in July because lawmakers hadn’t appropriated the money.

While lawmakers approved the funds last month, the lapse caused Standard & Poor’s to lower the authority’s rating seven steps from AAA to BBB+, three ranks above junk.

OSF, which operates 10 Illinois hospitals, hasn’t felt a direct impact yet, said Dan Baker, its executive director of Treasury services. Proceeds from its sale will be used in part to finance construction and renovation at medical centers in Bloomington, Peoria and Rockford, offering documents show.

“Most of the investors we talk to understand the situation,” said Baker. “There’s been a little delay in payment at times, though it’s not too far behind right now — although it may be without the budget being approved.”

Catherine Kelly, a spokeswoman for Rauner, declined to comment on the increasing borrowing costs for Illinois agencies and municipalities. She said on Sept. 2 that the state was “being cautious about bond sales” and plans to issue some debt this year, though it hasn’t announced any details. Illinois 10-year general obligations yield 1.94 percentage points more than benchmark munis, near the most since late 2013, Bloomberg data show.

Investors penalized local borrowers even before the new fiscal year began as Illinois lawmakers dueled over the budget deficit. A school district in Rockford, 88 miles (142 kilometers) west of Chicago, issued $40 million of debt in February, with 20-year bonds priced to yield 4.17 percent, Bloomberg data show. That compared with a 3.21 percent rate on an index of similarly rated AA bonds.

Lake County, which borders Chicago’s home county to the north, sold $90 million of top-rated general obligations in June. The portion due in about 30 years priced to yield 4.05 percent, compared with 3.43 percent for an index of top-rated municipals.

“Some of their headlines have caused Illinois spreads outside of the state and Chicago to widen out, and there are a lot of very strong municipalities within the state of Illinois,” said Rick Taormina, head of municipal strategies at J.P. Morgan Asset Management, which oversees $56 billion in state and local debt.

“We’re looking to take advantage of that widening if it occurs.”

Bloomberg News

by Brian Chappatta

September 14, 2015 — 9:01 PM PDT Updated on September 15, 2015 — 5:55 AM PDT

[Chicago's Met Pier Pays the Price of Illinois Fiscal Stalemate.]

Chicago’s Metropolitan Pier and Exposition Authority, which runs the nation’s largest convention center, is discovering the price of Illinois’s political paralysis.

The authority sold about $220 million of federally tax-exempt securities Wednesday for yields of as much as 6 percent, according to preliminary data compiled by Bloomberg. Thirty-year bonds are being offered at 4.87 percent, about 1.6 percentage points more than top-rated securities.

It’s the agency’s first offering since skipping a July payment into its debt-service fund because lawmakers and Governor Bruce Rauner didn’t appropriate the money amid a deadlock over the budget. As a result, Standard & Poor’s slashed the authority’s rating by seven steps from AAA to BBB+, three grades above junk.

The lapse highlighted the risk to investors from bonds with debt bills that depend upon the approval of lawmakers. While Rauner signed a bill last month to free up tax money for Met Pier, the agency’s bonds haven’t rebounded from the rout that followed the missed deposit.

“The downgrade, which resulted from the budget impasse, hurt them in terms of interest costs,” said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. “Investors realize probably it’s a lot better than a BBB credit, but because of what’s happened and because of the appropriation nature, it’s a BBB and not much you can do.”

Met Pier is among borrowers most affected by the impasse between the Republican governor and the Democrat-led legislature that’s left Illinois without a budget for more than two months. The failure had led investors to push the difference between Illinois bond yields and top-rated debt near a record high.

Met Pier bonds maturing in 2050, its most actively exchanged securities, traded for an average of 100 cents on the dollar Wednesday, down from $1.02 on Aug. 4, the day before the rating cut. That's pushed the yield up about half a percentage point to 5 percent.

The securities offering is the authority's first since 2012, according to data compiled by Bloomberg, and illustrated how it's being penalized by investors. In 2012, its 30-year bonds were sold for yields as low as of 4.15 percent, about a percentage point more than top-rated debt at the time. That gap swelled to 1.6 percentage point Wednesday.

The proceeds will help pay for the construction of a 40-story hotel and refinance debt, bond documents show. The securities included zero-coupon bonds, which were offered at a top yield of 6 percent for those maturing in 2052.

"This transaction will lock up the financing" for the authority's projects, said Richard Oldshue, Met Pier's chief financial officer. He declined to comment on what kind of reception he's expecting for the deal.

Fitch Ratings gave the bonds a BBB+ rating, three steps above junk, with a negative outlook. The company said Met Pier's ability to make "full and timely" debt service depends on the Illinois General Assembly to appropriate the revenue, which ties the authority's credit to Illinois, the worst-rated state in the nation.

Met Pier never missed any interest or principal payments to investors and the agency now has the authority to tap tax money to cover its debts. The bonds are backed by authority taxes and state sales taxes. The authority taxes, which includes levies on hotels, reached $140.2 million in 2015, up 42 percent from 2010, bond documents show.

"This is still a solid credit backed by the economic activity in the city of Chicago in terms of sales taxes and hotel taxes — and all our indications are that business is booming in Chicago," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which oversees $11 billion in state and local-government securities, including those sold by Met Pier. "It creates a buying opportunity for people willing to take the longer view."

Bloomberg News

by Elizabeth Campbell

September 16, 2015 — 12:00 AM PDT Updated on September 16, 2015 — 1:55 PM PDT

Pennsylvania Bond Penalty Grows as State Budget Impasse Deepens.

Pennsylvania is facing rising penalties from investors as Democratic Governor Tom Wolf plans to veto a temporary budget being advanced by Republican legislators, promising to prolong a political impasse that's left the state without a spending plan for more than two months.

The state's 10-year bonds yield about 2.87 percent, about 0.59 percentage point more than benchmark municipal debt, according to data compiled by Bloomberg. That's approaching the 0.61 percentage point reached in July, which was the highest since the data begin in 2013.

"Each week and each month where they don't have a budget, that concern will increase," said Alan

Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. “They’re playing a game of chicken.”

Pennsylvania has been operating without a spending plan for the year that began in July because the Republican-led legislature and first-term governor have remained at loggerheads over proposed tax increases and overhauls to the public employee pension system.

The uncertainty led Moody’s Investors Service last week to downgrade schools that issue debt through a state program that diverts aid to investors when needed.

The Pennsylvania Senate on Thursday is set to vote on a short-term budget that would provide state and federal funds to alleviate pressures on school districts and social service agencies.

Wolf told reporters Wednesday that he would veto the temporary spending plan because he wants them to consider his proposals for the full budget and concessions on the retirement system. He said the failure to compromise and balance the budget could imperil Pennsylvania’s credit rating.

“We’re going to continue to have the credit downgrades we’ve had because we’re not doing anything else differently than we’ve done,” Wolf said. “It’s status quo.”

The state’s $53 billion unfunded pension liability has weighed on its bonds. The Keystone State is paying more to borrow than any other state except Illinois and New Jersey, according to data on 20 major states compiled by Bloomberg.

Standard & Poor’s and Fitch Ratings cut Pennsylvania’s rating last year to AA-, the fourth-highest level, citing the pension burden. Moody’s grades Pennsylvania Aa3, also the fourth-highest rank.

Bloomberg News

by Romy Varghese

September 17, 2015 — 9:59 AM PDT

Bloomberg Brief Weekly Video - 09/17/15

Taylor Riggs, an editor at Bloomberg Brief, talks with reporter Kate Smith about this week’s municipal market news.

Watch the video.

September 17, 2015

Puerto Rico Electric at Odds With Insurers on Debt Agreement.

The debt-restructuring agreement Puerto Rico’s main electric utility unveiled with great fanfare at the start of the month is turning out to be far from a done deal.

The Puerto Rico Electric Power Authority, known as Prepa, still needs to come to terms with about two-thirds of creditors, including bond-insurance companies, or the agreement falls apart. An accord that keeps the negotiations out of court expires late Friday. All forbearing creditors except insurer MBIA Inc. are part of that contract, called a forbearance agreement.

“They still have to do quite a bit of work,” said Mikhail Foux, a municipal-debt strategist at Barclays Plc in New York. “They have only about a third of the people on board. We’re talking about monolines and bond funds that effectively bought at par.”

The utility reached a tentative agreement on Sept. 1 with bondholders including OppenheimerFunds Inc., Franklin Advisers Inc., BlueMountain Capital Management and Goldman Sachs Group Inc. Investors agreed to take losses of about 15 percent under a debt exchange. Prepa, which has about $8.3 billion in debt, has been negotiating with creditors for over a year after saying it needed to reduce its obligations.

Some bondholders bought Prepa securities for as low as 33 cents on the dollar, giving them room to accept less than par. Bond insurers would have to make investors whole on any deferred payments or potential haircuts, making them less inclined to accept concessions, Foux said.

Forbearance Agreement

A Prepa restructuring would be the biggest ever in the $3.6 trillion municipal-bond market, surpassing Detroit’s record bankruptcy filing in July 2013. The utility, which relies mainly on oil to produce electricity, is the largest U.S. public power provider, with 1.47 million customers and $4.68 billion in electric revenue in 2013, according to the American Public Power Association.

The utility has asked creditors to extend the forbearance agreement by two weeks, according to two people with direct knowledge who asked for anonymity because the talks are private. It first signed the pact in August 2014 with bondholders, banks and insurers after the agency used its capital budget to pay for fuel. Its been extended seven times.

Bond insurers Assured Guaranty and MBIA last week offered a proposal that doesn’t include exchanging insured Prepa debt at a discount, according to a person with direct knowledge of the proposal. That would fit into the tentative plan with forbearing bondholders, the person said, without elaborating. Prepa has yet to respond to the proposal, the person said.

Greg Diamond, a spokesman for MBIA, Ashweeta Durani, a spokeswoman for Assured, and Michael Corbally a spokesman at Syncora Guarantee Inc. declined to comment.

Jose Echevarria, a spokesman in San Juan for Prepa, and Jenni Main, chief financial officer at Millstein & Co., an adviser on the utility’s restructuring, declined to comment.

Governor Alejandro Garcia Padilla visited Washington this week as the island seeks to reduce its $72 billion debt load and delay payments to bondholders. A commonwealth agency, the Public Finance Corp., defaulted in August and September on debt payments, the first for a Puerto Rico entity. The administration plans to give commonwealth investors a debt-restructuring offer in a few weeks, after saying the government has only an estimated $5 billion to repay $18 billion of principal and interest coming due in the next five years.

After meeting with Garcia Padilla Thursday, U.S. Treasury Secretary Jacob J. Lew reiterated his support for legislation in Congress that would allow some Puerto Rico public corporations to file for bankruptcy.

“Given the commonwealth’s projection that it will exhaust its liquidity later this year, Congress must act now to provide Puerto Rico with access to a restructuring regime," Lew said in a statement Thursday.

"Without federal legislation, a resolution across Puerto Rico's financial liabilities would likely be difficult, protracted, and costly."

Prepa bond prices show the difficulty the utility faces in reaching an agreement with creditors, Foux said.
Bonds maturing July 2040 traded Thursday at an average 60.1 cents on the dollar, according to data compiled by Bloomberg. That's higher than an average 53.5 cents on Aug. 28, the last time the bonds traded before the Sept. 1 agreement. But that's still lower than the 85 cents that bondholders would receive in a proposed debt exchange.

Legacy Debt

"One of the reasons they're trading substantially lower is that there's still quite a bit of an execution risk," Foux said.

Puerto Rico may ask holders of its general-obligation bonds and sales-tax debt, called Cofina, to take losses, and Prepa could again look to its investors if the proposed debt-exchange fails to improve the utility's finances, Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, wrote in a Sept. 14 report. That plan would swap existing bonds for new securitized debt repaid with a utility-customer surcharge.

"There is reasonably a risk that the commonwealth and/or Prepa would entertain a similar path should Prepa's restructuring fail to be enough to achieve fiscal solvency," Fabian said.

Investors who haven't participated in the forbearance, such as individual bondholders and some municipal-bond funds, would also need to exchange their securities for new bonds, leaving no more than $700 million of legacy debt remaining, according to the agreement.

MBIA's National Public Finance Guarantee Corp. insures about $1.4 billion of Prepa debt, while Assured Guaranty backs $904 million, according forbearance documents. Syncora Guarantee Inc. insures $197 million.

Those firms must also take into consideration their exposure across all Puerto Rico securities. Assured guarantees $6.2 billion of Puerto Rico debt through 2047, as of June 30. National insures $4.5 billion through 2046, as of June 30.

"If monolines agree to some haircuts here, what would that mean for them with the rest of the bond stack?" Foux said.

Puerto Rico securities have lost 7.2 percent this year through Sept. 17, according to S&P Dow Jones Indices. The broader muni market has gained 0.9 percent.

Bloomberg News

by Michelle Kaske

September 17, 2015 — 3:47 PM PDT Updated on September 18, 2015 — 8:13 AM PDT

Fitch: Bill Could Challenge Some CA Public Power Utilities.

Fitch Ratings-New York-15 September 2015: California's public power utilities could face additional financial pressure over the medium to long term following the state legislature's passage of SB 350, Fitch Ratings says. The Clean Energy and Pollution Reduction Act of 2015 includes a number of provisions that are expected to increase direct costs for public power utilities. The bill's more notable provisions include an increase of the state's renewable portfolio standard (RPS) to 50% by 2030 and additional efficiency and conservation programs. Utilities have already begun to transition their power supplies toward lower emission resources due to other state regulations, including a RPS of 33% by 2020.

Fitch expects compliance with the more stringent environmental regulation will require the state's public power utilities to transition an even greater portion of their power supply to less flexible and potentially more costly renewable energy. Rate flexibility and the ability to preserve financial metrics in the face of these regulatory changes will be fundamental to maintaining long-term credit quality.

The higher RPS requirement will be phased in over a 10-year period, with utilities mandated to reach interim targets of 40% by 2024, 45% by 2027 and 50% by the end of 2030. This significant increase in renewable energy will push public power utilities to identify and acquire resources that are generally more expensive and less flexible than thermal resources. Positively, the bill allows for the indefinite banking of certain resources beginning in 2021, which will allow those utilities that exceed their annual target to roll over credits toward future compliance years.

SB 350 is expected to be signed into law as the bill conforms in large part to the governor's previously stated objectives of raising the RPS to 50% and reducing greenhouse gas emissions to 40% below 1990 levels by 2030.

Contact:

Matthew Reilly, CFA
Director
U.S. Public Finance
+1 415 732-7572
650 California Street
San Francisco, CA

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY

Detroit Schools Paying Penalty in Bond Market Post Bankruptcy.

Detroit's schools are paying a hefty penalty for persistent financial woes as the district taps the tax-exempt debt market in the wake of the city's record bankruptcy.

The $121 million in notes maturing in August being sold through the Michigan Finance Authority were priced to yield 5.75 percent, according to preliminary data compiled by Bloomberg. That's about 5.5 percentage points more than one-year benchmark municipal bonds.

"The market pricing is just reflective of many buyers' uncertainty regarding the legal standing of this type of security package for a name that has suffered so much fundamentally in recent decades," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Capital, which manages about $39 billion of municipals, including some Michigan school holdings.

The proceeds of the deal will refinance debt to help cover the district's budget deficit, according to bond documents. The district, which has been run by a state-appointed manager since 2009, is in Wayne County, which entered into a consent pact with the state last month to try to mend its own spiraling finances.

Michelle Zdrodowski, a spokeswoman for the schools, said in an e-mail that the district was not going to make any comment during the pricing period.

Detroit Public Schools' financial problems mirror a shrinking population, a trend that has contributed to slumping enrollment. The "severe declines" in the number of students enrolled at Detroit schools has limited state aid available for debt payments, according to Standard & Poor's, which rates the notes SP-3, its lowest short-term grade. The schools saw average annual enrollment declines of more than 12 percent from 2007 to 2012, according to S&P.

In May, the Michigan Finance Authority sold $82.8 million of notes maturing in June 2016 at a yield of 4.75 percent.

The district is behind on its pension payments by about $92 million, bond documents show. The state's office of retirement systems can ask the Michigan treasurer to intercept state aid to the schools to get the funds. While the director of the pension system has said that he doesn't plan to do that as long as the district sticks to its plan to make payments in October, the pension costs remain a drag on school finances.

The state is working to ease the district's fiscal woes. In April, Gov. Rick Snyder proposed a restructuring of the school system into two parts. One district would be charged with paying off the $483 million of operating debt using an existing property tax, and the other would be tasked with educating students and collecting state aid funds, according to bond documents. Legislation on the plan is expected to be introduced in the coming months, according to bond documents dated Sept. 4.

"Ultimately there just doesn't appear to be a near-term catalyst for boosting enrollment and changing the trajectory of the trends of Detroit public schools itself," said Diederich, who passed on the note sale Thursday.

Bloomberg News

By Elizabeth Campbell

September 11, 2015

[Pennsylvania GO and Appropriation Ratings are Unchanged for Now Despite

Absence of an Enacted Budget.

NEW YORK (Standard & Poor's) Sept. 9, 2015–Standard & Poor's Ratings Services today said its ratings, including its 'AA-' general obligation (GO) rating, on the State of Pennsylvania are unchanged despite the lack of an enacted budget for fiscal 2016. As we noted in our report in "Late State Budgets: Summer Cliffhangers No One Wants To See," published on June 4, 2015, on RatingsDirect, most state governments exhibit a strong commitment to debt repayment and have demonstrated willingness to honor their obligations even in the absence of a budget, in our view. This commitment could take different shapes or modalities, but whether it is a continuing resolution, a standing appropriation or some other method, the intended outcome is the same: to ensure full and timely payment of debt service.

Two months into fiscal 2016, Pennsylvania's lawmakers have yet to agree on a budget. Negotiations have continued as lawmakers try to reach an agreement on pension reform and education funding, without which budget passage is unlikely. From a credit standpoint, Pennsylvania's constitution provides that if sufficient funds are not appropriated for timely payment of all commonwealth general obligation (GO) bond debt service, the treasurer shall set apart from the first revenues thereafter a sum sufficient to pay principal and interest on the debt. As such, GO debt has a priority lien on state revenues and is paid even in the absence of a budget. Pennsylvania, which is no stranger to late budgets, typically schedules its non-GO debt to mature in December and June, with a few exceptions, which the state has currently addressed.

These include debt issued by the Pennsylvania Economic Development Financing Authority (PEDFA), lease revenue bonds, and certificates of participation (COPs). On Sept. 1, the state paid its debt service on PEDFA's series 2012 bonds for the Forum Place. The state made lease payments prior to the end of the previous fiscal year that were sufficient to cover debt service on Sept. 1, 2015. Philadelphia Regional Port Authority's lease revenue debt (series 2008), also due Sept. 1, was paid with proceeds from a loan to the Pennsylvania Department of Transportation from the state's Motor License Fund. Payments for debt service on COPs issued by the Department of Human Services (DHS) come due on Oct. 1 and are included in payments made to DHS to keep the facilities operating in order to ensure the health, safety, and welfare of its citizens. The state has also indicated that the payments for the Pittsburgh and Allegheny County Sports and Exhibition Authority, series 2010 lease revenue bonds will be made from the commonwealth's Gaming Economic Development Tourism Fund and are not subject to appropriation.

In the absence of a budget, there are no state aid payments that flow to Pennsylvania's school districts (see "Pennsylvania School District Ratings Based On State Aid Intercept Program Put On Watch Negative on Budget Delay," published Sept. 4, 2015).We believe that the lack of funding for school districts could translate into increased pressure on lawmakers and provide an incentive for them to reach budget consensus over the next couple of months. We will continue to monitor the state's ongoing budget deliberations to determine what impact, if any, the protracted budget negotiations have on Pennsylvania's credit quality.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Primary Credit Analyst: John A Sugden, New York (1) 212-438-1678;
john.sugden@standardandpoors.com

Secondary Contact: Robin L Prunty, New York (1) 212-438-2081;
robin.prunty@standardandpoors.com

Georgia's New P3 Law Expands Opportunities for Investors, Developers.

The new Partnership for Public Facilities and Infrastructure Act allows state and local agencies to expand their pursuit of public-private partnerships beyond the highway and water reservoir P3s already being conducted in Georgia. The law authorizes agencies to pursue P3s to build and maintain public buildings and for other types of transportation and water-related projects. This breakthrough will increase state and local agencies' ability to undertake projects they might otherwise lack the financing or construction expertise to pursue.

To help state and local officials and developers understand and use the law to procure such projects, NCPPP and the American Council of Engineering Companies of Georgia will co-host a one-day event, The Future of P3s in Georgia, on Sept. 24 in Atlanta. During the event, experts will discuss how P3s are conducted, what types can be pursued under the new law and how successful projects in Georgia and other states have been carried out.

To set the stage for this meeting, P3 Digest asked several experts who will speak at the conference to describe the new law and the ways it will influence how agencies and private developers negotiate P3s in Georgia.

The new law, signed May 5 by Gov. Nathan Deal, allows "qualifying projects," to be pursued as P3s, a term that is defined broadly as those that meet a public purpose or need, explained Brad Nowak, a partner at Morris, Manning & Martin, LLP. Previously, only transportation projects — chiefly highways — and university campus housing could be built through such partnerships. The new law expands the types of P3s that can be negotiated to include various types of public buildings, many different transportation, water, wastewater and stormwater projects, and solid waste facilities, he added.

Georgia already has some experience in public building P3s. Corvias Campus Living negotiated a partnership with the University System of Georgia in 2014 to build, manage and maintain student housing at multiple locations. "The partnership is reportedly the first time that a state system has privatized student housing across a portfolio of campuses," Nowak noted.

However, the new law will greatly streamline the negotiating process for conducting such projects and other types of P3 projects, noted Michael Sullivan, president and CEO of ACEC Georgia. Before the new law took effect, Georgia did not permit state or local agencies to negotiate non-highway P3s directly with private firms. The University of Georgia System project required involving a private real estate foundation in the project to generate financing and a separate county development authority to provide bond financing. "It's a very convoluted process. The new law provides a clear, transparent process for agencies in Georgia to use P3s for almost any kind of public infrastructure," said Sullivan.

The law establishes a statutory framework for P3s and a committee that will craft optional procurement guidelines for localities. This adds transparency and consistency to the procurement process, commented Robert Fortson, a partner at McGuireWoods LLP, which worked hard to win passage of the legislation. "The lack of these support mechanisms created barriers to entry for both public and private sector participants," he said.

The 10-member Partnership for Public Facilities and Infrastructure Act Guidelines Committee will prepare model guidelines local governments can use to receive and consider unsolicited project proposals, although these governments can choose to develop their own. However, locally developed guidelines must cover certain details, such as time frames for receiving and processing the proposals, how proposal financial review and analysis will be conducted, and procedures for reviewing and considering competing proposals, Nowak explained. The model guidelines committee recently was appointed and expects to issue the guidelines by July 1, 2016, he added.

The new opportunity to develop many types of infrastructure P3s makes this an excellent time for state and local agencies to learn more about this procurement option, these experts say.

Discussing these types of projects with officials who already have conducted them in Georgia is a good way to get up to speed, Nowak advised.

Valuable lessons also could be learned through a study of the types of partnerships that have been conducted in Virginia, Florida and Texas, all of which have P3 laws similar to Georgia's.

"The success of Virginia's P3 law offers a great model for the types of projects that are possible — everything from wastewater treatment facilities to aquatic centers to parking decks. The model guidelines committee should also serve as a great resource to educate local cities, counties and school districts about best practices in P3 procurement," said Fortson.

"Many outside consultants, such as engineers, attorneys and other advisors who often represent the public sector on P3 projects can also help explain the ins and outs of the new law, its application to developing projects and ways to properly procure, structure and document them," said Nowak.

Sullivan believes that the insights that will be shared about the new law and successful case studies discussed during the event will help attendees quickly get up to speed on P3s.

"I am very excited about this year's P3 Summit and hope that many state and local government officials — as well as private firms — will attend and find out how to use Georgia's new P3 law as another tool in the toolbox for providing all kinds of public infrastructure in a new way," he said.

The Future of P3s in Georgia will be held at the Georgia International Convention Center, adjacent to Hartsfield-Jackson Atlanta International Airport. For more details, including registration information, visit the event website.

NCPPP

By Editor September 10, 2015

Puerto Rico Bond Plan Said to Outline Debt Service Affordability.

A long-awaited plan that addresses Puerto Rico's $72 billion debt load will include projections of how much debt-service the island can pay over the next five years, according to a person with direct knowledge of the proposal.

Governor Alejandro Garcia Padilla is set to receive from his top officials and outside restructuring advisers on Tuesday what is being called by his administration as an economic recovery and debt-adjustment plan, or the Working Group plan. The governor plans to release the proposal publicly on

Wednesday, Victor Suarez, his chief of staff, said in a statement.

That report will include annual revenue and expenditure projections for the next five years after taking into account proposed spending reductions and measures to boost revenue collection rates, according to the person, who asked for anonymity because the discussions are private.

Those calculations won't include annual principal and interest costs, so the gap between estimated revenue and anticipated spending, what the report will call a "primary surplus," will indicate how much Puerto Rico can afford to pay for debt service every year, the person said. The person declined to say what the primary surplus would be.

"This is really just the beginning of a new stage, but this stage still could last years," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "You have different sets of buyers, all with different expectations for their recovery and all with different willingness to negotiate on price."

Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said Monday that the bank didn't have a comment at this time. Betsy Nazario, a spokeswoman in San Juan for the GDB, and Jesus Manuel Ortiz, a spokesman in San Juan for the governor, didn't immediately respond to e-mails.

In a statement e-mailed to reporters Tuesday, Suarez said Garcia Padilla will be presented with the plan during the afternoon and has instructed his advisers to make it public Wednesday.

"This plan is an indispensable element to put Puerto Rico on track toward economic growth, to face fiscal challenges and bring back social well being for Puerto Ricans," he said.

The commonwealth and its agencies pay about $4 billion each year in debt service, not including principal and interest costs for the Electric Power Authority and the Aqueduct and Sewer Authority, the person said. A Puerto Rico agency, the Public Finance Corp., missed a Sept. 1 interest payment, according to a filing with the Municipal Securities Rulemaking Board. It's the second skipped payment for the agency after failing to pay $58 million of principal and interest Aug. 3 because lawmakers didn't allocate the funds in a budget crunch.

Garcia Padilla in June directed his administration to evaluate the island's obligations and said the commonwealth was unable to repay all of its debt on time and in full and would seek to delay debt payments "for a number of years."

The Working Group plan follows a Sept. 1 tentative agreement the Electric Power Authority reached with some of its bondholders that would offer investors 85 percent of the value of the bonds they hold through a debt exchange.

Puerto Rico bonds rallied last week following the tentative agreement struck with holders of about 35 percent of the electric debt. General obligations with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 76 cents on the dollar, up from a record-low 66.6 cents on June 30, according to data compiled by Bloomberg. It was the highest since June 26, the last trading day before Garcia Padilla said the commonwealth's debt was unpayable and directed officials to work on a plan to ease debt payments.

Commonwealth securities gained 3.95 percent last week, the biggest advance for the period since October 2008, according to S&P Dow Jones Indices. Puerto Rico debt has still dropped in value this year, losing 7.2 percent through Sept. 4 compared with a one percent gain for the broader municipal-bond market.

A Puerto Rico restructuring would be the largest in the $3.6 trillion municipal-bond market, surpassing Detroit's record bankruptcy filing in July 2013 that involved about $8 billion of bonded debt. Along with $72 billion of debt, Puerto Rico's largest pension fund has only 0.7 percent of assets to cover $30.2 billion of projected costs, according to financial documents. It's the worst-funded among U.S. state retirement plans and stands to deplete its assets by 2020, according to Moody's Investors Service.

Bloomberg News

by Michelle Kaske

September 7, 2015 — 9:00 PM PDT Updated on September 8, 2015 — 7:21 AM PDT

Muni Sales Poised to Rise as Redemptions Slow; Fund Flows Drop.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $10.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.8 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

North Texas Tollway Authority plans to sell $750 million of bonds, Illinois Finance Authority has scheduled $468 million, Austin, Texas, will offer $293 million and Lee Memorial Health System, Florida will bring $277 million to market.

Municipalities have announced $11.1 billion of redemptions and an additional $12.9 billion of debt matures in the next 30 days, compared with the $25.8 billion total that was scheduled a week ago.

Issuers from Florida have the most debt coming due with $1.79 billion, followed by California at $1.17 billion and New York with $1.16 billion. Washington, D.C. has the biggest amount of securities maturing, with $413 million.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $715 million from mutual funds that target municipal securities in the week ended August 26, compared with an increase of $50 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $100.3 million last week, reducing the value of the ETFs by 0.58 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 105.209 percent of Treasuries, compared with 104.213 percent in the previous session and the 200-day moving average of 101.835 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 15 basis points to 2.15 percent while Michigan’s declined 6 basis points to 2.46 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 110 to 11 percent and Illinois’s rose 40 basis points to 4.20 percent.

Bloomberg News

by Kenneth Kohn

September 8, 2015 — 4:32 AM PDT

Puerto Rico Investors May Shun Debt-Exchange Offer, Moody's Says.

Puerto Rico Governor Alejandro Garcia Padilla wants bondholders to accept less than they’re owed to help the island dig out from its fiscal crisis. Few may be willing to go along, according to Moody’s Investors Service.

The governor’s advisers said in a report released Wednesday that the commonwealth should ask investors to voluntarily exchange their bonds for new securities, which would allow it to cut debt payments. Such a restructuring plan will be released in a few weeks, said Jim Millstein, chief executive officer of Millstein & Co., which is advising the government.

“It is unlikely that holders of the many Puerto Rico bonds will agree to forgo or defer substantial sums of promised principal and interest,” Moody’s analyst Ted Hampton said in a statement after the report’s release. “There is a high probability of protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections.”

The expected bondholder response shows the difficulty Puerto Rico faces as it embarks on a restructuring unprecedented in the $3.6 trillion municipal market. Puerto Rico general-obligation bonds are protected by the commonwealth constitution and others are backed by dedicated revenues, which may lead some investors to challenge the island in court.

The commonwealth has already clashed with bondholders over the issue. When Garcia Padilla signed a law that would’ve helped its public corporations reorganize, the mutual-fund companies OppenheimerFunds Inc. and Franklin Resources Inc. persuaded a federal judge in San Juan to throw out the act.

Detroit’s $18 billion bankruptcy illustrates the difficulty of getting investors to part with their bonds. Seeking to cut its interest bills, the city offered to buy back $5.2 billion of water and sewer debt, with most investors receiving more than 100 cents on the dollar. Only 28 percent of the securities were ultimately sold back.

Puerto Rico says it has $13 billion less than it needs to cover debt payments over the next five years, even after taking into account proposed spending cuts and measures to raise revenue. That estimate excludes the electric and water utilities.

Island officials haven’t indicated what terms may be offered to owners of its various classes of debt. Moody’s, which projects that some investors may recoup as little as 35 cents on the dollar, said signs of steeper losses would lead to further rating cuts.

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 9, 2015 — 11:33 AM PDT

Puerto Rico Seen Trying to Avert Defaults One Bond at a Time.

Puerto Rico may have to begin taking revenue that repays highway debt to help the struggling commonwealth pay for its general-obligation bonds as soon as this budget year, according to Height Securities.

The Caribbean island, which says it's short $13 billion needed for bond payments in the next five years, must pay investors $1.1 billion this year on general-obligation debt guaranteed by its constitution. That pledge has been increasingly called into question. Standard & Poor's dropped Puerto Rico's rating to CC, the third-worst grade, saying in a report late Thursday that all of its tax-backed debt is highly vulnerable to default.

Facing potential cash shortfalls as soon as November, Puerto Rico may use petroleum and gasoline taxes that fund its highway-agency's debt, raising the risk of a default on the securities, Daniel Hanson, an analyst at Height, a Washington-based broker dealer, said Thursday on a conference call with clients.

"It seems reasonable to expect that considerable amounts of cash are about to be clawed back from corporations to help cover general-obligation debt service," Hanson said.

Governor Alejandro Garcia Padilla on Wednesday released a report showing that Puerto Rico has only $5 billion available to cover $18 billion of principal and interest payments in the next five years. The government also projected that it may run out of cash by the end of 2015 and will have a $500 million shortfall when the fiscal year ends in June, right before an $805 million payment to general obligation bondholders is due July 1.

Puerto Rico said in a May 7 quarterly report that it could resort to emergency measures to cover its debt bills, including taking "taxes or other revenues previously assigned by law to certain public corporations to secure their indebtedness." Its Public Finance Corp. defaulted on debt-service payments in August and September after lawmakers failed to allocated funds.

Puerto Rico's highway bonds carry higher yields than other commonwealth securities, reflecting the risk. Debt maturing in 2028 last traded for an average of 13 cents on the dollar on Aug. 28 to yield 42 percent. That's almost four times the yield on Puerto Rico's most frequently traded general obligations.

Taxes on gasoline and petroleum products that Puerto Rico allocates to its highways agency for debt service are considered "available commonwealth resources," according to bond documents. The island's constitution requires that the government use such revenue to pay general obligations if needed. The island has about $4.7 billion of highway bonds outstanding, according to the May 7 report.

Puerto Rico has about $541 million of mostly petroleum and gas taxes dedicated to highway bonds that it could use in the fiscal year ending June 30, Hanson said. Another $290 million from a petroleum-tax increase implemented last year and not currently pegged to specific debt is also available.

“In accordance with the constitution of Puerto Rico, the proceeds of such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the commonwealth,” according to bond documents.

Tolls and other fees from the authority aren’t subject to a so-called clawback. Documents from Puerto Rico’s most recent highway bond sale in 2010 highlighted that it never had to use appropriated money to pay general obligations.

Investors who bought debt knowing they have priority over other bondholders will probably assert their rights in court, Moody’s Investors Service said Thursday in a report. The credit rater maintained its projected recovery rate of 65 percent to 80 percent for general obligations. Highway securities may recoup just 35 percent to 65 percent.

To ease the budget shortfall, the administration may consolidate 135 schools, reduce public-worker overtime, cut government subsidies and end corporate-tax loopholes, according to the report Wednesday. Puerto Rico lawmakers may also want to use the $680 million of annual sales-tax revenue that goes straight to repaying other bonds, called Cofina by their Spanish acronym, Hanson said.

“That may make Cofina much more at risk than people think,” Hanson said.

Puerto Rico’s $15 billion of Cofina bonds have stronger protections than the highway debt. The first $680 million of sales-tax collections are sent to a trustee to pay bondholders, with the rest put into the general fund, Hanson said. Puerto Rico law protects the portion that’s sent to the trustee from being used by the government, according to bond documents.

General obligation investors are likely to challenge that law in court by claiming that their payments have priority under the constitution, Howard Sitzer, senior municipal analyst at CreditSights Inc., said in a conference call with clients on Thursday.

“We think that the legal opinions behind the sales-tax financing corporation debt are subject to dispute and likely to be the subject of litigation going forward,” Sitzer said. General obligations “are to be paid by the first revenues received by the government, which implies that any tax revenues would be available.”

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 10, 2015 — 11:45 AM PDT Updated on September 10, 2015 — 2:58 PM PDT

Puerto Rico Fails Without Washington Help, Morgan Stanley Says.

Puerto Rico’s attempt at a sovereign-like debt restructuring without complete lawmaking authority is likely to fall short in the absence of intervention by U.S. political leaders, according to Morgan Stanley.
“We doubt Puerto Rico’s ability to execute this style of restructuring without U.S. Congressional action, keeping us from adopting a clearly bullish position,” Michael Zezas, chief municipal strategist at Morgan Stanley in New York, wrote in a report dated Sept. 10.

Puerto Rico’s fiscal crisis should spur Congress to help the island negotiate with its creditors, either by implementing a fiscal control board at the federal level or allowing some public corporations to file for Chapter 9 bankruptcy projection, Morgan Stanley said. Unlike cities and municipalities of U.S. states, the island’s localities cannot access Chapter 9.

Governor Alejandro Garcia Padilla’s administration on Wednesday unveiled a proposal that estimates Puerto Rico will have only $5 billion of available funds to repay $18 billion of debt-service costs over the next five years. The commonwealth may seek to defer principal payments for several years on some of its $72 billion debt burden.

It’s unclear whether general-obligation bondholders will be offered smaller losses than owners of Puerto Rico’s sales-tax supported debt under a restructuring, Morgan Stanley said. The island’s constitution stipulates that general-obligations must be paid before other expenses. The revenue bonds, known as Cofina, are repaid from dedicated sales-tax revenue.

If general-obligation bonds are treated senior in repayment, then bondholders would receive a internal rate of return of 8 percent on debt that carries an 8 percent coupon and 6.6 percent on debt with a 5 percent coupon, Zezas wrote. The recovery rates will be lower if sales-tax bonds get first payment, he said.

General obligations with an 8 percent coupon and maturing July 2035 traded Friday at 73.1 cents on the dollar, down from an average 75.5 cents on Sept. 8, the day before the plan was released, according to data compiled by Bloomberg. The yield was 11.5 percent.

“There’s a good argument to be made that general obligations appear fairly valued, particularly considering that the lower end of expected internal rate of returns would rise with greater austerity,” Zezas wrote. “Yet, these reports imply that Puerto Rico can execute an effective sovereign-style restructuring in a timely manner, something we dispute.”

Bloomberg News

Michelle Kaske

September 11, 2015 — 10:56 AM PDT

Bloomberg Brief Weekly Video - 09/10/15

Taylor Riggs, an editor at Bloomberg Brief, talks with Joe Mysak about this week’s municipal market news.

Watch the video.

September 10, 2015

Puerto Rico Plan Calls for Spending Cuts, Tax Overhaul.

Puerto Rico’s proposed restructuring plan brings the U.S. commonwealth one step closer to a long-awaited showdown with the investors who are being asked to take losses on the island’s $72 billion in debt.

The five-year plan released Wednesday is light on specifics, analysts said, but investors agree it clearly could affect the island's general obligation bonds, which are protected by its constitution, as well as its sales tax-backed debt.

Several investors and analysts said the proposal didn't provide enough detail about how much debt the island wants to cut, what form such cuts may take or which bonds might be affected. Some said it relies too much on future actions by lawmakers in Washington and San Juan and successful negotiations with bondholders and other stakeholders.

"I don't see anything to work with at this point," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt debt, including some from Puerto Rico. "Now they have to speak up and say what it is they really want."

The plan doesn't include specific estimates of losses on Puerto Rican debt, though prices for some bonds fell after its release. Some general obligation bonds maturing in 2035 traded Wednesday at around 74 cents on the dollar, down from about 76 cents Tuesday.

The product of a working group appointed by Gov. Alejandro Garcia Padilla, who in June called the island's debts unpayable, the plan says that even if all proposed structural changes are adopted by policy makers, the commonwealth will still fall billions short of securing the amount it needs to pay bondholders in the next five years.

Those proposals seek to reduce a $28 billion financing gap over the next five years by adjusting taxes, reducing government spending, revamping welfare and the minimum wage, consolidating public schools, and creating a control board to ensure such changes are implemented.

"The key finding of this plan is that even if we implemented all the measures contained in it, they wouldn't be enough to achieve the necessary balance," the governor said in a televised address Wednesday. "The massive public debt of Puerto Rico is an impediment to growth. It is time for the creditors to come to the table and share the burden of the sacrifices."

The plan has been awaited by investors, who are bracing for losses amid falling bond prices and a growing fiscal crisis, and who have wanted to see new structural changes before lending Puerto Rico any more money. The commonwealth has often borrowed to fund deficits during a decade of economic stagnation and population declines, and officials say it is rapidly running out of cash for operations. A government agency defaulted on a $58 million payment last month.

That makes the island the latest trouble spot in the market for U.S. municipal debt, which has been rocked in recent years by large bankruptcies in Detroit and Jefferson County, Alabama. Puerto Rico bonds are widely held by individuals and mutual funds around the U.S. because of their tax advantages.

Ted Hampton, vice president at Moody's Investors Service, said the recommended changes will pose political challenges and likely prompt contentious negotiations with bondholders, with a high probability of "protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections."

Officials say investors have begun organizing themselves into groups based on the type of bonds they own, and the government will begin talks with each group over the next several weeks.

The plan comes after one agreement was struck with commonwealth bondholders. The Puerto Rico

Electric Power Authority, known as Prepa, last week reached an accord with its bondholders that would give them 85% of the face value of their junk-rated bonds in exchange for new securities designed to get investment-grade ratings. Prepa, which owes about $9 billion, is still negotiating with other creditors.

The plan also seeks help from the U.S. government, asking Congress to allow some Puerto Rico government entities to access bankruptcy protections. The commonwealth is currently barred from granting its agencies access to that legal process and officials say the lack of a framework is a significant obstacle to the restructuring effort.

The federal government should also reconsider the island's relatively high minimum wage for young workers or exempting the island from the Jones Act shipping law—a move that could help reduce the cost of transporting goods, a summary of the plan said. Federal help is also needed to stave off a growing health-care crisis, by equalizing the funds Puerto Rico receives relative to U.S. states, it said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said the report includes serious measures to adjust the island's budget and policy but lacks important details for investors, such as the engines of economic growth, the powers of the control board, or how the island will treat its constitutionally protected general obligation bonds versus its sales-tax debt.

"I am not sure that this report has moved the process along to any great extent, which may only come when they sit down with bondholders," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Sept. 9, 2015 4:07 p.m. ET

—Leslie Josephs contributed to this article.

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com

Puerto Rico's Recovery Plan Faces Much Doubt, Many Obstacles.

NEW YORK/SAN JUAN — Puerto Rico's new plan to haul itself out of a huge financial hole is long on ifs and buts and short on confident predictions.

Faced with the prospect that its cash will run out within months, the Caribbean island is proposing numerous measures that require support from its divided legislature, action from a U.S. Congress that may not be supportive, and the willingness of a wide range of bondholders to take losses.

It calls for spending cuts that would hit the U.S. territory's population and a restructuring of its debt that would hurt mom-and-pop investors, as well as U.S. funds. There would also be extensions of excise taxes.

The proposals are all an attempt to close a projected $28 billion funding gap between 2016-2020 as it struggles with a $72 billion debt burden.

Some experts on municipal restructurings said the proposals from a working group established by the Puerto Rican government should force creditors to deal with a clearly worsening situation.

“I sincerely hope that the bondholders will see this report for what it is – a wake up call to come to the table,” said Steven Rhodes, who handled the Detroit bankruptcy when he was a judge, and has been hired to advise Puerto Rico. “I don’t see a way in which bondholders could be made whole.”

But coming only 14 months before Puerto Rico Governor Alejandro Garcia Padilla is up for re-election, and given there is a skeptical Republican-controlled U.S. Congress, the plan is likely to encounter major political obstacles.

“Anything that is perceived by the populace as something that’s taking away rights is going to be difficult to implement on a pre-election cycle,” said Jose Perez-Riera, former secretary of economic development and commerce under former governor Luis Fortuno, and now an advisor at a private economic development group in Puerto Rico.

Devised by Puerto Rico officials and advisors, the plan was based on an influential report, released in June, penned by former International Monetary Fund economists who proposed sweeping cuts and reforms in an attempt to reinvigorate growth.

Showing some signs of the challenges to get to even this point, Garcia Padilla said the plan was appropriately light in two areas: new taxes on the population and demands for sacrifices from workers.

Garcia Padilla presented the plan as the “beginning of a negotiation” with creditors that would result in a “major humanitarian crisis” if a deal wasn’t reached.

“It’s not going to be easy,” said Andrew Wolfe, one of the former IMF economists who wrote the earlier report. “There are so many moving parts here – you are requesting actions from the Federal Government and the creditors.”

FACING A HAIRCUT

Puerto Rico is likely to face an uphill battle with investors as it tries to cut debt, particularly general obligation bonds. They are seen as sacrosanct in the municipal bond market and viewed as having the best protection in a restructuring.

“The debt restructuring is going to be the most difficult, I think, just because you’re asking bondholders to accept less than they thought they were going to get,” said Peter Hayes, head of asset manager BlackRock’s Municipal Bonds Group, which owns various non-government Puerto Rico bonds.

Bondholders are facing a significant haircut on their debt – the working group who devised the plan said only around $5 billion is available to pay principal and interest on the $18 billion of debt coming due in the coming five years. If the government gets its way, the difference is most likely to come from a loss of both interest payments and delayed payments of principal.

That could lead to protracted litigation if some bondholder factions choose to fight.

“In litigation or a negotiation, there will be requests to do more, to cough up more money and yet I do think it’s a fair statement to say that a very high debt burden absolutely has a negative impact on the economy and if you sit back and just continue with austerity it gets worse,” said John Miller, co-head of fixed income for Nuveen Asset Management, which holds $300 million in par value of Puerto Rico bonds which are either insured or non-governmental obligations.

Unlike U.S. municipalities, Puerto Rico cannot seek federal bankruptcy protection under Chapter 9. That makes a restructuring much more complicated than faced the city of Detroit, for example, when it filed for bankruptcy in 2013. Puerto Rico has argued that it needs access to Chapter 9 but bills seeking to allow it have stalled in Congress.

"Chapter 9 provides a focus, a mechanism, an urgency, and a supervision that's lacking without it," said Rhodes.

PROTESTS PLANNED

One alternative is a financial control board, proposed in Wednesday's plan. That board would be selected by the Governor from among nominees chosen by interested parties, the working group said.

However, U.S. lawmakers may come up with an alternative plan for a board. "That may be a contentious issue," said Wolfe.

Miller said getting all the reforms passed would be a "long shot" with the U.S. presidential election and the Puerto Rico election both coming up in 2016.

One measure proposes bringing in an Economic Activity Tax Credit, designed as a replacement for tax preferences for manufacturers from the U.S. mainland, which were phased out by 2006. Those had helped the island become a manufacturing hub, particularly for pharmaceutical companies.

"It's not necessarily sustainable," said Wolfe of the proposal for the new tax credit. "Maybe this government on a chance enacts it but a future one could take it away and then you're back to where you are."

Opposition to the plan by labor unions could be a hurdle. The plan calls for a two percent annual attrition rate for public employees, reductions in vacation and sick leave, and potential cuts to teacher pensions. Proposed reductions in the budgets for schools and the island's university may also trigger action by teachers, professors and students.

Already, at least one labor group is planning protests. The Coordinadora Sindical, a collective of labor unions in Puerto Rico, announced on its Facebook page it will hold protests on Friday in San Juan, the island's capital, "in order to stop the so-called fiscal adjustment plan."

"I'm sure unions will oppose this very actively," said Francisco Cimadevilla, a San Juan consultant and head of communications firm Forculus.

The island's university may also see student protests.

"I'm already hearing talk about (protests), and I think most likely there will be, once the public gets the information and can digest it," said Mario Maura Perez, a finance professor at the university's Rio Piedras campus.

By REUTERS

SEPT. 10, 2015, 12:12 A.M. E.D.T.

(Reporting by Megan Davies and Jessica DiNapoli in New York and Nick Brown in San Juan; Editing by Martin Howell)

Texas Law on P3 Selection Process Takes Effect.

A Texas law establishing a center to help government agencies select projects to be developed through public-private partnerships took effect Sept. 1.

HB 2475, signed into law by Gov. Greg Abbott on June 19, established the Center for Alternative Finance and Procurement within the Texas Facilities Commission, which will consult with government agencies regarding best practices for procuring and financing qualifying projects. The center also will assist agencies “in the receipt of proposals, negotiation of interim and comprehensive agreements and management of qualifying projects.”

The law could spur municipalities and public agencies with tight budgets to look to the private sector for financing and management services and state and local governments could use it to help address infrastructure needs, such as vital water projects, noted law firm Vinson & Elkins LLP in a blog post.

“With Texas’ demand for water on the rise, coupled with projected population and economic growth, the bill is an important step toward meeting emerging challenges to the state’s water security,” the law firm wrote.

The center will be required to arrange for an architect, professional engineer or registered municipal advisor to advise agencies about a P3’s costs and benefits. For construction or renovation projects with an estimated cost of less than $5 million, these advisory services can be provided by qualified agency employees. More costly projects must be evaluated by an independent expert.

The law also allows the agency procuring the project to charge a “reasonable” fee to cover the costs of the center’s project review and consultation services.

HB 2475 places a notable exception on the types of P3s that developers can pursue by eliminating an agency’s option to consider unsolicited proposals, Christopher Lloyd of McGuireWoods Consulting LLC pointed out during a session at NCPPP’s 2015 P3 Connect conference.

The new law adds to the level of P3 oversight some agencies already exert. Both the state’s facilities commission and its department of transportation have adopted guidelines on project application requirements, review criteria and evaluation processes. El Paso, San Antonio, Dallas and Houston have established similar guidance,

These requirements, while adding steps to those that agencies already follow to pursue P3s, also signal the state’s willingness to a growing variety of such projects, Vinson & Elkins argues.

“By enacting House bill 2475, the Texas Legislature sent a strong signal that it is open to private involvement in infrastructure financing and delivery across a wide range of sectors,” the firm wrote.

NCPPP

By Editor September 3, 2015

Kentucky City Claiming Bankruptcy May Not Be Broke, Moody's Says.

Hillview, Kentucky, the first city to file for bankruptcy since Detroit, may struggle to prove it's insolvent and in need of court protection, Moody's Investors Service said.

Because of an $11.4 million legal judgment to a local company, Hillview filed for protection Aug. 20. The locality of about 8,000 people has about $13.8 million in debt, compared with revenue of $2.5 million in the 2014 fiscal year. Though the burden seems insurmountable, Hillview under Kentucky law can issue bonds to cover losses in legal judgments and pay off the resolution over the course of a decade, Moody's analyst Nathan Phelps said Monday in a report.

The local company, Truck America Training LLC, has indicated it may fight the city's bankruptcy by asking the judge overseeing the case for permission to interview city officials under oath and for access to internal city financial documents. Should Truck America or another creditor convince U.S. Bankruptcy Judge Alan Stout in Louisville that the city isn't eligible to remain under court protection, the case would be dismissed and the company free to try to collect the judgment.

Hillview's plight parallels that of Mammoth Lakes, California, a ski resort community of 8,200 near Yosemite National Park that filed for bankruptcy in 2012 because of a $43 million development lawsuit, Moody's said. The locality exited Chapter 9 after about four months because it reached a settlement with the land-acquisition company.

Tax Increase

Hillview, which hasn't defaulted on its general-obligation bonds, also has room to increase taxes on wages, business profits and property, Moody's said. Kentucky courts have said municipalities can raise levies above the maximum rate to repay debt backed by their full faith and credit, according to Moody's.

After filing a Chapter 9 petition, a municipality automatically gains temporary protection from creditors. Unlike in corporate bankruptcies filed under Chapter 11, the city or county can't proceed with its restructuring case until it convinces a judge it's eligible to remain under court protection, in part by showing it isn't paying debts as they come due.

In Aug. 28 court filings, the city claimed it was eligible because it lost the court case to Truck America. The case, which is related to a land sale, led to a judgment for the company of $11.4 million plus annual interest of 12 percent.

The city claimed it tried unsuccessfully to negotiate with creditors before filing for bankruptcy.

The case is In re City of Hillview, Kentucky, 15-32679, U.S. Bankruptcy Court, Western District of Kentucky (Louisville).

Bloomberg News

by Steven Church and Brian Chappatta

August 31, 2015 — 7:45 AM PDT Updated on August 31, 2015 — 9:12 AM PDT

Emanuel Said to Plan Property-Tax Boost for Chicago Pensions.

Chicago Mayor Rahm Emanuel is preparing to press for a property-tax increase of about $500 million to shore up police and firefighter pensions that threaten the city's solvency, the Chicago Tribune reported.

The proposal will be part of Emanuel's Sept. 22 spending plan for the budget year beginning Jan. 1, the newspaper reported. The increase, expected for months, would be the centerpiece of a budget that is $426 million out of balance.

When asked how difficult it will be to raise real-estate levies, Emanuel expressed confidence on Thursday that such an increase specifically to fund public-safety workers' pensions would pass the city council.
"We're going to do it in a fair and progressive way," Emanuel told reporters. "If you're asking me, do I believe we'll get it done, the short answer is yes because I actually believe aldermen are up to the task of charting a new course for Chicago's future."

Chicago needs to pay down a $20 billion debt to its retirement funds that's left it with a lower credit rating than any big U.S. city except Detroit, which went through a record bankruptcy.

"It serves as a clear demonstration of Chicago's willingness to make the difficult but necessary decisions," Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, said in an e-mail. The company manages about $30 billion in municipal bonds, including some Chicago debt.

Reckoning Day

The city faces a reckoning after years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended. Its next annual pension payment is projected to jump 10 percent, to $976 million.

Chicago's effort to reduce its liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought were illegal. The city will appeal to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

The challenges and subsequent credit downgrades have spurred a drop in the price of Chicago bonds. A portion of $44.9 million of federally tax-exempt securities maturing in 2033 traded Thursday at an average of 91.8 cents on the dollar. That's down from $1.01 when it was first offered in 2014. The yield averaged 6 percent Thursday, 3.2 percentage points more than benchmark debt.

Bloomberg News

by Tim Jones and Elizabeth Campbell

September 3, 2015 — 7:03 AM PDT Updated on September 3, 2015 — 1:45 PM PDT

[Puerto Rico Balloon Payments Seen as Risk for Some Bond Insurers.]

For bond insurers, Puerto Rico's balloon payments on debt that puts off interest bills for decades is a billion-dollar asterisk.

With Governor Alejandro Garcia Padilla set to receive a plan as soon as next week to restructure $72 billion of debt, the commonwealth's capital appreciation bonds, which were first sold for pennies on the dollar because they don't pay interest until maturity, threaten to saddle Ambac Financial Group Inc. and MBIA Inc. with swelling liabilities.

The companies typically use the price at which the bonds were issued when disclosing the potential payouts they face. Once interest is included, Ambac says its Puerto Rico exposure jumps to much as $10.5 billion from $2.4 billion. For MBIA's National Public Finance Guarantee Corp., it more than doubles to about $10.5 billion.

"The difference between principal at issuance and the amount due at maturity is enormous" on capital-appreciation bonds, said Tamara Lowin, director of research at Rye Brook, New York-based Belle Haven Investments, which oversees $3 billion in munis. "Ignoring the accreted value is irresponsible."

Bond insurers, which agree to make interest and principal payments if an issuer defaults, are among those with the most at stake as Puerto Rico is pushed to the financial brink. Years of borrowing caught up to the island as the economy languished and residents moved out. The territory defaulted last month for the first time, when it made just a fraction of a payment due on uninsured securities sold by one of its agencies, and Garcia Padilla's advisers are scheduled to present a debt-adjustment plan on Sept. 8.

Shares of Ambac, MBIA and rival Assured Guaranty Ltd., which tumbled as the commonwealth veered toward default, rose this week after Puerto Rico's electric company struck an agreement that left investors facing smaller losses than some analysts had predicted. Puerto Rico's bonds also climbed amid speculation that the government will be able to reach other such deals.

Island officials have yet to say how much of their debt they'll seek to cut, or which securities may be affected. Some investors have snapped up insured Puerto Rico securities, confident that insurers have enough to cover any defaults.

Assured, which insures $9.1 billion of commonwealth debt as measured by principal and interest, has $12.6 billion in claims-paying resources, according to company filings. Ambac has $8.8 billion to meet obligations and National has $4.9 billion, company disclosures show.

National and Ambac say they're confident in their ability to weather a Puerto Rico restructuring, and the biggest balloon payments faced by the commonwealth won't come due for decades. Assured says its $72 million exposure to capital-appreciation bonds is minimal.

MBIA is rated AA-, the fourth-highest grade, from Standard & Poor's, which ranks Assured AA, one step higher. Ambac isn't rated by S&P.

Those rankings are based on their ability to pay debt service on the island securities they insure for the next four years, said David Veno, an analyst at S&P in New York. The largest portions of Puerto Rico's capital appreciation bonds, or CABs, don't factor into that calculation because they don't mature in that time.

Ambac guarantees at least $7.3 billion of Puerto Rico's payments on CABs, most of which are backed by sales taxes and aren't due until 2047. National has more than $4 billion.

MBIA began including the full debt-service total along with the par amount in its last two quarterly reports, which reflect its exposure to CABs. Adam Bergonzi, National's chief risk officer, said the bonds, known by the Spanish acronym Cofina, are backed by a top claim on sales taxes that are sufficient to cover the debt payments.

“We are comfortable with our Cofina exposure,” he said in a statement. Though CAB payments may seem large, “collection levels exceed amounts necessary to service all senior debt in future years.”

Ambac discloses its exposure to Puerto Rico interest payments on its web site, though its most recent quarterly filing includes only a tally based on the amount of bonds outstanding.

“You need some sort of consistent basis to disclose your par exposure in your portfolio, and that’s a metric over time that investors have found valuable in assessing the guarantors and their risk,” David Trick, chief financial officer of Ambac, said in an interview. “It’s hard to make everything perfectly apples-to-apples without making disclosures extremely complex and potentially confusing.”

CABs have drawn scrutiny in states including California, Michigan and Texas because of the financial squeeze the securities put on local governments when they come due. All three have banned or limited the ability of officials to sell them.

Texas’s bill, which took effect Sept. 1 and restricts CAB maturities to 20 years, is a credit positive for the state’s school districts because they will have more stable debt burdens, Moody’s Investors Service said Thursday in a report.

In 2007, Puerto Rico issued Cofina bonds backed by Ambac due in August 2054 that netted the commonwealth $701 million up front, data compiled by Bloomberg show. As the debt matures, investors are supposed to receive about 10 times that amount.

The securities have traded at about 6.8 cents on the dollar over the past month, compared with 9.2 cents when they were issued. Usually zero-coupon bonds increase in price as they get closer to maturity.

“The biggest risk for National and Ambac is Cofina,” said Bill Bonawitz, director of municipal research in Philadelphia at PNC Capital Advisors. Because of the CABs, “they would ultimately owe enormous numbers.”

Bloomberg News

by Brian Chappatta

September 3, 2015 — 9:01 PM PDT Updated on September 4, 2015 — 6:02 AM PDT

Puerto Rico’s Power Authority Reaches Deal With Bondholders.

Puerto Rico’s power authority said Wednesday that it agreed on a debt restructuring plan with a group of bondholders, in what officials painted as an important step in the island commonwealth’s efforts to improve its finances.

The deal, after months of talks between the Puerto Rico Electric Power Authority and a group of mutual-fund companies and hedge funds, could pave the way for similar agreements between investors and the island’s struggling public agencies, analysts said.

The Government Development Bank, the island government’s fiscal agent, is already laying the groundwork for negotiations with investors who own some of its bonds. Some Puerto Rico bonds rallied as much as 23% on news of the power utility’s deal, though they continued to trade at a deep discount to par value.

The bondholders who reached the agreement with the power authority, such as Franklin Resources Inc., OppenheimerFunds and hedge funds including BlueMountain Capital Management LLC and Marathon Asset Management, are slated to receive 85% of the face value of their bonds in exchange for new securities that will be designed to carry investment-grade ratings. Bonds from the authority, which has about $9 billion in debt, are currently rated junk.

The agreement “sends a positive message to the market that there is a way to get a consensual deal that is equitable for both parties,” said Lisa Donahue, chief restructuring officer for the authority. The power utility released a term sheet outlining the framework of the plan, though the parties still have to prepare a more formal agreement.

Puerto Rico has been struggling with a sluggish economy and high unemployment for years. The situation prompted Gov. Alejandro García Padilla in June to call the island’s $72 billion in debt unpayable, and he has directed a group of government officials to produce a broader fiscal adjustment plan for the island. Its financial troubles are the latest to hit the usually quiet market for municipal bonds, which has been rattled in recent years by large bankruptcies in Detroit and Jefferson County, Ala.

The deal gives the power authority “a fresh start and financial flexibility, with bondholders providing meaningful sacrifices to make that happen,” Stephen Spencer of Houlihan Lokey, the bondholders’ financial adviser, said in a statement. He said the bondholders will work “to finalize these steps and complete the transaction as quickly as possible.”

The restructuring agreement is still contingent on several factors, including obtaining legislative authority for certain aspects of the agreement, underscoring the complexity of the challenges Puerto Rico faces in reducing its debt. Bond insurance companies, including Assured Guaranty Ltd. and MBIA Inc., and other lenders haven’t agreed to the restructuring deal, though the power authority said in a statement that it will continue to negotiate with those parties.

“We have a strong track record of protecting our economic interest related to credits in financial distress and are continuing to negotiate in good faith,” said Robert Tucker, head of investor relations and communications at Assured, in a statement.

Most of the power authority’s creditors also agreed to extend a so-called forbearance agreement until Sept. 18, in which they agree not to exercise certain remedies. MBIA unit National Public Finance Guarantee Corp., however, didn’t extend the agreement. A spokesman for National declined to comment on why the insurer didn’t extend, or whether any action would be taken.

“There’s a lot of detail still to be worked out,” said Rick Donner, senior credit officer at Moody’s Investors Service. Still, the fact the forbearance agreement was extended suggests “the negotiations have reached a critical stage,” he said.

Bonds from the power authority rallied after the deal, reflecting the mood among some investors that the bondholder losses were less severe than expected. On Wednesday, a 2026 bond from the utility traded at 67.25 cents on the dollar, up from 54.57 cents on Monday, a 23% gain, according the Electronic Municipal Market Access website.

Not all investors were buying.

“I still have a lot of questions, and I’m not willing to jump into purchasing anything yet,” said Howard Cure, director of municipal research at Evercore Wealth Management, which oversees $6 billion and doesn't own any bonds from the power authority.

According to the restructuring plan, bondholders will have the option to receive two types of securities in exchange for their existing bonds, with one carrying interest rates as high as 4.75% and the other as high as 5.5%. The first set of bonds will pay interest for the first five years, but the group of higher-rate bonds will defer interest payments during that time. The bonds will be scheduled to mature in 2043, according to the term sheet.

All investors who own uninsured bonds from the power authority will have the opportunity to participate in the exchange. The bondholder group that led the talks also agreed to discuss providing financing so the authority could offer cash to other investors who don't want the new bonds. An offering price hasn't yet been worked out.

The agreement is forecast to reduce the authority's debt principal by about $670 million and save more than $700 million in principal and interest payments over the next five years.

THE WALL STREET JOURNAL

By MIKE CHERNEY

Updated Sept. 2, 2015 5:35 p.m. ET

Write to Mike Cherney at mike.cherney@wsj.com

Chicago and Mayor Emanuel Face a $20 Billion Reckoning.

Chicago Mayor Rahm Emanuel sat on a stage at a community college gymnasium for nearly two hours as residents stepped up to the microphone to plead for more money for buses, schools and programs for the mentally ill.
The mayor jotted notes as the crowd erupted into angry chants and jeers. Then he explained there was little extra cash to be had. "We have a budget deficit and then pension payments," Emanuel, a Democrat, said at the end of the meeting Monday at Malcolm X College. "We have changes we're going to have to make."

Chicago is facing a $426 million budget shortfall next year and needs to pay down a $20 billion debt to its workers' retirement funds that's left it with a lower credit rating than any big U.S. city except Detroit.

After its bond prices tumbled this year when investors demanded higher premiums to lend to the third-largest city, Emanuel is under growing pressure to stanch the fiscal bleeding by raising taxes, cutting spending and putting more into a pension system the city has shortchanged for years. He's set to release a spending plan on Sept. 22.

"Chicago is really at a crucial point here," said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, which manages about $30 billion in municipal bonds, including some Chicago debt. "It's going to be within Chicago's control to demonstrate to the market that they have the willingness to make the difficult but necessary fiscal decisions."

While Chicago's economy recovers, the population grows and its tax revenue rebounds from the toll of the recession, the city is facing a fiscal reckoning from years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended, which is pushing up its bills. The city's next annual pension payment is projected to jump to $976 million, an increase of 10 percent.

The mounting debt led Moody's Investors Service to lower its rating on Chicago's $8.1 billion of general obligations by two steps to Ba1 in May. Standard & Poor's and Fitch Ratings followed by downgrading the city to BBB+, three levels above speculative grade.

The downgrades have caused the price of Chicago bonds to tumble. A portion of $58.5 million of taxable securities maturing in 2033 traded Tuesday at an average of 88.6 cents on the dollar, down from 99.7 cents on April 30.

That pushed the yield to 6.3 percent, 3.6 percentage points more than benchmark debt. That gap is up from 2.5 percentage points at the end of April.

When Chicago sold bonds in July, investors demanded yields of 5.67 percent on 20-year federally tax-exempt securities, about 2.5 percentage points more than benchmark municipal debt.

"Their big issue continues to be their long-term liability in the form of pension obligations," said Peter Hayes, the head of municipal bonds for New York-based BlackRock Inc., which oversees $116 billion of the securities. He said the firm isn't adding to its Chicago holdings. "How they build some of the elements of that into the budget is going to be very, very critical. If they truly address this liability from the revenue standpoint and that becomes credible, the bonds would have the ability at improve."

Chicago's effort to reduce its pension liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought to implement were illegal. The city will appeal the decision to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

On top of next year's deficit, the city still hasn't come up with the $549 million it needs to put into its police and firefighter funds this year. While Illinois's Democrat-led legislature passed a plan to lower that payment to $328 million, Republican Governor Bruce Rauner has yet to sign it.

Emanuel, who took office in 2011, hasn't raised property, gas or sales taxes. During his reelection campaign this year, he said an increase to real-estate taxes, which generated $824 million last year, would be a last resort.

As the mayor entered the town hall meeting Monday, he was met with the chant "Rahm don't care" by those angered at neighborhood school closings. Over almost two hours, he listened as residents suggested boosting taxes on liquor, regulating ride-hailing companies such as Uber Technologies Inc., taxing trades at Chicago's options and commodities exchanges, and suing banks to recoup fees the city had to pay to back out of derivative trades after its credit rating was cut.

Wilhemenia Taylor, 58, who owns a home in the city, said she's concerned about what the budget will bring.
"I'm worried about cuts to the public school system, and higher taxes," Taylor, a teacher's assistant, said in an interview while sitting on red bleachers. "And the neighborhoods are going down."

Despite the difficulty, it's important for Chicago to demonstrate to investors and credit-rating companies that it's taking strides to meet long-term obligations that have been neglected for years, said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance.

“They’ve got to come up with a plan to show some willingness to pay,” Ciccarone said. “We need to show the city’s ability to tap that economic base that it has.”

Bloomberg

Elizabeth Campbell

September 1, 2015 — 9:00 PM PDT Updated on September 2, 2015 — 8:25 AM PDT

Vanguard, Once Thwarted, Launches a Muni-Bond Rival to BlackRock's iShares.

The Vanguard Group Inc. was playing catch up when it was getting ready to launch its first municipal bond index fund in 2010.

Its competitors had already successfully brought similar products to the market, including State Street Global Advisors and BlackRock’s iShares. Those issuers, who at the time had substantially larger ETF businesses than Vanguard, offered a suite of muni-bond products with more than $2 billion in assets apiece.

But Vanguard was forced to call off its launch. The December 2010 prediction by the analyst Meredith Whitney on “60 Minutes” — that bonds issued by U.S. cities and states would see billions in defaults — worsened the mood of investors shell-shocked by the financial crisis. A fund launch then could have been catastrophic, according to Christopher W. Alwine, the head of Vanguard’s municipal bond group.

“People thought munis were the next shoe to drop,” Mr. Alwine said. “There were heavy outflows in the muni market at the time. It wouldn’t get any interest or it’d get redemptions, and it would make it difficult to produce tight ‘tracking’ in the product,” capable of successfully matching the returns of its benchmark.

Five years later, Vanguard, now the top mutual fund company and No. 2 ETF shop behind iShares, is hoping that this time is different.

The Vanguard Tax-Exempt Bond Index Fund (VTEBX), launched Monday, is the mutual fund industry’s first passive municipal bond fund, according to Nadine Youssef, a spokeswoman for fund researcher Morningstar Inc. But its ETF counterpart, which Vanguard now runs under the ticker VTEB, will be going head to head with deeply entrenched competitors.

The top product, managed by BlackRock Inc., is a colossus: The iShares National AMT-Free Muni Bond ETF (MUB) manages more than $5.2 billion.

The Vanguard product is the cheapest fund of its kind, with annual expenses of 0.12% for both the ETF and the lowest-cost mutual-fund share class.

Mr. Alwine said that expense ratio will allow the funds to top the performance of its competitors, including the comparable iShares product. A BlackRock spokeswoman declined to comment.

They’re launching the fund into a much healthier market, analysts said, with many cities and states displaying stronger financial conditions and refinancing their debts at lower rates in the past several years. But it's also potentially an environment of rising interest rates, which to some degree will erode the value of bonds.

The S&P National AMT-Free Municipal Bond Index, tracked by the Vanguard and iShares products, focuses on investment-grade bonds exempt from U.S. federal taxes and excludes the troubled U.S. territory Puerto Rico, which has been purchased by a number of municipal bond mutual funds. The index has averaged a 2.4% return over each of the last three years, or 3.7% each of the last five.

Over five years, 45% of active fund managers have topped the return of that index, according to Todd Rosenbluth, director of ETF and mutual fund research at S&P Capital IQ.

Like many bond index funds, this product looks to match the returns of its index not through buying every underlying bond but by "sampling," using the assets they have to buy a representative group that matches the characteristics of the bonds in the index.

"While investors should expect that this product should be performing closely in line with the S&P index and should perform close from an ETF perspective to MUB, which tracks the same index, there will be some slight deviation in performance and how well it tracks the benchmark," particularly before the fund reaches a critical mass of assets, Mr. Rosenbluth said.

"Especially in a world of soon-to-be-rising interest rates, that should make it harder for bond funds to perform as well as they have historically," he added. "By shaving off the expense ratio, that increases the likelihood of stronger performance."

Investment News

By Trevor Hunnicutt

Aug 27, 2015 @ 12:52 pm

Investors Brace for Puerto Rico's Debt-Restructuring Plan.

Investors will be watching Puerto Rico this weekend for details of a restructuring plan for its $72 billion debt load, as government officials face a Sunday deadline to deliver a draft of the plan to the governor.

The deadline kicks off what could be a busy week for the struggling island commonwealth, which defaulted on bonds from one of its public agencies earlier this month. Under previous agreements, the Puerto Rico Electric Power Authority, bondholders and other creditors are facing a Tuesday cutoff to shake hands on a restructuring program for the electric utility.

It isn't clear whether the government will release a draft version of its broader restructuring plan on Sunday, and analysts caution that any draft will likely be subject to heavy revisions. Daniel Hanson, an analyst at Height Securities, estimated in a recent research note that it could be up to two weeks before the full plan is officially released.

Earlier this week, Puerto Rican newspapers reported on some details of the proposed plan. The reports implied that Puerto Rico is "still intending to deeply haircut bondholders of many (or most) Puerto Rican bonds," meaning investors could face significant losses, Mr. Hanson wrote in his note.

“People are now looking for this report to give more color,” said Bill Black, who helps oversee the $7.2 billion Invesco High Yield Municipal Fund.

Some Puerto Rico bonds have risen in price in recent days, reflecting optimism that investors will soon get a better idea of how the restructuring plan might look. A big chunk of Puerto Rico general-obligation bonds traded at 72.75 cents on Friday, up from 70.5 cents a week earlier, according to the Electronic Municipal Market Access website.

Puerto Rico, whose bonds are widely held by U.S. mutual funds, has been struggling with a lackluster economy and high unemployment for years. In June, Gov. Alejandro Garcia Padilla called the island’s debts unpayable and directed a so-called working group of government officials to develop a draft restructuring plan and present it to him by Sunday.

The deadline comes after Puerto Rico this week further delayed a $750 million bond sale for its water and sewer authority. The sale has been scheduled for the past two weeks, but underwriters haven’t been able to attract enough orders from investors to sell all the bonds, according to people with knowledge of the deal.

Officials have said they don’t anticipate water and sewer bonds taking a hit as part of the restructuring plan, assuming the authority can sell bonds and its financial projections are met. Some investors, however, say the island commonwealth has been sending mixed messages. For example, Puerto Rico recently asked the U.S. Supreme Court to review a decision voiding a law allowing certain government agencies, including the water and sewer authority, to restructure their debts.

“You have one hand out telling people you can’t pay your bills, and you have another hand out hoping to collect money, saying you can pay your bills,” said Hugh McGuirk, head of municipal bonds at T. Rowe Price, which oversees about $22 billion in municipal debt. “The market is asking, which is it?”

The sewer authority planned to use the bulk of the proceeds for improvements to the water and sewer system. But it also planned to use the cash to pay off a $90 million credit line from Banco Popular de Puerto Rico, which comes due on Monday. The authority pledged the “bulk of its cash reserves” as collateral for the loan, according to Fitch Ratings, which gave the planned sewer bonds a junk rating.

THE BOND BUYER

By MIKE CHERNEY

Aug. 28, 2015 5:40 p.m. ET

Christie’s Recovery Elusive as Bond Market Penalizes New Jersey.

As New Jersey prepared for its biggest bond sale in more than two years, Governor Chris Christie’s office said a break in rating cuts for the Garden State showed that its finances are on the mend. Bond prices suggest otherwise.

The extra yield investors demand to buy New Jersey bonds instead of top-rated debt is holding close to the highest since at least January 2013. When New Jersey began marketing the $2.2 billion of securities last week, 20-year bonds were offered for a yield of 5.07 percent, more than 2 percentage points above the benchmark, according to three people familiar with the sale who requested anonymity because pricing wasn't final.

"The state is going to continue to have issues," said Scott McGough, who helps manage about $3 billion of municipal debt as director of fixed income for Glenmede Trust Co. in Philadelphia and isn't buying New Jersey bonds. He said officials aren't "making the adjustments you would want them to do."

New Jersey has a lower rating than any state except Illinois after nine downgrades since Christie took office in January 2010 and vowed to repair a government battered by the recession and squeezed by swelling shortfalls in its pension funds. That deficit, now $83 billion, has continued to grow despite a cut to benefits, as the slow recovery left Christie without money needed to make up for years of shortchanging the retirement system.

Ratings Respite

While New Jersey's bond yields have climbed relative to other securities, they're still less than they were in 2013 as municipal borrowing costs hover at a five-decade low.

New Jersey Assistant Treasurer Steven Petrecca said yield penalties have risen because of heightened investor scrutiny brought on by the fiscal struggles of Puerto Rico and Chicago.

"The bottom line here is that we believe that our bonds will be received because we always pay our debt," he said.

The state won a respite from the cuts to its rating ahead of the sale Tuesday by its Economic Development Authority, which is raising money to refinance debt and fund school construction. It's New Jersey's biggest securities offering since January 2013, Petrecca said.

Fitch Ratings on Aug. 18 changed the outlook on New Jersey to stable from negative, signaling that the state won't be downgraded again soon. The New York-based company said conservative revenue forecasts reduce the risk of another late-year budget deficit like those that have "plagued the state in recent years."

'Continued Progress'

Christie, who is campaigning for the Republican presidential nomination as a politician who cleaned up a fiscal mess he inherited, seized on the assessment.

The report from Fitch recognizes Christie's "continued progress in responsibly managing the state's finances by cutting discretionary spending, increasing reserves, and conservatively forecasting revenue," his office said in a statement.

The administration also drew on a less sanguine assessment from Moody's Investors Service, which said New Jersey's rating could be reduced again if the pension strains worsen, to make the case for further benefit cuts. "The problem is the unwillingness of Democrats in the legislature to come to the table and fix a broken system," his office said.

Assemblyman Gary Schaer, a Democrat who chairs the house's budget committee, said Christie has continued to shortchange the retirement system and failed to put needed money into schools and infrastructure.

Festering Wounds

“All of these problems remain and they are, at best, festering wounds with little or no triage going on,” Schaer said. “There’s no long-term plan to confront any of the fiscal issues facing the state.”

The pension-system deficit may widen because Christie’s administration is contributing $1.3 billion to it this year, less than half the $3.1 billion set by a 2011 law he signed that sought to make up for years of underfunding. He used the money to cover the government’s bills when tax collections fell short of forecasts.

Fitch and Standard & Poor’s grade New Jersey debt A, the sixth-highest level, while Moody’s places it in the same rank at A2.

“There’s been no success really in terms of dealing with the liability side of the equation,” said Paul Brennan, a money manager in Chicago at Nuveen Asset Management, which oversees about $100 billion of munis. “We’re now at the point where it’s becoming critical.”

Market’s View

His view is reflected in the bond market. Ten-year New Jersey debt yields 3.2 percent, or 0.96 percentage point more than benchmark tax-exempt munis. That’s close to the record high touched in July, according to data compiled by Bloomberg. The data begin in January 2013.

Investors have also demanded a higher premium to buy bonds sold by the economic development authority, which are rated one step below the state’s general obligations. Securities due December 2016 traded Monday for a yield of 1.5 percent, about 1.16 percentage points over benchmark munis. That’s higher than the average of 1.1 percentage point since March.

Bloomberg

Romy Varghese and Terrence Dopp

August 23, 2015

California Rainy Day Fund Yields Results in Bond-Market Recovery.

California is once again the Golden State in the eyes of municipal-debt investors.

Bonds of the state, which was so strapped after the recession that it took to issuing IOUs and drew comparisons to Greece, are the best performers in the $3.6 trillion tax-exempt market this year after the obligations of Michigan. Investors are even willing to accept yields lower than benchmark indexes on the state’s short-maturity debt, data compiled by Bloomberg show.

California plans to take advantage of the renewed faith in its finances by selling $1.9 billion in general obligations this week in the first offering of the securities since Standard & Poor’s raised the state’s credit rating to its highest level in 14 years. California’s economy is expanding faster than the nation’s, in part because of the technology-industry boom.

“The state of California has done a very nice job as far as improving its fiscal situation,” said Greg Kaplan, director of fixed income in San Francisco at City National Bank’s Rochdale unit, which manages $4.4 billion in munis. “Five years ago, people didn’t want that paper. That fear is gone.”

In July, S&P lifted the state’s rating to AA-, its fourth-highest level, and pointed to passage of a budget that directed money to a rainy-day fund approved by voters in November. The fund, which requires the state to save a portion of capital-gains taxes, helps cushion the state when receipts fall, the company said.

Credit Environment

“It was important to see them enact a budget that represented an extension of their recent approach to their fiscal policy, which has been to emphasize structural alignment between the ongoing revenues and recurring expenditures,” Gabriel Petek, a San Francisco-based S&P analyst, said Monday.

Investors have also liked how California under Governor Jerry Brown has notched budget surpluses after more than $100 billion of cumulative deficits from 2000 through 2010.

“Governor Brown has put the fiscal house in order,” said Ben Woo, senior municipal analyst at Columbia Threadneedle Investments, which manages about $30 billion in local debt. “Compared to the chaotic political environment we’re seeing in New Jersey and Illinois, California is a much better credit environment than some other states.”

Penalty Declines

Investors are demanding about 0.18 percentage point over top-rated debt to own 10-year California securities, close to the 0.17 percentage point low since 2013, according to data compiled by Bloomberg. That’s down from a peak of about 1.7 percentage points in 2009, when the state resorted to IOUs to pay bills.

That’s also better than the 0.52 percentage point for debt issued by Pennsylvania, which has the same investment-grade ratings from S&P and Moody’s Investors Service.

If mutual-fund flows remain consistent, it’s a “pretty easy case to make” that California spreads can go to 0.1 percentage point this year, Kaplan said.

That level was seen in 2006 and 2007, before deficits for the nation’s most indebted state soared amid the recession and sparked comparisons to Greece, which recently received its third bailout since 2010 from European authorities to repay creditors.

Capital Projects

California is selling bonds mostly to refinance debt and to fund capital projects such as roads and public buildings.

“We have to take advantage of our recent credit upgrades, and I encourage individual and institutional investors to get behind California and help us make this sale a success,” State Treasurer John Chiang said in a statement.

On Tuesday, when individual investors had a chance to order the securities, 10-year bonds were being marketed at a yield of 2.38 percent, according to a person familiar with the sale who requested anonymity because pricing wasn’t final. That compares with 2.21 percent for top-rated munis. Final prices will be set Wednesday.

The size of the deal might “take some digestion” and may prevent the state from testing new lows for yields, said Woo, the analyst at Columbia Threadneedle.

Adrian Van Poppel, who helps run a California fund for Wells Capital Management in San Francisco, said he would want risk premiums above those seen on existing bonds before buying.

"It'll just come down to pricing for us," he said. "You're not getting much" in extra yield for debt maturing under five years.

Investors are demanding 0.57 percent to own California two-year bonds, less than the 0.6 percent for benchmark munis, according to data compiled by Bloomberg.

"We'll definitely be following it," Van Poppel said. "They've been moving in the right direction."

Bloomberg

Romy Varghese

August 24, 2015

New Jersey Penalized in Biggest Muni Bond Sale Since 2013.

The New Jersey Economic Development Authority sold $2.2 billion of bonds at yields that were more than 2 percentage points higher than benchmark tax-exempt securities in the state's biggest debt sale since 2013.

The bond offering shows the penalty New Jersey is paying to borrow as it faces financial pressure from an $83 billion deficit in its employee-retirement system, which state leaders have shortchanged for years. The escalating bills to the pension funds have left New Jersey with the second-lowest credit rating among states after Illinois.

"Unless the state can show that it can make long-standing strides in its pension and health-care obligations, the state should be prepared to be penalized when it brings new issues to market," said Neil Klein, senior managing director in New York at Carret Asset Management, which oversees $750 million of municipal debt. Carret didn't buy any of the bonds.

Yields ranged from 3.24 percent for a bond maturing in 2019 to 5.1 percent for a 2040 security, according to data compiled by Bloomberg. Bank of America Merrill Lynch was the lead underwriter of the sale.

The 10-year securities were priced at 4.37 percent, compared with 2.21 percent yield on comparable top-rated debt. The $401.9 million in taxable bonds carried yields from 3.38 percent for 2017 securities to 4.45 percent for five-year bonds, the data show.

School Bonds

New Jersey ended up paying more in 10 years than A rated Guam, which sold comparable maturity debt Tuesday at a yield of 3.14 percent. Cobb County, Georgia's top-rated taxable bonds, also priced Tuesday, yielded 3.25 percent in 10 years.

Proceeds for the New Jersey issue will fund school construction costs, refinance debt and terminate derivative contracts. The bonds are rated A3 by Moody's Investors Service, the company's seventh-highest investment grade.

The deal accomplished the state's goals, and its true interest cost is 4.58 percent, said Christopher Santarelli, a spokesman for the Treasury Department.

"The offering saw widespread market acceptance with $450 million retail orders from mom and pops to some of the largest institutional municipal investors in the country," Santarelli said by e-mail.

Bloomberg

Romy Varghese

August 25, 2015

Puerto Rico Optimistic About Bond Sale as Buyer Doubts Increase.

Puerto Rico isn't giving up hope just yet that it can sell $750 million in water bonds while moving toward a debt-restructuring plan that may leave some investors with significant losses.

After initially announcing a sale date last week for the island's Aqueduct & Sewer Authority issue, the sale was pushed back to a day-to-day status as investors demanded higher yields and more protection against the risk of the bonds being caught up in a reorganization proposal that may be released as soon as next week. The offering has remained in limbo since.

"We are not expecting to price this week since some investor's requested, and we have agreed, to wait until after Sept. 1," Alberto Lazaro, the water utility's executive director, said in an e-mail Thursday. "There is not a set date, but rather we will evaluate and determine the appropriate timing, but are expecting it would be in early September."

The water authority, know as Prasa, anticipates that investors should be able to make more informed decisions after Puerto Rico officials deliver the debt-restructuring proposal and the island's electric utility also unveils a turnaround plan on Sept. 1, Lazaro said.

Investors aren't convinced. While Puerto Rico officials tried Monday to assure would-be buyers that the water utility doesn't need to restructure its debt, the commonwealth last week petitioned the U.S. Supreme Court to reinstate a law that would allow some public corporations, including Prasa, to negotiate with bondholders to reduce what they owe.

"I'd be shocked if they get the deal done," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. "Unless there's some big change between now and then, they're still looking at empty pockets for their debt."

Prasa had already increased the preliminary yield to 10 percent last week from an earlier offer of 9.5 percent, according to two people familiar with the sale who requested anonymity because pricing wasn't final. That's more than three times the 3.16 percent yield on benchmark 30-year municipal bonds, according to data compiled by Bloomberg.

Sale proceeds would help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Prasa is negotiating with the bank and other financial institutions, Lazaro said.

"They've exhausted the traditional municipal buyer and now they've lost the bulk of the hedge fund industry," Dalton said.

Bloomberg

Michelle Kaske

August 26, 2015

A Decade Later, New Orleans Mends Finances and Neighborhoods.

When Matt Wisdom tried to round up investors for his three-D modeling company after Hurricane Katrina hit, people scoffed.

"They treated us like we were part of the developing world," said Wisdom, 43, chief executive officer of TurboSquid, which was founded before the storm. "The response we often got was, 'We'll invest in New Orleans, but we'll treat it like it is Estonia."'

Today venture-capital funds with more than $1 billion are lining up to provide money for entrepreneurs, and philanthropies, including the John D. and Catherine T. MacArthur Foundation, are providing grants for city projects.

"It's a sea change," Wisdom said. "We've become trendy."

New Orleans has rebounded from the costliest natural disaster in U.S. history, as tourists and tax collections near pre-storm levels and property values rise to new peaks. Beyond the determination of residents to return, recovery has been driven by billions of dollars in federal investment, including an improved levy system, state aid for local governments, loans to help businesses rebuild and bond ratings that top those before the storm.

"The city was literally under water for three weeks, so there were a lot of doubts," said Adrienne Slack, vice president in the New Orleans branch of the Federal Reserve Bank of Atlanta. "Now there is a focus on how the city can better position itself for the future."

Rising Graduation Rates

The school system is being rebuilt with funds that include $1.8 billion from the Federal Emergency Management Agency. Graduation rates have risen to 73 percent in 2013-2014 from 54 percent in 2003-2004, and the percentage of students who are proficient on all state tests for all grades increased to 62 percent from 35 percent.

The city has repaired infrastructure, even though fixing all the streets will cost an estimated $9 billion. The Superdome — which sheltered thousands during the storm — has been renovated and now carries the Mercedes-Benz name. A new veterans' hospital is scheduled to open in December 2016, and the new $1.1 billion University Medical Center New Orleans was designed with its emergency department and other mission-critical elements 21 feet above base flood elevation.

"Our vision is to make New Orleans a premier national and international health-care destination," said Michael Hecht, president of Greater New Orleans Inc., which promotes economic development. Part of that plan is a 1,500-acre district focused on biosciences research and medical care that will create an estimated 34,000 jobs.

“If adversity is the mother of invention, then Katrina was the biggest mother of all,” Hecht said. President Barack Obama is visiting the city today, to celebrate its progress but also note its continuing economic inequality, according to the White House.

80 Percent Submerged

The Category 5 storm hit Louisiana and Mississippi on Aug. 29, 2005, with maximum winds of 125 miles an hour, according to the National Hurricane Center. Water surged as much as 28 feet above normal tide levels and destroyed levies designed to protect the city, which lies mostly below sea level. Floods covered 80 percent of New Orleans, and hundreds of thousands of the city’s 455,000 residents eventually fled; by 2006 only 211,000 remained.

The day after the storm, Standard & Poor’s warned it was reviewing ratings for the city and other local and state governments, which had about $8 billion of debt outstanding. Similar announcements followed from Fitch Ratings and Moody’s Investors Service.

Rating analysts had no way to predict when or how quickly the people and the tax bases would return, said Steve Murray, senior director with Fitch.

“This had never happened before to an American city,” Murray said. “It was so unprecedented to have such a dislocation of the population.”

State Treasurer John Neely Kennedy pushed the state to approve about $200 million in borrowing for local governments to cover service on outstanding debt until their tax revenues recovered, along with additional matching funds. The money was instrumental in helping many avoid default, he said.

Opportunity Bonds

The state also approved most of the $7.8 billion of so-called Gulf Opportunity Zone bonds, passed by Congress, to help rebuild low-income housing and facilities for businesses. Billions more flowed in through grants from FEMA, the Department of Housing and Urban Development, and government and private insurance.

New Orleans has worked its way back up to investment grade after Moody’s and S&P cut its credit ratings to junk; the main drivers have been reduced deficits and higher tax revenue. In March, S&P raised its rating to A- from BBB+ when Katrina struck. Moody’s rating now is A3, compared with Baa1 when the storm hit; it said in an Aug. 24 report that the city is financially and structurally better prepared for storms than before 2005.

The New Orleans Aviation Board sold $565 million in debt earlier this year primarily to fund construction of a new terminal at Louis Armstrong New Orleans International Airport. It will generate an estimated 21 percent increase in spending and support about 11,000 new jobs in the metro area, according to an economic-impact report released last year.

Challenges remain, including some that pre-date Katrina. The recovery has been uneven, with neighborhoods including the flood-ravaged Ninth Ward not coming back as quickly as others. Poverty and joblessness persist, especially among the black population. And crime continues to be a problem, although it is lower than it was in the 1990s.

Business Startups

Even so, business startups in metro New Orleans have outpaced those for the U.S. in the years since Katrina. The three-year-average was 471 per 100,000 adult population as of 2012, compared with

288 nationwide, according to a report by The Data Center, which compiles statistics about greater New Orleans and southeast Louisiana.

Three years after the storm, Patrick Comer relocated to the city from Los Angeles at the request of his wife, a New Orleans native.

“We made the decision to move there so we could contribute,” said Comer, 41, who started an online survey and data company in 2010. Lucid Corp. now employs more than 80 people and plans to open a London office this fall.

By 2014, the most recent year for which data are available, the population had rebounded to 384,000, and the value of real estate had risen 56 percent compared with 2005. Retail sales totaled a record $6.5 billion, and 9.5 million visitors came to the city, the second highest since a record 10.1 million in 2004.

New Orleans received a MacArthur grant to reduce incarceration rates in its jails that could provide as much as $2 million for implementation. It also is among the first municipalities to participate in “What Works Cities Initiative,” a program to help enhance the use of data to improve residents’ lives from Bloomberg Philanthropies, established by Michael Bloomberg, majority shareholder in Bloomberg News parent Bloomberg LP.

“I thought it would take 20 years to get back to where we were,” said TurboSquid’s Wisdom, who helps entrepreneurs raise capital as a board member of the New Orleans Startup Fund. “Instead we’ve moved ahead.”

Bloomberg

Darrell Preston

August 26, 2015

[Illinois Budget Standoff Grinds On as State Finds a Way to Cope.]()

Republican Governor Bruce Rauner and Democratic House Speaker Michael Madigan, two of the most powerful politicians in Illinois, have been trying to outlast one another in a dispute that for two months has left the nation’s lowest-rated state without a budget.

Illinois muddles through. Government employees get paid, thanks to court orders. Children go to school, thanks to Rauner’s signing an education-funding bill. The state fair went on last week as scheduled and the governor signed a bill Aug. 14 designating pumpkin as the official pie.

The veneer of normalcy belies what Madigan terms an “epic struggle” with the venture capitalist-turned-politician. At stake are further credit downgrades for Illinois, and increased stress for Chicago and its schools, which are seeking relief from the state — relief delayed by the impasse.

“We’re all a bunch of idiots,” said Representative Jack Franks, a Democrat from the northern Illinois town of Woodstock.

“Just because Bruce Rauner says ‘Republicans need to do this,’ and Speaker Madigan says ‘Democrats need to do that,’ doesn’t mean we have to listen to them,” Franks said.

Yet Republicans line up behind Rauner, who insists on labor, tax and regulatory changes, and Democrats follow Madigan, who says the budget must be passed and revenue raised. There is no hint of a break in the impasse. Bondholders get paid, although many state vendors are getting stiffed to the tune of at least $3.5 billion.

Rauner, a first-time officeholder, is also Illinois's first Republican governor in a dozen years.

Campaigning on a pledge to shake up the government, a $62 billion enterprise, he has repeatedly challenged Democrats who hold veto-proof legislative majorities.

"I was elected by millions of people; he's been elected by 17,000 people," Rauner told a crowd at the Illinois State Fair last week, referring to Madigan. "Why is he there blocking what we need to do to reform and improve our great state?"

Rauner's confrontational strategy isn't meant to solve the budget standoff, said Doug Whitley, the former president of the Illinois Chamber of Commerce.

"The real story is how much of this whole exercise is posturing for the 2016 election," he said. "This thing could drag out until after next year's March primary."

In the tumultuous Midwest, Republican governors like Wisconsin's Scott Walker, Michigan's Rick Snyder and former Indiana Governor Mitch Daniels have prevailed in battles with organized labor, the Democrats' traditional support group. Rauner, who cites those governors as role models, wants to do the same in reliably blue Illinois.

David Yepsen, director of the Paul Simon Public Policy Institute at Southern Illinois University, said Rauner has misunderstood why he won election.

"He didn't get elected to gut the labor movement," Yepsen said. "He got elected because people were angry with Pat Quinn," the previous Democratic governor.

Two Gallants

Madigan's obduracy hasn't made him a hero with the electorate, either, Yepsen said. "Nobody has the high ground with voters, and the people of Illinois say a plague on all their houses," he said.

When legislative and executive branches go to war over budgets, there are usually immediate consequences. Minnesota's government shut down in 2011, closing parks and rest stops in the summertime and engendering widespread outrage. It was over in three weeks.

Illinois is living with it. Rauner signed an education aid bill in June, enabling schools to open this month. State employees won court judgments to assure that they get paid. Another court mandated Medicaid payments, and lawmakers cleared the way for more than $5 billion in federal payments to state programs.

"This is a caricature of Illinois and all of its mismanagement," said James Nowlan, a former Republican legislator who has written about politics and policy in the state. "Nobody's looking beyond the next month, the next year, or the next 10 or 15 years."

At some point the consequences will demand attention, said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance. Illinois is spending without regard for a projected $6.2 billion deficit in the current year.

“As we get closer to the calendar year — maybe October — there will be struggles to pay higher education and hospitals and other institutions,” Ciccarone said. “Things could really start to back up then.”

Illinois could also be harmed by budget stress in Chicago and Chicago Public Schools, each of which has asked the state for relief from solvency-threatening pension obligations.

Whitley said local governments’ pain and protests might end the stalemate.

“Right now we’re spending about $4 billion or $5 billion more than we have,” Franks said. “How long does this go? Forever.”

Bloomberg

Tim Jones

August 27, 2015

Moody's: New Orleans' Credit Profile has Improved Post-Katrina, but Fiscal Pressures Remain.

New York, August 24, 2015 — In the decade since Hurricane Katrina, New Orleans (A3 stable) has improved its fiscal management, rebuilt and bolstered its infrastructure and benefitted from the revitalization of its communities and the tourism industry. At the same time, the city’s rising fixed costs, reliance on the volatile oil and gas sector, and vulnerability to flooding remain credit challenges, says Moody’s Investors Service.

Compared to before the hurricane, New Orleans has improved its fiscal position by focusing on growing revenues, controlling expenses, and building reserves. Better sales tax collections and growth in property taxes have boosted the city’s budget in both 2014 and 2015. New Orleans will also receive $36 million from its settlement with British Petroleum following the Deepwater Horizon oil spill.

The city also received a significant amount of federal aid after the hurricane which, combined with local and state funding, was used to strengthen levees, build new infrastructure and increase the city’s emergency preparedness, according to Moody’s new report “Ten Years After Katrina, New Orleans Better Prepared for Future Storms.”

“The recovery of the local economy is a key stabilizing factor that has driven the city’s recent positive momentum, by bringing people back, rebuilding communities and revitalizing the tourism industry, which is a key source of revenue for the city,” says Andy Hobbs, a Moody’s Assistant Vice President and Analyst.

The city’s taxable property value has grown consistently since the hurricane, the number of conventions and trade shows hosted by the city has increased since the convention center reopened, and new developments such as the recent announcement that Viking Cruises will start operating out of the Port of New Orleans in 2017 are all factors that buoy the city’s credit position.

However, offsetting these positive factors are the city’s rising fixed costs for debt service, pension contributions and retiree healthcare payments, which have increased to $198 million in 2014, from

$129 million in 2009.

“The city’s fixed costs exceeds 30% of its operating revenues,” says Hobbs. At the same time, “the city’s contribution to its pension plans fell short by $17.7 million in fiscal year 2014, and annual pension requirements are expected to increase going forward”.

In addition, New Orleans’ dependence on the volatile oil and gas sector, declining employment in the public sector and below-average population growth leave the city trailing other metro areas in the US South in terms of key economic indicators. The city’s population remains roughly 18% below pre-hurricane levels.

New Orleans also has weak liquidity because it used reserves to fill budget gaps during the recession.

Overall, though, the State of Louisiana and the education and transportation sectors have emerged stronger post-Katrina. The state received a significant amount of money in the form of federal aid and insurance proceeds, which provided the liquidity for a post-storm rebuilding boom and helped the state mitigate the effects of the national recession.

The city’s ports emerged relatively unscathed from the hurricane, but nevertheless received federal and state financial support to make up for the decline in cargo and cruise activity following the hurricane. The airport also received aid that has allowed it to expand capacity and attract more flights to more destinations.

And while total university enrollment is still down 15% from pre-Katrina levels, emergency funds helped New Orleans’ universities emerge stronger by allowing them to invest in capital facilities.

Moody’s subscribers can access this report here.

Puerto Rico Turmoil Sinks Sewer Bond.

Up against a deadline to reveal its plan to restructure its staggering debt, Puerto Rico has decided not to move ahead with a controversial proposal to borrow an additional $750 million to pay for improvements to its water and sewer authority.

It attributed the decision, made late Monday, to the turmoil in the global markets. But the government also appears to have decided it could not borrow the money — by issuing bonds — at an affordable interest rate.

Just a few days earlier, Puerto Rico petitioned the United States Supreme Court asking for the right to restructure its debt — which has reached $72 billion — under its own quasi-bankruptcy law. Puerto Rico, a United States commonwealth, enacted the law last year because it has no access to the federal bankruptcy courts. But the law was later found unconstitutional and was voided by the courts.

Investors who at one time might have been potential buyers of the water and sewer bonds seemed taken aback by the island’s move, on the one hand, to sell new bonds (and incur new debt) while also telling the Supreme Court that it had to restructure its old debt.

“You could take it on face value and say, ‘Either they’re lying to investors about the bonds being payable, or lying to the Supreme Court about the bonds being unpayable,' " said Matt Fabian, a partner at Municipal Market Analytics, a financial research firm. "I see it as a blunder, ultimately, and not anything more heinous, but it really undermines their ability to negotiate."

Taken together, the steps demonstrate some of the confusion within the government as it faces a Sept. 1 deadline to outline its restructuring plan. A working group, appointed by the governor, has been trying to put a proposal together for several months. But in a signal of political conflicts to come, the island's main opposition party has dropped out of the group.

"It's not like we wait till Sept. 1 and then we've got a road map to fixing everything," said Kent Collier, chief of Reorg Research, a firm that monitors Puerto Rican affairs for clients that include hedge funds.

About two months after the restructuring plan is issued, he said, the government is supposed to seek the authorizing legislation, setting off an unpredictable political process.

Eventually, Puerto Rican officials have expressed hopes of resolving their problems through a global debt-for-debt swap, in which the holders of the island's bonds would turn those in and receive new bonds that would be worth less but be far more likely to be paid off. But the details are sketchy and many other things must happen first.

"Their economy does need to grow, and I don't disagree that their debt is too high to do all the things they need to do to make their economy grow and provide for the health and welfare of their citizens," said Gerry Durr, senior municipal credit analyst at Wilmington Trust. "But you know, I think the only way this thing really gets solved is if there's a strong, independent control board, and I don't think Congress has the appetite to impose one."

Until recently, senior Puerto Rican officials had sought to reassure investors that its water and sewer authority, known as Prasa, was a credible borrower.

Puerto Rico announced Prasa's plans to issue the $750 million of bonds just days after another branch of the government had defaulted on a different group of bonds, but the president of the Government Development Bank, Melba Acosta Febo, said that was not relevant.

It "reflects the individual financial circumstances of the various debt issuers across the commonwealth," she said.

The bonds that defaulted were issued by the Public Finance Corporation, a small, single-purpose entity that has no power to levy taxes. Its bond-marketing materials warn that investors will have little or no recourse in the event of a default.

Prasa, by contrast, provides essential services and can increase rates, within reason, because it is a monopoly. Prasa's bondholders have a first claim on that revenue if cash gets tight, and they can bring in a receiver to enforce collections.

In addition, the new Prasa bonds were expected to include such investor-friendly terms as a make-whole agreement, which would discourage Puerto Rico from refinancing them at lower interest rates in the future, if Puerto Rico's fortunes changed for the better.

"They were within striking distance of settling this deal," said Stephen Snowder, an associate editor at Reorg Research.

But the deal started to come unglued on Friday, after Puerto Rico filed its petition to the Supreme

Court. It sought a review of the legality of its so-called Recovery Act, which tried to create a bankruptcylike restructuring framework for public corporations on the island. Among other things, the petition said that it needed to have a legal framework in case Prasa's debts have to be restructured.

"That's not the phrase you want in the middle of a bond deal," said Mr. Fabian.

On Monday, Prasa filed a statement from Victor Suárez Meléndez, the governor's chief of staff. "We currently do not contemplate Prasa necessitating a restructuring of its debt," he said.

But Mr. Suarez also tried to explain why Puerto Rico needed a safe place to restructure: "If any Puerto Rico utility ever needs to restructure its debts, it should be done in a way that is fair not only to their creditors but also to the people such utilities serve."

The next thing Mr. Snowder knew, he said, the deal was off. He said a colleague called Prasa's executive president, Alberto Lázaro, Monday evening to find out what was going on.

"Victor Suarez was making nice statements, and then a couple of hours later, we had Lázaro telling us that the deal was delayed, postponed or canceled," said Mr. Snowder. "No one has explained it to me."

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

AUG. 25, 2015

Detroit's Paying a Penalty on First Bond Sale Since Bankruptcy.

Detroit is paying a high price in its return to the $3.6 trillion municipal-bond market for the first time since emerging from a record bankruptcy.

The $245 million of bonds, to be sold Wednesday through the Michigan Finance Authority, have the top claim on city income taxes to ensure investors are repaid. Even so, 14-year debt is being offered at an initial yield of 4.75 percent, according to three people familiar with the sale who requested anonymity because it isn't final. That's 2.1 percentage points more than top-rated securities.

"It's still Detroit," said Dennis Derby, a portfolio manager in Menomonee Falls, Wisconsin, for Wells Capital Management, which holds the city's water bonds among its $39 billion of munis. "There's still concerns of whether or not they can have positive momentum."

Detroit filed for bankruptcy protection two years ago to escape from debts it couldn't afford after the population tumbled, tax collections slid and the automobile-industry's decline left the economy reeling.

That allowed the city to cut $7 billion from its obligations by the time it emerged from bankruptcy in December, an effort to steady the government's finances and hasten its revival.

Investor Losses

The plan left some general-obligation bondholders recovering as little as 41 percent of what they were owed, according to Moody's Investors Service. Those losses called into question the long-held assumption that cities would do everything possible to repay securities backed by their full faith and credit.

To persuade investors to lend to the city again, Michigan Governor Rick Snyder signed legislation giving bondholders first claim to the income taxes that will repay the debt sold this week. That led Standard & Poor's to award the deal an A rating, five steps above junk and nine levels higher than its grade on Detroit's general obligations.

John Naglick, Detroit's deputy chief financial officer, marketed the securities during a presentation in New York and in phone calls with investors. He declined to comment on the expected yields ahead of the sale.

"We feel that investors really took the time to understand the security provisions that came with this bond," said Naglick. "People looked even beyond the bond at the recovery of the city of Detroit."

Detroit Rebound

Detroit's leaders have been seeking to revive the city, whose population of about 680,000 as of July 2014 was less than half the peak after the Second World War. There are signs of progress: employment has risen 3 percent over the last four years and income-tax revenue grew 18 percent from 2010 to 2015, according to Moody's.

The proceeds from this week's sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy, Naglick said. They will also finance city projects, including upgrades for the fire department's fleet.

The city's income-tax collections are strong enough to cover the bonds, S&P said in a statement last month.
While Moody's wasn't hired to rate the deal, it said it may have assigned the securities an investment-grade rank even though the city is five levels below that threshold.

Skeptical Investors

The deal isn't the first for Detroit since it filed for bankruptcy. Michigan's finance agency sold $185 million of bonds in June 2014 for Detroit's lighting authority. With investor protections similar to those being offering this week, the 30-year securities sold for a yield of 4.6 percent, in line with an index of revenue bonds with the lowest investment grades, according to data compiled by Bloomberg.

The bankruptcy may deter some would-be buyers, said Dan Solender, who helps manage $17 billion as head of munis at Lord Abbett & Co. in Jersey City, New Jersey. The firm owns some of Detroit's water and sewer debt.

"The history there is pretty weak considering how they dealt with bondholders with their bankruptcy," Solender said. "They'll have market access. It's just at a cost."

Bloomberg

Elizabeth Campbell

August 17, 2015 — 9:01 PM PDT

Puerto Rico Bond Offer Postponed, Seen Luring High-Yield Funds.

NEW YORK Aug 18 (Reuters) – Puerto Rico postponed until later this week its first bond sale in public markets since it defaulted, investors said on Tuesday, an offering that according to Fitch ratings agency may attract high-yield municipal funds.

According to data company IPREO, the $750 million deal for the Puerto Rico Aqueduct and Sewer Authority (PRASA) was slated to price on Tuesday.

One investor in contact with underwriters, who declined to be named, said they had been told the issue was postponed to Thursday.

"From everything I know now, I don't think (buying the issue) is a good idea," that investor said, adding they were concerned about the risk of default.

Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, also said that it was his understanding that the release would happen Thursday.

It is meant "just to give investors more time to do their work," said Fitterer, who said he learned of the postponement from one of the underwriters.

PRASA and Bank of America Merrill Lynch, the lead underwriter for the deal, did not respond to requests for comment on the date of the pricing.

Bloomberg earlier reported the issue's delay.

High-yield closed-end funds may participate in this week's PRASA bond sale because of the authority's stable prices compared to other debt issuers from the island, Fitch Ratings said on Tuesday.

A return of municipal closed-end fund managers to Puerto Rico would be a source of liquidity for the U.S. commonwealth, according to Fitch.

The PRASA bond sale follows a failure by Puerto Rico to make a full payment due on bonds sold by its Public Finance Corp. The partial payment was considered a default by its creditors and ratings agencies, the first by the U.S. territory.

Fitch Ratings on Monday rated Puerto Rico's planned bond sale 'CC', meaning that default of some kind appears probable, and that there are very high levels of credit risk.

S&P, which lowered its rating on PRASA to CCC- in July, said on Tuesday that "events could unfold within the next three months that could expose PRASA to greater restructuring efforts."

Puerto Rico was scheduled on Monday to conclude its presentations to investors on the bond sale. The island had been conducting presentations since late last week.

By Jessica DiNapoli

(Additional reporting by Megan Davies; Editing by Paul Simao and Alan Crosby)

Detroit's $245 mln Bonds Priced in First Post-Bankruptcy Issue.

Aug 19 Detroit's post-bankruptcy debut in the U.S. municipal bond market on Wednesday resulted in hefty yields for $245 million of bonds.

Tax-exempt bonds totaling $134.7 million were priced at par with a top yield of 4.50 percent in 2029. Nearly $110.3 million of taxable bonds maturing in 2022 were priced at par with a 4.60 percent coupon.

Reuters

(Reporting By Karen Pierog Editing by W Simon)

California GO Refunding And New Issue Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Aug. 18, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $1.9 billion of general obligation (GO) bonds, consisting of $550 million in tax-exempt various purpose GO bonds and $1.35 billion in GO refunding bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $76 billion of GO bonds outstanding, as of July 1, 2015. The outlook on all ratings is stable.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

"California's finances have been brought into structural alignment," said Standard & Poor's credit analyst Gabriel Petek. "Under current conditions, the state's fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state Department of Finance's forecast, than the state has had in recent memory. Still, the state's tendency for revenue volatility coupled with the lack of an automatic process for midyear corrective budget actions — other than the governor declaring a fiscal emergency — constrain our rating on the state," added Mr. Petek.

Aided by temporary tax increases and a six-year bull market for equities, California is enjoying an extended period of strong revenue trends. The Department of Finance recently reported that tax collections for fiscal 2015 topped its updated May forecast by 0.6% on a cash basis. Revenue collections look even stronger when compared with the assumptions included in the original fiscal 2015 budget. On that basis, the state controller reports that tax receipts for the year came in $6.8 billion (6.4%) higher than projected at the time of budget enactment. In our view, the state's stronger credit quality primarily reflects its much improved fiscal position, which lawmakers have engineered with the help of the multi-year revenue rebound.

Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Puerto Rico Aqueduct and Sewer Authority plans to sell $750 million of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Portland, Oregon, Sewer System will offer $404 million and Illinois Finance Authority will bring $400 million to market.

Municipalities have announced $10.1 billion of redemptions and an additional $17.9 billion of debt matures in the next 30 days, compared with the $29.5 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $6.12 billion, followed by California at $1.77 billion and New Jersey with $929 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

ETF Flows

Investors removed $106 million from mutual funds that target municipal securities in the week ended Aug. 5, compared with a reduction of $91 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $10.2 million last week, reducing the value of the ETFs by 0.06 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 103.273 percent of Treasuries, compared with 103.156 percent in the previous session and the 200-day moving average of 101.301 percent, Bloomberg data show.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 5 basis points to 2.48 percent while California's declined 1 basis points to 2.48 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 137 to 11.14 percent and Illinois's rose 36 basis points to 4.16 percent.

Bloomberg

Kenneth Kohn

August 17, 2015

Puerto Rico Seen Paying Triple Benchmark Yields in Return to Market.

Puerto Rico's water utility may have to pay yields three times higher than top-rated municipal borrowers as it sells $750 million of bonds, the first securities offering from the commonwealth since it defaulted this month.

The island's Aqueduct and Sewer Authority, called Prasa, is offering 30-year bonds for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That compares with yields of 3.1 percent for benchmark securities. The bonds would carry an 8 percent coupon.

The sale comes amid an escalating fiscal crisis for Puerto Rico's government, which is seeking to restructure its $72 billion of debt and made only part of an interest and principal payment due by one of its agencies on Aug. 3. Prasa bonds maturing in 2042 traded Monday for an average of 69 cents on the dollar for a yield of 8.1 percent.

"They have to come with a pretty deep discount just to be in line with how bonds are trading in the secondary," said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

The Prasa sale is a test of Puerto Rico's ability to access the capital markets and is the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Attracting Buyers

To attract buyers to that sale, which was the largest junk-rated offering ever in the municipal market, the commonwealth issued the securities, which had an 8 percent coupon, for 7 percent less than face value. Hedge funds bought the bulk of the bonds.

Kristen Kaus, a spokeswoman at Bank of America Merrill Lynch, the lead underwriter on the sale, didn't immediately respond to phone and e-mail messages seeking comment on the pricing.

Puerto Rico securities have been trading at distressed levels for two years on concern that the island of 3.5 million wouldn't repay its obligations on time and in full. Officials aim to craft a plan by the end of the month for restructuring the government's debts.

Prasa's bonds may be sheltered from that proposal. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations.

Bonds' Backing

Prasa, which had almost $5 billion of bonds and notes as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018. The utility provides water to 97 percent of the island's population and wastewater service to more than half. The bonds are repaid with fees on water use.

There should be enough buyers for the sale, even though Puerto Rico is seeking to lower its combined debt load, said David Tawil, co-founder of hedge fund Maglan Capital LP.

"There should be adequate appetite for the deal in order to get it completed," said Tawil, who manages $80 million in New York. “The entity by all accounts is solvent and is self sufficient, vis a vis cash flow.

With a very robust coupon that you frankly cannot find out of any similar type of issuer, all that together gets you to a conclusion that this is a good investment.”

Bloomberg

Michelle Kaske

August 17, 2015

Illinois Budget Logjam Spurs Downgrades While Lawmakers Debate Pie.

Illinois Governor Bruce Rauner agreed last week with lawmakers to designate pumpkin the official state pie. Reaching consensus on a budget is proving to be more difficult, and that’s starting to ripple into the bond market.

The Chicago school district’s credit rating was cut to junk on Aug. 14 as it waits on state help to close its deficit. Public university bonds may be downgraded, and securities sold by Chicago’s convention center slid after lawmakers failed to approve a deposit needed for debt bills. Even Rauner said he wouldn’t be surprised if there’s another cut to Illinois’s bond grade, which is already lower than any other state.

“As long as the budget impasse continues, the likelihood of a further downgrade does exist,” said Peter Hayes, who oversees $116 billion, including some Illinois holdings, as head of municipal securities at New York-based BlackRock Inc. The company isn’t buying state bonds amid the impasse.

Illinois has gone 49 days without a spending plan since the fiscal year started July 1 and there’s no end in sight. Rauner, the state’s first Republican governor in 12 years, and the Democrat-led legislature can’t agree on how to fix a $6.2 billion deficit that was left after temporary tax increases expired.

Rauner is calling for limits on the power of unions, changes to business regulations and spending cuts before agreeing to new taxes. Democrats want steeper levies on the highest earners, among other revenue-raising measures.

Unprecedented Standoff

Illinois has had other budgetary jams, such as standoffs in the 1990s between the legislature and Republican Governor Jim Edgar, though none has lasted as long, according to the Civic Federation, a Chicago-based research group.

“There is no recent precedent in Illinois history for operating over two months into the fiscal year without a budget,” Laurence Msall, president of the federation. “In addition to being highly unusual, this extended impasse is also fiscally reckless and expensive.”

Investors have long penalized the state with higher borrowing costs. Yields on 10-year Illinois obligations reached 4.2 percent Tuesday, the highest among the 20 states tracked by Bloomberg.

That's almost 2 percentage points more than top rated debt, near the record high reached in October 2013.

And even without a budget, the state hasn't been forced into a partial government shutdown. Illinois is paying its employees because of court orders, and money has been set aside for schools. The General Assembly may approve a bill this week, which Rauner said he'll sign, that releases $5 billion of federal funds for social services.

Credit Ripples

The effects are beginning to be felt beyond the capital. In Chicago, school officials are waiting for the legislature's help with pension costs that are fueling its own budget shortfall. Because of that gap, Standard & Poor's on Aug. 14 lowered the district to BB, two steps below investment grade. That followed similar cuts since May by Fitch Ratings and Moody's.

Investors who bought bonds sold by the Metropolitan Pier and Exposition Authority, which runs the largest convention center in the nation, have also taken a hit. When the budget's delay prevented tax money from being transfered into its debt-service fund, S&P this month reduced its rating by seven notches. That caused its bonds maturing in 2050 to fall to an average of 100 cents on the dollar Monday from $1.05 on July 30. That pushed the yield up by more than a percentage point to 5.2 percent.

University Outlook

S&P reduced its outlook to negative from stable on some University of Illinois revenue bonds on Aug. 10, citing the lack of a budget and potential for funding cuts.

Illinois politicians are showing little haste in resolving the standoff. This week, Rauner was among those hobnobbing with voters at the state fair in Springfield, the capital, where politicians flock each year to glad-hand supporters, munch corn dogs and take in the agricultural bounty. House Speaker Michael Madigan is scheduled to be there for Democrat Day on Thursday.

"The longer it takes them to put together a final budget agreement, the greater the cost," said Ralph Martire, executive director of the Center for Tax and Budget Accountability, a Chicago-based research group. "The more they'll have to raise in taxes, and the more they'll have to cut in spending."

Bloomberg

Elizabeth Campbell

August 18, 2015

Detroit Disciplined in Return to Bond Market After Bankruptcy.

Detroit found that investors haven't forgotten the largest municipal bankruptcy in U.S. history.

The city sold $245 million of bonds Wednesday, its first offering since emerging from court protection last year. Tax-exempt securities due in 2029, which have the longest maturity, were priced to yield 4.5 percent, according to preliminary data compiled by Bloomberg. That's almost 2 percentage points more than top-rated debt, even though the bonds have a secured claim on the city's income-tax collections.

"They are still, yes, paying the price," said Michael Johnson, managing partner at Gurtin Fixed Income Management, which oversees $9.5 billion of munis in Solana Beach, California, which doesn't own the city's debt and didn't buy on Wednesday. "The forces that have hampered Detroit up until now are still in place."

After decades of population loss, shrinking tax revenue and an economy reeling from the fading automobile industry, Detroit filed for Chapter 9 protection from creditors two years ago. The move allowed the city to lower its obligations by $7 billion by the time it exited bankruptcy in December, though it still has a lower credit rating than any other big U.S. city.

To persuade investors to lend to the city again, Governor Rick Snyder signed legislation in April giving bondholders first claim to the income taxes that will repay the new debt, which was sold through the Michigan Finance Authority. That assurance prompted Standard & Poor's to rate the bonds A, five steps above junk and nine levels higher than its grade on Detroit's general obligations.

Fresh Scrutiny

Detroit's bankruptcy increased scrutiny of legal safeguards on municipal bonds, especially those sold by financially distressed local governments. When Detroit adjusted its debts, some general-obligation bondholders recovered just 41 percent of what they were owed, according to Moody's Investors Service.

S&P still considers Detroit speculative grade and gives the city a B rating, five levels below investment grade, citing its "very weak" economy, management structure and budgetary flexibility.

The city's income tax collections are strong enough to pay for the bonds. The money that will be deposited in a fund earmarked for debt payments will be about 6.5 times what's needed, S&P said last month.

Detroit initially offered 14-year tax-exempt debt for a yield of 4.63 percent, according to three people familiar with the sale who requested anonymity as the pricing wasn't final. Demand allowed underwriters to cut the final yield.

Paying Premium

The federally-taxable portion maturing in 2022 yielded 4.6 percent, according to data compiled by Bloomberg. That's more than twice 10-year U.S. Treasuries.

"Even though I think they are paying a premium, people are comfortable with the analysis and what the city is offering in terms of the security, the pledge, and where they think the city is going financially," said Joseph Rosenblum, director of municipal credit research in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds. His firm put in an offer for some of the new securities.

The proceeds from the sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy. The funds will also finance city projects, including upgrades for the fire department's fleet.

Bloomberg

Elizabeth Campbell

August 19, 2015

BlackRock Says Puerto Rico Possibly Attractive After Plan.

Puerto Rico bonds may become attractive after the junk-rated commonwealth releases a debt-restructuring plan, according to BlackRock Inc.'s head of municipal debt.

Puerto Rico officials are working on a proposal that would reduce its $72 billion debt load or allow the island to temporarily suspend debt-service payments. Governor Alejandro Garcia Padilla expects to receive that plan at the end of the month. Such changes to the debt may push prices on Puerto Rico bonds even lower, creating a potential buying opportunity, Peter Hayes, head of municipal debt at the world's biggest money manager, said in an interview Thursday on Bloomberg Television.

"We do see another leg down," Hayes, who helps oversee $116 billion of munis. "And at that point in time we do think it becomes interesting because it's a governmental entity. They have to continue to provide services."

Garcia Padilla in June said the commonwealth was unable to repay all of its obligations on time and in full. The Public Finance Corp. Aug. 3 failed to make a full $58 million debt-service payment to investors, the first default for a Puerto Rico entity.

Prasa Sale

The Puerto Rico Aqueduct & Sewer Authority, known as Prasa, was tentatively scheduled sell to $750 million in revenue bonds Thursday. The offering would be the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, and Norma Munoz, a spokeswoman for Prasa in San Juan, didn't immediately respond to e-mails Thursday on whether the bonds would be priced.

The water utility was offering 30-year bonds on Tuesday for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That's about triple the yield for benchmark securities.

Puerto Rico securities have lost 11.2 percent this year through Aug. 19, the biggest decline for the period since at least 2007, according to S&P Dow Jones Indices.

Bloomberg

Michelle Kaske

August 20, 2015 — 6:01 AM PDT Updated on August 20, 2015 — 10:32 AM PDT

Kentucky Town Is First to File for Bankruptcy After Detroit.

Hillview, Kentucky, population 8,000, found a way to put itself on the map.

The town 13 miles south of Louisville on Thursday became the first city to file for bankruptcy since Detroit did two years ago. It joins an elite, if infamous, club: Only 54 cities, towns and counties have sought court protection from their creditors since 1980, said James Spiotto, managing director at Chapman Strategic Advisors, which advises on financial restructuring. Among them were San Bernardino, California, and Jefferson County, Alabama.

Hillview, which faced legal damages it couldn't afford, is only the third Chapter 9 filing this year, following an Oklahoma hospital and a special district in California.

As the economy has improved, tax revenues have followed, easing the strain on local governments. Others may have seen Detroit, which emerged from a record-setting municipal bankruptcy in December, as a cautionary tale.

"People saw Detroit — the pain, suffering, uncertainty, expense — and nobody seemed to be getting what they wanted," Spiotto, a Chicago-based lawyer, said. "It helped motivate governments and creditors to find other solutions."

Despite a spate of bankruptcies following the recession that ended six years ago, cities and counties rarely turn to federal court to escape from their debts. Even so, in an Aug. 5 report, Moody's Investors Service said it's not as taboo as it once was for governments reeling from chronic financial stress.

Contract Dispute

Hillview's Chapter 9 filing is the outcome of a contract dispute with a local company, Truck America Training, over a land sale. In February, Standard & Poor's lowered its rating to junk after the city unsuccessfully appealed a court ruling ordering it to pay $11.4 million in damages to the company.

The city last sold bonds in 2010, when it issued $1.4 million of general-obligation debt, according to data compiled by Bloomberg. A $210,000 portion of the securities maturing in 2017 last traded for 90 cents on the dollar on June 24, down from 99.7 cents when they were first offered.

Hillview estimated its liabilities as high as $100 million and assets as high as $10 million, according to the filing in U.S. Bankruptcy Court in Louisville. Truck America is the city's largest unsecured creditor.
City attorney Tammy Baker called the filing a "very difficult decision" for the city council. The mounting interest from the court judgment is more than $3,700 a day, she said.

"The city really ended up with no choice," Baker said in an interview. "With the interest accruing at that rate, it's just really going to be impossible for the city to pay that judgment."

Bloomberg

Elizabeth Campbell

August 20, 2015

Puerto Rico Finds Waning Demand for Water Bonds Amid Debt Talks.

Puerto Rico is running into resistance as the commonwealth tries to sell $750 million in bonds while crafting a debt-restructuring plan that would likely leave some investors with deep losses.

After aiming to price the Puerto Rico Aqueduct & Sewer Authority issue as early as Tuesday, the bond sale is now listed as day-to-day. That's even after adding bondholder protections and raising the preliminary yield levels to more than three times the level of benchmark securities.

"It's a pretty difficult thing to try to raise money when out of the other side of your mouth you're talking default and trying to pass laws that allow you to default," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. He doesn't plan to buy any of the water bonds.

Puerto Rico raised the ire of investors by defaulting Aug. 3 on a $58 million agency bond payment, saying the legislature hadn't appropriated the funds and cash was being conserved to provide basic services.

Governor Alejandro Garcia Padilla in June said the island was unable to repay all of its $72 billion debt burden and directed officials to craft a debt-restructuring plan by the end of August that may suspend payments.

Price Talks

"We did not price yesterday in order to provide investors with the time they need to adequately review and analyze the materials so they can make the most informed decision about their potential investment," Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said in an e-mail.

The bank works on the island's debt sales. Morgan declined to say when Prasa may sell the bonds.

Underwriters were talking Thursday about preliminary yields of 10 percent on the 30-year securities, up from 9.5 percent earlier in the week, according to two people familiar with the sale who requested anonymity because pricing wasn't final.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, declined to comment on when the bonds would be priced. Norma Munoz, a San Juan-based spokeswoman for the water agency, known by the Spanish acronym Prasa, didn't respond to e-mails.

Acceleration Fee

The utility also made adjustments to the deal that gives investors an acceleration fee in the event of a default and mandates that Prasa raise water rates by as much as 25 percent, if needed, to repay the bonds, according to sale documents.

Prasa needs the proceeds of the bond sale to help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Other monies will finance infrastructure upgrades to help the utility meet clean-water requirements under a settlement agreement with the U.S. Environmental Protection Agency, according to bond documents.

Hedge funds are expected to purchase the bulk of the Prasa bonds, as they did when Puerto Rico sold $3.5 billion of general-obligation debt in March 2014. Buyers of distressed securities have been investing in commonwealth debt for about two years as traditional municipal-bond investors have reduced or eliminated their exposure.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. The island's economy has shrunk every year but one since 2006 and is projected to contract 1.2 percent this fiscal year.

Restructuring Plan

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services. Average monthly customer consumption decreased by about 6 percent in the year that ended in June.

Prasa's bonds may not undergo a debt restructuring. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations if the debt sale is completed.

Credit-rating companies aren't so sure. Standard & Poor's, which rates the utility CCC-, its third-lowest junk grade, may downgrade the agency because "events could unfold within the next three months that could expose Prasa to greater restructuring efforts," S&P analyst Theodore Chapman wrote in a report Tuesday.

Relative Value

The preliminary 10 percent yield compares with 3.1 percent on benchmark 30-year municipal debt, according to data compiled by Bloomberg. With a proposed 8 percent coupon, that's equal to a price of about 83 cents on the dollar, the two people said.

That's more expensive than existing Puerto Rico bonds. General obligation debt sold in March 2014 with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 70.5 cents, for an average yield of 11.9 percent, data compiled by Bloomberg show. Prasa bonds with a 5.25 percent coupon and maturing July 2042 traded Friday at an average price of 63 cents, for a yield of about 8.9 percent.

Adding to the investor reluctance to buy the bonds is concern that this is another example of a commonwealth entity borrowing money to paper-over shortfalls rather than investing in infrastructure to improve long-term finances.

"You still have the same broken-down infrastructure and collections are terrible," Belle Haven's Dalton said.

Bloomberg

Michelle Kaske

August 20, 2015

[Detroit Sells First Municipal Bonds Since Emerging From Bankruptcy.]

Detroit returned to the municipal-bond market for the first time since the city emerged from bankruptcy, selling $245 million of bonds Wednesday to investors demanding a premium for the securities despite extra protections for bondholders.

The tax-exempt bonds, maturing in 2029, sold through the Michigan Finance Authority, yielded 4.5%, more than a percentage point higher than other single-A rated debt, according to Thomson Reuters Municipal Market Data. The bonds' safeguards include a first claim on city income taxes, earning an investment-grade rating from Standard & Poor's Ratings Services, despite the city's credit rating, which is in junk territory.

The yield premium highlights the challenges Detroit faces with borrowing in the wake of a bankruptcy that left some investors concerned about the financial health of U.S. municipalities and questioning the safety of bonds backed by their full faith and credit.

"The positive is they do have market access; the negative is that they're paying for it," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt bonds. "There's demand for yield, and a decent enough portion of the market is willing to focus on the yield and structure of this deal, as opposed to the history."

The sale included about $135 million of tax-exempt bonds maturing between 2020 and 2029, with yields between 3.4% and 4.5%, and $110 million in taxable debt maturing between 2018 and 2022, yielding 4.6%, according to MMD. The money from the bonds will pay for city services and projects and repay underwriter Barclays PLC for lending which helped Detroit out of bankruptcy.

The income tax provides more than enough money to cover the debt payments, despite the city's still-weak economy and limited budgetary flexibility, S&P said in a July report. The need for investor protections and premiums shows the city's access to borrowing remains weaker than for most other issuers.

"We feel Detroit will continue to be challenged to deliver the services residents need and address the backlog of capital and other needs a large city has," S&P said.

Even with the additional assurances, there is enough uncertainty surrounding Detroit's recovery to unnerve investors, who remember losses on the city's debt, said Steven Shachat, who helps manage more than $1 billion of municipal bonds at Alpine Woods Capital Investors.

"When a municipality goes through bankruptcy, it's hard to jump right back in the pool," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Aug. 19, 2015 2:24 p.m. ET

Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com

Court's Free-Speech Expansion Has Far-Reaching Consequences.

WASHINGTON — It is not too early to identify the sleeper case of the last Supreme Court term. In an otherwise minor decision about a municipal sign ordinance, the court in June transformed the First Amendment.

Robert Post, the dean of Yale Law School and an authority on free speech, said the decision was so bold and so sweeping that the Supreme Court could not have thought through its consequences. The decision's logic, he said, endangered all sorts of laws, including ones that regulate misleading advertising and professional malpractice.

"Effectively," he said, "this would roll consumer protection back to the 19th century."

Floyd Abrams, the prominent constitutional lawyer, called the decision a blockbuster and welcomed its expansion of First Amendment rights. The ruling, he said, "provides significantly enhanced protection for free speech while requiring a second look at the constitutionality of aspects of federal and state securities laws, the federal Communications Act and many others."

Whether viewed with disbelief, alarm or triumph, there is little question that the decision, Reed v. Town of Gilbert, marks an important shift toward treating countless laws that regulate speech with exceptional skepticism.

Though just two months old, the decision has already required lower courts to strike down laws barring panhandling, automated phone calls and "ballot selfies."

The ordinance in the Reed case discriminated against signs announcing church services in favor of ones promoting political candidates. That distinction was so offensive and so silly that all nine justices agreed that it violated the First Amendment.

It would have been easy to strike down the ordinance under existing First Amendment principles. In a concurrence, Justice Elena Kagan said the ordinance failed even "the laugh test."

But Justice Clarence Thomas, writing for six justices, used the occasion to announce that lots of laws are now subject to the most searching form of First Amendment review, called strict scrutiny.

Strict scrutiny requires the government to prove that the challenged law is "narrowly tailored to serve compelling state interests." You can stare at those words as long as you like, but here is what you need to know: Strict scrutiny, like a Civil War stomach wound, is generally fatal.

"When a court applies strict scrutiny in determining whether a law is consistent with the First Amendment," said Mr. Abrams, who has represented The New York Times, "only the rarest statute survives the examination."

Laws based on the content of speech, the Supreme Court has long held, must face such scrutiny.

The key move in Justice Thomas's opinion was the vast expansion of what counts as content-based. The court used to say laws were content-based if they were adopted to suppress speech with which the government disagreed.

Justice Thomas took a different approach. Any law that singles out a topic for regulation, he said, discriminates based on content and is therefore presumptively unconstitutional.

Securities regulation is a topic. Drug labeling is a topic. Consumer protection is a topic.

A recent case illustrates the distinction between the old understanding of content neutrality and the new one.

Last year, the federal appeals court in Chicago upheld an ordinance barring panhandling in parts of Springfield, Ill. The ordinance was not content-based, Judge Frank H. Easterbrook wrote, because it was not concerned with the ideas panhandling conveys. "Springfield," Judge Easterbrook wrote, “has not meddled with the marketplace of ideas.”

This month, after the Reed decision, the appeals court reversed course and struck down the ordinance.

“The majority opinion in Reed effectively abolishes any distinction between content regulation and subject-matter regulation,” Judge Easterbrook wrote. “Any law distinguishing one kind of speech from another by reference to its meaning now requires a compelling justification.”

That same week, the federal appeals court in Richmond, Va., agreed that Reed had revised the meaning of content neutrality. “Reed has made clear,” the court said, that “the government’s justification or purpose in enacting the law is irrelevant” if it singles out topics for regulation. The court struck down a South Carolina law that barred robocalls on political and commercial topics but not on others.

Last week, a federal judge in New Hampshire relied on Reed to strike down a law that made it illegal to take a picture of a completed election ballot and show it to others, including on social media. The law was meant to combat vote buying and coercion, which were common before the adoption of the secret ballot.

“As in Reed,” Judge Paul Barbadoro wrote, “the law under review is content-based on its face because it restricts speech on the basis of its subject matter.”

In a concurrence in the Reed decision, Justice Stephen G. Breyer suggested that many other laws could be at risk under the majority’s reasoning, including ones concerning exceptions to the confidentiality of medical forms, disclosures on tax returns and signs at petting zoos.

Professor Post said the majority opinion, read literally, would so destabilize First Amendment law that courts might have to start looking for alternative approaches. Perhaps courts will rethink what counts as speech, he said, or perhaps they will water down the potency of strict scrutiny.

“One or the other will have to give,” he said, “or else the scope of Reed’s application would have to be limited.”

In her concurrence, Justice Kagan scratched her head about how a little dispute about church signs could have gotten so big. “I see no reason,” she wrote, “why such an easy case calls for us to cast a constitutional pall on reasonable regulations quite unlike the law before us.”

THE NEW YORK TIMES

By ADAM LIPTAK

AUG. 17, 2015

[Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.]

Municipal bond sales in the U.S. are set to decrease in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Puerto Rico Aqueduct and Sewer Authority plans to sell $750 million of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Portland, Oregon, Sewer System will offer $404 million and Illinois Finance Authority will bring $400 million to market.

Municipalities have announced $10.1 billion of redemptions and an additional $17.9 billion of debt matures in the next 30 days, compared with the $29.5 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $6.12 billion, followed by California at $1.77 billion and New Jersey with $929 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

ETF Flows

Investors removed $106 million from mutual funds that target municipal securities in the week ended Aug. 5, compared with a reduction of $91 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $10.2 million last week, reducing the value of the ETFs by 0.06 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 103.273 percent of Treasuries, compared with 103.156 percent in the previous session and the 200-day moving average of 101.301 percent, Bloomberg data show.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 5 basis points to 2.48 percent while California's declined 1 basis points to 2.48 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 137 to 11.14 percent and Illinois's rose 36 basis points to 4.16 percent.

Bloomberg

Kenneth Kohn

August 17, 2015 — 4:28 AM PDT

Puerto Rico Agency Sets $750 Million Bond Sale After Default.

Puerto Rico's main water utility plans to sell $750 million of revenue bonds, the first debt offering from the financially struggling Caribbean island since it defaulted on securities sold by one of its agencies last week.

The deal may price as soon as next week. It will follow the Public Finance Corp.'s failure to make a full bond payment on Aug. 3 and come just weeks before the commonwealth is set to propose a plan for restructuring its $72 billion of debt. Melba Acosta, the island's top debt chief, doesn't foresee the water agency reorganizing its obligations in such a move.

The utility's sale will test Puerto Rico's ability to access the capital markets. Governor Alejandro Garcia Padilla in June said the U.S. territory can't afford to repay what it owes as the population falls and the economy struggles to grow. Its bond prices have dropped amid speculation about the scale of the losses facing investors.

"This is going to be a bumpy ride for the commonwealth," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds, including Puerto Rico securities. He said investors need to consider "what's the spillover to the value of my bonds?"

AllianceBernstein will determine whether to buy once it sees the prices that are offered, Rosenblum said.

Lower Yields

The Aqueduct and Sewer Authority, called Prasa, will use the proceeds to finance capital improvements to help the water utility comply with environmental regulations. Its debt is repaid with money from customers' bills.

The yields on Prasa bonds are some of the lowest among the commonwealth's different agencies, reflecting their relative safety amid the island's escalating crisis. Bonds maturing July 2042 traded Tuesday at an average 68 cents on the dollar to yield 8.2 percent, less than Puerto Rico's general obligations, data compiled by Bloomberg show.

The securities have risks and will be initially sold in denominations of $100,000, according to the bond documents. Prasa has been rationing water since May in parts of the island because of a drought, which increases expenses and lowers demand, according to the documents.

Puerto Rico public corporations could also win the power to file for bankruptcy, the bond documents warn. Island officials have been lobbying Congress to allow some agencies to do so.

Default Risk

"If the authority is unable to charge and collect rates that are sufficient to provide for debt service on its bonds and other indebtedness and meet its operating expenses, the authority may be unable to meet its debt and other obligations as they become due," according to bond documents.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. Officials plan to present a debt-restructuring proposal by Sept. 1. If Prasa is able to sell the bonds, it won't need to restructure its debt, Melba Acosta, president of the Government Development Bank and one of the officials crafting the island's debt proposal, said Tuesday in a statement.

Prasa, which had almost $5 billion of bonds and notes, as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018.

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services.

Average monthly customer consumption decreased by about 6 percent in the year that ended in

June.

Pitching Deal

Efrain Acosta, the utility's finance director, will begin meeting with investors this week to discuss the offering, he said in a telephone interview from San Juan.

Some agency bonds have more than three times the revenue needed to cover debt-service and reserves sufficient for a year's worth of principal payments, he said.

It's hard to estimate at what coupon and yield the bonds would find enough buyers after the default and with the prospect of some entities gaining access to Chapter 9, said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

Whether the firm will participate in the sale depends on the pricing and structure of the deal, Solender said.

"It's going to have to be an attractive price given the default," Solender said. "It's probably the credit that could get the lowest yield right now, but it's still a test to see what the yield would be and if there are enough buyers."

Legal Jurisdiction

To sell $3.5 billion of general obligations in March 2014, the debt was priced with an 8 percent coupon at a yield of 8.73 percent, or 93 cents on the dollar.

The Prasa bonds also allow for any legal dispute to occur in a New York state or federal court, rather than in San Juan, according to bond documents. That's a feature that hedge funds demanded in order to buy the general obligations sold last year.

Bank of America Corp. is the lead underwriter on a the deal, with a syndicate that includes JPMorgan Chase & Co., Popular Securities and Santander Securities.

Puerto Rico securities, including Prasa bonds, have been trading at distressed levels for two years on concern the island wouldn't repay its debts on time and in full.

Prasa last sold bonds in 2012, Efrain Acosta said. The utility has been working on this borrowing for a year, he said.

"After a tough year for Prasa and Puerto Rico, we finally got the bond document out," he said. "We have to close this chapter soon."

Bloomberg

Michelle Kaske

August 11, 2015 — 6:00 AM PDT Updated on August 11, 2015 — 1:11 PM PDT

[California's New Law Creates Hybrid P3 Model to Build Civic Center.]

Legislation Gov. Jerry Brown signed Aug. 11 allows Long Beach, Calif., to combine elements of several types of public-private partnership agreements into a hybrid model to expedite the construction of the city's new civic center. The project's new buildings will include a seismically safe city hall, headquarters for the Port of Long Beach and the main city library. A park will be redesigned as well. Transit-oriented mixed-use developments, high-rise condominiums and retail shops also will be built on the almost 16-acre site, the city announced in a press release.

The law places sections of state and case law that apply to lease-leaseback public-private partnerships and design-bid-finance-operate-maintain (DBFOM) P3s into one section of state law that applies specifically to the civic center project. The law reduces the risk of the procurement method being legally challenged because, to date, it has been used only to develop infrastructure projects, not city hall buildings, according to the city.

The law also authorizes the private partner to lease or own all or part of the project for up to 50 years. Under existing law, private leasing or ownership of such projects expires after 35 years, the legislative counsel's digest of the law says.

The civic center project will create 3,700 jobs construction-related jobs; it also will bring the Port of Long Beach's headquarters back to the city's downtown and re-establish its waterfront presence after a year-long, temporary relocation a few miles outside the city, said Lori Ann Guzman, president of the Long Beach Board of Harbor Commissioners.

"Long Beach residents are closer to seeing significant revitalization and modernization in downtown" as a result of the new law, said Sen. Ricardo Lara, the bill's primary sponsor. "The civic center is at the core of Long Beach and the expansion project will benefit residents for years to come."

This project has been in the planning stages for some time. Two teams of developers presented proposed plans for the civic center to the city in October. In January, the Long Beach City Council selected a DBFOM team, led by Plenary Group, to negotiate the real estate andP3 terms of the civic center project.

The civic center is not Long Beach's first P3. The city used this procurement method to build its award-winning courthouse, which opened in 2013.

NCPPP

By Editor August 13, 2015

Detroit's Home County Avoids Bankruptcy With State Agreement.

Wayne County will operate under state oversight and enter into a consent agreement with Michigan, allowing the home county of Detroit to bolster its finances and avoid bankruptcy.

The Wayne County Commission voted 14 to 1 Thursday to approve a consent agreement with the state, Joseph Slezak, a county spokesman said in an e-mail. The pact stops short of Chapter 9 and will allow County Executive Warren Evans to impose pay and benefit cuts. The arrangement, negotiated between Evans and the Michigan treasurer's office, was delivered to the commissioners for consideration on Tuesday.

The move seeks to improve the county's cash position, end its $52 million annual deficit and lower pension liabilities for its retirement system that is less than 50 percent funded. Wayne isn't alone. Three other Michigan municipalities and two school districts are under consent agreements.

Evans has 30 days to continue negotiations with unions before he can demand employment terms. After that, he has the power to enact wage or benefit reductions on the county's nine unions, which have expired contracts.

"This is a very sad day for Wayne County," said Gary Woronchak, chairman of the commission.

Under the pact, Wayne officials can't issue debt or sell county assets valued at more than $50,000 without Treasurer Nick Khouri's approval.

Jail Bonds

Moody's Investors Service said in July that the county's move to seek state help and spending cuts are "credit positive." Moody's rates Wayne Ba3, three steps below investment grade, and has noted that a consent agreement would empower local officials. The county has $654 million of long-term general-obligation debt outstanding.

A portion of $143 million outstanding of 10 percent jail bonds traded Thursday at an average of 84.8 cents on the dollar to yield 11.9 percent. That's down from an average of 96.4 cents on June 17, the day Evans asked the state for a financial emergency declaration. The federally taxable bonds that mature in December 2040 back an unfinished jail that costs the county $14 million a year in debt service.

Bloomberg

by Elizabeth Campbell

August 13, 2015 — 8:20 AM PDT Updated on August 13, 2015 — 9:47 AM PDT

Puerto Rico Staring at $400 Million Short-Term Funding Squeeze.

Puerto Rico is approaching an inflection point that may prove to be more challenging than the commonwealth's decision this month to skip a bond payment for the first time.

After borrowing internally, omitting debt-service payments and slowing tax rebates, the island is at risk of running out of cash to fund day-to-day operations. Puerto Rico must raise $400 million through a bank loan or a sale of short-term securities by November, Victor Suarez, Governor Alejandro Garcia Padilla's chief of staff, said Aug. 10 in San Juan.

Garcia Padilla's administration had already alienated creditors before defaulting on $58 million of bonds Aug. 3 by saying they need to restructure a $72 billion debt burden that it can no longer sustain. Puerto Rico appears to be betting that investors will provide access to capital markets again once the commonwealth unveils a debt-restructuring proposal Sept. 1.

"They're going to have some severe liquidity issues," said David Hitchcock, a Standard & Poor's analyst in New York. "Without cash-flow financing, they're going to have a very difficult time trying to just pay for ongoing operations as well as their upcoming debt payments in the next six months."

It’s not clear how much operating cash Puerto Rico has on hand. The island’s Government Development Bank, which lends to the commonwealth and its localities, stopped providing monthly updates as of May, when it had $778 million of net liquidity. That was down from $2 billion in October.

Anticipation Notes

Like most U.S. states, Puerto Rico tends to sell tax-and-revenue anticipation notes in the first half of a fiscal year to help finance operating needs before revenue collections pick up.

When the GDB sold short-term debt in October, the last such borrowing for the island, it paid a yield of 7.75 percent for notes that matured in eight months. The discount rate on benchmark six-month U.S. Treasury bills was around 0.05 percent at the time.

Yields on an index of one-year Puerto Rico debt were 39 percent Thursday, more than three times the average of 9.9 percent over the past two years, according to data compiled by Bloomberg. Benchmark one-year municipal debt yields about 0.27 percent.

Mounting Payments

“Whatever little good faith we had has been completely wiped out by this missed payment” by the Public Finance Corp., said Sergio Marxuach, public-policy director at the Center for a New Economy, a research group in San Juan. “And after November, things become a little more unclear.”

Puerto Rico and its agencies face $1.4 billion of principal and interest payments in December and January, including $357 million for general-obligation debt, according to data compiled by Bloomberg.

Borrowing another $400 million may not be enough, Hitchcock said. In fiscal 2015, which ended June 30, the island sold $1.2 billion of short-term debt and still ended the year with a projected budget gap of as much as $740 million.

“Ability to access the market can be important for liquidity purposes,” Hitchcock said. “And we feel right now they have very limited market access, if any.”

Water Bonds

Puerto Rico may test market access as soon as Tuesday. The island’s Aqueduct and Sewer Authority, known by the Spanish acronym Prasa, wants to sell $750 million of bonds to fund capital improvements. While the bonds have a dedicated revenue source in the form of user fees, the agency still anticipates selling the debt at an average interest rate of at least 10 percent. Prasa bonds maturing July 2042 traded Thursday at an average yield of 8.3 percent, or 67.6 cents on the dollar, according to data compiled by Bloomberg.

“It would be amazing if they can get the deal done,” said Matt Dalton, chief executive office of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of munis, including Puerto Rico. “I’m just not sure who they’re going to sell it to.”

Moody’s assigned a Caa3 rating to the proposed sale Friday, saying exposure to the government’s financial, economic and political risks indicates a heightened loss potential.

Even though Puerto Rico isn’t setting aside cash every month to make the general-obligation debt payment, officials anticipate the island will have the cash flow to pay the January debt bill, Chief of

Staff Suarez told reporters in San Juan on Aug. 10.

Selling $400 million of additional tax-and-revenue anticipation notes to outside investors would help finance day-to-day government operations beyond November, Suarez said.

Without additional borrowing, the administration would need to consider unpaid furloughs, additional payment suspensions to suppliers or extending IOUs, Marxuach said. That would force residents and businesses to spend less and banks might actually start reducing the amount of credit they extend to companies with contracting work through the government, he said.

"Obviously that's going to have a negative ripple effect on the economy," Marxuach said. "All that matters in the market is the perception, and the perception is Puerto Rico defaulted."

Bloomberg

by Michelle Kaske

August 13, 2015 — 9:00 PM PDT Updated on August 14, 2015 — 11:42 AM PDT

Municipal Sales Set to Rise, Redemptions Fall; Kansas Sells $1B.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt falls.

States and localities plan to issue $10.1 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.6 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Kansas State Development Finance Authority plans to sell $1.01 billion of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Charlotte, North Carolina Water and Sewer System will offer $463 million and District of Columbia Hospital will bring $382 million to market.

Municipalities have announced $11.4 billion of redemptions and an additional $18.1 billion of debt matures in the next 30 days, compared with the $31.2 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $7.81 billion, followed by California at $2.07 billion and New Jersey with $910 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $88 million from mutual funds that target municipal securities in the week ended July 29, compared with an increase of $250 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Yield Ratios

Exchange-traded funds that buy municipal debt increased by $72.4 million last week, boosting the value of the ETFs 0.42 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 106.083 percent of Treasuries, compared with 103.105 percent in the previous session and the 200-day moving average of 101.035 percent, Bloomberg data show.

Bonds of Michigan and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 3 basis points to 2.55 percent while Tennessee's declined 2 basis points to 2.33 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 129 to 11.05 percent and Illinois's rose 31 basis points to 4.15 percent.

Bloomberg

Kenneth Kohn

August 10, 2015 — 4:49 AM PDT
