Chicago City Council Committee Advances $600 Million Bonds.

A Chicago City Council committee on Monday approved the issuance of up to $600 million of new general obligation bonds as well as a proposed ordinance to subject future debt issues to greater scrutiny.

The council's finance committee agreed to send the bond issue to the full city council, which meets on Wednesday. If approved, the bonds would be priced through Goldman, Sachs & Co in the third quarter or sooner depending on market conditions and other factors, according to Chicago Chief Financial Officer Carole Brown.

Chicago's sinking credit ratings due to budget and pension woes have led investors to demand hefty yields for the city's debt.

Brown said the implementation of Mayor Rahm Emanuel's plan to reform the city's debt practices and the passage of a big property tax increase last year to help fund pensions have tightened the city's so-called credit spread over Municipal Market Data's benchmark triple-A yield scale.

"I think the market has responded to a lot of the hard choices that this council and the mayor have made related to our finances," Brown said.

She estimated Chicago would continue to have spreads over MMD's scale in the 200 basis-point range. The finance committee lowered the interest rate cap for the new bond sale to 10 percent from 18 percent.

Brown said the municipal bond market is awaiting the fate of legislation sitting on the desk of Illinois Governor Bruce Rauner's desk, which would allow the city to spread out payments to two public safety pension funds. Nearly two months after the state supreme court threw out cost-saving reforms to Chicago's other two pension funds, the mayor has yet to release a detailed plan B.

Proceeds from the bond sale would fund equipment purchases and capital improvements, with $100 million earmaked for legal settlements in 2016 and 2017.

The finance committee also advanced a Debt Transactions Accountability Ordinance that would require reports detailing the risks, benefits and costs of a debt issue prior to sale.

Participants in a bond issuance would not be indemnified by the city from "gross negligence, illegal acts, fraud, bad faith breach or willful misconduct."

The proposed ordinance also sets out timelines for city council deliberations and public hearings on bond sales and requires annual post-sale financial performance reports by the city's CFO.

Reuters

Mon May 16, 2016 3:36pm EDT

(Reporting by Karen Pierog; Editing by Matthew Lewis)

Bloomberg Brief Weekly Video - 05/12

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

Watch the video.

10:45 AM PDT
May 12, 2016

Bloomberg Brief Weekly Video - 05/05

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

Watch the video.

May 5, 2016

Arizona House Reverses Course, OKs Bill Aiding Developers.

PHOENIX (AP) – The Arizona House reversed course after an initial rejection and approved a bill Thursday that will give developers more power to issue municipal bonds and levy taxes to pay for public infrastructure in communities they are building.

The change came after an hours-long effort by House Speaker David Gowan to garner support for his proposal.

The legislation will allow developers and land owners to automatically set up special taxing districts run by boards with powers similar to governments, including the ability to tax homeowners.

Supporters say it will help bring jobs to the state, while opponents call the legislation a power grab by developers.

The initial vote remained open for nearly an hour as Gowan attempted to corral votes. Eight Republicans broke ranks to reject House Bill 2568 on a 28-32 vote Thursday.

Late Thursday, Gowan succeeded in gathering support, and on a reconsideration vote it passed with no votes to spare, 31-26.

Republican Rep. Warren Petersen of Gilbert was among several who changed their votes. He initially said developers should be using private financing rather than municipal bonds to pay for things such as public roads, water and sewer systems in planned communities.

Petersen said the special taxing districts, known as community facility districts, confuse homebuyers who don't initially realize they have to pay additional property taxes to live in those communities.

"They distort the market. They distort prices," he said. "Until I can be convinced otherwise to see the value in this, I just don't see why we are going to use property taxes as a tool for this."

He said he changed his mind after Gowan assured him a follow-up bill will add accountability and transparency requirements.

Gowan said that banks have been reluctant to provide private financing for large developments since the recession. He said the bill would spur business growth, especially in his legislative district in the southeastern part of the state.

"It helps putting people back to work by building houses," he said.

The Landowners For Arizona's Economic Development Coalition is the primary group backing the legislation. They say they represent about 200,000 acres of land set aside for master planned communities, though it would likely take decades to develop it. The coalition includes at least 11 developers, including El Dorado Holdings Inc. and Diamond Ventures Inc.

Gowan has received nearly $5,000 from owners or employees of developers El Dorado Holdings and Diamond Ventures to fund his congressional campaign and was seen sitting with Diamondbacks co-owner Mike Ingram, who founded El Dorado Holdings, for the team's opening day.

Stephanie Grisham, Gowan's spokeswoman, said he and Ingram only met briefly and did not know each other when the bill was crafted.

The measure would have a significant impact on the growth of master planned communities across Arizona as developers would be more likely to take advantage of the public financing available through the special taxing districts. That would include an area in Gowan's legislative district where El Dorado Holdings Inc. is developing a 28,000-home community featuring an 18-hole golf course and a park.

The proposal also will change the makeup of the governing board behind these districts to include two members chosen by the landowners, two members selected by the closest municipality and one member chosen by the municipality from a short list provided by landowners.

To date, about 75 of these districts have been established in Arizona.

ASSOCIATED PRESS

By RYAN VAN VELZER

Thursday, May 5, 2016

San Francisco Public Utilities Commission to Issue Green Bonds.

San Francisco Public Utilities Commission next week will issue $240 million in wastewater revenue "green" bonds, the first infrastructure municipal bonds to meet specific criteria under a new environmental standard for water projects.

The certification comes from the London-based Climate Bonds Initiative, which developed the standard using a technical working group of academics and experts in the sector.

The commission is planning a competitive sale of $308 million of revenue bonds, of which $240 million meets the green certification.

Green bonds are still relatively new in the $3.7 trillion U.S. municipal bond market.

In February, the New York Metropolitan Transit Authority issued a $500 million green bond, which was certified under the Climate Bonds Standard's low carbon transportation criteria.

Terms and conditions, as well as disclosure practices, vary widely in the emerging green bond muni market, Moody's Investors Service said in a report last week.

Moody's surveyed 15 muni green bond transactions from 14 entities in 2013 and 2014. Timely reporting is not the norm, and issuers of seven of those transactions "have still not published reports that we could find," Moody's said.

Money from next week's sale will be used to repair and rebuild the ocean-side city of San Francisco's sewer system, protecting it from rising sea levels and intense rainfall that could result from global climate change.

Currently, more than 300 miles of San Francisco's sewers are over 100 years old and were not constructed to withstand major earthquakes or the impacts of climate change, according to an analysis by Sustainalytics.

Last month, Standard & Poor's Ratings Services upgraded the commission's wastewater enterprise revenue bonds from AA-minus to AA.

"We're upgrading our credit ratings, we're upgrading our bond standards, and most importantly, we're upgrading our aging wastewater infrastructure," said Harlan L. Kelly, Jr., general manager of San Francisco's sewer system.

"Our infrastructure was built to last a hundred years; it's only fitting that we use the latest, most innovative financing techniques to ensure our city's sewer system lasts for the next 100 years," he said.

Overall, an estimated $8.09 billion of debt will hit the U.S. municipal bond market next week, according to preliminary Thomson Reuters data.

REUTERS

LOS ANGELES | BY RORY CARROLL

(Reporting by Rory Carroll; Editing by James Dalgleish)

Fri May 6, 2016 5:34pm EDT

[Recent Texas Supreme Court Opinions Change the Landscape of Governmental Immunity: Andrews Kurth]

On April 1, 2016, the Texas Supreme Court issued opinions in *Houston Belt & Terminal Railway Co. v. City of Houston* and *Wasson Interests, Ltd. v. City of Jacksonville*, in which the Court further constrained the application of governmental immunity.

Houston Belt & Terminal Railway Co. v. City of Houston, No. 14-0459, Texas Supreme Court, April 1, 2016

The *ultra vires* doctrine is a narrow exception to governmental immunity, under which a claimant may sue a government official for injunctive relief if the official has either acted without legal authority or failed to perform a ministerial duty. *City of El Paso v. Heinrich*, 284 S.W.3d 366, 372 (Tex. 2009). Following *Heinrich's* establishment of the framework for evaluating whether a claim properly alleges *ultra vires* conduct, the general consensus has been that where government officials are vested with discretion, suits involving the exercise of that discretion do not properly present *ultra vires* claims and are therefore barred by governmental immunity.

In *Houston Belt*, the Texas Supreme Court considered this issue in the context of limited official discretion (as opposed to instances of absolute discretion) and found that an *ultra vires* claim may be premised on allegations asserting that an official exceeded his discretion. The Court reviewed the ordinance underlying the plaintiffs' claims and evidence regarding the manner in which it had been applied. Based on that review, the Court concluded that the plaintiffs' allegation that the official responsible for implementing the ordinance had exceeded the discretion granted him was sufficient to avoid dismissal on immunity grounds. The Court reasoned that where only limited discretion exists, governmental immunity does not bar a suit to enjoin an official's actions taken without reference to or in conflict with the constraints of the law authorizing the official to act.

The decision in *Houston Belt* alters the analysis of an *ultra vires* claim when the basis for an immunity defense is that the claim is premised on a government official's exercise of discretion. In order to determine the applicability of governmental immunity in such suits, courts will have to analyze the limits of the official's discretion and then resolve any fact issues concerning whether the official acted within those limits. As a part of that analysis, courts should consider the statutes or regulations applicable to the government action or inaction at issue. *Sw. Bell Tel. Co. v. Emmett*, 459 S.W.3d 578, 583 (Tex. 2015). Courts also can consider evidence necessary to resolve jurisdictional fact issues. *Tex. Dep't of Parks & Wildlife v. Miranda*, 133 S.W.3d 217, 227-28 (Tex. 2004). It is clear, however, that merely alleging an official's discretion is limited will not be sufficient to avoid dismissal. As the Court noted in *Houston Belt*, "many legislative grants of authority, although not absolute, will be broad enough to bar most, if not all, allegedly *ultra vires* claims."

Wasson Interests, Ltd. v. City of Jacksonville, No. 14-0645, Texas Supreme Court, April 1, 2016

In 2006, *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) established that a city is not immune from suit for torts committed in its proprietary capacity. Since that time, there has been disagreement in the courts of appeals as to whether this governmental/proprietary dichotomy also applies to contract actions against cities. Compare *City of San Antonio v. Wheelabrator Air Pollution Control, Inc.*, 381 S.W.3d 597 (Tex. App.—San Antonio 2012, pet. denied) (holding that there is a presumption of immunity and immunity was not "waived" in breach of contract cases where the contract was entered into in a city's proprietary capacity); *Republic Power Partners, L.P. v. City of Lubbock*, 424 S.W.3d 184, 193 (Tex. App.—Amarillo 2014, no pet.) (same) with *City of Georgetown v.*

Lower Colo. River Auth., 413 S.W.3d 803, 812 (Tex. App.—Austin 2013, pet. dism'd) (determining that the governmental/proprietary dichotomy applies to contract actions).

The Texas Supreme Court resolved the circuit split in *Wasson Interests*, holding that when cities enter into contracts in their proprietary capacity, they are not shielded by immunity from lawsuits related to those contracts. The Court reasoned that the governmental immunity afforded to political subdivisions of the State is not inherent in the political subdivision, but rather is derived from the State's immunity. That is, for cities, there is no "default immunity." Within that framework, the Court held immunity only attaches to actions performed by a municipality in its governmental capacity, because those actions are the only ones that are performed by a city as an agent of the State. Accordingly, the Court concluded that when a city contracts in its proprietary capacity, immunity never attaches.

Until now, the general understanding has been that the only instance in which immunity did not apply to bar a contract action was when the contract came within the scope of Subchapter I of Chapter 271 of the Texas Local Government Code, which waives immunity from suit and provides the process for adjudicating disputes involving contracts for goods or services. Tex. Loc. Gov't Code Ann. §§ 271.151-.160 (West 2005 & Supp. 2015). In *Wasson Interests*, the City of Jacksonville argued that these provisions abrogated the common law governmental/proprietary dichotomy with respect to contracts. The Court disagreed, reiterating that when a contract is entered into by a municipality in its proprietary capacity, no immunity exists and, thus, there is no immunity to waive.

Notably, the Court resolved another question that had been left open after *Tooke*, and confirmed in a footnote that the governmental/proprietary dichotomy applies only to municipalities, because they are the only political subdivisions that can act in a proprietary capacity.

Following *Wasson Interests*, in order to invoke the protections of governmental immunity in breach of contract actions, cities will have to show that they were acting in a governmental capacity. The practical reality is that there will be increased litigation over what is governmental and what is proprietary in breach of contract cases. As guidance, the Court noted that the Legislature is empowered to delineate the functions of a municipality that are governmental and those that are proprietary, as it has done in the Texas Tort Claims Act (the "TTCA"), see Tex. Civ. Prac. & Rem. Code Ann. § 101.0215. The Court directed trial judges to look to the TTCA for guidance when resolving the governmental/proprietary question in contract actions, just as they do in tort cases. It is important to note, however, that the TTCA does not establish an exclusive list of proprietary functions and, thus, is simply a jumping off point for courts considering whether a contract was entered into in a proprietary or governmental capacity.

As overarching takeaways from *Houston Belt* and *Wasson Interests*, municipalities need to be mindful of the fact that they do not have "default immunity." Municipalities should therefore consider establishing limitations on their liability within the terms of any contracts they enter into in their proprietary capacity. Likewise, to the extent municipalities intend to imbue their officials with absolute discretion sufficient to invoke governmental immunity, they should take care to ensure that municipal ordinances clearly effectuate that goal.

Article by Mark B. Arnold, Kelly Sandill and Katie Alrich

Last Updated: April 26 2016

Andrews Kurth LLP

advice should be sought about your specific circumstances.

[Attorney's Fees Under Florida's Public Records Act: Taking Intent Out of the Equation.]

In a move towards strict liability, a recent Florida Supreme Court holding allows no room for public agency error under Florida's Public Records Act ("Act"). On April 14, 2016, the Supreme Court of Florida issued on opinion in Board of Trustees, Jacksonville Police & Fire Pension Fund v. Lee, and held that a party is entitled to attorney's fees under the Act when a public agency unlawfully refuses access to public records, regardless of a public agency's reasonable or good faith mistake in refusing to produce the requested records.

The Florida Constitution provides individuals with the "right to inspect or copy any public record . . ." The Act codifies this constitutional mandate and incentivizes compliance by allowing for a prevailing party in a civil action to recover attorney's fees when an "agency unlawfully refuse[s] to permit a public record to be inspected or copied."

The Board of Trustees case originated in late 2009 after Curtis W. Lee ("Lee") requested a series of public records from the Board of Trustees of the Jacksonville Police & Fire Pension Fund ("Pension Fund"). Following Lee's requests, disputes arose around the Pension Fund's prerequisites to public record access. Lee sought relief from the Circuit Court alleging the Pension Fund's prerequisites violated the Act. The Circuit Court ruled the Pension Fund violated the Act and the First District Court of Appeal later affirmed the Circuit Court's ruling.

Following this favorable ruling, Lee moved for attorney's fees against the Pension Fund. The Circuit Court denied Lee's request stating the Pension Fund's Act violations were not "knowing, willful or done with a malicious intent." Upon Lee's appeal, the First District Court of Appeal ("DCA") reversed the Circuit Court's decision. Articulating that, regardless of intent, attorney's fees must be awarded once a court determines an agency unlawfully violated the Act.

The First DCA's holding aligned with the Second DCA which previously held there was no "good faith" or "honest mistake" exceptions when a public agency violates the Act. To the contrary, the Third, Fourth, and Fifth DCAs have held that attorney's fees are not warranted under the Act when a public agency was acting reasonably or made a good faith mistake. Recognizing this conflict among the DCAs, the Florida Supreme Court accepted review of the Board of Trustees case.

The Florida Supreme Court, in accordance with the First and Second DCAs, held that the right to attorney's fees under the Act is predicated on a public agency's unlawful refusal to provide access to public records regardless of the agency's good intentions. The Court examined the Act's legislative history and noted the Legislature had "multiple opportunities to explicitly require a 'good faith' standard" in the Act's attorney's fees section and chose otherwise. In fact, prior to 1984, access to attorney's fees required a showing that an agency "unreasonably refused" access to a requesting party. However, in 1984, the Legislature changed the phrase "unreasonably refused" to "unlawfully refused," signifying a change in Legislative intent towards strict liability.

For public agencies around the State of Florida, the Board of Trustees case may be costly precedent. Unfortunately for public agencies, this case allows no room for missteps. In order to avoid paying attorney's fees, public agencies will need extensive training on recognizing public records, processing public record requests, and complying with requests in a timely manner. If a public agency fails to comply with a records request, the agency can expect to pay for their mistake … intentional or accidental.

Article by Leonard J. Dietzen, III and Lindy K. Keown

Last Updated: April 27 2016

Rumberger, Kirk & Caldwell, P.A.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Chicago Muni Bonds Left Isolated as Crisis Deepens.

A decision from Illinois' Supreme Court to reject pension reforms has seen Chicago's municipal bond spreads widen, with little effect on neighbouring municipalities.

- Municipal bond spreads in surrounding cities widened 20% on the back of Chicago's 'junk' downgrade last year
- Spreads across the board tightened significantly towards the end of 2015, reversing much of the post-downgrade spread deterioration
- Latest Fitch and S&P downgrades have seen Chicago's spreads widen again, but this time in isolation

Chicago's credit woes deepened last month as Fitch slashed the city's credit rating by two notches to BBB-. The downgrade means that both Fitch and S&P (BBB+) now have the city teetering above 'junk' status, a perilous position as it struggles to deal with $30bn of unfunded pension obligations.

The downgrade was a blow for the credit worthiness of Chicago's municipal bonds, which have diverged versus neighbouring cities' municipal bonds since the third major rating agency, Moody's, downgraded Chicago to 'junk' last May.

Junk status

On May 12th 2015, Moodys downgraded the city of Chicago from investment grade to 'junk' status in a move which deviated from the opinions of the other two major rating agencies, which held Chicago's issuer rating higher. $8.1bn of outstanding general obligation (GO) debt, $542m of outstanding sales tax revenue debt and $268m of outstanding and authorized motor fuel tax revenue debt were all simultaneously downgraded.

Chicago's municipal bond spread (premium over 10-yr AAA rated bonds) widened more than 30% after Moody's' decision, as surprised investors re-evaluated Chicago's credit worthiness. The downgrade also caused contagion in surrounding municipalities, which saw spreads widen in tandem.

Taking nine neighbouring cities in the Cook County area (Bellwood, Berwyn, Cicero, Elk Grove, Evanston, Highland, Lemont, Niles and Oak Lawn) and averaging their spreads, Chicago's downgrade had a 20% (wider) instantaneous impact.

Diverging paths

Municipal bond spread performance of both Chicago and surrounding cities continued to remain volatile over the following months (June 2015 to Sep 2015), although Chicago continued to see steady deterioration.

September 2015 until year end saw investor sentiment reverse, with volatility decreasing and spreads tightening across the board. By January this year, the average spread for the Cook County cities had retracted all the spread underperformance encountered after the Moody's downgrade, while Chicago's % change in spread fell from the 40% highs seen in September last year to just 5%.

But the positive sentiment was short lived as Chicago was forced to offer above average yields to garner investor demand in January. As fears started to escalate again around Chicago's inability to raise funds or cut costs, the supreme court of Illinois rejected pension reform legislation for two of Chicago's four pension plans last month, triggering a spate of downgrades from Fitch and S&P. The move, seen as a negative for credit quality, meant that rating agencies were now seeing their ratings converge towards the negative.

Chicago's municipal bond spread has since widened again, back near levels seen after last year's Moody's downgrade, but interestingly, in divergence to fellow Cook County city spreads. As the crisis deepens, it seems Chicago is left more and more isolated.

For more information regarding Markit's Municipal Bond Pricing service, please click here.

Neil Mehta | Analyst, Fixed Income, Markit

Apr 27th, 2016

Century-Old Oklahoma Tribal Map Is Flash Point in Digital Debate.

Pioneer George Rainey bounced into Oklahoma aboard a Santa Fe train in 1889 seeking his fortune. He landed a job as a county clerk and published a map of the state, including the vast tracts that once belonged to the Comanche, Cherokee and other tribes.

Today, Rainey's "Historical Map of Oklahoma 1870-1890" is central to a most modern debate: how much the federal government should spend to help people stay connected as the Internet emerges as the central communications service of the 21st Century.

The U.S. Federal Communications Commission has adopted Rainey's 1917 map as the reference for determining how big a subsidy poor Oklahoma residents get for telephone and Internet service. It includes wide areas that were once Indian reservations, where residents get $34.25 a month — compared with $9.25 elsewhere.

The subsidies are part of a nationwide system. But relying upon the long-dead cartographer's handiwork in Oklahoma is being cited by critics as evidence of what they say is the program's mismanagement and waste. It has become a rallying cry for Republicans in Congress who want to contain spending for what they derisively call the Obamaphone.

Internet Expansion

"There are problems plaguing this system," Representative Greg Walden, an Oregon Republican, said last week as lawmakers debated a Republican bill to limit spending on the program. "There's been cases of waste, fraud — a lot of fraud."

The Lifeline program has been around in some form since 1985, during the administration of Republican President Ronald Reagan. Last year it spent about $1.5 billion to help people pay for service over mobile phones and land lines. In March, the FCC expanded it by making broadband Internet eligible for subsidies.

That could drive up demand and costs for the program, which is paid for through a telecommunications tax on telephone bills. The FCC says switching from a 1951 map now in use in Oklahoma — where about two-thirds of all enhanced tribal subsidies are paid — will save money by cutting the capital Oklahoma City from areas regarded as former reservations. But it leaves much of the rest of the state still eligible, including Tulsa, the state's No. 2 city with about 400,000 people.

Tribal Subsidies

The enhanced subsidy is meant to provide an incentive for companies to provide service in neglected tribal areas.

The map grants standing for an expanded subsidy "even if you're not a tribal member, and if you're living in a major urban area," said Ajit Pai, a Republican FCC commissioner who has criticized Lifeline.

"If we're going to make this program fiscally responsible, and direct funding to people that actually need help, people in Tulsa don't need that subsidy," Pai said. "We should have reclaimed some of that subsidy and redirected it to people in need."

Democrats oppose a spending cap, saying it could arbitrarily bar poor people from a program that makes it possible for schoolchildren to complete homework, and grown-ups to reach jobs and doctors.

Poverty Program

"This is truly the lifeline for people that live in poverty," Representative Anna Eshoo, a California Democrat, said during debate April 19 before a House subcommittee that passed a cap, sending the bill on to full committee. "Why are we hurting these people?"

On this issue, Democrats can count on the backing of the wireless industry. CTIA, a trade group representing companies including AT&T Inc. and Verizon Communications Inc. that offer Lifeline service, told Congress a cap "would be counterproductive" in part because it would "exclude an undetermined number of the eligible low-income consumers."

The program offers the monthly support for people with incomes at or below 135 percent of federal poverty guidelines.

Lifeline swelled to as much as $2.2 billion for 17.2 million beneficiaries in 2012, up from $819 million for 6.7 million accounts in 2008. The rise happened after the FCC said wireless companies could offer service paid by Lifeline without owning a network, and scores of providers that lease wireless capacity rushed to join the program.

FCC Reforms

In response, the FCC tightened rules and claims credit for the drop of about 30 percent in spending from 2012 levels. The agency decided recipients need to provide documented proof of eligibility such as participation in U.S. welfare programs like food stamps, and it set up a database of participants that phone companies are to check to ensure there's no more than one subsidized device per household.

Regulators haven't said how much spending may rise as the program expands to include Internet service. If spending approaches $2.25 billion the FCC is to re-assess its actions.

The program will offer help to Americans who "live on the wrong side of the digital divide," FCC Chairman Tom Wheeler and Commissioner Mignon Clyburn said in a March 8 blog post. "What we're really talking about is people – unemployed workers who miss out on jobs that are only listed online, students who go to fast-food restaurants to use the Wi-Fi hotspots to do homework."

Fraud Cases

Republicans aren't mollified, and they point to recent fines imposed on companies for program abuses — such as claiming a second subsidy for a customer by falsely listing them at the address of a homeless shelter.

The FCC has proposed roughly $155 million in fines against 16 phone companies accused of bilking Lifeline since early 2013, according to a list maintained by the Universal Service Administrative Company, the non-profit that administers the program in partnership with states and the FCC.

In Oklahoma, the broad availability of a higher subsidy has attracted an unusual number of companies. The state had 74 Lifeline providers at the end of last year, compared with 40 providers in Oregon, a state with about the same population, according to Universal Service Administrative Company reports to the FCC. The two states had roughly the same poverty rate in 2014, approaching 17 percent.

Lifeline spending last year in Oregon was $7.3 million; in Oklahoma it was $108.2 million, of which all but $88,000 was billed at the higher tribal rate, according to the USAC reports to the FCC. The Oklahoma payments amount to about two-thirds of the $159.9 million in enhanced tribal payments nationwide.

Oklahoma Payments

Oklahoma authorities, concerned that some companies were enrolling more than the permitted one phone per household, in 2013 began an investigation that resulted in fines, according to Matt Skinner, a spokesman for the Oklahoma Corporation Commission that regulates Lifeline in the state. The agency "cracked down on the practice of merely handing out Lifeline phones to anyone" and created an enforcement unit, Skinner said in an e-mail.

By cutting Oklahoma City (population about 620,000 people) from the regions regarded as former tribal areas, the program expects to save $30 million to $40 million annually, said Mark Wigfield, an FCC spokesman.

Offering enhanced tribal subsidies in urban areas "does not reflect poorly" because the payments encourage building of telecommunications and makes services more affordable, he said in an e-mail.

Wireless companies went to court to block the new map, and settled after the FCC delayed implementation for four months, to June 8, to give more time to notify customers.

"This federally-mandated change will make it harder for our customers to stay connected to jobs, health care, family and emergency services and education," David Dorwart, chairman of Assist

Wireless, the largest provider of Lifeline in Oklahoma said in an e-mail.

June Order

On its Web page, Assist says customers may be "very frustrated, angry, or even devastated" and encourages them to write to the FCC, state officials and Oklahoma City's U.S. Representative Steve Russell. The Republican declined to comment, said Daniel Susskind, a spokesman.

The FCC in its June order changing the map asked if it should also cut Tulsa and other municipalities, such as Reno, Nevada, and Anchorage, Alaska, from enhanced tribal areas.

The notion is "deeply offensive," Jefferson Keel, lieutenant governor of Chickasaw Nation based in Ada, Oklahoma, said in a Sept. 28 letter.

To "balance the budget on the backs of the poorest and most vulnerable is unacceptable," Keel said. Changing tribal lands "smacks of a bygone era of the misdeeds" as "something that was given is taken back, and yet again, land is taken away."

Bloomberg Technology

by Todd Shields

April 27, 2016 — 2:00 AM PDT

Pimco Backs House's Puerto Rico Legislation as Way Out of Crisis.

The U.S. House bill that would establish a federal oversight board for Puerto Rico and give it powers to reduce the island's $70 billion of debt would be a "satisfactory resolution" to the commonwealth's worsening crisis, according to Pacific Investment Management Co.

In an online posting Tuesday, Pimco, which doesn't own any of the territory's securities, said the legislation wouldn't trigger higher borrowing costs for other municipal issuers, a concern raised by some Republicans in Congress. The legislation is pending in the House Natural Resources Committee, which canceled a planned vote this month so it could address criticism from lawmakers of both parties.

"Diverse interests have emerged seeking to derail a bill aimed at a satisfactory resolution to Puerto Rico's debt crisis," Pimco's David Hammer, Sean McCarthy and Libby Cantrill wrote. The analysts, whose firm manages more than $40 billion of municipal debt, said the legislation "represents a responsible framework for managing the unavoidable restructuring of Puerto Rico's debt and other liabilities."

The firm's comments may bolster support for the legislation, which marks the broadest effort yet by Washington to pull the U.S. territory from its swiftly escalating crisis. The bill has also won support from Nuveen Asset Management and holders of Puerto Rico's sales-tax backed bonds, while hedge funds that own the commonwealth's general obligations have opposed it.

The Congressional delay has left Puerto Rico without federal help as it faces a potential default on a $422 million debt payment due on May 1. On Tuesday, House Majority Leader Kevin McCarthy, the chamber's No. 2 Republican, said he's "hopeful" that the House will pass the legislation before $2 billion is due in July.

The oversight board created under the bill would manage budgets, oversee restructurings and impose a stay to temporarily protect the island from creditor lawsuits. Without the pause in litigation, the municipal market may see “confusing precedents” from the outcomes of any legal decisions, Pimco said.

Bloomberg Business

by Romy Varghese

April 27, 2016 — 7:31 AM PDT

Which Puerto Rico Bond Defaults Next? A 1,600% Yield Says It All.

As far back as December, Puerto Rico Governor Alejandro Garcia Padilla warned that May would be the month when it could no longer pay bondholders. It’s almost here.

The commonwealth owes $470 million in payments on May 1, including $422 million on securities sold by its Government Development Bank, which has already frozen some deposits to preserve cash. Because May 1 falls on a Sunday, the island has until Monday to come through.

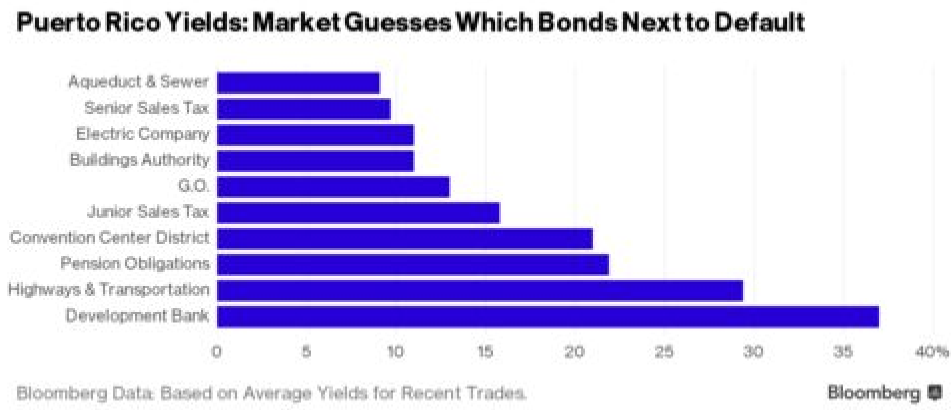
The failure to pay what’s owed on the development bank bonds would mark the biggest default yet by Puerto Rico, whose fiscal crisis has been steadily building for the past 10 months. With the government nearly drained of its cash, Moody’s Investors Service says such a lapse is a virtual certainty. Investors appear to agree: The securities last traded for 32 cents on the dollar, just weeks before the government was scheduled to pay them off at full face value. That effective yield: About 1,600 percent.

The Caribbean island of 3.5 million residents faces the next major hurdle in July, when $2 billion of bond payments are due, including those on general obligations that the constitution says should be paid above all else.

Its defaults so far have been relatively small, limited to about $143 million of missed payments, according to Moody’s. None of the securities were backed by the government’s full taxing power, nor are the development bank’s, leaving bondholders with little legal recourse.

The Public Finance Corp., which borrowed to help cover the government’s deficits, hasn’t met its debt-service bills since August, leaving the bonds trading at about 7 cents on the dollar. The commonwealth’s Infrastructure Financing Authority followed in January, defaulting on debt backed by rum taxes. Bonds maturing in 2028 with insurance from Financial Guaranty Insurance Co., which only covered 22 percent of what it owed, traded this month for an all-time low of 26.7 cents on the dollar.

Here’s the market’s best guess for which other securities are most at risk. What follows are the amount of debt outstanding per Puerto Rico issuer, along with the most recent trading prices of bonds that aren’t insured against default, according to data compiled by Bloomberg. When possible, the securities with the highest volume over the past month were used. They are listed from the highest yields (which represents the most risk) to the lowest.



Puerto Rico Government Development Bank: $7.7 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. With $422 million due in May, and officials saying there's not enough money to make it, tax-exempt bonds maturing in 2023 last traded for an average yield of 37 percent.

Puerto Rico Highways & Transportation Authority: $5.4 billion. The highway agency repays its debt with gas-tax revenue. It owes less than $1 million in May, which will probably be paid with reserve funds because the commonwealth has been using the agency's revenue to pay general obligation bondholders. Moody's said there's still a chance that they'll default. Bonds maturing July 2033 last traded for an average yield of 29.4 percent.

Puerto Rico Pension-Obligation Bonds: $2.8 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 owes $13.9 million of interest every month in this budget year. Securities maturing in 2038 last traded for an average yield of 21.9 percent.

Puerto Rico Convention Center District Authority: $397.7 million. The agency oversees the convention center, as well as other facilities, and receives hotel-room tax receipts to repay its debt. It will make its July payments in full by using reserve funds, according to Standard & Poor's. Like the highway securities, they're subject to clawback. Bonds insured by FGIC maturing in 2023 last traded for an average yield of 21 percent.

General-obligations: $12.9 billion. The debt is backed by the island's full faith and credit. Its constitution says general obligations must be repaid before other expenses. Puerto Rico owes just $3 million on all commonwealth-guaranteed debt in May, before $805 million of principal and interest is due July 1. Securities with a 5 percent coupon and maturing in 2041 last traded for an average yield of 9.5 percent. Debt with an 8 percent coupon and due in 2035 last traded for an average yield of 13 percent.

Puerto Rico Public Buildings Authority: $4.2 billion. The PBA bonds are repaid with lease revenue that public agencies pay for their office buildings. The debt is more secure than typical revenue bonds because the commonwealth has guaranteed repayment. Bonds maturing in 2042 last traded for an average yield of 11 percent.

Puerto Rico Sales Tax Financing Corp.: $16 billion. The bonds, know by the Spanish acronym Cofina, are repaid from dedicated sales-tax revenue and come in two types: senior, with the first claim on revenue, and subordinated, which are second in line. The authority will make debt payments in August because revenue has already been delivered to the bond trustee, according to a Standard &

Poor's report. Senior Cofinas maturing in 2057 last traded for an average yield of 9.7 percent, while subordinate ones maturing in 2042 yielded 15.8 percent.

Puerto Rico Electric Power Authority: $8.6 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 is the only government entity that has cut a deal with creditors to reduce what it owes, a step that Garcia Padilla wants to do on a broader scale for all of the island's obligations. That restructuring has yet to be completed, with some procedural hurdles yet to be overcome. Tax-exempt bonds maturing in 2030 last traded at an average yield of about 11 percent.

Puerto Rico Aqueduct & Sewer Authority: $3.6 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 $2.6 million in May. Bonds maturing in 2042 last traded at an average yield of 9.2 percent.

Bloomberg Business

by Brian Chappatta

April 29, 2016 — 2:00 AM PDT Updated on April 29, 2016 — 8:08 AM PDT

Bloomberg Brief Weekly Video - 04/28

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

Watch the video.

April 28, 2016

Atlantic City, America's Worst-Rated Town, Stares at Default.

Atlantic City has so little money left that it could miss a $1.8 million bond payment due Sunday, a step that would make it the first New Jersey municipality to default on debt since the Great Depression.

The Jersey Shore gambling destination has endured years of strain as a third of its casinos shut down. But now its cash levels are low enough that bankruptcy is a possibility for the 39,000-population city, according to Mayor Don Guardian.

"We're down to a couple million dollars on any given day," the mayor said in an interview.

Once prized as a vacation destination because of its giant casinos and boardwalk, Atlantic City is in this position because of a declining economy and mounting debt. Its predicament is more severe than most distressed U.S. municipalities because it has the worst credit rating of any American city.

The appetite for higher yields in the staid municipal-bond market has allowed some troubled cities to issue new debt or renegotiate existing terms. The Chicago Public Schools issued $725 million worth of bonds in early February despite a junk rating and a push by Illinois's governor to give the school district the authority to declare bankruptcy. As recently as a year ago, bondholders purchased about $50 million in Atlantic City bonds backed by state aid payments.

Risky Gamble

Atlantic City, N.J., is struggling with higher amounts of debt per capita than other distressed cities around the country. Data are from 2014.

	ATLANTIC CITY	CHICAGO	DETROIT	SCRANTON, PA.
Population	39,415	2.7 million	680,250	75,281
Total direct debt per capita	$6,867	$3,624	$3,969	$1,971
Median household income	$26,936	$47,831	$26,325	$37,551

Source: Merritt Research

THE WALL STREET JOURNAL.

Since then, however, New Jersey Gov. Chris Christie blocked the delivery of a more than $30 million rescue package, a judge ruled Borgata Hotel Casino & Spa could stop paying about $30 million in annual city taxes and the city lost a $160 million property-tax dispute with the Borgata that the city can’t afford to pay.

Standard & Poor’s Ratings Services said in January it appears “inevitable” that Atlantic City would default on debt payments within six months barring major improvements. It rates Atlantic City triple-C-minus. S&P also downgraded the city’s municipal utilities authority to junk last week, with further downgrades likely.

Atlantic City’s credit rating has sunk so low that city officials and bankers say investors would likely reject any offers to buy new debt or refinance.

“If we could go to the market, we more than likely would’ve,” said Marty Small Sr., the city council’s president.

The writing was on the wall for the city when neighboring states opened their borders to gamblers over the past decade and took away Atlantic City’s special draw. Subsequent declines in the hospitality and food industries caused four of Atlantic City's 12 casinos to close over the past two years, cutting the city's revenue in half.

Its direct debt, meanwhile, soared to $240 million, larger on a per capita basis than either Detroit's or Chicago's, according to Merritt Research Services LLC, a municipal-bond data provider.

Atlantic City's crisis worsened in January, when Moody's Investors Service downgraded its general-obligation debt to Caa3, near the bottom of the rating firm's scale. That placed Atlantic City eight notches below Chicago's junk rating.

Junk-rated cities remain a rarity. Only about 15 of more than 2,000 U.S. cities have ratings of BB-plus or below, according to Merritt Research.

"It's become more and more clear that the cash [the city] expected to be there wasn't," said Jim Colby, who manages a VanEck fund that bought Atlantic City debt last year.

Talk of default is spooking bond investors whose holdings have traded for as little as 66 cents on the dollar in recent weeks, according to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website. That is down from close to 100 cents on the dollar early last year.

New Jersey leaders, including Gov. Christie and the Democratic state Senate president, agree on a general fix for Atlantic City: a state takeover of the city's operations that would give the state ability to sell city assets, restructure debt or renegotiate union contracts. But a separate plan, backed by the state's Democratic assembly speaker, opposes altering union contracts and has so far blocked takeover legislation.

The proposals differ on how quickly the state would take over. Any action would require state assembly approval.

But Mayor Guardian has called the state's plan "a fascist dictatorship" and wants to retain local control of operations. His plan is to cut the city budget by at least $10 million and bring in new residents by giving away land and vacant homes.

"We're not an industrial town like Detroit," he said. "We're a tourist destination."

THE WALL STREET JOURNAL

By TIMOTHY W. MARTIN and HEATHER GILLERS

Updated April 28, 2016 10:42 p.m. ET

Write to Timothy W. Martin at timothy.martin@wsj.com and Heather Gillers at heather.gillers@wsj.com

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[Texas Court Blocks Houston From Using Tougher Clean-Air Laws.]()

HOUSTON — Houston's efforts to use local clean air laws to regulate pollution in the home of the nation's largest petrochemical complex were halted Friday by a Texas Supreme Court ruling in favor of energy and chemical companies that claimed the city had overreached.

The coalition made up of ExxonMobil Corp. and other companies with nearby refineries and plants had sued the nation's fourth-largest city in 2008 after Houston passed ordinances that required businesses to pay registration fees based on the number and type of pollution sources on each site. The city used the fees to investigate potential violations of air pollution laws.

The ordinances also made it unlawful to operate a facility inside Houston unless it was registered with the city. Violations of the ordinances could have been prosecuted in municipal court and were punishable with fines between $250 and $2,000 per day.

Attorneys for the city had argued in court documents the ordinances were a local expression of state laws regulating pollution, that they didn't make an "end-run" around state regulations and the lawsuit was hiding the real issue, "which is that industry does not want to be accountable to the people to stay within industry's permitted levels of pollution."

But in a 8-1 ruling against the city, the state's all-Republican high court said the ordinances were inconsistent with the Texas Legislature's intent that favored statewide consistency in enforcement. The Texas Commission on Environmental Quality is the agency in charge of administering the state's environmental laws.

The Supreme Court said the ordinances allowed criminal prosecution without letting the environmental commission determine if a violation had taken place and without allowing the agency to determine if administrative or civil penalties were more appropriate.

"The Legislature has enacted a comprehensive and flexible regulatory regime for investigation into possible violations … and consistent enforcement of the state's air pollution laws," the high court wrote.

Janice Evans, a spokeswoman for the city of Houston, said the city would have a statement on the ruling later Friday.

Evan Young, an attorney for the Business Coalition for Clean Air Appeal Group, said he was pleased with the ruling.

"We think it upholds the integrity of Texas environmental law and reaffirms the important role for clear, even-handed statewide regulation," he said.

If Houston's ordinances had been upheld, it would have created a patchwork of such laws across the state that would have allowed counties or cities to "establish their own priorities and their own determinations of when to try and bring a particular kind of enforcement," Young said.

Adrian Shelley, executive director of Air Alliance Houston, an environmental group that had filed a motion in support of the ordinances, called the ruling "bad news for public health in Houston."

He said the court's decision falls in line with recent actions by the state — including a law last year barring local ordinances that prevent fracking and other oil and natural gas activities that are potentially harmful to the environment — that erode Texas residents' rights to seek environmental and public health protections.

"We don't have enough resources for enforcement and as a result, we have levels of pollution that endanger public health and do not comply with state and federal standards," he said.

THE ASSOCIATED PRESS

APRIL 29, 2016, 4:31 P.M. E.D.T.

Washington Still Haggling as Puerto Rico Debt Deadline Looms.

In December, House Speaker Paul D. Ryan instructed lawmakers to find a “responsible solution” to Puerto Rico’s debt crisis in the first three months of this year, giving the island plenty of time to prepare for a May 1 deadline on a $422 million debt payment.

So much for that.

That deadline is imminent, but Republicans in the House and Democrats in the administration are still haggling over the terms of a bill to rescue Puerto Rico. Missing the payment risks further destabilizing its shrunken economy. And there are concerns that the passage of any legislation could be delayed until the island nears the tipping point of its debt woes: a $2 billion debt payment due on July 1.

The May 1 payment consists mainly of principal and interest due from Puerto Rico’s Government Development Bank, a uniquely powerful institution that has played a leading role in the island’s borrowing and financial affairs for decades. Its activities are so numerous and critical that analysts have worried for months that the bank’s failure would have untold ripple effects across the island. Puerto Rico’s governor, Alejandro García Padilla, who has warned about defaults for months, has expressed frustration with Washington’s inability to act quickly.

“On Monday there will be a default,” he said on Wednesday. The bank has until the close of business on Monday, since the May 1 due date falls on a Sunday.

But the bigger issue may be that second, larger debt bill due in July, roughly $800 million of which is constitutionally guaranteed, giving the payment of it legal priority even over the funding of essential public services, such as police patrols, ambulances or drinking water. Investors who hold the guaranteed debt say they are prepared to fight to enforce their legal rights, no matter how much it may shock and anger the island’s residents.

“There’s too much discord,” said Matt Fabian, a managing director at Municipal Market Analytics, referring to the rancor over the rescue bill. “This was supposed to be a very controlled process, and it just got out of hand.”

When Mr. Ryan ordered debt relief for Puerto Rico, he may not have known just how intractable the differences were going to be — not only between Democrats and Republicans, but also among certain classes of creditors, some of whom are intent on avoiding the sort of losses that Detroit bondholders were forced to bear after that city went bankrupt in 2013.

In addition to lobbying Congress, some of the bondholders are sponsoring television ads that depict the rescue of Puerto Rico as an odious taxpayer bailout. And some other creditors are in quiet talks with representatives of the Puerto Rican government, testing the waters for a sweeping negotiated debt reduction that might obviate congressional action.

Despite the power and importance of the Government Development Bank, its debts are not backed by any taxing power or constitutional guarantee. If it defaults on the looming $422 million payment, its creditors have little legal recourse. And much of the bank’s debt, in the form of municipal bonds, is held by more than 100 credit unions on the island — financial institutions that tend to serve momand-pop savers in Puerto Rico’s poor and remote communities.

“The island’s credit unions represent the nest egg of nearly 1,000,000 Puerto Rican families (one of every four Puerto Ricans) that trust their livelihood and savings in these financial institutions,” said the credit unions’ primary regulator in a statement released last year, when the sector held Government Development Bank debt with a face value of slightly more than $500 million, according to regulatory records. The regulator’s spokesman did not answer messages Thursday.

Historically, the credit unions were required to invest only in very safe assets. But in 2009 their regulators made an exception, allowing them to buy and hold riskier bonds, as long as the bonds were issued by some branch of the Puerto Rican government. The change gave the Government Development Bank a new way to raise money, by selling its bonds to the credit unions.

As a result, those institutions wound up with outsize exposure to the bank, which itself was found insolvent last year by Puerto Rico’s Commissioner of Financial Institutions. Officials on the island have been seeking a way to protect the credit unions from the bank’s expected default, but it is not clear what the mechanism would be, or whether it could even be put in place in time.

A payment default by the Government Development Bank would add to the list of extreme measures that Puerto Rico has undertaken to stretch its dwindling cash while waiting for Congress to enact its rescue package. It has already removed assets from its workers’ compensation pool and public pension system to pay bills, taken cash from low-priority bonds to make payments due on high-priority bonds, and extended a highway privatization, giving up future toll revenue in exchange for upfront payments of $115 million.

On Monday, holders of roughly $9 billion of bonds issued by the island’s Electric Power Authority are scheduled to buy $111 million more in bonds as part of a complicated agreement to keep the power company liquid and preserve a consensual restructuring deal. Those investors must decide by Monday whether handing over $111 million is worth it, under the current confused and deteriorating circumstances. But Puerto Rico has warned that if the new money does not materialize it may sue the creditors.

This group of bondholders, mainly mutual funds and other financial institutions, has emerged as one of four main creditor groups with a stake in the rescue legislation.

Another major group consists of bond insurers, known as “monolines,” which have insured about one-fifth of Puerto Rico’s total $72 billion of outstanding bonds. Their backing promised to make the affected investors whole every time Puerto Rico defaulted on an insured bond. Along with the first group, the monolines are deeply concerned about the methods the rescue legislation would use to ensure that different types of creditors are treated equally.

A third creditor group consists of financial institutions that bought roughly $3.5 billion of general-obligation bonds that Puerto Rico sold in 2014, its last borrowing before losing virtually all market access after ratings agencies downgraded it to junk status. The 2014 bonds were purchased eagerly by hedge funds because they promised a high yield and because general-obligation bonds are explicitly guaranteed by Puerto Rico’s constitution.

Holders of this block now argue that Congress should not interfere with Puerto Rico’s constitutional promises; the Treasury Department has argued that none of Puerto Rico’s bonds should be exempt from the bill’s restructuring framework.

The fourth major creditor group consists of investors who hold so-called Cofina bonds, which were sold from 2006 onward, backed by a dedicated sales tax. These bonds were advertised as virtually default-proof, but as Puerto Rico's troubles have mounted over the last year, the Cofina investors have grown worried that the island may decide to divert their sales tax revenue to pay some other creditor group, such as the general-obligation bondholders, who say the constitution gives them first calling rights on all the island's resources.

The Cofina bondholders' secret weapon is an agreement that the bonds will "accelerate" in the event of a payment default, meaning that instead of waiting for a 30-year maturity, the holders would immediately be entitled their full present value. This feature makes the Cofina bondholders the only group that would actually benefit from a default on their holdings — and a wild card in the deck that Congress keeps shuffling.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 29, 2016

Smoking or Non-Smoking?

The California Public Employees' Retirement System (CalPERS) struck a controversial note this week when its board announced it would study whether to get back into the tobacco industry. The nation's largest pension fund divested from tobacco companies in 2001 on the premise that making money off a product known to cause cancer was in conflict with the fund's social responsibility.

But a study by a consulting firm showed that CalPERS forfeited an estimated $3 billion in investment profits since 2001 because of that decision. The board will take its time — two years — reconsidering its decision, citing its fiduciary duty to make the best investment choices possible for retirees.

The announcement has already drawn fire from those who say CalPERS would violate its role as a health insurer by getting back into tobacco. State Treasurer John Chiang, who sits on the board and voted against the majority, said in a statement that investing in tobacco companies is harmful to public health and to the fund's fiscal bottom line. "Smoking causes addiction, disease and death," said Chiang. "No public pension fund should associate itself with an industry that is a magnet for costly litigation, reputational disdain, and government regulators around the globe."

GOVERNING.COM

BY LIZ FARMER | APRIL 22, 2016

Nuveen Muni Bond Exec Urges Passage of Puerto Rico Debt Bill.

Nuveen's co-head of fixed income says failure to pass proposed legislation will likely disrupt the municipal market and stall economic recovery in Puerto Rico

Less than two weeks before Puerto Rico is poised to miss a $422 million payment on its debt, one of the country's largest managers of municipal bond assets has proclaimed its support for a congressional proposal that would create a financial oversight board that could initiate a court-supervised restructuring of the island's debt.

With that deadline approaching, the island's development bank filed this week to sell more debt, in the form of taxable securities that would mature in May 2017.

John Miller, the co-head of fixed income at Nuveen Asset Management, says in a statement released today that the proposal "provides a fair framework for consensual negotiations between Puerto Rico and its creditors and will not increase borrowing costs for U.S. states, municipalities or other territories."

According to Miller, the proposal is not a bailout for Puerto Rico, which owes $72 billion to creditors, but a pathway for a negotiated solution.

The proposed legislation "will provide better outcomes and recoveries for thousands of individual investors that lack the ability to aggressively lobby Congress, submit editorials or seek injunctions. These investors hold an estimated one-third of Puerto Rico's debt and will realize the best recoveries possible if there is an effective oversight board shepherding the process and seeking equitable outcomes for all creditors both big and small."

Many individual investors own Puerto Rican debt through municipal bond funds, which, in turn, bought these bonds because they are triple tax-exempt – exempt from federal, state and local income taxes for all investors, no matter where they live.

Failure to pass the proposed legislation, writes Miller, will "most certainly result in prolonged, complex litigation… stifle any hope of economic recovery for Puerto Rico [and] more likely to disrupt the municipal market … The best outcome for the broader municipal bond market and all issuers is for Congress to address this situation quickly, decisively and only at once."

House Speaker Paul Ryan, R-Wis., supports the proposed legislation. He has said it is not a government bailout but rather a way to help avoid any bailout in the future, but his fellow Republicans so far aren't buying the argument. The GOP-led Natural Resource Committee abruptly canceled a vote on the debt restructuring bill last week after it appeared the vote would fail. Sen. Orrin Hatch, R-Utah, who chairs the Senate Finance Committee, also said the bill would not pass the Senate. The House bill is currently being rewritten.

Meanwhile, the clock is ticking.

Puerto Rico's legislature has passed legislation, signed by its governor, Alejandro Garcia Padilla, that declares a moratorium on the island's debt, as a way to get around the law that prevents Puerto Rico from declaring Chapter 9 bankruptcy, unlike other municipal governments.

The territory missed a $58 million payment on its Public Finance Corp. bonds last August. Now, in addition to the $422 million payment due May 1, Puerto Rico has a $2 billion payment on debt coming due July 1.

THINK ADVISOR

By Bernice Napach

APRIL 20, 2016

Chicago Financing Plan for 'Star Wars' Museum Draws Mixed Reviews.

Chicago Mayor Rahm Emanuel's proposal to fold financing for a museum sought by "Star Wars" filmmaker George Lucas into a redo of the city's massive convention center got mixed reviews from U.S. municipal bond market on Wednesday.

The proposal, which surfaced on Monday, calls for $1.5 billion of tax-exempt revenue bonds issued by the Metropolitan Pier and Exposition Authority and the extension of existing so-called tourism taxes on hotel rooms, rental cars, restaurant meals and airport taxi rides to pay off the debt over 40 years. About $1.16 billion would be used to raze part of the McCormick Place convention center to make room for and build the museum and replace the lost exhibition space.

Lucas, whose museum would showcase his collection of paintings, illustrations and digital art, would contribute $743 million to cover interest payments on the bonds, according to Richard Oldshue, the authority's chief financial officer.

Illinois' fiscal and political woes, which pushed the credit ratings on $3 billion of existing McCormick Place bonds into the low-investment grade level of triple-B last year, could taint the new bonds.

"The market can't trust the state to do the right thing and as such they will levy a pretty significant penalty before buying these bonds," said Nicholos Venditti, a portfolio manager at Thornburg Investment Management in Santa Fe.

Illinois' fiscal 2016 budget impasse led to a technical default on McCormick Place bonds last year because there was no state appropriation to transfer tax revenue to the bond trustee for required monthly debt service deposits.

Legislation appropriating the tax revenue subsequently passed, ending the default.

John Miller, co-head of fixed income at Chicago-based Nuveen Asset Management, said going forward, the state has no incentive not to appropriate for McCormick Place bonds.

"I don't think anybody could or should view a McCormick Place renovation and a Lucas Museum as a partisan issue. It's an opportunity," he said, adding that the taxes paying off current bonds have been growing.

Still, Venditti questioned how the state could approve the museum plan instead of tackling its growing public pension costs, a structural budget deficit and the severe financial problems of the Chicago Public Schools.

"If I lived in Chicago, this proposal would drive me insane," he said.

The financing package, which includes money and a tax pledge for the bonds by the state, requires approval from the Democrat-controlled Illinois Legislature and Republican Governor Bruce Rauner.

Reuters

Wed Apr 20, 2016 8:23pm EDT

(Reporting By Karen Pierog, additional reporting by Dave McKinney; Editing by Bernard Orr)

Ordinary Investors Could Lose if Puerto Rico Goes Bankrupt.

Average, passive small investors throughout the United States may not realize it, but some of their money, too, may be at risk as Puerto Rico struggles with its debt crisis.

A select group of municipal bond funds have increased their shares in Puerto Rico despite the continuing battle in Congress over how to help the strapped commonwealth pay its $72 billion debt.

Municipal-bond mutual funds run by OppenheimerFunds and Franklin Resources' Franklin Templeton Investments have the highest exposure to Puerto Rico's debt, according to data from Morningstar.

Oppenheimer and Franklin are global investment firms that manage assets and provide investment advice for investors large and small. Both offer funds, or groupings of investments, to investors.

As of last week, 44 percent, or 259, of 588 traditional municipal bond funds in the U.S. have exposure to Puerto Rico. Which means some hands-off investors, including those whose financial matters are handled by a broker, have a vested interest in what happens to Puerto Rico.

While there are no figures to ascertain who invests in these bond funds, they are considered lower-risk and are often used by older investors seeking a relatively safe place for money – although the primary risk is the default of the bond holder, which is relatively rare.

Both Oppenheimer and Franklin have slightly increased their Puerto Rican holdings since August. Both remain optimistic that despite the economic woes, Puerto Rico will make good on its bond obligations.

In a February press release, Oppenheimer said Puerto Rico needs to adopt a process under which its sales tax revenue is securitized, or packaged, and sold to investors. "At OppenheimerFunds, we have invested in Puerto Rico and its bonds for decades," the statement said. "We have a broad vision and long-term horizon and want to help Puerto Rico's economy grow. We welcome the opportunity to work with Puerto Rico to advance our common cause of finding solutions that will aid the long-term economic growth, well-being and investment in Puerto Rico."

Franklin, also in February, told investors that it was "considering our legal actions" with regard to its holdings in Puerto Rico.

The Puerto Rican government is seeking to file for bankruptcy, a move supported by the Obama administration.

But foes of that strategy say federal code does not permit that. As a U.S. territory rather than a municipality such as Detroit, Puerto Rico is not allowed to file for bankruptcy unless Congress amends current law. Instead, those opponents are seeking a restructuring with oversight protections, which could allow Puerto Rico to skirt some repayment rules.

The Wall Street Journal this week reported that Oppenheimer and Franklin, along with some bond insurers, met with congressional staffers involved in crafting legislation concerning Puerto Rico's debt.

Critics claim anything dealing with Puerto Rico comes with trouble, including investments.

"I think the investments are toxic," said Jake Zamansky, a New York lawyer who is handling the claims of investors who said they were led into sinking their money into Puerto Rico funds that were risky. They subsequently endured losses of much of their estate in some cases. In September, UBS AG's wealth-management unit was ordered to pay investors from a $2.9 million fund for losses linked to Puerto Rico's municipal bonds.

"I don't see any way that Puerto Rico can get out of this," Zamansky said. "It can't go bankrupt and it will be litigating with its creditors for years. And it's become a political issue in the U.S. now."

AMI Newswire

by Steve Miller

Apr. 19, 2016, 3:20pm

[Puerto Rico's Bondholders Divided in Fight Over Federal Rescue.]

Puerto Rico bondholders are lining up on different sides of the battle in Congress over legislation to rescue the island from financial collapse as lawmakers rewrite the bill in an effort to overcome opposition from Democrats and Republicans.

Hedge funds that own about $5 billion of Puerto Rico's general-obligation bonds, which are guaranteed under the island's constitution, are fighting the House measure that would give the U.S. territory ability to write off some of its $70 billion in debt. Firms that own securities backed by sales taxes are working to ensure its passage, seeing it as a way to protect their investment from a cascading series of defaults.

The fracture is adding to the political discord over the broadest effort yet in Washington to address the Puerto Rican debt crisis, which has been building over the past 10 months as the island's government runs out of cash and can no longer borrow money to remain afloat. After members from both parties bristled at aspects of the bill, the House Natural Resources Committee last week abruptly canceled a planned vote so legislators could revise it. Representative Rob Bishop, who heads the committee, said Tuesday he thinks most Republicans will ultimately support the measure.

"The conflicting messages that lawmakers are getting from investors is making them less likely to want to be seen picking one creditor group over another," said Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer. "There are disagreements among House members over which credits are strongest and what's the right way to proceed."

Puerto Rico is veering toward major bond defaults in May and July after Governor Alejandro Garcia Padilla signed a law allowing him to suspend debt payments through January. He has pushed Congress to give his government legal powers to restructure debt in court, which it currently cannot do, to avert painful spending cuts on an island where nearly half the residents live in poverty and the economy has been contracting for a decade.

Rival Creditors

If not addressed, the crisis threatens to leave owners of Puerto Rico's varying securities — with differing legal protections or promised rights to certain revenue — fighting in court over whatever money Puerto Rico brings in.

Garcia Padilla has proposed preventing that by allowing investors to voluntarily exchange their bonds for new securities, though no formal offer has been extended as his administration waits on action from Washington. In its most recent proposal, Puerto Rico said it would pay 74 cents on the dollar for general-obligation and government-guaranteed debt and 57 cents for sales-tax securities.

The creditor schism on Capitol Hill between investors with competing interests underscores the obstacles that Puerto Rico faces in reaching a timely agreement to reduce its debt, which was issued by 17 different arms of the government, including $13 billion of general obligations and $15 billion of sales-tax bonds. It took more than a year for its electric company to reach such a deal in December — and it still hasn't been completed.

A group of general-obligation bondholders that includes Monarch Alternative Capital, Davidson Kempner Capital Management and Stone Lion Capital Partners are among those opposed to the House legislation, which would give a federally-appointed board power to oversee Puerto Rico's budget and a restructuring with creditors. The bondholders, who have hired former U.S. Representative Connie Mack to lobby on their behalf, say the legislation threatens their rights to be paid back first.

"The House Super Chapter 9 bankruptcy legislation would violate the priority given to general-obligation bonds under Puerto Rico's constitution, which Congress has already twice affirmed," Andrew Rosenberg, a lawyer at Paul Weiss Rifkind Wharton & Garrison, which is representing the GO bondholder group, said in a statement. "As a result, the holders of $18 billion of GO and commonwealth-guaranteed bonds could assert takings claims against the U.S. government."

That position has put them at odds with a rival group that holds $1.6 billion of securities known as Cofinas that are backed by a share of Puerto Rico's sales taxes. The group includes GoldenTree Asset Management, Merced Capital, Tilden Park Capital Management and Whitebox Advisors. Judd Gregg, a former U.S. Senator from New Hampshire, is advising the group.

Those bondholders anticipate that the federal oversight panel would honor their claims more than Puerto Rico, which has already siphoned off gas- and rum-tax revenue pledged to some debt to avoid defaulting on general obligations. The group is concerned that Puerto Rico may begin redirecting sales-tax revenue as soon as July to help pay other expenses, something the House bill may prevent.

"We feel that the chances of our property rights being properly respected are greater in the hands of disinterested, dispassionate control board members than they would be in the hands of the administration in Puerto Rico, which seems to treat all property as house money," said Susheel Kirpalani, a partner at Quinn Emanuel Urquhart & Sullivan, which is representing the holders of the sales-tax debt.

Republicans' Conditions

House lawmakers were shooting to have a legislative fix for Puerto Rico done by the end of March, only to see the process take longer than anticipated. Bishop, the chairman of the House Natural Resources Committee, said the panel could act on a revised bill as early as next week, though others said such a vote may be delayed until May.

An influential group of about three-dozen fiscally conservative Republicans in the House, known as the Freedom Caucus, met Monday evening to discuss bill. Before they can endorse it, they want assurance that it treats different classes of creditors fairly and doesn't open the door to a push for states to restructure their debts, according to a member who spoke on the condition he not be identified.

The legislation initially released by the committee would allow a federal board to weigh in on Puerto Rico budgets, oversee a debt restructuring that creditors would be able to vote on through collective action, and put bondholder lawsuits temporarily on hold, a provision know as a stay. Many Republicans objected to allowing the territory to cut its debt, while Democrats said the board would wield excessive power over the island's finances and decisions.

While general-obligation bondholders also favor a federal oversight panel, they want the House bill to exempt constitutionally-guaranteed debt from restructuring or give the securities the top claim on the government's funds, according to three investors who asked for anonymity because lawmakers are still working on the legislation. They also want to be able to sue the commonwealth if it defaults on $805 million that's due on July 1, the people said.

Cofina investors have more time. Puerto Rico already directed $696 million this fiscal year to cover payments through August, according to Standard & Poor's. The next Cofina payment isn't due until Feb. 1, just a few weeks before the legal stay is lifted.

"It's a very tricky situation," said Mikhail Foux, head of municipal strategy at Barclays Plc. "GO bondholders will be saying they're backed by the constitution and Cofina bondholders will be saying they're backed by a specific stream of revenues."

Bloomberg Business

by Michelle Kaske and Billy House

April 19, 2016 — 2:00 AM PDT Updated on April 19, 2016 — 7:32 AM PDT

Puerto Rico Sets Sights on Tobacco Bonds in Long-Shot Money Grab.

Most tobacco bonds are destined for default, including those issued by Puerto Rico. Investors just never thought it could come this way.

Included in the commonwealth's debt moratorium law passed this month: Children's Trust, a not-fo--profit entity created to issue debt backed by legal-settlement money that U.S. states and localities receive from cigarette companies. Its presence is puzzling in that unlike almost every other Puerto Rican bond, some of the tobacco securities still carry investment-grade ratings because the cash that pays investors is deemed out of the government's reach.

As Puerto Rico tries to cut its $70 billion of debt, investors are learning nothing is off-limits, with even constitutionally guaranteed general obligations staring down losses. While Governor Alejandro Garcia Padilla has yet to halt any payments — and creditors have yet to file the inevitable lawsuits — the threat of default on even the most-secure bonds by claiming police powers shows how far the commonwealth is willing to go to restructure its debt burden.

"The tobacco financing speaks in the language of true sale and trust agreements, and was created specifically to insulate bondholders from the general fund," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "Legal hurdles aren't what Puerto Rico is focusing on right now."

Island's Perspective

The moratorium law is meant to give Puerto Rico the tools it needs to weather its crisis while providing citizens with essential services, said Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the commonwealth's Government Development Bank.

"The inclusion of an entity, like the Children's Trust, in the act does not automatically mean these tools will be applied to that entity," she said in an e-mail.

Tobacco securities are one of the few corners of the $3.7 trillion municipal market where default isn't just possible — it's probable. They're mostly considered junk because when governments first sold them more than a decade ago to get instant cash from the 1998 settlement revenue, they didn't anticipate how quickly Americans would give up smoking.

Moody's Investors Service last projected that a 4 percent annual decline in the cigarette shipments that back the bonds would cause 80 percent of them to fail to pay on time. That wouldn't cause a default on Children's Trust debt issued in 2002, the strongest of its obligations, according to the forecast.

Money Flow

Tobacco bonds were structured as asset-backed securities, with the settlement money flowing straight to a trustee to pay the debt, rather than passing through government coffers. With so many of the obligations poised to ultimately default, states and cities have touted that they're not on the hook to make up for investor losses because of the setup.

In Puerto Rico's case, it looks like the bondholders will be the ones praising the structure.

OppenheimerFunds Inc. is by far the largest owner of Children's Trust debt, with about $9.9 billion of exposure when including the full maturity value of zero-coupon bonds, according to the most recent holdings data compiled by Bloomberg. That's 82 percent of the $12 billion in outstanding securities, held across 17 mutual funds.

Meredith Richard, a spokeswoman for New York-based OppenheimerFunds, declined to comment.

Next up are Invesco Ltd., MacKay Shields and Nuveen Asset Management, which hold $211 million, $148 million and $131.5 million in maturity value of zero-coupon tobacco bonds, respectively, Bloomberg data show. In all, at least 12 fund companies own the debt.

Bond documents for the 2008 sale of zero-coupon debt contemplate a Puerto Rico money-grab.

"It is also possible that the commonwealth could attempt to claim some or all of the pledged TSRs for itself or otherwise interfere with the security for the Series 2008 bonds," according to the documents. "In that event, the bondholders, the trustee or the trust may assert claims based on contractual, fiduciary or constitutional rights, but no prediction can be made as to the disposition of such claims."

The documents also stipulate that Citibank N.A., the master settlement agreement escrow agent, must send all money directly to Deutsche Bank Trust Company Americas, the trustee, under terms that are "irrevocable until after all bonds have been repaid."

For now, the credit raters aren't ready to change their view on the Children's Trust bonds.

"Unfortunately we're not going to be able to provide insight here," Joe Mielenhausen, a Moody's spokesman, said in an e-mail. “It’s a complex legal question that we just can’t comment on at this time.”

Standard & Poor’s is looking into how the debt moratorium affects the bonds and doesn’t yet have an update, said April Kabahar, a spokeswoman for the credit rater.

Sandro Scenga, a spokesman for Fitch, didn’t return a voicemail or e-mail seeking comment. It’s the only credit rater to give investment grades to all of Children’s Trust’s 2002 debt.

Some of those securities that mature in May 2033 rallied Wednesday, trading at an average 100 cents on the dollar, the highest since April 12, data compiled by Bloomberg show. With the shortest maturity of all outstanding obligations, they’re the only ones to carry investment grades from all three credit raters.

In some ways, Puerto Rico’s tobacco securities are like its sales-tax debt, Fabian said. The bonds, known by the Spanish acronym Cofina, had long been a favorite of investors because they had a first claim on sales-tax revenue.

Now Cofina bondholders would recover just 57 percent in the commonwealth’s latest restructuring proposal. Otherwise, the debt would likely stop paying on Feb. 1 because of the moratorium law, according to S&P.

“Puerto Rico has been flouting the rule of law for the last 12 months or so — I can’t tell you they wouldn’t try to take” tobacco-bond funds, said Jason Diefenthaler, who runs a $106 million high-yield muni fund at Wasmer Schroeder & Co. in Naples, Florida. “It’s tough when you have such a political outcome determining the forward direction of a situation like Puerto Rico.”

Bloomberg Business

by Brian Chappatta

April 20, 2016 — 2:00 AM PDT Updated on April 20, 2016 — 12:12 PM PDT

Puerto Rico Registers to Sell Notes as May 1 Default Looms.

Puerto Rico’s Government Development Bank, operating under a state of emergency imposed to halt an erosion of its dwindling cash, has filed with regulators to sell debt as officials negotiate with creditors about a $422 million payment owed at the start of May.

The GDB, which lent to the commonwealth and its agencies, filed to sell taxable securities that would mature May 2017, according to the Municipal Securities Rulemaking Board’s website, called EMMA. The notice doesn’t list the amount of the sale or the coupon. The commonwealth hasn’t been able to sell debt since last year.

Governor Alejandro Garcia Padilla declared the state of emergency April 9, allowing withdrawals from the GDB only to fund health, public safety and education services. The bank has $562 million of liquidity, according to a debt-moratorium law passed two weeks ago.

Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the GDB, didn’t have an immediate comment.

The Puerto Rico Aqueduct and Sewer Authority sold $75 million of short-term debt via private placement in September, data compiled by Bloomberg show. The commonwealth's Infrastructure Financing Authority sold $256 million of two-year debt in March 2015. The GDB's last borrowing was a short-term note sale in October 2014.

Bloomberg Business

by Michelle Kaske

April 20, 2016 — 9:07 AM PDT

Blown Deadline for Puerto Rico Bill Risks Triggering Defaults.

U.S. House leaders concede there is little chance of passing a bill to address Puerto Rico's debt woes before a May 1 deadline on a $422 million debt payment, leaving members worried the urgency of the debate could wane until the next crisis point.

That leaves lawmakers eyeing July 1, when a significant $2 billion payment comes due, and raises the risk that the territory could default on some of its general-obligation bonds, which are seen as the island's most sacrosanct debt.

Given the longstanding pattern of Congress waiting until the last minute to force through major compromises — whether it's raising the nation's debt limit or averting a government shutdown — members say that passage of a Puerto Rico bill could slip into late May, or even June.

"I've had a problem with that way of thinking since I've been here," complained Representative Tom Marino of Pennsylvania, of a tendency for Congress to let up until the next due-date. "I'm really worried about that."

Representative Raul Grijalva of Arizona, the top Democrat on the House Natural Resources Committee, which is drafting the measure, said "some might characterize May 1 as not a doomsday date."

"But we get past May and toward July when another big shoe drops — they continue to default and not be able to pay — then you're starting to take it to what the Republicans want to call a fiscal crisis of their own making, to a humanitarian crisis of pretty huge proportion," said Grijalva.

"I hope we maintain some urgency," he added.

Still Negotiating

House leaders insisted Thursday that they are trying to move the bill through as quickly as possible, saying that they are trying to accommodate changes demanded by the U.S. Treasury Department. Natural Resources Chairman Rob Bishop of Utah — who earlier this week said missing the May 1 deadline was not "Armageddon" — said Thursday there are only "minor" pieces left to resolve on a draft bill. He said his committee could act quickly once they were fixed.

But neither he nor House Speaker Paul Ryan would say whether that newly revised bill would be released next week — much less be acted on by the committee or the entire House. The House is out on a one week-recess starting on May 2, which also delays any action.

Congress’s slow pace is worrying to officials in Puerto Rico and many of the bondholder groups, who have been waiting to see what kind of action Congress will take.

“The longer the commonwealth suffers without federal legislation, the greater the likelihood of a taxpayer funded bailout,” former Senator Judd Gregg, an adviser to an ad hoc group of bondholders that holds $1.6 billion of securities known as Cofinas, said in a statement.

Fearing Default

Puerto Rico and its agencies owe $2 billion of principal and interest on July 1, including $805 million for general-obligation bonds. A default on those securities would send a signal to investors and Congress that the commonwealth is out of cash and needs help, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $4.2 billion of municipal bonds, including Puerto Rico debt.

“If they decide to default, it raises the stakes and it will push Congress to do something sooner rather than later,” Dalton said.

A missed payment on general obligations would be a shift in tone for Puerto Rico, which has found ways to continue paying on its direct debts. General obligations are backed by the commonwealth’s full faith and credit and carries a constitutional guarantee of repayment.

“That would be a big negative step for them,” said Daniel Solender, who manages $18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. “You would hope that they’re just waiting as long as they can to figure out closer to the deadline of how not to default because that would be huge for them. Defaulting on their general obligation debt is not a positive step toward their future.”

Outstanding Issues

Lawmakers appear to have made little apparent progress since Bishop’s Republican-controlled Natural Resources panel canceled a meeting last week where it planned to work on the draft measure, H.R. 4900. That came amid objections raised to various provisions by Republicans, Democrats and Treasury Department officials.

Minority Leader Nancy Pelosi on Wednesday ticked off outstanding issues.

They include details of the restructuring processes that will be in place regarding the island’s debt; the membership, workings and powers of a financial oversight control board; issues related to pensions of workers and “other workers’ issues,” which have included Republican calls for lowering the island’s minimum wage; and proposed land transfers.

In addition, beyond the bill language, Ryan has been working to play down perceptions — pushed by some fiscal conservatives in his own conference and in ads from outside groups running in some members’ districts — that the measure is a “bailout” of Puerto Rico, or a step toward that.

At the same time, leaders in both parties say any final bill will need bipartisan support to succeed. Pedro Pierluisi, Puerto Rico’s non-voting delegate to the U.S. Congress, is among those who say that if a House bill doesn’t get approved with “a decent number of both Republicans and Democrats, it doesn’t stand a chance in the Senate.”

“Ideally, within a month, the bill should be out of the House,” said Pierluisi, in an acknowledgment that the May 1 date is no longer going to be met.

Trading Blame

Republicans and Democrats each are largely blaming the other party for the holdup.

Majority Leader Kevin McCarthy, a Republican from California who sets the House floor schedule on legislation, shifted focus to the Obama administration and House Democrats when asked if lawmaker urgency on the Puerto Rico bill could disappear after May 1.

“Well, we’ve been working and ready to go. The Treasury Department keeps negotiating, so the Democrats said they won’t move until Treasury’s done,” he said.

“Your question goes to the Treasury,” said McCarthy. The department didn’t immediately respond to a request for comment.

Bloomberg Business

by Billy House and Michelle Kaske

April 21, 2016 — 1:10 PM PDT

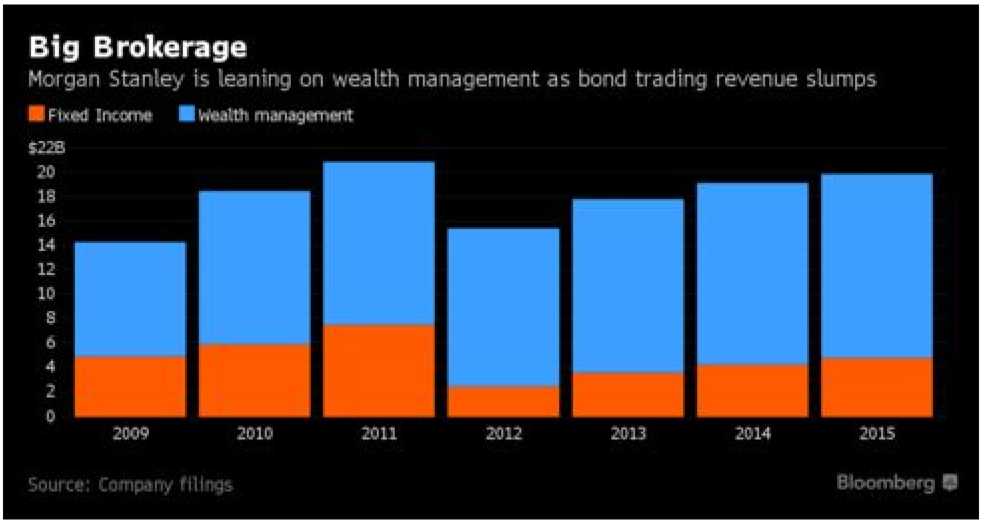
[Morgan Stanley Fuses Desks to Boost Bond Sales to Rich Clients.]

Morgan Stanley, the Wall Street firm most dependent on wealth management, is combining some trading teams from its investment bank and brokerage to boost bond sales to rich clients.

The firm is joining corporate and government bond-trading desks to give wealth-management clients access to the broader pool of securities and research available to institutional customers, said Andy Saperstein, co-head of the division. It’s an expansion of an effort that brought municipal-bond teams together in 2014, he said.

“That was a proof of concept, that by putting them together, we outpaced the Street by a lot, we increased our share,” Saperstein, 49, said in a telephone interview. “It allows you to have more inventory, more scale in the market when looking for inventory. It’s also more effective to manage risk across the book when they’re not separate.”

Wealth management has increased in scale and stature at Morgan Stanley under Chief Executive Officer James Gorman. The business accounted for 43 percent of the firm’s $35.2 billion in revenue last year as fixed income became less profitable amid regulations and a trading slump.



Morgan Stanley will shuffle managers as part of the move, including Elizabeth Dennis, who ran the wealth-management team that executed trades. She will take over strategic lead management, which oversees referral business between institutional and wealth management and investments in private firms. She reports to Vince Lumia, who runs the private wealth-management unit catering to the firm's richest clients.

Kevin Lynyak, who heads trading for wealth management capital markets, will now report to Ben Huneke, head of investment solutions in wealth management, and Pat Haskell, the managing director of fixed income and commodities in the firm's institutional division.

Stephen Wronski will run a combined debt and equity middle-markets business, reporting to Lumia and Tracy Castle-Newman, managing director of equities on the institutional side. As part of the initiative, some wealth-management traders in the firm's Purchase, New York, office will relocate to New York City.

Bloomberg Business

by Hugh Son

April 21, 2016 — 6:48 AM PDT

Puerto Rico Moving Closer to Deal With Some Bank Bondholders.

Puerto Rico's Government Development Bank, operating under a state of emergency to preserve cash, is about halfway toward reaching a forbearance agreement with creditors, according to an official.

The GDB, which lent to the commonwealth and its municipalities, owes $422 million on May 1 that officials have said the bank cannot pay. Jesus Manuel Ortiz, spokesman for Governor Alejandro Garcia Padilla, said while leaving a press conference in San Juan on Friday that the government was about halfway there when asked by a Bloomberg News reporter about how talks on a potential forbearance pact were progressing. Such an agreement would allow the parties to negotiate out of court.

In an e-mail later to Bloomberg News, Barbara Morgan, a representative at SKDKnickerbocker in New York who represents the GDB, said there is no agreement yet.

“While we are actively negotiating in good faith with our creditors, no one on our team would ever suggest agreements have been reached,” Morgan said. “That would be both premature and directly at odds with our commitment to not negotiate this through the media.”

Taxable Debt

The bank has filed with regulators to sell taxable debt that would mature in May 2017, according to the Municipal Securities Rulemaking Board’s website. Garcia Padilla on April 9 declared a state of emergency for the bank. That decision limits withdrawals from the GDB only to fund health, public safety and education services. The bank has $562 million of liquidity, according to a debt-moratorium law passed two weeks ago.

Puerto Rico and its agencies borrowed for years to fix budget deficits, amassing $70 billion of debt. Island officials are negotiating with bondholders to reduce those obligations through a voluntary debt exchange. A U.S. House Natural Resources Committee is working on a bill that would establish a federal control board to manage Puerto Rico’s budgets and oversee any restructurings.

Puerto Rico needs Congress to address the island’s finances in order to protect its ability to maintain essential services for its residents, Antonio Weiss, counselor to U.S. Treasury Secretary Jacob J. Lew, told a packed audience in Manhattan Friday during a panel on the commonwealth’s debt crisis at the Center for Puerto Rican Studies at Hunter College. For every dollar the island collects in tax revenue, it must spend 33 cents on debt services, compared to an average 5 or 6 cents for states, Weiss said.

Cascading Defaults

“Without legislation by Congress, Puerto Rico will face a cascading series of defaults, including on its constitutionally protected debts and mounting litigation both against the commonwealth and between the creditors,” Weiss said.

The cash-strapped commonwealth is expected to fall short of paying the $422 million to holders of the GDB bonds, Moody’s Investors Service said Friday in a report. It may also default on debt from the Employees Retirement System, Industrial Development Co. and Highways and Transportation Authority, Moody’s said.

Lew on Friday urged Congress to act on a restructuring for the commonwealth to avoid a bailout.

“The goal should be that at the end of a restructuring, that Puerto Rico will again have access to capital markets,” he said in an interview with the Spanish-language Univision television network. “With a restructuring, it will actually be better for creditors as well.”

(An earlier version of this story was corrected to remove the reference to a tentative agreement in the first two paragraphs.)

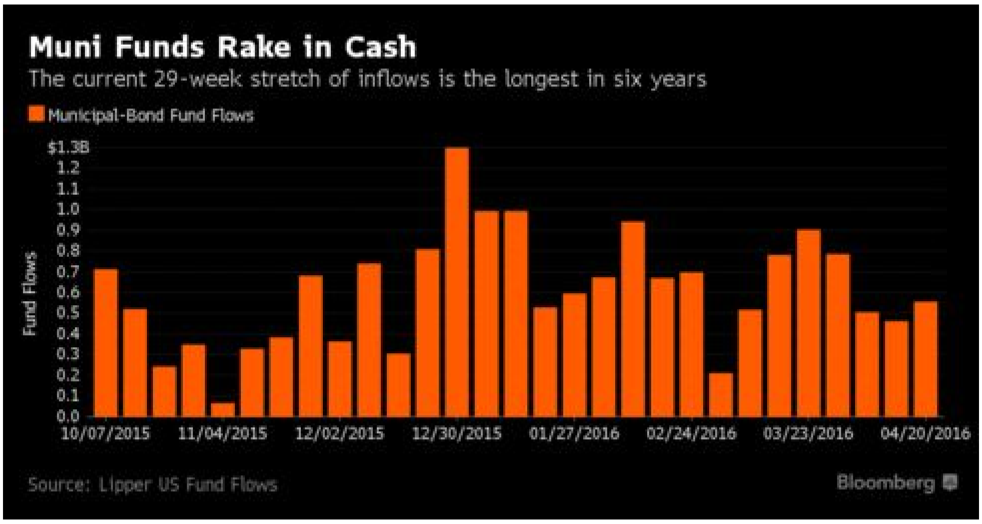
Bloomberg Business

by Michelle Kaske and Alexander Lopez

April 22, 2016 — 2:04 PM PDT Updated on April 23, 2016 — 1:20 PM PDT

Muni-Bond Funds See Longest Stretch of Inflows in 6 Years: Chart

Investors have added money to municipal-bond mutual funds for 29 straight weeks dating back to October, the longest streak since March 2010, Lipper US Fund Flows data show. The inflows persist even though state and local debt has trailed other fixed-income assets: munis have gained 2.3 percent this year, compared with 2.9 percent for Treasuries and 4.7 percent for investment-grade corporate debt, Bank of America Merrill Lynch data show. If history is any guide, the inflows will only get stronger in the coming weeks, as tax-free interest lures individuals who had to file their taxes by the mid-April deadline.



Bloomberg Business

by Brian Chappatta

April 22, 2016 — 6:36 AM PDT

Bloomberg Brief Weekly Video - 04/21

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

Watch the video.

April 21, 2016

San Bernardino Proposes Shielding City from Damages in Police Misconduct Cases.

Buried in San Bernardino's latest plan to exit bankruptcy protection is a request to shield individual police officers from liability in brutality and excessive-force lawsuits.

Bankrupt cities typically slash payments promised to Wall Street, retired workers and other creditors. More unusual is shielding a city from damages and settlement costs arising out of negligence and civil-rights lawsuits against individual officers. And the law around discharging such liabilities in municipal bankruptcies has rarely been tested.

A judge overseeing Detroit's bankruptcy rejected a similar request to protect police officers, according to WSJ's Katy Stech. But it's not clear whether any other localities have successfully shielded their employees from liability as San Bernardino is attempting.

When damages are awarded in lawsuits against police officers, it's usually the employer that pays the tab. And that's San Bernardino's concern.

"Exposing officers and employees to liability for harms committed while at work would expose officers and employees to often ruinous liability simply for doing their jobs," city officials said in a March 30 filing. "The city will be forced to pay such claims one hundred cents on the dollar, which the city cannot afford to do."

Judge Meredith Jury, who is presiding over the San Bernardino bankruptcy case, recently remarked on the absence of case law in that area. "There is no precedent that binds me in a decision on that," she said at a December hearing.

THE WALL STREET JOURNAL

By JACOB GERSHMAN

Apr 19, 2016 10:48 am ET

California Tool to Fund Badly Needed Infrastructure Growing in Popularity.

After years of the vacuum left by the end of California's redevelopment agencies, the California Economic Summit two years ago helped craft a robust new financing tool for local governments looking to pay for local infrastructure and economic development.

Now there are an estimated 60 projects under consideration across California using the "Enhanced Infrastructure Financing District" as a way of funding projects. And that number is expected to increase.

Following the dissolution of redevelopment agencies in 2011, local governments struggled to pay for everything from long-neglected sidewalks and roads to the mass-transit and affordable housing needed for long-term sustainable growth.

"People see EIFDs as a way to spur local and regional investment," said Fred Silva, senior fiscal analyst for California Forward, which is beginning to provide EIFD technical assistance where requested. "We encourage local leaders to develop a business plan for economic development of their communities and determine the infrastructure investments that will be needed to sustain a healthy local economy over time."

Last week in Los Angeles, a forum hosted by the Southwest Megaregion Alliance, a Knowledge

Partner of the California Economic Summit, attracted more than 50 people, including city and regional leaders and consultants who are already working on projects and looking into using EIFDs to fund them.

“It was a sort of EIFD 2.0,” said Mark Pisano, who noted that there are up to 60 EIFD projects in some sort of development across California.

Pisano is the former executive director of the Southern California Association of Governments, the nation’s largest metropolitan planning organization. He is also co-lead of the Summit’s Infrastructure Action Team and has been promoting EIFDS as a flexible structure that give local entities a vehicle to fund economic development.

While there was some initial confusion about EIFDs and how they worked, it appears that there is a better understanding of how the EIFDs can help economic development.

“People more than understand it,” Pisano said. “They are beginning to do it.”

Long-time California urban economics and financial consultant Stan Hoffman attended the meeting.

“The EIFD can be an important tool that cities should evaluate,” Hoffman said. ”It’s not the whole toolbox, but it can be valuable.”

Some of the projects that are maturing include one in the city of West Sacramento, which wants to use an EIFD to help finance two new bridges across the Sacramento River to the city of Sacramento on the other side. The city of La Verne is looking at an EIFD for a transit-oriented development plan around the Gold Line, and the city of Los Angeles is considering using EIFDs in plans to revitalize the area around the L.A. River.

There are still many other civic and business leaders who are in the early stages of learning more about EIFDs. On Friday in Palm Desert, Assemblymember Eduardo Garcia brought together Coachella Valley civic and business leaders interested in learning more about EIFDs. Silva and Pisano were among a handful of experts who were explaining how to define and set one up.

“Enhanced Infrastructure Financing Districts and Community Revitalization Authorities are valuable tools that provide cities and special districts with financing mechanisms to invest in infrastructure and affordable housing,” said Garcia, who is chairman of the Assembly Committee on Jobs, Economic Development and the Economy.

The discussion at Friday’s session centered on four key questions in getting an EIFD created and underway.

- What financing instruments could work?
- Who else needs to be a part of this process?
- What can be done to help broker ideas and projects?
- What needs to happen next?

“Through my involvement in the California Economic Summit, it is important to me that we hold workshops to help local governments understand and better utilize these tools,” Garcia added. “Increasing investment in our local communities will help address poverty, high unemployment, and the shortage of housing that’s affordable, thereby helping to create strong and resilient local economies and communities.”

CALIFORNIA ECONOMIC SUMMIT

BY ED COGHLAN

MARCH 28, 2016

New Report Finds Illinois Municipalities Pushing for 'Home Rule.'

A movement is underway to have the Illinois legislature expand what's called "home rule authority," according to a new report from the Better Government Association. What exactly is home rule and what could it mean for towns and villages throughout the state?

Bob Reed, director of programming at the Better Government Association, says home rule gives communities "more control."

"It's basically a legal standing that allows towns of over 25,000 [people] to tax, issue bonds, do other financial engineering and economic development and make a number of other decisions for their communities, such as privatizing certain services, like garbage collection or water, and changing zoning," Reed said. "Basically, it gives communities more control in both how they finance and how they will run their communities."

According to Reed, out of 1,297 municipalities in Illinois, 211 currently operate under home rule, which was first introduced in Illinois in 1970 as an amendment to the state constitution.

The Illinois Municipal League is working on legislation that would expand home rule to communities with over 5,000 people with an amendment to the Illinois constitution. But that legislation would have to make it through the General Assembly before it gets to the ballot in November.

Reed said the chances that home rule will be on the ballot are "slim to none."

"I wouldn't rule it out 100 percent, but it's highly unlikely," Reed said. "What this really is, is a warm-up act. What the Illinois Municipal League is signaling here is the state's 1,297 municipalities are hurting. These towns and villages are concerned that even if a state budget is passed, the state could hold back money. So they're looking at the taxpayer as a way to relieve some of this pressure and uncertainty so they can move forward with plans and fully funding their day-to-day operations."

Reed said that even with the state budget stalemate, home rule is still a tough sell to voters.

"Most people, when they hear home rule, think more taxes. But on the other side, you have the people who run the government and unions who want home rule to pay for better schools and better services," Reed said.

"[What is] important to remember here though is that home rule by itself won't solve the financial problems for communities," Reed said. "Municipalities need to also deal with reforming pensions, consolidating government, and where possible, consider privatizing services. Home rule is just one tool in the package for municipalities."

Reed joins "Chicago Tonight" to further discuss home rule and what that could mean for Illinois communities.

Chicago Tonight

Andrea Guthmann | Meredith Francis | April 11, 2016 4:31 pm

[Revenue-Bleeding Kansas Revives Tobacco Bonds as Deficit Lingers.]

After reeling from budget shortfalls since cutting income-tax rates three years ago, Kansas is considering a once-popular fix for cash-strapped governments: bonds secured by the money received under the 1998 settlement with tobacco companies.

The sale would be the first offering of the securities in the U.S. municipal market since March 2015 as the decline in smoking over the past decade cuts into the annual payouts, leaving less to borrow against. States and localities have already sold $34 billion of the bonds, a niche that's rallied as cigarette sales steadied last year and investors plowed into higher-yielding debt while interest rates held near a half-century low.

"The demand side is pretty strong for securitized tobacco bonds," said David Hammer, who oversees about $40 billion as co-head of municipal bonds at Pacific Investment Management Co. in New York. "A number of states have looked to tobacco securitizations to plug budget gaps over the years, and I am sure we can expect to see more."

The proposal floated by Republican Governor Sam Brownback illustrates the continuing financial pressure on the state, which borrowed $1 billion in August to shore up the employee retirement system. It has since had to cut spending for higher education and plans to put off pension contributions after tax collections fell short of its forecasts. In late 2015, Kansas borrowed $400 million for transportation after using highway funds for other expenses.

The prospective debt sale — which would need approval from the legislature — has drawn criticism for failing to permanently address the state's budget problems and for potentially siphoning money away from children's programs now paid for with the approximately $60 million a year received from the settlement.

That includes mental health services, child-care assistance and hearing programs, among others, said Shannon Cotsoradis, president of Kansas Action For Children, an advocacy group.

"Selling bonds backed by this money is a one-time fix that comes with a high price tag," she said.

Kansas could get $474 million to $782 million through a tobacco bond-sale, depending on how much of the settlement money it wants to pledge. Lawmakers will weigh the idea later this month after they return from a recess and officials receive new revenue estimates, according to Eileen Hawley, Brownback's spokeswoman.

Since deep cuts to income-tax rates became effective in 2013, Kansas has patched budgets shortfalls with one-time fixes that leave it facing deficits again when the next year begins. "The question is how are you going to solve the problem next year?" said Dave Hitchcock, senior director at Standard & Poor's.

Brownback, a former U.S. Senator who became governor in 2011, had said his state could become a model, predicting the lower levies would strengthen the economy and create more jobs and tax revenue. Kansas has since seen revenue fall short of forecasts, and in 2014 its economy expanded by 1.4 percent, compared with 2.2 percent for the U.S. overall.

Kansas drew down reserves and raised taxes in the year that began in July, though revenue has still come in 2 percent below estimates so far. On April 8, Brownback's administration said it would temporarily delay payments to employee pension plans due on April 15 until new revenue estimates are available.

Tobacco bonds are one of the highest-yielding corners of the municipal market, in part because of the risk that the securities will default as people cut back on smoking. But as gas prices tumbled last year, leaving consumers with more to spend, cigarette shipments slipped 0.1 percent, the smallest drop since 2006, according to regulatory filings by Reynolds American Inc. The securities have returned 5.2 percent over the past year, beating the 4.8 percent advance in the overall market, according to Bank of America Merrill Lynch indexes.

California sold $1.7 billion of tobacco bonds in March 2015, with 30-year debt yielding 3.38 percent. The prices have since risen, pushing the yields down to an average of 2.69 percent in trading Wednesday.

"Securitization of the tobacco settlement is one of several options the legislature can consider when they return," said Hawley, the governor's spokeswoman.

Some may be skeptical. The state's House of Representatives are focused on finding long-term solutions for eliminating deficits and "reforming the budget process," Republican House Speaker Ray Merrick said in an e-mailed statement.

"It's important that any decision regarding securitization of tobacco funds be made with full understanding of potential benefits and drawbacks," Merrick said.

Bloomberg Business

by Darrell Preston

April 14, 2016 — 2:00 AM PDT Updated on April 14, 2016 — 5:54 AM PDT

S&P Report Discusses Cost To State, School Districts Of California's Teacher Pensions.

SAN FRANCISCO (Standard & Poor's) April 12, 2016—In 2014, California enacted legislation to eliminate its teachers retirement system's unfunded pension liability by 2046. In a report published today, Standard & Poor's Ratings Services says that the additional contributions under the law should bolster the pension system's funded status over the long-term. Insofar as the law reduces the likelihood that the unfunded liability will spiral out of control, it's favorable for the credit quality of both the state and its school districts. However, the additional contributions mandated by the reforms could also strain the finances of either the state or some school districts, depending upon future investment performance.

The report is titled, "Post-Funding Reform, CalSTRS Defined Benefit Remains Guaranteed; Cost To State, School Districts Is Anything But."

The legislation—AB 1469—was adopted because by 2014 annual contributions to the California State Teachers Retirement System (CalSTRS) had fallen to a level such that the long-term solvency of its defined benefit plan was in jeopardy.

"Standard & Poor's generally views AB 1469 favorably because it should stabilize CalSTRS' long-term funding situation," said credit analyst Gabriel Petek. "At the same time, we also view the contribution increases it calls for as large enough to have material fiscal implications. Funding the higher contributions could strain the state's budget—or those of the local school districts. We can envision plausible circumstances in which the added fiscal pressure caused by the higher contributions could weaken credit quality. At this point, however, it's unclear whether—or if—the higher contribution rates will stress the finances of either the state or any particular school district to this degree.

Part of our uncertainty stems from the fact that AB 1469 did not allocate CalSTRS' unfunded liability to the state and school districts in a strictly proportional fashion. And the way the funding mechanism is designed means that the state's contribution rates (and therefore the fiscal implications to the state) are influenced disproportionately by CalSTRS' investment performance.

As for the school districts, those with declining enrollments or limited budget flexibility could be challenged by the increasing contribution rates that the law specifies.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com.

If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this
report by contacting the media representative provided.

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Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $13.8 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.7 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.

California plans to sell $1.49 billion of bonds, Texas Transportation Commission has scheduled $615 million, Louisiana will offer $359 million and Texas's Lewisville Independent School District will bring $331 million to market.
Municipalities have announced $8.68 billion of redemptions and an additional $10.8 billion of debt matures in the next 30 days, compared with the $17.4 billion total that was scheduled a week ago.

Issuers from California have the most debt coming due with $1.97 billion, followed by Michigan at $1.21 billion and New York with $997.4 million. State of California Department of Water Resources Power Supply Revenue has the biggest amount of securities maturing, with $669.1 million.

Fund Flows

Investors added $1.46 billion to mutual funds that target municipal securities in the week ended April 6, compared with an increase of $1.4 billion in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $50.4 million last week, reducing the value of the ETFs by 0.24 percent to $21.1 billion.

State and local debt maturing in 10 years now yields 94.803 percent of Treasuries, compared with 92.75 percent in the previous session and the 200-day moving average of 96.982 percent, Bloomberg data show.

Bonds of Ohio 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 Ohio's securities narrowed 4 basis points to 1.84 percent while California's declined 3 basis points to 1.89 percent. Puerto Rico and Connecticut handed investors the worst results. The yield gap on Puerto Rico bonds widened 192 to 12.69 percent and Connecticut's rose 12 basis points to 2.26 percent.

This story was produced by the Bloomberg Automated News Generator.

Bloomberg Business

by Ken Kohn

April 18, 2016 — 4:33 AM PDT

Bloomberg Brief Weekly Video - 04/14

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

Watch the video.

April 14, 2016

New York City Public Pension Pulls Hedge Fund Investments.

NYCERS joins a growing list of public pension funds opting to drop hedge funds

The board of trustees for New York City's biggest public-employee pension fund voted Thursday to pull its investments from hedge funds, joining a growing number of pension funds that have taken this step.

“The trustees believe that this new structure will help the fund construct a responsible portfolio that meets our long-term investment objectives,” said New York City Comptroller Scott Stringer, the board’s investment adviser, in a statement after the vote.

The resolution authorizes asset managers for the New York City Employees’ Retirement System, known as NYCERS, to liquidate its hedge fund investments and not make any future ones.

The trustee board includes Mr. Stringer, a representative for New York City Mayor Bill de Blasio, city Public Advocate Letitia James and others.

NYCERS, which bills itself as the nation’s largest pension fund for municipal employees, has about $55 billion in assets for more than 300,000 individuals. Of that total, about $1.4 billion is invested in hedge funds. Among the hedge funds that have managed their money are D.E. Shaw & Co. and Fir Tree Partners. They didn’t respond to requests for comment on Thursday.

New York City’s other four pension funds have been undergoing a review of their asset allocation for several months. Those funds represent teachers, police, firefighters and the board of education.

The move marks a victory for liberal advocates and labor unions that have organized over the past year against hedge funds. A conglomerate of such advocates have operated under the banner the Hedge Clippers, and staged a protest outside a hedge fund-linked political fundraiser in New York, among other things.

Those advocates scored another win earlier this month when New York Gov. Andrew Cuomo signed a $15 minimum wage into law, backed by labor and liberal activists.

The vote on Thursday came after other large public pension funds in California and Illinois have taken similar steps, and a large pension fund in Ohio recently took testimony on the topic.

The effort to divest from hedge funds is backed by several large labor unions, including the American Federation of Teachers.

THE NEW YORK TIMES

By MIKE VILENSKY and BRODY MULLINS

Updated April 14, 2016 7:06 p.m. ET

Write to Mike Vilensky at mike.vilensky@dowjones.com and Brody Mullins at brody.mullins@wsj.com

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Puerto Rico Aims to Appease Congress With New Debt Proposal.

Puerto Rico proposed a new plan on Monday to restructure its debt, offering some creditors better terms than an earlier plan but falling well short of winning broad support.

The plan was announced as members of Congress in Washington struggled with a momentous decision: whether and how to give Puerto Rico extraordinary powers to wipe out debt. Conservative Republicans have resisted this idea, but major defaults are looming. Last week lawmakers in Puerto Rico stepped up pressure on Congress to act quickly by suddenly authorizing the island’s governor to halt payments on $72 billion in debt.

If the threat of a debt payment moratorium was Puerto Rico's stick, the restructuring offer on Monday appears to be a carrot. Puerto Rico said it had found a way to make debt payments of $1.85 billion a year, compared with the $1.7 billion a year it had offered before.

"The commonwealth is in crisis, and the fact is that we will only be able to address these issues by working together," Victor A. Suarez, Puerto Rico's secretary of state, said in a statement. "Our commitment to this is underscored by our willingness to listen to our different creditors and work to meet their needs."

The new restructuring plan covers $49.3 billion of Puerto Rico's total debt, most of which is in the form of municipal bonds. It calls for creditors to accept $32.6 billion to $37.4 billion up front by exchanging existing bonds for two new classes of bonds. The offer is up from a previous offer of $26.5 billion.

Puerto Rico's Government Development Bank, a crucial part of the local economy, risks defaulting on $422 million in debt payments due May 1, and the island faces $2 billion in payments on debt in July. Lawmakers both in San Juan and Washington have been working to prevent a disorderly collapse of the island's finances. Congress is working on a revised proposal to help Puerto Rico restructure under the supervision of a federal oversight panel.

The Treasury secretary, Jacob J. Lew, speaking at the Council on Foreign Relations on Monday, said, "There are still some open issues."

"There are a lot of details, but when you get down to the bottom line the question to us is: Does that restructuring authority work? It has to work or it's not going to be acceptable," he said. "It can't be something that you put a label on but in the marketplace it doesn't work." He did not comment on Puerto Rico's new proposal.

Puerto Rico began presenting its first restructuring proposal to creditors in January. A number of them said they considered it unacceptable; some have tried with little success to interest Puerto Rico in counteroffers.

Particular resistance has come from creditors who hold bonds backed by Puerto Rico's most ironclad pledges. General obligation bonds, for example, are specifically guaranteed by the island's constitution, and some holders argue that anything less than full, timely repayment would be unconstitutional.

Puerto Rico has taken the position that all types of creditors must sacrifice, however. The new offer announced on Monday reflects that position. General obligation bonds held by investors who do not live on the island would get a recovery rate of 74 percent under the new proposal. Holders of sales-tax-backed bonds would get 57 percent; and holders of bonds issued by the Government Development Bank would get just 36 percent.

Puerto Rico's financial crisis, and the solutions sought by Washington, could reverberate throughout municipal finance. A potential sticking point is that Puerto Rico's other long-term commitments, such as the pensions of retired government workers, would not be reduced under the new restructuring plan. Pensions do not currently have top legal priority in the order of creditors seeking payment, and some lawmakers think that switching around credit priorities for Puerto Rico would send a shock through the capital markets, making it harder for other states and cities to borrow.

The new proposal calls for current bondholders to trade in their holdings for two new types of bonds. Bondholders would get more or less of each type, depending on the priority of the bonds they now hold. Those with the highest-priority bonds would get more of the first type, which offer less monetary value but greater certainty of repayment.

The first type would be a “base bond” with a total face value ranging from $32.6 billion to $37.4 billion, depending on whether bondholders in Puerto Rico opted in or took advantage of the special offer available to them alone.

The new base bonds would start out paying 1.1 percent interest for the coming fiscal year. (Under Puerto Rico’s previous offer, interest payments would not have started until a year later.) The interest rate would then rise gradually to 5 percent in 2021, the same year principal repayments would start.

Bondholders living in Puerto Rico would, however, have the chance to recover more of their initial investment if they were willing to wait. Instead of trading in their holdings for the regular base bonds, they could opt for “local holder base bonds,” which would have a value equal to the face amount of the bonds being handed over. The local holder base bonds would pay a fixed, 2 percent rate of interest over a longer period of time.

A summary of the proposal noted that Puerto Rico was seeking to “provide relief to those Puerto Ricans who live day-to-day off their interest payments,” and the government was also looking at other ways of helping them.

For investors not living in Puerto Rico, there would be only a chance of getting a full recovery. In addition to their base bonds, they would get a second type, called “capital appreciation bonds,” which would not offer any cash payments until after the base bonds had been fully repaid and it was clear how much of a loss each type of bondholder had suffered.

At that point, this second type of bond would start paying investors enough to make up for their losses over a long time.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 11, 2016

Water Deals Top U.S. Municipal Bond Sales Next Week.

The two biggest negotiated deals on next week’s $6.7 billion U.S. municipal bond and note calendar will fund water infrastructure projects in Massachusetts and California.

Issuance of U.S. water and sewer municipal bonds in the first quarter rose to $10.2 billion, a 7.8 percent increase over the same quarter in 2015, according to Thomson Reuters data.

That was nearly 23 percent higher than the $8.28 billion median quarterly issuance for water bonds over the last 10 years, according to Reuters calculations.

Local governments invested over $2 trillion in water and sewer infrastructure through 2013 and spend $117 billion a year, said Senator Jim Inhofe, chairman of the U.S. Senate’s environment and public works committee, citing data from the U.S. Conference of Mayors at a hearing on Thursday.

He noted that the U.S. Environmental Protection Agency has finally requested funding to start up the Water Infrastructure Finance and Innovation Act, passed in 2014.

Although the EPA requested $15 million, the committee is planning to provide about $70 million to fund the initiative, Inhofe said.

But he said more encouragement for private investment is needed, adding, “If it can’t be raised through municipal bonds, where’s it going to come from?”

Near record-low interest rates could be an incentive to borrow. Yields on top-rated 30-year municipal bonds closed at 2.54 percent on Friday, just 7 basis points off the 2.47 percent low in November 2012, according to Municipal Market Data, a Thomson Reuters unit.

Next week, Massachusetts’ Water Resource Authority will price $535 million of general revenue and refunding bonds through senior managing underwriter Citigroup.

The water system covers 2.8 million people, or 43 percent of the state’s population, including most of the Boston metropolitan area, according to a presentation for potential investors.

The authority had about $5.4 billion of debt outstanding as of March, including bonds and loans. Of that, about $905.5 million is variable rate, with $492 million of associated swaps.

Its fiscal 2016 budget grew by $28 million over the previous year, mostly for capital finance expenses, representing an overall rate increase of 3.4 percent, the presentation noted.

A one-day retail order period on Wednesday is to be followed by a day of institutional pricing.

California’s Infrastructure and Economic Development Bank will issue $414.2 million of clean water state revolving fund revenue bonds as green bonds through lead manager Morgan Stanley.

REUTERS

APRIL 8 | BY HILARY RUSS

(Reporting by Hilary Russ; Editing by Dan Grebler)

Tennessee Bars Memphis Conduit From Selling Housing Bonds.

Tennessee has temporarily barred a Memphis agency from issuing municipal bonds for housing, saying it’s suffering from a leadership vacuum while it deals with a high-profile default of debt issued to finance the purchase of two apartment complexes.

The Memphis Health, Educational and Housing Facility Board hasn’t had an executive director since December and is facing scrutiny over a $12 million bond issue by the Global Ministries Foundation to buy the Warren and Tulane apartments in Memphis. On March 14, Bloomberg reported that the U.S. Department of Housing and and Urban Development cut rent subsidies to more than 1,000 residents because the buildings were infested with roaches and had numerous health and safety violations. The loss of the federal funds caused the securities to default, pushing the price to as little as 21 cents on the dollar.

“You’ve got an agency that’s going into its fifth month without an executive director and they’re needing to deal with, and some cases respond to, some fairly high profile things," said Tennessee Housing Development Authority Executive Director Ralph Perrey in a telephone interview. "We think they have their hands full and we want to give them time to work through all of this."

Buyers Sing Blues After Memphis Bond Default Goes Unrecognized

The Tennessee Housing Development Authority allocates tax-exempt bonds to affordable housing developers. The bonds are then issued through conduits like the Memphis HEHF for a fee.

THDA has referred two developers seeking to issue $22 million of municipal bonds for multi-family apartments through the Memphis HEHF to other area conduits.

Daniel Reid, Memphis HEHF chairman, said in an e-mail that the agency has hired an interim executive director and is working closely with the city of Memphis to address THDA's concerns.

"The board fully anticipates the prompt resolution of THDA concerns and restoration of full services to pending and new applicants in the very near future," Reid wrote.

The action by THDA was reported earlier by the Memphis Daily News.

Bloomberg Business

by Martin Z Braun

April 11, 2016 — 9:51 AM PDT Updated on April 11, 2016 — 11:54 AM PDT

Puerto Rico Investors Offer New Bond Deal to Avert Default.

Investors holding almost $5 billion of Puerto Rico general-obligation bonds released a plan to provide debt relief to the island, which include a new $750 million offering to stave off a July 1 default.

The bondholders would agree to defer principal repayments for five years through a consensual exchange offer, saving the commonwealth $1.9 billion over the period, according to the proposal. It also stipulates issuing $750 million of new general obligations at a 7 percent interest rate to avoid a default on an $805 million general-obligation payment on July 1. Those securities would also pay only interest through June 2020.

The investor proposal comes after the Puerto Rico Senate passed a bill calling for a moratorium on a wide range of debt payments, including general-obligation bonds, through January 2017. The $13 billion of securities are guaranteed by the island's constitution.

"What the bondholders are doing seems to at least be a more productive step than what Puerto Rico is trying to do," said Dan Solender, who manages $18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey.

General obligations with an 8 percent coupon and maturing 2035 traded Tuesday at an average price of 66 cents on the dollar, the lowest since the bonds were first sold in 2014, data compiled by Bloomberg show. The average yield was 12.8 percent.

"This consensual process avoids a July 1 default, which would irreparably harm Puerto Rico's economy, hurt millions of American citizens who live on the island, and impair Puerto Rico's access to markets and its ability to finance essential services," Andy Rosenberg, a lawyer at Paul Weiss Rifkind Wharton and Garrison, who represents the bondholder group, said in a statement. He represents a group of general-obligation bondholders in their negotiations with Puerto Rico and other creditor groups.

The terms proposed by investors includes enacting a statutory lien on general-fund revenue, similar to measures in Rhode Island and California. They would also require Puerto Rico to resume deposits into an escrow account at a New York bank to pay debt service on general obligations.

The $750 million size for the new deal could be revised based on funding needs, according to the proposal.

"We are ready and willing to discuss potential solutions that would address the commonwealth's fiscal crisis in a sustainable and comprehensive fashion," Melba Acosta Febo, president of the Government Development Bank for Puerto Rico, said in a statement. "We have not received an actionable, binding financing commitment from anyone, and we have received no offers that would lead Puerto Rico towards a stable and prosperous economy for years to come."

Bloomberg Business

by Brian Chappatta

April 5, 2016 — 2:44 PM PDT Updated on April 5, 2016 — 2:55 PM PDT

Puerto Rico's Development Bank on Brink as Debt Gambit Goes Bad.

Puerto Rico's Government Development Bank, which was set up after the Great Depression to chart a course out of poverty, is on the verge of a collapse that would deepen the Caribbean island's $70 billion debt crisis.
The lender was designed to promote business investment with a long-term horizon, but in recent years politicians turned it into a piggy-bank that lent to the government and its agencies, helping keep them afloat as the island's economy shrunk. Now it's rapidly running out of cash and poised to default on a $422 million debt payment due in May — raising the risk that it may be pushed into receivership or broken up.

The bank's failure would undermine one of the last sources of cash that Puerto Rican authorities are counting on to pay teachers, firefighters and other employees, in a territory where almost half the population lives in poverty. Hedge funds are also laying claim to the money, filing a lawsuit against the lender this week, while in Washington lawmakers are mulling steps to put the island government under federal oversight and give it legal powers to restructure its debt.

"It's going to be a day of reckoning for a lot of municipalities," said Marcos Rodríguez-Ema, who served as the bank's president from 1993 through 1998. "Few of them know how to manage their budgets. Few of them understand the financing world. They will have to live within the means of the tax collections and that's it."

Puerto Rico Governor Alejandro Garcia Padilla on Wednesday signed legislation giving the government authority to temporarily halt payments on a wide swath of its debt, step that may buy the bank more time, even though it threatens to complicate negotiations with Wall Street and

Congress.

Puerto Rico's crisis has been building for almost a year as lawmakers cope with years of borrowing that allowed the government to pay its bills as the economy contracted. Since August, it's defaulted on bonds sold by two of its agencies and is negotiating with hedge funds and other investors in an effort to reduce what it owes. The governor has said it may not be able to cover payments due in July on its general-obligation debt, which is given first claim on the island's funds under its constitution.

Restructuring the development bank may exacerbate Puerto Rico's troubles and put an economic recovery further out of reach, said Jose Villamil, an economist at Estudios Tecnicos Inc. an economic strategy and planning firm in San Juan. The 11.7 percent unemployment rate is more than twice what it is in the U.S., helping to fuel a population exodus that's contributed to the government's strains.

"If it were to go into receivership, it would increase the sense of uncertainty and in certain ways hopelessness that has been generated by this situation," said Villamil, who about 10 years ago provided the GDB with a strategic plan that urged the bank to curb its lending to the island. "It would probably make it more difficult for the economy to recover, there's no question about it."

Barbara Morgan, a spokeswoman at SKDKnickerbocker in New York who represents the GDB, and Betsy Nazario, a spokeswoman at the GDB in San Juan, didn't have an immediate comment. On Friday, Garcia Padilla said the bank will remain open and that his administration is doing "all we can to avoid a receivership."

Melba Acosta, the GDB's president, told a local radio station last week that the bank's liquidity stood at about $700 million, while the moratorium legislation said it had slipped to $562 million by April 1, according to a copy of the legislation.

The island's commission of financial institutions, the bank's regulator, concluded in its most recent review in November that the GDB is insolvent, a determination that allows the administration to place the bank in receivership. It faces a potential $1.3 billion shortfall in June. Hedge funds that hold the bank's bonds sued it Monday to stop it from returning deposits to public agencies and municipalities, which had about $3.9 billion in the bank as of Sept. 30.

"As the economic conditions in Puerto Rico continue to deteriorate without any relief in sight, GDB – like all agencies of the commonwealth – is faced with extremely difficult choices, and it is our responsibility to evaluate all options that may protect creditors' ability to be repaid while ensuring that GDB keeps its doors open," Acosta said in a statement Monday.

The declining liquidity has caused the price of bonds that mature next month to tumble as investors anticipate a default. Taxable securities due May 1 last traded March 11 at an average 31.9 cents on the dollar, less than half the price from a year ago. The commonwealth's benchmark general obligations fell Wednesday, changing hands at an average 63.8 cents on the dollar, the lowest since the debt was first sold in 2014, Bloomberg data show.

The bank's debt "has been dragged down with the commonwealth's GOs and deteriorated as the severity of the stress in Puerto Rico became clearer and clearer," said Ted Hampton, an analyst at Moody's Investors Service.

The bank was created in 1942, with the help of Franklin D. Roosevelt's administration, to bring manufacturing to an agrarian economy.

It helped to finance government-owned factories, as well as roads, bridges, housing and water and electricity systems. By the 1950s, the bank was extending loans to private companies to build factories and create jobs. A $3.5 million loan helped construct the Caribe Hilton in San Juan, the island's first modern tourism hotel, which opened in 1949 and still operates today.

After federal tax incentives that lured manufacturers and drug companies were phased out from 1996 to 2006, Puerto Rico relied on the bank to help fund operating expenses by extending it loans or selling bonds on its behalf. That left it owed about $6.8 billion by the Puerto Rico government and its agencies as of June 30, 2015, according to financial documents.

"When you're looking at the GDB about 2000 and on, you're looking at a very weakened GDB," said Jose Bolivar, a Puerto Rico historian and author of a book about the bank. "As time went by there was less money into infrastructure and more into financial engineering — and of course the debt started to increase."

Bloomberg Business

by Michelle Kaske

April 6, 2016 — 2:01 AM PDT Updated on April 6, 2016 — 10:24 AM PDT

Harrisburg Issue Marks Return of Agency Behind City Collapse.

Armed with an investment-grade credit rating, a Harrisburg agency returned to the bond market for the first time since its predecessor nearly bankrupted Pennsylvania's capital city.

Capital Region Water sold $53 million of bonds to refinance as rates hold near five-decade lows. The agency was created in 2013 from the Harrisburg Authority, a now-defunct agency that funded the city's ill-fated incinerator project and prosecutors say was used by the former mayor to bankroll a criminal spending spree on Wild West memorabilia. The city's inability to pay its debts pushed the community into state receivership from 2011 until 2014.

Unlike in the past, Capital Region Water operates the water and sewer system independently of Harrisburg officials. It garnered a rating of A+, fifth-highest, from Standard & Poor's before the sale.

"It's not just a new logo and a new name,'' said Shannon Williams, the agency's chief executive officer. "It's a full comprehensive reboot to this entire organization and enterprise.''

The bond sale, the largest from a Harrisburg issuer in eight years and the first since the agency's overhaul, is the latest test of whether investors can embrace turnarounds by municipalities that were roiled by the 2008 credit crisis and the recession that ended almost seven years ago.

Essential Services

Detroit, which emerged from a record bankruptcy in 2014, refinanced water and sewer debt for yields of about 1 percentage point more than top-rated securities in December. That same month, Jefferson County, Alabama, secured an investment-grade rating from Moody's Investors Service, two years after having its debts reduced in federal court.

Capital Region's longest maturity bond due in 2029 was priced to yield 2.57 percent, 0.61

percentage point over top-rated debt and 0.08 percentage point less then similarly-rated revenue bonds, data compiled by Bloomberg show.

The Harrisburg agency has “done a lot” to move away from past practices that landed it in trouble, said John Donaldson, who oversees about $700 million of municipal bonds as director of fixed income at Haverford Trust Co. in Radnor, Pennsylvania. Its offering “looks pretty clean.”

In addition, the sale taps into demand for debt backed by revenue from essential services, said Donaldson before the sale.

“It avoids some of the issues that go with a city like Harrisburg, where so much of the city is occupied by the state and other entities that aren’t necessarily taxable but they do pay their water bills,’’ he said.

Wild West

Harrisburg’s bout of fiscal turmoil stoked speculation that the ripple effects of the recession would lead to widespread defaults by local governments, which didn’t occur. The city of about 50,000 residents was placed under a state receivership in 2011, following an unsuccessful effort to file for bankruptcy protection, after defaulting on bonds for the incinerator overhaul that couldn’t generate enough revenue to repay them.

Mayor Stephen Reed, who left office in 2010 after 28 years, was charged last year by the state attorney general for diverting bond proceeds to reward allies and to buy items such as gunfighter Doc Holliday’s dentist’s chair. Reed has pleaded not guilty. Over his tenure, the municipality spent millions of dollars on ventures from a minor-league baseball team to a Wild West museum that was never built.

In 2013, Harrisburg paid off its incinerator debt of $362.5 million, about seven times its general-fund budget, partly through the sale of the facility and lease of its parking system.

Refinancing Savings

Capital Region Water is financially independent of the city. It doesn’t send money to the government and has no plans to sell bonds on behalf of other borrowers, as the Harrisburg Authority did, Williams said. S&P said the agency gets “high marks” for transparency and accountability.

“We actively engage our residents at every opportunity that we can, to make sure they are holding us accountable,” Williams said.

After the sale, the agency will have $127 million in water bonds outstanding. The refinancing may save as much as $7 million, which would help keep expenses down, Williams said.

“We will not be buying Wild West artifacts,’’ she said. “I can state that with firmness.’’

Bloomberg Business

by Romy Varghese

April 6, 2016 — 2:00 AM PDT Updated on April 6, 2016 — 12:39 PM PDT

[Historic UConn Women's Basketball Run May Bolster Muni-Bond Sale.]

The University of Connecticut is issuing $340 million of municipal bonds as its women's basketball team looks to become the first-ever to win the National Championship Game four years in a row.

The school is offering the debt to individual investors on Monday and Tuesday, while institutions can buy any remaining securities on Wednesday, according to John Sullivan, the university's manager of treasury services. UConn's women's team is 37-0 and has beaten every opponent by at least 10 points this year. It faces Syracuse on Tuesday in the final game of the National Collegiate Athletic Association Tournament.

UConn also borrowed money in late March or early April in each of the past two years, coinciding with the basketball tournament commonly called March Madness, data compiled by Bloomberg show. In 2014, the school won both the men's and women's brackets, a rare feat.

"We do consider possible synergies and it is nice when they occur and the extra athletic publicity is appreciated," Sullivan said in an e-mail. "Many potential buyers look for UConn paper about this time."

Though Sullivan joked that it would be nice to know basketball performance a year or two ahead of the bond sales — when they're usually scheduled — the UConn women's team has proven to be as close to a sure thing as is possible in sports. Led by head coach Geno Auriemma, the team has won nine national championships since 2000, including three straight from 2002 to 2004. They've won in each of the past three years, too. A fourth-consecutive tournament win would be unprecedented.

Standard & Poor's has said that while March Madness success might not mean an instant credit boost, it does give colleges "a leg up" in an era of heightened competition. The University of Oklahoma and Texas A&M University tapped the bond market last month, ahead of their matchup in this year's Sweet 16.

Proceeds from UConn's tax-exempt deal will finance capital projects on the campus in Storrs, Connecticut, and refinance existing obligations, bond documents show. The school is borrowing under its UConn 2000 plan, which has funded initiatives such as adding to the student union, renovating a graduate-student dormitory and building an ice-rink enclosure.

Moody's Investors Service lowered its outlook on the university to negative last month, citing likely reductions in state appropriations because of Connecticut's budgetary strains. Like the state, the bonds are rated Aa3, the fourth-highest investment grade.

Bloomberg Business

by Brian Chappatta

April 4, 2016 — 11:49 AM PDT

[Chicago Bondholders Keep the Faith After Pension Fund Setback.]

Chicago's biggest bondholders aren't losing faith.

Nuveen Asset Management, Wells Fargo Asset Management, Columbia Threadneedle Investment Advisers and BlackRock Inc. are showing optimism that the nation's third-largest city will work its way out of a pension crisis, even after the Illinois Supreme Court rejected Mayor Rahm Emanuel's plan to ease $20 billion of unfunded retirement obligations. Despite a lack of help from the gridlocked state of Illinois and mounting liabilities that threaten the city's solvency, holders of more than $1 billion of the city's debt, point to Chicago's growing economy and track record of a willingness to raise taxes.

Chicago actually benefits in the short-term from last month's court ruling. Required pension payments drop by about $89 million this year, relieving some of the immediate pressure on the city budget. The two funds are still projected to run out of money in 10 to 13 years. While the decision was a disappointment, city officials now have a new set of facts to work with as they address the liabilities, said Lois Scott, Chicago's former chief financial officer.

"I almost think it's good to get this ruling out of the way, and that actually creates a little bit of clarity in terms of what their options are going forward," said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees about $110 billion in munis, including about $430 million of Chicago general obligations. "It does increase the necessity to work on a reform model that might be a little different, that might actually pass muster."

The city's most-actively traded securities over the last week changed hands at an average price of 97 cents on the dollar Wednesday, little changed from the day of the ruling, according to data compiled by Bloomberg. Spreads on the bonds that mature in 2038 had widened by 12 basis points over benchmark securities.

Confidence is being buoyed by the fact that Chicago has already shown its capacity to raise taxes specifically to pay retirement bills. In October, Emanuel pushed through a record property-tax hike to shore up the public-safety worker pensions. The move won praise from investors who rallied the city's bonds after the levies were approved.

"They've demonstrated a willingness, and they have ability, but they will continue to face budgetary pressure related to this for the foreseeable future," said Joe Gankiewicz, a credit-research analyst at BlackRock Inc. in Princeton, New Jersey, which oversees about $110 billion of municipal debt. The firm holds about $157 million of Chicago GO bonds, according to data compiled by Bloomberg, based on market value.

State Gridlock

Even with the tax hike dedicated to the public-safety retirement funds, uncertainty still haunts the police and fire pensions. State lawmakers approved legislation to lower Chicago's required payment by about $220 million this year, stretching out the amortization of the debt. Republican Governor Bruce Rauner, who received the bill on March 31, has yet to sign it.

Any kind of assistance from Springfield, the Illinois capital, doesn't look likely for Chicago. The state has its own fiscal crisis. Illinois is in its 10th month without a budget as Rauner and the Democrat-led legislature can't agree on a spending plan.

"The noise around Illinois is certainly making it more difficult for Chicago to get things done," said Dennis Derby, an analyst and portfolio manager at Wells Fargo Asset Management, which holds about $466 million, based on market value, of Chicago general obligations among its $39 billion in assets.

Liabilities Estimate

Chicago isn’t alone in not having enough money to cover all the benefits that have been promised. Unfunded state and local pension liabilities total $3.5 trillion, Moody’s Investors Service said in a report Wednesday. The consequences of not finding a solution are dire: unfunded pension debt helped drive Stockton, California, into Chapter 9, and Detroit into the biggest municipal bankruptcy in U.S. history. Those same unfunded obligations contributed to the crisis in Puerto Rico.

All four credit-rating companies have a negative outlook on Chicago, signaling more rating downgrades may be on the horizon. Fitch Ratings lowered the city to BBB-, one rank above junk, on March 28, calling the court’s decision “‘among the worst possible outcomes.” A week later, Kroll Bond Rating Agency dropped its rating to BBB+, three steps above junk.

“The biggest risk is just that without the flexibility to trim benefits that it’s very likely that the city’s own costs will increase above those that were previously projected,” said Matt Butler, the lead analyst on Chicago at Moody’s Investors Service. “One of the key challenge for the city is the pace at which the pension debt continues to grow.”

Credit Quality

The city has flexibility on expenditures and revenue, signaling there are options available to incorporate higher contributions over the longer-term, according to Moody’s.

“Their credit quality hinges entirely on their ability to raise revenues or cut costs, and even more importantly, their willingness to do so” to pay for pensions, said Ty Schoback, a senior analyst in Minneapolis at Columbia, which handles about $30 billion in municipal bonds, including about $300 million of Chicago debt. “There is no silver bullet. It’s taken years to get to this point, and it’s going to take years to get out.”

Bloomberg Business

by Elizabeth Campbell

April 7, 2016 — 2:00 AM PDT Updated on April 7, 2016 — 8:39 AM PDT

[Moneyball Invades Boston's City Hall, Where Everything Is Graded.]

There is no place sports heroes cast a longer shadow than in Boston, where Red Sox immortal Ted Williams has inspired City Hall to come up with its own batting average.

The average on Thursday for Mayor Martin J. Walsh and his lieutenants was 1.36. That’s probably confusing even to diehards, since the best Williams ever hit was .406 back in 1941, a mark that hasn’t been surpassed since. But by the city’s unique calculations, batting a thousand or just above means that targets — a pothole filled within one business day, for example — are being met.

Plenty of cities have what amount to dashboards of data that show how quickly streetlights are fixed or the number of public-school kids attending class. Only in the hometown of the Red Sox is a single number generated to show how well Walsh and his starters are serving Boston’s 656,000 residents. While the city has collected data for years, the batting average is two months old.

It’s drawing praise for its boldness as well as some head-scratching about whether one number properly assesses the myriad duties on which cities are judged. “They’re really jumping into the deep end,” said Neil Kleiman, a professor at New York University’s Wagner Graduate School of Public Service. “No other city has anything like it.”

Greatest Hitter

This is how it works: Department heads gather data on 21 quality-of-life components, from crime to road repair to visitors to the library. Those metrics are folded together to produce the daily tally, as well as a weekly, monthly and quarterly score. All the numbers are posted on City Score, a website that mimics Fenway Park’s imposing left-field wall, aka, the Green Monster.

Dan Koh, Walsh’s chief of staff, gave a TED Talk last year entitled, “What Government Can Learn from Baseball.” Koh led off with — what else? — how the late Williams, who some consider the greatest hitter in baseball history, was the impetus for a single performance number for the sprockets and gears of municipal bureaucracy.

Walsh, elected in 2013 to succeed the late Thomas M. Menino, calls himself and Koh the odd couple of urban America, a streetwise mayor who hired a techno-geek to help build the data-driven city of the future. The Harvard-educated Koh became enamored in college with statistics as used by former Oakland Athletics General Manager Billy Beane, whose implausible success relied on data to find a roster of unheralded yet talented players. His story was chronicled in “Moneyball,” the 2003 Michael Lewis book, and later a feature film.

Seeing Red

Boston residents who spot graffiti and or missed trash pickups are encouraged to message the city, or call the 311 non-emergency hotline. Complainants who send photos of problems may receive, in return, photos of the problems fixed. Many who report issues are surveyed twice, in making the complaint and receiving the result, on how well they were treated along the way.

Walsh meets regularly with his performance managers as well as department heads to talk about the results. At a session two weeks ago, the batting average was 1.11, meaning targets were being met at a slightly better-than-expected rate. The meeting began on an upbeat note with Chris Dwelley, the citywide performance manager, reporting that the prompt repair of streetlights had improved 28 percent in February compared to January. The average for “STREETLIGHT ON-TIME %” as seen on the scoreboard that day was .99.

Walsh nodded his approval, but as he scanned the scoreboard on a screen on his office wall, he saw something he didn’t like: red. White numbers are at or above targets, the red are below. For example, ambulance-response times had been in the red for a while. Walsh dug into the reasons why and concluded that Boston had grown while its ambulance fleet had not. Proving the scoreboard is no mere gimmick, Walsh decided, within just a few weeks of spotting the offending color, to include 10 more ambulances in his next budget proposal.

What bothered him most were the constituent satisfaction surveys, red across the board. “There’s a disconnect somewhere,” he said, vowing to root it out.

Mayors in other cities have looked into making dashboards public before rejecting the idea, according to NYU’s Kleiman. What they typically fear, he said, is that airing bad numbers would bring unwanted attention to their problems. Koh gets it. His boss initially had the same reaction. But in the end, the rationale that the city needed to be run like a business won out. “We deliver services and we have customers," the mayor said. And besides, "we have a lot of good numbers" to show off too.

Like the day after the meeting, when the average came in at 1.26. That was, for those keeping score at home, up .15 from 1.11 the previous day.

Bloomberg Business

by Tom Moroney

April 8, 2016 — 2:00 AM PDT Updated on April 8, 2016 — 6:00 AM PDT

Bloomberg Brief Weekly Video - 04/07

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

Watch the video.

April 7, 2016

Puerto Rico Bonds Tumble on Debt Moratorium Bill.

Some Puerto Rico bond prices touched record lows after Gov. Alejandro García Padilla signed a bill that would allow the commonwealth to suspend debt payments while awaiting help from Washington in dealing with the island's financial crisis.

The bill empowers Mr. García Padilla to impose a moratorium on payments to keep government cash flowing for essential services. It is the latest attempt by the U.S. commonwealth to protect money it says it needs for police and firefighters while it waits on action from the U.S. Congress or Supreme Court.

Under the provisions of the bill, the governor could evaluate whether to pay debt on an "entity-b--entity basis." The moratorium powers would generally last through Jan. 31 with a possible two-month extension. The debt would remain outstanding, and missed payments would be due when the moratorium ends.

Some Puerto Rico general obligation bonds maturing in 2035 traded at 62.98 cents on the dollar Wednesday, below a previous low of 64 cents in June 2015, according to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.

Puerto Rico owes investors about $70 billion and has been struggling with a decade of economic stagnation and a steep population decline that led Mr. García Padilla to declare its debts unpayable. The island began defaulting on debt with weaker legal protections in August, and the governor has said he would prioritize public safety over payments to creditors.

"This legislation provides us with the tools to address the highest priority of needs—providing essential services to our people—without fear of retribution," Mr. García Padilla said Wednesday.

The island’s bill may renew pressure for action from the U.S. Congress. Commonwealth officials have warned of a legal morass that would follow a default on debt with stronger protections.

Republicans in the U.S. House of Representatives last week proposed a bill that would allow debt restructuring under supervision of a federal control board, as the high court debates whether Puerto Rico has the right to craft its own process for municipal bankruptcy.

The House Committee on Natural Resources, which has jurisdiction over federal territories, is shepherding the bill.Because Puerto Rico isn’t a state, its municipalities or entities can’t file for bankruptcy protection under chapter 9 of the federal code.

The commonwealth’s Government Development Bank has a debt payment of about $400 million due May 1. The Government Development Bank had $562 million available to pay debt as of Friday, the bill said.

The bill was met with criticism from some of Puerto Rico’s creditors, who said they are being unfairly targeted by a commonwealth that won’t commit to necessary structural overhauls and hasn’t made a sincere effort at negotiating a consensual restructuring.

Stephen Spencer, a managing director at investment bank Houlihan Lokey who is financial adviser to several of the island’s major bondholders, called the bill’s passage “an unfortunate development.”

“We intend to carefully review the legislation, but at this stage we believe that it may lead to violations of the terms of the agreement” between the Puerto Rico Electric Power Authority and its creditors, Mr. Spencer said.

Several analysts said the island can’t restructure its way out of economic problems. At AllianceBernstein Holding LP, which holds no Puerto Rican government debt, municipal analyst John Ceffalio called for federal oversight and debt restructuring, in combination with policies that would spark economic growth.

“We would certainly consider investing in Puerto Rico in the future,” Mr. Ceffalio said. “But we would be looking for an economic turnaround first and a change to that debt dynamic.”

THE WALL STREET JOURNAL

By HEATHER GILLERS and AARON KURILOFF

Updated April 6, 2016 6:12 p.m. ET

Write to Heather Gillers at heather.gillers@dowjones.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

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Hedge Funds Sue to Freeze Puerto Rico Bank’s Assets.

A group of hedge funds asked a federal court in San Juan on Monday to freeze the assets of Puerto Rico’s powerful Government Development Bank, claiming it was insolvent and appeared to be spending what cash it had left to prop up other parts of the island’s troubled government.

The bank had failed to provide financial information that creditors were entitled to under federal law, the hedge funds said in a lawsuit. They asked the United States District Court in San Juan to bar further cash transfers by the bank, other than those essential to the safety and well-being of the island’s residents.

“Once G.D.B. spends its last remaining funds — and it is only a matter of time — many essential services in Puerto Rico may come to a halt,” the hedge funds said in their complaint. By then, they said, there would be nothing left for the bank’s creditors, who “will suffer substantial losses.”

The bank plays a critical role in Puerto Rico’s financial affairs, and if it stumbles, the effects would be widely felt.

The Government Development Bank has a debt payment of about $422 million due on May 1, and credit analysts doubt it has enough cash to make it.

The president of the bank, Melba Acosta Febo, said on Monday that the lawsuit’s accusations were “erroneous” and that the bank was acting within the bounds of the relevant laws.

“The central claim of G.D.B.’s creditors, that G.D.B. has knowingly withheld financial information in order to prefer certain depositors over its bondholders, is wholly false and without basis in fact,” she said, adding that the bank “will respond to the complaint in full through proper legal means.”

The federal bankruptcy code bars Puerto Rico from Chapter 9 municipal bankruptcy. So, Congress is working on a law that would allow Puerto Rico to restructure debts under the watch of a federal oversight board. The draft bill would shield the government from creditor lawsuits in the case of a major default.

But the legislation raises constitutional issues. Congress is not expected to enact a law in time for the bank’s May 1 debt payment due date — or perhaps not even by July 1, when an even bigger payment from Puerto Rico is due.

The hedge funds, which own Puerto Rico bonds, based part of their lawsuit on a confidential report by Puerto Rico’s Commissioner of Financial Institutions, which in November found the Government Development Bank insolvent.

In March, a federal judge quoted prominently from the commissioner’s confidential report in deciding a tax case, though the commissioner’s office would not release a copy.

In that tax case, Walmart accused Puerto Rico of unlawfully hitting the retailer with a higher tax rate last year than any other business on the island. Walmart argued that the island’s lawmakers had enacted the tax because they were desperate to fill a $125 million budget gap.

Judge José Antonio Fusté not only drew on the confidential finding that the bank was insolvent, but also wrote that the bank had not had a required examination since 2007.

After a struggle for information, the examiners had determined, he wrote, that the bank’s liquidity level was “critically deficient,” that it was failing to account properly for at least $2.3 billion of “off-balance sheet items,” and that its liquidity would be “negative $1.348 billion in June 2016,” which was less than the required reserve levels. The examiners found that the bank might be put into receivership.

As Judge Fusté’s opinion has gained attention, rumors have swirled on the island about a possible receivership for the bank, or other drastic steps. Ms. Acosta issued a statement on Friday calling such rumors irresponsible.

“The G.D.B. will neither shut down nor be privatized,” she said. She said the bank was still trying to negotiate with creditors and was considering other steps, “such as declaring a temporary moratorium on payments, and amending the G.D.B. charter.”

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 4, 2016

Puerto Rico Passes Bill Allowing Halt to Debt Payments.

Gov. Alejandro García Padilla of Puerto Rico on Wednesday signed a bill that would allow him to declare a state of emergency and give him authority to halt payments on the island’s crushing $72 billion debt.

The measures capped two days and nights of marathon debate in Puerto Rico’s legislature, where lawmakers from the main opposition party called any unilateral debt moratorium dangerous and members of the governor’s party insisted that doing nothing would be even worse.

In Washington, House Republicans seeking to rescue Puerto Rico prepared to release a revised plan that includes a federal oversight panel. The proposal has been contentious on the island, where the governor and his top advisers are increasingly at odds with investors over how to restructure the debt, most of it in the form of municipal bonds.

“This legislation provides us with the tools to address the highest priority of needs — providing essential services to our people — without fear of retribution,” the governor said in a statement on Wednesday. He accused Puerto Rico’s creditors of hampering federal assistance by “misinforming the public and dissuading Congress from doing what is right for our 3.5 million American citizens.”

The Puerto Rican Senate approved the measure at about 3 a.m. Tuesday. The House, after becoming embroiled in a dispute over whether certain types of bonds should be excluded, approved it around 1 a.m. Wednesday.

Stephen Spencer, who represents some investors who have already agreed to restructure their bonds, said, “We intend to carefully review the legislation, but at this stage we believe that it may lead to violations of the terms of the agreement.”

He said that the administration last fall had hailed that restructuring as a model for others to follow, adding that the bondholders he represents should have been excluded from any coming moratorium, “rather than being cast into a state of uncertainty.”

The bill did not specify a starting date for a moratorium, leaving that decision to the governor. But a big debt payment, $422 million, is due on May 1, and there have been many signs that Puerto Rico is not able or willing to pay it.

That payment is due on bonds issued by the Government Development Bank, an institution that plays a critical role in the island’s financial affairs, including holding deposits of municipalities and other government entities. As recently as last week, holders of the bank’s debt were in talks about an agreement that would give the bank some breathing room if it failed to make the payment.

But those efforts broke off in the face of a flurry of revelations that the bank was insolvent, that it might be placed in receivership, and that it was swiftly moving deposits to other financial institutions, apparently to keep them from being frozen or drained away by frightened depositors.

The bill says the bank has just $562 million in cash. A moratorium would be intended, among other things, to help preserve that cash, so the bank can use it to finance the activities of other parts of the government.

The law also establishes a new framework for putting the development bank into receivership, and creating a “bridge bank” that would take over some of its deposits and obligations during the moratorium.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

APRIL 6, 2016

Bankruptcy Battle Threatens a Summer Chill in Atlantic City.

ATLANTIC CITY — In a normal year, residents and business owners in this seaside resort would be making preparations for a summer-long influx of tourists and gamblers. But this is in no way a normal year in Atlantic City.

The city’s government is on the verge of running out of money, even after persuading its employees to defer their paychecks for four weeks. Its mayor and City Council are engaged in a political standoff with Gov. Chris Christie that turned nasty and personal this week.

On Thursday, the speaker of the State Assembly, Vincent Prieto, a Democrat, added fuel to Mr. Christie’s ire by introducing legislation intended to help Atlantic City that the governor had vowed he would not sign. Mr. Christie, a Republican, has already sued the city’s government for failing to make timely payments to the local schools — even though the school board president said he opposed the lawsuit.

Caught in the political crossfire are business owners like Debbie Devlin, who has two shops on the city’s famous boardwalk that sell painted hermit crabs and other novelties and souvenirs. Ms. Devlin said she had only recently begun ordering merchandise for this year, about four months later than usual, and she was doing that cautiously.

“With all the different factions fighting each other, we’re stuck in the middle,” Ms. Devlin, an Atlantic City native, said. She said the uncertainty about how the city would stave off bankruptcy was compounding the effects of the casino industry’s decline. “It’s just sad,” she said.

Other businesses, like Perry’s Cafe, a coffee shop near City Hall, are bracing for a drop-off in traffic from municipal employees who are scheduled to go without pay from Friday until early May.

The nine unions that represent city workers agreed to defer payment until property taxes for the second quarter of the year are collected, a concession the City Council approved on Wednesday. Until that arrangement was worked out, the city planned to shut City Hall and suspend all but the most essential services until May.

A shutdown would have wiped out much of Perry's business, its owner, Perry Arsenis, said. But he said he still expected a stark decline in spending by municipal employees during the long stretch between paydays.

"We'll feel the pinch in the restaurant, yes, absolutely," Mr. Arsenis said. But he said he hoped the city's financial crisis could be resolved before it starts to hurt tourist-dependent businesses like the Howard Johnson motel his family owns near the boardwalk.

"We can't be talking about this all through the summer," Mr. Arsenis said. "If we don't have a good summer, you're going to see people closing up. We're running on fumes."

The motel has already suffered from the reversal of the city's gambling fortunes, he said of the closing in 2014 of four of Atlantic City's 12 casinos. About half of the motel's 71 rooms would be rented on a weeknight before there were casinos in neighboring states, Mr. Arsenis said. Now, with casinos in Pennsylvania, Delaware and Maryland drawing away customers, he said, he was lucky if 10 rooms were filled on a weeknight.

The casinos had been the foundation of the city's tax base, but as their revenues plunged and some closed their doors, the value of the survivors also declined. Casino owners challenged the assessments of their properties and won judgments for significant rebates.

Now Atlantic City owes the most successful of the casinos, the Borgata, more than $125 million. When the city failed to pay part of that debt, the Borgata received court approval to stop paying its tax bills, exacerbating the city's cash crunch.

Some smaller business owners, including Mr. Arsenis, tried to help the city out by paying their property taxes a month early. But the gap between what Atlantic City takes in and what it owes is too wide to bridge without help from the state, city officials say.

That is why the mayor, Donald Guardian, turned to Trenton for help. Mr. Christie said the state would negotiate with the city's creditors only if legislators approved two pending bills that would give the state broad control over the city.

Mr. Guardian and Marty Small, the City Council president, said the legislation would usurp too much local authority, including control over collective bargaining agreements, and enlisted Mr. Prieto's help in crafting an alternative bill, which the Assembly's judiciary committee passed on Thursday and the speaker may put up for a vote next week.

But Mr. Christie had already said, at a news conference in Atlantic City on Wednesday, that he would not sign any bills related to a bailout of Atlantic City other than the two the State Senate passed last month. And while he was in town, the governor took a few swipes at Mr. Guardian, a fellow Republican, and the city's other elected leaders.

Asked why he was meeting with the Atlantic County executive, Dennis Levinson, and not Mr. Guardian, Mr. Christie said, "There's no purpose in meeting with a liar." The governor explained that he believed Mr. Guardian had reneged on a previous agreement with Mr. Christie and the Senate president, Stephen M. Sweeney, a Democrat.

As soon as the governor was on his way out of town, Mr. Guardian and the Council held their own news conference across a courtyard and fired back at Mr. Christie. "His credibility is shot," Mr. Small said of the governor. "Let's not let him come down here and use the divide-and-conquer method."

It was another war at the shore that people might pay to watch, but it lacked a resolution. When the oratorical grudge match was over, Mr. Guardian said he still expected the state to help Atlantic City before it runs out of money.

“We’re in this shape because we haven’t been given the state aid that other cities have,” Mr. Guardian said. He added, “If we do a bankruptcy, it’s not an Atlantic City bankruptcy, it’s a Chris Christie bankruptcy.”

Mr. Christie opposes the idea of having the city file for bankruptcy because credit analysts say it would raise the costs of borrowing money for other cities in New Jersey. But not everybody in Atlantic City is averse to a municipal bankruptcy.

Frank Pileggi, the longtime manager of a bar called the Irish Pub near the boardwalk, said the perception that Atlantic City was not open for business was more damaging than a bankruptcy filing would be.

“Bankruptcy’s not a dirty word around here,” Mr. Pileggi said. “There’s a possibility that the next president of the United States will be a man whose businesses in Atlantic City went bankrupt repeatedly,” he said, referring to Donald J. Trump, who once operated three casinos in town.

THE NEW YORK TIMES

By PATRICK McGEEHAN

APRIL 7, 2016

Bill Would Prohibit Tax-Exempt Bond for Sports Stadiums.

WASHINGTON – Rep. Steve Russell, R-Okla., has introduced a bill in the House that would prohibit the use of tax-exempt bonds to build or subsidize professional sports stadiums and for-profit entertainment arenas. H.R. 4838, or the No Tax Subsidies for Stadiums Act, would prevent professional sports franchises and for-profit entities from seeking federal taxpayer financing toward stadiums, which Russell called a “30-year-old tax loophole.”

The bill was introduced on March 22 and subsequently referred to the House Ways and Means Committee. There are no cosponsors as of yet. In a statement, Russell said the Office of Management and Budget has estimated that repealing tax-exempt bond financing for stadiums would lower the budget deficit by a total of $542 million over the next decade.

Russell, who serves on the House Armed Services Committee, said that money could be used to fund the armed services. President Obama has moved to cut 40,000 soldiers and another 17,000 Army civilian employees due to “a difficult fiscal environment,” Russell said.

“The No Tax Subsidies for Stadiums Act is a step in the right direction, for our national security, as well as for fixing our annual deficits,” the congressman said in a release.

The bill would define a professional entertainment facility as a location that serves as either a stadium or arena for professional sports games or training and seats more than 100 people for at least five days of the year.

Russell’s bill is not the first proposal to ban tax-exempt financing for stadiums. Former Sen. Tom Coburn, R-Okla., also called for a ban on federal tax-exempt financing for sports stadiums in his Dec. 2014 “Tax Decoder” report. He argued against the technicality that local governments could use federal bonds to finance a stadium if taxpayers paid for nearly all of the interest. Under current law, a stadium can be built with tax-exempt bonds as long as no more than 10% percent of the debt service is paid or secured by private parties and no more than 10% of it is privately used.

“Congress should level the playing field and protect taxpayers by closing the stadium loophole entirely,” Coburn wrote in the report. “Not a single dollar from tax-exempt municipal bonds should be used for these billionaires’ bonanzas.”

President Obama has also taken a stance against taxpayer financing for stadiums and arenas. In his fiscal 2016 and fiscal 2017 budgets, Obama proposed prohibiting tax-exempt bonds to be used for financing private sports facilities by eliminating the private payment test for them. As a result bonds would be taxable private-activity bonds if more than 10% of the facility was used by private parties. “When Senator Coburn and President Obama agree on a budget proposal, you know it is a necessary measure to work on,” Russell said.

Since the Tax Reform Act of 1986, which prohibited tax-exempt private activity bonds from financing stadiums, was enacted, Russell said professional sports franchises have taken advantage of “loopholes” to receive billions of dollars in tax subsidies.

Professional sports franchises, though collectively earning billions of dollars in revenue annually often seek federal, tax-free funding to finance the construction of new stadiums and arenas.

The issue of stadium financing has become a hot-button issue in recent years, as several franchises have said they need new stadiums or will have to relocate to other cities. The NFL’s Atlanta Falcons are set to begin playing in the $1.4 billion Mercedes-Benz Superdome next season, roughly $200 million of which was financed with tax-exempt bonds, according to Coburn. The $1.2 billion Cowboys Stadium completed in 2009 was financed by governmental bonds, which Coburn said would cost $65 million in subsidies to investors over the
next 65 years.

The Minnesota Vikings will soon begin playing home games at the $1 billion Vikings Stadium, roughly half of which was financed by tax-exempt bonds, Coburn said.

Critics complain tax-exempt bond financings of stadiums are an ineffective means of spending public funds and providing benefits mostly to teams, while supporters have stressed the added investments that such facilities can bring to regions.

Since 2006, 263 tax-exempt bond issues totaling $16.9 billion have been sold to finance stadiums and sports arenas, according to figures compiled by Thomson Reuters. That includes the five bond issues totaling $82.2 million have been reported thus far for 2016.

Dennis Zimmerman, the director of projects for the American Tax Policy Institute and former economist at the Congressional Budget Office, said Monday that although he has not yet seen Russell’s bill, he is in favor of any legislation that would curtail federal, tax-exempt sports stadium funding.

“I think the federal government has no business subsidizing sports stadiums,” Zimmerman said. “From a federal taxpayer’s perspective – where’s the advantage? No federal taxpayer gets a benefit from it.”

Zimmerman said "we are wasting our money," when it comes to the federal funding, adding that it is very different than funding at the state or local level. The somewhat fixed cap on sports franchises, he said, provides little incentive for the federal taxpayer.

"I don't think it generates much economic activity," he said.

Former Sen. Daniel Moynihan, D-N.Y., proposed The Stop Tax-Exempt Arena Debt Issuance Act in 1996, which would have prohibited state and local governments from using tax-exempt bonds toward pro sports stadiums. That bill failed to pass in the Senate.

The Bond Buyer

By Evan Fallor

March 28, 2016

No Losses for Puerto Rico General Obligation Debt Seen by Height.

Proposed federal legislation that would help Puerto Rico restructure its $70 billion of debt could lead to full repayment of general obligations, which would be a boon to bondholders and insurers, according to Height Securities.

A draft measure by House Republicans that has circulated on Capitol Hill would give a five-member federal control board the authority to oversee a reduction of the island's debts, instead of entrusting that to local officials, and empower it to sell debt on behalf of the island. With such a structure in place, losses on general obligations would be zero, and sales-tax bonds would be cut just 10 percent, down from earlier estimates of 10 percent and 45 percent, respectively, according to a report released Tuesday by Height, a Washington-based broker dealer.

"The key element of the bill is the limitations on debt restructurings, which should protect general obligation and Cofina bondholders," wrote Edwin Groshans, an analyst who tracks municipal-bond insurers at Height. The bill, the bulk of which has a 75 percent chance of becoming law, is "a positive for creditors as it creates a strong federal oversight board and protects bondholders vis a vis pensioners," he wrote.

The draft bill from the House Natural Resources Committee, which the panel plans to release publicly Tuesday, is the most comprehensive fix yet advanced by Congressional Republicans to help pull Puerto Rico from a crisis that's been building since June, when Governor Alejandro Garcia Padilla said its debts aren't payable. It allows for a court-overseen restructuring to force creditors to accept a deal, in contrast to the current consensual negotiations, though it doesn't specify how various bondholders would be treated.

Trading in Puerto Rico show that investors aren't anticipating that they'll be paid back on time and in full. The commonwealth's benchmark general obligations with an 8 percent coupon and maturing in 2035 traded Tuesday at an average 70.3 cents on the dollar, data compiled by Bloomberg show. Sales-tax backed debt due in 2042 traded Monday for 42 cents.

Ambac Financial Group Inc. would benefit the most from the legislation because it insures about $7.3 billion of sales-tax debt service payments, according to Height. Overall, Ambac's losses from paying investors would decline by 26 percent, while MBIA Inc.'s would fall by 18 percent and

Assured Guaranty Ltd.'s would drop 6 percent relative to the firm's moderate-loss scenario.

Bloomberg Business

by Brian Chappatta

March 29, 2016 — 7:45 AM PDT

[Puerto Rico Bill Won't Shield GOs, Congressional Aide Says.]

Draft legislation to reduce Puerto Rico's $70 billion debt load may fail to shield debt protected by the island's constitution.

The House Natural Resources Committee released Tuesday a discussion draft of a bill that would establish a federal control board to manage Puerto Rico's finances and oversee any restructuring of debt. It plans to introduce the bill April 11. The proposed oversight panel may consider the commonwealth's $13 billion of general-obligation debt, which its constitution says must be repaid before other expenses, if it believes those securities need to be altered, a congressional aide told reporters during a conference call.

The legislation is the most comprehensive plan yet drafted by Congressional Republicans to help resolve the island's debt crisis. Details of the bill started to be unveiled last week. Puerto Rico Governor Alejandro Garcia Padilla in June said the commonwealth was unable to repay all of its obligations after years of borrowing to fix budget deficits. Two agencies have defaulted on debt since then and the island's next major bond payment is about five weeks away.

"This draft is thoughtful, comprehensive legislation that gives the U.S. territory the tools it needs to deal with its systemic fiscal and budgeting problems—without a taxpayer bailout," House Speaker Paul Ryan said in a statement Tuesday.

Broad Counterproposal

Ryan directed his members to draft legislation that would address Puerto Rico's finances by March 31. Lawmakers have been working on the bill as the commonwealth negotiates with its creditors. Island officials last week gave bondholders their most recent debt-restructuring plan. Investors began working together Monday on a broad counterproposal that would include the island's various types of debt during a meeting between advisers and lawyers for mutual funds, bond-insurance companies and hedge funds.

A U.S. Treasury Department spokesman said the draft needed improvements.

"Puerto Rico urgently needs the ability to comprehensively restructure its financial liabilities paired with independent oversight that respects the commonwealth's self-governance," the spokesman, Daniel Watson, said in a statement Tuesday.

The draft bill would enable the control board to rein in bondholders that are reluctant to agree to a voluntary restructuring plan by using the courts to force those investors to accept losses. Some investors have balked at that element of the legislation. Puerto Rico entities don't have access to municipal bankruptcy, as Detroit did.

“The bill would retroactively eliminate an important investor protection relied upon by millions of individual investors throughout the U.S. mainland and Puerto Rico,” Stephen Spencer, managing director at Houlihan Lokey, adviser to major creditors of Puerto Rico, said in a statement. “As a result, the bill would transfer billions of dollars from retail investors and retirees to pay for Puerto Rico’s mismanagement and reckless spending.”

The bill would also safeguard Puerto Rico from legal action by temporarily prohibiting creditor lawsuits once the measure is enacted into law.

Garcia Padilla said Monday that the proposed federal legislation imposes too much U.S. control over the island. The federal board would oversee any debt restructuring, instead of entrusting that power to local officials. The panel would have the ability to balance budgets if Puerto Rico lawmakers are unable to end multi-year deficits that are at the root of the island’s financial challenges.

Most Congressional Democrats led by top House Democrat Nancy Pelosi of California were also less then impressed. She warned in statement that “the sweeping powers of the oversight board proposed in Republicans’ current discussion draft are far from what Democrats can support.”

“In its current form, this board would exert undue and undemocratic control over Puerto Rico’s government and residents,” said Pelosi.

Bloomberg Business

by Michelle Kaske and Billy House

March 29, 2016 — 3:35 PM PDT Updated on March 29, 2016 — 6:58 PM PDT

Atlantic City Downfall Tests New Jersey's Record Rescuing Cities.

Atlantic City is gambling with New Jersey’s reputation for rescuing distressed local governments.

The casino resort hub, whose finances have been battered by the expansion of gaming in nearby states, may shut down much of its functions next week for lack of cash –- an unprecedented action for a New Jersey municipality. Governor Chris Christie has suggested that bondholders may need to make “sacrifices” and refused to extend short-term help, marking a potential shift for a state that hasn’t let a single locality default or go bankrupt since the 1930s.

“It is a blow toward New Jersey local credit quality and the assurance that investors have,” said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. “It should no longer be said that it has a great reputation for local governments.”

Atlantic City has been dependent on the casino industry since the late 1970s, when New Jersey gave it an East Coast monopoly that was lost when other states legalized gambling. The 39,000-person city has seen the property-tax base plummet by 64 percent in five years, with a third of its betting parlors shutting down in 2014. Others have demanded tax rebates as real estate values slide, further straining its finances.

This year, Atlantic City was counting on legislation that would allow it to tap additional gambling money to close its deficit, only to see the measure rejected by Christie, who said the local officials haven’t done enough to reduce spending. Left with a $33.5 million shortfall, Mayor Don Guardian said he won’t be able to pay employees from April 8 until at least May 2 as he waits for tax collections to trickle in.

Christie is pushing legislation with the Senate’s Democratic leader that would allow New Jersey to take over the city, after an earlier appointment of an emergency manager didn’t lead to significant changes. Opposed by Guardian and the city council, the bill is stalled in the Assembly, where Speaker Vincent Prieto, a Democrat, rejects a provision that would let the administration change or end labor contracts.

Christie has faulted them for failing to endorse the legislation and said workers won’t bear the city’s financial burdens alone. During a radio interview Thursday, he said bondholders “are going to have to make sacrifices as well.’’

The city has $247 million in general-obligation debt and owes $190 million of tax refunds to casinos. Guardian told reporters last week that the debts should be renegotiated.

Investors have demanded higher yields on some uninsured city securities, reflecting the increased risk that payments won’t be made. Tax-exempt bonds due in December 2033 last traded March 22 for an average of 65 cents on the dollar to yield 9 percent, more than three times those on top-rated securities, data compiled by Bloomberg show. That price is down $1.01 early last year.

A shutdown could push up yields on bonds sold by Atlantic City and other distressed borrowers in New Jersey, said Ted Molin, senior credit analyst at Wilmington Trust Co., which oversees $4 billion of municipal debt.

“A concrete event like that definitely would cause spreads to widen and would taint the state and probably a lot of the good credits in the state,’’ he said.

When asked about investors’ concerns, Brian Murray, a spokesman for Christie, said “there is a bipartisan solution on the table and just one person is obstructing that solution from proceeding, Speaker Prieto.’’

The governor doesn’t need the legislature to help Atlantic City, said Tom Hester, a spokesman for Prieto. “The speaker isn’t blocking anything,” he said. “The governor already has the authority to save Atlantic City from financial disaster.”

While some New Jersey cities have furloughed workers for a day, Atlantic City would be the first to implement a prolonged shutdown, according to the state’s Department of Community Affairs. But it’s not the first that’s threatened to take that step. Camden did in 1999, only to withdraw a bankruptcy petition after the state came through with more aid.

“It’s so hard to tell nowadays what’s negotiating and what’s real,’’ said Dan Solender, who manages $18 billion of state and local debt as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. “The way it’s sounding, it’s sounding real now.’’

After making payments on bonds and to schools, the city’s cash balance will be just $1.8 million on April 1 and will be depleted the following week, according to estimates Guardian provided to the state this month.

The mayor said many employees have volunteered to keep working and he’s still evaluating which services would cease.

Even after forgoing paychecks temporarily, the city will again run out of money this year, Guardian said. He said he plans to meet debt obligations in May.

Ratings companies are skeptical: without state action, Atlantic City is headed toward default or bankruptcy, according to Moody's Investors Service. Yet a previous bout of stepped-up oversight did little to help: Standard & Poor's cut the city's grade twice in 2015 as the appointment of the emergency manager, who left in January after a year, heightened concerns of potential losses for bondholders. The company in January cut Atlantic City four levels to CCC-, nine steps into junk.

"There's no real path right now,'' Solender said.

Bloomberg Business

by Romy Varghese

March 30, 2016 — 2:00 AM PDT Updated on March 30, 2016 — 5:42 AM PDT

San Bernardino Approves Deal to Settle Bankruptcy Bond Fight.

San Bernardino, California, moved closer to exiting bankruptcy after striking a deal that gives pension bondholders 40 percent of what they're owed.

In a statement Tuesday, the city said the settlement approved by the mayor and council reduces its payments by $45 million to creditors Commerzbank Finance & Covered Bond SA and bond insurer Ambac Assurance Corp.

"The settlement will end the costly legal battles between the city and the settling creditors," city attorney Gary Saenz said in the release.

Municipal bond market participants are watching cases such as San Bernardino to evaluate how their investments may fare in distressed situations. In Detroit's record bankruptcy, pension bondholders owed about $1.4 billion were forced to take deeper cuts than city workers and retirees.

San Bernardino, which filed for bankruptcy in 2012 and more recently in December drew attention for being the site of deadly terrorist attacks, will make payments over 30 years, officials said. A judge must approve the deal as part of the city's plan to exit court protection.

The case is In re San Bernardino, 12-bk-28006, U.S. Bankruptcy Court, Central District of California (Riverside).

Bloomberg Business

by Romy Varghese and Steven Church

March 30, 2016 — 7:07 AM PDT

Puerto Rico's Government Development Bank Risks Receivership.

Puerto Rico's Government Development Bank, whose regulator says faces a cash shortfall of as much as $1.3 billion in June, will continue to operate on its own — for now.

The bank, which lends to the commonwealth and its municipalities, is insolvent, Puerto Rico's Commission of Financial Institutions, the bank's regulator, concluded in its most recent report on the GDB's finances.

That determination allows the island's Treasury Secretary to ask a court to appoint a receiver to oversee the GDB. It's a move the administration won't make at this time, Jesus Manuel Ortiz, a spokesman for Governor Alejandro Garcia Padilla, told reporters Wednesday in San Juan.

"We are constantly monitoring the liquidity of the GDB and no receiver will be named in the short term," Ortiz said.

The GDB serves as the commonwealth's financial adviser and structures municipal-debt sales for the island. The bank's cash crunch has hampered its ability to lend to the commonwealth and provide short-term funds.

The GDB is experiencing a liquidity shortfall that will reach a negative $1.3 billion in June, according to a Monday court opinion of Wal-Mart Stores Inc.'s successful suit against Puerto Rico to end a tax that applied its highest rate on the retailer. The opinion quoted from the commission's November report, which isn't public.

Critically Deficient

The commission's report found that the bank's "liquidity levels are critically deficient in relation to its weakened financial conditions caused by an elevated debt exposure and obstructed access to capital markets," the court opinion quoted from the report.

The bank has disputed the findings. Melba Acosta, president of the Government Development Bank, is cited in a footnote in the report as saying the report was 'obviously written by someone who doesn't understand the GDB."

Barbara Morgan, a spokeswoman at SKDKnickerbocker in New York who represents the GDB, didn't have an immediate comment. Betsy Nazario, a spokeswoman at the GDB in San Juan, didn't immediately return a phone call and e-mail.

Puerto Rico is negotiating with its creditors to reduce $70 billion of debt through a voluntary debt exchange after the island borrowed for years to paper over budget deficits. About 45 percent of residents live in poverty and the island's economy has shrunk in the past decade. The House Natural Resources Committee Tuesday made public a discussion draft of a bill that would set up a federal control board to oversee any debt restructuring and review annual budgets.

Last Examination

The bank in November warned that it was at risk of receivership, which would suspend the GDB's operations and settle its obligations. It owes investors a $422 million bond payment May 1 that Garcia Padilla has said cannot be paid. Puerto Rico and its agencies must pay an additional $2 billion in principal and interest on July 1.

The commission's last comprehensive exam of the GDB was in 2007, according to the court opinion. Once the commission began conducting its review last year, the bank took more than six months to give "the minimum necessary information to produce" the review, the court opinion quoted from the report.

“For years now, the commonwealth has been running away from the truth about its fiscal health,” Judge Jose Antonio Fuste, wrote in his opinion. “The deep-seated refusal of several administrations to own up to and correct the structural imbalances in our economy has brought us to the point of crisis.”

Bloomberg Business

by Michelle Kaske and Alexander Lopez

March 30, 2016 — 12:11 PM PDT

Nuveen, Goldman Buy Chicago School Debt.

Chicago’s public schools are poised to shut down on Friday as the teachers’ union stages a one-day strike, the latest sign of escalating financial pressure on a junk-rated district that’s veering toward insolvency.

The distress hasn’t deterred Nuveen Asset Management, Goldman Sachs Asset Management and OppenheimerFunds Inc. According to data compiled by Bloomberg, the three were some of the biggest buyers of the $725 million of bonds the school system sold last month, when it was forced to pay yields as high as 8.5 percent — three times more than benchmark debt, even though it doesn’t have the power to go bankrupt.

“Investors are betting that the 8.5 percent yield will be a sufficient cushion to offset the bumpy ride ahead for the CPS bonds,” said Richard Ciccarone, president of Merritt Research Services LLC, which analyzes municipal finances. “Time will tell whether it will be enough.”

Chicago’s school system, the nation’s third largest, has been pushed to the brink after years of skipping pension payments and borrowing to cover operating costs, which has led credit-rating companies to downgrade its bonds to as low as five steps below investment grade. Facing projected deficits of $1 billion a year through 2020, the school system is lobbying for more aid from Illinois, while Republican Governor Bruce Rauner is pushing for a state takeover and changing the law to let it file for bankruptcy to reduce its debt.

The district’s borrowing last month provided needed cash and showed that investment firms anticipate it will find a way to turn around its finances. The purchases have so far paid off: Bonds due in 2044 traded Wednesday for 91 cents on the dollar, up from the initial price of 84 cents.

The deal “came at a time of heightened controversy around state takeover threats and bankruptcy threats,” said John Miller, co-head of fixed income at Nuveen, which oversees about $110 billion of municipal debt, including $279 million of last month’s issue, according to data compiled by Bloomberg. “Those were maybe overdone, if you will, because there isn’t a legal path or a legal mechanism to do those things.”

Rauner has had no success in the Democrat-controlled legislature with his Chapter 9 proposal, which Democrats and unions oppose because it would let the schools seek to alter labor contracts as well as other debts. Such a change is unlikely and wouldn’t happen for years, according to Miller, who said that the state aid and property-tax revenue that the school district has pledged to bondholders should be sufficient to keep it from defaulting.

“It’s 390,000 students, and it’s one of the largest employers at 27,000 employees,” he said. “They’re not going to shut down.”

Goldman Sachs funds holds about $87 million of the 29-year debt the district sold last month, data compiled by Bloomberg show, while OppenheimerFunds has $9 million. That makes them the second- and third-largest holders after Nuveen, based on the most recent data available. Goldman spokesman Andrew Williams declined to comment. OppenheimerFunds spokeswoman Meredith Richard declined to comment. Emily Bittner, a spokeswoman for the district, didn’t return e-mail and phone messages requesting comment.

The bond sale refinanced debt and provided cash to help the district cover its operating expenses. After it closed, the board deposited $268 million with bond trustees, which covers all general-obligation debt payments through March 1, 2017, according to Moody’s Investors Service.

Nuveen’s participation in the deal as a local firm with a strong track record is a “vote of confidence,” said Ciccarone, the Chicago-based analyst with Merritt. Their involvement is reminiscent of the consortium of local banks in the late 1970s that put together interim financing when the district couldn’t pay teachers, he said.

The district still faces serious challenges. The state hasn’t come through with $480 million in aid that school officials have pleaded for to close this year’s budget gap, which was brought on by rising retirement-benefit expenses. Chicago’s is the only Illinois district that pays the vast majority of its own pension costs, and it owes another $679 million to the retirement fund by June 30.

With no sign of help from the state, the district announced three furlough days this year to save an estimated $30 million and cut school budgets by $85 million. Rauner, who is locked in a record-long budget impasse with Democratic lawmakers, has said he will only help Chicago’s schools if Mayor Rahm Emanuel, a Democrat, helps push his agenda. Rauner wants limits on collective bargaining, property tax curbs and term limits, none of which are winning favor from Democrats.

Tensions with teachers are also rising. The union authorized Friday’s strike to pressure the state and highlight stalled contract talks. It may save money initially as teachers who don’t come to school won’t get paid, saving about $10 million, according to district estimates if all educators don’t report to work.

Longer term, it complicates the ongoing negotiations for the contract that expired June 30. If an unfavorable labor pact is reached without corresponding cuts, the district’s “very weak” liquidity will be even more strained, according to Moody’s.

“This is a case where their finances are bad, and it would be a tough situation to dig out of even if you had everyone rowing in the same direction,” said Tom Schuette, co-head of credit research and portfolio management at Solana Beach, California-based Gurtin Fixed Income Management LLC, which holds about $10.3 billion of munis. “It’s really hard to see how they manage through this when you have the labor union and the state seemingly pushing in opposite direction of management.”

Bloomberg Business

by Elizabeth Campbell

March 31, 2016 — 2:00 AM PDT Updated on March 31, 2016 — 5:46 AM PDT

[Puerto Rico `Not Serious' on Consensual Plan, Says Insurer.]

Assured Guaranty Ltd. is seeking financial information from Puerto Rico, and is looking to Washington for help.

The bond insurer, which guarantees repayment on about $3.8 billion of commonwealth securities, sent a letter Wednesday addressed to Cleary Gottlieb Steen & Hamilton LLP, which is representing Puerto Rico in its attempt to restructure $70 billion of debt, detailing multiple requests for information. The letter signed by Bruce Stern, Assured's executive officer, was also sent to U.S. Treasury Secretary Jacob J. Lew, House Speaker Paul Ryan and other federal lawmakers working on legislation to address the island's fiscal crisis.

Assured says that it has failed to receive complete financial information that it is entitled to as insurer of commonwealth securities after repeated appeals during the last 18 months, beginning with a request for Puerto Rico Highways & Transportation Authority maintenance agreements in September 2014. Assured is also seeking current balances for accounts that repay Highways debt and Puerto Rico Convention Center District Authority bonds after the two agencies began using reserve funds to make their Jan. 1 debt-service payments. Assured needs the data to plan for possible draws on its insurance policies, Stern wrote in the letter.

Oversight Bill

"The financial situation of the commonwealth and its public agencies remains opaque," Stern said. "In the absence of a legitimate reason for this opacity, Assured is left to speculate what ulterior purpose the continued refusal to provide basic and readily-available financial information serves."

Stern sent the letter as the House Natural Resources Committee plans to introduce on April 11 its bill that would establish a federal oversight board to manage any Puerto Rico debt restructuring and weigh in on annual budgets. The goal is to end the commonwealth's practice of borrowing to fill budget deficits. U.S. territories, including Puerto Rico, don't have access to municipal bankruptcy.

Puerto Rico has been in discussions with Assured and its advisers during the last two years as part of financial diligence on a variety of commonwealth issuers and to work out a restructuring plan, Barbara Morgan, a spokeswoman at SKDKnickerbocker in New York, which represents Puerto Rico's Government Development Bank, said in an e-mail.

"The timing of Assured's letter is no doubt part of their lobbying strategy on the Hill against the Natural Resources Committee's proposed legislation, but its allegations about the commonwealth stonewalling and withholding information are baseless," Morgan said.

Betsy Nazario, a spokeswoman at the GDB in San Juan, and Shannon Lynch, a spokeswoman at Cleary Gottlieb, didn't immediately return phone calls and e-mails.

Creditor Counterproposal

Governor Alejandro Garcia Padilla in June said the island was unable to repay its obligations on time and in full. Two agencies have missed bond payments since then and the government has redirected revenue from the Highways and Convention Center authorities to instead pay general-obligation bonds, which have the highest priority under its constitution.

Creditors, including mutual funds, bond-insurance companies, and hedge funds are working together on a unified counterproposal that would reduce Puerto Rico's debt after island officials last week offered their latest debt-restructuring plan to the different parties. Puerto Rico has said it wants to reach an agreement with its creditors, an assertion that Stern questions.

The responses of Cleary Gottlieb, Puerto Rico and the island agencies, "suggests the commonwealth and its public corporations are not serious about working towards a meaningful consensual restructuring," Stern wrote.

Assured guaranteed about $3.8 billion of Puerto Rico securities, as of Dec. 31, as measured by gross par outstanding, according to financial documents on the company's website.

Bloomberg Business

by Michelle Kaske

March 31, 2016 — 12:15 PM PDT Updated on March 31, 2016 — 3:53 PM PDT

San Diego May Seek Tax Increase for $1 Billion Chargers Stadium.

San Diego voters would decide whether to increase the city's tax on hotel occupancy to help pay for a new $1 billion stadium for the National Football League Chargers and a $600 million convention center.

The team would contribute $350 million, the NFL would pay $300 million and the city would add $350 million through its hotel tax toward a 65,000 seat stadium, according to a proposal released Wednesday.

The increase in the tax on visitor stays by 6 percentage points to 16.5 percent would back about $1.15 billion of municipal bonds, which would fund the city's contribution, the convention center and land acquisition.

Mayor Kevin Faulconer praised the deal as being more than a stadium with the inclusion of the convention center.

"My top priorities are to protect jobs, protect taxpayers and do what's right for all San Diegans," said Faulconer, in an e-mailed statement. "I will evaluate the proposal's details through that lens."

The Chargers had been one of three teams seeking to move to Los Angeles last year before the NFL approved a move by the St. Louis Rams. When the NFL approved the Rams' move in January, it left open the possibility that the Chargers could share the team's stadium in Inglewood, California.

The Chargers and supporters of the proposal must gather 66,447 signatures from registered voters by mid-June of the proposal to be on the ballot in November.

Bloomberg Business

by Darrell Preston

March 31, 2016 — 8:45 AM PDT

Detroit School Bonds Would Fully Pay in Split Plan, Snyder Says.

Investors holding $1.5 billion of bonds from Detroit's distressed schools would be fully repaid under a plan by the state to split the system in two, Michigan Governor Rick Snyder said.

The proposal, which passed the state Senate last month, establishes a new district responsible for educating students and running the schools, while the existing district's only task is to collect taxes and repay all obligations except pensions. Moody's Investors Service said in a report Thursday that while the plan could be "a significantly positive event for bondholders," the split doesn't mean a default or bankruptcy is off the table.

"We've done nothing to suggest or say anything other than bondholders are going to get paid through this entire process," Snyder said during an interview at Bloomberg's New York headquarters. He answered "yes" when asked if bondholders would be repaid in full under the plan, referred to as Newco-Oldco in corporate finance.

"I don't know how they'd have a default or bankruptcy if you did Newco-Oldco," he said. "That is the financial solution."

Detroit's school district is reeling from the same population decline that pushed the city into the largest U.S. municipal bankruptcy. The system, which has seen enrollment drop by nearly 100,000 students in the past decade, is overseen by Emergency Manager Steven Rhodes, the judge in Detroit's Chapter 9 proceedings.

Moody's gives it an issuer rating of Caa1, the fifth-lowest rank.

Snyder this week signed an emergency funding measure for the schools, which would send $48.7 million to the district to keep doors open through the end of the school year. The Senate passed a $720 million bill that would break the system into two last month.

Getting the proposal through the House "will be more challenging than it was in the Senate, but that's not to say it's not doable," Snyder said. "The real issue is not necessarily about the money as much anymore. Much of it now is more about what level of oversight."

The split-district plan would allow Rhodes to vacate his emergency-manager post, Snyder said. One of the reasons he was chosen for the position was that he'd have to step down before the school system could declare bankruptcy, since he'd have a conflict of interest, the governor said.

Much of the Detroit school debt is backed by state aid, bond insurers, or both.

The largest tax-exempt bond outstanding, due in May 2029, has protection from Assured Guaranty Municipal Corp. and trades at a premium. Franklin Advisers and Nuveen Asset Management are the largest holders of the $183.7 million obligation, owning about $25.9 million and $20.5 million, respectively, data compiled by Bloomberg show.

Bloomberg Business

by Brian Chappatta

April 1, 2016 — 8:49 AM PDT

U.S. Urges Memphis Ministry to Sell Three Bond-Funded Complexes.

The U.S. Department of Housing and Urban Development has "lost confidence" in a Memphis-area ministry's ability to manage its portfolio of low-income housing and urged it to sell three of its municipal bond-financed apartment complexes in Florida.

In a March 24 letter to the Global Ministries Foundation president, Rev. Richard Hamlet, HUD said recent inspections of the non-profit's complexes in Jacksonville and Orlando found exposed wiring, decades-old cabinets and "band-aid" fixes such as using painted duct tape to cover holes or painting over untreated mildew.

"HUD is extremely concerned by GMF's quick fix approach to maintenance at its properties," wrote Priya Jayachandran, HUD Deputy Assistant Secretary for Multifamily Housing. "While HUD will continue to closely monitor the conditions at all of the GMF properties in Florida to ensure that GMF addresses these problems with long-term sustainable and permanent repairs, HUD has lost confidence in GMF's ability to manage its large portfolio."

GMF, a Cordova, Tennessee, non-profit founded in 2003, has raised $400 million to finance the acquisition and operation of 60 multifamily complexes in eight states. The non-profit issued municipal bonds through "conduits," — local agencies with few, if any, employees and that exist only to sell tax-exempt debt for a fee.

Ministry's Response

"The leadership of Global Ministries' affordable housing program takes the allegations raised by HUD's deputy assistant secretary very seriously," Hamlet said in e-mailed statement to Bloomberg News. "We are working closely with HUD and impacted stakeholders to continue the work underway to improve our properties."
GMF is working with government housing officials to ensure the properties comply with all federal and state laws, regulations and local codes, said Hamlet.

"GMF remains unwavering in its commitment to restoring safe, comfortable, and affordable housing for families in need," he said.

HUD visited GMF's Eureka Gardens Apartments and Washington Heights apartments in Jacksonville and the Windsor Cove Apartments in Orlando on March 17 and 18. The three complexes have 852 units.

Municipal Bonds

GMF issued $34 million of tax-exempt debt through the Capital Trust Agency, to purchase the Jacksonville properties and four others in the city in 2012. Capital Trust is a conduit located in Gulf Breeze, Florida, 360 miles (579 kilometers) away. Capital Trust also issued $11.3 million in 2012 to finance GMF's acquisition of Windsor Cove in Orlando.

The primary source of revenue backing the bonds are rent subsidies from HUD. Last month HUD cut off subsidies to two GMF properties in Memphis because GMF failed to maintain the properties in a "safe and sanitary manner." The loss of the federal funds caused the securities to default, pushing the price to as little as 21 cents on the dollar.

Bondholders of the GMF properties in Jacksonville and Orlando would lose money if the non-profit sold the apartments for less than they purchased them.

On March 30, GMF's Jacksonville bonds with a 4.25 percent coupon maturing in 2035 traded at average price of 98.4 cents on the dollar. The same day, an investor bought $115,000 of of GMF's Orlando bonds with a 5 percent coupon maturing in 2047 for 99 cents on the dollar. The bonds carry an A rating from Standard & Poor's.

Following on-site visits to some buildings, S&P put 25 GMF-backed bond issues on review for a downgrade last month, saying a decision to withhold funding from other complexes could jeopardize the money used to repay investors.

Bloomberg Business

by Martin Z Braun

March 31, 2016 — 9:40 AM PDT

Bankrupt Kentucky City Reaches Repayment Deal.

The bankrupt city of Hillview, Ky., said it plans to raise taxes and borrow $5 million to pay off a newly reached settlement in a decade-old property dispute with a truck-driver training school.

Officials for the Louisville suburb said in court papers on Wednesday that they reached a deal to pay a portion of the $15 million judgment owed to Truck America Training LLC. The legal award, which grew by $3,759.54 a day in interest, prompted Hillview leaders to put the 9,000-resident city into bankruptcy proceedings in August.

The settlement could bring closure to city leaders who have debated how to handle the situation for years. "It's weighed on their hearts and their minds for years now, and there's some relief in reaching this agreement," said Tammy Baker, an attorney for the city.

The deal still needs approval from Judge Alan C. Stout, who agreed to evaluate it at a hearing on Thursday. Court approval would enable Hillview to drop its bankruptcy case.

Under the deal, Hillview officials will make an up-front payment of $5 million that it plans to raise by issuing municipal bonds. City officials will also turn over 8.3% of its general fund revenue, minus a few deductions, to the training school for 20 years, according a copy of the settlement filed in U.S. Bankruptcy Court in Louisville.

The settlement also calls for the city, which typically brings in less than $3 million a year in taxes and fees, to raise taxes to pump up its revenue intake. Hillview officials are preparing to raise its occupational tax from 1.5 % to 1.8% and its insurance premium tax, which is collected on insured property and people within the city limits, from 5% to 7%, according to the settlement.

The city's battle with Truck America Training goes back to a 2002 deal that allowed the school to use a city-controlled, 40-acre parcel of land for a heavy equipment training program.

School officials who made a deal to buy the property put $1.5 million worth of bulldozers, excavators and dump trucks on the site to train 277 students in the first year, according to earlier court papers. But city leaders changed their minds and resisted finalizing the sale.

When Truck America sued in 2005, city leaders evicted them.

“Without suitable land on which to train, student enrollment and the related revenue plummeted, and Truck America was forced to sell its heavy equipment at a significant loss,” Truck America lawyers said in a lawsuit that prompted a jury to award the school $11.4 million in August 2012.

Earlier this year, Hillview officials sued ex-lawyer Mark Edison, saying he misled city leaders in 2004 into thinking that they could get out of a contract to sell the land to the school without major consequences. Mr. Edison, who worked for the city from 2003 to 2015, declined to comment on the lawsuit.

Hillview officials have only paid a small amount of the total damages due. At one point, Truck America officials filed a lawsuit to try to force a tax increase on the city, a request under Kentucky law that hasn’t been made since the 1940s.

The city’s Aug. 20 filing for chapter 9 protection—the type of bankruptcy used by struggling cities and towns—made it the first city to turn to bankruptcy since Detroit in July 2013.

THE WALL STREET JOURNAL

By KATY STECH

Updated March 30, 2016 4:19 p.m. ET

(This article also appears in Daily Bankruptcy Review, a publication from Dow Jones & Co. Go to http://dbr.dowjones.com.)

Write to Katy Stech at katherine.stech@wsj.com

Latest Plan to Rescue Puerto Rico Is Met With Disdain on Island.

House Republicans released a draft of a rescue plan for Puerto Rico on Tuesday that they hoped could quickly garner bipartisan support and win over skeptics on the island, on Wall Street and in Congress.

The plan, being drafted by Republicans on the House Natural Resources Committee, in consultation with Democrats in Congress and the Treasury Department, calls for putting Puerto Rico’s finances under a presidentially appointed oversight board — a bitter pill to many on the island.

“This discussion draft will change,” said Representative Rob Bishop, Republican of Utah, who has been leading the drafting process. “We are releasing it now to encourage feedback.”

The plan would also establish guidelines for restructuring some portion of Puerto Rico’s $72 billion of debt, “where necessary.” While Puerto Rico would not be granted standing to seek relief in bankruptcy — something its leaders wanted — it could get some of the legal tools found in bankruptcy as long as it first jumps through a number of hoops.

Creditors’ demands for immediate payment would be halted for 18 months, for example, much as creditor lawsuits are automatically stayed in bankruptcy cases. Under certain circumstances Puerto Rico would also have the authority to impose losses on unwilling creditors — an extraordinary power that is normally available only in bankruptcy. The oversight board’s duties would include keeping

Puerto Rico from abusing that power.

To some on the island, any federal oversight board at all is a deal-breaker.

Shortly after a summary of the committee's approach began to circulate late last week, the governor of Puerto Rico, Alejandro García Padilla, denounced it as "shameful and degrading," and something that would deprive the island "of its own government."

The president of the Puerto Rican Senate, Eduardo Bhatia, said upon reading the proposal that he was deeply offended by the way it was written, which he said "was from the 18th century," evoking "the worst colonial subjugations."

Congressional staff must work at a pace seldom seen in Washington these days, because between May 1 and July 1 Puerto Rico owes debt payments totaling around $2.4 billion. By setting up a legal framework before that, Congress may be able to prevent the chaos and devastation of a disorderly default.

That means devising a package acceptable both to Democrats, who tend to support debt relief for Puerto Rico, and to conservative Republicans, who see debt relief as a bailout that would unacceptably reward profligacy.

Getting a bill onto President Obama's desk for signature would also mean finding common ground with Senate Republicans, who have seemed less willing to assist Puerto Rico, citing its failure to make required financial disclosures.

Given the need to act quickly, House aides said, lawmakers were trying not to be "overly prescriptive," and were leaving many details of the rescue plan for the five appointed and two ex-officio oversight board members to sort out. They said they hoped to have a bill ready to be introduced when Congress returns from Easter recess in April.

Mr. García Padilla has been calling Puerto Rico's $72 billion of debt "unpayable" for almost a year, and asking Congress for extraordinary powers to reduce it. If there had to be an oversight board in the process, the governor had envisioned it made up primarily of people from Puerto Rico.

On Saturday, he called for candidates for governor from all parties on the island to form a united front to block the package as written.

Mr. Bhatia said that as Senate president, he knew enough about the legislative process to know the package would be revised. "It has to be amended, because as written it is not going to pass," he said.

All over the island, people have been taking on the airwaves and social media to hash out their thoughts about the rescue plan, even though almost none of them had seen a copy of it.

Large numbers seemed to disagree with the governor, saying they would accept a federal oversight board. Some said they expected federal oversight to be like surgery — painful, but necessary to Puerto Rico's recovery.

The small but well-regarded Puerto Rico Independence Party rejected outright the governor's calls for unified opposition, saying his longstanding support for Puerto Rico's territorial status made unity impossible.

And in Washington, Puerto Rico's nonvoting member of Congress, Pedro Pierluisi, said that the governor's position was "completely unrealistic." He said that if Puerto Rico expected Washington to help it reduce its debts, then it should not be surprised when Washington wanted a closer look.

Mr. Pierluisi, a Democrat, also said that he had found dozens of things in the draft proposal that he thought should be changed, and that he planned to keep working with the Republicans.

Investors were less vociferous than critics on the island, but they still found fault with certain parts of the rescue package.

The Mainstreet Bondholders, an organization seeking to represent small investors, expressed concern about the idea of halting creditor lawsuits. The group said it wanted reassurances that no one would get preferential treatment.

Steve Spencer, a financial adviser to creditor groups, said the most troubling aspect he could see was the rescue plan's "broad 'cramdown' provision."

Cramdowns can happen when companies declare bankruptcy under Chapter 11. They are not, in general, controversial because Chapter 11 also gives creditors legal tools to fight them. But Chapter 9 municipal bankruptcy also provides for cramdowns, and during the recent flurry of bankruptcies in places like Detroit and Stockton, Calif., creditors discovered that the law gave them no way to protect themselves.

Now, Mr. Spencer said, creditors see the same risk in the Puerto Rico rescue plan.

"The bill would retroactively eliminate an important investor protection, relied upon by millions of individual investors throughout the U.S. mainland and Puerto Rico," he said in a statement on Tuesday. "As a result, the bill would transfer billions of dollars from retail investors and retirees to pay for Puerto Rico's mismanagement and reckless spending."

He said he hoped the people shaping the rescue plan would "remain open to stakeholder input — and we look forward to being a constructive part of that process."

Mr. Pierluisi said everybody had a stake in getting a restructuring framework in place before the big defaults expected in May and July.

"If a bill does not become law, Puerto Rico and its creditors will almost certainly go over a cliff — together — this summer," he said.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

MARCH 29, 2016

County Gives its Bridges Away to Save Them.

Editor's Note: Story revised to clarify the nature of the project as being separate from Pennsylvania's statewide Rapid Bridge Replacement Project (revision posted March 25, 2016 at 11:30 a.m.).

A Pennsylvania county is temporarily relinquishing ownership of 33 bridges to save them from further deterioration.

The Northampton County Council voted in early March to transfer ownership of the bridges to the county's independent General Purpose Authority so that the spans could be replaced or repaired through a public-private partnership.

Pennsylvania's Public-Private Partnership Board's approval of the project in November 2015 paved the way for the P3, which would replace 28 county-owned bridges and repair six others. Pennsylvania's Department of Transportation will serve in an advisory capacity throughout the procurement.

The ownership transfer is necessary because, although bridges owned by independent authorities qualify for this type of procurement to complete their replacement or repair, county-owned ones do not. Once the construction has been completed, bridge ownership will revert to the county, reported the Allentown Morning Call on March 3.

This project is modeled after the Commonwealth's Rapid Bridge Replacement project, but will be a separate P3 procurement.

Northampton borrowed $11.4 million through a bond issue in 2013 to repair or replace 19 bridges but decided that it could not afford an additional $1 million to hire professionals to oversee the construction, according to a Feb. 18 Allentown Morning Call article. The county had applied to have the bridges repaired through the state's ongoing transportation improvement program, which would cover some of the cost, but only one bridge had been selected for the program over the last 20 years. The average county bridge is 61 years old, said Northampton County Executive John Brown.

Brown believes using a P3 could lower the cost of bridge repairs by 30 percent to about $40 million and that the county could pay up to $6 million per year to finance it.

"Public-private partnerships are one way that we can leverage private-sector ideas and resources to improve transportation in our state," said Pennsylvania Department of Transportation Secretary and P3 Board Chair Leslie S. Richards. "Whether started by the department or suggested by the private sector, we have many options to deliver improved or new services."

NCPPP

March 24, 2016

Chicago's Shockingly Bad Finances.

You've probably read headlines about the Windy City's financial woes. About how Chicago's years of borrowing to pay for its operations has finally caught up to it. About how inadequate funding of its pensions has saddled it with huge annual payments.

But unless you've been paying close attention, chances are Chicago is worse off than you think.

The numbers are staggering. The city has about $34 billion in outstanding debt, with roughly $20 billion of that coming from its five pension plans. That's compared with a little more than $9 billion total annual budget. The teachers' retirement fund is short about $9.6 billion and owes an additional $6 billion to bondholders. The outstanding bonds alone exceed the system's annual $5.8 billion budget. Overall, Chicago Public Schools has struggled to sell enough bond debt to get through the current year, and the system is even facing a possible state takeover. Both the city and the school system's credit ratings have been downgraded to junk status.

It's an overwhelming set of problems, but not an unsolvable one. Chicago has a stable and growing economy. It is not Detroit, whose bonds are also rated as junk, with a shrinking population and a declining job base. In the coming years, Chicago's chief challenge will be figuring out how to end its decades-long tradition of charging city expenses to future generations of taxpayers.

That will be hard, particularly when it comes to pensions. Until recently, Chicago funded its pensions based on a state law that required it to pony up a certain dollar amount each year. But that amount had nothing to do with actuarial funding, which is how most plans determine what governments should contribute annually to keep the pension system solvent. Chicago's contributions were essentially arbitrary. In 2004, for example, the city paid in $345 million to its five pension plans, but the actuarially recommended payment was about $567 million, according to Merritt Research Services. Ten years later, the city paid in $447 million, but the actual pension cost was more than three times that amount, or $1.8 billion.

The city played similar games with paying off its debt. Officials would "scoop and toss," meaning they sold long-term bonds and used the proceeds to pay off debt coming due in the short term. "The city's problems, when you get right down to it," says Merritt Research President Richard Ciccarone, "were many years in the making because of all the debt and pension deferrals."

Right-sizing Chicago's debt at this late stage is no easy task. Last year, freshly re-elected Mayor Rahm Emanuel pushed through the largest property tax hike in decades. It's expected to raise more than $588 million annually after it is fully implemented over four years, and the proceeds will go toward the city's pension payments.

But many say the half-billion-dollar infusion is just one step on the road to recovery. For one, the tax increase, which represents a 70 percent hike in city property taxes, won't completely shore up the city's pension funds. And in March, the state Supreme Court struck down the city's attempt to increase employee pension contributions and reduce cost-of-living increases for retirees. Without those in place, Chicago will likely face hundreds of millions more in pension costs.

The city could raise more revenue through additional tax increases. But that would be a big feat, given the controversy over last year's property tax hike. Chicago has long prided itself on being a lower-tax city: Even with last year's increase, Chicago homeowners still pay less in property taxes than their counterparts in the suburbs, according to a Chicago Tribune analysis. Raise taxes too much, and the middle class could flee.

As Chicago fully addresses its spending mismatch, says Matt Fabian, a partner at Municipal Market Analytics, the city could face some serious soul-searching. "Keeping the middle class in the city might be an old-fashioned idea," says Fabian. "If they keep workers local, [officials] have more people voting for them — that's how the political machine works. But maybe that's not the way anymore."

**This story has been updated from the version that ran in the April print magazine to reflect the Illinois Supreme Court ruling on the state's pension reform.*

GOVERNING.COM

BY LIZ FARMER | MARCH 25, 2016

March Madness Clash of Oklahoma, Texas Begins in Bond Market.

Before the University of Oklahoma and Texas A&M University basketball teams square off in the Sweet 16 on Thursday, they'll be competing for bond investors' money.

Texas A&M plans to begin issuing $418 million of federally taxable debt as soon as Monday, data compiled by Bloomberg show. The deal would come a day after the school's men's team came back from a 12-point deficit with less than a minute to play in regulation to beat Northern Iowa in double overtime, an unprecedented feat.

Oklahoma's board of regents also plans to borrow as soon as Monday with a $75 million tax-exempt bond sale. Behind 36 points from Buddy Hield, the Sooners on Sunday advanced to face the Aggies on Thursday for a spot in the Elite Eight.

As higher-education institutions grapple with limits on raising tuition, the pool of graduating high-school seniors shrinks and students balk at taking costly loans, universities have a history of capitalizing on high-profile athletic achievements to issue bonds. Standard & Poor's has said that while March Madness success might not mean an instant credit boost, it does give colleges "a leg up" in an era of heightened competition.

Clemson University sold tax-exempt debt in December after earning the No. 1 ranking in the College Football Playoff. Bonds due in about 10 years priced to yield 2.2 percent, for a spread to AAA munis that was less than similarly rated revenue securities.

During March Madness in 2014, the University of Connecticut priced $220 million of debt as its teams advanced to the Final Four of the men's and women's national college basketball tournaments. Both were crowned national champions. While UConn's men's squad fell to top-seed Kansas on Saturday, its No. 1 women's team looks to move on Monday against Duquesne.

Proceeds from Texas A&M's offering will provide funds for construction across its school system and refinance some other obligations, according to offering documents. Oklahoma will look to take advantage of tax-free interest rates near 50-year lows to refund securities that financed projects on its main campus in Norman.

Oklahoma is the No. 2 seed in the NCAA Tournament's West region and Texas A&M is the No. 3 seed. The victor will face the winner of the Oregon and Duke matchup.

BLOOMBERG NEWS

MARCH 21, 2016

This article is by Brian Chappatta of Bloomberg News. It appeared first on the Bloomberg Terminal.

Our Water System: What a Waste.

Austin, Tex. — America has a water problem. To put it simply, the national network for providing safe, clean water is falling apart.

This state of affairs, which is the focus of a summit meeting on Tuesday at the White House, threatens more than our drinking water supplies. Water is used in every sector of industry, grows our food, affects our health and props up our energy system.

The price of this neglect will be high. In Flint, Mich., the mayor has estimated that it will cost as much as $1.5 billion to fix or replace lead pipes. Over all, repairing our water and wastewater systems could cost $1.3 trillion or more, according to the American Society of Civil Engineers. We need to do this to improve water quality, protect natural ecosystems and ensure a reliable supply for our cities, agriculture and industry.

The problem is a result of many factors, including old, leaky pipes; archaic pricing; and a remarkable lack of data about how much water we use.

In cities across the country, billions of gallons of water disappear every day through leaky pipes. Houston alone lost 22 billion gallons in 2012. As the water expert David Sedlak at the University of California, Berkeley, has noted, the water system is facing a double whammy: It has reached the end of its service life just as climate change and population growth have increased its burdens. No wonder the civil engineers society gave the nation's drinking water systems a grade of D in 2013.

Wastewater treatment systems are also in serious need of upgrading. Flooding strains treatment plants and sewer systems in many older cities, causing them to discharge untreated sewage whenever rainfall or snowmelt overwhelm them. After Hurricane Sandy, treatment plants in the New York area backed up, with sewage flowing the wrong direction from drainage pipes. The New York Times noted that in one neighborhood "a plume of feces and wastewater burst through the street like a geyser."

Droughts also jeopardize water supplies, causing cities in the West to reach farther or dig deeper to get their water. Outside Las Vegas, Lake Mead, fed by the Colorado River, was recently measured at 39 percent of capacity.

These problems are compounded by an antiquated system of regulations, dysfunctional water markets, policies that encourage overpumping, and contracts that discourage conservation by requiring customers to pay for water they don't use. These approaches depress investment and inhibit innovation.

To fix our water systems, we need prices that lead to more rational water use and invite needed investment, data to track water resources and usage, and much more research and development.

Take prices, for example. Water prices should rise or fall according to supply and demand. The idea that the price should be the same in the dry season (when supplies are low and demand for irrigation is high) as the wet season (when supplies are high and demand is low) is nonsense.

Water utilities should take a page out of the energy sector's playbook. Electric utilities had been plagued for decades by many of the same difficulties. But now they are moving toward time-of-use pricing, with prices rising when demand is up, and inverted block pricing, where prices increase with consumption. Allowing these price shifts would change user behavior. Higher prices would encourage conservation and new technologies.

Regulations can ensure that the first few gallons per person per day are cheap or free, with escalating costs beyond that. Water for necessities such as drinking, cooking and hygiene should be affordable. Beyond that, water for lawns, filling swimming pools, washing cars and other uses should be more expensive.

We also have to fix our data gaps. We are operating blind. Compared to sectors like energy, where robust statistics on prices, production and consumption are generated weekly, key information on water use and supply is missing or published only every few years.

We should increase the federal budgets for water monitoring. Establishing a Water Information Administration, just as the Department of Energy has an Energy Information Administration, to collect, curate and maintain up-to-date, publicly available water data would inform policy makers and the markets.

Congress should also significantly increase support for water research and development, making sure to include the private sector as a partner.

We need breakthroughs in water treatment technology that would enable larger-scale recycling and reuse of treated water, desalination, and aquifer storage and recovery. These improvements range from the mundane — better pumps and home appliances — to advanced nanomaterials for energy-efficient water treatment.

The water industry's risk-averse culture has resisted innovation. Higher prices and government-backed research and development could help prompt a wave of innovation and investment. This is what happened with hydraulic fracturing and horizontal drilling, two technologies advanced through government research that kicked off the shale boom.

The water problem is daunting. But putting a sensible price on water to invite investment and encourage conservation, increasing the availability of information and doubling down on innovation can go a long way toward solving it.

THE NEW YORK TIMES

By MICHAEL E. WEBBER

MARCH 22, 2016

Michael E. Webber, the deputy director of the Energy Institute at the University of Texas, Austin, is the author of the forthcoming "Thirst for Power: Energy, Water and Human Survival."

New Jersey Issues Rare Debt as Yield Premiums Soar to Near Highs.

Sold, at bargain prices: bonds from New Jersey, where the transportation fund is going broke, the pension system's shortfall is growing and the economy has been slow to recover from the recession.

The $131 million deal Wednesday was the state's first sale of general-obligation debt since 2014. The securities, with stronger credit ratings than those New Jersey typically sells, were priced with a top yield of 2.36 percent for those due in 7 years, some 0.9 percentage point more than benchmark debt, after the size of the offering was cut back by about $10 million. The state also borrowed $98 million through the building authority at yields as high as 4.1 percent on securities that mature in 2030, almost two percentage points over top-rated debt.

"There are not too many situations out there besides Illinois that investors are getting paid right now for those risks and that potentially bumpy ride," said Paul Brennan, a senior vice president in Chicago at Nuveen Asset Management, which oversees about $100 billion of municipal bonds.

New Jersey’s 10-year bonds yield 2.82 percent, the highest after Illinois among the 20 states tracked by Bloomberg. That’s almost a full percentage point more than top-rated tax-exempt debt, near the highest since the data begin in 2013. That premium, a measure of the perceived risk, is more than three times what investors demand from California, Michigan and Massachusetts.

New Jersey’s mounting tab from its employee retirement plans are squeezing its finances because years of failing to set aside enough to cover promised benefits have caused the annually required contributions to soar.

The state’s strains don’t end there. Republican Governor Chris Christie and the Democratic-controlled legislature have yet to replenish a fund that finances transportation projects and is set to run out of money in July. A lackluster recovery from the recession has also stymied the state: It wasn’t until late last year that private-sector payrolls climbed back above their 2008 peak, a benchmark the U.S. reached in early 2014.

“There is a lot of uncertainty,” said Rob Amodeo, head of municipals in New York for Western Asset Management Co., which holds $25 billion of the securities.

The state is able to benefit from interest rates that are hovering near a five-decade low, even if its yields have held above other states. Proceeds from the general-obligation sale, the first since a $525 million deal in December 2014, refinanced higher-cost securities.

Buyers gravitated toward the bonds sold by the building authority, which had higher yields and longer maturities than the general obligations, said Joseph Perone, a spokesman for the state’s Treasury Department. He said that Citigroup Inc., the lead underwriter on the offering, will “sell the remainder of the GO bonds in the market in due course.”

“We were pleased with the outcome,” he said in an e-mail.

The state primarily borrows through appropriation-backed bonds, with most of its debt service relying on funds that are allocated by the legislature. Those securities are rated one step lower than the state’s $2.4 billion of general obligations, which are backed by its full faith and credit and don’t depend on lawmakers’ approval.

Falling Behind

While Christie has put aside more for pensions than his predecessors, the retirement system is about 48.6 percent funded, the lowest ever, according to preliminary offering documents for Wednesday’s sale. For the year beginning in July, his administration has proposed making a $1.9 billion payment, about 40 percent of what actuaries say is required.

Senate President Steve Sweeney, a Democrat, is pushing legislation that would ask voters to mandate that the state pay what it owes every year, a move Christie opposes because he says it would require a massive tax increase.

The three major credit-ratings firms have downgraded New Jersey a total of nine times since Christie took office in 2010, when the impact of the recession was roiling its finances. It has a lower rating from Moody’s Investors Service and Standard & Poor’s than any state but Illinois.

The state’s grade “will continue to fall” absent any significant change, Moody’s, which ranks it A2, five steps above junk, said in a report last week. On Tuesday, S&P lowered the outlook on New Jersey to negative from stable, a sign the rating could be cut.

Investors who bought the new deal should be prepared for volatility, said Amodeo, the money manager with Western Asset. It's likely that New Jersey's yield premiums will increase over the next few months, he said.

"If you believe the current status quo remains in place, you'd want to avoid it," he said, ahead of the sale's close. "If you have a long-term view that the situation would find a remedy, it's offering good value."

Bloomberg Business

by Romy Varghese

March 23, 2016 — 2:00 AM PDT Updated on March 23, 2016 — 1:56 PM PDT

Puerto Rico Bill Said to Have Investor Cram-Down Mechanism.

An emerging U.S. House Republican bill to address Puerto Rico's debt crisis would create a strong oversight board and a mechanism to force creditors to accept a restructuring deal, according to a congressional official familiar with the legislative efforts and a written summary.

The board's debt restructuring powers could include all creditors, but only after certain conditions are met, a congressional official said.

The partial draft also provides for the board to petition a judge for a court-supervised restructuring, which would amount to a cram-down mechanism to force resistant investors to accept a deal, according to a Republican-drafted legislative summary circulated Thursday on Capitol Hill and the congressional official.

The proposal would be an alternative to a process under Chapter 9 of the U.S. bankruptcy code, which Republicans have opposed.

As part of the plan, lawmakers are also considering safeguarding Puerto Rico from legal action by temporarily prohibiting creditor lawsuits.

The proposal, which is being developed by Republicans on the House Natural Resources Committee, remains fluid and details could still change, congressional aides said Thursday.

A legislative hearing on the proposal is planned for April 13, after the House returns from a recess.

Oversight Board

The oversight board included in the draft is modeled after the one imposed once on the District of Columbia, rather than on the one proposed by the U.S. Treasury Department to address Puerto Rico's financial troubles, the congressional official said.

The board would consist of five appointed members and would have the power to hire financial and management experts, according to the summary.

Forcing creditors into a restructuring if Puerto Rico fails to negotiate in good faith would be "an extreme stand," said Daniel Solender, who manages $18 billion of state and local debt, including commonwealth securities, as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey.

“The outcome is definitely uncertain in that type of structure,” Solender said. “It’s concerning how everything will be decided and who would be deciding.”

Prices on Puerto Rico securities were little changed Thursday. General-obligations with an 8 percent coupon and maturing July 2035 traded at an average price of 71.25 cents on the dollar, compared with 71.5 cents the day before, data compiled by Bloomberg show. The average yield was 11.8 percent.

Lawmakers may alter the legislation as it makes its way through the House and the Senate, potentially weakening any proposed forced restructuring, Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, wrote in a report Thursday.

“We continue to believe that a federal control board created by such a law would have expansive authority over local Puerto Rico budgets but limited ability to coerce creditors into any kind of restructuring,” Hanson said in his report. “Any bankruptcy authority passed through Congress will likely include only limited scope.”

Democrats have been told by Republicans drafting the bill that a version of the measure is to be publicly posted on March 29, said a Democratic aide.

Tight Timing

But time is running tight. Governor Alejandro Garcia Padilla has warned the island may default May 1 on a $422 million debt payment unless the commonwealth reaches an agreement with its creditors. Puerto Rico and its agencies face another $2 billion payment due July 1.

“At least people are working toward a solution, so that’s a positive thing,” Solender said. “The structure is uncertain, but at least there’s progress in that direction.”

Republicans have in recent months been insisting that Puerto Rico needs a strong oversight board to manage the territory’s fiscal problems. By modeling such a board after the one imposed on D.C. in the 1990s, Republicans are choosing a muscular body that could likely limit the powers of officials in Puerto Rico.

The federal government in 1995 established a five-member control board to oversee the District of Columbia’s finances and imposed a chief financial officer to manage the district’s agencies. The panel had the power to override decisions by the mayor and the D.C. city council.

That control board ended its oversight in 2001 after four straight years of balanced budgets and approved audits.

Several Hurdles

Under the plan being shaped now by House Republicans for Puerto Rico, such a board would seek audited financial statements at all levels of government, the legislative summary said. The board also would have the authority to enact budgets if the governor and lawmakers do not, and make cuts in departments and agencies, including public corporations.

Certain conditions would have to be met before the board could proceed with debt restructuring, including audited financial statements, a fiscal plan and budget, and mediation among the various debtors and creditors.

As a last resort, according to the memo, the oversight board would have the power to authorize a petition in U.S. District Court for restructuring.

Also mentioned in the summary is that an independent study would be conducted of Puerto Rico's pension obligations and their sustainability.

Bloomberg Business

by Kasia Klimasinska and Billy House

March 24, 2016 — 7:54 AM PDT Updated on March 24, 2016 — 3:04 PM PDT

[Detroit Bondholders to Wait Nearly a Year for Annual Financials.]

Detroit's record bankruptcy hasn't solved once financial problem that's plagued the city for at least a decade: Getting its annual financial report done on time.

Mayor Mike Duggan's administration will miss a March 31 deadline for releasing audited statements for the fiscal year that ended in June, the city said in a regulatory filing. The report is expected to be ready by May 31, the city said, because of holdups from the water and sewer department and library system.

Such delays are legion in the $3.7 trillion municipal market, especially when it comes to distressed borrowers at the greatest risk of defaulting. That's in part because the Securities and Exchange Commission has no direct power to crack down on governments that drag their feet in making routine disclosures, unless it finds evidence of fraud.

Municipal issuers "substantially lag" corporate borrowers when it comes to delivering timely financial reports, according to Richard Ciccarone, president of Merritt Research Services LLC who found that municipal audits typically don't come out until about six months after the year ends. That's three times longer than the deadline the SEC imposes on the largest corporations.

"Detroit isn't the only one, but because the city is trying to rebuild it's credibility in the market after going into bankruptcy, it's important for them to keep their word," said Ciccarone. "When they promise to do something, it's important for them to do that."

The SEC, which in a 2012 report said the current regulations leave investors without information they need to make decisions, has been trying to change that through tougher enforcement of the rules it imposes on underwriters. Before selling bonds, those firms have to determine that the governments plan to disclose annual reports and other material information that could affect the value of their bonds.

Detroit hasn't complied during the past five years "in all material respects with its obligations," according to its bond documents when it borrowed $245 million as it emerged from bankruptcy in 2014.

"Now that it has exited bankruptcy the city expects to be in a position to file its annual updates at least within nine months after its fiscal year end going forward," the city said in its bond documents.

That hasn't happened yet. John Naglick, Detroit's finance director, said in a statement that it's alerting investors because "officials know we cannot make the 270 day time frame."

Bloomberg Business

by Darrell Preston

March 24, 2016 — 12:25 PM PDT

California's State Pension Obligations Are Larger Than Previously Estimated.

New accounting rules for determining debt are aimed at increasing transparency

SACRAMENTO, Calif.—California has nearly $64 billion in pension debt that eventually must be paid to current and former teachers and state workers—a figure more than $20 billion higher than previous estimates, state Controller Betty Yee said Friday.

Ms. Yee disclosed the higher pension liability for the first time in California's comprehensive annual financial report, using a new calculation aimed at more accurately reporting the government's financial responsibilities. It reflects the state's unfunded retirement debt as of June 30, 2015.

The "net pension liability" reflects the state's unfunded retirement costs as of June 30, 2015. California had previously reported a different figure, the "unfunded actuarial liability," which was $40 billion a year earlier.

Under requirements of the Governmental Accounting Standards Board, state and local governments nationwide are using the new calculation to report their unfunded pension debts. They also must now be included on the balance sheet alongside other government debts, such as bonds, claims, judgments and long-term leases.

As a result, California ended the year $175 billion in debt, up from $119 billion the prior year.

The new rules will increase transparency, Ms. Yee said in a statement, "which will in turn focus local and state governments on ensuring they adequately plan for these important long-term obligations."

Ms. Yee said she expects other employment-related benefits, such as retiree health-care costs, to be reported in future years, further driving up the deficit on California's balance sheet.

The new reporting requirements allow state lawmakers and local government leaders to make more informed decisions about pension benefits, said Sen. John Moorlach (R., Costa Mesa), a certified public accountant who has been highlighting pension costs as they are reported by local governments.

"I'm embarrassed that my profession failed to make this requirement 30 years ago," Mr. Moorlach said. "Now most states are in pension-plan debt up to their eyeballs, and the problem is ubiquitous."

The financial report said California collected $117 billion in revenue during the last fiscal year. That was up 12% from the previous year, mostly from a sharp uptick in personal-income tax collections. The general fund had enough cash at the end of the fiscal year to pay for 20 days of operations, up from 16 a year earlier, the report said.

Associated Press
March 18, 2016 9:35 p.m. ET

[Illinois Supreme Court Strikes Down Chicago Pensions Plan.]

SPRINGFIELD, Ill. — The Illinois Supreme Court dealt another devastating blow Thursday to the state's impatient attempts to control ballooning public pension debt, striking down a law that would have cut into an $8 billion hole in two of Chicago's employee retirement accounts and leaving officials searching for new options to shore up an already wobbly program.

The city had hoped that by pointing to the steep increase in taxpayer-fueled contributions the law required it would be able to sidestep a widely expected ruling that the plan violated the Illinois Constitution's protection against reducing pension benefits.

But the court's unanimous finding in favor of pension participants who pointed to reduced future benefits and higher contributions sends the city back to the bargaining table.

Republican Gov. Bruce Rauner used the ruling the tout a proposal by Democratic Senate President John Cullerton that would offer workers a choice of future cost-of-living increases based on current salary, or lowered increases tied to future pay raises. The idea is, benefits already collected don't go away.

"We've got to stop changing and taking away peoples accrued pension benefits," Rauner said at a stop in Paxton, according to audio released by his office. "Let's propose changes for future work with 'consideration' so teachers or police officers or public places can choose different pensions for the future."

An expert on Illinois finances said it's time to amend the Illinois Constitution to make the pension protection language clear. Lawmakers vowed to keep trying.

To stave off insolvency by 2029, the law forced the city to significantly ramp up its annual contributions, but also cut benefits and required larger contributions from about 61,000 current and retired librarians, nurses, non-teaching school employees laborers and more.

Critics targeted the law from the start, in part because it addressed only two funds — civil servants and laborers. When including police and fire pension programs, the city's total liability was $20 billion — not counting a $9.6 billion shortfall in the Chicago Public Schools teachers' pension account. The City Council approved a $543 million property-tax increase last fall — to deal with shortages in police and fire funds.

The order came less than a year after the high court used the same reasoning to shoot down a separate pension bailout: the $111 billion deficit in state-employee retirement accounts.

And other cities are not far behind, facing similar shortfalls.

Laurence Msall, president of the Civic Federation, a Chicago-based tax policy and research group, suggested the iron-clad constitutional language threatens any proposal. He suggests a constitutional amendment that loosens its restrictions.

"We're not advocating for any specific plan," Msall said. "We're supporting the need for clarity in the constitution so those ideas can be legislated."

Chicago Mayor Rahm Emanuel, who inherited the crisis, disagreed with the ruling but pledged to re-convene negotiations on a new framework.

“My administration will continue to work with our labor partners on a shared path forward,” the Democrat said in a statement.

The four unions representing the plaintiffs were more sanguine.

“This ruling makes clear again that the politicians who ran up the debt cannot run out on the bill or dump the burden on public-service workers and retirees instead,” the unions said in a joint statement.

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The case is Jones v. Municipal Employees’ Annuity and Benefit Fund of Chicago

By THE ASSOCIATED PRESS

MARCH 24, 2016, 6:28 P.M. E.D.T.

Illinois High Court Delivers Defeat to Union on Back-Pay Dispute.

CHICAGO — The Illinois Supreme Court reversed two lower court rulings on Thursday and held that unionized state workers whose 2011 raises were withheld during a state budget crisis are not entitled to back pay unless the state legislature appropriates the money.

Roughly 24,000 employees in five state agencies aimed to collect $62 million in unpaid wage increases promised in July 2011 as part of a modified four-year contract that the American Federation of State, County and Municipal Employees (AFSCME) negotiated with the state.

Then-Governor Pat Quinn had budgeted for the increases but was unable to deliver them because the legislature failed to appropriate enough money. The union estimated the affected members, on average, are owed $2,500 apiece.

AFSCME later won an arbitration ruling ordering immediate payment of the raises despite no specific appropriation from the Illinois General Assembly. A state circuit court and appellate court upheld the decision.

But in Thursday’s ruling, backed by six of seven justices, the state’s high court overturned the decisions and held that Illinois’ constitution requires a legislative sign-off on all spending matters, including union pay raises negotiated with the executive branch.

Justice Mary Jane Theis, writing for the court’s majority, justified the stance by noting past court precedent that “when labor representatives bargain with executive agencies, they do so with the knowledge that any agreement reached will be affected by the General Assembly’s appropriation power.”

AFSCME was disappointed with the ruling.

“The court’s decision today raises the troubling prospect that government could benefit from a contractual agreement – in this case, the public services provided by many thousands of men and women – but refuse to fulfill its own obligations under that agreement if lawmakers and the governor do not enact a bill to fund them," AFSCME Council 31 Executive Director Roberta Lynch said.

By REUTERS

MARCH 24, 2016, 1:30 P.M. E.D.T.

(Editing by Jeffrey Benkoe)

Illinois Supreme Court Deals Another Blow to Rahm Emanuel.

CHICAGO — The Illinois Supreme Court on Thursday dealt another setback to Mayor Rahm Emanuel, ruling that a 2014 law that required Chicago city workers to pay more toward their retirements while also scaling back their future benefits was unconstitutional.

The court said the plan was a violation of the rights of employees, who are protected by the Illinois Constitution under a clause that states pension benefits "shall not be diminished or impaired."

"The pension protection clause does not guarantee any particular method of funding, but, rather, guarantees the right to be paid," the ruling said.

The decision is likely to make it more difficult for city leaders to resolve a developing financial crisis exacerbated by their obligation to pay into pension funds, which have been underfunded for years and are under increasing pressure as more workers retire and then live longer.

It comes amid other financial pressures — the leadership of the Chicago Teachers Union voted on Wednesday to approve a one-day walkout on April 1 in protest of budget cuts and forced furlough days — and at a time when the state is in its second year without a budget because its Democratic legislators and Republican governor cannot agree.

Other states and localities are also facing the need to solve underfunded pensions, after officials for years shortchanged the funds into which they were obligated to pay.

Mr. Emanuel had negotiated with unions for city employees and laborers to shore up two of the city's four pension funds. According to the agreement, the city would increase its annual contributions to the funds, while workers would increase their retirement contributions by 2.5 percentage points over five years.

But not all union members were in favor of the agreement, and a group filed a challenge in court. Judge Rita Novak of Cook County ruled last summer that the 2014 law overhauling the two pension funds was unconstitutional. The decision on Thursday denied the city's appeal.

In a statement, Mr. Emanuel said the city would continue to work with labor unions "on a shared path forward that preserves and protects the municipal and laborers' pension funds, while continuing to be fair to Chicago taxpayers and ensuring the city's long-term financial health."

"Though disappointing, this ruling does not change my commitment to ensuring employees and retirees have a secure retirement without placing the full burden on Chicago taxpayers," Mr. Emanuel said.

The unions and city employees who filed the lawsuit said they were pleased with the result, which “strengthens the promise of dignity in retirement.”

“Like last year’s decision that prevented pension cuts to teachers, state employees and university employees in state pension systems, this ruling makes clear again that the politicians who ran up the debt cannot run out on the bill or dump the burden on public-service workers and retirees instead,” the unions said in a statement.

The decision in the unions’ favor could actually help Chicago’s finances in the short term: By throwing out the law, the Illinois Supreme Court also removed the requirement that the city pay more into the pension funds.

But in the long term, Mr. Emanuel or his eventual successor will have to look for revenue elsewhere, such as with another property tax increase for city residents. The City Council passed a $589 million increase in property taxes last year to fund police and firefighter pensions.

The Chicago Teachers Union went on strike for more than a week in 2012 and eventually won concessions from the city over pay and teacher evaluations. Union leaders claim it is now inadequate. “The labor conditions have gotten to the point where they are not bearable,” Karen Lewis, the union president who has previously clashed with Mr. Emanuel, said Wednesday.

THE NEW YORK TIMES

By JULIE BOSMAN

MARCH 24, 2016

Michigan's Way of Funding Cities Set Stage for Flint Water Crisis.

The human side of the Flint water crisis is appropriately receiving major attention from the media and policymakers alike. But the piece that’s been largely ignored is the state’s failed policies toward municipalities that have brought us to this place. For years we have attempted to draw attention to the failings of our municipal finance system, and by extension the use and powers of emergency managers. According to the U.S. Census Bureau, Michigan is the only state in the country providing fewer economic resources to its cities in 2012 than it did in 2002.

This tragic outcome in Flint is in many ways what we should have expected because Michigan has built a system that incentivizes new building at the expense of what currently exists. Our system attempts to balance budgets by only addressing the cost side of the equation. We have no mechanism to invest in our cities as a way of improving the financial well-being of a community.

Emergency managers have been given extraordinary powers to balance the budgets of fiscally distressed communities, but virtually all of these powers relate in one way or another to cutting costs. What is forgotten with this approach is that costs equal services. Cost-cutting measures, with few very exceptions, result in a reduction in the services that the community will receive. Usually those reductions do not have tragic consequences, but make no mistake: the decision to switch from the Detroit Water and Sewer Department to the Flint River was an economic one driven by state laws and policies that significantly impact and restrain local government.

This decision was not about improved service, water quality, infrastructure investment, or any other altruistic goal. This was an opportunity to save money and nothing more.

Emergency managers do not have a long-term vested interest in a community. In fact, they have the exact opposite point of view. By design, emergency managers are outsiders with a single mission to reduce costs. I am in no way suggesting that this decision was made with malice or without forethought, but the emergency manager and, by extension, the state has only one objective during a financial emergency. That goal is to reduce costs until the budget is balanced. It is this approach that has brought us to where we are today. Emergency managers do not have to live, long-term, with service reductions and the diminishment to the community that they bring. When they have completed the mission, they move on. They have one focus: to balance the budget by cutting expenses until they equal revenues. But this approach fails to recognize, and in fact is in direct conflict with one of the fundamental tenants of Michigan's municipal finance model, which is that the value of a community directly impacts the revenue that a community can generate to sustain services. It's a system designed for failure.

Think for a moment about how cities generate revenue. Property taxes are a function of two things: millage rate and taxable value. What makes taxable value higher in one community versus another, is in essence, what makes one city or village more desirable than another. Great places command higher prices, which translates into greater taxable value. This in turn generates more revenue. It is simple math. When an emergency manager balances the books by closing parks, eliminating programs and services and forgoing investments in infrastructure, he makes it a less desirable place. This of course, diminishes the value of the city and its revenue generating power. Consequently, the city offers even fewer services, which further diminishes it as a place where people want to live, which diminishes value, and so on. It's a death spiral — a fundamentally flawed process that will never work given Michigan's current municipal finance model. The system is broken.

Now think of that approach in the context of Flint. What have we bought with our cost-reduction approach to balancing budgets? A significantly damaged community in both a social and economic sense. If taxes are a function of value and millage, how have property values been impacted in Flint as a result of this cost-cutting decision? I think it is fair to suggest that the property values in Flint have been severely impacted as a result of the current crisis. Which will mean deep reductions in local tax revenue, which of course will mean reductions in service, which means a diminishment of value. The death spiral continues. Sadly, our only existing mechanism to address this will be through more cuts. We need a new way forward.

Our first priority must be to address the social and health impacts Flint is experiencing. Beyond that, we must address the policy that brought us here. We must invest in our local communities. Cuts beget more cuts. It is a race to the bottom, and in this case a tragic illustration of flawed public policy. Creating vibrant, desirable communities is proven to have positive economic impact as well as social value that we have lost sight of with our current approach. We must recognize that by investing to create great places we can improve both the quality of life and the economy of a city at the same time. A cut-only approach can only diminish the strength of a community and in extreme instances like this have a devastating human impact. We must learn from this disaster and redefine how we invest in Michigan cities.

The Detroit Free Press

by Anthony J. Minghine

11:20 p.m. EDT March 19, 2016

Anthony J. Minghine is associate executive director and chief operating officer of the Michigan Municipal League.

New Jersey's Public Pensions in Worst Shape Ever Ahead of Bond Sale.

March 18 – New Jersey’s public pensions are as underfunded as they have ever been, which could pressure the state’s sale next week of $141.7 million of general obligation bonds.

The state’s aggregate funded ratio of all plans is 48.6 percent, “the lowest funded ratio that the pension plans have ever experienced,” a bond document for potential investors showed.

The document, dated March 14, detailed the deterioration of the state’s roughly $83 billion pension system, which covers nearly 770,500 members, both active and retired and state and local, across seven separate funds.

Since 2011, when the state enacted reforms aimed at shoring up the pension system, the funded ratio has only fallen further, the offering document said. The state has not made its full share of contributions for many years.

When including local government contributions to two funds – the public employees and the police and firefighter funds – the overall system appears somewhat better at 59.5 percent, which is still far below an 80 percent level considered baseline healthy.

Local governments participate in those two funds, which the state sponsors and also takes part in. State and local assets are invested together, but the members and actuarial liabilities are kept separate.

Under new Governmental Accounting Standards Board rules, the system is funded at 37.5 percent and with $135.7 billion of unfunded liabilities, of which $78.9 billion would fall to the state and the rest to local governments, the document showed.

The underfunding has pressured the state’s creditworthiness. After nine downgrades since Governor Chris Christie took office in January 2010, it is now the second lowest rated U.S. state behind Illinois.

New Jersey’s credit spreads have widened. When Christie took office, the spread on the state’s 10-year bonds was about 25 basis points over top-rated U.S. municipal bonds. On Friday, it was 65 basis points wider at 90 basis points, according to data from Municipal Market Data, a Thomson Reuters unit.

By comparison, the single-A 10-year spread narrowed by about 32 basis points to 53 basis points over the same period.

The state will begin offering the GO bonds on Wednesday, the same day that the New Jersey Building Authority plans to issue $96.7 million of state building revenue refunding bonds. Citigroup is lead manager on both negotiated deals.

Altogether, an estimated $7.4 billion of municipal bonds and notes are scheduled to price next week, even though the market is closed on Friday for the Good Friday holiday.

Reuters

(Reporting by Hilary Russ; Editing by Daniel Bases)

[Houston's $3 Billion of Debt Cut by Moody's After Oil Drop.]

Houston’s $3 billion of general-obligation debt was cut one level by Moody’s Investors Service, which cited weakening economic performance due to lower oil prices, the city’s pensions obligations and restrictions on raising taxes.

The fourth largest U.S. city was downgraded to Aa3, Moody’s fourth-highest level, and remains on watch for additional cuts, the rating company said Wednesday.

“The negative outlook reflects the recent weakness in economic and sales tax performance, fueled by energy companies’ reduced investments in personnel and capital, as oil prices have remained low,” Moody’s said in a release.

The lowered ratings could lead to higher costs when the city borrows in the municipal-bond market. The rating cut came ahead of the planned sale of $600 million of bonds this month to refinance debt.

Moody’s recognized “positive actions” taken by Mayor Sylvester Turner, who took office this year, to curb the city’s costs and generate new revenue over the next two years.

“I am continuing discussions with various stakeholders on a plan to solve the city’s outstanding pension obligations,” Turner said in a statement. “The refinancing will still yield considerable savings. I remain confident that the steps we are taking today will create fiscal stability for the city tomorrow.”

Bloomberg Business

by Darrell Preston

March 16, 2016 — 4:12 PM PDT Updated on March 17, 2016 — 5:42 AM PDT

[Not Yet. AllianceBernstein Preaches Patience on Puerto Rico Debt.]

Just wait, high-yield investors. That’s the message from AllianceBernstein Holding LP on whether Puerto Rico securities offer a buying opportunity now.

While traditional municipal-bond investors need to hold off on purchasing commonwealth debt, buyers of riskier tax-exempt debt should wait for a potential opening, Guy Davidson, director of municipal-fixed income in New York at AllianceBernstein, which oversees about $32 billion of state and local debt, wrote in an online posting Tuesday.

“A year ago, many people asked us if Puerto Rico’s debt was a good investment. Our answer now, as it was then, is ‘no,’” Davidson wrote. “For investors with strategies that can include high yield, it’s ‘not yet.’ Puerto Rico has the same problem today that we warned of then: too much debt, especially for an economy that continues to contract.”

Puerto Rico and its agencies owe $70 billion after years of borrowing to solve budget shortfalls. Governor Alejandro Garcia Padilla is seeking to cut that amount by asking investors to accept losses on their holdings after announcing in June that the island was unable to repay all of its obligations. Two commonwealth agencies have defaulted and more payment failures may follow. The

Government Development Bank owes investors $422 million on May 1. The island owes another $2 billion of principal and interest on July 1.

Puerto Rico securities have been trading at distressed levels for more than two years. A commonwealth general-obligation bond with an 8 percent coupon and maturing 2035, the island's most-actively traded security, changed hands Tuesday at an average 70 cents on the dollar, down from its original price of 93 cents, according to data compiled by Bloomberg. The average yield was 12 percent.

Commonwealth municipalities are unable to file for bankruptcy protection, as Detroit did. Puerto Rico officials are asking Congress to give the island broad restructuring powers as the debt is held by investors with different business strategies, including mutual-fund firms that purchased the debt at par and distressed-debt buyers who bought the securities at a discount. The island needs a legal map to fix its debt crisis, Davidson wrote.

"We believe that a legal framework would create a process for an orderly restructuring of Puerto Rico's debt," Davidson wrote. "It's an approach that would benefit both investors in Puerto Rico bonds and the citizens of Puerto Rico."

Bloomberg Business

by Michelle Kaske

March 16, 2016 — 8:34 AM PDT

Arizona Has a Plan to Get Revenge on Its Pro-Worker Cities.

Inspired by decisions in cities like Tacoma, Wash., and Elizabeth, N.J., to require companies to offer paid sick leave, Lauren Kuby, a City Council member in Tempe, Ariz., began pushing a year ago for her city to do the same. By September, Kuby had secured enough support from her colleagues to have the city formally explore the issue. "I really took seriously Obama's call to take local action," says Kuby. "I saw cities as the place to make a difference."

Then Kuby and her colleagues heard that Arizona's Republican-controlled state legislature was considering punishing cities that tried to set their own codes for worker benefits. Arizona's House passed a bill on March 1 specifying that cities aren't allowed to require private employers to provide paid sick leave or vacation. The state Senate has passed companion legislation that would cut state funds, used to pay for services like police and firefighting, for cities that try to supersede state laws. "They actually decided to dissolve our study group because they were so chilled by the state threat," says Kuby.

Lawmakers in Phoenix, Arizona's capital, say they were inspired to act after the state's Republican Governor, Doug Ducey, called in his January State of the State address for cities "to put the brakes on ill-advised plans to create a patchwork of different wage and employment laws." He vowed to do everything in his power to block them, "up to and including changing the distribution of state-shared revenue." (Arizona municipalities are prohibited from collecting income taxes and rely on distributions from state coffers.)

Cities "think that they're an independent and sovereign entity from the state, which is not true—they're a creature of the state," says Arizona Senate President Andy Biggs, who spearheaded one of the bills. “You can’t put a municipality in jail, nor would we. What we’re really seeking to do is provide a deterrent effect.”

Arizona is one of several states where legislators have moved to stop local officials from trying to pass minimum wage increases or paid leave policies that have no chance in the statehouse. In Alabama, state lawmakers invalidated a Birmingham minimum wage increase to $10.10, from $7.25, in February by passing a law denying cities such authority. Idaho’s legislature passed a similar law in March.

Paid sick leave supporters scored their first win in San Francisco in 2006. Twenty-three cities and five states have enacted sick leave since, most recently on March 9 in Vermont. But such laws have been squashed in Republican-dominated states. Milwaukee voters passed a paid-leave law by referendum in 2008. Following a strategy previously used to block local regulations on smoking or guns, Wisconsin Governor Scott Walker invalidated it in 2011. “Most of us hadn’t paid attention to what had happened in the tobacco world and in the gun world,” says Ellen Bravo, executive director of the nonprofit advocacy group Family Values @ Work. “We should have paid attention in Milwaukee.”

Restaurant owners have led the opposition to city sick-leave ordinances in Arizona. “We just ask that they have the ability to choose what regulations are put on their business,” says Arizona Restaurant Association lobbyist Chianne Hewer. “At the state level, while it’s still crazy there as well, you’re able to have one discussion.”

The current fracas is the latest round in a two-decade tug of war between Arizona’s cities and its legislature over labor rules. Legislators first banned cities from passing their own minimum wage increases in 1997. Voters overrode that law with a 2006 referendum authorizing cities to pass minimum wage and benefits laws of their own. Legislators passed another law in 2013 banning cities from regulating wages and employee benefits, which activists successfully challenged in court, citing the 2006 referendum.

If legislators’ latest proposals become law, Democrats including Phoenix Mayor Greg Stanton are already promising more lawsuits. “My message to members of the legislature that do want to micromanage cities and to preempt cities on ordinances and laws that reflect the values of our community,” he says, “is, if you really feel that strongly, run for mayor. It’s a great job.”

The bottom line: *Arizona cities that raise wages or mandate sick pay would lose state funding under legislation being considered by state lawmakers.*

Bloomberg Businessweek

by Josh Eidelson

March 15, 2016 — 5:00 AM PDT Updated on March 15, 2016 — 8:26 AM PDT

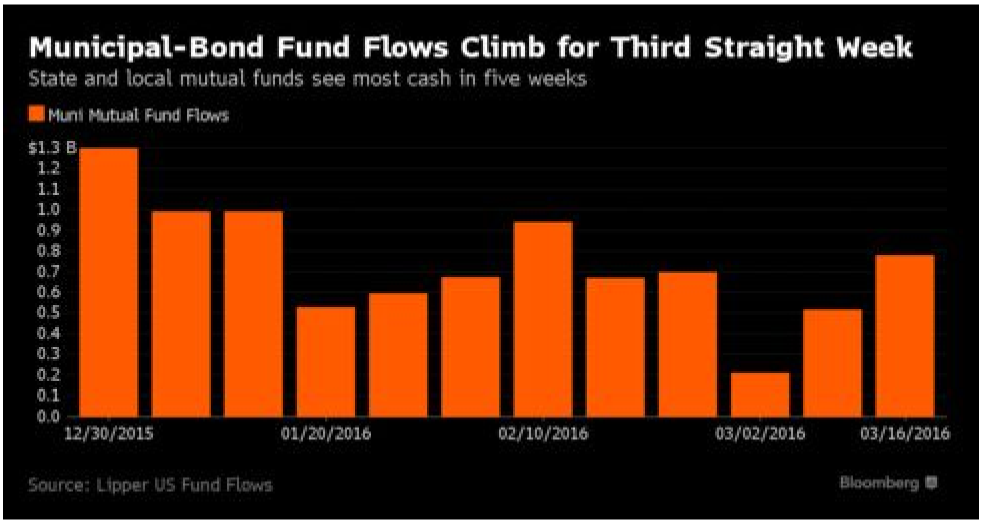
Bloomberg Brief Weekly Video - 03/17

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

Watch the video.

9:53 AM PDT
March 17, 2016

[Muni Bond Fund Inflows Most in Five Weeks as Yields Rise: Chart.]



Individual investors added $780 million to municipal-bond mutual funds in the week through Wednesday, Lipper US Fund Flows data show. That's the third straight weekly gain and the biggest increase since the period through Feb. 10, when inflows reached about $941 million. The increase in cash comes as benchmark 10-year muni yields are poised for their first decline in five weeks. It was the 24th straight week of inflows.

Bloomberg Business

by Elizabeth Campbell

March 18, 2016 — 5:11 AM PDT

[Christie Wants Moratorium on Towns Seeking Hospital Payments.]

New Jersey Governor Chris Christie called for a two-year ban on lawsuits by towns seeking tax payments from hospitals to cover the cost of municipal services.

Christie, a second-term Republican, asked lawmakers to control suits that have been filed by municipalities since a judge ruled in June that Morristown Medical Center owed local property taxes. The decision opened the door for other municipalities that host nonprofit businesses, including hospitals and universities, to challenge their tax-exempt status.

"It gives us time to come up not just with a solution, but the right solution," he told reporters at Trinitas Regional Medical Center in Elizabeth, New Jersey's fourth-largest city. The Roman Catholic teaching hospital is fighting the city's efforts to tax its properties.

The governor said there has been a "patchwork" solution, and that the state's 62 nonprofit hospitals "need to know with certainty what their costs are going to be." He proposed a commission to examine the issue while the moratorium is in effect.

For the necessary legislation, he said, he has support from the New Jersey Hospital Association and Senate President Steve Sweeney, a Democrat from West Deptford, though not yet from Assembly Speaker Vincent Prieto, a Democrat from Secaucus. Prieto, in a statement, said a moratorium “is not a solution.”

He and Sweeney both said Christie should have signed the bill approved in January by the legislature — and supported by the hospitals — that would have had those with for-profit businesses make payments to their hometowns in exchange for tax-exempt status. Christie didn’t sign the measure by the end of the legislative session, effectively killing it.

“We need to resolve this issue now, not in two years,” Prieto said. “The Assembly will continue working with all parties on an immediate solution.”

Bloomberg Business

by Elise Young

March 18, 2016 — 9:42 AM PDT Updated on March 18, 2016 — 12:12 PM PDT

Fitch: N. Carolina Primary Will Also Choose Infrastructure Path.

Fitch Ratings-New York/Chicago-14 March 2016: When voters in North Carolina choose a presidential candidate in tomorrow’s primary, they will also decide whether or not to approve a $2 billion general obligation (GO) bond to fund infrastructure. If approved, the voters’ decision will signal a shift toward GOs and away from appropriation-backed lease revenue bonds and, potentially, indicate how voters in the state may prioritize infrastructure funding, Fitch Ratings says.

If approved, most of the proceeds would pay for capital improvements at the University of North Carolina campuses and community college campuses. The remainder would fund water and sewer projects, parks, the North Carolina Zoo and the National Guard and Department of Agriculture.

With tax-supported debt of approximately $7.5 billion as of June 30, 2015, Fitch believes the state’s debt levels will remain relatively low if the $2 billion bond is approved. At the end of fiscal 2015 the state maintained reserves of $852 million, or 3.8% of general fund revenues. The current biennial budget would further increase reserves to $1.1 billion, or 5.1% of expected general fund revenues. The state has other reserves in excess of $1.7 billion.

If voters decide against the authorization, North Carolina could pursue other infrastructure financing, such as revenue bond offerings, or public-private partnerships. According to the American Society of Civil Engineers (ASCE), the water systems in the state will need approximately $10 billion over ten years to comply with new regulations and replace aging systems. The ASCE says the state will also need over $4 billion for wastewater infrastructure through 2030 and approximately $8 billion for education in the next five years. Some would be partially borne by the federal budget, tax collection and user fees.

If the state’s population continues to rise at its recent rate, those projects may acquire even higher priorities. According to the United States Census Bureau, North Carolina’s population has grown by 5.3% since 2010, above that of the US as a whole, which grew by 4.1% over the same period.

Lawmakers See Strong Board as Part of Puerto Rico Debt Fix.

SAN JUAN/WASHINGTON — Republican lawmakers are writing a fix to the Puerto Rico debt crisis that would give an independent financial review board sweeping power to arbitrate creditor disputes and map a future for the U.S. territory's pension system.

Rather than pick winners and losers among investors who hold roughly $70 billion of Puerto Rican debt, the Republican plan envisions leaving key questions to a newly-created board, according to legislative sources familiar with the work. Republicans control both houses of Congress and so the party leaders often write the first draft of legislation.

Under the proposal, White House and congressional leaders would appoint a board of financial experts to arbitrate politically-charged questions like whether bonds issued by utilities or even the island's government should be written down.

"We expect to have a framework that protects taxpayers and restores solvency to the island," said Parish Braden, spokesman for the Natural Resources Committee that is writing legislation in the House of Representatives.

A crucial issue for lawmakers is whether Puerto Rico will have a clear path to restructure debt through the courts, in a process akin to U.S. bankruptcy, if the new board could not facilitate a deal among stakeholders.

The U.S. Treasury Department has long called for a debt restructuring for Puerto Rico. So have Congressional Democrats, and Puerto Rico's leaders.

A spokesman for the Treasury Department said officials were "encouraged by the increased legislative activity," but declined to speculate on the Republican legislation that was expected to be finished before the end of the month.

And while Republicans will write the first draft of the rescue bill, Democrats in Congress and the White House will have a say as legislation moves toward approval from President Barack Obama.

On Monday, New Jersey Senator Robert Menendez, a Democrat, proposed putting roughly $45 billion in unfunded pension liabilities at the top of the list of creditors.

Some creditors are concerned where they might rank with such a move and many oppose any provision that would allow the island to file for bankruptcy. Municipal bond markets would be roiled if Puerto Rico were cleared, some Republican lawmakers have argued.

"These are complicated issues and Congress needs to empower people qualified to handle them," said one staffer working on the plan.

The 3.5 million residents of Puerto Rico may face a reduction of "essential government services" like public safety and health care if there is no fix before the next debt payments in May, Puerto Rico Governor Alejandro Garcia Padilla told Congress last year.

The Menendez plan would restructure all of Puerto Rico's debt, establishing a chief financial officer, a "Fiscal Stability and Reform Board" and require the island's governor to develop a 5-year fiscal plan.

If Puerto Rico accepts the plan Menendez proposes then an automatic 12-month stay on debt payments would go into effect, after which a restructuring plan with creditors would be crafted.

The plan would see that pensions would be paid before the island's General Obligation debt, which is typically the first in line for payment.

Padilla praised Menendez's plan for providing tools needed to stave off the immediate impact of the crisis while helping to stabilize the economy.

Orrin Hatch, the Utah Republican who is chairman of the powerful Senate Finance Committee, swatted away Menendez's proposals.

"While I have yet to see the full legislative text of the proposals, from what I've read, Senate Democrats appear to want to move the goal posts on broad debt restructuring," Hatch said in a statement emailed to Reuters.

By REUTERS

MARCH 14, 2016, 9:18 P.M. E.D.T.

(Reporting By Nick Brown in San Juan and Patrick Rucker in Washington; Editing by Daniel Bases and Diane Craft)

Arizona OKs Bill Cutting Funds to Cities That Cross State.

PHOENIX — Gov. Doug Ducey on Thursday signed legislation cutting state shared revenue from municipalities and counties that pass regulations like plastic bag bans that conflict with state law.

The action came hours after the organization representing all 91 Arizona cities and towns called on the Republican governor to veto the bill. The letter to Ducey from the League of Arizona Cities and Towns says the measure is heavy-handed and intrusive, and it minimizes the important role of local elected officials.

"The elimination of shared revenue from cities and towns is a crippling and unjust penalty since it represents an average of 40 percent of a city's general fund," said the letter signed by the mayors of Tempe, Lake Havasu City and Chandler in the roles as league leaders.

But Ducey was unpersuaded. He had vowed in his state-of-the-state address to cut state shared revenue to any city that adopted a minimum wage that was higher than the state's, even though the law allows that.

"As Governor Ducey has made clear, for Arizona to be competitive, we can't have a patchwork of different laws across the state," spokeswoman Annie Dockendorff said in a statement. "This legislation ensures everyone is playing by the same rules."

The state sent nearly $1.1 billion from income and sales taxes to 91 cities and towns in the budget year that ended June 30.

The Republican-dominated Arizona Legislature has taken a firm stance in recent years against cities that enact laws popular in liberal enclaves, such as plastic-bag bans and rules governing energy efficiency in buildings.

The bill passed mainly along party lines, with all but four Republicans supporting it and all Democrats opposed.

Senate President Andy Biggs' legislation allows an individual legislator to trigger an investigation of a municipal ordinance or regulation by complaining to the attorney general. Cities and towns would be penalized if the attorney general determined there was a conflict with state law or the Constitution. They would lose state funds if they didn't rescind the action within 30 days.

"What possible hubris could drive one single legislator to think he or she has more wisdom than the local elected officials who have been chosen by the voters to govern their communities?" the mayors wrote. "What happened to the principle of 'presumption of innocence' in our legal system?"

Democrats argued it was hypocritical for Republican lawmakers who criticize the federal government for forcing Arizona to follows federal laws to turn around and do the same to cities and towns.

"Time and time again, we have heard the argument that the federal government should not use the power of the purse or their influence to dictate to states what they should and shouldn't do," Rep. Reginald Bolding, D-Phoenix, said during a House debate Wednesday.

Republicans who voted against the bill in the House said they were concerned the penalties would harm ordinary citizens.

By THE ASSOCIATED PRESS

MARCH 17, 2016, 8:30 P.M. E.D.T.

City Wins Legal Battle with Cory Briggs Over Infrastructure Bonds.

San Diego City officials declared victory Thursday in an ongoing legal battle over the use money from lease-revenue bonds being used for infrastructure, after the California Supreme Court refused to hear the case brought by the group San Diegans for Open Government.

At issue was whether the city could legally use the money for street repairs, and other neighborhood infrastructure like fire stations, libraries and lifeguard towers. A lower court had ruled the practice constitutional.

"The Supreme Court has once again affirmed San Diego's ability to use lease-revenue bonds to plan, build and repair public infrastructure that is essential to our quality of life," City Attorney Jan Goldsmith said in a statement. "Had SDOG succeeded in this costly and meritless action, our children would have fewer libraries, our firefighters would be stationed farther from the neighborhoods they serve, and our streets would be repaired at a much slower rate."

The decision leaves intact lower court rulings that upheld the constitutionality of the bond financing mechanism, which has been used by local governments throughout California since it was ruled constitutional in 1998, according to Goldsmith.

SDOG and lawyer Cory Briggs had sought to invalidate lease-revenue bonds to finance library projects in Skyline, Mission Hills/Hillcrest, San Ysidro and San Carlos; fire station projects in City Heights, Hillcrest and Skyline; sea wall repairs in Mission Beach; and other neighborhood projects, the statement said.

The bonds were delayed by the lawsuit, but eventually issued after a lower court and appellate court rejected SDOG's arguments. A parallel action to prevent the City from refinancing of Petco Park bonds was dismissed, but remains pending on appeal.

Briggs was out of town on vacation and not available for comment.

TIMES OF SAN DIEGO

POSTED BY HOA QUACH ON MARCH 10, 2016

New Michigan Law Allows Drainage Districts to Issue Term Bonds.

Michigan drainage districts can issue term bonds for their projects under a new law signed by Gov. Rick Snyder on March 1.

Term bonds allow bond issuers to group a number of bond maturities into one bond certificate. While they have become commonly used in recent years to increase interest in municipal bond issues, the language of the Drain Code was not flexible enough to permit them, resulting in higher interest rates in certain circumstances. Attorneys worked with the Michigan Association of County Drain Commissioners to propose the bill that became Public Act 27 of 2016, which makes term bonds available in drain bond financings. Term bonds will not be used in every drain bond issue, but they will provide an additional tool for finance professionals to use in the right circumstances to reduce the interest cost of drain bonds for the benefit of benefited properties and public corporations that are assessed for the cost of these projects.

Tuesday, March 8, 2016

New Jersey Transit Strike Piles Onto Transportation-Fund Crisis.

The prospect of the first New Jersey Transit workers' strike in three decades come Sunday risks hitting the state and its transportation system while they're already down.

The New Jersey Transportation Trust Fund Authority, which finances road and rail projects throughout the Garden State, has had expenses exceed revenue by an average of $1 billion in each of the last three years.

As of July 1, the state will have exhausted its $8 billion capital budget for roads and mass transit, and no replacement plan is in place. Democratic lawmakers want to reduce future shortfalls by raising the gasoline tax, a proposal Republican Governor Chris Christie has resisted.

New Jersey is the most densely populated U.S. state and its economy relies on a network of superhighways, airports and ocean terminals. A strike from the nation's second-biggest commuter railroad would strand tens of thousands of Manhattan-bound workers. It would mark the latest strain on a state whose credit rating has tumbled to the second-worst in the U.S. and has a swelling $83 billion unfunded pension liability, even though its residents pay the highest property-tax rate nationwide.

“People generally who live in New Jersey are not happy about their tax situation and the services they’re getting,” said Howard Cure, director of municipal research in New York at Evercore Wealth Management, which oversees $6.2 billion of assets. “This is just going to be another frustration.”

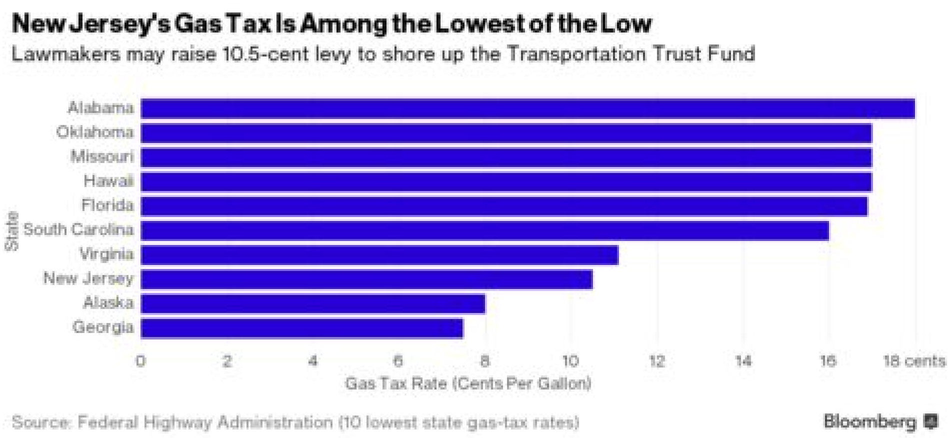
Spreads Widen

Pension and benefit payments, plus debt costs, have diminished New Jersey’s ability to pay for infrastructure improvements, including on its rail line, where trains break down four times more than the U.S. average. To help cover shortfalls in the past three years, the agency issued a net $2.4 billion of bonds. The transportation authority has about $16 billion of securities outstanding, making it one of the 20 most-indebted borrowers in the municipal market.

In the authority’s most-recent bond offering in November, 30-year debt priced to yield 5 percent, or 1.78 percentage point more than benchmark munis, data compiled by Bloomberg show. That spread is twice as wide as when it issued similarly dated bonds in May 2011. Moody’s Investors Service and Standard & Poor’s have lowered their credit ratings by two steps since then.

The most-traded Transportation Trust Fund securities on Friday were zero-coupon bonds due in 2035 that changed hands at an average 35.9 cents on the dollar, the lowest price since December, Bloomberg data show.

Christie pledged to use more cash and less debt for highway and bridge repairs in 2011. Instead, he put no money into the transportation fund for three years and borrowed $1 billion more than promised. That’s left Democrats, who control the legislature, supporting a raise in the state’s 10.5-cent gasoline tax, which is the third-lowest in the U.S. and hasn’t been increased since 1988.



The levy brings in about $500 million annually to the trust fund, its largest pool of money. Yet in the 2015 fiscal year, the agency’s total revenue wasn’t enough to cover transportation costs, let alone $825 million in bond payments.

“Even a doubling or tripling of the gas tax doesn’t solve all their problems, it only makes a dent,” said Adam Weigold, who runs a $166 million New Jersey mutual fund at Eaton Vance Management in Boston. “They need billions of dollars, not hundreds of millions of dollars.”

Christie, who ended his campaign for president last month, said in a radio interview that it's up to the legislature to make the first move and put forward a proposal to raise the gasoline levy. He didn't say whether he'd support the measure, just that he'd "react to it."

Christie and his administration "refuse to renew the Transportation Trust Fund and have failed to recognize the critical importance of the state's infrastructure to the economic conditions for working people in New Jersey," New Jersey Senate President Steve Sweeney, a Democrat, said this week. "The years of indifference to the state's transportation needs now threaten to cripple transit and choke off economic activity."

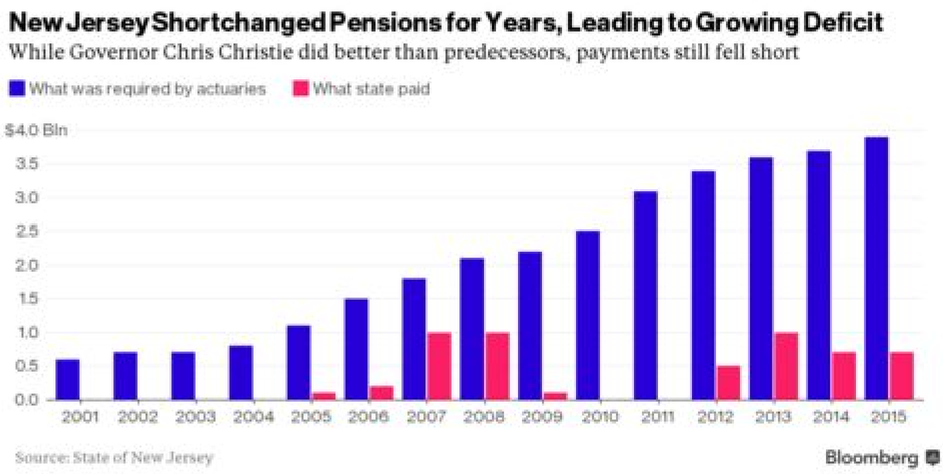
Contract Negotiations

The potential transit strike would be the first since 1983. It stems from the expiration of contracts for 4,200 unionized rail workers in 2011. New Jersey Transit's negotiator said that there was nothing to report as of Thursday, when talks resumed after a day-long break for each side to review the latest proposals.

An emergency negotiating board appointed by President Barack Obama had recommended that New Jersey Transit adopt the final offer made by the union group, at a cost of $183 million. It called for a six-and-a-half-year contract with annual raises of 1.5 percent to 3.5 percent and a maximum 5 percent annual health-care contribution, according to the presidential board report.

New Jersey Transit said the state couldn't afford the recommendation. The agency had offered a seven-and-a-half-year contract that had annual increases of 1 percent to 2.5 percent and employees covering as much as 20 percent of medical costs.

Capital investment in New Jersey Transit has declined 19.4 percent since 2002, even as ridership jumped 20.2 percent, according to a report released this month by New Jersey for Transit, a coalition pushing for more spending. To offset the lack of funding, the system has raised fares five times in the past 14 years and diverted money for capital projects to cover day-to-day costs, the group said.



Raising the gasoline-tax rate would be a good first step to bolster the transportation trust fund, according to the report. That, in turn, would allow New Jersey Transit to focus on capital projects.

For investors, who see the money flow through New Jersey's coffers before reaching the transportation fund, the underfunded pensions are a bigger concern than lack of infrastructure spending. Over the past decade, the state put about $24 billion less than it should have into the funds, skipping payments as a one-time solution to close budget shortfalls and avoid tax increases.

"The gas tax seems to be the last bastion of reasonable taxation in New Jersey," Weigold said. But even with a higher levy, "we don't see the trends turning around. We see the state's financial underperformance continuing for the foreseeable future, with the pension issue being the biggest overhang."

Bloomberg Business

by Brian Chappatta

March 10, 2016 — 9:00 PM PST Updated on March 11, 2016 — 11:33 AM PST

Bloomberg Brief Weekly Video - 03/10

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

Watch the video.

March 10, 2016

Bond Market Rescue for Oklahoma's Budget Woes Entices Governor.

Oklahoma, grappling with the fallout from the collapse in oil prices, may turn to the municipal-bond market to provide relief from a $1.3 billion budget deficit rather than cutting spending or raising taxes.

Borrowing would free money for other priorities, such as pension costs and education, that would ease the way of balancing the budget as options proposed by Governor Mary Fallin aren't palatable to some lawmakers.

It would also fall just short of a maneuver known as "scoop-and-toss" that involves selling debt to pay off maturing securities, a practice employed by issuers ranging from Puerto Rico to Chicago that has led to disastrous results.

"The budget situation is very serious, it's a matter of deciding priorities with limited resources," said Tim Allen, deputy to Oklahoma Treasurer Ken Miller. "Borrowing is something the treasurer supports looking at."

Oil-patch states around the U.S. are grappling with lower revenue since the price of oil has crashed to as low as $27 a barrel this year after peaking in mid-2014 at over $100 a barrel. Besides Oklahoma, states hardest hit are Alaska, Louisiana and North Dakota.

By borrowing for $100 million or so for road projects now funded on a pay-as-you-go basis, the state could apply most of that money to other priorities while only using about $7 million for debt service, said Jim Joseph, the state's bond adviser, who has discussed the idea with lawmakers. No decisions have been made about what alternatives to pursue, said Oklahoma state Representative Earl Sears, the Republican chairman of the House appropriations committee.

"We have been looking at hundreds of proposals, but we don't have a clue which ones we will use," Sears said, in an interview. "We may have a better answer in a month."

After oil prices fell 21 percent between Dec. 21 and mid February, Oklahoma's projected deficit widened by 19 percent to $1.3 billion. Governor Fallin's budget proposed last month included $910 million of new revenue from removing sales tax exemptions and raising cigarette taxes while cutting spending by $167 million.

How the state balances its budget will be watched closely by companies that rate the state's municipal debt. Failing to balance its budget and under-funding state pensions could lead to rating cuts, Standard & Poor's said in a Feb. 4 report.

Considering Options

"The governor's budget addresses to a large extent the large deficit," said Carol Spain, an S&P analyst who covers the AA+ rated state. "Whatever they do to address the budget gap will be critical for the state's credit quality."

Oklahoma officials said they aren't opposed to the possibility of bonding combined with other changes to state finances.

"We might consider a bond if a larger reform package of recurring revenues was also enacted," said Preston Doerflinger, the state's finance secretary, in an e-mail. "This budget challenge is a multi-year challenge while a bond is a one-time, one-year option."

Borrowing to weather tough economic times isn't new to the municipal-bond market, though Chicago this year backed away from using so-called "scoop-and-toss" to extend debt payments for budget relief. Louisiana lawmakers last week asked for any refinancing of state debt to put the savings in the current and next fiscal year for relief from nearly $3 billion of deficits. Alaska, on the other hand, which faces a $3.6 billion spending gap, will rely on reserves to cover shortfalls, said Devin Mitchell, debt manager, in an e-mail.

Prior Recession

Oklahoma borrowed to manage itself through the last recession, using scoop-and-toss to extend debt payments for budget relief, said Joseph, the bond adviser. The state sold $132 million of bonds through the Oklahoma Capital Improvement Authority in 2010 "to provide budgetary relief by extending and restructuring debt service," rather than provide savings, according to bond documents.

Now, because the state has used pay-as-you-go financing for so many of its previous projects, it has capacity to borrow for capital projects, he said. It wouldn't be scoop-and-toss if the state did it because the state would be bonding for capital projects rather than pushing out payments. The state typically pays back 40 percent of new borrowings within five years, and some debt will be coming off the books soon, said Joseph.

"The idea is to take money that is going to projects and bond it," Joseph said. "It's perfectly appropriate to borrow for capital projects to free up cash."

Bloomberg Business

by Darrell Preston

March 6, 2016 — 9:00 PM PST Updated on March 7, 2016 — 10:50 AM PST

SC Proposed Bill Forbids Eminent Domain By Pipeline Companies.

SC is considering a bill that would prevent the use of eminent domain for the Palmetto Pipeline petroleum line. A state Senate subcommittee approved a bill barring the use of eminent domain by a "private, for-profit pipeline company, including a publicly traded for-profit company, that is not a public utility." The bill would also create a study committee to consider a number of issues raised that property owners.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Last Updated: March 1 2016

Article by David B. Snyder

Fox Rothschild LLP

Missouri Municipal Entities Must Follow Statutorily-Required Steps Before Executing Settlement Agreements, Consent Orders.

An often overlooked legal issue can cause significant adverse consequences for clients and lawyers alike when dealing with municipal entities. Missouri law requires municipalities to follow certain statutorily-required procedures before entering into any contract, including settlement agreements and certain consent orders. See § 432.070, RSMo. (2007). If the requisite procedure is not followed, the agreement with the municipal entity is void, not merely voidable. See Moynihan v. City of Manchester, 265 S.W.3d 350, 354 (Mo. App. E.D. 2008).

In the environmental context, it is important to keep the requirements of section 432.070 in mind when entering into a settlement agreement or consent order involving a municipal entity. If the mandatory procedure is not followed, the municipal act, settlement agreement, or consent order potentially can be declared null and void. That could mean that clients will not be paid for work or that the settlement will cease to exist.

Pursuant to Section 432.070, an agreement entered into by a municipal entity must be:

(1) within the scope of the municipal entity's powers or expressly authorized by law;
(2) made upon a consideration wholly to be performed or executed subsequent to the making of the contract;
(3) in writing, including consideration;
(4) dated when made;
(5) subscribed by the parties thereto, or their agents authorized by law and duly appointed; and

(6) authorized in writing (i.e., the authority to sign the contract must be in writing).

Whether a municipal action meets these criteria has been litigated. It is unlawful for a Missouri municipality to incur a liability in the nature of a contractual obligation that is not within the scope of its corporate powers. City of Kansas City v. Southwest Tracor Inc., 71 S.W.3d 211, 215-16 (Mo. App. W.D. 2002); see, e.g., Riney v. City of Hannibal, 712 S.W.2d 49 (Mo. App. E.D. 1986) (violation of city charter made contract void). The written authority allowing a public official (often the mayor) to execute the contract cannot be “vague and uncertain” but must be “specific and definite, and must include an outline of the terms of the proposed contract.” Moynihan, 265 S.W.3d at 355.

To avoid problems, prior to the execution of any agreement or consent order with a municipal entity, great care should be taken. Counsel should be engaged to ensure that the municipality passes specific ordinances/resolutions and memorializes its approval in recorded minutes. The best approach will be dependent upon the municipal entity involved and the proposed action to be taken.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Last Updated: February 25 2016

Article by Thompson Coburn LLP

ABA Endorses FTN Financial’s Municipal Credit Review Platform.

Through its Corporation for American Banking subsidiary, ABA today endorsed FTN Financial’s platform for municipal credit review and monitoring. FTN Financial’s proprietary solution is designed to help bankers monitor the overall credit exposure in their municipal portfolios and meet regulatory expectations.

“As the banking industry addresses the new regulatory requirements regarding the pre-purchase analysis and ongoing credit monitoring of municipal bonds held in their portfolios, our council identified a need to support banks with specific municipal credit expertise,” said Bryan Luke, chairman of the ABA Endorsed Solutions Banker Advisory Council and president and COO of Hawaii National Bank in Honolulu.

“Municipals are a critical part of the investment portfolio for thousands of banks,” added FTN Financial president Michael Kisber. “And most banks have dozens if not hundreds of line items to monitor for credit developments. Those volumes require a comprehensive, systematic approach that applies the specialized analysis needed by each type of municipal security.”

March 1, 2016

Biggest Muni Deals of Year So Far Swell Issuance to $9 bln Next Week.

The two biggest U.S. municipal bond deals so far this year, from the state of California and New York state’s development agency, will make up almost a third of the nearly $9 billion in total issuance in the muni market next week.

The week will be the third straight week of issuance in the $9 billion to $10 billion range and bring total issuance so far this year to around $74 billion compared to $81 billion during the same period last year, according to Thomson Reuters data.

California will dominate the calendar next week, issuing state general obligation bonds worth $2.05 billion, the single biggest deal so far this year. The lead underwriter is Citigroup.

New York’s Empire State Development Corporation will issue $1.23 billion in state income tax revenue bonds. The issue is being used to refund other state-supported debt. Bank of America Merrill Lynch is the lead underwriter on the sale.

Of the $8.96 billion of new issuance slated for next week, $7.63 billion is through negotiated deals. The total figure includes issuance of notes as well as bonds.

REUTERS

NEW YORK, MARCH 4

(Reporting by Edward Krudy; Editing by James Dalgleish)

P3 Model Seen as Fix for National Parks' Infrastructure Woes.

DALLAS — The National Parks Service should use a public-private partnership model to repair and maintain the crumbling infrastructure in its vast network of parks, according to a recent report from a free-market environmental advocacy group.

The NPS estimated in a 2015 report that it has an $11.9 billion backlog of deferred maintenance that includes nearly half of the roadways and dozens of bridges in the parks, the Property and Environment Research Center said in its report.

The NPS said last year that it needs $700 million per year just to keep the backlog from growing, but maintenance appropriations from Congress over the past 10 years have averaged only about $521 million per year.

Tapping private sector capital and expertise would allow the parks service to reduce its infrastructure backlog by outsourcing maintenance projects to the private sector at a lower cost, Leonard Gilroy, director of government reform at the Reason Foundation, said in the report.

“The National Park Service can look to states and local governments for inspiration on how to deal with their infrastructure challenges,” Gilroy said.

“Over the past several decades, state and local governments have turned to public-private partnerships to tap into private-sector capital and expertise. This allows them to stretch limited tax dollars further.”

The authorizing legislation for the NPS and its policies should be amended to remove limitations on how P3s are used to give the parks service more flexibility in dealing with infrastructure issues, Gilroy said.

The report cited Pennsylvania’s $899 million bridge-replacement P3 as an example that the NPS should follow. A private consortium is financing, designing, building, and maintaining the new bridges in the state for 25 years under a single contract.

“Although public-private partnerships cannot solve every problem, they can play an important role in improving infrastructure and reducing the backlog in our national parks,” Gilroy said. “Given the current state of disrepair, all solutions should be on the table.”

The backlog consists of $5.97 billion of deferred maintenance on paved roads and structures in the parks and $5.95 billion for other facilities, including $693 million needed to address water and wastewater system issues, NPS director Jonathan Jarvis said early last month when the latest maintenance statistics were released.

The $11.93 billion nationwide backlog is $440 million more than the total in the 2014 report, Jarvis said. Aging facilities, increasing use of the parks, and scarce resources contribute to the growing backlog, he said.

“While Congress provided increases this year, the annual bill for maintenance in America’s national parks is still almost twice as much as is appropriated,” Jarvis said.

Nearly every unit in the National Park System has maintenance items that have been deferred, he said, noting that the current backlog is almost three times as much as the $4.34 billion requested for the NPS in President Obama’s proposed fiscal 2017 budget.

A leaky wastewater system in Yosemite National Park has caused raw sewage to spill into the park’s streams, Jarvis said, while frequent breaks in an 83-year-old water distribution system in Grand Canyon National Park cause facility closures.

The recently enacted five-year Fixing America’s Surface Transportation (FAST) Act provided the NPS with $268 million for transportation projects in fiscal 2016, an increase of $28 million from fiscal 2015. The allocation goes up by $8 million a year, reaching $300 million in fiscal 2020.

Sen. Maria Cantwell, D-Wash., introduced the National Park Service Centennial Act (S. 2257) in November. The bill would allocate $900 million over three years to park infrastructure upgrades and repairs.

The Bond Buyer

by Jim Watts

March 2, 2016 1:49pm ET

Puerto Rico Utility May Pay Contractors Before Debt, Filing Says.

Puerto Rico’s main water utility may not have enough money to repay certain bonds if it needs to redirect funds to pay contractors, according to a filing on the Municipal Securities Rulemaking Board’s website.

The Puerto Rico Aqueduct and Sewer Authority’s board on Feb. 16 approved an alternative plan to divert money to pay contractors if the agency fails to obtain another source of funding by June 30, according to the March 4 filing posted on MSRB’s website, called EMMA. Prasa wants to create a new entity that would sell $750 million of debt backed by dedicated revenue, called a securitization bond, to finance capital projects and repay outside workers and businesses. Island lawmakers are working on legislation that would allow the transaction.

Without the bond sale, Prasa may need to use its available cash to pay contractors rather than make monthly interest and principal payments on certain debt, including state revolving fund loans, rural development bonds and a note held by the Puerto Rico Public Finance Corp, according to the EMMA notice.

“Such insufficiency will reduce the amount available to pay the interest accrual and principal accrual on certain commonwealth guaranteed indebtedness and commonwealth supported indebtedness,” according to the filing.

Bonds that still would have sufficient funds for repayment include Prasa’s 2008 Series A and Series B revenue bonds guaranteed by the commonwealth, according to the notice.

Prasa had $4.7 billion of debt as of Sept. 30. The bonds carry junk ratings from the three largest credit-rating companies.

Bloomberg Business

by Michelle Kaske

March 4, 2016 — 2:31 PM PST

Fitch: Rates Key for California Water Utilities Amid Continued Conservation.

Fitch Ratings-San Francisco-04 February 2016: California’s water and sewer utilities will see weaker financial margins in Fiscal 2015 and 2016 as the state’s mandated conservation targets hit water sales, says Fitch Ratings. Many utilities will opt for rate increases or alternate rate structures in the next several years to mitigate the financial impact of lower demand.

“Capital-intensive issues like infrastructure investments and regulatory mandates don’t dissolve in a drought, so even if mandated conservation ends tomorrow, many of California’s water utilities still have important questions to answer regarding how they generate revenue,” said Shannon Groff, Director in Fitch’s U.S. Public Finance group.

On Feb. 2, 2016, the State Water Control Resources Board extended the state-wide conservation mandates through Oct. 31, 2016.

Utilities that already have flat rate structures in place or are quick to adopt them will be better positioned to adjust to lower demand, especially given uncertainty around the drought’s length. Fitch believes many utilities will implement rate changes by Fiscal 2017, which will help their financial metrics recover from the expected dips in Fiscals 2015 and 2016.

Historically, California’s water and sewer sector has enjoyed healthy margins and strong credit quality, supported by political and public support for rate adjustments. However, this flexibility continues to be tested as rates move higher.

Fitch downgraded three California utilities – Millbrae, Fresno and Contra Costa Water District – over the past two years due to a combination of lower water sales, large capital programs and reduced rate flexibility. However, upgrades still outpaced downgrades, while the majority of ratings remained stable.

In addition, Fitch has released its Fitch Analytical Comparative Tool (FACT) for the Water and Sewer Sector. FACT is an interactive Excel-based analytical tool for comparing an institution's key financial metrics to median calculations on a notch-specific rating basis, compared to entities rated within the same rating category and against Fitch's portfolio of credits.

The full report, 'California Water and Sewer Sector: 2016 Update,' and the FACT are available at www.fitchratings.com.

Chicago Schools Fast Running Out of Cash as Standoff With Illinois Governor Worsens.

CHICAGO — Chicago's cash-starved public schools' district may be choked off from more loans and find itself unable to meet a $676 million pension payment in June because of a deepening legal dispute with Illinois' governor.

The state's school board, stocked with Republican Governor Bruce Rauner's appointees, is expected to declare Chicago's school system in "financial difficulty" as early as April under an Illinois law authorizing state takeovers of financially distressed school systems. Rauner, who is seeking to take over the schools' district, contends that finding would bar the nation's third-largest public school system from further borrowing.

Chicago Public Schools (CPS), which only just borrowed $725 million through a bond sale, says it is exempt from the law, thus keeping Rauner and his State Board of Education from dictating financial decisions involving the system, including its ability to borrow additional funds.

CPS plans to tap an existing $370 million credit line with Barclays Bank to help pay its June 30 pension obligation, according to Moody's Investors Service analyst Mark Lazarus. But that could also be in jeopardy because of Rauner's stance.

The district has indicated a need to sell more debt, but that seems unlikely now. "I'd say it's dangerous to issue it, and it would be more dangerous to buy it," said Richard Ciccerone, who heads Merritt Research Services, a Chicago-based municipal credit data company.

CPS already carries a $6.2 billion debt load, and its finances remain precarious after February's borrowing. In that bond offering, the system disclosed it expected to have only $24 million in operating revenue when its fiscal year ends June 30. Budget cuts announced by CPS CEO Forrest Claypool since then could grow that balance to as much as $118 million, according to Moody's.

Still, that wouldn't represent much of a cash cushion given that more than 40 percent of the cuts are not guaranteed and this is a schools' district with a $5.7 billion annual budget. CPS aims to save $65 million by reducing its contribution to teachers' pension payments by 7 percent but teachers have threatened to strike over the issue in April, likely leaving a state labor panel or the courts to decide the legality of that cut.

Since January, Rauner has staged a running attack on CPS and Chicago's Democratic Mayor Rahm Emanuel, who controls the school district. "They've misspent hundreds of millions of dollars, and they hurt their students and their teachers as a result," Rauner told reporters at a news conference in Chicago last month.

As justification for a state takeover, Rauner's office cited Illinois law permitting the State Board of Education to seize control of financially troubled school systems and to block new borrowing. Claypool insists CPS is exempt, but Rauner's office claims the exemption no longer exists because it is based on an obsolete part of the law.

"If it determined that any school district was in financial duress, the state board has the right, the legal authority, to block any debt offerings," Rauner said.

The dispute itself could prevent CPS from selling bonds, according to legal experts. That is because lawyers representing the system likely cannot issue a clean opinion on the district's debt offering as legal, valid and enforceable, a necessary assurance for investors.

Any plausible question about the validity of the debt would probably prevent attorneys from giving such an unqualified opinion, said Clayton Gillette, a professor of local government law at the NYU School of Law.

Without that, the bonds probably will not be marketable, he said. Even if the offering could be sold, investors would demand very high rates as compensation for the risk, Gillette added.

"So at the very least (CPS) is going to end up paying more," Gillette said.

Already, CPS has struggled in the bond market. The district pulled back an $875 million long-term junk-rated bond issue in January, ultimately selling only $725 million of bonds on Feb. 3. To attract investors, CPS needed to offer an 8.50 percent rate on most of the bonds, up from the 7.75 percent they were aiming for in January. The total cost to retire the bonds through maturity in 2044 is about $1.9 billion.

Nearly 80 percent of proceeds from February's bond issue was earmarked to boost operating cash – a troubling sign for bond investors.

"If an entity depends on market access to pay bills, that to us is effectively insolvent," said Triet Nguyen, who tracks distressed municipal bond credits at financial services company NewOak Capital in New York.

Nguyen said that happened with Puerto Rico, which like CPS relied on bond sales for liquidity. The U.S. territory, which has not been able to sell municipal bonds since 2014, has defaulted on some debt and is seeking restructuring help from the U.S. Congress.

"There's a high probability this could happen [in Chicago], particularly under the backdrop of such vocal criticism from the governor," Nguyen said.

The district's lack of market access could make banks wary of extending any new credit too, he said.

With uncertainty about its prospects rising, CPS also could hit a ceiling on the interest rate it can pay for its long-term borrowing. A state law forbids long-term public borrowing at a rate over 9 percent — just half a percentage point above the top rate in February's bond sale.

"They don't have much room for any future borrowing," said Laurence Msall, president of the Civic Federation, a nonpartisan Chicago-based financial watchdog group that tracks CPS finances.

By REUTERS

MARCH 3, 2016, 1:15 A.M. E.S.T.

(Reporting by Dave McKinney and Karen Pierog; Editing by David Greising and Martin Howell)

Michigan Ccould Seek Private Partners to Develop High-Speed Rail Line.

A proposed Detroit-Lansing-Holland passenger rail line could be built through a public-private partnership, according to a feasibility study requested by the Michigan Department of Transportation.

Three potential rail line routes were examined in the study, which was managed by the Michigan Environmental Council. Routes that would run through Ann Arbor and either Jackson or Howell are feasible from a financial standpoint but a third route that calls for bypassing Ann Arbor, is not, the research indicates.

The rail line would cost from $130 million to $540 million to build, depending on the highest speeds the track would accommodate. The fastest — 110 mph — rail line would be more expensive to build because faster trains need more infrastructure and safety upgrades to function at road crossings and to travel around curves, than do slower ones, reported MLive on Feb. 23.

However, the additional cost of accommodating faster trains could be offset over time by the up to $14.4 million per year in increased revenues they could generate, whereas the slower trains would have to be subsidized annually. The more expensive but revenue-generating high-speed rail option also would give planners flexibility in deciding how to finance the project, the study indicates.

If "the system is generating a positive cash flow, a Private-Public Partnership or other innovative financing methods can be used to construct and operate the system. This absolves the local entity of any need for providing an operating subsidy but, more than this, it is not uncommon for the operating cash flow to be sufficient to cover the local match requirement as well," the report's authors wrote.

The rail line is likely to take seven to 10 years to complete, which includes time needed to identify funding sources and conduct potential environmental impact studies, but the rail line is "viable and worth looking into," said Liz Treutel, a transportation expert with the Michigan Environmental Council.

"I think the biggest thing the report revealed is that, yes, the ridership potential is there and the costs are relatively reasonable for a transportation project," she said, according to The Detroit News.

By NCPPP

February 25, 2016

Franklin Making Failed Puerto Rico Fund Disappear Through Merger.

Puerto Rico's debt exchange isn't the only security swap for investors burned by the island's financial collapse.

Franklin Resources Inc. plans to close the $147 million Double Tax-Free Income Fund, whose strategy of plowing more of its assets into Puerto Rico than any other municipal-bond fund turned it into one of the worst performers. After the fund shriveled when investors pulled out money, Franklin is asking those remaining to exchange their shares for a piece of the $8.3 billion High Yield Tax-Free Income Fund, which has far less exposure to the island.

“It parallels the life cycle of Puerto Rico in the debt markets,” said Matt Fabian, a partner at Municipal Market Analytics, a research firm based in Concord, Massachusetts. “As the island becomes increasingly insolvent, investing strategies dependent on the island also become insolvent.”

U.S. mutual funds for years were eager buyers of the Caribbean territory’s debt, which is tax-exempt everywhere in the nation and provided high yields in a municipal market that’s known as a haven. With Puerto Rico pushed to the brink, that investment tactic has turned toxic: The five worst-performing open-ended municipal funds in the past year, including Franklin’s, all had at least 10 percent of their assets in the island’s securities, according to Bloomberg and Morningstar Inc. data.

Puerto Rico, which racked up $70 billion of debt by routinely borrowing to paper over budget shortfalls, has already skipped interest payments on some securities and may default on general-obligation bonds for the first time by July. Governor Alejandro Garcia Padilla is seeking to cut what the commonwealth owes by about 46 percent by asking investors to exchange their bonds for new securities. If they decline, his administration has said it may suspend interest and principal payments altogether.

The anticipated losses from the island’s building crisis caused the price of Puerto Rico bonds to tumble over the past two years. Securities due in 2035, the most frequently traded, have dropped to about 71 cents on the dollar, down 24 percent since they were first sold to investors in March 2014.

Franklin, which has about $1.6 billion of commonwealth securities among its municipal funds, is one of Puerto Rico’s biggest bondholders. The San Mateo, California-based company, along with BlueMountain Capital Management and OppenheimerFunds, successfully sued to overturn a Puerto Rico law that would allow the government to cut its debts, similar to how U.S. cities can in bankruptcy proceedings. The U.S. Supreme Court will hear arguments on March 22 about whether that law should be reinstated.

The Double Tax-Free fund, which was started in 1985 and focuses on debt issued by U.S. territories, was among the funds hardest hit as the island veered toward default, and it has been closed to investors since August 2012. Its assets have dropped by 83 percent since July 2012, when it had $868.7 million, according to data compiled by Bloomberg. Almost half of its investments were Puerto Rico securities as of Jan. 31, according to the firm’s website. With the island locked out of the bond markets, the supply of territory bonds has been curtailed.

Advantages Seen

The proposed merger will offer Double Tax-Free shareholders “the opportunity to reorganize into a fund with a larger asset size, lower annual fund operating expenses, better long-term total return investment performance (although a slightly lower income return performance), and a more stable and diversified investment portfolio,” Stacey Johnston Coleman, a spokeswoman for Franklin, said in an e-mail.

The fund lost 1.1 percent in 2015, putting it at the very bottom percentile of performers, according to data compiled by Bloomberg. Its shares traded for $9.38 on Monday, down from as much as $12.27 in 2012.

If Double Tax-Free shareholders approve the merger at a meeting set for April 4, they'll be given shares of the larger fund, which offers a more diverse mix of municipal bonds. If the step is rejected, the fund's assets may be sold off and its money returned.

The average annual total return in the past 10 years for the Double Tax-Free fund was 2.07 percent, compared with 4.79 percent for the High Yield fund, according to Franklin's website.

The merger would increase the High Yield funds' allocation to Puerto Rico. It directed 3.1 percent, or about $258.8 million, to commonwealth securities, as of Jan. 31. Based on those amounts, the fund would have about 3.9 percent of its assets in the island's debt if it absorbed all of the smaller portfolio.

That wouldn't be a large increase to its Puerto Rico exposure, said Beth Foos, a senior analyst in Chicago at Morningstar who focuses on municipal mutual funds.

"You're most likely gaining more stability and absorbing that stress and volatility into a much larger pool of assets," she said. "If it were to go anywhere, this is the fund where it would make the most sense."

Bloomberg Business

by Michelle Kaske

February 23, 2016 — 9:01 PM PST Updated on February 24, 2016 — 5:10 AM PST

[Franklin, Oppenheimer Say Cofina Changes Would Harm Puerto Rico.]

Mutual-fund companies holding about $10 billion of Puerto Rico securities warned that a counter proposal to the island's restructuring offer made by another bondholder group would weaken the commonwealth's ability to resolve its financial crisis.

Puerto Rico must maintain its sales-tax structure as the Caribbean island seeks to improve its finances, OppenheimerFunds Inc., Franklin Advisers Inc. and First Puerto Rico Family of Funds, wrote in a Feb. 24 letter to Representative Rafael "Tatito" Hernandez, who chairs the House Treasury Committee, and commonwealth legislators. The island has $17.3 billion of sales-tax bonds, known as Cofinas because of their Spanish acronym.

The letter follows a debt-restructuring proposal released Feb. 10 by a different investor group that includes Goldentree Asset Management, Whitebox Advisors and Metropolitan Life Insurance, which hold about $1.6 billion of senior sales-tax bonds. In that plan, subordinate Cofinas, which already get repaid every year after the senior bonds, would wait even longer to get paid down. Franklin and Oppenheimer bought various Puerto Rico securities at par, including subordinate sales-tax debt.

"Some speculative purchasers of Puerto Rico's debt, those who have purchased securities in recent months at substantial discounts, will try to offer band-aid solutions to Puerto Rico to help themselves make a quick profit at the expense of other creditors and, ultimately, at the expense of Puerto Rico itself," the fund companies said in the letter.

Restructuring Offer

The correspondence shows the tension between long-time investors of commonwealth debt whose exposure to the island is spread out among its different borrowers and distressed-debt buyers who started purchasing Puerto Rico securities about 2 1/2 years ago when prices on the debt fell to distressed levels.

Puerto Rico and its agencies accumulated $70 billion of debt after borrowing for years to fill budget shortfalls. Governor Alejandro Garcia Padilla is looking to cut the island's tax-supported debt by 46 percent through a voluntary exchange where investors accept losses on their holdings. The senior Cofina proposal was the first counteroffer to the commonwealth's debt-restructuring plan.

Commonwealth officials have warned the island may stop paying principal and interest if it can't reach an agreement with its creditors. The island faces a $2 billion debt-service payment July 1.

Revenue Projection

Puerto Rico expects to collect about $2 billion of sales-tax receipts from its 11 percent rate in the year ending June 30, 2016, including $696.3 million of dedicated revenue that the island's already used to repay this year's principal and interest on senior and subordinate bonds, according to the Government Development Bank. Whether Puerto Rico will keep that structure or change it to help repay other bonds or obligations will be a key issue for the commonwealth and its creditors as they negotiate.

Any attempt by the administration to "weaken" the Cofina structure would impair the commonwealth's ability to obtain investment-grade ratings on future securitized bond deals that would help improve the island's finances, the fund companies wrote. The Puerto Rico Electric Power Authority plans to reduce its $9 billion debt load through a debt swap where investors take a 15 percent loss and in return get new bonds that are repaid with dedicated revenue. Hernandez, the House lawmaker, filed legislation last month that would create a similar debt restructuring for the Puerto Rico Aqueduct and Sewer Authority.

The letter was signed by Daniel Loughran, who leads Oppenheimer Rochester's municipal team, and Sheila Amoroso, co-director of Franklin Templeton's municipal-bond department, and Frank Serra, president of First Puerto Rico Family of Funds, investment firms that offer shares in mutual funds to commonwealth residents and businesses.

Bloomberg Business

by Michelle Kaske

February 25, 2016 — 5:00 AM PST

Threatening `Farewell' to LSU Football Shows Louisiana's Strains.

Louisiana State University's football team is a perennial national championship contender. The Tigers finished last season ranked No. 16 and boast the third-best incoming freshman class.

It may not be in the chase next year, though, because of the state's budget crisis.

After one month in office, Democratic Governor John Bel Edwards spelled out Louisiana's financial strain to his 4.65 million constituents in a televised address. The collapse in oil prices has created a

$940 million budget gap for the current fiscal year and a $2 billion shortfall for the year that begins July 1. In a worst-case scenario, Edwards said, health programs for the poor and disabled will close and some public universities will have to shutter before the end of the semester.

“If you are a student attending one of these universities, it means that you will receive a grade of incomplete, many students will not be able to graduate and student athletes across the state at those schools will be ineligible to play next semester,” Edwards said. “That means you can say farewell to college football next fall.”

Invoking a football season without LSU, the state’s flagship university that has made it to three National Championship games since 2003, shows how Louisiana is reeling in the aftermath of oil’s slide to less than $30 a barrel from over $100 in mid-2014. Edwards, a graduate of the university’s law school, is trying to drum up support for a higher sales tax and further cuts to public services by jeopardizing one of the most-profitable and well-known college football programs in the country, a threat seen as more of a stunt than a reality.

ESPN commentator Tony Kornheiser quipped that Louisiana residents would likely toss the governor out of office before he could halt the Tigers’ season.

Louisiana’s strains, though, are real, and few signs indicate they’re easing. On top of the budget hole, it has the seventh-highest unemployment rate among U.S. states and the seventh-lowest median household income. It’s on the brink of a downgrade from Moody’s Investors Service and Standard & Poor’s and investors are demanding higher yields to own its bonds.

“The whole point with LSU football is the governor trying to get people to pay attention and say, ‘Wait, what’s going on?”’ said Roy Eappen, a municipal debt research analyst at Wells Fargo Securities in New York. “The public is somewhat detached from whether a budget gets passed or not. It’s really hard to have a public discussion about the impact of these cuts.”

Ernie Ballard, a spokesman for LSU, said the Baton Rouge-based school doesn’t have a comment on the governor’s speech.

Edwards, 49, wants to temporarily increase the state’s sales tax to five cents per dollar from four cents and boost levies on alcohol and cigarettes. He’d also freeze government hiring, cut state contracts and slash more than $160 million of spending.

The state senate last week unanimously approved the governor’s plan to draw $128 million from its rainy-day fund and take $200 million from a settlement with BP PLC to reduce the current-year shortfall.

Credit Ratings

Edwards’s predecessor, one-time Republican presidential candidate Bobby Jindal, mostly curbed spending and tapped one-time sources for revenue during his eight years in office. He rolled back income taxes starting in 2009 and had floated the idea of eliminating the state’s personal and corporate income taxes altogether.

During much of Jindal’s tenure, Louisiana’s credit rating improved, a fact he touted on his presidential campaign website. Moody’s and S&P both raised the state three steps from 2008 to 2011, giving it the third-highest investment grade.

In February 2015, the two companies soured on Louisiana, lowering their outlooks to negative, the first step toward a downgrade.

Municipal-bond investors including Eagle Asset Management and Wasmer Schroeder & Co. have been mostly avoiding debt from Louisiana, given the swelling budget gaps and its dependence on oil revenue.

"We have not been a big buyer of Louisiana," said Reid Tomlin, director of muni research in Naples, Florida, at Wasmer Schroeder, which oversees $5 billion of state and local debt. "It's a small state, it's had ongoing budget deficits for the last couple of years, and it has rating volatility."

The extra yield investors demand on some Louisiana general obligations have climbed since Edwards's address. Bonds due in August 2024 traded Wednesday at a yield of 1.83 percent, or 0.41 percentage point more than benchmark munis, data compiled by Bloomberg show. That's the widest spread since June.

Selling Louisiana

Similarly, LSU bonds maturing in July 2028 traded last week at yields about 1 percentage point more than similar-dated AAA rated munis, the widest spread since July, Bloomberg data show.

"If LSU came with a new issue, it would come at a wide spread and there probably wouldn't be much investor appetite," said Burt Mulford, a manager of tax-exempt funds in St. Petersburg, Florida, at Eagle, which oversees $2.4 billion in munis. He said he's been selling securities from Louisiana.

While LSU depends on the state for funding, its athletic department receives no state or school subsidies, making it one of about 20 self-sustaining programs. It still sees a bigger profit than almost all other universities, according to Education Department data from the 2014-2015 academic season.

The football program brought in $57.7 million of profit that year, topped only by the University of Texas and Southeastern Conference rivals Georgia and Tennessee. The athletic department as a whole brought in a net $41 million, also the fourth-most overall.

The football team would be in jeopardy in a case where the school shuts down, preventing attendees from finishing the semester. Among the National Collegiate Athletic Association's rules: "All Division I student-athletes must earn at least six credit hours each term to be eligible for the following term."

That wouldn't happen under a scenario where lawmakers rebuke tax increases and look solely to spending cuts, according to a letter from Joseph Rallo, Louisiana's higher education commissioner. Only incomplete grades would be issued in the spring, canceling all fall athletic events.

"These aren't the governor's recommendations — this is what the universities are saying will happen," said Richard Carbo, a spokesman for Edwards. "It's a ripple effect that people don't think about. Because the problem is so severe, he wanted people to understand what it actually means."

Bloomberg Business

by Brian Chappatta

February 21, 2016 — 9:00 PM PST Updated on February 22, 2016 — 4:38 AM PST

Illinois Fight With Chicago Schools Escalates Over Bond Sales.

Illinois's quest to take over Chicago's schools intensified as Governor Bruce Rauner said the state can block the district from borrowing in the municipal-bond market, a claim the nation's third-largest school system rejects.

The Illinois State Board of Education is investigating the finances of the district, which is facing projected deficits of $1 billion a year through 2020, and the Republican governor is pushing for legislation to strip the city of its control. The system has routinely relied on bond sales to help cover operating costs and push debt payments further off into the future.

"If it determined that any school district was in financial duress, the state board has the right — the legal authority — to block any debt offerings," Rauner told reporters on Monday. "The state board has not ever chosen to do that for the city of Chicago. I hope that never becomes necessary, but we've got to be ready to take action and step in."

The Chicago Board of Education is struggling to avert insolvency after years of borrowing, drawing on its reserves and shortchanging the workers' pension fund, which is causing its annual retirement payment to soar. With a junk credit rating, the board sold $725 million of bonds this month for yields as high as 8.5 percent, more than twice that demanded from most credit-worthy state and local governments.

The district said the state doesn't have the power to keep it from borrowing, as Rauner claimed.

"The governor has come up with a number of novel legal theories," Forrest Claypool, chief executive officer of the district, said in comments aired Monday on Chicago Tonight, a public-television show. "The statute is very clear that the authority he seeks to exercise does not apply to the Chicago public schools."

In the days leading up to this month's bond sale, Rauner called for changes to Illinois law to put the state in charge of the district and authorize bankruptcy. That plan has been rejected by Democrats who control the legislature.

Provisions in the state's school code make it clear that the Illinois education board's authority to block debt sales doesn't apply to Chicago's schools, the district said. Rauner's administration said the statute that the district cited, which established a school finance authority that was dissolved in 2010, no longer applies.

"That applied only when the reform board existed, which it no longer does," said Catherine Kelly, a spokeswoman for Rauner. "CPS can be required to develop a financial plan and would be prohibited from issuing bonds during that period."

Bloomberg Business

by Elizabeth Campbell

February 23, 2016 — 10:46 AM PST

California Going to First From Worst When It Comes to Bond Sales.

California municipal-bond investors who have been praying for an end to the debt-sales drought don't have to wait any longer.

Issuance from the most-populous U.S. state is set to lead the nation over the next 30 days, a reversal from as recently as last week, when California had the least upcoming deals, according to data compiled by Bloomberg. Spurring the shift is California's plan to sell $2.3 billion of general-obligation bonds on March 8, the state's biggest offering since September 2014.

With a wave of supply on the way, investors are demanding higher compensation to own California debt. The extra interest they require to hold 10-year California bonds instead of benchmark munis rose to as much as 0.31 percentage point this week, the most since November, Bloomberg data show. That's still low compared to other states: Illinois is paying a 1.65 percentage-point penalty on its 10-year securities, the most among the 20 states tracked by Bloomberg, because of a political stalemate that's left it without a budget since July. That impasse has also slowed Illinois's borrowing. It has the least projected issuance over the next 30 days.

Only 12 states, led by California, have positive net supply in the next month, even though yields are holding near half-century lows.

Overall, municipal supply isn't as robust as it should be, said Dan Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $125 billion. While the finances of state and local governments revived along with the economy, many have been hesitant to run up new debts after being forced to cut their budgets in the wake of the recession. That led the state and local bond market to shrink from 2011 through 2014, according to Federal Reserve Board figures.

"We're concerned that these lower interest rates aren't generating a little bit more supply," Heckman said. "There's still some tight purse strings."

Bloomberg Business

by Elizabeth Campbell

February 25, 2016 — 9:01 PM PST Updated on February 26, 2016 — 5:42 AM PST

Senators Reach Deal to Help State Water Programs After Flint.

WASHINGTON — U.S. Senators unveiled legislation on Wednesday providing federal aid to help states fix water infrastructure in the wake of Flint, Michigan's crisis over lead-tainted drinking water.

Senators James Inhofe, an Oklahoma Republican, and Debbie Stabenow, a Michigan Democrat, and others introduced the measure providing $100 million to a revolving fund states can tap if they have drinking water problems.

The funding in the agreement is paid for by cuts from the Advanced Technology Vehicles Manufacturing loans for auto companies, aimed to speed development of electric cars and other technologies. Inhofe called it a "failed program" that hasn't been used in more than a year and has only issued five loans since 2008.

It was unclear whether the measure would be attached to a wide-ranging energy bill that failed to advance early this month or whether the senators would try to pass it as a separate bill.

Under the plan, states must first explain how the money would be spent, according to details of the agreement. If they do not use the aid in 18 months, it would return to the federal government.

“This is not a blank check,” according to a document explaining the deal.

Thousands of children in Flint, a predominantly African-American city of 100,000, are believed to have consumed dangerous amounts of lead in drinking water after a state-appointed emergency manager directed the city to switch from Detroit’s drinking water supply to the Flint River. Lead is a neurotoxin that can harm brain development in children.

Under the deal, Flint and the states would also have access to $70 million in a credit subsidy under a federal program called the Water Infrastructure Finance and Innovation Authority, or WIFIA.

Congress conceived the WIFIA to help lower borrowing costs for municipal water projects. The federal program acts as a loan guarantee, rather than a grant, and is aimed at bringing borrowing costs in line with U.S. government bond rates.

Some critics say local governments need direct federal aid, not borrowing support, to improve infrastructure.

There would also be $50 million in aid available for national use for a childhood lead poisoning prevention program, a health registry and other items. Earlier this month, Michigan lawmakers had at first opposed getting funding from the advanced vehicles program, saying it would hurt auto workers.

By REUTERS

FEB. 24, 2016, 3:33 P.M. E.S.T.

(Reporting by Timothy Gardner; Additional reporting by Patrick Rucker; Editing by Jonathan Oatis and Alan Crosby)

Detroit Mayor Eyes Legal Action Over Pension Shortfall.

DETROIT — Detroit may sue some of the consultants who worked on its historic municipal bankruptcy over a $490 million pension funding shortfall that will result in bigger-than-expected city payments starting in 2024, according to Mayor Mike Duggan.

In his state of the city address on Tuesday night, Duggan said he is seeking advice from the city’s legal department to review any possible claims against consultants.

The mayor blamed the projected deficit on outdated mortality tables used by the consultants that assume retirees will not live as long. The consultants were hired under the city’s former emergency manager, Kevyn Orr.

Orr, an attorney at law firm Jones Day, who was tapped by Michigan Governor Rick Snyder in 2013 to run Detroit, declined to comment. A representative of Milliman, the city’s actuarial consultant, could not be reached for comment.

Detroit exited the biggest-ever U.S. municipal bankruptcy in December 2014, shedding about $7 billion of its $18 billion of debt and obligations. The city paid $177 million in legal and consultant fees to dozens of firms.

The city's court-approved debt adjustment plan contained money to pay for pensions over the first 10 post-bankruptcy years, according to John Naglick, Detroit finance director. The plan also projected contributions by the city starting in 2024 needed to amortize the unfunded pension liability which was understated by $490 million, he added.

Detroit's contribution to its two retirement systems is expected to total $194.4 million in 2024, which is $84.4 million more than anticipated in the debt adjustment plan, according to a Nov. 24 report by Detroit's financial review commission.

To start addressing the shortfall, Duggan said $10 million in surplus money will be tapped for pensions for this year and next.

By REUTERS

FEB. 24, 2016, 5:06 P.M. E.S.T.

(Reporting by Serena Maria Daniels in Detroit; Additional reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Puerto Rico Needs Restructuring to Avoid Cascading Defaults: Treasury.

NEW YORK/SAN JUAN — U.S. Treasury counselor Antonio Weiss said on Thursday that without a proper restructuring regime, Puerto Rico will default and litigation will intensify, as he pushed Congress to act with legislation to help the island fix its crisis.

Weiss, speaking to the House Natural Resources Committee in a hearing about the island's fiscal crisis, outlined the scale of the problems the U.S. territory faces.

"As the cascading defaults and litigation unfold, there is real risk of another lost decade, this one more damaging than the last," Weiss said.

A legislative solution for Puerto Rico, battling with $70 billion debt, may be edging closer. Legislation to find a fix for the island is expected to be drawn up following two Congressional hearings on Thursday – one in front of the House Natural Resources Committee at which Weiss was the sole witness.

House Speaker Paul Ryan has said he wants the Republican-led House to develop a response to Puerto Rico's fiscal crisis during the first quarter of 2016, and Republicans plan to bring a bill addressing the crisis to the House floor by the end of March.

Puerto Rico wants access to a bankruptcy-like mechanism to reduce debt – a view backed by President Barack Obama's administration and some Congressional Democrats. But majority Republicans have not supported efforts to extend bankruptcy protection to the island, a strategy which could be detrimental to some creditors, and are keen to put Puerto Rico under strict fiscal oversight.

Weiss, in questioning, said that Treasury's restructuring proposal was not envisioning the Chapter 9 bankruptcy law U.S. states can access for their public agencies, but legislation "customized to the unique conditions that face Puerto Rico."

Weiss said his team will have to work to convince island leaders of the need for an oversight board for the island. "I think the legislature doesn't fully understand what this oversight authority would consist of," he said.

Puerto Rico, with a 45 percent poverty rate, has been in recession for nearly a decade and is losing population to the mainland. It is suffering from a huge debt buildup and has already defaulted on some borrowings.

"There is fear of the future," said Weiss. "Puerto Ricans are leaving and are joining us on the mainland where they find access to jobs, a future for their children, better healthcare."

Weiss said that a failure to protect pension payments would "irreparably harm retirees" and add greater stress to Puerto Rico's economy.

"We are deeply concerned about the pensions in Puerto Rico," he said.

The Treasury late last year envisioned giving Puerto Rico's pensioners stronger legal protection than holders of its constitutionally backed bonds if it went bankrupt, according to a draft of a proposed plan seen by Reuters.

A separate hearing before a subcommittee of the House Committee on Financial Services focused on the impact to investors in the $3.7 trillion municipal bond market.

Mark Zandi, chief economist at Moody's Analytics, said without a broad restructuring framework to include more of the debt than a Chapter 9 framework would envision, the issue would not be solved and "we will be back here again."

Legislation for Puerto Rico could potentially be written as a stand-alone law, which carries the risk of having little momentum to approve it, or attached to a bill related to the Federal Aviation Administration (FAA), a congressional source previously said.

An FAA authorization bill which authorizes funding for the agency could come up for a vote in the House of Representatives as early as next month.

However, a legislative solution may be hard to achieve given the differing views and acrimonious relationship between Republicans, which control Congress, and Democrats.

Tom McClintock, a Republican of California, said instead of increasing regulation, Puerto Rico needs less red tape, less tax burden and could be turned into a "Hong Kong of the Caribbean."

However, Representative Raul Labrador of Idaho said he appreciated that Weiss was "trying to find a solution."

"We don't agree on every one of your solutions but I can tell that the administration is acting in good faith in finding a solution to the problem," Labrador said.

By REUTERS

FEB. 25, 2016, 11:54 A.M. E.S.T.

(Additional reporting by Daniel Bases in New York and David Morgan in Washington)

[Detroit Mayor Unveils Budget With Eye on Shedding State Oversight.]

(Reuters) – Detroit Mayor Mike Duggan proposed a $2.6 billion fiscal 2017 budget on Thursday that he said could be the city's ticket to removing state oversight of its finances.

He said the all-funds budget, which includes $1.077 billion of general fund spending, would mark the third-straight balanced budget for the city, which exited the biggest-ever municipal bankruptcy in December 2014. A financial review commission was created under Michigan law to oversee a post-bankruptcy Detroit until it reaches certain benchmarks.

"If we can finish the 2017 fiscal year with a balanced budget and we're paying our bills and meeting some other conditions that I believe we'll meet, we will be able to get out of the financial review commission control period," Duggan told the city council.

He added the goal is to shed state oversight by January 2018. If the city ends fiscal 2017 with a deficit, the mayor said Detroit would have to start a new three-year balanced budget cycle.

Detroit Chief Financial Officer John Hill said the budget for the fiscal year that begins July 1 is based on conservative revenue estimates that could be hurt if the state cuts revenue sharing to local governments to deal with costs for the ongoing lead-tainted water crisis in Flint.

The mayor said he plans to tap $50 million in unused, voter-approved bond proceeds dating as far back as 1987 for various projects.

Duggan also addressed a $490 million increase in the unfunded liability for Detroit's two pension funds caused by the use of outdated mortality tables by the city's bankruptcy consultants.

The situation has become "pretty adversarial" with the consultants, who have been told by the city not to destroy any of the documents they took with them, according to the mayor. He cautioned the council that a malpractice lawsuit against the consultants would be difficult to win.

By REUTERS

FEB. 25, 2016, 2:42 P.M. E.S.T.

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

[Los Angeles School District to Sell $1.3 Billion in Muni Bonds.]

(Reuters) – The largest U.S. municipal market deal next week is expected to total $1.3 billion from Los Angeles Unified Schools, a district that faces declining student enrollments and competition from charter schools.

The deal, along with $1.1 billion of general obligation bonds from the state of Massachusetts, helped push scheduled new sales of municipal bonds to $10.09 billion next week, according to preliminary figures from Thomson Reuters Municipal Market Data (MMD).

Fitch Ratings rated the Los Angeles bonds triple-A, better than the agency's A-plus for the school district, because bondholders would be insulated from the district's operating risk. The new bond money will be used to fund facility renovations.

The debt will repaid with property taxes, which are considered “pledged special revenues,” in the event of a municipal bankruptcy. The district benefits from positive tax base growth because of its huge, diverse and growing economy, Fitch noted.

While state funding for Los Angeles’ school district has grown, revenues have declined from lower student enrollment. At the same time, fixed costs are rising, in part from retiree benefits.

Fitch warned that enrollment continues to decline at Los Angeles public schools. The district has lost almost 210,000 students from since 2003, or more than a quarter of its student body.

Los Angeles Unified School District is the second largest U.S. public school district, with more than 1,000 schools and educational centers, plus 53 affiliated charter schools.

Within the region, another 211 independent charter schools compete for students. The Los Angeles district has lost about 100,000 students to independent charter schools, Fitch estimated.

By REUTERS

FEB. 26, 2016, 2:09 P.M. E.S.T.

(Reporting by Robin Respaut; Editing by Richard Chang)

S&P's 2015 Upgrades Nearly Doubled Downgrades.

Standard & Poor’s made nearly twice the number of upgrades as downgrades in United States Public Finance in 2015.

It was the fourth consecutive year and the 13th consecutive quarter that S&P’s upgrades outnumbered its downgrades in the sector, S&P senior director Lawrence Witte and associate Jason Ontko wrote in their report.

Every subsector except higher education and charter schools saw more upgrades than downgrades. S&P downgraded 69 higher education ratings and upgraded 29 in that group. It downgraded 25 and upgraded nine charter school ratings.

“Puerto Rico and other organizations in the commonwealth accounted for more downgrades – 115, including four defaults – and more multiple notch downgrades than any other entity,” Witte and Ontko wrote. The Puerto Rico rating changes were 7% of all of S&P’s U.S. public finance rating changes in the year.

S&P’s upgrade of California to AA-minus from A-plus in July affected 97 ratings, according to the S&P report, “U.S. Public Finance Records Nearly Twice as Many Upgrades as Downgrades in 2015.”

Witte and Ontko cited improved issuer finances as the primary reason for upgrades outnumbering downgrades.

On the other hand, S&P’s rated issuers had 12 defaults in 2015, the third highest since 1986.

In a similar year-in-review release Moody’s Investors Service last week reported its ratio of upgrades to downgrades in the year was 1.067. This compares to S&P's 1.94 ratio.

The Moody's report indicated that Moody's had downgraded more par value than upgraded it in 2015. S&P's report didn't provide a comparison of upgrades versus downgrades by par value.

THE BOND BUYER

BY ROBERT SLAVIN

FEB 16, 2016 5:18pm ET

'Government Only Pays for the Positive Outcomes.' A Strikingly New Approach to Social Problems.

Two states announced Tuesday that they would experiment with an unusual method of financing human service programs that allows governments to pay nothing unless the programs are successful.

The approach recruits private companies and philanthropies to provide millions of dollars up front for efforts aimed at difficult social problems. If they meet a series of measurable goals over a number of years, the states will pay them back — with interest.

"We're basically trying to monetize prevention," said Tracy Palandjian, chief executive officer of the Boston-based nonprofit organization Social Finance, which helped bring the various sides together in contractual arrangements in Connecticut and South Carolina. "We're basically using private dollars to invest early" and avoid the higher cost of dealing with the impact later on.

Dubbed "Pay for Success" by the White House, which is cheerleading the effort, the approach is also known as "social impact bonds." Pioneered in Britain in 2010, it is so new that there appears to be no independent research on its overall effectiveness, though some think tanks have written approvingly of the model.

Connecticut Gov. Dannel Malloy (D) announced Tuesday that his state would begin a $12 million, four-year initiative to help keep the children of 500 families out of foster care. Social workers from the Yale Child Study Center will work intensively to keep the children in their homes, focusing on parents with substance abuse problems.

The state spends about $350 million annually for services to children in foster care and institutions, said Joette Katz, commissioner of the Department of Children and Families. No funder has yet been named for the initiative, but officials said several are interested.

Should the program succeed, the state will return providers their money plus an "interest" bonus of 5 percent to 6 percent — money, Katz noted, that the state will have saved on foster care expenses by that time.

In South Carolina, Gov. Nikki Haley (R) announced a $30 million, four-year program that will send registered nurses who specialize in maternal and child health into the homes of low-income pregnant women. The nurses will help mothers learn parenting skills and how to keep their children healthy. The nurses will follow the families until the children turn 2.

The program, expanding on an existing state effort, will be funded by organizations that include the BlueCross BlueShield of South Carolina Foundation, the Duke Endowment and the Boeing Co. It will be evaluated by a research group at the Massachusetts Institute of Technology, which will determine whether the program meets goals such as fewer pre-term births, fewer hospitalizations and emergency room visits, and longer intervals between births.

A third jurisdiction, the city of Denver, also was scheduled to announce Tuesday that it had found an investor for a previously unveiled initiative to tackle chronic homelessness.

Governments commonly demand proof of performance before paying the full amount of private-sector contracts, but that is unusual in human services, said John Roman, a senior fellow in the policy advisory group at the Urban Institute. The Washington-based think tank has helped organize some of the new programs.

Typically, governments at all levels spend tax dollars indefinitely to aid their most disadvantaged citizens without insisting on progress toward stated goals — think of food stamps or classic welfare programs. Philanthropies and foundations provide time-limited grants with no expectation of being reimbursed.

Under this model, government writes a check only if a program meets agreed-upon measures. This distinction is an incentive for funders, which can get their money back to use again.

“Government only pays for the positive outcomes,” said Dave Wilkinson, director of the White House Office of Social Innovation.

That doesn’t always happen. In the first attempt of this approach in the United States, Goldman Sachs lost $7.2 million when a project it funded in 2012 failed to reduce recidivism by the targeted 10 percent among teenagers released from New York City’s Rikers Island jail. The firm’s financial hit was cushioned by a $6 million guarantee from the Bloomberg Philanthropies.

The Washington Post

By Lenny Bernstein

February 16, 2016

Big Taxable Deal Next Week in $7.1 bln of U.S. Municipal Bond Sales.

Feb 19 – University of North Carolina at Chapel Hill will sell $401 million of triple-A rated taxable general revenue refunding bonds, one of the biggest deals in the nearly $7.1 billion of U.S. municipal bonds and notes to price next week, according to Thomson Reuters estimates.

If a similar deal this week is any indication, North Carolina’s offering could draw strong demand, according to Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management.

“Taxable muni spreads on new issues have been attractive and demand has been very strong for those taxable issues if priced attractively,” Heckman said.

For example, this week Missouri’s Health and Educational Facilities Authority issued $403 million of triple-A rated taxable revenue bonds for Washington University in St. Louis. The deal was at least

3.5 times oversubscribed, Heckman said.

“Taxable munis give buyers an attractive option to corporates and with less spread risk in many cases,” he said.

Investors have poured money into municipal bond funds for 20 consecutive weeks, according to data from Lipper, a unit of Thomson Reuters.

The biggest deal next week is from New York City, which plans to price $800 million of general obligation bonds through lead manager Jefferies.

Investors “will want to watch spreads and demand, given the weakness in capital markets and its impact on NYC,” Heckman said.

While the city’s strong liquidity, budgetary flexibility, management and economy continue, its debt and contingent liability profile is “very weak,” said Standard & Poor’s Ratings Services, which assigned an ‘AA’ rating with a stable outlook.

The city has “some exposure to interest-rate risk given maximum bank rates on its variable-rate debt of up to 25 percent,” S&P said.

The city’s debt plans also include $6.2 billion of GO bonds and Transitional Finance Authority future tax-secured bonds annually in fiscal 2017 and 2018.

Furthermore, its pledge to fund $2.5 billion of the Metropolitan Transportation Authority’s five-year capital plan could “create additional financing needs.”

Finally, New York City’s public pension and retiree healthcare benefits are another source of pressure. Those costs, in addition to debt service, were 26.2 percent of total government expenditures in 2015, which S&P said was “elevated.”

Reuters

(Reporting by Hilary Russ; Editing by Bernard Orr)

Assured Guaranty Provides Secondary Market Municipal Bond Insurance Pricing on Bloomberg Terminals’ “ALLQ” Page.

HAMILTON, Bermuda–(Business Wire)–Bond insurers Assured Guaranty Municipal Corp. (AGM) and Municipal Assurance Corp. (MAC), subsidiaries of Assured Guaranty Ltd. (NYSE:AGO) (together with its subsidiaries, Assured Guaranty), are providing on Bloomberg terminals indicative pricing for secondary market insurance on municipal bond issues they have pre-qualified. The current list of pre-qualified municipal bonds comprises approximately 8,000 issuers and 45,000 CUSIPs.

“We are pleased to have worked with Bloomberg to add this valuable feature for its subscribers. Traders, institutional investors and retail trading desks that are considering adding bond insurance to municipal bonds in the secondary market may now find indicative insurance availability and pricing information for AGM or MAC insurance on the Bloomberg All Quotes page. ‘ALLQ’ is the same page used for bond pricing information, trade history, valuations, and offering levels,” said Bill Hogan, Senior Managing Director, Public Finance. “Adding municipal bond insurance in the secondary market may enhance a bond's market liquidity: approximately $500 million of bonds guaranteed by Assured Guaranty companies are traded daily."

AGM and MAC municipal bond insurance policies unconditionally and irrevocably guarantee payment of a bond's principal and interest when due. Assured Guaranty companies currently protect municipal bonds with an outstanding gross par amount of almost $300 billion. In addition, Assured Guaranty secondary market insurance may allow an investor to meet portfolio rating requirements; provide significant downgrade protection; and reduce the capital requirement for a regulated holder of the bond.

AGM and MAC are rated AA+ (stable outlook) by Kroll Bond Rating Agency and AA (stable outlook) by Standard & Poor's Ratings Services. AGM is also rated A2 (stable outlook) by Moody's Investors Service.

To view AGM and MAC insurance pricing, users simply load a nine-digit municipal CUSIP and navigate to the All Quotes page with the command ALLQ (e.g., {123456789 Muni ALLQ }). Indicative prices for AGM and MAC to insure $1 million in par amount appear in the Ask Price column, expressed as the price per bond. The amount of insurance potentially available is also displayed if the user activates the Show Bid/Ask Sizes column in the ALLQ Settings menu.

The list of eligible CUSIPs and the related indicative price and capacity information are updated for each business day. To initiate a purchase of insurance, users may contact Assured Guaranty's secondary market desk over the Bloomberg network by sending messages to Richard Cassata, rmc176@bloomberg.net, Leonard Lasek, llasek@bloomberg.net, or Dana Villanova, dvillanova2@bloomberg.net. Users may also telephone (212) 408-6067.

If no insurance pricing is shown on Bloomberg for a municipal bond on which a user wishes to obtain bond insurance, users are encouraged to use the contact information above to request approval and a quote.

Feb 16, 2016 20:53 UTC

L.A.'s Library of Open Data Sparks Better Government.

The city has created a path for other municipalities to make it easier than ever for agencies to share information with the public and each other.

Shortly after taking office, Los Angeles Mayor Eric Garcetti made it clear he wanted street projects to be better coordinated and timed. "No more Bureau of Street Services paving a street on Monday, [Department of Water and Power] digging it up on Tuesday," he said.

Now the city has a tool to make sure that doesn't happen.

City employees can go online and see whether the road they want to repave is already scheduled to be torn up soon for some other reason, like replacing a sewer pipe. If it is, they can hold off. Residents can also see the same information, so they know, for instance, how long their street will be under construction.

The new tool is called Street Wize, and it's only the tip of the iceberg for what L.A. wants to accomplish by sharing its real-time information with the public. Street Wize pulls info from the city's new GeoHub site, which hosts 500 types of geographic data on medical clinics, historic earthquakes, zoning restrictions, oil wells and movie studios, to name just a few.

“In the past, they may have known the data was collected, but really being able to visualize it allows people to think creatively about how they can use it,” said Lilian Coral, the city’s deputy chief data officer.

Street Wize isn’t the only result of this data.

Another tool shows how many miles of roads have been repaved under the Garcetti administration. Yet another supports the city’s Vision Zero campaign to eliminate pedestrian deaths. It explains that nearly two-thirds of all serious or fatal collisions occur on just 6 percent of the city’s streets and shows where they are.

Curious users can also see raw information from the data sets plotted on maps, and the data can be used by more sophisticated geographic information system software. City officials hope that will make it easy for other government agencies, researchers and private developers to come up with their own uses for the data. They could, for example, find out where zoning rules prevent dense development around transit stops.

Some of the biggest users of the online library are city agencies that couldn’t previously access information from other departments. So while Street Wize was designed to help the street and water departments, it’s also now being used by the fire department to help speed emergency response times, said Coral.

Assembling all the datasets and developing the GeoHub website took about six months. From a technology standpoint, the team could have assembled the data even faster, but it took longer to collaborate with the departments and build agencies’ support for the project, according to Coral.

People involved with developing GeoHub say agencies eventually got on board not only because the mayor led the effort, but also because the site’s developers showed them how it could improve their own operations.

The data was easy to assemble, according to developers, because it’s all based on GIS software from the same company, Esri, which is widely used in local governments. Because of that, Esri marketing executive Christopher Thomas said it would be a relatively straightforward process for other communities to launch sites similar to GeoHub.

After all, Los Angeles did it with more data than most cities ever have to handle. “For all the small and mid-size cities,” he said, “this is all really doable.”

GOVERNING.COM

BY DANIEL C. VOCK | FEBRUARY 16, 2016

Nebraska Legislators Want Infrastructure Bank for Roads Projects, but Disagree on How to Fund It.

LINCOLN — Two key senators in the Nebraska Legislature agree that an infrastructure bank could accelerate major road projects, bridge repair and economic development in the state.

They disagree, however, on how best to pay for the proposed method of funding transportation construction.
Sen. Jim Smith of Papillion supports moving $150 million from the state’s cash reserve to launch the transportation infrastructure bank, which is contained in Legislative Bill 960.

Sen. Heath Mello of Omaha argues that the bank could operate with less from the rainy day fund, largely by using money within the existing budget of the Nebraska Department of Roads.

Smith, chairman of the Transportation and Telecommunications Committee, introduced the bill on behalf of Gov. Pete Ricketts, who has called the legislation one of his top priorities for this session. A public hearing on the bill will take place today before the Legislature’s budget-setting Appropriations Committee, of which Mello is the chairman.

So it’s safe to say negotiations are about to ramp up on the year’s big transportation bill.
“I never walk away and throw up my hands,” Smith said. “I think Sen. Mello and myself will look for a path forward, and I think we’ll get there.”

Mello said he’s willing to consider using perhaps as much as $50 million from the cash reserve, but he’s adamant that the reserve fund needs to remain largely intact as a bulwark against future economic downturns.
“The policy concepts in this bill I support,” Mello said. “I cannot support utilizing $150 million of the cash reserve right now.”

The infrastructure bank would be the latest in a series of steps taken by state lawmakers in recent years to significantly boost roads funding.

In 2011, they passed the Build Nebraska Act, which directs one-quarter of a cent of the state’s sales tax for highways, roads and streets. The measure has generated $70 million a year for expressways and other highway improvements.

Last year, over the governor’s veto, senators approved a 6-cent-a-gallon increase in the state gas tax to be phased in over four years. Once fully implemented, the tax hike is projected to raise $75 million annually.

But the governor, Smith and state roads officials say the state still faces a funding gap for new construction, which comes on top of the expense of maintaining 10,000 miles of highway and more than 3,500 bridges.

So they’ve turned to the idea of a transportation infrastructure bank, which has been around for decades. More than 30 states have them in place.

The governor wants an infrastructure bank to meet three goals: finish construction of the state’s 600-mile expressway system, launch a matching-funds program for counties to pay for bridge repair, and prioritize the types of roads improvements that directly spur economic growth by attracting new manufacturing or retail developments.

The infrastructure bank legislation in Nebraska would transfer the $150 million in cash reserve funds to the bank over seven years as needed. At a recent task-force meeting, Roads Department Director Kyle Schneweis explained that over time, the department would funnel “unprogrammed revenue” into the fund to replace the cash reserve money as it is drawn down.

Unprogrammed revenue would include new fuel tax money, federal FAST Act funds and budget funds freed up by program efficiencies, Schneweis said.

Although there are several variations on infrastructure banks, most have been seeded with state and federal funds. Money is loaned out for construction, and repayment of the loans replenishes the bank so a new round of projects can be funded. Often they are used to build or fund toll roads or other projects that generate fees to repay the loans.

Nebraska's infrastructure bank would not issue loans or collect repayments. Whatever money remains unspent by 2033, the year the bill sunsets, would be spent by the department.

"The intent is not to replenish the cash reserve," Schneweis said, "it's to replenish the infrastructure bank."
Another way to look at it: The bank is designed to expire in 17 years.

The Nebraska proposal differs from what many other states call an infrastructure bank, said Porter Wheeler, an economist with expertise in new methods of transportation funding and a consultant for George Mason University in Fairfax, Virginia.

"It's more like a capital improvement fund," Wheeler said. "That's what it sounds and looks like."

But the Nebraska proposal seeks to accomplish a similar goal as other infrastructure banks, Wheeler said, namely to make long-term funding commitments for major, multi-year projects. Most states are struggling to find money for new construction because their roads budgets are increasingly swallowed by maintenance needs.

The key function of Nebraska's infrastructure bank is to provide a place for funds to accumulate until projects can be undertaken, Smith said.

A primary goal is completion of the expressway system, which was designed to provide four-lane connections from the state's largest communities to Interstate 80. In the late 1980s, the state pledged completion of the 600-mile expressway by the year 2003.

A total of 173 miles remain unfinished, but funding has been committed to 41 of those miles under the Build Nebraska Act. That leaves 132 miles of unfunded expressway.

In meetings with Roads Department officials, Smith said he asked them to set a date for completion of those miles.

"I asked (the department) to give me a stretch goal, trim off some years, something that was a little bit out of their comfort zone," he said.

That goal is by 2033.

Another key provision of the bill would enable the Roads Department to use new design and construction approaches employed by many other states. An approach called the design-build method — in which a single entity provides design and construction services — would trim several years off the time to start and complete major projects, roads officials say.

The bill also would create a pilot matching grant program for county bridge repair, a major problem in nearly every county. And it would allow the Roads Department to identify places along expressways and other highways where spur roads or interchanges would promote economic growth.

Still, the coming debate on the infrastructure bank bill probably will come down to funding.

When two-year state budgets were set in 2013 and 2015, the Appropriations Committee had suggested ways to save about $20 million a year that the Roads Department had designated for operational costs, Mello said. At the time, committee members recommended that those dollars be targeted for road construction.

Mello said the department could use such funds and take a smaller bite from the cash reserve. Or the department could seek regular appropriations for the infrastructure bank like any other state program.
“I think that’s a strong argument,” Mello said.

The debate will take place as lawmakers seek ways to address a projected state budget shortfall of $140 million for the two-year period ending June 30, 2017.

“The burden is on us to make our case to the Appropriations Committee,” Smith said.

By Joe Duggan / World-Herald Bureau

POSTED: MONDAY, FEBRUARY 15, 2016 5:45 PM | UPDATED: 8:45 PM, TUE FEB 16, 2016.

Contact the writer: 402-473-9587, joe.duggan@owh.com

Tennessee Officials Consider Using P3s for Public Buildings.

On the heels of the introduction of a transportation P3 bill in the state legislature, the Tennessee Department of General Services is exploring whether to use public-private partnerships to construct new buildings.

The department, which manages the state’s real estate portfolio, says building maintenance has improved since it hired private firms to maintain existing buildings. Now the department is considering whether to allow private developers to build, finance and maintain new building projects worth at least $100 million, reported the Nashville Business Journal on Feb. 16.

The department has issued a request for information to identify a P3 consultant that can help identify potential P3 projects, advise it on P3 contracting issues, help develop legislation that would authorize the department to negotiate P3s, and identify legislative and regulatory changes that would improve the P3 contracting process. The consultant also would contribute to materials to educate high-level government officials about the procurement model and help develop value for money analyses. Responses to the RFI are due March 4.

Legislators are considering bills to authorize local and state governments to pursue P3s for the development and operation of transportation and transit projects. Sen. Bill Ketron, one bill’s sponsor, hopes it will pave the way for a private developer to build and operate a monorail system between Murfreesboro and Nashville, reported the Nashville Post on Feb. 3. A companion bill has been introduced in the Tennessee House.

NCPPP

By Editor

February 18, 2016

S&P's Public Finance Podcast (The Supreme Court's Stay On the EPA's Clean Power Plan)

In this week's Extra Credit, Senior Director and Analytical Leader of our Public Power and Utilities team David Bodek provides an overview of the Environmental Protection Agency's Clean Power Plan and the U.S. Supreme Court's stay of the plan's implementation.

Listen to the podcast.

Feb. 19, 2016

Los Angeles Weighs Convention Center P3.

LOS ANGELES —Los Angeles' city administrative officer wants the city to consider a public-private model to expand and renovate its convention center.

Miguel Santana's proposal, which would be a first for a U.S. convention center, received some pushback from city council members who had already approved a $470 million plan to be financed with tax-exempt bonds.

Santana first made this recommendation to explore the public-private model in a report released on Dec. 23 and followed up with a supplemental report last week.

The City Council's Economic Development Committee approved Santana's proposal on Tuesday with some amendments after peppering the CAO with questions about the approach.

"We selected a firm through a design competition," said the committee's chair, Cullen Price Jr. "Now at the 11th hour, you are talking P3. It could take more than 18 months to select a firm for that."

So far, no one in this country has used the design-build-finance-operate-maintain model to complete a convention center project, according to city officials.

Broward County, Florida has a request for proposals seeking private partners for such a project in Fort Lauderdale.

The DBFOM model has been more widely used in other countries for such "social infrastructure" projects.

"As cities confront challenges with their debt capacity or being able to take advantage of low interest rates, because of revenues going to salaries and pension costs, there has been greater interest in looking at P3s to build infrastructure," Santana said.

The committee approved a plan to move ahead on the "dual track" of fleshing out a public-private model even as it continues to explore using the more traditional bond-financed model. Two other council committees would have to approve the dual track before it would go to the full City Council.

If the council approves Santana's plan, as expected, within the next couple of weeks, the clock would start on a 90-day process during which the city and its consultants would work on the dual track proposals and come back to the council with recommendations for one or the other. The hope is that by June the city would be moving forward on either a process to select a private investor or the traditional method, Santana said.

While there have been no convention centers done with such a P3, other municipalities are pursuing the social infrastructure approach, Santana said.

Twenty miles to the south, Long Beach approved a $533 million public-private plan in December to build a new city hall, port headquarters, library and park.

“We are trying to find an approach that will allow the city to have a thriving convention center,” Santana said.

City officials said the idea of seeking a public-private partnership arose out of a recognition of how much private investor interest there is in the area of downtown Los Angeles that houses the multi-block L.A. Live entertainment complex and convention center.

“There are cranes all over the place down there,” said Bud Ovrom, executive director of the Los Angeles Department of Convention and Tourism Development.

South Park, the downtown Los Angeles neighborhood that includes L.A. Live, is the hottest neighborhood in Los Angeles, he said.

According to ARUP, the city’s P3 consultant for the convention center, the acreage could support nearly $250 million in added revenue in present value terms from a 50-year ground lease connected to development that could include a combination of retail, hotel or offices. The city could also realize $10 million to $13 million in additional property tax and sales tax revenue, according to the estimates.

“A DBFOM is a public-private partnership at the furthest extreme,” Ovrom said. “That has never been done in a convention center in the U.S. They say there is one in Australia.”

The challenge with using such a method for a convention center is the economic impact is “not contained within the four walls,” Ovrom said.

The economics are less challenging in Long Beach, Ovrom said, where the Port of Long Beach, the city and the state are the developers’ customers.

“These are top tier rent-paying clients,” he said. “It is not tough to make them successful.”

A convention center, on the other hand, is not a cash cow, he said.

“It is a big building that we rent to people cheap, so they will stay in our hotels,” Ovrom said. “The P3 operator does not get that money; it goes to the hotels and restaurants.”

What the city has been trying to figure out, Ovrom said, is if the social infrastructure model is transferable to something like a convention center that isn’t a cash generator by itself.

He said most cities consider convention centers a loss leader, though LA’s convention center had $200 million in profit in both 2014 and 2015, after contracting its operations to L.A. Live owner Anschutz Entertainment Group. The city expects the convention center to realize a profit this year too.

“It’s because the private sector pays employees lower salaries and less benefits,” Ovrom said.

AEG has 100 employees doing the work that the city had 125 people doing, he said, and customer satisfaction has remained steady.

Though the committee approved the recommendations from Santana's report released on Dec. 23, some council members raised caution flags.

"I am a P3 fan, but it worries me that there is no example of a convention center done using this P3 model in the U.S.," said Councilman Paul Krekorian during the committee meeting.

Krekorian said he was concerned the city could be negotiating a contract with a private partner that has completed many such projects all over the world while the city has no experience.

He questioned how the city ensures that the private company's interests align with the city's.

Contemplating the DBFOM model for the convention center may be a new concept for the City Council, but Los Angeles is no stranger to public-private partnerships on massive projects.

The Grand Avenue Committee, a city-county joint powers authority, had Related Cos., the developer pay the majority of the cost to develop the Grand Park in downtown Los Angeles' Bunker Hill neighborhood as part of a lease agreement in which the developer would build a mixed-use development on ground it leases through the JPA.

The multi-billion Grand Avenue project, however, was a bit star-crossed. The park was built, as was billionaire Eli Broad's contemporary art museum, and a $120 million apartment tower opened last fall. But two planned towers have yet to be built in a project originally slated for completion in 2009.

L.A. Live has a public-private flavor too. The city provided tax breaks to AEG on different aspects of the district, which includes The Staples Center sports arena.

AEG received a break on its bed taxes when it constructed the 1,001-room Ritz-Carlton/J.W. Marriott hotels. It is also seeking subsidies on its plans to build a 755-room, 38-story hotel as an expansion of the J.W. Marriott, expected to begin construction this year.

Santana said his office has spent the past year investigating potential public-private models even as the city moved forward on the "traditional method" that would involve issuing $470 million in tax-exempt bonds to fund the project

Los Angeles began working toward what it called a "Plan B" as doubts emerged about AEG's ability to land a National Football League team to anchor a stadium planned in conjunction with a new convention center.

In the end, the NFL chose instead to move the St. Louis Rams to a new stadium in the L.A. suburb of Inglewood.

As part of Plan B, the city held a request for qualifications that resulted in a team of HMC and Populous architects producing a $470 million design under the so-called traditional tax-exempt model.

Santana sent the City Council a report on Dec. 23 recommending the dual track and that the city hire ARUP to design a request for proposals for firms to use a social infrastructure P3 model.

If the city's availability payments to a private partner came to less than the $50 million debt service payments the city makes on the existing convention center, it could save money, Santana said.

The city could structure the deal so that if the asset is not maintained at a certain level the payments the city makes could be penalized.

"We are the client and we could lay out expectations," Santana said. "We subsidize big conventions, because they are a net benefit to the city."

Los Angeles does not have a good track record of maintaining its assets, Santana said.

He said the current convention center needs new carpet and renovations to its restrooms.

Santana's recommendation also included getting an independent analysis of the $470 million price tag Populous said it would cost to rebuild and expand convention center, and moving forward on an environmental impact report even as the city contemplates the two financing methods.

THE BOND BUYER

BY KEELEY WEBSTER

FEB 11, 2016 2:10pm ET

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2 States Launch Social Impact Bond Programs.

Two states announced Tuesday that they would experiment with an unusual method of financing human service programs that allows governments to pay nothing unless the programs are successful.

The approach recruits private companies and philanthropies to provide millions of dollars up front for efforts aimed at difficult social problems. If they meet a series of measurable goals over a number of years, the states will pay them back — with interest.

"We're basically trying to monetize prevention," said Tracy Palandjian, chief executive officer of the Boston-based nonprofit organization Social Finance, which helped bring the various sides together in contractual arrangements in Connecticut and South Carolina. "We're basically using private dollars to invest early" and avoid the higher cost of dealing with the impact later on.

Dubbed "Pay for Success" by the White House, which is cheerleading the effort, the approach is also known as "social impact bonds." Pioneered in Britain in 2010, it is so new that there appears to be no independent research on its overall effectiveness, though some think tanks have written approvingly of the model.

View Full Story from The Washington Post.

FEBRUARY 18, 2016

New Pay-for-Success Projects.

Social impact bonds, otherwise known as "pay for success" programs (PFS), attract money from private interests and charities for public programs that governments only pay back if and when positive results, such as cost-savings or reduced recidivism rates, are achieved. Just one such project launched last year, but 2016 has already seen three more kick off.

This past week, the Boston nonprofit Social Finance announced it helped design PFS projects launching in Connecticut and South Carolina.

The Connecticut project focuses on an in-home intervention for families where one or both parents struggle with substance abuse. The project will pay for new treatment teams to visit a client's home several times a week to help parents end their addictions and provide better care for their children. It wasn't immediately clear how much the program will cost, but it's scheduled to serve 500 families over more than four years.

Connecticut estimates that it spends more than $600 million a year on child abuse and neglect. If the new program is successful, it would ultimately save money by keeping kids with their parents and out of foster care, while also keeping parents productive and out of the judicial system.

South Carolina's PFS project aims to improve health outcomes for mothers and children living in poverty. The new program is a so-called nurse-family partnership that pairs vulnerable first-time mothers with specially trained nurses to support healthy pregnancies and positive child development.

About 27 percent of South Carolina's children live in families struggling with poverty, according to the governor's office. The project is being funded by $17 million from a handful of philanthropic organizations and about $13 million from Medicaid. The state will pay back up to $7.5 million to keep the program going if evaluators find it's helping moms and kids stay healthy.

Lastly, Denver this week announced a new PFS program that will provide permanent housing and support services to at least 250 chronically homeless people over five years. The help is meant to not only improve their lives but also to reduce the annual $7 million sum the city spends on several hundred heavy users of emergency services like police, jail, the courts and emergency rooms.

The city aims to reduce the time that participants spend in jail by 35 percent, compared with a control population. The second goal is to increase housing stability — days spent in housing — by 83 percent over a control group. The program is financed in part by $8.7 million in private investment. Denver will pay $15.12 for each stable housing day, minus any days spent in jail.

GOVERNING.COM

BY LIZ FARMER | FEBRUARY 19, 2016

Arizona's Deepening Public-Pension Quagmire.

Reform efforts and an ongoing court case show what happens when the bills come in for overly generous retirement programs.

Illinois' and New Jersey's public pensions may be in worse shape, but Arizona takes a backseat to no one when it comes to pension intrigue. A case before the state's Supreme Court is highlighting that intrigue as well as some of the basic decisions state and local governments face as they grapple with the sustainability of their retirement systems.

In 2011, Arizona enacted reforms to its Public Safety Personnel Retirement System (PSPRS), which at the time also included the Elected Officials Retirement Plan (EORP). The changes required active employees to contribute more toward retirement, suspended retirees' cost-of-living adjustments (COLAs) and conditioned future benefit increases on the fund's financial health. As a result, police and firefighter contributions increased from 7.65 percent of salary to 11.65 percent and about 200 judges saw their retirement contributions jump from 7 percent of salary to 13 percent.

A 2014 state Supreme Court ruling restored retiree COLAs, which added $1.5 billion to the system's unfunded liability. Now a case brought by two active judges challenging the increased employee contributions has made its way to Arizona's Supreme Court after a lower court ruled that the state must refund the increased contributions. The refunds would cost about $175 million.

Here's where things start to get particularly interesting. While the judges' case is before the Supreme Court, that's not exactly who will be hearing it. Four out of the five justices recused themselves because they would benefit from any refund. The fifth, Justice Clint Bolick, was appointed after the EORP was closed to new members in 2014, so he will be part of a special five-judge panel that will hear the case. And since the EORP was part of the Public Safety Personnel Retirement System, the panel's ruling will also affect police and firefighters.

The Arizona pension quagmire is further complicated by a voter-approved 1998 state constitutional amendment saying that "public retirement benefits shall not be diminished or impaired." That provision is unusual but not unique among the states, and it's the basis of the lower court's ruling that the increased contributions must be refunded.

The EORP was shut down because it was so expensive. That's what happens with a system that allows members to retire after 20 years with full benefits. Fifteen percent of its retirees receive six-figure annual pensions, and the average annual benefit is north of $50,000.

But two larger policy issues are at play in the Arizona pension case. One is that while it's certainly tempting to push liabilities off into the future, taxpayers would be better served by a system that pays higher salaries when necessary rather than promising generous pension benefits that subsequent generations can't afford.

The second lesson is just as simple. If state and local governments are going to continue offering rich defined-benefit pensions, both employees and taxpayers had better be prepared to pay for them.

GOVERNING.COM

BY CHARLES CHIEPPO | FEBRUARY 19, 2016

Kentucky Stumbles in Finding Revenue for Broadband Debt.

Six months after Kentucky borrowed millions to build a 3,400-mile broadband network, the state is having to rethink one of the revenue sources it had expected to be available to pay off the bonds.

The Kentucky Economic Development Finance Authority sold $232 millionof municipal debt in August to build the fiber-optic network for state agencies, schools and far-flung residents. Yet a challenge by AT&T Inc. to Kentucky's effort to shift a contract that provides Internet to schools is jeopardizing $11 million a year it was counting on for the bonds, according to the state.

Republican Governor Matt Bevin's administration, which took office in December, said that even with the challenge, the state will find the revenue to fund payments on the bonds, which were sold subject to legislative appropriation. State agencies will use the system, and other users are expected to generate revenue.

"The Commonwealth recognizes its contractual obligations under the project agreement and is evaluating all options to ensure the necessary revenue streams are in place to support the program," said Jessica Ditto, Bevin's spokeswoman, in an e-mail.

Kentucky sold its bonds as part of a trend among U.S. state and local governments to build their own broadband systems. About $4.2 billion of debt for broadband and other telecommunication services it outstanding, according to Bloomberg data.

Federal Grants

After the bonds were sold in August, then Democratic Governor Steve Beshear, who championed the project, said the network would bring jobs and more economic opportunity to parts of the state such as the Appalachian coal mining regions in eastern Kentucky that have lost industry jobs and lack broadband capacity.

The state had planned to re-bid a contract to provide Internet service to school districts after selling the bonds. The contract is paid for with $11 million of federal grants. But AT&T, which has the contract to serve schools, raised a conflict of interest challenge to the state's plans in November. Terms of the federal grants require competitive bidding.

AT&T objected to a request for proposals, or RFP, to provide broadband to the state's public schools, said Daniel Hayes, a spokesman for AT&T. Steve Rucker, who was then the executive director of the Kentucky Communications Network Authority, which was set up to oversee the broadband project, had helped write the request for proposals in an earlier job as deputy director of the state's finance and administration cabinet.

"AT&T believes such involvement in both the development of the RFP and also as a principal in a vendor bidding on the RFP jeopardizes the fair and open requirements of the bid process," said Hayes, in an e-mail.

Debt Service

Pamela Trautner, spokeswoman for the finance and administration cabinet, referred questions to the governor's office.

Annual debt service is scheduled to be $13 million in 2016, increasing to about $28 million by the last year of payments due in 2044, according to bond documents. The state will generate revenue by having its own agencies and academic institutions use the network rather than outside vendors, according to bond documents.

The state offers enough protection through its appropriation process that Daniel Close, portfolio manager with Nuveen Investments , which manages more than $100 billion of munis, including some of Kentucky's broadband bonds, said he isn't worried about the school contract affecting revenue to back the debt.

Celebrated Issue

"You have enough incentives in place that long-term this isn't going to add any risk," said Close, who noted that the deal involves a partnership with private companies. “Long term there is very little risk.”

The bonds were sold with low investment grade ratings, Baa2 from Moody’s Investors Service and BBB+ from Fitch Ratings. The spread of the one of the bonds maturing in 2035 to top-rated debt rose in a Feb. 11 trade with an average yield of 4.12 percent. The yield in the previous month had been under 4 percent.

The bond sale won the deal-of-the-year award from Bond Buyer, a trade paper, which cited the unique public-private partnership to bring the Internet to all 120 Kentucky counties. The state partnered with Macquarie Group Ltd., an Australian banking and advisory company, to build the system. Rishi Sharma, spokesman for Macquarie, declined to comment.

* An earlier version of the story was corrected to say that a Macquarie spokesman declined to comment.

Bloomberg Business

by Darrell Preston

February 18, 2016 — 9:51 AM PST Updated on February 19, 2016 — 7:47 AM PST

California Pension Fix Leads to Risk as Market Volatility Soars.

It’s hard for states to fix pensions – just look at New Jersey and Illinois. And even when legislators in California agreed two years ago on a way to keep the teachers’ retirement fund from going broke, it left the state’s finances more exposed to financial-market swings.

Under the plan, California, school districts and teachers will gradually increase their contributions to make the second-biggest U.S. public pension fully funded in 30 years. The catch: the state’s share depends on whether the fund hits its 7.5 percent annual investment target, meaning it could jump in bad years or plummet in good ones, according to the Legislative Analyst’s Office. Three decades from now, the difference between market winning and losing streaks could mean as much as $5 billion.

The uncertainty over the state’s future payments to the California State Teachers’ Retirement System, which oversees benefits for about 896,000 people, underscores the risks in betting on a continual surge in California, where the government’s fortunes have tracked the booms and busts of the equity market. For now, California’s still reaping a revenue windfall from the post-recession bull run that crested in the middle of last year.

“This could certainly add to fiscal pressure on the state in the event of a down market,” Gabriel Petek, a credit analyst in San Francisco for Standard & Poor’s, said of the pension overhaul. In July, S&P boosted the state’s rating to AA-, the fourth-highest rank, marking the third upgrade in as many years.

While the investment returns don’t start affecting the state’s contribution until July 2017, the lackluster performance in 2015 highlights the potential pitfalls. After stocks tumbled from record highs, state and city pensions eked out median returns of 0.36 percent, according to the Wilshire Trust Universe Comparison Service. It was the smallest increase since 2008 and far short of what they expected.

Nationwide, state and local governments have about $1.7 trillion less than needed to cover all the benefits that have been promised, according to Federal Reserve Board data. The need to boost contributions has led to downgrades for Illinois and New Jersey, where Democrats and Republicans have clashed over how to meet the growing obligations.

Before California legislators acted, the teachers' system — with assets of about $179 billion — was facing a $74 billion shortfall. Unlike most public pensions, the board needs lawmakers' approval to require school districts, the state and employees to increase what they pay into the fund. Because of the 2014 changes, the payments from school districts will more than double to 19.1 percent of payroll by 2020 from 8.25 percent. By July 2016, employees would kick in 10.25 percent of their checks, up from 8 percent, and the state's portion grows to 6.3 percent of payroll.

Beginning in mid-2017, California would pay less if the system bests its earnings assumption and more if it falls short, due to a formula that divides the responsibility for the unfunded liability between the state and districts, according to the Legislative Analyst's Office, a nonpartisan agency that conducts research for lawmakers.

Any such impact from the pension-overhaul law can be mitigated because it allows for the governor and legislators to review the system's funding every five years to see if any corrections should be made, said H.D. Palmer, a spokesman for Governor Jerry Brown's finance department. Another buffer: a successful ballot measure that Brown championed requires the state to save a portion of excess capital-gains revenue to cushion the impact of swings that dogged the state in the past.

Those fluctuations can be dramatic. In the fiscal year that ended in June 2010, its capital-gains taxes tumbled to $3 billion, one third of what they were two years earlier, only to rebound when share prices jumped. In the current budget, California's expecting $13.4 billion from such levies, about 11 percent of its revenue. Some will be socked away to help cover the next round of deficits.

In a down market, "not only is the state getting less money from the way the tax structure is comprised, but it also forces them to increase their payments for their unfunded pension liability," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees $6.2 billion of investments. "It compounds the vulnerability of their tax structure."

There is a limit to how high the state's contributions could rise: 0.5 percent annually. That could slow the state's progress toward eliminating the pension shortfall if the markets reverse course after a period of good years that allowed California to cut its contributions, said Ryan Miller, principal fiscal and policy analyst at the legislative office.

"We have a very volatile revenue system," Miller said. "It's possible that we could lose tens of billions of dollars over a multi-year period following a recession and that might cause these sorts of constraints in a budget where we couldn't address this problem."

As state leaders deliberate on the budget for the fiscal year that starts in July, Brown has advocated fiscal restraint. The governor "is not going to support ongoing higher levels of state spending that broadly speaking could be susceptible to a downturn in revenues," Palmer said.

The state should act now, while revenue is surging, to make its teacher contributions simpler and less susceptible to market volatility, Miller said.

"Its role here is going to be far less certain than the districts' role," Miller said. "In some scenarios, the state's share of this problem could be very, very big."

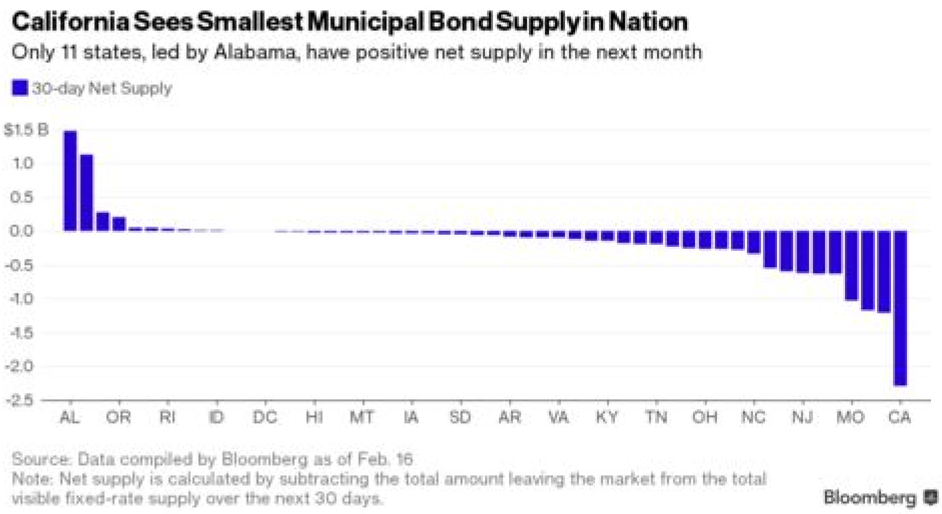
Bloomberg Business

by Romy Varghese

February 18, 2016 — 9:01 PM PST Updated on February 19, 2016 — 12:55 PM PST

[California Muni Investors Facing Biggest Issuance Gap in Nation.]

California will see the biggest deficit in municipal debt supply over the next 30 days among all U.S. states, the District of Columbia and Puerto Rico, according to data compiled by Bloomberg. The most-populous state has $2.9 billion of securities that will be called or mature in the next month. Of the 11 states with positive supply over the next month, Alabama has the most with $1.5 billion, according to the data.



Bloomberg Business

by Elizabeth Campbell

February 18, 2016 — 10:14 AM PST

[Bloomberg Brief Weekly Video - 02/18]

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

[Watch the video.]

February 18, 2016

Illinois Launches Financial Probe Into Chicago Public Schools.

CHICAGO — The Illinois State Board of Education initiated an investigation Thursday into the “financial stability” of the Chicago Public Schools (CPS), a move that builds off Republican Governor Bruce Rauner’s call for a state takeover of the cash-strapped district.

In a letter to CPS officials, Rauner’s appointed chairman of the state education panel, former state Senator James Meeks, and Illinois state Superintendent of Education Tony Smith set a March 4 deadline for the district to provide a litany of financial records, including three years worth of audits and financial projections, payroll data and “major contracts” that have received annual increases, among other things.

“Our sincere hope is that the forthcoming investigation will identify opportunities for actions to be taken that will improve the financial condition of Chicago Public Schools…and, most importantly, result in fiscal stability,” Meeks and Sanders wrote in their letter to CPS Chief Executive Officer Forrest Claypool and Chicago Board of Education Chairman Frank Clark.

The nation’s third-largest public school system, which is controlled by Mayor Rahm Emanuel, has a $1.5 billion structural deficit and has asked Illinois’ gridlocked state government for $480 million to help pay the system’s pension contribution for this fiscal year, which ends June 30. But the request has languished amid the nearly eight-month budget stalemate between Rauner and Democrats who control the state legislature.

Before the school system borrowed $725 million in the municipal market earlier this month, Rauner and his GOP legislative allies called for legislation that would authorize a state takeover of CPS, which is not permitted under existing state law. The governor also backs legislation to permit the district to declare bankruptcy, which would enable it to restructure many of its debts. Democrats have vowed to block those initiatives.

A CPS spokeswoman said much of the information being sought by the Rauner Administration is publicly available, and renewed criticism that the governor single handedly drove up borrowing costs on the district’s recent bond sale as a result of his bankruptcy push.

“The last time Governor Rauner offered his financial advice for Chicago Public Schools, Chicago taxpayers were forced to pay even more for our bonds, and we cringe at what his latest venture could cost our children,” CPS spokeswoman Emily Bittner said in a prepared statement.

By REUTERS

FEB. 18, 2016, 11:54 P.M. E.S.T.

(Reporting By Dave McKinney, additional reporting by Karen Pierog; Editing by Michael Perry)

CUSIP: New Municipal Bond Activity Down 12% vs. December 2015 Totals.

CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for January 2016. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity, suggests a continued slowdown in new corporate and municipal bond issuance over the next several weeks.

[Read the Report.]

[New York's MTA Eyes Nascent 'Green Bond' Market with $500 Million Bond.]

New York’s Metropolitan Transportation Authority (MTA) will issue its first ever “green bond” next week as it looks to tap a market beyond its traditional investor base.

Green bonds, which are earmarked for environmentally friendly projects that meet certain criteria, are gaining attention amid the growing focus on global climate change.

The $500 million in MTA revenue bonds qualify as green bonds because public transportation is considered environmentally friendly. They are certified by Climate Bonds Initiative (CBI), a nonprofit that aims to spur issuance of green bonds.

“By leaving their cars at home and embracing mass transit, New Yorkers play a dramatic role in reducing carbon emissions,” said MTA Chairman and Chief Executive Thomas Prendergast in a statement.

The MTA runs the largest public transport network in the country, including the New York subway.

The $66 billion green bond market is tiny compared with the $100 trillion global bond market. But CBI is aiming to expand that into a global green bond market.

Toward that end, it is proposing a combination of credit enhancements, such as government guarantees, tax incentives, government mandates to public pension funds and sovereign wealth funds, and regulatory steps such as preferential risk weighting for green bonds in bank capital requirements.

CBI said MTA’s bond would be the largest certified climate bond issued in the United States.

The MTA is also trying to tap environmentally conscious retail investors and is publicizing the bonds in a rare advertising campaign.

The MTA is one of biggest and best-known issuers in the $3.7 trillion U.S. municipal bond market, issuing about $3 billion each year.

Aaron Donovan, a spokesman for MTA, said the agency is not expecting lower borrowing costs at next week’s sale, but tapping a potentially growing market for green bonds could lower borrowing costs in the future.

“Over the long term we hope it will expand our investor base,” he said, adding that the agency plans to issue more green bonds in the future.

There were $597.7 billion of “climate aligned” bonds outstanding as of 2015, according to CBI. However, only $65.9 billion were certified as “green bonds.” About $51 billion, or 12 percent of the total, were issued by U.S. borrowers.

Weekly issuance in the U.S. municipal bond market will drop to $5.9 billion next week, including notes. U.S. financial markets are closed on Monday for Presidents Day.

REUTERS

NEW YORK | BY EDWARD KRUDY

Fri Feb 12, 2016 4:27pm EST

(Reporting by Edward Krudy; Editing by Matthew Lewis and Andrew Hay)

Stifel's Public Finance Group Ranks No. 1 in 2015 Municipal Negotiated Issues.

Stifel Financial Corp. (NYSE: SF) today announced that its Public Finance group, including acquired firms, led the nation in number of negotiated issues in 2015, serving as sole or senior manager for 811 transactions with a total par value of more than $16.7 billion, according to data from Thomson Reuters SDC.
In addition, Stifel led all firms in number of issues in the National K-12 Financing category with 398 issues totaling $7.7 billion. In the individual state rankings, Stifel was No. 1 in both par value and number of issues in Arizona and California, and No. 1 in par value in Missouri.

“Our success is a testament to the quality of our talented public finance professionals nationwide,” said Ken Williams, Director of Municipal Finance Group. “In recent years, we’ve significantly bolstered our capabilities in public finance with the addition of Stone & Youngberg, De La Rosa & Co., and Merchant Capital as well as with the hiring of several key experienced bankers. The depth we now have in the group allows us to pay added attention to our clients’ needs. This, along with the strength of our dedicated municipal sales group, our broader fixed income capital markets sales group, and our retail network, has enabled us to deliver superior results for our issuer clients.”

Stifel has ranked in the top ten nationally in senior managed negotiated issues for the last five years (including acquired firms).

Stifel Public Finance Information

A leader in public finance, Stifel’s areas of expertise include state and local governments, tax increment/development districts, K-12 school districts, utilities, transportation agencies, higher education institutions, and pension. With nearly 160 public finance associates in 26 offices, Stifel has one of the largest municipal finance practices in the country.

Stifel Company Information

Stifel Financial Corp. (NYSE: SF) is a financial services holding company headquartered in St. Louis, Missouri, that conducts its banking, securities, and financial services business through several wholly owned subsidiaries. Stifel’s broker-dealer clients are served in the United States through Stifel, Nicolaus & Company, Incorporated; Keefe, Bruyette & Woods, Inc.; Miller Buckfire & Co., LLC; and Century Securities Associates, Inc., and in the United Kingdom and Europe through Stifel Nicolaus Europe Limited. The Company’s broker-dealer affiliates provide wealth management, investment banking, trading, investment advisory, and related financial services to individual investors, professional money managers, businesses, and municipalities. Stifel Bank & Trust offers a full range of consumer and commercial lending solutions. Stifel Trust Company, N.A. and 1919 Investment Counsel & Trust Company offer trust and related services. To learn more about Stifel, please visit the Company’s web site at www.stifel.com.

February 10, 2016: 04:15 PM ET

Millbank: California Approves New Net Metering Tariff.

On January 28, the California Public Utilities Commission ("CPUC") voted in favor of a net metering successor tariff for customers of Southern California Edison, Pacific Gas & Electric, and San Diego Gas & Electric, California's three largest investor-owned utilities. The decision is seen as being favorable for the continued growth of residential solar installations and other distributed generation sources. While the CPUC's order maintains retail rates that allow customers to fully offset energy generated from on-site systems, it also introduced customer fees and other measures meant to provide long-term stability for the growth of distributed generation in the state. The new net metering rules are expected to remain in effect until reconsideration by the CPUC in 2019.

The new tariff will continue to give utility customers credit at the full retail rate for any electricity that is exported to the grid and maintains the state's net excess generation payout at the retail rate. Customers under the new tariff must pay a nonbypassable charge on each kilowatt-hour of energy consumed from the grid, as opposed to the old tariff whereby customers would only pay the charge on energy from the grid after offsetting the energy generated on-site. The CPUC order also creates a new one-time interconnection fee charged at a reasonable rate to customers with systems of 1 MW capacity or less. Customers who use the successor net metering tariff can use the tariff for 20 years from the date of interconnection.

The successor tariff will also require all residential net metering customers to use their utility's time-of-use rate ("TOU rate") in order to align energy costs with grid conditions and incentivize reduced demand during peak hours. Residential customers must use a default residential TOU rate or another offered rate with the exception of residential customers of San Diego Gas & Electric who can use existing tiered rates for up to five years during the period that the utility is adjusting their residential TOU rates.

With this decision, the CPUC has shown a strong commitment to increasing the use of solar power by residential customers. In marked contrast to other nearby states, like Nevada and Arizona, where local utilities have successfully fought to curtail net metering through fees and lower tariffs, California's net metering program preserves full value for power that residential solar ratepayers return to the grid. In so doing, it makes the market more attractive to solar power developers. This regulatory consistency will also make it easier for developers to attract debt and equity capital to finance residential solar distributed generation portfolios in the state.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Article by Allan T. Marks, Karen Wong and Timothy K. Wendling

Milbank, Tweed, Hadley & McCloy LLP

Last Updated: February 4 2016

Louisiana Parish Seeks Expertise in Negotiating Wastewater System Contract.

Ascension Parish, La., is seeking an expert in public-private partnerships to serve as its technical advisor and act as the parish's representative for the procurement of a wastewater treatment system project.

The consultant must have the qualifications to negotiate a design-build-finance-operate P3 agreement and provide implementation and oversight support for the project's development, according to the RFQ notice the parish issued on Jan. 26. The deadline for responses is Feb. 23.

Ascension Parish decided in December to begin negotiating the $300 million project with a single bidder, Ascension Environmental LLC, which would build, own and operate a regional wastewater system for 30 years. At the end of the term, the system's ownership would revert to the parish.

The parish's decision to negotiate the P3 with a single bidder followed multiple unsuccessful attempts over eight years to build a system to treat sewage from its east bank without imposing new taxes or hefty user fees.

The partners expect to raise $240 million in private capital through debt offerings. The remainder will come from a $60 million loan the parish obtained from the state during an earlier attempt to finance the project on its own, reported The Advocate on Dec. 27.

The plan involves a buyout of two local wastewater treatment plants to increase the new plant's customer base, which is expected to yield more than 16,000 customers by year one, 1,000 of which will be commercial users. One of the buyout targets, Ascension Wastewater Treatment, has joined Ascension Environmental's development team. The Louisiana Public Service Commission will review the buyout plan before it can be finalized to ensure it will be of public benefit.

The first three phases of the project, which would be conducted over five to six years, would involve closing down up to 40 neighborhood wastewater treatment plants annually, beginning in 2018, as replacement plants open. The cost to build a fourth plant and its service network was not disclosed but the partners expect the number of customers to have increased enough by then to cover the expense. When switched to the new system, customers will move from a flat fee to a user-based fee system.

NCPPP

By Editor

February 11, 2016

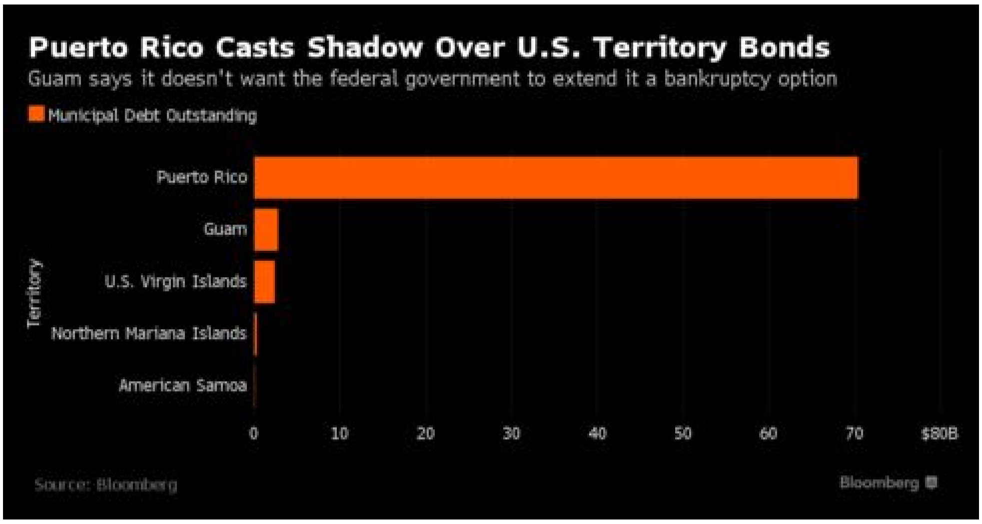
With Eye on Puerto Rico, Guam Says No to Territorial Bankruptcy.

Puerto Rico has always gotten the most attention among the U.S. territories. It's the most-populous, most-indebted, most-proximate to the mainland and most-vocal in pressing the case for bankruptcy.

Now, officials from the other islands are speaking up as they seek to borrow. In Guam, which issued $143 million of tax-free water bonds on Tuesday, they say borrowing costs could swell if Congress extends Chapter 9 bankruptcy protection to U.S. territories as a way for Puerto Rico to reduce its $70 billion of debt. It's an idea supported by the Obama administration and Alejandro Garcia Padilla, the commonwealth's governor.

"When it comes to the policymakers in Washington, D.C., dealing with the Puerto Rico situation, I've made it very clear: Guam has no need nor desire to look at any type of backdoor such as bankruptcy protection," said Guam Governor Eddie Calvo, a Republican who in 2014 won a second term to lead the island of 167,500.

"That's something we've always believed has made our triple tax-exempt bond sales very attractive — that we were treated a certain way," Calvo said in a telephone interview Feb. 3 from San Francisco, where he met with rating companies and investors. His goal is "ensuring the sanctity of these investments for investors," he said.



Calvo's argument is the same as the one made by some Senate Republicans and Puerto Rico investors, who say retroactively changing the rules around the commonwealth's bonds could disrupt the functioning of the $3.7 trillion municipal market. Some analysts say it raises the possibility that troubled states would eventually get bankruptcy access to force losses on bondholders.

Yet the proposal is most pressing for the four territories besides Puerto Rico that issue bonds that are tax-exempt at the federal, state and local level nationwide: American Samoa, Guam, the Northern Mariana Islands and the U.S. Virgin Islands.

Guam, the Pacific island 9,372 miles (15,080 kilometers) from Puerto Rico, issued debt through its waterworks authority to pay for needed infrastructure improvements. About $111 million of debt due in 2046 priced to yield 3.64 percent, data compiled by Bloomberg show. That's less than the 3.71 percent average yield on 30-year revenue bonds rated BBB, which is about the average grade on the waterworks bonds from the three biggest credit raters.

Calvo said he visits investors twice a year to remind them that the territory has won upgrades and balanced its budget while Puerto Rico veered toward insolvency.

Guam averted the fate of American Samoa's bond sale last month, which officials said came at a high penalty.

The island's economic development authority issued $23 million of federally taxable debt due in 2024 that priced to yield 11.9 percent, data compiled by Bloomberg show. In August, it sold taxable securities at a 7.5 percent yield. The most-recent offering will fund a government-run charter bank. The Bank of Hawaii plans to leave, making the new institution the only bank for the territory's 55,000 residents.

That island had to delay its deal and pay higher borrowing costs because of the potential change to extend Chapter 9 protection to territories, said Keniseli Lafaele, director of American Samoa's commerce department.

“I don’t believe we should manage our territory with the thought in our minds that we can fail and then use bankruptcy as a way out of our trouble,” Lafaele said in an e-mail. “We plan to live within our means, including strategic and limited use of debt.”

Those assurances may not have been enough for investors in the bonds, which have a Moody’s rating of Ba3, three steps below investment grade.

Offering documents for the deal cite “a lot of discussion” about changing federal law to give Puerto Rico different treatment under the bankruptcy code. Any enacted legislation could alter the rights of American Samoa bondholders, according to the disclosure.

Virgin Islands

“The specter of it, that they can always retroactively change these legal statutes should things become problematic in the Virgin Islands or Guam or American Samoa, would drive spreads up on those bonds,” said David Ashley, a portfolio manager in Santa Fe, New Mexico, at Thornburg Investment Management, which oversees $11 billion of munis. The company owns no Puerto Rico securities, but holds other territory debt, including from the Guam Waterworks Authority.

Other territory leaders don’t see the harm of having bankruptcy open to them, particularly if it’s part of a broader package that puts the islands on more equal footing with U.S. states.

“Yes, I favor the territories being included under the bankruptcy protection statutes as other U.S. jurisdictions,” U.S. Virgin Islands Governor Kenneth Mapp said in an e-mailed statement. “While the Virgin Islands is stable financially and does not require bankruptcy protection, congressional changes in regard to Puerto Rico should include all other U.S. territories.”

Stacey Plaskett, the non-voting representative of the U.S. Virgin Islands in Congress, has said she would push for the territory to be included in any assistance package for Puerto Rico, outside of bankruptcy.

“She is concerned that extending Chapter 9 bankruptcy protection to the territories may raise a red flag on Wall Street and jeopardize the Virgin Islands’ bond ratings,” Richard Motta, Plaskett’s press secretary, said in an e-mail.

Northern Mariana

E-mails to the office of Northern Mariana Islands Governor Ralph Deleon Guerrero Torres and the territory’s commerce department weren’t returned.

Calvo, Guam’s governor, also sees Puerto Rico’s fiscal crisis as a chance to highlight unequal treatment of U.S. territories, apart from the bankruptcy code.

Under a four-part plan announced in October to address Puerto Rico’s crisis, the Obama administration asked Congress to fix the commonwealth’s funding disparity under Medicaid. A spending bill in December didn’t address the full scope of that difference. The U.S. Treasury has also pressed Congress to give Puerto Ricans access to the Earned Income Tax Credit.

“When it comes to Medicaid, Medicare, the Earned Income Tax Credit treatment, those are things where I want equity with the states if there’s to be something in a package,” Calvo said. “But obviously not where they’re touching on bankruptcy protection.”

Bloomberg Business

by Brian Chappatta

February 8, 2016 — 9:00 PM PST Updated on February 9, 2016 — 10:34 AM PST

Puerto Rico Bondholders Make First Counteroffer to Debt Plan.

An investor group that owns about $1.6 billion of Puerto Rico senior sales-tax bonds is proposing a plan that would allow them to be repaid in full rather than accept the discounted amount the commonwealth has offered under its restructuring proposal.

Goldentree Asset Management, Whitebox Advisors and Metropolitan Life Insurance are among the bondholders proposing that some investors of the securities, referred to as Cofinas because of their Spanish acronym, wait longer to be repaid and avoid accepting losses on their principal holdings through Puerto Rico's debt-exchange offer. The creditor plan would still give Puerto Rico the debt-service relief it's asking for by spreading out payments over time, said Susheel Kirpalani, a partner at Quinn Emanuel Urquhart & Sullivan, which is representing the investors in negotiations with the commonwealth.

"Without Congress passing a bill, all these proposals are worthless," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $3.9 billion of municipal bonds, including Puerto Rico securities. "These bondholders can go back and forth, and demand this, and wish for that, and hope for this, but it's a problem that has just continued to snowball."

The commonwealth last week released a restructuring proposal that would cut its obligations by 46 percent where investors accept losses in a voluntary debt exchange. The Cofinas proposal is the first sign that Puerto Rico's different creditors, which include hedge funds, municipal bond mutual-funds, individual holders and bond-insurance companies, are moving toward presenting their own alternatives to the commonwealth's plan rather than offering one unified creditor proposal.

"Rather than be just another creditor group that's whining and complaining and saying — 'we don't like, we won't give, we won't do,' — we're trying to meet the commonwealth where they are," Kirpalani said in an interview. The proposal was submitted last week, he said.

An uninsured senior sales-tax bond maturing 2036 traded Tuesday at an average price of 53.8 cents on the dollar, for an average yield of 12.2 percent, according to data compiled by Bloomberg. A year ago the debt changed hands at about 78 cents.

Puerto Rico and its agencies owe $70 billion after years of borrowing to paper over budget deficits. Its economy has contracted every year but one since 2006. Residents are fleeing the island at record levels to find work on the U.S. mainland. Unlike U.S. municipalities, Puerto Rico's agencies cannot access bankruptcy.

Congress is working on legislation to help the island, which may include some type of bankruptcy powers and a federal control board that would oversee budgets and borrowing.

"We don't comment on discussions with creditors," said Barbara Morgan, a spokeswoman who represents the commonwealth's Government Development Bank at SKDKnickerbocker in New York. The bank is overseeing Puerto Rico's debt restructuring.

There are two types of Puerto Rico sales-tax bonds: $7.6 billion of senior debt and $9.7 billion of subordinate bonds. The senior Cofinas get repaid first from a portion of the island's 11 percent sales-tax rate while the subordinate securities are second in line for repayment. Sales-tax investors would recover about 49 percent of the par value of their securities in the commonwealth's debt-exchange offer.

Repayment Scenarios

The Cofina proposal, which includes investors holding about 20 percent of senior sales-tax debt, reflects the repayment difference between the senior and subordinate bonds. In a scenario where Puerto Rico's economy has zero growth, senior Cofinas are estimated to get repaid in 2018 through 2047, with subordinate bonds being repaid in 2047 through 2060.

The offer, "provides exactly the same amount of debt relief that the commonwealth needs from the Cofina house in a way that's consistent with the structure and honors and defends the contractual rights of the senior bondholders against the subordinate bondholders," Kirpalani said.

Other investors not included in the group with the counteroffer are focusing on a comprehensive plan that works for all Puerto Rico creditors rather than narrowing talks to one one band of investors, said a person familiar with discussions among other major holders of sales-tax bonds.

"It's a negotiation dance that is really not chaperoned by anybody than can chaperon, at this point," Dalton said.

Bloomberg Business

by Michelle Kaske

February 10, 2016 — 9:02 AM PST Updated on February 10, 2016 — 11:46 AM PST

Bloomberg Brief Weekly Video - 02/11

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

Watch the video.

February 11, 2016

Puerto Rico Bondholders Put Forward Their Own Restructuring Plan.

A group of Puerto Rico bondholders has proposed a competing plan in response to the bond swap the U.S. commonwealth announced on Feb. 1, the latest twist in a long-running battle over the terms that will determine an expected restructuring of the island territory's debt.

The group, made up of investors who own debt backed by sales-tax revenues, offered to agree to a delayed repayment of the bonds in exchange for preservation of the tax-backed guarantee of the notes, known by their Spanish acronym, Cofina.

In its earlier proposal, Puerto Rico proposed consolidating Cofina bonds into the commonwealth's broader debts, which would be exchanged for two new bonds distributed in varying amounts depending on the relative legal priority of existing bonds.

The island is trying to restructure about $70 billion of municipal bonds issued by a variety of government entities. As it negotiates with bondholders, Puerto Rico's government is asking the U.S. legislature for the ability to create a debt-restructuring authority. Congressional Republicans are seeking the establishment of a control board to oversee Puerto Rico's budget before agreeing to a restructuring mechanism.

The Cofina bonds are split between $7.6 billion of senior notes that would be paid off first in a restructuring and $9.7 billion of subordinated bonds, according to a presentation of the counterproposal prepared by the group's financial adviser, Miller Buckfire & Co., and law firm Quinn Emanuel Urquhart & Sullivan LLP.

The group controls Cofina senior bonds with about a face value of $1.6 billion and includes MetLife Inc., hedge funds Whitebox Advisors LLC and Goldentree Asset Management LP and Jose Rodriguez Perello, a former vice chairman of the board of directors of the Government Development Bank of Puerto Rico, a person familiar with the matter said.

Mr. Rodriguez Perello on Feb. 8 sent the Puerto Rico Sales Tax Financing Corp. a letter demanding it repudiate the proposal and threatened to declare an event of default on the bonds if the corporation fails to comply within 30 days, according to a copy of the letter. An event of default would accelerate the bonds, making them due immediately.

"We don't comment on discussions with creditors," said a spokeswoman for the Government Development Bank of Puerto Rico. "A response to the letter is forthcoming, but we believe the allegations of a default are legally and factually incorrect."

MetLife declined to comment.

Whitebox, Goldentree and Mr. Rodriguez Perello couldn't immediately be reached for comment.

THE WALL STREET JOURNAL

By MATT WIRZ

Updated Feb. 10, 2016 3:01 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com

Kansas GOP House Members Angling to Take Role in School Bond Decisions.

TOPEKA — The education committee in the House gave voice Monday to frustration that local school boards — for more than 20 years — have issued bonds for capital construction projects, all the while secure in the knowledge that state taxpayers automatically would pick up a big chunk of the cost.

Movement to grant the state greater control over school district bonding surfaced in the form of a House bill pitched by Rep. John Bradford, R-Lansing, that creates a special board to evaluate whether to award state aid on school bonds for new construction and remodeling projects.

“The Legislature must develop a school bond review process to make sure we’re not blindsided,” Bradford said. “We go through this every year.”

He said the state’s public school districts approved approximately $300 million in bonds from June to December, and state law requires the Legislature to provide $36 million in subsidies to modest-wealth districts for that debt. The Legislature had no role in deciding whether to issue the bonds, and taxpayers statewide began picking up the tab in 1992, he said.

Rep. Amanda Grosserode, a Lenexa Republican on the House Education Committee and chairwoman of the House Education Budget Committee, said the state’s obligation was more difficult to swallow when school boards and residents borrowed money to build facilities for football, baseball or soccer that had little to do with instruction.

The Kansas Chamber of Commerce and Americans for Prosperity hailed the reform proposal. The Kansas Association of School Boards took no official position, but indicated the current bill would distort state appropriations in a manner inconsistent with Kansas Supreme Court rulings on school finance. The Kansas-National Education Association and Kansas Families for Education opposed the bill.

“Local school boards are better placed to determine what is needed at the local level, not a distant regulatory board populated by people who may have never set food within the county or municipal limits in question,” said Brian Koon, legislative liaison of the nonpartisan Families for Education.

Under House Bill 2486, the six-person committee would be prohibited from contributing state tax dollars to facilities or portions of buildings that didn’t involve direct “instruction” of students. The review board would be free to redefine in state law what constituted instructional space. Generally, state law defines instruction as interaction between student and teacher.

School districts that didn’t apply to the state for financial aid on bonds wouldn’t be subject to the action by the oversight board.

Mark Tallman, a lobbyist with the Association of School Boards, said a law that eliminated state support for a portion of bond issues found not to be directly related to instruction would have a large impact on some districts.

He said bonds issued by the Central District in Burden under the old school-finance formula would have required the state to pay 50 percent of the debt. That formula was repealed in 2015 and replaced by a block-grant system. Block granting would pay approximately 32 percent of a bond issue from Central, Tallman said. If half the space in a new building could be viewed as instructional, the state would pay 16 percent — a significant departure, he said.

Kansas’ new review board would have four legislators and two members of the Kansas State Board of Education. It was suggested by Bradford during a hearing of the House Education Committee that Gov. Sam Brownback should be given an appointment to avoid the problem of tie votes by the board.

Brian Smith, the superintendent of schools in Galena, said formation of a review panel selected by elected politicians in Kansas was a recipe for discord. He expressed concern the large, influential districts would figure out a way to seize bond funding that ought to be reserved for small, rural districts.

“I’m afraid a committee would become very political. Do you think that’s possible?” Smith said. “I want you not to forget Galena in this process.”

Chairman Ron Highland, a Wamego Republican, said no firm decision had been made by House leadership regarding handling of the reform bill. The concept has been recommended by a few legislative panels and consultants.

By TIM CARPENTER Topeka Capital-Journal Feb 2, 2016

CPS Borrows $725 Million at Extraordinarily High Interest Rate.

After putting a long-expected bond sale on hold last week, Chicago Public Schools managed to borrow $725 million Wednesday by promising investors extraordinarily high interest rates.

Bonds issued by taxing bodies like CPS are normally considered sound investments, but that's not the case with a school district weighed down by debt, labor uncertainty and political tumult, one market analyst said.

"This is not a typical municipal bond," said Matt Fabian, a partner at Concord, Mass.-based Municipal Market Analytics. "You can't go into it assuming that you know what's going to happen or that you will almost surely get your money back. There is a large degree of speculation."

Documents released early Wednesday afternoon show CPS sold 28-year bonds at yields of 8.5 percent. Before the district pulled its bond issue last week, it was offering 25-year bonds at 7.75 percent. By comparison, when the state of Illinois sold bonds earlier this month, yields were 4.27 percent for 25-year bonds

Bond issues are made up of individual bonds that mature at different times. Borrowers pay higher rates on bonds that mature in later years.

The district's bond rating has been dropping for months, with Moody's Investors Service lowering it again last week to four levels below junk status. Historically, 12 percent of municipal borrowers with CPS' current rating from Moody's have defaulted within five years, according to an analysis by the ratings agency.

Outside of Puerto Rico, no U.S. municipality in recent history has sold a bond issue as large as the district did Wednesday with such low marks from the major debt rating agencies, according to an analysis by New York City-based Interactive Data, a firm that evaluates municipal bonds.

CPS says it needs the bond money to cover existing debt payments and cover construction and repair projects that are deemed critical. The district's statement said it would put off some other planned uses for the bond money, such as converting variable-rate debt to a fixed rate.

"Along with the tough cuts announced yesterday and earlier this year, the sale of these bonds will produce sufficient proceeds to mitigate our cash flow challenges through the end of the fiscal year," CPS Senior Vice President of Finance Ron DeNard said in a statement.

The size of the CPS deal has dropped as the district has searched for investors to buy the bonds. CPS had originally planned to issue close to $1.2 billion in bonds, then last month shrunk the deal to $875 million.

In addition to ongoing contract talks with the Chicago Teachers Union, CPS is in the middle of a statewide political battle. Gov. Bruce Rauner and Republican leaders want to give CPS the authority to declare bankruptcy, although leaders of the Democrat-controlled General Assembly have said Democrats would block such a proposal.

Nonetheless, to reassure investors ahead of the proposed sale, the district late Tuesday filed a disclosure statement aimed at ensuring investors they could get paid even in the event of bankruptcy.

The district is also trying to push cost-cutting moves. On Tuesday, the district announced a round of cutbacks to school budgets totaling $75 million for this fiscal year, and also declared it would stop picking up the bulk of teachers' employee pension contributions.

Chicago Tribune

by Heather Gillers

Feb 3, 2016

Analysts Pan Puerto Rico Restructuring Proposal.

Puerto Rico's debt restructuring proposal got a cold reception from analysts, with some saying it failed to even provide a starting point for negotiations.

On Monday, Puerto Rico made public details of the proposal, which would reduce the commonwealth's bond debt burden by 46% through a bond exchange.

Puerto Rico's tax-supported debt would be reduced to $26.5 billion from $49.2 billion under the proposal; annual debt payments would be capped at 15% of government revenue

"The restructuring plan is absolutely not credible and a very low starting point for negotiations," said Michael Ginestro, Bel Air Investment Advisors director of municipal research.

"In fact, I don't even think creditor groups would even consider responding," he said.

"The structure has major problems and, in MMA's opinion, the related discussion is apt to go nowhere," Municipal Market Analytics analysts said Monday in its Weekly Outlook.

Ginestro said there are legal issues with the proposal.

"How would the new entity's security provisions trump the general obligation security's clawback?" he said. "If Puerto Rico defaults on GO bonds, what would the new base bonds be rated?"

Puerto Rico's plan only works if there are few holdouts and that is unrealistic, Ginestro said. He doubts that investors would trust that Puerto Rico will honor the bonds.

The MMA analysts had some similar objections.

In addition, they say that hedge funds that have bought large amounts of Puerto Rico debt in recent years are unlikely to participate in the restructuring. The GO tranche of the new base bonds would likely sell for about 64 cents on the dollar of the original GOs' par value and the funds would not be happy with this.

MMA analysts also said that the plan assumes large amounts of additional unplanned federal dollars for the Puerto Rico government, which is far from certain.

Since the “growth bonds” could only possibly offer payment after 2026 and only to the extent Puerto Rico saw robust economic growth, they are “effectively worthless,” the MMA analysts said.

Other analysts were not as dismissive as Ginestro and MMA but had objections and conditions on the restructuring. “This is clearly only the first salvo in what will surely be a protracted legal battle,” said NewOak managing director Triet Nguyen.

“First and foremost, PR needs to convince creditors that the promised ‘statutory lien’ on the new bonds is superior to the constitutional protection of the GOs or the lockbox mechanism for COFINA,” Nguyen said. “Secondly, in our view, the ‘growth bond’ concept is only viable if there is a federal control board in place to make sure the financial disclosure is timely and accurate and that government spending is kept under control to generate enough ‘excess revenues’ to repay bondholders.”

Evercore’s director of municipal research, Howard Cure, agreed with Nguyen, saying that investors would only be interested in a debt exchange if it was combined with a financial control board.

“Otherwise, I think most investors would rather take their chances in court,” Cure said.

“A commission that is congressionally approved has the best hope of coordinating the many other legislative changes that are necessary to help the island get back on its feet (like changing the Jones Act, passing the Earned Income Tax Credit, modernizing the healthcare system),” Wells Fargo Securities managing director Natalie Cohen wrote in an email.

Janney Montgomery Scott managing director Alan Schankel said adjustment to pension obligations was “notably lacking” from Puerto Rico’s plan.

Puerto Rico has already reduced promised pension benefits in its main Employees Retirement System. However, a local court struck down its attempt to do so for the Teachers Retirement System.

The third retirement system, the Judiciary Retirement System, is much smaller and has an unfunded actuarial accrued liability that is much smaller in dollars.

On Tuesday Kramer Levin Naftalis & Frankel partner Thomas Moers Mayer testified to the United States House of Representatives Subcommittee on Indian, Insular, and Alaska Native Affairs that a strong control board “which reduces [Puerto Rico] government, enhances management of public resources and supports the private sector has a chance of [working] – as it did in D.C. and in New York City. Any other solution leads the commonwealth, as it led General Motors and Chrysler, back to the federal government for cash the private markets will no longer supply.”

Kramer Levin is representing mutual fund companies OppenheimerFunds and Franklin Advisers concerning their investments in Puerto Rico municipal bonds.

THE BOND BUYER

BY ROBERT SLAVIN

FEB 3, 2016 1:34pm ET

As Water Utilities Move Online, Hackers Take Note.

America’s power grid has gotten a lot of attention, but water utilities are increasingly vulnerable to cyberattacks.

The Department of Homeland Security (DHS) released a report last year that showed the nation’s water grid, not just its electric grid, was also vulnerable to attacks by hackers. In fact, water utilities were most likely to have reported what DHS categorizes as an advanced persistent threat, which involves exploiting flaws in software programs that run water valves and controls, among other things. The worst kind of these attacks can go undetected for long periods of time.

Water utilities have in recent years — like pretty much everything else — become more reliant on the Internet to operate its networks of pipes and pumps. These controls can help monitor conditions around the clock and the benefits for both water and electrical utilities can be greater reliability and lower labor costs as fewer workers are needed to monitor the valves, controls and switches.

But hackers are looking for ways to test the vulnerabilities of critical infrastructure, and while so much attention has been paid to America’s power grid, water utilities are particularly exposed. Hackers and state-sponsored terrorists are “mapping the control systems for water and wastewater [systems] to understand where the controls systems are located,” says Dr. Paul Stockton, a former assistant secretary of defense and managing director of Sonecon, a Washington-based security consulting firm. “This kind of mapping could be preparatory work in anticipation of attacks that are designed to disable and disrupt critical infrastructure.”

Indeed, the FBI confirmed in 2014 that operatives in China, Iran and Russia were doing just such a mapping operation, looking for cybersecurity weaknesses in the country’s water and electric infrastructure.

In case of such an event or a natural disaster, most utilities operate mechanical backup systems. But maintaining a dual control system is expensive. “Utility companies want to reduce their costs as they transition to a new generation of industrial control systems,” says Stockton. The risk is that “they will stop maintaining these backup systems and stop retaining the staff that operate them.”

To keep utilities running backup systems, Stockton and other experts suggest that public utility commissions and the feds help utilities recover the costs of running two systems while also investing in promising strategies to protect infrastructure from cyberattacks. State regulators could also help reduce risks by working more collaboratively with federal regulators to push utilities to focus on creating comprehensive cybersecurity strategies rather than just complying with regulatory requirements, according to a report by the Government Accountability Office.

Other methods for mitigating a possible cyberattack on water infrastructure include the adoption of a set of standards for the entire industry; better sharing of information by utilities about cybersecurity vulnerabilities, incidents and best practices; and stronger requirements that smart grid and water control systems have built-in security features.

If all else fails, the National Governors Association’s Council of Governors has developed plans for a cybersecurity National Guard that would provide a unified response in the event of an attack that disrupts, damages or destroys utilities. Let’s hope it’s not needed.

GOVERNING.COM

BY TOD NEWCOMBE | FEBRUARY 2016

Update on Kentucky, Ohio and Indiana Bond Cap Allocations.

Federal and state “volume cap” allocations for small manufacturing bond issues, underutilized since the Great Recession of 2007-2008, are available in Kentucky, Ohio, Indiana and in neighboring states. Manufacturers and lenders should take a new look at this lower-cost option for financing capital investment in 2016.

In the Commonwealth of Kentucky, the state’s Private Activity Bond Allocation Committee announced that it will be accepting applications for volume cap for new small manufacturing bond issues from February 1, 2016 through March 7, 2016. The Commonwealth expects to receive $442,509,200 in volume cap from the United States Government for calendar year 2016. Thirty percent (30%) of this, or $132,752,760, is available to the Local Issuer Pool for small manufacturing bonds and for solid waste recovery bonds. Sixty percent (60%) of the volume cap goes to the State Issuer Pool and 10 percent (10%) of the volume cap goes to Energy Efficient Project Pool, the latter for manufacturing facility energy efficiency bonds issued pursuant to KRS 103.282.

Volume cap for small manufacturing bond issues is also available in the states of Ohio and Indiana (and in most other states).

Volume cap for small manufacturing bonds has been drastically overlooked for the past few years. For instance, in Kentucky in 2015 only one manufacturing company submitted, obtained and used an allocation of volume cap for a small manufacturing bond issue (Frost Brown Todd acted as bond counsel). Tax-exempt bonds are an attractive option for a small manufacturing company because the cost of borrowing can be 25-30% lower than the cost for a taxable borrowing for the same borrowing entity. Qualifying “small manufacturing” companies are ones that will expend no more than $20 million in capital expenditures at a particular site over a six-year period (three years back and three years forward) and that meet certain other requirements. The total amount of tax-exempt small manufacturing bonds that can be issued is $10 million. However, this can be combined with a taxable borrowing for a project, so long as the total of capital expenditures at a manufacturing facility does not exceed $20 million over the six-year period.

It is noted that tax-exempt small manufacturing bonds cannot be “bank-qualified” under Internal Revenue Code Section 265(b)(3); thus the discount for tax-exempt small manufacturing bonds to a taxable interest rate is somewhat less than the discount to a taxable interest rate for small issue governmental or non-profit bonds (the latter, sometimes up to 35%). Notwithstanding this, tax-exempt small manufacturing bonds are another lending option that financial institutions can – and do – offer for attractive manufacturing projects.

Frost Brown Todd LLC

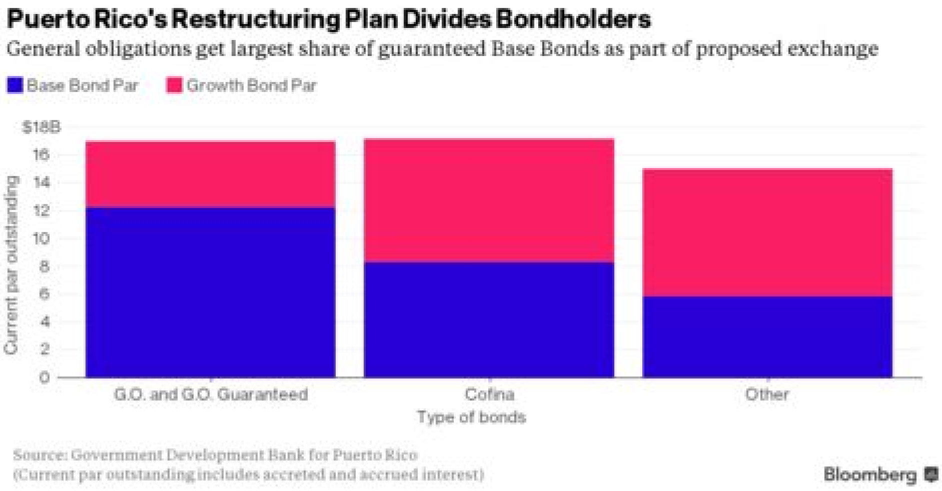
by John S. Egan

February 1, 2016

[Puerto Rico Bonds Zigzag With Recovery Rates Unclear in Proposal.]

Puerto Rico's release of a restructuring plan prompted a flurry of bond trades that show how investors are trying to make sense of what the proposal means for the recovery value of more than a dozen different securities.

A basic way to calculate an approximate recovery rate would be evaluating how much investors get in so-called Base Bonds relative to the par value of their securities, said Lyle Fitterer at Wells Capital Management and Matt Dalton at Belle Haven Investments. The Base Bonds would have payments guaranteed by the commonwealth along with statutory liens on sales-and-use taxes and levies on petroleum products. The commonwealth would only pay the proposed debt known as Growth Bonds if revenue exceeds certain projections.



By that ratio, general-obligation investors would recover about 72 percent, as they exchange about $17 billion of debt for $12.24 billion in Base Bonds. Holders of sales-tax debt, known by the Spanish acronym Cofina, would recover about 49 percent, with $17.2 billion outstanding obligations exchanged for $8.4 billion of Base Bonds. Other investors, with $15 billion of debt, would have a 39 percent recovery.

Actual recovery rates aren't quite as simple as looking at the Base Bonds because if the commonwealth again found itself strapped for cash, some investors would fare better than others. Those securities would be divided into four tranches: bondholders trading in general obligations and commonwealth guaranteed debt would be paid first, followed by senior Cofina debt, then subordinated Cofina bonds, and finally the remaining securities.

Bond Moves

The restructuring plan is beginning to adjust prices in some Puerto Rico bonds.

The commonwealth's benchmark general obligations with an 8 percent coupon and maturing in 2035 extended declines on Monday, trading as low as 70 cents, down from 72.1 cents on Friday, data compiled by Bloomberg show. Yet others at lower prices gained. Debt due in 2031 with a 5.125 percent coupon climbed to as high as 62.75 cents, the highest since Jan. 12.

Commonwealth-guaranteed debt from the Puerto Rico Public Buildings Authority, which would be included in the group with the highest estimated recovery, traded at an average 54.9 cents on the dollar, the highest since Dec. 7.

Puerto Rico highway securities due in 2042 jumped to 22 cents on the dollar, about twice the price of last month and the highest since November, Bloomberg data show. Puerto Rico Infrastructure Financing Authority bonds maturing in 2041, which are in default, changed hands at an average 17.5 cents, the highest since December. Both would be considered in the lowest tier of recoveries.

The most-traded Cofina bonds declined, trading at an average 40.7 cents on the dollar from 41.6 cents on Jan. 27, Bloomberg data show. The securities, with a subordinate claim on sales taxes, are at the lowest price since Jan. 7.

Bloomberg Business

by Brian Chappatta and Michelle Kaske

February 1, 2016 — 11:05 AM PST

Amid Revenue Shortfalls, Oklahoma's Budget Decisions Will Be Critical For Credit Quality.

Facing a $900.8 million, or 12.9%, revenue shortfall going into fiscal 2017, Oklahoma lawmakers have challenging decisions to make that could be critical to the state's credit quality. Having made steep cuts across state agencies in fiscal 2016—including a $47 million cut in education in January–officials may find themselves contemplating cutting further.

Continue reading.

Feb. 4, 2016

Wyoming Outlook Revised To Negative On Expected Operating Reserves Pressure; 'AAA' ICR Affirmed.

Standard & Poor's Ratings Services revised its outlook on the State of Wyoming to negative from stable. At the same time, Standard & Poor's affirmed its 'AAA' issuer credit rating (ICR) on the state.

Continue reading.

Feb. 4, 2016

Massachusetts Governor's Budget Proposal Is Mildly Credit Positive.

Standard & Poor's Ratings Services believes Massachusetts Governor Charles Baker's recently released executive budget proposal for the fiscal year ending June 30, 2017, indicates mildly positive credit trends regarding state fund balances and revenue growth.

Continue reading.

Feb. 4, 2016

Credit Challenges Tied To The Flint Water Crisis Run Deep For Michigan.

The water crisis in Flint, Mich. has presented serious humanitarian concerns, with the greatest social and economic costs borne by Flint residents, and the repercussions will likely affect the region for years. At the state level, political costs for Michigan have been greater than financial costs at this point.

Continue reading.

Feb. 1, 2016

House Republicans Lean Toward Federal Oversight for Puerto Rico.

Lawmakers in the U.S. House showed support for establishing federal oversight of Puerto Rico as Congress looks for ways to help the island emerge from a fiscal crisis brought on by $70 billion of debt.

The House Natural Resources Committee Tuesday spent about two hours discussing the possibility of putting a U.S. authority in place to help end to the chronic budget strains that have pushed the Caribbean island to default on some of its bonds. The idea has gained backing with Republicans as the House seeks to craft legislation the end of March to assist the U.S. territory, though the scope of the new federal powers are still being considered.

“It’s not going to be simplistic, and it’s not going to be that easy,” Representative Rob Bishop, the Utah Republican who chairs the panel, told reporters after the hearing about the potential legislation. “But it can be done and it needs to be done in the right way.”

The Republicans who control both houses of Congress have yet to unite behind specific measures to address the escalating crisis, which led Puerto Rico Monday to propose a debt-restructuring plan that would leave bondholders receiving less than they’re owed. House Speaker Paul Ryan has told lawmakers to come up with a plan by March 31.

No Funding

Senate Majority Leader Mitch McConnell said Tuesday that talks are underway about how to give Puerto Rico some flexibility to tackle their debt crisis, but he drew a firm line.

“No solution to the Puerto Rico problem that involves the use of U.S. taxpayer dollars is going to be passed in this Congress,” he told reporters.

Puerto Rico, congressional Democrats and President Barack Obama’s administration have pushed to allow some island agencies to file for bankruptcy, a step that hasn’t been endorsed by key Republicans. In December, Senate Republicans proposed directing up to $3 billion to Puerto Rico through a new authority that would oversee the island’s budget and could borrow on its behalf.

Puerto Rico’s non-voting House delegate, Democrat Pedro Pierluisi, said the island is facing “massive” defaults in May or July at the latest, when the commonwealth has its next major round of bond payments. The island defaulted on some securities in January and last year, while Puerto Rico Governor Alejandro Garcia Padilla has delayed tax rebates and payments to suppliers to pay creditors.

Control Board

Former District of Columbia Mayor Anthony Williams was among witnesses who spoke in favor of a federal control board, which was once used to stabilize the nation’s capital city.

“The time is now for Congress to create an authority that would have as its goals both achieving financial stability and a balanced budget for the island,” Williams told the panel.

House Democrats, including Luis Gutierrez of Illinois, who have urged Congress to grant the island power to restructure its debt, got support from one of the witnesses, Massachusetts Institute of Technology economist Simon Johnson. He said Congress needs to create a board with authority to restructure some or “potentially” all of the island’s debt.

Republicans have resisted extending Chapter 9 municipal-bankruptcy protections to Puerto Rico, arguing that it’s not a long-term fix.

“I understand that we need a financial control board, I am undecided about the bankruptcy,” said Raul Labrador, a Republican from Idaho. “I’m not sure where that bankruptcy protection should come in — if at all.”

Bloomberg Business

by Kasia Klimasinska

February 2, 2016 — 11:53 AM PST

Fitch: Texas Drought Leaves a Lasting Impact on Water/Sewer Utilities.

Fitch Ratings-Austin-01 February 2016: Eight months after flooding ended Texas’ drought, the state’s water and sewer utilities will see a lasting impact on their finances and operations, according to Fitch Ratings.

‘The lessons and momentum that the dry spell left on political leaders, water suppliers and consumers will have lasting effects on the sector,’ says Gabriela Gutierrez, Director. ‘While Texas typically experiences dry spells, the most recent drought stretched for four long years and heightened the urgency to ensure adequate water supplies are available to sustain a prosperous economy.’

As of January 2016, 95% of Texas was drought-free, compared with just 34% the year prior; reservoirs are now 85% full, up from 63% in early 2015.

Recent wet weather from El Nino combined with a continued focus on conservation is likely to curb water consumption. As a result, retailers are likely to see a pull-back in revenues, which may result in modest declines in financial metrics. Fitch believes the base cost of water will inevitably rise as Texas utilities look to stabilize revenues while continuing the substantial investments required to ensure adequate water supplies.

Fitch's portfolio of Texas water and sewer utilities weathered the drought well, with only four downgrades attributable to the impact of drier conditions. These include Fort Worth, Garland, and two related credits for Palo Pinto County Municipal Water District No. 1 and its retailer, Mineral Wells. In addition, the city of Austin's municipal water and sewer bonds were assigned a Negative Rating Outlook. Only one utility, Grand Prairie, was upgraded.

Despite mostly resilient financial metrics, Fitch is concerned that surplus revenues have not been sufficient enough to maintain existing assets. Given the added challenge of updating aging infrastructure, utilities will be increasingly reliant on borrowable resources for funding.

The full report, 'Texas Water and Sewer 2016 Update,' is available at www.fitchratings.com.

Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $11.9 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.

Dallas Area Rapid Transit Authority plans to sell $483 million of bonds, King County, Washington, Sewer Revenue has scheduled $279 million, Metropolitan Atlanta Rapid Transit Authority will offer $247 million and Hawaii County, Hawaii, will bring $235 million to market.

Municipalities have announced $7.9 billion of redemptions and an additional $12.4 billion of debt matures in the next 30 days, compared with the $20.2 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $3.5 billion, followed by New York at $1.34 billion and Minnesota with $1.11 billion. California has the biggest amount of securities maturing, with $396 million.

Investors added $1 billion to mutual funds that target municipal securities in the week ended January 20, compared with an increase of $1.3 billion in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Taxable Equivalent

Exchange-traded funds that buy municipal debt increased by $259 million last week, boosting the value of the ETFs 1.31 percent to $19.9 billion.

State and local debt maturing in 10 years now yields 90.219 percent of Treasuries, compared with 89.793 percent in the previous session and the 200-day moving average of 98.678 percent, Bloomberg data show.

Bonds of Illinois and Maryland had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Illinois's securities narrowed 11 basis points to 3.35 percent while Maryland’s declined 6 basis points to 1.80 percent. Puerto Rico and New Jersey handed investors the worst results. The yield gap on Puerto Rico bonds widened 149 to 11.82 percent and New Jersey’s rose 6 basis points to 2.69 percent.

Bloomberg Data News

February 1, 2016 — 4:24 AM PST

This story was produced by the Bloomberg Automated News Generator.

Chicago Schools Pay Bigger Bond-Market Penalty Than Puerto Rico.

If municipal-debt investors want further evidence that Chicago’s schools are in financial distress, its $725 million bond deal this week is all the proof they need.

After delaying the sale when some investors balked, the district issued 7 percent debt for as little as 84 cents on the dollar, signaling that investors have doubts they’ll be repaid in full. No municipal borrower — not even cash-strapped Puerto Rico — has had to offer such a steep discount on a bond deal of that magnitude since at least the 2008 financial crisis, data compiled by Bloomberg show.

“The only time you’re going to see this big of a discount is when it’s a distressed situation,” said Burt Mulford, a manager of tax-exempt funds in St. Petersburg, Florida, at Eagle Asset Management, which oversees $2.5 billion of munis. He said he didn’t buy the bonds. “The ultimate buyers want to minimize the pain if it stops paying interest, so if they have the bonds at a discount, that would help offset that.”

The nation’s third-largest district, with almost 400,000 students, is on the brink of insolvency after years of skipping pension payments, drawing down reserves and borrowing to cover operating costs, pushing its $6 billion of outstanding debt deeper into junk. While Mayor Rahm Emanuel, a Democrat, has pushed for more aid, Republican Governor Bruce Rauner has called for a state takeover and changing the law so the district could file for bankruptcy.

The district’s ability to access the market Wednesday showed there’s some optimism that it will be able to deal with its fiscal strains. The proceeds provided an injection of cash that will help it pay off maturing debt and reduce the near-term strain on its budget. It has a debt-service payment due on Feb. 15, which officials said will be made.

“We’re buying time to fix the system,” Forrest Claypool, the district’s chief executive officer, said during a Feb. 3 interview on “Chicago Tonight,” a public television show. When asked whether the district can go back to Wall Street to borrow again, Claypool said he didn’t know.

The discounted price on the securities increased the yields — which measure the return after interest payments based on the full face value — to as much as 8.5 percent, about 5.8 percentage points more than top-rated securities. That gap was half a percentage point more than Puerto Rico paid in March 2014, when it sold $3.5 billion of bonds in a last-ditch attempt to stave off insolvency. The island’s bonds have since slipped from 93 cents on the dollar to about 70 cents as it edges closer toward defaulting on the government-guaranteed debt.

With distressed debt, buyers tend to focus more prices because of the risk that interest or principal payments won’t be made.

The Chicago Board of Education’s sale price indicates that investors burned by Puerto Rico have learned a lesson. They’re demanding more to lend to highly indebted issuers that rely on a steady stream of borrowed money, said Alan Schankel, a managing director at Janney Montgomery Scott, and Richard Ciccarone, the president of Merritt Research Services, which tracks municipal finance.

Jessica Francisco, a spokeswoman for JPMorgan Chase & Co., a main underwriter on the deal, declined to comment. Emily Bittner, a spokeswoman for the schools, declined to comment.

Landmark Deal

No state or local government has managed to issue so much debt with credit ratings as low as Chicago’s schools, Bloomberg data show. Puerto Rico had a BB+ rating from Standard & Poor’s, three steps higher than the district’s B+, when it last borrowed almost two years ago. Even Jefferson County, Alabama, had an investment grade upon emerging from bankruptcy in 2013, when it issued 6.5 percent sewer debt due in 2053 at 95 cents on the dollar.

Illinois law doesn’t allow Chicago’s schools to file for bankruptcy, which gives investors some confidence that what they’re owed won’t be written down in federal court. Democrats who control the legislature dismissed Rauner’s push to allow for Chapter 9 as dead on arrival. Emanuel has enacted a record property-tax increase and sought to reassure the bond market that the city’s finances are on the mend.

Investors in the Chicago deal probably bought with the expectation that state and city officials will take steps to put the school district on more stable financial footing, said Dan Solender, head of municipals in Jersey City, New Jersey for Lord Abbett & Co., which holds Chicago school bonds among its $17 billion of debt. He declined to say whether he bought at this week’s sale.

If it eventually wins higher credit ratings, the school system could refinance the long-term debt in 10 years by triggering call provisions that allow it to buy back the securities. At that point, investors would get repaid $100 for every $84 they invested.

And if the district veers towards the bankruptcy route endorsed by Rauner, bondholders won’t have lent it as much money as they would have last week, when underwriters initially tried to sell $875 million of debt.

“It really tells us the market is starting to think about how distressed credits trade,” said Neil Klein, senior managing director in New York at Carret Asset Management, which oversees $750 million of munis and declined to buy the Chicago debt.

“There’s not as much concern about the ultimate yield to maturity you’re achieving. They’re looking at dollar price,” he said. “That’s very different than your traditional municipal bond buyer, who makes assumptions that bonds will pay until maturity.”

Bloomberg Business

by Brian Chappatta and Elizabeth Campbell

February 4, 2016 — 9:01 PM PST Updated on February 5, 2016 — 4:46 AM PST

Bloomberg Brief Weekly Video - 02/04

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

Watch the video.

February 4, 2016

Moody's: Pennsylvania Faces Limited Choices as Unfunded Pension Liabilities, Costs Mount.

New York, February 05, 2016 — The Commonwealth of Pennsylvania's (Aa3 negative) unfunded pension liabilities continue to mount despite implementing numerous benefit changes for new employees in 2010, Moody's Investors Service says. Limited by strong legal pension protections, Pennsylvania has little flexibility to ease rapidly growing accrued liabilities, leaving it and many of its local governments facing considerable increases in pension costs.

"State pension contributions have risen steadily in conjunction with climbing pension debt," Tom Aaron, a Moody's Assistant Vice President-Analyst says. "Leverage from unfunded pension liabilities facing the state has grown faster than state resources over the past decade."

State and local pension costs and unfunded liabilities will remain well above historical levels for years to come, Moody's says in "Moody's Public Pension Landscape Series: Limited Options for Pennsylvania to Avoid Accelerating Pension Costs."

For example, large pension plans in the Cities of Philadelphia (A2 stable) and Pittsburgh (A1 positive) have also experienced growing cost and liability trends. Philadelphia's reported liabilities have been driven up in part by a steady decline in its investment return assumption from a high of 8.75% in 2009 to 7.8% currently. While Pittsburgh has dedicated parking revenues to help shore up its pension funds, its contributions remain too low to prevent its unfunded liabilities from growing under its investment return assumptions.

Through a series of rulings, the Pennsylvania Supreme Court has strictly interpreted legal protections for pension benefits of current and former employees. Using the limited flexibility it has, however, the state has lowered benefits for newly hired employees and constrained cost growth related to cost-of-living adjustments (COLAs).

Several rulings dating to the 1980s provide very stringent legal protections, effectively limiting unilateral changes to benefits to new employees only," said Aaron.

Pennsylvania has more than 3,200 public pension plans, the largest number of all 50 states. However, the state plays an active role in local pensions by mandating minimum funding requirements and providing contribution assistance.

Three out of the four largest plans in the state have fewer active members than retirees and other inactive members. The state and local governments are increasingly susceptible to contribution volatility and funding challenges stemming from negative plan cash flows as the growing portion of retirees increases.

The report is available to Moody's subscribers here.

Fitch: Rates Key for California Water Utilities Amid Continued Conservation.

Fitch Ratings-San Francisco-04 February 2016: California's water and sewer utilities will see weaker financial margins in Fiscal 2015 and 2016 as the state's mandated conservation targets hit water sales, says Fitch Ratings. Many utilities will opt for rate increases or alternate rate structures in the next several years to mitigate the financial impact of lower demand.

"Capital-intensive issues like infrastructure investments and regulatory mandates don't dissolve in a drought, so even if mandated conservation ends tomorrow, many of California's water utilities still have important questions to answer regarding how they generate revenue," said Shannon Groff, Director in Fitch's U.S. Public Finance group.

On Feb. 2, 2016, the State Water Control Resources Board extended the state-wide conservation mandates through Oct. 31, 2016.

Utilities that already have flat rate structures in place or are quick to adopt them will be better positioned to adjust to lower demand, especially given uncertainty around the drought's length. Fitch believes many utilities will implement rate changes by Fiscal 2017, which will help their financial metrics recover from the expected dips in Fiscals 2015 and 2016.

Historically, California's water and sewer sector has enjoyed healthy margins and strong credit quality, supported by political and public support for rate adjustments. However, this flexibility continues to be tested as rates move higher.

Fitch downgraded three California utilities – Millbrae, Fresno and Contra Costa Water District – over the past two years due to a combination of lower water sales, large capital programs and reduced rate flexibility. However, upgrades still outpaced downgrades, while the majority of ratings remained stable.

In addition, Fitch has released its Fitch Analytical Comparative Tool (FACT) for the Water and Sewer Sector. FACT is an interactive Excel-based analytical tool for comparing an institution's key financial metrics to median calculations on a notch-specific rating basis, compared to entities rated within the same rating category and against Fitch's portfolio of credits.

The full report, 'California Water and Sewer Sector: 2016 Update,' and the FACT are available at www.fitchratings.com.

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Investors Demand Premium for Chicago School Debt.

Pricing data show a majority of the $725 million bond offering priced to yield 8.5%

Chicago's public schools closed a critical bond offering Wednesday, but the district was forced to pay rates rarely seen in the municipal bond market in recent years.

Pricing data show a majority of the $725 million bond offering priced to yield 8.5%, nearly a 6-percentage-point premium over what states and cities with top-rated credit pay. The offering is smaller than the $875 million deal school officials planned. The deal had been delayed by the district last week as school officials looked to woo wary investors.

The nation's third-largest school district faces a mounting liquidity crunch. Illinois Gov. Bruce Rauner recently called for a state takeover and state legislation that would give the district the option to file for bankruptcy. The district also saw its contract offer to the Chicago Teachers Union shot down earlier this week, raising concerns of a strike later this year.

"Though some wanted our efforts to fail, (the schools) needed to move forward in order to keep our doors open," said Ron DeNard, senior vice president for finance for the school district.

Money raised from the bond sale is expected to be used to replenish operating funds as the district looks to have enough cash to make it through the end of the school year.

"The sale of these bonds will produce sufficient proceeds to mitigate our cash flow challenges through the end of the fiscal year," Mr. DeNard said.

THE WALL STREET JOURNAL

By MARK PETERS and AARON KURILOFF

Updated Feb. 3, 2016 6:43 p.m. ET

Write to Mark Peters at mark.peters@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

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A Warning on Bankruptcy in Puerto Rico's Debt Crisis.

WASHINGTON — Puerto Rico's financial troubles are so complex and far-reaching that bankruptcy alone will not solve them, and might even make them worse, experts on financial distress told lawmakers in Washington on Tuesday.

Instead, they recommended appointment of a federal control board, saying it would have a better chance of resolving Puerto Rico's debt in the short term and preventing the island from falling into debt again in the future.

As evidence, witnesses pointed to Detroit's recent experience with municipal bankruptcy, the largest so far in American history. Bankruptcy proceedings helped Detroit reduce its debts, they said, but did not leave the city with a recovery plan.

The impairment in value of Detroit's bonds was so severe that it damped investors' appetite for municipal bonds over all — not just Detroit's but other cities' too.

By contrast, some pointed to the financial crisis that gripped Washington in the late 1990s. The district never went bankrupt but was placed under supervision of a financial control board and now enjoys a double-A bond rating.

"In my view, the time is now for Congress to create an authority that would have as its goals both achieving financial stability and a balanced budget for the island," said Anthony A. Williams, who served as Washington's chief financial officer during the period of federal supervision.

He and others who testified before the House Subcommittee on Indian, Insular and Alaska Native Affairs said a strong control board could set the stage for an eventual restructuring of all of Puerto Rico's $72 billion debt.

Puerto Rico officials have been saying that they want to restructure the debt but do not expect to be able to do so without the protection of Chapter 9, the bankruptcy chapter used by insolvent municipalities.

But some legal analysts now say the Territorial Clause of the United States Constitution gives Congress authority to enact laws that would give Puerto Rico the ability to restructure without declaring bankruptcy.

Such a law has not yet been drafted.

Tuesday's hearing was one step in that direction. The subcommittee is one of the bodies that the House speaker, Paul D. Ryan, Republican of Wisconsin, instructed to draft a suitable legislative package for Puerto Rico by the end of March.

The full House Natural Resources Committee plans to hold one more hearing first.

Even though such a measure would give Puerto Rico new powers for dealing with its creditors, Mr. Williams said he was sure it would also draw complaints that Congress was depriving Puerto Rico's citizens of self-determination. He said that was the initial reaction when he took control of Washington's finances.

"Whatever negative hue and cry is initially heard readily erodes," Mr. Williams said, "as positive developments, achieved by a neutral body, start taking hold."

The positive developments would appear, he and other witnesses said, if Puerto Rico took its steps toward recovery in the right order. That would mean straightening out its own fiscal affairs first, rebuilding business confidence, improving tax collections, stemming the tide of residents leaving the island — and only then restructuring its debts.

"The people who leave are the people who pay taxes," said Simon Johnson, a professor of entrepreneurship at the M.I.T. Sloan School of Management and a former chief economist of the International Monetary Fund. He said the loss of population was a critical problem because it left the island's debt burden on fewer shoulders.

Another witness, Carlos Garcia, a former chairman of Puerto Rico's Government Development Bank, described the island's previous experience with a control board, one created by its own legislature in 2009.

Mr. Garcia said the board quickly found almost $4 billion in debt that no one had noticed before, slowed the growth of new debt, lengthened maturities and set up a program to cushion people who lost their jobs. The main problem with that board, he said, was that it was created with just a two-year mandate, which was too short.

"What happened after the local control board disappeared is painfully known to all of us, as we sit here today, trying to find constructive solutions for a re-enacted Puerto Rico crisis," he said.

Puerto Rico has been struggling to keep up with the payments on its $72 billion debt, defaulting on some of its bonds while servicing others. But its biggest payments since the crisis began are due at the end of June, and if it defaults on those, there is talk of Congress having to create another unpopular bailout mechanism like the Troubled Asset Relief Program of 2008 that rescued banks on the verge of failure during the subprime mortgage crisis.

That is why members of Congress and the Treasury Department are trying to get a law on the books in time to take Puerto Rico through that date without incident.

Thomas Moers Mayer, a bankruptcy lawyer representing bondholders, said that Chapter 9 municipal bankruptcy would not help Puerto Rico, even if the island were allowed to use it, because it would limit restructuring to the debt of Puerto Rico's public corporations. That would do nothing to help the government balance its own budget, he said.

Mr. Mayer testified about the effect of Chapter 9 bankruptcy in Detroit, saying that it had given that city's emergency manager a way to reduce debt, but not a way to bring about an economic recovery or streamline its government operations.

"The city exited Chapter 9 with the same 28 government agencies it had when it entered bankruptcy," said Mr. Mayer, a partner with the firm of Kramer Levin Naftalis & Frankel. "Note that Puerto Rico has at least 120 government agencies, and 78 municipalities for an island with 3.5 million people."

Reducing debt even worked against Detroit in some ways, Mr. Mayer said. Investors took significant losses and have not been eager to invest there ever since.

"Even now, over a year after Detroit emerged from bankruptcy, Detroit has no access to the low-cost ordinary municipal market," he said. When Detroit must borrow, it does so with the help of the State of Michigan. The unsecured notes that it issued as part of its bankruptcy settlement "trade at around 23 cents on the dollar," Mr. Mayer said.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

FEB. 2, 2016

[Chicago Schools Slash High-Yielding 'Junk' Bond Deal.]

CHICAGO — Chicago's troubled public school system on Wednesday had to slash the size of one of the biggest "junk" bond offerings the municipal market has seen in years and agree to pay interest costs rivaling Puerto Rico's in order to lure investors into the deal.

The Chicago Board of Education managed to sell only $725 million of an originally planned $795.5 million of tax-exempt bonds, and yields on the deal topped out at 8.5 percent, a massive premium relative to higher-rated debt sold in the U.S. municipal bond market and a clear indication of investors' view of the depths of the district's fiscal woes.

Wednesday's sale came a week after the school system had to pull the deal in its first attempt at an offering amid worry by investors that the district could end up in bankruptcy.

The nation's third-largest public school system has become dependent on borrowing to bolster its budget, which is sinking under escalating pension payments, despite credit ratings that have dropped into the "junk" level.

The 8.5 percent yield for bonds due in 2044 with a 7 percent coupon was slightly below the 8.727 yield for 21-year bonds in the municipal market's last big junk bond sale – a $3.5 billion Puerto Rico issue in March 2014.

But the school district's so-called credit spread over the market's benchmark triple-A scale was wider at 580 basis points versus 514 basis points for Puerto Rico in 2014, indicating investors are demanding a stiffer penalty from the Chicago Public Schools (CPS).

"It's a Puerto-Rico grade yield and clearly signals that the district is on an unsustainable path," said Matt Fabian, a partner at Municipal Market Analytics.

In contrast, a top-rated issuer's debt would yield only around 2.70 percent on Wednesday, according to Municipal Market Data's benchmark scale.

CPS officials said bond proceeds will reimburse the district's operating fund for out-of-pocket capital costs and free up $206 million by pushing out debt service payments. Portions of the deal to restructure variable-rate debt to fixed rate and finance-related interest rate swap termination fees were postponed.

"Along with the tough cuts announced yesterday and earlier this year, the sale of these bonds will produce sufficient proceeds to mitigate our cash flow challenges through the end of the fiscal year," said CPS Senior Vice President of Finance Ron DeNard in a statement.

Late on Tuesday, the district tried to assure prospective investors that revenue pledged to pay off the debt could continue to flow to them should the school district end up in bankruptcy court in the unlikely event the Democratic-controlled Illinois legislature would pass a Republican-sponsored bill permitting the move.

Republican Governor Bruce Rauner on Wednesday condemned the district's second attempt at borrowing, but denied trying to sabotage the system's bond issue by publicly advocating bankruptcy for CPS.

"The numbers don't lie," he told reporters. "CPS has been a financial disaster for years. The balance sheet is stunningly bad. Now they're looking at borrowing more money to cover operations."

REUTERS

FEB. 3, 2016, 6:30 P.M. E.S.T.

(Editing by Grant McCool and Matthew Lewis)

January's New Money Deals Fail to Offset Drop in Refunding.

Municipal bond volume fell in January as a drop in refunding outweighed a pickup in new money deals, a trend that analysts predicted would continue through the rest of the year.

Monthly Volume

Total volume for the month dropped 18% to $24.11 billion in 741 transactions from $29.45 billion in 834 transactions in January 2015, according to data from Thomson Reuters. Refundings plummeted to $8.82 billion in 309 deals from $16.79 billion in 438 deals a year earlier.

“The month played out pretty close to what we anticipated, as we originally thought we would end up with $26 billion for the month,” said Chris Mauro, director of municipal bond research at RBC Capital Markets. “Although volume was down year over year, we finished the month above long-term five-year and 10-year averages for the month.”

Mauro said it is almost unfair to compare year over year refunding volume, given the size of last year’s wave of deals, as issuers sought to take advantage of record low interest rates. The Federal Open Markets Committee lifted the Federal Reserve’s benchmark rate target from near zero to 0.25%-0.50% in December, then signaled at its January meeting that it may slow the pace of increases later this year.

“This past month was continuation from what we saw in the fourth quarter of last year, and that’s a firming of new money and a decline in refundings,” Mauro said. New money issuance gained 24.4% to $10.62 billion in 382 issues from $8.54 billion in 338 issues.

Mauro said that the first half of this year should be generally favorable for refunding, but that the activity will drop off in the second half.

“The key is how much the move down in rates will boost refunding activity in February,” he said.

Dan Heckman, senior fixed-income strategist at U.S. Bank Wealth Management, said though January’s supply was a little weaker than he anticipated, there are good signs to take away.

“We are seeing signs that [supply] will pick back up, as there is a strong undertone to the muni market and we think that will continue throughout the first quarter and first half,” said Heckman. “The problem is that we aren’t seeing enough bonds in comparison to the demand.”

Heckman said volume later in the year may be affected by election politics.

Combined new-money and refunding issuance improved by 13.5% to $4.67 billion.

Issuance of revenue bonds fell 32.3% to $12.82 billion, while general obligation bond sales rose 7.4% to $11.29 billion.

Negotiated deals were down 23.3% to $17.34 billion and competitive sales increased by 17.3% to $6.59 billion.

Taxable bond volume was 24.8% lower to $1.26 billion from $1.66 billion, while tax-exempt issuance declined by 17.8% to $22.79 billion. Minimum tax bonds increased 49.2% to $64 million.

Bond insurance started off the year on the right foot, as the volume of deals wrapped with insurance improved 52.5% to $1.66 billion in 113 deals from $1.09 billion in 111 deals.

Only two sectors saw year over year increases, as education jumped up 17% to $9.46 billion in 382 issues from $8.09 billion in 405 issues and electric power more than doubled to $1.05 billion from $398 million.

With one month done and 11 to go, Texas finds itself with the most issuance among states. Rounding out the top five are California, Illinois, Florida and Michigan.

The Lone Star State has issued $3.75 billion so far in 2016 and also led the way after the first month of last year. The Golden State is second with $2.85 billion, while the Prairie State is third with $1.52 billion. The Sunshine State captured the fourth spot with $1.41 billion and the Wolverine State is very close behind with $1.35 billion.

The Federal Open Market Committee did what most economists had expected by holding rates steady in January, and volume may depend on when and how much the committee decides to raise rates in future meetings.

“They have to leave the door open to rate increases. I feel as though they effectively addressed the capital markets volatility and the open door gives them flexibility, which I believe is key,” said Heckman.

Heckman said strong economic data in wage gains and employment reports as the year goes on would leave the FOMC will with little choice but to raise rates.

“It’s been the same band playing the same song and that is a lack of supply and lots of cash inflows. A lot of managers and individuals have been waiting on Fed actions hoping we would get higher rates, which leaves a lot of cash on the sidelines,” said Heckman.

Investors have decided to re-allocate money to fixed income portfolios, he said, but there are too few bonds to meet the demand.

“A lot of people are under-exposed to the muni bond market, as right now spreads are more attractive in other markets.”

THE BOND BUYER

BY AARON WEITZMAN

JAN 29, 2016 2:53pm ET

Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

Municipal bond sales in the U.S. are set to increase in the next month while the amount of redemptions and maturing debt rises.

States and localities plan to issue $11.9 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.

Dallas Area Rapid Transit Authority plans to sell $483 million of bonds, King County, Washington, Sewer Revenue has scheduled $279 million, Metropolitan Atlanta Rapid Transit Authority will offer $247 million and Hawaii County, Hawaii, will bring $235 million to market.

Municipalities have announced $7.9 billion of redemptions and an additional $12.4 billion of debt matures in the next 30 days, compared with the $20.2 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $3.5 billion, followed by New York at $1.34 billion and Minnesota with $1.11 billion. California has the biggest amount of securities maturing, with $396 million.

Investors added $1 billion to mutual funds that target municipal securities in the week ended January 20, compared with an increase of $1.3 billion in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Taxable Equivalent

Exchange-traded funds that buy municipal debt increased by $259 million last week, boosting the value of the ETFs 1.31 percent to $19.9 billion.

State and local debt maturing in 10 years now yields 90.219 percent of Treasuries, compared with 89.793 percent in the previous session and the 200-day moving average of 98.678 percent, Bloomberg data show.

Bonds of Illinois and Maryland had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Illinois's securities narrowed 11 basis points to 3.35 percent while Maryland's declined 6 basis points to 1.80 percent. Puerto Rico and New Jersey handed investors the worst results. The yield gap on Puerto Rico bonds widened 149 to 11.82 percent and New Jersey's rose 6 basis points to 2.69 percent.

Bloomberg Data News

February 1, 2016 — 4:24 AM PST

This story was produced by the Bloomberg Automated News Generator.

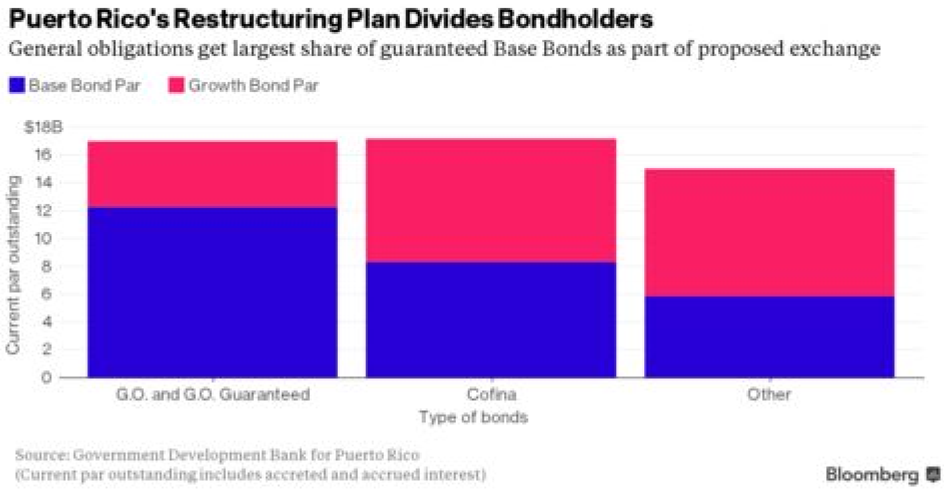
Puerto Rico Proposes 46% Reduction of Debt in Restructuring.

Puerto Rico is seeking to cut its debt load by 46 percent in its first offer to investors, a proposal that may face revisions as bondholders fight to get the most repayment.

The commonwealth unveiled its plan on Monday to reduce the island's obligations and help restart an economy that's failed to grow in the past decade. The proposal for a voluntary exchange would cut the island's debt to $26.5 billion from $49.2 billion, put off all interest payments until the 2018 fiscal year and affect even general-obligation bonds, which have the strongest repayment pledge, according to a restructuring proposal posted on the Government Development Bank website.

The plan may pit the commonwealth's investor groups against each other. In the proposal, general-obligation bonds get more money back than sales-tax debt, called Cofinas by their Spanish acronym. Cofina investors may take issue with that, said Lyle Fitterer, head of tax-exempt debt in Menomonee Falls, Wisconsin, at Wells Capital Management, which oversees $39 billion of municipal bonds, including Puerto Rico securities. The island, which doesn't have access to municipal bankruptcy, may need a legal framework to bring all of the island's creditors together, Fitterer said.

"I'm sure they're not going to outright agree to this," Fitterer said. "What happens to all the retail bondholders if they don't consent to it? They're probably going to need to have some legal means of getting this accomplished rather than some sort of consensual agreement, because I would think there's going to be a lot of arguing amongst bondholders."



Puerto Rico and its agencies racked up $70 billion in debt by borrowing for years to fill budget deficits.
Governor Alejandro Garcia Padilla in June said the commonwealth would seek to reduce its obligations by asking investors to accept losses on their securities and wait longer to get repaid. Two agencies already have defaulted on payments, and the island faces a $2 billion principal and interest payment due July 1.

Puerto Rico warned that it may place a moratorium on debt payments if the parties cannot agree on a restructuring plan by May 1, when a $422 million GDB payment is due.

Garcia Padilla has asked that the commonwealth and its agencies be given access to bankruptcy protection so officials may reorganize its debt. Republicans in the U.S. House of Representatives are holding a hearing Tuesday to explore the case for setting up a Puerto Rico financial-control authority.

Almost all of Puerto Rico's debt would be affected by the reduction, including general obligations, sales-tax bonds, GDB debt, pension bonds and debt sold by the island's highway authority.

'Sustainable Solution'

"This proposal is a reflection of our commitment to work with our creditors on a sustainable solution that does not place the burden on one stakeholder group alone," Victor Suarez, Puerto Rico's secretary of state, said in a statement. "A crisis of this magnitude must be addressed in concert, otherwise we risk our ability and the opportunity to escape the spiral of a stagnating economy, endless deficits and increasing debt."

Puerto Rico general obligation bonds with lower coupons traded up in price Monday, while a GO with an 8 percent coupon dropped in value: One with a 5.75 percent coupon and maturing 2041 changed hands at an average 61.8 cents on the dollar, up from 60.5 cents on Friday, data compiled by Bloomberg show. The one with the 8 percent coupon and maturing 2035 traded as low as 70 cents, down from an average 72.1 cents.

Principal-Recovery Opportunity

The plan caps annual debt payments at 15 percent of government revenue. Creditors also would get the opportunity to recover the principal amount of their investments. Investors and the commonwealth now will negotiate the proposed terms and potentially alter the plan, said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $3.8 billion of municipal bonds, including Puerto Rico securities.

"Ultimately you've got to believe that there's compromise somewhere between 46 percent and something less than that," Dalton said. "They've put the offer out there, now it's time to work it up from there."

If history is any guide, a distressed government's initial plan often doesn't resemble the final deal.

Detroit proposed paying as little as 15 cents on the dollar to holders of unlimited-tax general obligations during the city's bankruptcy, yet agreed to a 74 percent recovery rate after negotiations.

Restructuring Proposal

Puerto Rico's restructuring proposal asks that creditors exchange existing securities for two new securities: a "Base Bond," with a fixed rate of interest and amortization schedule through 2035, and a "Growth Bond," which is payable only if the commonwealth's revenue exceeds certain levels. The new securities also would provide creditors with enhanced credit protections, such as a commonwealth guarantee and statutory liens and pledges with respect to certain revenue.

A basic way to calculate an approximate recovery rate would be evaluating what investors would get — in what's known at Base Bonds — relative to the par value of their securities. General-obligation investors would recover about 72 percent, as they exchange about $17 billion of debt for $12.24 billion in Base Bonds.

Holders of sales-tax debt, known by the Spanish acronym Cofina, would recover about 49 percent, with $17.2 billion outstanding obligations exchanged for $8.4 billion of Base Bonds. Other investors, with $15 billion of debt, would have a 39 percent recovery. The new bonds would be repaid with revenue already backing the existing bonds as well as $325 million of annual oil-tax revenue.

The $49.2 billion of tax-supported debt would be swapped into $26.5 billion of Base Bonds and $22.7 billion of Growth Bonds. Interest payments on the Base Bonds would begin in January 2018, rising to 5 percent per year by 2021, when principal payments would begin. The Growth Bonds would be payable only if Puerto Rico's revenue collection exceeds projections.

Growth Bonds

By sharing in the island's economic recovery, creditors would have the opportunity to recoup the principal amount of their investments through the growth bonds, according to the proposal. The first payments, if any, would be made beginning in the 10th year after the close of the exchange offer.

“We don’t know what the revenue potential is for Puerto Rico simply because the tax collections are so terrible and public policy and governorship has been so bad,” Fitterer said.

The exchange offer assumes creditor groups will participate at “very high” levels and the federal government will maintain its current percentage of support for the commonwealth. If not enough investors participate in the debt swap or if the federal government materially reduces its support, then the terms of the exchange offer will have to be revisited and creditor recoveries adjusted accordingly, the commonwealth said.

Bloomberg Business

by Michelle Kaske and Brian Chappatta

February 1, 2016 — 5:39 AM PST Updated on February 1, 2016 — 11:03 AM PST

Stock Market Volatility Is A Factor In California's Budget, Report Says.

SAN FRANCISCO (Standard & Poor’s) Jan. 25, 2016–It’s budget time for California, a state that has always had an outsized reliance on capital gains tax receipts. But the stock market has been volatile lately, and history suggests that in a market correction, state revenues will follow stock prices lower, according to a report, “California Initiates Budget Process Amid Rising Stock Market Volatility,” published today by Standard & Poor’s Ratings Services.

“Similar to the equity markets, the broader economic recovery, now in its seventh year, has already outlasted most expansions,” notes credit analyst Gabriel Petek. “Although Standard & Poor’s forecasts another year of economic growth and modest stock market appreciation, we cannot rule out the possibility that financial markets and the economy have peaked.”

California’s recent success in shoring up its finances has come about not just from higher revenues brought about by an improved economy and a higher stock market, but notably from getting its spending under control.

Lawmakers in Sacramento are beginning budget negotiations with more open-ended discretion over general fund spending than they have had in years. “This gives rise to the potential that the state could ramp up its recurring spending commitments just as its revenue trends reach a plateau—or worse, begin to falter, thereby putting the state’s fiscal alignment in jeopardy,” notes Mr. Petek.

“In our view, the future direction of California’s credit quality is closely linked to its ability to maintain balanced fiscal operations. Even without a recession, the escalating schedule for pension contributions and rapidly growing unfunded liability for retiree health care already account for an increasing share of future budget capacity. The stronger revenue performance and much-improved budgetary position of recent years therefore belie somewhat how fragile California’s fiscal balance remains.”

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.

The report is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@standardandpoors.com.

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Chicago Schools in Fiscal Limbo as Clash Builds Before Bond Sale.

Chicago's public schools are under fiscal siege as the political clash between the state's top Republicans and the city's Democratic mayor escalates, rattling investors as the nation's third-largest district struggles to avert insolvency.

The conflict over the fate of the school system threatens to force the Chicago Board of Education to pay a steep premium when it sells $875 million of bonds on Wednesday. The deal comes a week after Republican Governor Bruce Rauner called for the state to take over the district and potentially authorize bankruptcy.

That idea was immediately rejected by Democrats in control of the legislature and Chicago Mayor Rahm Emanuel, who have unsuccessfully pushed for an influx of state aid.

The offering, one of the lowest-rated municipal bond sales in recent history, would have refinanced debt to put off interest payments. The pressure has been building on the school system, with Moody's Investors Service, Standard & Poor's and Fitch Ratings cutting its rating deeper into junk, the teachers union threatening to strike and a deficit that's projected to reach $1 billion a year through 2020.

Securities due in 2044, the longest-dated tax-exempt portion of the deal, are being marketed at yields of 7.75 percent, according to four people familiar with the sale who requested anonymity before pricing. That's 5 percentage points above benchmark debt that matures in 29 years, according to Bloomberg data.

"All of this negativity ahead of the bond sale could increase the cost that the Chicago public school system has to pay to borrow money — and, in a worst case, they may not be able to issue all the debt that they had hoped to," said Paul Mansour, the head of municipal research at Conning, which oversees $11 billion of state and local debt, including some of the board's securities. "They're getting hit on all sides as they're trying to bring this large deal to market, which is critical."

Chicago's schools are running out of cash after years of raiding reserves and shortchanging its pensions, which caused its annual payment to soar. An effort to rescue the schools has been caught in the financial and political crosscurrents of the city and Illinois, both of which are contending with their own fiscal strains.

Rauner, who is locked in an impasse with legislative Democrats that's left the state without a budget since the year started in July, has said he'll only help if Emanuel supports changes that the governor is pushing for, such as limits on unions. Emanuel has said Rauner's holding the schools hostage to the state budget stalemate, noting that Chicago's is the only district that pays the vast majority of its own pension costs. The board must pay $676 million to its teachers' retirement fund by June 30.

Faced with such pressure, the district has suffered a slew of downgrades from Wall Street credit-rating companies. Moody's cut the district on Dec. 21 to B1, four steps below investment grade, because of its dwindling cash. S&P dropped it to an equivalent B+ on Jan. 15. Four days later, Fitch lowered it to the same rank.

"This is a rescue financing," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "This is a restructuring of its debt. So absent this bond issue, there's a serious chance that CPS could default."

The sale of $796 million of tax-exempt securities and $79 million of taxable debt will fund capital projects, refinance variable-rate debt and pay off short-term loans used to cover fees on derivative trades that banks had the right to cancel after the district's credit rating tumbled. The city was hit by the same penalties after Moody's cut it to junk last year.

'Breaking Point'

Forrest Claypool, the board's chief executive officer, has faulted what he calls an inequitable school-funding system that's helped push the district to the "financial breaking point." While Illinois contributes about $2,266 per student to teacher pensions in districts outside of Chicago, the city gets only $31 per student, bond documents show. Chicago's pension system was only 52 percent funded as of June 30.

Investors are demanding high yields to lend to the district. When it sold $65 million of 3-month notes last month, it paid 3.25 percent, more than 10 times what's demanded of top-rated borrowers.

The interest rates may be a draw for some, said Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, which oversees $39 billion of munis. He's considering purchasing some Wednesday because he views the probability of bankruptcy as "almost zero."

Illinois doesn't allow localities to file for Chapter 9, and a proposal last year to allow that hasn't advanced. The securities are backed by state aid revenue and a direct deposit of pledged taxes if that's not enough, bond documents show.

"You have an entity that cannot file bankruptcy, does not want to file bankruptcy, and you've got a good management team in there," said Fitterer, who holds some Chicago school debt. "For the right investors, it's probably going to be a pretty attractive opportunity."

Only the most speculative of buyers should consider the bonds, said Triet Nguyen, a managing director at New York-based NewOak Capital LLC.

"It feels so much worse, particularly against the backdrop of what's going on at the state level," Nguyen said. "A year ago, we certainly didn't expect we were going to have this kind of gridlock at the state level. If it goes on much longer, it's just going to make CPS's problems that much worse."

Bloomberg Business

by Elizabeth Campbell

January 26, 2016 — 9:01 PM PST Updated on January 27, 2016 — 7:26 AM PST

Chicago Schools in Fiscal Limbo as Turmoil Delays Bond Sale.

Chicago's public schools delayed an $875 million bond sale after a clash between the state's top Republicans and the city's Democratic mayor escalated, adding to the pressure on the nation's third-largest district as it struggles to avert insolvency.

The Chicago Board of Education postponed the deal Wednesday after offering yields of as much as 7.75 percent, about 5 percentage points more than top-rated tax-exempt bonds. The planned debt issuance came a week after Republican Governor Bruce Rauner called for the state to take over the district and potentially authorize bankruptcy. That idea was immediately rejected by Democrats in control of the legislature and Chicago Mayor Rahm Emanuel, who have unsuccessfully pushed for an influx of state aid.

The offering, one of the lowest-rated municipal sales in recent history, would have refinanced debt and allowed the district to put off interest payments. The strain has been building on the school system, with Moody's Investors Service, Standard & Poor's and Fitch Ratings cutting their grades on its $6 billion of debt deeper into junk, the teachers union threatening to strike and a deficit that's projected to reach $1 billion a year through 2020.

The district said in a statement that it moved the deal to day-to-day status, indicating that it will be issued when conditions warrant. Officials said they still expect the deal to go through in the next few days, and noted that the district won't miss any obligations because of the delay.

"There definitely is uncertainty now about how they proceed from here," said Dan Solender, head of municipals at in Jersey City, New Jersey for Lord Abbett & Co., which manages $17 billion of the debt, including Illinois bonds. "Maybe this can help them feel some pressure to reach some agreements so that they can try to bring a deal with a better credit situation."

Chicago's schools are running out of cash after years of raiding reserves and shortchanging its pensions, which caused its annual payment to soar. An effort to rescue the schools has been caught in the financial and political crosscurrents of the city and Illinois, both of which are contending with their own fiscal strains.

Rauner, who is locked in an impasse with legislative Democrats that's left the state without a budget since the year started in July, has said he'll only help if Emanuel supports changes that the governor is pushing for, such as limits on unions. Emanuel has said Rauner's holding the schools hostage to the budget stalemate.

The sale of $796 million of tax-exempt securities and $79 million of taxable debt was to fund capital projects, refinance variable-rate debt and pay off short-term loans used to cover fees on derivative trades that banks had the right to cancel after the district's credit rating tumbled.

Some investors have said they're still weighing how to value the bonds and had asked for more time, Carole Brown, Chicago's chief financial officer, and Ron DeNard, the schools' head of finance, told reporters during a conference call. Brown said the decision was made Wednesday morning.

"We thought it was in the best interest of CPS and in the best interest of the deal to do that," Brown said. "There's been no fail. We didn't pull the deal. CPS is still on course to issue its bonds."

Making Commitments

The board doesn't expect to "materially change" the closing date, DeNard said.
"We do expect to make all of our cash flow commitments," he said.

The district has suffered a slew of downgrades from Wall Street credit-rating companies. Moody's cut the district on Dec. 21 to B1, four steps below investment grade, because of its dwindling cash. S&P dropped it to an equivalent B+ on Jan. 15. Four days later, Fitch lowered it to the same rank.

Strained finances aren't new for the schools. In 1980, lawmakers created the Chicago School Finance Authority to promote "the financial integrity" of the system, according to the Civic Federation. The Chicago mayor and Illinois governor appointed the board, and it could issue bonds and levy property tax for debt service. The state gave the Chicago mayor control of the schools in 1995, and the board was officially dissolved in 2010.

Forrest Claypool, the board's chief executive officer, has faulted what he calls an inequitable school-funding system that's helped push the district to the "financial breaking point." While Illinois contributes about $2,266 per student to teacher pensions in districts outside of Chicago, the city gets only $31 per student, bond documents show. Chicago's pension system was only 52 percent funded as of June 30.

Before the Wednesday offering, investors had already been penalizing the district by demanding high yields to to buy its securities. When it sold $65 million of 3-month notes last month, it paid 3.25 percent, more than 10 times what's demanded of top-rated borrowers.

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by Elizabeth Campbell

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Bloomberg Brief Weekly Video - 01/28

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

Watch the video.

January 28, 2016

[Puerto Rico to Hold Debt-Restructuring Talks Jan. 29.]

Puerto Rico has scheduled meetings Friday with representatives of several bondholder groups to discuss a possible restructuring of $70 billion of municipal bonds, people familiar with the matter say.

The meetings come as Puerto Rico struggles to make progress on two tracks, striking deals with bondholders and persuading U.S. legislators that the island merits relief from the U.S. government. Further complicating the process, the U.S. territory has more than a dozen types of bonds and is negotiating simultaneously with several creditor groups that have competing claims.

Puerto Rico missed about $37 million of debt payments in January, while a tentative agreement expired between bondholders and the Puerto Rico Electric Power Authority. The government raised estimates of its financing gap by 15% last week, which investors expect will increase the losses Puerto Rico will push them to accept in a restructuring.

Some investors are skeptical about Puerto Rico's willingness to commit to restructuring talks and believe Governor Alejandro García Padilla is waiting for action from Congress or the Supreme Court first that may improve the U.S. commonwealth's position. Hedge-fund bondholders have been trying to broker such a deal for more than a year but Puerto Rico has rebuffed their offers so far, people familiar with the talks say.

"Who doesn't think it's better for Puerto Rico to wait?" said Matt Fabian, partner at the research firm Municipal Market Analytics.

A spokeswoman for Puerto Rico's Government Development Bank declined to comment.

Democrats and the Obama administration have sought legislation that would give Puerto Rico the authority to restructure its debts and proposed bills that would temporarily stay lawsuits against the commonwealth. House Speaker Paul Ryan (R., Wis.) has called on lawmakers to deliver a "responsible solution" by the end of March.

The Supreme Court has also agreed to review Puerto Rico's efforts to write its own law aimed at restructuring debt from its public utilities.

Even in bankruptcy court Puerto Rico would need to negotiate with bondholders over how much of a debt reduction they would accept. Owners of different types of debt are jostling to reach deals with Puerto Rico that will minimize their own losses.

Owners of general-obligations bonds and some bonds that are paid off by sales taxes—known by their Spanish acronym, Cofina—will have the upper hand in negotiations because they have stronger legal claims, lawyers and investors said. Holders of subordinate Cofina bonds and bonds issue by the Government Development Bank of Puerto Rico are expected to recover less, they said.

A committee of general-obligation bondholders including Davidson Kempner Capital Management and Monarch Alternative Capital and advised by law firm Paul, Weiss, Rifkind, Wharton & Garrison LLP is cooperating with a committee of Cofina senior bondholders represented by Quinn Emanuel Urquhart & Sullivan to craft a restructuring proposal, according to people familiar with the matter. A separate group of hedge funds that owns GDB bonds includes Avenue Capital Management, Brigade Capital Management and Fir Tree Partners and is working with law firm Davis Polk & Wardwell LLP.

Puerto Rico must also negotiate terms with other creditors. OppenheimerFunds Inc. and Franklin Advisers Inc. own billions of dollars of subordinated Cofina bonds and general-obligation bonds in mutual funds they operate. Bond insurers Ambac Financial Group Inc. and Assured Guaranty Ltd., back about $8 billion of Puerto Rico bonds, placing them among the island's largest creditors.

THE WALL STREET JOURNAL

By MATT WIRZ and AARON KURILOFF

Updated Jan. 26, 2016 9:46 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

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Puerto Rico Plans Debt-Exchange Offer Friday.

Puerto Rico plans to propose a debt exchange to investors Friday, offering to swap existing bonds for two new types of securities to help the U.S. commonwealth alleviate its debt burden.

Both classes of debt would delay payments, allowing Puerto Rico time to make fiscal adjustments and spur economic growth, said a person briefed in the matter. One would eventually pay interest at 5%, while the other would carry a value determined by the island's fiscal health.

Bondholders would be offered the first class of debt in amounts based on the relative legal priority of their holdings, the person said. Investors would then receive enough of the second class to make up the difference between that amount and the face value of their bonds.

The new securities would be safer and more easily traded than existing Puerto Rico bonds, the person said. The first class would have interest payments beginning in 2018, rising to 5% in 2021, and principal due starting in five years. Payments on the second class could begin in 10 years, with creditors receiving up to 25% annually of commonwealth revenue that exceeds current projections.

Such an exchange would help the commonwealth find room to implement fiscal changes outlined in a revised economic plan released last week, which could allow creditors to eventually make their principal investment back, the person said.

Puerto Rico Governor Alejandro Garcia Padilla said in a statement the commonwealth had taken measures to reduce expenses and increase revenue and needed help from creditors.

"I have instructed our team and our advisors to present to our creditors' advisors tomorrow the Commonwealth's proposal for a voluntary debt exchange," he said. "It is our every intent to protect the integrity of the process, and as such, we do not plan to negotiate the terms of our proposal publicly."

Puerto Rico owes investors about $70 billion and is struggling with a decade of economic stagnation and a steep population decline that last year led Gov. Alejandro Garcia Padilla to declare its debts unpayable. The commonwealth began defaulting on bonds with its weakest legal pledge in August and missed about $37 million in bond payments earlier this month after diverting money to pay some investors at the expense of others. That move prompted lawsuits from bond insurers.

The proposal comes as officials work to stave off additional litigation and seek aid from the U.S.

Congress, including access to municipal bankruptcy protections currently denied the commonwealth. Democrats and the Obama administration have sought legislation that would allow Puerto Rico to restructure its debt and proposed bills to temporarily stay lawsuits against the island. House Speaker Paul Ryan (R., Wis.) has called for lawmakers to find a “responsible solution” to Puerto Rico’s crisis by the end of March.

Puerto Rico last week said new estimates show the commonwealth about $16 billion short of the money it needs to cover debt payments over the next five years, even with significant fiscal adjustments. The commonwealth says it is getting along by differing tax refunds, stretching payments to suppliers and other extraordinary measures.

“Continuation of these measures is neither sustainable nor in the interest of any stakeholder, as they will only deepen the financial gaps that the Commonwealth and its creditors will need to resolve, while at the same time placing the full burden of the crisis on the residents of Puerto Rico,” Victor Suarez, the commonwealth’s secretary of state, said in a news release at the time.

The exchange offer is being made to investors holding debt backed by the island’s taxes and not those with revenue bonds from some agencies such as the Puerto Rico Aqueduct and Sewer Authority, the person said. The Puerto Rico Electric Power Authority Thursday renewed a tentative restructuring deal with creditors.

Some benchmark Puerto Rico bonds maturing in 2035 traded Thursday at about 71.75 cents on the dollar, up from about 70.75 cents the previous day, according to the Electronic Municipal Market Access website.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Jan. 28, 2016 9:53 p.m. ET

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

Long Island's Nassau County Can't Catch Break from Bond Analysts.

Long Island’s Nassau County has cut 1,600 jobs, reduced its borrowing to pay for tax appeals and renegotiated labor contracts. That’s still not enough to restore the faith of some bond analysts.

Nassau, which is refinancing $270 million of debt Tuesday with borrowing costs at the lowest since 2013, had its credit- rating outlook changed to negative by Standard & Poor’s last week, indicating it could be downgraded from A+, the fifth- highest investment grade. The company said Nassau exhausted reserves even after the economy recovered from the Great Recession.

The 15th wealthiest county in the United States gets almost 40 percent of its revenue from sales taxes, leaving it vulnerable to a slowing economy, said Ted Molin, senior credit analyst at Wilmington Trust Co., a unit of M&T Bank Corp. that oversees $4 billion of municipal bonds. The company sold its Nassau holdings three years ago.

“Most municipalities that we’ve looked at have built up reserves, and now seem in a better position than a few years ago to withstand an economic downturn,” Molin said. “If a county hasn’t gotten its act together by now, when will it ever?”

Nassau, which borders the New York City borough of Queens to the east, is home to wealthy enclaves like Sands Point and Brookville, as well as middle and working class towns like Massapequa and Roosevelt. More than 1.3 million people live in the county, which has the highest median household income among New York’s 62 counties at $99,035.

While most local governments have boosted reserves as the economy grew during the last six years, the county is still contending with the legacy of the recession. Its property-tax base has declined 20 percent since 2009, according to Standard & Poor’s, as residents and businesses appealed their assessments after real estate prices tumbled. In 2011, a state oversight board imposed a wage freeze after the county failed to balance its budget.

Last year, the county’s sales taxes fell below projections by $42 million, equal to about 4 percent of the total annual collections. To be conservative, Nassau estimates the tax will grow just 1.5 percent this year.

County Executive Edward Mangano, a Republican, has worked down the county’s backlog of refunds for successful property assessment appeals. Next year, it plans to phase out the annual borrowing that it’s been using to pay for them. The county expects that to save $950 million in debt-service costs over 20 years.

Nassau is one of two New York counties responsible for paying the whole tax refund even though property revenue is split between the county, towns and school districts. In other counties, school districts and cities are responsible for their portion of the tax bill that’s contested. For decades, Nassau borrowed as much as $100 million annually to pay the appeals.

Nassau has taken “significant steps” to reduce borrowing, but it has to do more to raise revenue and cut spending, said S&P analysts.

Last week, the rating company revised its outlook on Nassau’s $2 billion general-obligation debt to negative because the county had exhausted a $23 million fund balance. S&P rates the county one level higher than Moody’s Investors Service and Fitch Ratings.

“We’re concerned that even during the recovery following the Great Recession, the county has been unable to build reserves to higher levels,” said S&P analyst Ruth Ducret.

The county, which has the third-highest median property taxes in New York, raised them by about $30 million last year.

Eric Naughton, Nassau’s deputy county executive for finance brushed off S&P’s outlook change, saying the company didn’t lower its rating on the county’s debt. He expects strong demand for the securities being sold Tuesday, which will save the county $14 million.

“Our first goal is to keep expenses down,” Naughton said. The county increased recurring revenue by $46 million for 2016, mostly through real estate and drivers’ fees.

The spread, or risk premium, on frequently traded Nassau bonds maturing in 2039 in block sizes between $500,000 and $1 million have declined to 1.38 percentage point over top-rated debt from 1.65 percentage point over the last four months, according to data compiled by Bloomberg.

“We understand their concerns, but the county, we’re able to manage even with the narrow reserves,” Naughton said of S&P. “We have very proactive management and we’re doing many things to improve our structural balance.”

Martin Z. Braun, (c) 2016, Bloomberg

Puerto Rico's First Debt Deal Is Running Up Against a Deadline.

The Puerto Rico Electric Power Authority, the island’s government-run utility, needs lawmakers to approve legislation by Jan. 22 that would allow it to close an agreement struck with banks, bondholders and insurers to reduce its $9 billion of debt. It would be the largest ever restructuring in the municipal-bond market and could provide a template for how the U.S. territory can escape from burdensome bond payments that have already pushed the government to default.

The creditors have the option to walk away if a needed bill isn’t passed by the deadline. Puerto Rico business and consumer advocates have lobbied against the deal, saying it would give the utility too much power to raise the island’s already costly electric rates. Senator Ramon Luis Nieves, who chairs the Senate’s energy committee and is working on the bill, said he expects lawmakers to pass it in the next few weeks.

“This bill is very complex and there are a few items we need to discuss further,” Nieves said Friday in a telephone interview. “We are working together with the House so when the time comes to vote, we will be voting basically on the same bill.”

Many others have much at stake in the deal going through. Insurers would dodge the full brunt of a default. The utility would secure investments needed to upgrade its antiquated electricity system, which may eventually allow it reduce power prices. And investors could get 85 cents on the dollar, well above current trading prices: bonds maturing in July 2037 traded Friday at an average 61.4 cents on the dollar, up from about 50 cents a year ago, data compiled by Bloomberg show.

The creditors have agreed repeatedly to extend deadlines during months of negotiations and may do so again if lawmakers delay. Here’s a breakdown of who’s involved in the deal and what they stand to receive. The utility is known by the acronym Prepa.

The Utility

Unless the agreement is enacted, the utility — which owes $8.1 billion to bondholders and $700 million to banks who finance its fuel purchases — won’t be able to pay $1.13 billion to creditors that’s due on July 1, Lisa Donahue, Prepa’s chief restructuring officer, told a panel of the House Natural Resources Committee last week.

The deal would reduce Prepa’s debt by more than $600 million and, by postponing principal payments, provide more than $700 million of relief over five years. Those savings will be used to help modernize a system in which the median plant is 44 years old, more than twice the average age in the U.S., Donahue said. Prepa relies on fuel oil and coal to generate about half of its electricity, which is more costly than using natural gas or renewable sources.

Bondholders Who Signed On

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. signed the accord last month. They hold $3 billion of the authority’s bonds.

Called the Ad Hoc Group, they’ve agreed to exchange all of their bonds at 85 cents on the dollar for debt sold by a new authority, the Puerto Rico Electric Power Authority Revitalization Corp. To protect investors from further losses, the new securities will be repaid from a surcharge to Prepa customers that will flow directly to the bond trustee.

Bondholders will have the option of selecting from two different types of securities: bonds with interest of about 4 percent to 4.75 percent, or convertible capital appreciation bonds, which accumulate — but don’t pay — interest for the first five years. After that, those bonds would begin paying annual interest of 4.5 percent to 5.5 percent.

To protect against default, MBIA Inc.’s National Public Finance Guarantee Corp. and Assured Guaranty Ltd. will provide a surety bond of as much as $462 million that will guarantee repayment. National will contribute as much as $344 million of that.

The Outside Bondholders

Mutual funds, individuals and others who weren’t part of the negotiations hold $2.7 billion of the bonds. For the agreement to be completed, they must agree to exchange at least $2 billion of them for new bonds or a cash payment, the size of which hasn’t been determined. Among the holders are UBS Asset Managers of Puerto Rico, Lord Abbett & Co., Waddell & Reed Financial Inc., MassMutual Financial Group, Dreyfus Group and T. Rowe Price Associates Inc., according to data compiled by Bloomberg using the firms’ most recent financial filings.

They’re a group with divergent interests. Some, who bought the bonds at par, may bristle at selling for a loss. Others who bought after prices tumbled stand to gain. Persuading the group to exchange the needed $2 billion “will be a challenge,” Donahue said.

The Bond Insurers

Bond-insurance companies have guaranteed to pay investors if the utility defaults, so it’s in their interest to keep that from coming to pass. National Public Finance, which insurers $1.3 billion of its bonds, and Assured Guaranty Ltd., which backs $831 million, have agreed to the plan. Puerto Rico is still negotiating with Syncora Guarantee Inc., which backs $197 million. By avoided an outright default, the deal would reduce the losses they face from Puerto Rico’s fiscal crisis.

Prepa’s outstanding insured bonds will be paid off as they mature with the proceeds of new securitized debt.

The Energy Bankers

Because of the need to borrow to keep fuel shipments coming into the island, the utility owes $550 million to Scotiabank de Puerto Rico and $146 million to Solus Alternative Asset Management LP. The loans carry an interest rate of 7.25 percent.

The lenders, which signed on to the deal, will have one of two options: convert the current lines of credit into six-year loans with 5.75 percent interest or take the new bonds on offer to investors.

Bloomberg Business

by Michelle Kaske

January 18, 2016 — 9:01 PM PST Updated on January 19, 2016 — 6:48 AM PST

Illinois GOP Sees Takeover, Bankruptcy for Chicago Schools.

Chicago's public school system should be taken over by the state and potentially file for bankruptcy to escape from its debts, Illinois Republican leaders said, escalating the partisan political clash over its mounting financial strains.

The Chicago Board of Education, the nation's third-largest district, is under fiscal siege because of soaring pension obligations. Its teachers union is threatening to strike, layoffs are looming, and without changes its operating deficit is projected to reach $1 billion a year through 2020. Christine Radogno and Jim Durkin, the state's top Republicans in the legislature, outlined a proposal Wednesday that would allow the state to take control and even push the system, charged with educating almost 400,000 students, into Chapter 9.
"What we're proposing is a lifeline," state Senator Radogno told reporters in Chicago. "We didn't come to this lightly. The track record of Chicago and its public school system is abysmal."

Chicago's schools have sought the state's help to close a $480 million budget shortfall brought on by bills for employee retirement benefits, which it has failed to adequately fund for years. Illinois Governor Bruce Rauner, a Republican who has been at odds for months with the Democrat-controlled legislature over the state budget, has said he won't bail out the schools unless Mayor Rahm Emanuel supports limits on unions or other proposals he's seeking to enact.

'Reckless Smokescreen'

The Republican proposal, which Rauner endorsed, was immediately dismissed by Emanuel, a Democrat, Senate President John Cullerton and the head of Chicago's schools.

"Instead of offering a reckless smokescreen that distracts from the real financial problems facing CPS, the Governor should pass a state budget that treats CPS students equally with the rest of the state," Forrest Claypool, the chief executive officer of the district, said in an e-mailed statement.

The legislation may be filed within the week, Durkin said. It would allow the state superintendent of schools to appoint as many as seven members to an independent authority to run the district. After the schools' finances steady, the control would be ceded to an elected board, stripping the mayor of his current power to appoint those who oversee the district.

The bill would also allow Chicago and its schools to file for bankruptcy. A proposal introduced last year, which stalled in the legislature, would allow municipalities statewide to file for Chapter 9.

"It would be good, the right thing to do to protect taxpayers and schoolchildren and their parents, to have bankruptcy be an option," Rauner told reporters in Chicago.

Bankruptcy, which could allow the system to seek to cut workers' pension benefits or debts owed to bondholders, is not currently an option for local governments in Illinois. Senator Cullerton said in an e-mailed statement that the Republican plan "is not going to happen."

"Giving control of our children's future to a governor who can't pass his own budget, who is racking up billions in unpaid bills, and who is crippling higher education across the state makes zero sense," Kelley Quinn, a spokeswoman for Emanuel, said in an e-mailed statement.

Chicago's school district bonds have been cut to junk by all three major credit-rating companies. On Tuesday, Fitch Ratings lowered its grade on $6.1 billion of general-obligation debt by three steps to B+, four ranks below investment grade. Bonds due in 2039 traded on Jan. 15 for an average of 88 cents on the dollar to yield 6.5 percent.

The proposed takeover comes as Illinois is in its seventh month without a budget as Rauner, the first Republican to lead the state since 2003, and legislative Democrats remain at an impasse. Without a spending plan in place, Illinois will end the fiscal year as much as $5 billion in the hole.

Bloomberg Business

by Elizabeth Campbell

January 20, 2016 — 8:09 AM PST Updated on January 20, 2016 — 11:22 AM PST

Atlantic City Considering Bankruptcy Filing, Mayor Says.

Atlantic City is considering a bankruptcy filing after New Jersey Governor Chris Christie vetoed legislation aimed at shoring up the finances of the distressed casino resort.

Mayor Don Guardian said he expects to call an emergency meeting for next week to discuss the city's options. He and Council President Marty Small spoke to reporters in Trenton after an hour-long meeting with Assembly Speaker Vincent Prieto. Lawmakers are considering a state takeover of the city as well as ending its four-decade casino monopoly in New Jersey.

Christie, a second-term Republican running for president, didn't sign bills that would have diverted some gambling funds to the city and prevented tax appeals that strain its finances. The rejection came after the Democratic-led legislature complied with changes he suggested. The governor declined to act because the city hasn't dealt with its "structural budget issues and excessive spending," said Kevin Roberts, a Christie spokesman.

"The Governor is not going to ask the taxpayers to continue to be enablers in this waste and abuse," Roberts said Wednesday in an e-mailed statement.

Once the second-largest U.S. gambling market, Atlantic City has seen its key industry crumble as day-trip patrons shift to newer, closer casinos in nearby Pennsylvania and New York. While state aid helped plug a gap this year, the city of 39,000 faces a shortfall of $90 million next year, a third of its budget.

Guardian said bankruptcy would allow the city to emerge with a "clean slate," renegotiate union contracts and write off about $40 million of its debt. The city, which he said has about $240 million of bonds outstanding and owes $161 million in tax appeals, would need state approval to file.

"It would be good from a financial point for Atlantic City," Guardian said. "But it's not good news for the rest of the state and we've said that before. A bankruptcy filing by Atlantic City would mean that every other community could file."

Prieto, after his meeting with city officials, said he’s open to discussions on their next step.

“Everybody wants to avoid bankruptcy,” he told reporters. “When you do that, your bond rating really goes down and your creditors get less money. If you can avoid that, it would be the right thing to do.”

New Jersey, which has some of the most aggressive policies among states to steer local government from financial disaster, hasn’t had a municipal bankruptcy since Fort Lee in 1938, according to the Pew Charitable Trusts. When Camden filed for bankruptcy in 1999, its case was dismissed because the city wasn’t authorized to do so by the state, said James Spiotto, a bankruptcy specialist and managing director at Chicago’s Chapman Strategic Advisors LLC, which advises on financial restructuring.

Lawmakers last week agreed on a plan to ask voters in November to expand gambling to northern New Jersey and share the revenue with Atlantic City. Senate President Steve Sweeney, the highest-ranking Democratic legislator, said the city should declare bankruptcy if the Legislature doesn’t quickly approve a plan he has introduced that would put the state in control of city government for 15 years.

“My goal is to save Atlantic City and to avoid bankruptcy,” Sweeney said Wednesday in a statement. “State intervention is the best way to bring the city’s finances under control.”

Without the measures that were rejected this week, the city will run out of cash in April, according to a report released Friday by Kevin Lavin, the emergency manager appointed by Christie.

“That was like taking a knee in the fourth quarter — he’s running out the clock,” Small said of Christie, promising to fight takeover attempts. “We were counting on that money.”

Bloomberg Business

by Terrence Dopp

January 20, 2016 — 7:36 AM PST Updated on January 20, 2016 — 10:28 AM PST

Pension Funding Fight Nears a Climax in Deficit-Stung New Jersey.

The fight in New Jersey over funding government workers’ pensions is coming to a head — and no one disputes that it’ll be costly to taxpayers.

With the retirement system facing an $83 billion shortfall, Democrats who control the legislature are pushing for a ballot measure that would require the state to pay what it owes each year to end a bipartisan tradition of shortchanging pensions. Governor Chris Chris Christie, a Republican presidential candidate, has called it a “road to ruin.”

The measure promises to add billions of dollars in spending to the budget of New Jersey, whose credit rating has been cut to the second lowest among U.S. states because of the retirement system’s strains. Over the past decade, New Jersey paid about $24 billion less than it should have into the funds, freeing up cash to close budget shortfalls, spend or ease taxes, according to data compiled by Bloomberg.

“They’re in a damned if you do, damned if you don’t situation,” said Carl Thompson, a municipal analyst in Boston at Eaton Vance, which holds $30.7 billion of state and local-government bonds, including New Jersey’s. “They’re probably going to be facing some rating pressure in either situation.”

Christie took office in 2010 vowing to tame ballooning retirement debts. In 2011, he signed legislation requiring the state and its workers to boost their contributions. While Christie has put more aside than his predecessors, he’s continued to fall short as he wrestled with deficits after the recession.

In 2015, he reneged on the 2011 law and paid about $681 million. That was about $3.2 billion less than actuaries estimated it should pay, according to a 2014 report by the New Jersey Pension and Health Benefit Study Commission. By comparison, the state spends about $2.2 billion a year on universities and colleges.

The measure, which has the support of public-employee unions, was introduced by Senate President Steve Sweeney, a Democrat, after state courts upheld Christie’s ability to pay less than called for under the 2011 law. If approved by voters in November, the constitutional change would put the state on track to make full actuarially required payments by 2022, save taxpayer money and cut the unfunded liability by $4.9 billion over three decades, he said.

Fiscal Stability

“The failure to address this problem would only continue the bad budget practices of the past,” said Richard McGrath, spokesman for Sweeney. “Projections show that revenue growth is sufficient to ramp up to full funding by 2022, which will put the state on the road to fiscal stability.”

Asking residents directly is a way to get around Christie, whose signature isn’t needed to place ballot questions before voters. The Democrat-controlled legislature approved the resolution last month. It needs one more vote in each chamber.

Investors say increased payments are necessary to keep the system from going broke. Without a fix, they’ve been demanding a higher yields to buy its debt instead of top-rated municipal securities: New Jersey’s 10-year bonds yield 2.6 percent, about 0.79 percentage point more than benchmark securities, up from as little as 0.19 percentage point in May 2014, according to data compiled by Bloomberg. Only Illinois pays more among the 20 states tracked by Bloomberg.

Ratings companies have cut the state’s grade nine times since Christie took office, a record for one of the state’s governors. Moody’s Investors Service ranks it A2, five steps above junk. In November, the New York-based company warned that the grade “will continue to fall” if it doesn’t get a handle on mounting liabilities, including pensions.

New Jersey has “one of the worst records in the country” for funding its retirement obligations, said Marcy Block, a senior director at Fitch Ratings. In fiscal 2014, the state contributed 18.6 percent of what New Jersey’s pension fund needed, the least of any state, according to Moody’s. It hasn’t made a full payment since 1996, according to figures from the pension commission’s study.

“Something like this is starting to put them on a path of turning things around,” said Thompson, the analyst with Eaton Vance. “I would rather see them to do something than nothing.”

Going Broke

New Jersey has seven plans for workers, teachers and emergency personnel. The primary plan, the

Public Employees' Retirement System, may run out of money by 2024.

The Garden State would join about five others whose constitutions require them to fund their retirement systems, according to Keith Brainard, who tracks pensions at the National Association of State Retirement Administrators.

New Jersey is so far behind, though, that mandated payments in the short term "would significantly reduce the state's budget flexibility and potentially strain their liquidity,"' said Moody's analyst Baye Larsen.

The state would probably cut services and raise taxes to make the obligations, said Rob Amodeo, head of municipals in New York for Western Asset Management Co., which holds $25 billion of the securities. New Jersey's individual income taxes are already the sixth-highest in the U.S., according to the Tax Foundation, a Washington-based group. It's ranked No. 1 for property taxes.

"We don't see a commitment to sound or sincere negotiations," Amodeo said. "This might be the only remedy."

Bloomberg Business

by Romy Varghese

January 19, 2016 — 9:01 PM PST Updated on January 20, 2016 — 5:51 AM PST

Treasury's Lew Urges Congress to Grant Puerto Rico Bankruptcy.

Treasury Secretary Jacob J. Lew said that Congress needs to act without delay to help Puerto Rico deal with a worsening fiscal crisis, as he visited the island for the first time to witness the impact on the local economy.

"Only Congress can enact the legislative measures necessary for Puerto Rico to resolve this problem," he said at a press conference in San Juan Wednesday. "The people of Puerto Rico are sacrificing, but unless that sacrifice is shared by creditors in an orderly restructuring, there is no path out of insolvency and back to growth."

Lew reiterated the Obama administration call for bankruptcy powers for Puerto Rico, paired with independent fiscal oversight, additional health care funding and employment incentives. Republicans say they need more information about the island's financial situation before they draft a bill and some investors oppose granting Puerto Rico restructuring powers, saying that would change the rules under which the debt was issued.

"Without congressional action, Puerto Rico will face a long and difficult recovery that could have harmful consequences for the American citizens who call the island home," Lew said. "That is why we have called on Congress to act without delay."

House Speaker Paul Ryan has called for a solution for Puerto Rico by the end of this quarter and Lew described that deadline urgent and meaningful. Puerto Rico's Government Development Bank owes investors $422 million in May. The commonwealth and its agencies owe $2 billion on July 1, on the heels of an anticipated $923 million negative cash balance in June.

Congressional Republicans are calling for a federal control board. If one is enacted, it must respect Puerto Rico's rights and has to be paired with access to bankruptcy, Puerto Rico Governor Alejandro Garcia Padilla said at a separate press conference following a meeting with Lew Wednesday.

Lew is meeting with Puerto Rico officials as the commonwealth says its fiscal crisis is worsening. The island now estimates it will be $16.06 billion short in paying principal and interest during the next five years, up from a $14 billion projection in September, according to a revised fiscal and economic growth plan released Monday. That financing deficit will grow to $23.9 billion through 2025.

Debt Exchange

Island officials are working on a debt-restructuring proposal to offer creditors such as hedge funds, municipal mutual-funds and insurance companies that guarantee repayment of commonwealth's $70 billion debt burden. That plan may involve a debt exchange where investors accept losses on their securities or wait longer to be repaid.

Puerto Rico avoided defaulting on its general-obligation debt at the start of the year by taking revenue originally used to repay agency bonds. That prompted the Infrastructure Finance Authority to miss a $35.9 million interest payment and fueled speculation that other agencies would eventually follow suit.

The commonwealth and its agencies racked up debt after borrowing for years to fix budget gaps as the island's economy has contracted every year but one in the past decade. Its 12.5 percent unemployment rate is higher than any U.S. state and more than double what it is in the U.S. Residents have left the island to seek work on the mainland, resulting in a 9.2 percent population drop since 2004, according to U.S. Census data.

Bloomberg Business

by Kasia Klimasinska and Michelle Kaske

January 20, 2016 — 6:58 AM PST

Bloomberg Brief Weekly Video - 01/21

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

Watch the video.

January 21, 2016

Best Credit Data Partners with FactSet to Distribute Municipal Bond Pricing.

BOSTON, Jan. 13, 2016 /PRNewswire/ — Best Credit Data (BCD), a provider of bond pricing data and analytics, today announced a partnership with FactSet Research Systems (NYSE: FDS) (Nasdaq: FDS), to distribute end-of-day municipal bond pricing to FactSet's global clients. FactSet is a leading provider of integrated global financial information and analytical applications for the investment community.

BCD Municipal Bond Pricing provides evaluated pricing for over 1.25 million U.S. municipal bonds every day with eight years of end-of-day history. With this new partnership, FactSet customers have the ability to subscribe to the BCD municipal bond pricing and download the data directly into local databases or analytic tools.

“FactSet’s high quality customer service and its ability to seamlessly integrate data within the customer’s workflow are only a few of the reasons we are excited about the FactSet partnership,” said Pierre Robert, CEO of Best Credit Data Inc. “Having our data available through FactSet gives us a meaningful advantage when it comes to the evaluated pricing space.”

“We are pleased to offer BCD pricing data to our clients, giving more FactSet users access to EOD evaluated pricing data,” explained Robert Robie, SVP, Director of Global Fixed Income of FactSet. “This partnership gives our clients another perspective into the highly illiquid Muni Bond Market and reinforces our commitment to provide high-quality and unique content to empower clients in their decision-making.”

About Best Credit Data Inc.

Best Credit Data is a Boston based provider of US bond pricing and analytics. By using observation driven methodology and big data cloud computing technology, BCD is changing the bond pricing and analytics world by providing cost effect alternatives to pricing bonds. Best Credit Data expects to close its next round of funding in Q1 2016.

About FactSet

FactSet, a global provider of financial information and analytics, helps the world’s best investment professionals outperform. More than 63,000 users stay ahead of global market trends, access extensive company and industry intelligence, and monitor performance with FactSet’s desktop analytics, mobile applications, and comprehensive data feeds. The Company has been included in FORTUNE’s Top 100 Best Companies to Work For, the United Kingdom’s Great Places to Work and France’s Best Workplaces. FactSet is listed on the New York Stock Exchange and NASDAQ (NYSE: FDS) (NASDAQ: FDS). Learn more at www.factset.com, and follow us on Twitter: www.twitter.com/factset.

U.S. Muni Bond Sales to Slip to $5.66 bln Next Week.

U.S. municipal bond supply will fall to $5.66 billion next week from about $8.77 billion this week as the muni market will be shuttered on Monday for the Martin Luther King Day holiday, according to Thomson Reuters estimates on Friday.

The lower supply comes amid falling yields and strong investor demand for tax-exempt debt. So far this year, yields on Municipal Market Data’s benchmark triple-A scale have tumbled to 1.79 percent from 1.92 percent for 10-year bonds and to 2.74 percent from 2.82 percent for 30-year bonds.

Muni bond fund net inflows continued to garner strength at nearly $995 million in the latest week, following flows of $992.7 million in the week ended Jan. 6 and $1.3 billion the week ended Dec. 30, according to Lipper, a unit of Thomson Reuters. Flows have been positive for 15 straight weeks.

Next week's biggest muni offering comes from the state of Washington, which is selling $529 million of general obligation refunding bonds and $143.6 million of motor vehicle fuel tax GO refunding bonds in competitive bidding on Wednesday.

The AA-plus-rated bonds carry maturities in 2016 and in 2019 through 2033, according to the preliminary official statement.

The District of Columbia Water and Sewer Authority will sell $372 million of public utility subordinate lien revenue refunding bonds through Loop Capital Markets on Wednesday. The bonds are structured with maturities in 2019 and from 2029 through 2039, according to the POS.

New York's Triborough Bridge and Tunnel Authority has a $300 million general revenue bond issue through Citigroup that will be offered to retail investors on Wednesday with institutional pricing on Thursday. The bonds mature in serial maturities of 2016 through 2036, according to the POS, which also lists two term bonds.

Reuters

Fri Jan 15, 2016 1:06pm EST

(Reporting By Karen Pierog; Editing by Diane Craft)

More Reason to Love Munis.

Municipal bonds had a strong 2015, but low oil prices and a volatile stock market will cause many states to struggle. Even so, munis seem like a good bet.

Investors who liked municipal bonds in 2015 are really loving them so far in 2016. Munis had the highest returns of any fixed-income sector last year, and are shining brighter than ever as stocks have been roiled by concerns about slowing global growth.

"Munis have started off the year with an unexpected surge, not only in performance but also in popularity," says Jim Colby, municipal strategist at Van Eck Global.

That's great for investors who own munis, but if you're looking for a safe place to hide as equities turn treacherous, note that the easy money in munis may have already been made. "They've gotten to levels that are a bit rich relative to Treasuries," admits Hugh McGuirk, who runs municipal bond investing at T. Rowe Price. In recent years, 10-year muni yields were very close to Treasuries, which made them much more attractive on an after-tax basis. Now, intermediate munis yield about 85% of Treasuries. For example, seven- to 12-year munis yield, on average, 1.7%, versus 2% for the 10-year Treasury. The tax benefit still makes munis attractive, but not as much.

"It dampens my enthusiasm moderately," McGuirk says, "but I still see the benefits of munis as a very defensive investment when global markets are volatile."

Limited supply of new munis in November and December is a big reason why they outperformed Treasuries late last year, says Vikram Rai, Citi Research muni strategist. But now new issuance is picking up. "That will cause munis to cheapen slightly," he says. There will be better entry points for new investors after January, he believes.

THERE ARE OTHER looming risks muni fans should keep in mind. A couple are well known: Puerto Rico will likely default on billions in debt this year, and some states, like New Jersey and Connecticut, have growing pension liabilities they need to address.

But Standard & Poor's highlighted additional worries for state finances in a report issued last week. Energy-producing states like North Dakota, Louisiana, and Oklahoma are likely to face particular fiscal strain as companies scale back on production in response to the crash in crude oil prices. Alaska has already been downgraded. Pennsylvania and Illinois are in political gridlock over budgets. Plus, some states can expect less revenue growth, due to lower capital-gains income (fewer investors are selling at a gain). S&P has a negative outlook for seven states, which means they may be downgraded in the future. "The state sector is currently poised for some volatility in terms of credit," says Gabriel Petek, the main analyst on the report.

Active municipal bond-fund managers say credit research—their long suit—can manage those risks. "We're continuing to emphasize revenue bonds over general obligation bonds, in no small part because of concerns about state and local governments addressing long-term liability issues," says McGuirk. Peter Hayes, who heads the muni bonds group at BlackRock, says he's taking a barbell approach to credit risk, buying high-yield munis, such as tobacco bonds, as well as A-rated revenue bonds.

At least interest-rate risk has dissipated. Last year, concerns that the Fed was about to embark on a rate-hike cycle dampened muni demand. Now, even as the new-issue calendar builds, Hayes expects demand from investors to absorb the new supply. Rai expects muni rates to nudge up this year, but thinks the coupons earned on most maturities (except for the 10-year) will result in positive 2016 returns.

It makes sense for investors looking for safety to turn to munis. But chasing the recent strong performance could result in disappointment. "Munis aren't quite as attractive as they were a year ago," concedes Colby. "But they still have a lot going for them—including very high average credit quality and significantly lower volatility."

Given how markets are acting, that's a pretty good argument for owning them.

BARRON'S

AMEY STONE

January 16, 2016

Fitch: California Budget Proposal Continues Path of Fiscal Restraint.

Fitch Ratings-New York-12 January 2016: Last week, Governor Brown of California released his proposed budget for fiscal year 2016-2017, which will begin July 1, 2016. The budget proposal is based on robust revenue growth that reflects the continued expansion of the California economy, according to Fitch Ratings. The governor continues his policy of restraining growth in on-going spending while paying down long term liabilities and funding the rainy day fund (the Budget Stabilization Account or BSA). This approach has contributed to improved fiscal stability and has led Fitch to upgrade the state's general obligation (GO) bond rating (rated 'A+' by Fitch) twice in the past three years. Fitch believes the approach taken in the budget proposal is prudent and bodes well for continued fiscal stability in light of the state's volatile revenue stream and the possibility of future economic downturn.

The governor is proposing to set aside $3.6 billion in the state's rainy day fund, $2 billion above what would be required by law. This would bring the balance to $8 billion by the end of fiscal 2017, approximately 2/3 of the target 10% of tax revenues detailed in Proposition 2. Budgetary borrowing would also be reduced from $3.9 billion to $2.5 billion by the end of fiscal 2017, as the state repays special funds, uses one-time funds to 'settle-up' prior year Proposition 98 obligations, and repays transportation loans.

The budget proposal for the state's General Fund assumes 3% growth in revenues over the current fiscal year to $125.1 billion, before transfers including to the BSA. The state is also now estimating that current year fiscal 2016 revenues will exceed budget forecast by $3.5 billion (3%) and total $121.5 billion, also prior to transfers including to the BSA. Much of the increase in revenue will be automatically allocated to K-14 education under Proposition 98 but will also support increased spending for Medicaid and higher education. Rather than expanding on-going programs, the governor is proposing an allocation of $2 billion to non-recurring spending for deferred maintenance and state facilities renovations and replacement, in addition to the $2 billion allocated to the rainy day fund. California is estimating that its share of the optional expansion of Medicaid under the Affordable Care Act will total $740 million in fiscal 2017, as a small portion of costs that were fully covered by the federal government for the first three years of implementation are partially shifted to the state. The governor's proposed revisions to the managed health care tax, which is estimated to generate approximately $1 billion, would compensate for this growing expense.

The budget proposal appears prudent in terms of restraining spending growth in favor of retaining flexibility for future economic weakness. The budget assumes solid economic growth in both fiscal 2016 and 2017, but notes the potential for a future downturn as well as risks associated with slower global growth or a stock market correction. As is the case in the current fiscal year, the state does not anticipate the need to issue cash flow notes in fiscal 2017.

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Fitch: Pennsylvania Interim Budget Supports Value of School Credit

Enhancement Programs.

Fitch Ratings-New York-11 January 2016: Pennsylvania's interim budget reinforces Fitch Ratings' belief that the commonwealth remains committed to supporting full and timely payment of school district debt service commitments despite its ongoing budget contention. Fitch rates the commonwealth's pre-default school aid intercept (per section 633 and 785(a) of the School Code) and direct-pay (section 785(b) of the School Code) enhancement programs 'A+' with a Stable Rating Outlook, one notch below Pennsylvania's 'AA-' general obligation (GO) rating (also with a Stable Outlook).

In August, Fitch commented that the credit quality of the school credit enhancement programs (and of the commonwealth and its appropriation-backed debt) were not affected by the budget impasse because the commonwealth remained committed to ensuring timely debt service payment. Fitch maintained its ratings through the ongoing impasse. The interim budget signed by the Governor on Dec. 29, with significant line item vetoes, provides six months of Basic Education Funding for school districts. More importantly, it provides for a full year of appropriation authority in other line items for school districts, including special education and transportation aid, and thereby establishes a clear path for the commonwealth to direct revenues to bond trustees as needed for the school credit enhancement programs.

Since the beginning of the impasse, the commonwealth actively engaged with school districts and helped those facing fiscal pressure through measures including advancing funding available from prior year appropriations, or assisting districts in securing short-term borrowings backed by future state aid payments. The interim budget signed by the Governor last week provides further relief for school districts. Approximately $3 billion in immediate aid went out last week, and several hundred million in additional state and federal aid will be paid to districts over the remainder of the fiscal year.

While the interim budget does not fully fund the Basic Education subsidy for school districts (the largest share of state aid), it does fund all other state and federal aid for school districts through the full fiscal year. This full-year funding provides appropriation authority and revenue streams the state Treasurer and Department of Education can utilize to meet school district debt service obligations under terms of Pennsylvania's school credit enhancement programs.

The interim budget also fully appropriates for debt service payments the commonwealth and related entities make from state revenue sources. This includes the Commonwealth Financing Authority and Pennsylvania Economic Development and Financing authority appropriation-backed bonds rated by Fitch ('A+'/Outlook Stable and 'A'/Outlook Stable, respectively).

The commonwealth still faces fiscal challenges ahead, at a level consistent with the 'AA-' GO rating that trails most states. The governor and legislature will enter a new budget season in just a few short weeks, facing significant structural budget challenges. The recent opening of a $2 billion line of credit with the state's Treasury (from which the Commonwealth borrowed $1 billion to date) reflects those pressures. Pennsylvania also lacks any balance in its dedicated budgetary reserve funds, limiting its fiscal flexibility in the next downturn in the economic cycle. Fitch views these challenges as substantial, but manageable at the 'AA-' rating level given the state's large, diversified economic base and moderate tax burden which provides some capacity to match expenditure growth.

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Thornburg 4Q 2015 Municipal Bond Commentary.

It finally happened. After waiting for what seemed like an eternity, the Federal Reserve moved the target on short-term interest rates up 25 basis points (0.25%) with indications of future rate increases to come. The market reaction? Unimpressed. All who predicted doom and gloom from an interest rate increase were quickly reminded that while the Fed has some power, the mechanics of supply and demand inevitably determine the value of interest rates.

While we are all left to ponder the future path of interest rates and Federal Reserve Board actions, it is probably more prudent to discuss where we have been and what that may mean for the future than to try and speculate about where interest rates may be at the end of 2016.

In the fourth quarter of 2015, we held to our philosophy of striving to ensure we are paid appropriately for any risk we add to the portfolios. While that may seem simple, it has become more and more difficult to implement as low interest rates have pushed investors out the risk spectrum in search of better returns and more attractive income.

Municipal investors have a few levers they can pull to try and increase returns. The most effective typically affect credit quality and duration. An investor seeking to generate more yield can always buy a bond with a longer maturity. And bonds of lower credit quality can also be purchased to drive up yield. In both instances the investor is taking on more risk in hope of higher returns.

At Thornburg, we constantly evaluate both of these options, but in the fourth quarter of 2015, as in the previous quarter, we found them less than optimal. Real rates remained low during the entire quarter, and the yield curve was flat. Investors looking for yield by stretching for longer maturities were actually picking up very little relative to the duration risk that comes with longer-dated bonds. Similarly, credit spreads remain at extremely tight levels. Investors who seek to boost returns by purchasing debt from lower-rated issuers were essentially buying the weakest credits at the most expensive levels they have ever seen. Not a great strategy.

The only logical solution for an investor to take when they aren’t being paid to take risk is to take less of it. That is exactly what we have been doing in the Thornburg municipal funds for quite some time. All of the portfolios are being managed on the bearish (shorter) end of their respective duration ranges. We have also sought, actively, to increase the average credit quality (at least at the margins) of all of the portfolios. Finally, cash reserve positions are also being managed conservatively.

Following this management style has meant that we have had to sacrifice some performance. However, we are more than happy to give up some short-term gain for the long-term good of the portfolios. More importantly, the actual sacrifice was muted by the fact that, given the current market environment, even taking a lot of risk is not supremely additive to portfolio returns. The Limited Term Municipal, Intermediate Municipal, and Strategic Municipal Income Funds returned a reasonably attractive 1.89%, 2.41%, and 2.61%, respectively, (I shares) for the year ended 12/31/2015.

So, what's next, and what does it mean for investors? Whether you believe that the Federal Reserve is going to move interest rates up by 100 basis points in 2016 (its projection), or whether you believe it will prove a more muted 50 basis points (which is roughly what the market is guessing), we at Thornburg will continue to try to ensure we are paid adequately for any risk we take.

Whatever happens, it seems certain that volatility is on the horizon. Liquidity in the fixed income markets has been, to some extent, sapped by government regulations. We have already seen firms that manage portfolios in the taxable market sacrifice investment prudence in the hopes of higher returns, only to be crushed by their inability to liquidate high-risk securities. It is certainly possible that those same dynamics could bleed into the more conservative fixed income areas, including municipal bonds.

Should we see a dramatic rise in rates and a selloff in the municipal market, the Thornburg municipal portfolios are well positioned to take advantage of the weakness. Higher cash reserve positions allow us the dry powder to enter the market as a liquidity provider instead of as a liquidity taker—during troubled intervals. Rocky times are often the best times to take a little risk, because the market is paying generously to offload said risk. Given that the portfolios have been managed quite conservatively of late, they will each have the ability to not just enter the market, but also to materially extend duration and take advantage of wider credit spreads.

The Thornburg municipal portfolio management team believes that 2016 has the potential to be an interesting year for fixed income, and we look forward to taking advantage of attractive opportunities for the portfolios. No matter what happens, rest assured we will continue to do what we have always done: provide investors with tax-exempt laddered (except in the case of the opportunistically managed Strategic Municipal Income Fund) bond portfolios that aim to generate attractive levels of income, while attempting to preserve principal and minimize volatility. And, of course, we'll only assume the risk for which we believe we are adequately compensated.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than quoted. For performance current to the most recent month end, see our prices and performance page or call 877-215-1330. The Low Duration and Limited Term funds have a maximum sales charge of 1.50%. The Intermediate Municipal Fund and the Strategic Municipal Income Fund have a maximum sales charge of 2.00%.

Important Information Before investing, carefully consider the Fund's investment goals, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your financial advisor or visit our literature center. Read them carefully before investing.

Investments carry risks, including possible loss of principal. Portfolios investing in bonds have the same interest rate, inflation, and credit risks that are associated with the underlying bonds. The value of bonds will fluctuate relative to changes in interest rates, decreasing when interest rates rise. This effect is more pronounced for longer-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. Investments in lower rated and unrated bonds may be more sensitive to default, downgrades, and market volatility; these investments may also be less liquid than higher rated bonds. Investments in derivatives are subject to the risks associated with the securities or other assets underlying the pool of securities, including illiquidity and difficulty in valuation. Investments in the Fund are not FDIC insured, nor are they bank deposits or guaranteed by a bank or any other entity.

The views expressed by the portfolio managers reflect their professional opinions and are subject to change. Under no circumstances does the information contained within represent a recommendation to buy or sell any security.

Class I shares may not be available to all investors. Minimum investments for the I share class may be higher than those for other classes.

Income earned from municipal bonds is exempt from regular federal and in some cases, state and local income tax. Income may be subject to the alternative minimum tax (AMT).

There is no guarantee that the Fund will meet its investment objectives.

Please see our glossary for a definition of terms.

Thornburg mutual funds are distributed by Thornburg Securities Corporation.

Thornburg Investment Management, Inc. mutual funds are sold through investment professionals including investment advisors, brokerage firms, bank trust departments, trust companies and certain other financial intermediaries. Thornburg Securities Corporation (TSC) does not act as broker of record for investors.

January 15, 2016

by Chris Ryon, Nick Venditti
of Thornburg Investment Management

Investors Opt for Munis as Stocks, Commodities Plunge.

Municipal bonds are getting a boost as investors look for stability after international and domestic equity markets tumbled.

“A lot of things are going right for our asset class here at the beginning of the year,” Jim Colby, senior municipal strategist and portfolio manager at Van Eck Global, said in an interview on Tuesday. Municipals are benefitting from the asset reallocation by investors after the Chinese stock market sold off on concern over an economic slowdown, he said.

The Dow Jones Industrial Average on Jan. 13 was down almost 10% from its highs of late last year, as investors flocked to safer assets.

“With China seemingly in a downward spiral having suspended their stock trading and with oil seemingly in a free fall, and equities down 5% to 6% at the start of the year, some advisors are saying munis are a spot of choice – at least right now – not just domestically, but worldwide,” Colby said.

Demand for municipals – including the $3.7 billion of assets in Van Eck’s Market Vectors suite of municipal ETFs overseen by Colby – has surged.

“It’s been a wild two and half to three weeks” thanks to a significant amount of cash inflows in a short period of time, he said. “We have seen quite a bit of cash come into the ETFs here, and I can’t remember a recent January that was quite this way.

“Given everything that is happening right now, the muni marketplace with its low volatility and high credit quality has to remain right up there at the top of anyone’s list as the asset of choice,” Colby said.

On Jan. 13, 10-year municipal bonds were yielding 86.2% of their 10-year Treasury counterpart, while the ratio of 30-year municipals to comparable Treasuries was 95.6%, according to Municipal Market Data. Those ratios compare with averages of 89.9% and 98.8%, respectively, over the three month period between Oct. 22 and Jan. 13, according to MMD.

Colby said the attractive ratios add to the sector’s appeal.

Even though his ETFs seek to mirror and/or track the performance of a selected benchmark index instead of investment strategies used to achieve performance and value on its own, Colby said he does have some advice for investors.

He said in the midst of the reallocation trend the long end of the municipal market should be favored not feared, especially as the Federal Reserve Board has begun its slow and steady pace of raising rates.

“Don’t fear the long end of the market,” Colby said.

Although it has been 10 years since the Fed last began raising rates aggressively, when that phenomenon took place back in 2006, the long-end remained relatively stable while the short end gave ground, Colby recalled.

“The performance lay in munis 10 years and longer – and little damage was done in duration extension,” the strategist said.

Colby said the long end of the yield curve finished 2015 with evidence of strong performance.

In fact, municipal bond outperformed Treasuries and corporates in December and emerged as the best-performing fixed income asset class of 2015, according to BlackRock Inc. in its municipal market update dated Dec. 31, 2015.

Municipals were “propelled once again by favorable supply-demand dynamics,” BlackRock analysts Peter Hayes, Sean Carney, and James Schwartz wrote in the report.

The S&P Municipal Bond Index returned 0.71% in December and 3.32% for 2015, making it the leading fixed income asset class of the year.

The long end of the curve led performance monthly in December with returns of 1.08% and 4.45%

year to date, while the intermediate range was also attractive as it returned 0.62% for December and 3.27% year to date, according to the S&P data used in BlackRock report.

“The yield curve flattened significantly, with the short end rising as the Fed lifted its target short-term interest rate for the first time since 2006 and the long end holding steady as global growth disappointed and oil prices approached a six-year low, muting inflation expectations,” the analysts wrote.

Hayes is the managing director and head of the municipal bonds group, Carney is the director and head of municipal strategy, while Schwartz is the managing director and head of municipal credit research.

Going forward, Colby believes that history will repeat itself.

“Once there is a clear path for the Fed to raise rates in a regular fashion and wages start to lift a little bit to compliment the strength in the labor force and auto and housing industries, then the Fed might feel more empowered to raise rates,” Colby said.

However, with an ongoing series of rate increases dependent on further economic and wage growth, Colby said the intermediate part of the curve is an attractive and stable alternative in the meantime.

“There’s plenty of bonds in this part of the curve; deals come with significant tranches in 10 to 15 years, and the yield curve is still steep, so you can find opportunities to position yourself where you are getting incremental returns relative to the two ends,” Colby said.

The 10-year triple-A general obligation scale on Jan. 13 yielded 1.78%, while the 15-year part of the scale yielded 2.22% — both unchanged from the day before, according to MMD.

“Banks like that part of the curve, and insurance companies like that part of the curve,” Colby said. “They tend to buy at whole prices in a relatively steady market environment.”

He said this is part of the attractiveness of tax-exempt securities as investors seek cover from volatility outside the municipal world, Colby noted.

“Given the relative attractiveness and low volatility of the asset class as a whole, the strategy ought to be to continue to keep your foot in the game with munis,” Colby said.

The BlackRock analysts share a similar view.

“We have a constructive outlook for municipals in 2016 given their high-quality nature and unique ability to provide tax-free income and solid risk-adjusted returns with less volatility than other fixed income assets,” BlackRock’s analysts wrote.

THE BOND BUYER

BY CHRISTINE ALBANO

JAN 14, 2016 2:12pm ET

Illinois Penalized as It Ends Hiatus From Muni Bond Market.

Illinois, the worst-rated state in America, returned to the $3.7 trillion municipal-bond market for the first time in almost two years and paid a price for its financial turmoil.

The state, now in its seventh month without a budget, sold $480 million of general-obligation bonds to pay for transportation projects. The federally tax-exempt securities maturing in 2041 sold at a top yield of 4.27 percent, according to data compiled by Bloomberg. That's about 1.5 percentage points more than benchmark debt. When it last sold bonds in April 2014, that gap for debt due in 2039 was about 0.4 percentage point less.

"It's generally a good result in line with or better than expectations given the credit deterioration since the last sale," said Paul Mansour, the head of municipal research for Conning, which oversees $11 billion of state and local debt, including Illinois securities.

Since Illinois's 2014 sale, its credit rating has been cut and temporary tax increase have expired, leaving Republican Governor Bruce Rauner and Democratic lawmakers deadlocked in the longest budget impasse in the state's history. The state supreme court also threw out Illinois's plan to reduce pension costs and shrink a $111 billion retirement-fund deficit.

Bank of America Merrill Lynch submitted the winning bid at a true interest cost of 3.99 percent, said Catherine Kelly, a spokeswoman for Rauner. That is a better rate than the last four tax-exempt GO sales, she said. The true interest cost represents the total cash amount of the interest payments and the time of the interest and principal payments.

"The State experienced strong investor interest on the bonds," Kelly said in an e-mailed statement after the sale. "We are also pleased that we were able to borrow at less than 4 percent and continue to provide funding for essential Illinois construction projects."

Moody's Investors Service dropped Illinois to its lowest investment-grade tier in October as the political stalemate dragged on. Despite the fiscal troubles, municipal analysts say they aren't worried about an Illinois default.

"They have sufficient liquidity and cash flow to continue making their monthly set aside for monthly debt service," said Ty Schoback, a senior analyst in Minneapolis at Columbia Management Investment Advisers, which handles about $30 billion in municipal bonds.

Bloomberg Business

by Elizabeth Campbell

January 14, 2016 — 10:23 AM PST Updated on January 14, 2016 — 2:38 PM PST

Day of Reckoning Near as Detroit Schools Pushed to Fiscal Brink.

When Roosevelt Bell's daughter Roshauna left Detroit's Cooke Elementary for a charter school, she joined an exodus that sent the district's finances into free fall. Every student that leaves costs $7,434 in state aid. In the past decade, it's lost 84,000.

"The school was really raggedy," said Bell, a 58-year-old carpenter who pulled Roshauna out four years ago because of over-crowded classrooms and a building in need of repair. "The kids had to wear their coats in the classrooms."

More than a year after Detroit emerged from a record-setting bankruptcy, cutting its debt in an effort to revive from a decades-long population decline, the independent school district is still flirting with insolvency. In February, the amount of state aid that's siphoned off by debt will jump to roughly what is spent on salaries and benefits, and it may run out of cash in April. This week, the frayed finances sparked a staff revolt: More than half the schools closed Monday after teachers called in sick to protest dilapidated conditions.

"It's not sustainable," said Hetty Chang, a vice president with Moody's Investors Service, which rates the district's bonds Caa1, seven steps below investment grade, lower than any other U.S. public-school system. If nothing happens soon "they will run out of money."

Detroit isn't alone, with many urban school systems struggling, including Philadelphia's and Chicago's. But nowhere has the financial pain been as acute or persistent as in Detroit, where the long-running disappearance of automobile-industry jobs caused the biggest population decline ever seen in an American city, leaving much of it vacant. With fewer residents, enrollment in its schools has plunged 65 percent since 2006.

With about $1.7 billion of outstanding bonds, the district has been run by a state-appointed emergency manager since 2009, a step aimed at keeping it out of bankruptcy. Republican Governor Rick Snyder last year proposed an overhaul that would keep its debt from crowding out classroom spending. Drawing on that plan, Republican state Senator Goeff Hansen Thursday introduced legislation that would effectively create two districts — one to pay off $715 million of debt and another to run the schools.

"We have to get them back to solvent," Hansen said in an interview. "You can't have a robust, strong Detroit without having a good school system."

Governor's Priority

Dave Murray, a spokesman for Snyder, said providing a permanent fix for the schools is one of his administration's top priorities this year. Michelle Zdrodowski, a spokeswoman for Detroit's schools, didn't respond to phone and e-mail messages seeking comment.

To help close budget shortfalls, the district's reliance on short-term loans has grown. In September, it sold $121 million of notes that mature in August for a yield of 5.75 percent, about $13 million more than it issued a year earlier. Because of that borrowing, the amount of state aid that goes to debt service will jump by 22 percent to $26 million next month, according to disclosures made for the note offering.

"Things are looking rough, they're coming to a head," said Craig Thiel, senior research associate with the Citizens Research Council of Michigan, which released a report this month on the district's debt. "The state sends its checks to the district after holding out money to repay short-term borrowings. Whatever is left is available to pay teachers, buy books and turn on the lights."

Bondholder's Shelter

That diversion of aid, which is a result of the control exerted by the state, has sheltered bondholders. A Detroit school bond maturing in 2029, one of its most active securities, last traded for an average yield of 2.9 percent in November, or 1.3 percentage points more than benchmark debt, according to data compiled by Bloomberg. That was down from about two percentage points in April.

"It's upsetting to see the poor conditions of the Detroit school system, but as bondholders, we are largely insulated because of the strong support provided to the bonds by the state," said Paul

Mansour, the head of municipal research at Conning, which oversees $11 billion of state and local debt, including some from Detroit's schools. "Detroit public schools is not so much a concern over debt repayment, but it's much more of an issue for the provision of services."

To deal with the declining enrollment, the school system has eliminated almost 10,000 jobs since 2005 and closed more than 150 schools, helping reduce expenses by $800 million. There are some signs of stabilization: Enrollment was down by just 1.7 percent in the current year, the smallest drop in at least a decade. Emergency Manager Darnell Earley said in a statement last month that the district is "making strides to address the serious financial challenges that have been plaguing it for decades."

More than 60 schools were closed Monday because teachers called out sick during the protest over derelict conditions. By Wednesday, the number of closings dropped to at least five, according to the Associated Press.

The teachers are upset because of the worsening school conditions, including broken heaters, rodents, cracked ceilings and mold, said Margaret Weertz, a spokeswoman for the Detroit Federation of Teachers. She said the protest wasn't condoned or organized by the union.

"The frustration level is very, very high," Weertz said.

Irving Bailey, 51, felt it years ago. He pulled his 9th grade daughter out of John R. King Academic and Performing Arts Academy, worried about a lack of academic standards, and enrolled her in the Jalen Rose Leadership Academy, a charter. Now she attends Central Michigan University.

"Her Detroit school was crowded and I didn't feel like it was preparing her for college," said Bailey. "It's not getting better in the Detroit schools. It's getting worse."

Bloomberg Business

by Darrell Preston and Elizabeth Campbell

January 14, 2016 — 9:01 PM PST Updated on January 15, 2016 — 9:10 AM PST

Bloomberg Brief Weekly Video - 01/14

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

Watch the video.

10:18 AM PST
January 14, 2016

Supreme Court to Weigh Public-Sector Union Dues.

Plaintiffs say they oppose union goals that may benefit them, like higher pay; labor groups argue they need mandatory fees to do their work effectively

WASHINGTON—The Supreme Court on Monday will consider eliminating a pillar of public-sector union strength in more than 20 Democratic-leaning states: the ability to require workers, including those who don't join the union, to pay for representation.

The high court ruled in 1977 that such provisions—known as union security, agency fee or fair-share clauses—were constitutional for public employees, as they have been for private-sector workers.

The current case, brought by the Christian Educators Association International and nine California teachers, asks the justices to overrule the precedent and effectively end the practice.

The challengers in the case, Friedrichs v. California Teachers Association, argue they shouldn't have to pay for any union services, on the theory that even basic functions such as collective bargaining are political speech because they involve requesting action from a government agency.

The ability to collect fees from dues-paying members and workers who don't join has bolstered the strength of public-sector unions, which typically represent all workers in a bargaining unit regardless of membership status. Union officials say removing that ability would make their work harder, if not insurmountable.

Nearly half of public employees in states with such provisions were represented by unions, compared with 17% in states that prohibit the fees, according to an October report from the left-leaning Economic Policy Institute. Of the latter group, between 2000 and 2014 about 20% were workers who declined to pay dues, the institute said.

The plaintiffs, all Republicans or independents, say they oppose union bargaining goals that may benefit them, such as higher pay or seniority protections.

“In my district, we have 70% of our students on free and reduced lunch. It's a very low-income area and our community cannot support higher salaries,” said plaintiff Harlan Elrich, a math teacher at Sanger High School in Fresno County, Calif. Mr. Elrich, who said he has been teaching nearly 30 years and makes about $75,000 annually, added that while “seniority is great,” teacher performance should also affect job security.

Among states that forbid the fees, the landscape for unions varies considerably. Wisconsin, which all but eliminated organizing rights for most public employees in 2011, represents one extreme.

Wisconsin Republicans led by Gov. Scott Walker left police and fire unions intact. But they placed restrictions on unions representing other government workers, banning collective bargaining and prohibiting payroll deduction of voluntary dues. Since then, the American Federation of State, County and Municipal Employees lost two-thirds of its membership, while the statewide teachers union shrank 50%, said Paul Secunda, a labor law professor at Marquette University in Milwaukee.

What those unions do today is “collective begging. It's not collective bargaining,” he said.

Not all states that prohibit the fees are so restrictive. But without provisions compelling membership, union officials must continuously attend to organizing and membership retention, reducing resources they can devote to bargaining and contract enforcement, said Ann Hodges, a labor law professor at the University of Richmond in Virginia.

A blow to unions would reverberate into the political arena, she notes: “Unions are one of few large institutional players that support Democrats historically. Not just with money but with boots on the ground.”

If the unions lose, Ms. Hodges expects their strength to decline more in some categories than others. Unions representing workers with “a shared culture, a shared profession”—such as teachers, police officers and firefighters—are better poised to survive, she said.

Union leaders are already looking to their counterparts in states that don’t allow mandatory fee collection for advice on how to navigate possible changes.

Virginia prohibits collective bargaining for public employees. In Norfolk, the school board negotiated a de facto contract with the Norfolk Federation of Teachers, an affiliate of the American Federation of Teachers, in the early 1980s. Although the memorandum of understanding isn’t enforceable in court, it has remained the basis of employee relations in the school system ever since.

“We would call it a best practice,” said the school-board chairman, Rodney Jordan. “Now, they challenge us, they advocate for their members, but we also work together,” he said, citing joint lobbying of the city council to increase education funding.

Mr. Jordan said Norfolk’s “respectful relationships” with the federation and the Education Association of Norfolk, affiliated with National Education Association, helps in other ways.

“As an urban district surrounded by suburban districts that may have more resources than we do, I think it’s also a competitive advantage for us” in attracting or retaining teachers, he said.

The Norfolk federation president, Thomas Calhoun, said that just under half the teachers, and about a third of other district employees, choose to join the union, paying about $700 in annual dues.

Because nonmembers automatically get whatever benefits the union negotiates, “there’s nothing you can offer them to entice them to come over” unless they believe in the cause, Mr. Calhoun said. That drives the federation to work constantly to prove its worth, he said.

“We go out there every day,” he said. “I try to be involved in the community, and with the League of Women Voters and the NAACP” and other civic organizations, he said.

Despite Norfolk’s experience, Mr. Calhoun said no other Virginia district has followed its example and voluntarily instituted collective bargaining.

“It’s clear that it hasn’t caught on,” he said.

THE WALL STREET JOURNAL

By JESS BRAVIN and MELANIE TROTTMAN

Jan. 10, 2016 4:30 p.m. ET

Write to Jess Bravin at jess.bravin@wsj.com and Melanie Trottman at melanie.trottman@wsj.com

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US Treasury Secretary Demands Action on Puerto Rico's Crisis.

SAN JUAN, Puerto Rico — U.S. Treasury Secretary Jacob Lew urged Congress on Friday to pass legislation by March to help ease Puerto Rico’s economic crisis before it’s too late.

Lew made the request in a letter to U.S. House Speaker Paul Ryan, a Wisconsin Republican, as he announced an upcoming trip to the island to meet with government officials and business leaders to talk about the financial situation.

“Although there are many ways this crisis could escalate further, it is clear that Puerto Rico is already in the midst of an economic collapse,” Lew wrote. “It is time for Congress to act to provide order to a chaotic and worsening situation.”

Puerto Rico is struggling with $72 billion in public debt that the governor has said is unpayable and needs restructuring. The island recently defaulted on $37 million in interest on bonds and faces its first lawsuit over how it has diverted funds to meet certain bond payments. Gov. Alejandro Garcia Padilla has already warned that Puerto Rico doesn’t have money for upcoming bond payments including $400 million due in May.

Lew is scheduled to meet on Wednesday with officials and community leaders to talk about the proposal that President Barack Obama’s administration presented Congress to create a territorial bankruptcy regime that would allow Puerto Rico’s government to restructure its debt and impose new oversight on finances and expand Medicaid benefits, among other things.

Puerto Rico does not have access to any local or federal bankruptcy laws. Meanwhile, the U.S. Supreme Court recently announced it would hear an appeal on a ruling that barred Puerto Rico from giving municipalities the power to declare bankruptcy.

A spokeswoman for Ryan did not respond to a request for comment. Ryan has previously pledged that the House will come up this year with “a responsible solution” for Puerto Rico’s debt problems.

Republican leaders including Sen. Orrin Hatch, R-Utah, have demanded to see audited financial statements from Puerto Rico, but they have not materialized. Jesus Manuel Ortiz, public affairs secretary for the Puerto Rican government, said Friday that the statements are nearly ready and would be produced soon, although he didn’t specify a date.

Puerto Rico is struggling with an increasingly dwindling cash flow that has threatened to cut off gasoline and electricity to certain public and private institutions. Almost 10 percent of Puerto Rico’s population has left since 2006 and hundreds of businesses have closed, with Walmart announcing Friday that it would shutter seven supermarkets on the island as part of a global restructuring.

Lew noted in the letter that Puerto Rico has not had access to the municipal bond market for more than two years and ran out of funding sources commonly used to finance government operations more than six months ago.

“More recently, Puerto Rico has resorted to a series of onerous and unsustainable emergency liquidity measures, including selling assets from already depleted pension funds; borrowing from the workers compensation and other insurance funds; and withholding hundreds of millions of dollars in tax refunds,” he wrote.

Pedro Pierluisi, Puerto Rico’s representative in Congress, said he expects to meet with Lew and stress that immediate measures are needed to avoid what he said would be enormous government defaults.

By THE ASSOCIATED PRESS

JAN. 15, 2016, 12:51 P.M. E.S.T.

CUSIP Issuance Trends Report.

CUSIP Request Volume Trends Downward in December, Forecasts Continued Volatility in Corporate and Municipal Bond Issuance.

"A great deal of the activity in corporate and municipal bond issuance over the course of 2015 was defined by speculation around interest rates," said Richard Peterson, Senior Director, S&P Capital IQ. "It is fitting, then, given the December move by the Fed that we're now seeing a slow-down to the fever pitch of bond issuance we saw earlier in the year. Expect that trend to continue throughout the first part of this year."

Read the Press Release.

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

S&P: Looking Past The Noise To Illinois' Fundamental Creditworthiness.

More than six months into the fiscal year, the inability of lawmakers in Illinois to reach a budget agreement has inflicted considerable damage on the state's finances. The extent of Illinois' weakened fiscal condition will likely weigh on its credit quality for years to come. With no budget controls in place, the state is essentially carrying on spending without regard to its revenue base, driving its balance sheet further into negative territory. Correcting this situation will eventually require even more tax revenue and deeper spending cuts than if lawmakers had acted before the start of the fiscal year. There has also been more immediate fallout from the state leaving its fiscal misalignment unaddressed. In November, there was a cash squeeze that prompted the state comptroller to temporarily defer the state's pension contribution for the month, something the state has done occasionally in the past.

It might seem obvious, therefore, that Illinois' credit rating should be lowered from its current 'A-' level. However, Standard & Poor's Ratings Services has pointed out before that for U.S. states, a budget crisis doesn't necessarily constitute a debt crisis. We balance any concern about the drama unfolding in Springfield—including what it says about the state's actual ability to pay its debt service—against our objective of continuing to work toward a globally comparable portfolio of ratings. (Listen to the related podcast titled, "Beyond The Budget: Standard & Poor's Assesses Illinois' Creditworthiness," dated Jan. 12, 2016.)

Continue reading.

07-Jan-2016

P3s Driving Kentucky's Broadband Expansion.

A Kentucky county is using private expertise to determine how to use public-private partnerships to provide efficient, countywide broadband access and, then link this infrastructure to a statewide fiber optic network under development.

Under a contract issued by Warren County, Connected Nation Exchange (CNX) will develop technical and financial models that will help the county to finance and develop broadband P3s, CNX announced Jan. 6.

CNX began working with the county to improve broadband services several years ago by analyzing the level and quality of existing services and helping local companies to figure out where to position antennas and other equipment to improve connectivity, reported the Bowling Green Daily News.

Warren County plans to connect to the statewide, 3,000-mile fiber-optic network Kentucky is developing through a P3 over three years to improve broadband access throughout all of its 120 counties. The state is partnering with Macquarie Capital to build the up-to-$350 million network, which Macquarie will manage for 30 years. Internet and cell phone providers will lease the lines to provide connections to homes and cell phone networks.

Ron Bunch, president of the Bowling Green Area Chamber of Commerce said the county's ability to connect to the statewide network will attract high-tech and other companies to the county and that improvements already made are helping farmers to manage and sell their crops.

"Kentucky is unlocking the power of broadband statewide by unleashing public-private partnerships at the state and local levels," said CNX CEO Brian Mefford.

By NCPPP

January 8, 2016

What's Keeping Pennsylvania From Passing a Budget?

School districts across Pennsylvania have been complaining for years about the way the state funds its K-12 education system. The poorest local systems have the most reason to complain; they have extra-large burdens, but they don't receive any extra help from Harrisburg. Joe Gorham runs one of those poor districts, the Carbondale Area School District in northeastern Pennsylvania. He thinks the state needs a complete overhaul in the way it funds public schools. A year ago, Gorham thought meaningful change might be on the way: A new governor had just taken office promising to make school funding a top priority.

But for six months (from July through the end of December), no lifeline had come from Harrisburg. Instead, a protracted budget fight between Democrats and Republicans at the state capitol choked off state funds for schools starting in July and nearly forced the Carbondale schools to shut down. As 2015 trudged to a close, Gorham couldn't help wondering whether the same event that gave him hope — the arrival of a new governor — had instead added to his district's troubles. The state didn't start cutting checks for schools until a partial budget passed in late December. Even with the stopgap measure in place, the prospects of a major school funding overhaul are still very much in doubt. But what is certain is that just having the conversation exacted a heavy toll on schools.

Pennsylvania offers proof that states are not immune from the partisanship that has crippled Congress and the federal government. Just as in Washington, lawmakers in Harrisburg last year strained to keep the government's lights on and the bills paid. And just as in Washington, the forces that led to gridlock are deeply ingrained and unlikely to disappear soon. It's not a comforting prospect for those dependent on the state for crucial assistance, particularly schools, which are at the heart of the recent impasse.

Tom Wolf, the state's new Democratic governor, campaigned in 2014 on the idea of taxing companies drilling for natural gas and using the money to reimburse school systems, which experienced big cuts under the previous administration. But Republican lawmakers, emboldened by new leadership and the biggest legislative majorities for either party in Pennsylvania since Dwight D. Eisenhower was president, balked at the energy production tax. The result was an inability to produce a state budget and a partial shutdown of state government after the July deadline.

With no budget in place, Pennsylvania stopped sending money to support school districts. That put Carbondale in a tight spot. The district didn't have a lot of money to begin with, and it had already depleted its reserves to cope with state budget cuts after the Great Recession. So Carbondale borrowed $1 million to make payroll while the fight in Harrisburg continued. In the second half of the year, the district skipped all payments to its teacher pension fund and withheld contributions to a local charter school. Still, the district's cash balance dipped at one point to just $11,000. Gorham weighed the idea of shutting down Carbondale schools one day a week to save on utility costs. He considered a one-day systemwide protest closure to bring attention to the dire financial straits the district found itself in. But ultimately he decided that those moves would be too disruptive. "These funding stalemates not only affect our students and our teachers here on the campus," Gorham says, but they also "have a greater impact on the community at large, because this is the main employer."

By October, 27 school districts had borrowed a total of $431 million from banks and other sources to keep their schools open during the standoff. Hard-hit districts like Carbondale became the poster children of the budget crisis early on. But dozens of other districts reported that they, too, would have to resort to borrowing if state money didn't start flowing by November. Even with the added pressure on lawmakers and the governor to reach a deal, it wasn't until after Christmas that the first break in the impasse came. Wolf allowed most of a partial budget to become law, even though he called the legislation "garbage." He vetoed many provisions to force lawmakers to return to the negotiating table. The governor said the budget falls short, in part because it does not include enough new money for schools. But the agreement does mean that schools will finally start to get money, as will many other organizations that had borne the brunt of the gridlock.

The budget stalemate has squeezed more than just schools. Counties, which rely on the state for as much as 40 percent of their budgets, have scrambled to deal with the revenue loss. Several stopped paying vendors. Others cut programs, laid off staff, depleted reserves and borrowed money. "As wards of the state, Pennsylvania's counties have been malnourished and mistreated this year," wrote Charlie Ban of the National Association of Counties. What's more, both the state and county have depended on nonprofit safety net providers to continue offering social services. The effect of the impasse hit close to home for legislators, too. The state Senate had to take out a $9 million loan from PNC Bank so it could pay legislative staff during the shutdown.

The prolonged standoff stems, in part, from the fact that Pennsylvania voters are themselves deeply divided. Wolf, a wealthy businessman and former state revenue secretary, won the governorship handily in 2014 over the unpopular incumbent Republican, Tom Corbett. It was a stinging rebuke for the GOP, marking the first time a sitting governor of either party had lost a re-election bid since the state constitution was changed to allow two-term administrations in 1968. At the same time, however, voters increased Republican majorities in the legislature. The GOP lawmakers elected in 2014 and in the previous 2010 midterm election are to the right of their own party predecessors. In one sign of the philosophical shift, GOP senators chose more conservative leadership following the elections. "You have two sides of an issue," says Terry Madonna, the director of the Center for Politics and Public Affairs at Franklin and Marshall College. "They both think they're right, and they both have a mandate to do what they think is right."

In short, the 2014 election gave both sides little incentive to compromise on the most important issues. Besides education and energy taxes, the two parties clashed over myriad things, such as how to offer property tax relief, whether to privatize some or all of Pennsylvania's state-owned liquor business and whether to shift state employees from traditional pensions to 401(k)-style retirement plans. But most, if not all, of those questions divided Harrisburg well before Wolf took office. The difference in 2015 was that both sides knew the deal they struck in the governor's first year would set the tenure for the rest of his term. That emboldened Wolf to refuse to sign a stopgap measure in the summer that would have kept the state running as normal while its leaders negotiated. It would have come as a relief to some of the state's strapped agencies and programs, but it would have taken pressure off Republicans to strike a permanent deal. Both sides also dismissed overtures from each other that they saw as insignificant. "This budget really matters," says Stephen Herzenberg, executive director of the left-leaning Keystone Research Center. "It matters partly because of what's specifically in the budget, but it also matters to the nature of the political process in Pennsylvania for the next three-plus years."

The deadlock of 2015 was by no means the first long-delayed budget for Pennsylvania. In the 1960s, budgets were chronically late: An epic showdown in 1969 lasted 247 days (although the state operated on stopgap budgets in the meantime). Pennsylvania's last Democratic governor, Ed Rendell, went into overtime negotiations three times in his eight-year tenure. In fact, Madonna says, many Pennsylvania governors have begun their terms with budget fights that initially damaged their popularity, only to see their standing rise in time for re-election.

But the most recent budget crisis does stand out. Unlike the others, it came on the heels of a deep recession that left localities and social services agencies ill-prepared for another financial hit. As a result, the consequences have been significantly worse.

Gorham, the Carbondale superintendent, worried as the stalemate dragged on that the struggle to reach a budget deal would suck the oxygen out of Harrisburg for solving longstanding problems, including one that forced the standoff. "My fear is that we'll pass a budget, and everybody will forget about the main issue," he says. "The main issue is that schools are not fully and fairly funded across the commonwealth. That should not continue."

GOVERNING.COM

BY DANIEL C. VOCK | JANUARY 2016

Don't Blame ETFs For Poor Muni Liquidity.

Most municipal market investors and their advisors would agree that liquidity in the municipal bond market has declined in the last several years.

Even as liquidity has declined, however, the municipal bond market has continued to grow and attract investors. According to data from the Federal Reserve, in the first three quarters of 2015, total market size increased by $57 billion (to $3.7 trillion) and direct household ownership of municipal bonds increased by $8.8 billion. Indirect ownership through mutual funds increased by $29.8 billion. According to FactSet Research Systems, over the same time period, total assets in muni bond ETFs grew by $3.6 billion, to an estimated $22.0 billion.

Some participants in the traditional over-the-counter municipal bond market have been wondering if the growing popularity of municipal bond ETFs has been draining liquidity from the market for individual bonds.

An analysis of municipal bond ETF flows suggests that rather than draining liquidity from the municipal bond market, muni ETFs (the first of which came to market in 2007), have in fact attracted new liquidity to the marketplace.

Historical Demand

Because of the lower interests rates earned when compared with comparably rated taxable bonds, municipal bonds have historically been most appealing to individual investors in the upper Federal income tax brackets. (The higher the tax rate, the greater the benefit of the tax exemption on the income earned.) Because of this, ownership of municipal bonds has been dominated by households.

Direct ownership (via portfolios of individual bonds) accounts for more than 40% of the market. When combined with indirect ownership through mutual funds, closed-end funds and ETFs (presumed to be primarily from individual investors), household ownership represents almost two-thirds of the market.

Trading Activity

At $3.7 trillion, the market is large, but it is also very complex. With more than 60,000 issuers and well over 1 million CUSIPs, it is the complexity of the municipal bond market that has made it difficult to attract significant participation by hedgers, traders and active (tactical) asset allocators.

Additionally, even though the municipal market includes several electronic trading platforms, the overall market is not centralized on an exchange, so trading liquidity is supported by the more than 1,500 registered dealers located around the country. (The number of dealers has declined 22% since 2009.)

Municipal bond trading activity has long been dominated by customer-related transactions. Through October of last year, 45% of municipal bond market trading activity was customer buying (which includes household purchases as well as investing by institutions such as insurance companies and funds); customer selling was an additional 23% of total volume. (The balance consisted of trading between dealers.)

In contrast, the consolidation of all ETF trading onto a centralized exchange brings together all interested participants. The centralized trading and the popularization of the ETF “wrapper” has attracted broader participation to this part of the municipal bond market.

The fact that net investor buying in muni bond ETFs represented less than 20% of total trading volume suggests that—unlike the underlying municipal bond market—a much greater percentage of market liquidity is being provided by other participants such as traders, hedgers and asset allocators. (See the table below for select details on the market’s trading flows.)

The Decline In Muni Market Liquidity

Using the amount of financial assets reported by broker-dealers as a proxy for their market-making activities, and therefore the depth of markets, reveals why liquidity in some markets has declined. Since the end of 2006, the estimated amount of broker-dealer assets devoted to supporting the municipal bond market has declined by almost 70%.

Over that time span, corporate and foreign bond market support declined 73%, while overall market support was down only 26%.

The disproportionate reduction of broker-dealer support of the municipal bond market is not surprising, as the trend reinforces the anecdotal observations about the changing nature of secondary market liquidity. (This chart is not intended to imply complete precision in the amount of capital deployed by the broker-dealer community to the markets, but rather to be indicative of the trend of their level of activity in the markets.)

The changing nature of municipal bond market liquidity is more the result of industry forces than the growth of the muni bond ETF product class. However, it is worth keeping in mind that the ETF sponsor firms and other fixed-income asset managers have vested interests in fostering a healthy and viable municipal bond market.

It seems unlikely that municipal bond market liquidity could return to historical norms. Even with an expected increase in interest rates, the ability of the existing network of dealers to finance an increased commitment to the market would require greater profitability from a widening of the bid/ask spread—also unlikely, due to improved transparency and competitive pressures from the much tighter bid/ask spread available with muni bond ETFs.

Further consolidation of the number of municipal bond dealers would have an unknown effect on liquidity, but could be positive if it means that the remaining market-makers are that much more able to be fully committed to the market.

Conclusions

As with investment portfolios, securities markets are most resilient when they are well-diversified. The strongest and deepest markets benefit from the active involvement of participants with a wide range of needs and objectives.

Municipal bond market buying and trading has long been dominated by a single category of participant: the long-term investor. The recent reduction of support of the market by broker-dealers has created a tangible reduction in the ability of investors to easily sell or buy on a consistent basis.

While this does not mean that investors should reduce or avoid municipal bond investments solely for this reason, it does raise the importance of considering potential secondary market liquidity prior to making any investment decisions. Self-directed investors must be comfortable with the implications for their own portfolios, or consider if they would prefer delegating portfolio decisions to a professional manager.

While the size of the muni ETF market is still only a small percentage of the overall municipal bond market, investors may wish to consider if the muni bond ETF merits consideration as a potentially more liquid means of accessing the investment class—particularly for tactical (short-term) portfolio needs, but also for long-term holdings as a replacement or addition to individual bonds.

ETF.com

By Patrick Luby

January 07, 2016

Patrick Luby is the author of Income Investor Perspectives. This article is provided for informational purposes and is not to be construed as offering investment advice. Additional information is available upon request.

MacKay Municipal Managers Announces Top Five Municipal Market Insights for 2016.

"Liquidity Wars" Require Active Management and May Create Investment Opportunities in 2016

PRINCETON, N.J.–(BUSINESS WIRE)–MacKay Municipal Managers™, the municipal bond team of fixed income investment advisory firm MacKay Shields LLC, today delivered its top five municipal market insights for 2016. Key highlights include:

1. **Market Disruptions Likely – Both Probability and Severity will be Elevated.**
   Active management of municipal assets will be essential, as we expect market volatility to rise. We believe uncertainty tied to the timing and degree of The Federal Reserve Board's policy adjustments will cause disruptions along the yield curve. Global economic conditions will likely blur the outlook in the United States and further contribute to market dislocations. In our view, selected credit events in the municipal market, while anticipated, will generate incremental volatility.
2. **Market Technicals to Drive Returns – Technical Conditions to Play a Greater Role.**
   We believe supply, demand, and bond structure will impact returns to a much greater degree than in the recent past. We expect the municipal market to feel the effects of technical conditions in other markets, as investors react to changing conditions across their entire portfolios.
3. **Revenue Bonds Outperform – Defined Revenue Streams Preferred Over Pension Uncertainty.**
   We believe investors will gravitate to the well-defined cash flow streams securing revenue bonds and away from general obligation debt. Pension issues will likely continue to cause uncertainty over the fiscal health of general obligation issuers. New Governmental Accounting Standards Board reporting standards may reveal that state and local governments, even those that have previously addressed their pension issues, still face risks or remain under funded.
4. **Transportation Sector Outperforms – Spending and Usage to Increase.**
   The 2015 Federal Transportation Bill provides five years of funding for much-needed infrastructure programs. Election-year positioning should motivate Congressional support for legislation that promotes job-heavy projects. In addition, we believe continued economic growth and low energy prices will lead to higher usage of toll roads, airports, and other port facilities.
5. **High-Yield Municipals to SPRING Ahead, But Then Investors Should FALL Back to Investment Grade.**
   We believe high yield municipal bonds should outperform during the first half of the year, as investor demand for yield continues. However, in the latter part of the year, we believe investment grade should outperform, as the flattening yield curve causes refundings to accelerate. Active management will be essential to capturing the performance in the relative-value shift.

"The key to managing municipal portfolios in 2016 is being cognizant of the movements that influence municipal liquidity. We must take into account factors such as more aggressive cash flow demands on municipal mutual funds and the credit implications of lesser liquidity that will impact trading behavior. Given these market dynamics, we believe our approach to managing liquidity in 2016 will create investment opportunities," explained MacKay Municipal Managers™ co-heads John Loffredo and Robert DiMella.

MacKay Municipal Managers™ manages $14.5 billion as of November 30, 2015. MacKay Municipal Managers™ is subadvisor to the MainStay High Yield Municipal Bond Fund (MMHAX, MMHIX), which was recently recognized by Money Magazine as a best-in-class fund for 2015 in the "Tax Exempt Bond Category".

The team also subadvises the MainStay Tax Free Bond Fund (MTBAX, MTBIX), MainStay Tax Advantaged Short Term Bond Fund (MSTAX, MSTIX), MainStay California Tax Free Opportunities Fund (MSCAX, MCOIX) and the MainStay New York Tax Free Opportunities Fund (MNOAX, MNOIX). The team is co-headed by John Loffredo and Robert DiMella, who have worked together for over 20 years managing municipal bonds, including investment grade, high-yield and state-specific strategies.

January 07, 2016 10:02 AM Eastern Standard Time

Muni Issuance to Hit $8.77 bln Next Week Includes Both Chicago, Illinois.

Issuance in the U.S. municipal bond market will hit $8.77 billion next week with both fiscally troubled Chicago and Illinois seeking to tap investors.

It will be the first time the state of Illinois has issued bonds for 20 months.

Governor Bruce Rauner's administration is downplaying Illinois' ongoing budget battle ahead of a $480 million bond sale. An impasse between the Republican governor and Democratic lawmakers has left the fifth-largest U.S. state without a budget for the fiscal year that began July 1.

The disclosure document for the general obligation bonds indicates the absence of a budget is expected to increase significantly Illinois' chronic backlog of unpaid bills, a gauge of the state's structural budget deficit. It also points to last year's rollback of temporarily increased income tax rates, which is expected to reduce revenue by as much as $5 billion annually.

Illinois' 10-year general obligation bonds trade in the secondary market muni bond market with a 1.72 percentage point spread over top-rated municipal bonds, up from 1.40 percentage points a year ago.

Overall issuance will include $6.4 billion of negotiated deals and $2.18 billion of competitive deal.

Chicago will head to the municipal bond market next week with a $500 million bond issue amid uncertain pension funding requirements and political turmoil.

The general obligation refunding bonds are scheduled to be priced through Citigroup on Tuesday, according to bond sale documents. The sale comes as state legislative fixes to address Chicago's $20 billion unfunded pension liability are uncertain.

Standard & Poor's warned last week that Chicago's BBB-plus bond rating could fall "multiple notches" if the city fails "to successfully implement contingency plans in a timely manner to fully meet its pension obligations with an identifiable and reliable revenue source." Moody's Investors Service already rates the city's bonds at the "junk" level.

Reuters

Fri Jan 8, 2016

(Reporting by Edward Krudy; Editing by Leslie Adler)

Ambac, FGIC Covering Puerto Rico Bond Payments After Default.

Insurance companies that guarantee a Puerto Rico agency's bonds are covering some payments that the island's government defaulted on this month.

Ambac Financial Group Inc. paid $10.3 million in interest that was due Monday on Puerto Rico Infrastructure Financing Authority debt, Abbe Goldstein, a spokeswoman for the bond insurer, said in an e-mail Tuesday.

Financial Guaranty Insurance Co. will pay 22 percent of $6.4 million in interest it insures, Edward Turi, a spokesman for FGIC, said in a phone call Tuesday. Standard & Poor's cut Prifa, as the authority is known, to D because of the payment default.

Governor Alejandro Garcia Padilla last week said Prifa would default on $35.9 million of interest. The governor last month ordered that Prifa's rum-tax revenue be redirected to help cover its general-obligation debt, which the commonwealth's constitution says must be repaid before other obligations. The change allowed Puerto Rico to avoid defaulting on its direct debt and potentially setting off lawsuits for repayment as those securities have the strongest legal protections.

First Default

Ambac Financial insures $1.07 billion of Prifa principal and interest payments through 2044 in the event of a default, as of Sept. 30, according to the company's website. That includes $52 million of debt service in 2016. FGIC insures repayment of $768.8 million of Prifa's principal and interest through 2045, as of Sept. 30, according to its website. It insures $10.6 million of debt service in 2016, according to Turi.

U.S. Bancorp, Prifa's bond trustee, hasn't received sufficient funds from the agency to repay debt service due Jan. 4, according to a filing posted Tuesday on the Municipal Securities Rulemaking Board's website, known as EMMA. The trustee held a "small residual amount from prior debt service payments, which it has allocated pro rata across all the bonds entitled to payment of interest," according to the filing.

This is the second Puerto Rico agency to default, after the Public Finance Corp. in August began missing monthly debt-service payments because lawmakers failed to allocate the funds. The PFC also missed a Jan. 1 payment.

In a Dec. 29 letter to the governor and his administration, the bond insurers said the commonwealth should return the rum-tax revenue to Prifa and end the clawback. The insurers calculate as much as $94 million was redirected before Dec. 1. That's when Garcia Padilla signed an executive order to begin the clawback.

The Highways and Transportation Authority and the Convention Center District Authority said last month that they would use reserve cash to repay investors after Puerto Rico redirected their revenue, according to EMMA filings.

Bloomberg Business

by Michelle Kaske

January 5, 2016 — 10:42 AM PST Updated on January 5, 2016 — 2:36 PM PST

Illinois Ending Exile From Bond Market Amid Record Budget Fight.

As Illinois prepares its first bond sale in almost two years, investors say the worst-rated state in America will pay for leaving its fiscal house in a shambles.

Since it last sold general-obligation bonds in April 2014, the Illinois Supreme Court threw out the state's effort to cut workers' benefits to help close a $111 billion pension-fund deficit. Its credit rating has been cut. And temporary tax increases have expired, leaving Republican Governor Bruce Rauner and Democratic lawmakers locked in a record-long impasse that's left the state without a budget for more than six months.

The $480 million of federally tax-exempt bonds scheduled for sale on Jan. 14 will illustrate the cost of Illinois's long-building strains, which have caused investors to demand higher premiums to buy its bonds. The state's 30-year securities yield 4.67 percent, about 1.8 percentage points more than top-rated debt. That gap has risen by almost 0.7 percentage point since April 2014 and is the highest among the 20 states tracked by Bloomberg.

"They're definitely going to have to pay a higher yield," said Dan Solender, head of municipals at Lord Abbett & Co. in Jersey City, New Jersey, which manages $17 billion of the debt, including Illinois bonds. "They're going to be penalized compared to other bonds of similar ratings."

In Illinois's last sale, bonds maturing in 2039 were issued at a yield of 4.5 percent, about 2.2 percentage points more than benchmark securities, according to data compiled by Bloomberg. When they traded on Dec. 28, the difference had widened to about 3 percentage points.

Budget Battleground

The state's budget was put under strain after tax increases expired last year. Since then, Rauner, the first Republican to lead the state since 2003, and the Democrat-controlled legislature have been unable to agree on a spending plan for the year that started in July. Without action, the patchwork of measures that are keeping the government running will cause spending to exceed revenue by as much as $5 billion this fiscal year, according to bond documents.

The proceeds of the bond offering will go toward transportation projects. The securities are backed by the state's "full faith and credit" and can be paid even without a budget in place, the documents show.
"Infrastructure is critical," Rauner told reporters on Monday. "It's very appropriate that despite everything, that we continue to invest in our infrastructure, and bonding is part of that."

Rating Downgrades

While rating companies affirmed the state's grade in the run up to the sale, Moody's Investors Service cut Illinois in October to Baa1, three steps above junk. Fitch Ratings also dropped Illinois that month to an equivalent BBB+ because of the budget logjam.

Standard & Poor's, whose A- rating on Illinois is one step higher than Moody's and Fitch, on Dec. 23 removed the state from negative watch. S&P still has a negative outlook on Illinois, indicating it could still be downgraded.

"Road construction and transit improvements are key factors in growing the Illinois economy, which is why Illinois is planning a bond sale," Catherine Kelly, a spokeswoman for Rauner, said in an e-mailed statement. “There was no change in our general-obligation bond ratings from the three major ratings agencies, but they did highlight the need for long-term structural reforms to improve our fiscal outlook.”

The impasse is delaying progress on Illinois’s biggest challenge: its unfunded pensions. The state’s four plans have less than half of what’s needed to cover promised benefits. In May, the Illinois Supreme Court ruled the state’s attempt to cut pension benefits was unconstitutional. Since then, partisan gridlock has kept officials from finding an alternative fix.

Illinois is going to have to price the deal “pretty attractively” in order to get a good reception from investors, said Dan Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $130 billion.

“I think 2016, in our opinion, is kind of a waterfall year for the state,” said Heckman. “I think credit-rating agencies are running out of patience. It will be very important and critical for the state to get its financial house in order as much as possible.”

Rauner and lawmakers have been unable to agree on how to do so. In return for approving any new revenue, the Republican governor wants Democrats to back some of his proposals, such as political term limits or curbs on local property taxes. Democrats want to focus on the budget.

‘Tough Votes’

Rauner said on Tuesday that negotiations are happening every week, and there’s no reason a budget deal can’t be concluded after the legislature returns on Jan. 13. Still, he said Democratic leaders may wait until after the primary election in March — or even the November general election — to take “tough votes.”

The impasse may be affecting the state’s economy, according to the Institute of Government and Public Affairs at the University of Illinois. The institute’s index that tracks the growth of corporate earnings, consumer spending and personal income fell last month to the lowest since March 2013, according to J. Fred Giertz, who compiles it. The decline can’t be definitely attributed to the budget standoff, but it “is likely that it is beginning to have an impact,” he said in a statement.

“I don’t know that we’ve hit the bottom,” said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services. “There’s a lot of things yet to happen.”

Bloomberg Business

by Elizabeth Campbell

January 5, 2016 — 9:01 PM PST Updated on January 6, 2016 — 6:22 AM PST

Once Bankrupt Orange County Borrows to Pay Bill Others Shirk.

California’s Orange County, which went bankrupt in 1994 after losing derivative bets, is resorting to a less aggressive financial tactic to save money. And it’s for something many governments neglect: The annual bill to the employees’ pension fund.

The county Thursday sold $334 million in taxable pension-obligation bonds that mature in June 2017.

Unlike typical pension debt, which reinvests borrowed money for decades in hope of turning a profit, the short-term securities will allow it to receive a discount by making its full retirement contribution up front.

The county's decision to make good on its pension promises stands in contrast to governments such as Chicago or New Jersey, which are dealing with soaring debts after years of shortchanging their funds. It's also part of the county's effort to repair an image once sullied by its then-record bankruptcy. Last month, Standard & Poor's raised its rating one step to AA+, the second-highest level and the best for the county since 2000.

"We put that behind us," said Suzanne Luster, the county's public finance director, about the bankruptcy, which ended in 1997. "The board since that time and the financial management have been very conservative. We've made tremendous strides in our continued recovery."

Orange County, home to Disneyland and 3 million residents, is benefiting from a strong economy, driven by the tourism, life-science and high-tech industries, S&P said. Officials have built up reserves, put together five-year plans and monitor its investments, the New York-based ratings company said.

In the offering, the securities maturing in June 2017 were priced for a top yield of 1.2 percent, about 0.45 percentage point more than benchmark debt, according to data compiled by Bloomberg. The debt is graded AA by S&P, one step lower than the county's overall rating.

The county has made its required pension payments in full since 2006, bond documents show, and has relied on short-term borrowings to do so early every year since 2011. By making the retirement contribution in full this month, instead of every two weeks for a year, the county would save about $17 million, Luster said.

Eleven of 15 employers in the pension fund opted to pay their contributions early for the last fiscal year, according to the Orange County Employees Retirement System.

Orange County differs from other municipalities that have issued bonds to pay retirement obligations because of that incentive, said Mark Wuensch, senior fixed-income analyst in New York at Principal Global Investors, which manages $6 billion in munis.

"In general, I'm not a huge proponent of borrowing to pay your debts. In this case it's warranted," he said. "They have an actual cost savings by doing this."

The county also has taken steps to shift some of the pension costs to its workers, he said. "They're going in the right direction," said Wuensch.

Bloomberg Business

by Romy Varghese

January 7, 2016 — 2:00 AM PST Updated on January 7, 2016 — 2:48 PM PST

Muni Yields Plunge to 11-Month Low as Wave of Cash Dwarfs Supply.

Municipal-bond yields plunged to the lowest level since February after investors plowed the most money into tax-exempt mutual funds in almost a year and stock prices slid.

The yield on an index of 10-year AAA municipal bonds has declined 0.09 percentage point this week to 1.91 percent, the lowest since Feb. 5, according to data compiled by Bloomberg. Yields on benchmark munis due in 30 years have dropped 0.07 percentage point since the end of 2015 to 2.83 percent, the lowest since Feb. 11.

The drop has been fueled by a flood of money into the $3.7 trillion market. Individuals added $1.3 billion to muni funds in the week through Dec. 30, the most in almost a year, Lipper US Fund Flows data show. It marked the 13th consecutive week that they've gained money, the longest streak since the end of 2014.

Meanwhile states and cities are issuing $2.9 billion of debt this week, slowly ramping up from the $3 billion offered in the final two weeks of 2015.

“We're performing well because of a lack of supply in our market, which is typical for early January,” said David Manges, muni trading manager at BNY Mellon Capital Markets LLC in Pittsburgh. “We're also seeing a lot of customer cash being put to work and a lot of reinvestment money being put to work.”

Munis have already returned 0.37 percent in 2016, compared with 0.13 percent for U.S. Treasuries and 0.17 percent for investment-grade corporate bonds, Bank of America Merrill Lynch data show. It would be the fifth-straight year of gains in January. In each of the past two years, the first month proved to be the best for returns.

A decline in stock prices worldwide has also led investors to shift money into the safest assets. Yields on benchmark 10-year U.S. Treasury notes have dropped 0.08 percentage point to 2.19 percent since the end of last year.

Bloomberg Business

by Brian Chappatta

January 6, 2016 — 8:58 AM PST

[Muni Yields Tumble Most Since 2012 Amid China Meltdown: Chart]

Benchmark 10-year municipal-bond yields extended their steepest decline in almost four years as funds are flush with cash at a time of global market turmoil, boosting the appeal of the U.S. tax-exempt debt's relative safety.

The yield on an index of 10-year AAA rated munis plunged 0.07 percentage point to 1.83 percent on Thursday, data compiled by Bloomberg show. That brings the overall decline in the first four trading days of 2016 to 0.17 percentage point, the steepest drop of any four-day stretch since March 2012.

Individuals added $2.2 billion to tax-exempt mutual funds in the week through Dec. 30, the most since January 2013, according to Investment Company Institute data. The appeal of munis and other fixed-income assets may grow after concerns that China's slowdown will hamper global growth have wiped $2.5 trillion off the value of global equities this year.

Munis have earned 0.72 percent already in 2016, outpacing the 0.57 percent return on U.S. Treasuries and 0.58 percent gain on investment-grade corporate debt, Bank of America Merrill Lynch data show. State and local debt outperformed the other assets in 2015.

Bloomberg Business

by Brian Chappatta

January 7, 2016 — 12:06 PM PST

[January Effect Lives On As Municipal Bond Funds Flush With Cash.]

Mutual funds in the $3.7 trillion municipal-bond market are flush with cash heading into 2016.

Individuals added $1.3 billion to funds focused on state and local-government debt in the week through Dec. 30, the most in almost a year, Lipper US Fund Flows data show. It marked the 13th consecutive week that they've gained money, the longest streak since the end of 2014.

The surging demand for tax-exempt debt means the market may be headed for its fifth-straight January gain, said Peter Hayes, head of munis at BlackRock Inc., the world's largest money manager. In each of the past two years, the first month proved to be the best for returns: Munis rallied 1.8 percent in January 2015 and 2.3 percent in 2014, Bank of America Merrill Lynch data show.

"January is usually a positive performance month and we think this January will be positive," said Hayes, who oversees $111 billion of the debt. "Demand should remain strong."

Shaken Off

The muni market has posted six straight monthly gains, shaking off concerns about Puerto Rico's escalating fiscal crisis as defaults decline and the finances of most governments continue to improve along with the economy. State and local debt was less volatile than stocks, commodities and other bonds in 2015, providing higher returns both on an absolute basis and when adjusting for price swings.

January tends to deliver a predictable performance. The market has rallied in all but six years since 1989, Bank of America data show. The last time it dropped was at the start of 2011, after analyst Meredith Whitney rattled investors with a prediction for widespread defaults that later proved off base.

Individual investors hold the majority of munis through private accounts or mutual funds. They sometimes chase performance by pouring money into the market when it's rallying and withdrawing it during routs.

That phenomenon was on display after munis began a three-month losing streak in April 2015, when signs of economic gains increased speculation that the Federal Reserve would soon raise interest rates. Beginning that May, individuals yanked money from mutual funds for 11 straight weeks, the longest stretch of outflows in 18 months. The withdrawals subsided when the market rebounded and the Fed delayed its move.

'Sweet Spot'

Most muni analysts expect moderate gains for 2016 as the Fed pushes forward with plans to tighten monetary policy further this year, after increasing rates last month for the first time since 2006. Yet with U.S. manufacturing contracting in December at the fastest pace in more than six years and the S&P 500 Index touching its lowest price since October, any positive return may make it stand out in the U.S. financial markets.

"It's really the sweet spot for muni investors: The U.S. growing fast enough to improve credit quality, but not too fast to generate a lot of inflation," said David Hammer, who runs a $583 million high-yield fund at Pacific Investment Management Co. in New York. "That means investors are going to focus on the income portion of their portfolio to drive total returns. Munis fit perfectly into that."

Bloomberg Business

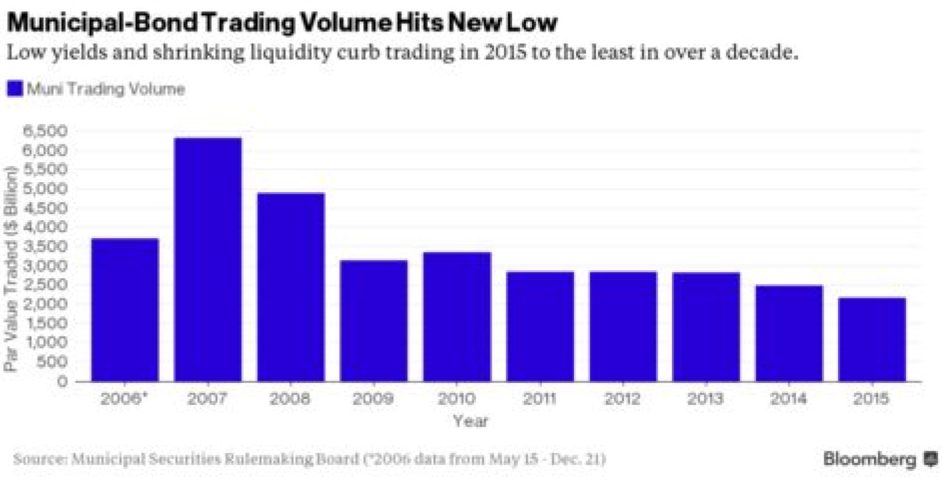
by Brian Chappatta

January 4, 2016 — 9:01 PM PST Updated on January 5, 2016 — 5:56 AM PST

Muni Investors Who Got 2015 Right Seek Gains in Market's Swings.

MacKay Shields's John Loffredo and Robert DiMella made five predictions for the municipal-bond market in 2015, and they all came true. This year, the co-heads of munis at the $90 billion investment firm expect a liquidity tug-of-war to create profit-making opportunities.

With trading growing thinner and securities dealers pulling cash from the market, muni prices are at risk of being whipsawed if investors rush for the exits, the money managers said in an interview. Such a run could be brought on by rising interest rates, Puerto Rico's escalating fiscal crisis, or credit-rating cuts to perpetually struggling states such a New Jersey, Illinois and Pennsylvania. A scare, they said, would provide a chance to pick up bonds on the cheap.



The weaker liquidity means "volatility is going to be higher, movements in the market are going to be greater than they historically otherwise would've been," said DiMella, whose company had two of the 10 best-performing open-end muni funds in the past year. MacKay, a unit of New York Life Insurance Co., oversees $14.5 billion of the securities.

"For us, it's not run for the hills," DiMella said. "Take advantage of it, especially in a marketplace that investors on average don't look to take advantage of any type of dislocations."

Trading volume in the $3.7 trillion market shrank in 2015 to the lowest level in at least a decade, according to data from the Municipal Securities Rulemaking Board, with about $2.2 trillion of bonds changing hands. That’s one-third of the peak in 2007, before the financial crisis caused dealers to cut their holdings of tax-exempt securities by 76 percent.

The muni market is divided among tens of thousands of borrowers and the majority of debt is held by buy-and-hold investors, who are looking for steady, tax-free returns. That’s long made it less liquid than the Treasury and corporate markets.

Sometimes that works in the bonds’ favor, like when they outpaced most other assets in a tumultuous 2015. At other times, it doesn’t: The market was pummeled in late 2010 following speculation that the recession’s impact would trigger rising defaults, and again in mid-2013 because of concern that the Federal Reserve was poised to begin tightening monetary policy.

Wilder Ride

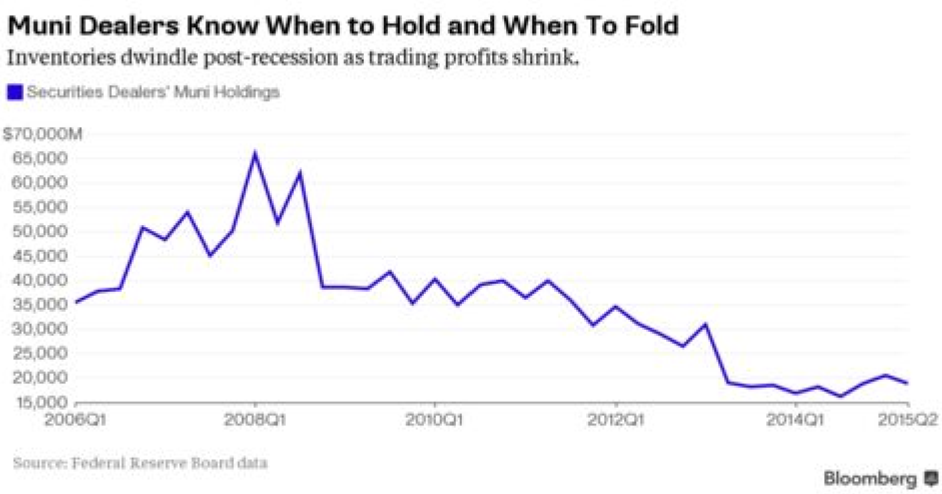
MacKay’s Loffredo and DiMella said price swings are more likely to occur in 2016 and will be more severe when they do.

During the first week of the year, munis rallied as the ripple effects of slowing growth in China led investors to seek safe havens. Benchmark 10-year muni yields had their steepest decline in almost four years, dropping 0.16 percentage point to 1.84 percent, an 11-month low.

If the pendulum shifts, the lack of trading could increase stress on the market. The average daily volume for municipal bonds is less than 2 percent of what it is for Treasuries and less than half that of corporate debt, according to the Securities Industry and Financial Markets Association.

Trading has declined every year since 2010, according to the MSRB’s statistics. At the same time, dealers cut their muni holdings to about $16 billion at the end of September from as much as $66 billion in early 2008, according to Fed data, as regulations and narrower profits due to low interest rates led banks to devote less capital to the market.

“What we started seeing somewhat over the last five years is exacerbating in 2016,” Loffredo said.



MacKay’s MainStay California Tax Free Opportunities Fund returned 5.5 percent in 2015, beating 98 percent of its peers, while its MainStay High Yield Municipal Bond Fund exceeded 85 percent of its competitors with a 5.6 percent gain. The two were among the 10 best over the past year, according to data compiled by Bloomberg.

Among the firm's other forecasts: Revenue bonds will outperform general obligations, and transportation debt, such as those sold by airports and toll roads, will be one of the top-performing segments. The demand for new securities will be more closely tied to the amount of money flowing into the market than in the past. And high-yield, which posted the top returns in 2015, will extend gains in the first half of the year, only to trail investment-grade debt for the next six months.

Good Calls

Loffredo and DiMella's calls last year proved prescient.

They predicted high demand for tax-exempt debt, which held true as individuals poured $13 billion into muni mutual funds throughout 2015, Lipper US Fund Flows data show.

They called for top-rated short-term debt to lag the market. That debt earned 0.7 percent last year, compared with 3.6 percent for the broad market, Bank of America Merrill Lynch data show.

They thought issuance would exceed expectations. It did, ending at the highest level since 2010.

They bet that tobacco bonds, one of the riskiest corners of the market, would be one of the top performers. The debt surged 13.5 percent, almost four times the returns of munis broadly, S&P Dow Jones Indices data show.

With a track record like that, muni investors may do well to prepare for what MacKay calls "liquidity wars" in 2016.

Bloomberg Business

by Brian Chappatta

January 7, 2016 — 9:01 PM PST Updated on January 8, 2016 — 5:47 AM PST

Bloomberg Brief Weekly Video - 01/07

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

Watch the video.

8:43 AM PST
January 7, 2016

Munis Least Alluring to Treasuries Since 2011 After Rally: Chart

Municipal bonds look expensive on their own, with benchmark yields at an 11-month low. They look even pricier relative to U.S. Treasuries: the ratio of yields between the two assets tumbled Friday to 85 percent, to the smallest since May 2011.

Top rated 10-year muni bonds yield 1.84 percent, compared with 2.15 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio is a measure of relative value between the two, calculated by dividing the first number by the second. It signals that tax-free bonds are pricey relative to their federal counterparts.

Bloomberg Business

by Brian Chappatta

January 8, 2016 — 7:16 AM PST Updated on January 8, 2016 — 8:08 AM PST

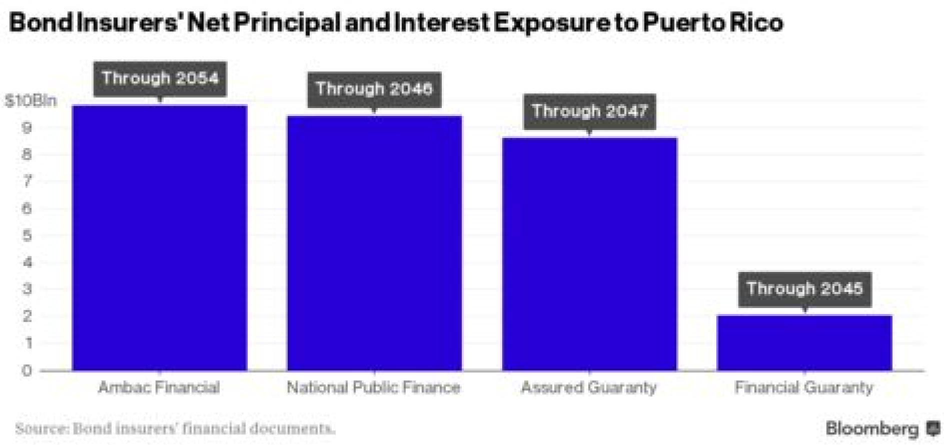
Bond Insurers Sue Puerto Rico to Stop Revenue Diversion.

Insurance companies that guarantee Puerto Rico municipal debt filed a lawsuit challenging the commonwealth's decision to divert revenue designated for some bonds to pay other creditors.

Ambac Financial Group Inc. and Assured Guaranty Ltd. said the clawback of revenue pledged to bond issues violates the U.S. Constitution by interfering with debt-holders' contractual rights. The suit filed in U.S. District Court in Puerto Rico seeks to have the clawback declared unlawful and asks the court to issue an injunction against implementation, according to a statement.

"This may well just be the beginning," Mark Palmer, a managing director at BTIG LLC who analyzes Puerto Rico and municipal bond insurers, said Friday. Bond insurers and investors "are going to use every means at their disposal to hold Puerto Rico to the letter of the law."

Puerto Rico Governor Alejandro Garcia Padilla announced in December that the commonwealth would divert the revenue in order to fund its general-obligation debt payments, which have the highest priority under the island's constitution. Puerto Rico defaulted on about $37 million in agency bond payments at the start of the year, saying it would focus on providing essential services as the commonwealth's financial situation worsened.



"The commonwealth has committed itself to a 'scorched earth' strategy of blaming its fiscal and structural problems on lenders, Congress and others, in an effort to deflect responsibility and obtain retroactive application of bankruptcy laws," Nader Tavakoli, chief executive officer of Ambac, said in the statement late Thursday.

Lobbying Congress

The insurers are the first to sue over the diversion. They claim a clawback can only be implemented if the commonwealth's funds are insufficient to cover general-obligation debt service. Puerto Rico estimates approximately $9 billion of available resources in the fiscal year ending June 30, 2016, which vastly exceeds debt service on the public debt of approximately $1.85 billion, according to Ambac. Judge Jose Antonio Fuste will preside over the case, court documents show.

To help address its debt crisis, Puerto Rico officials have urged Congress to allow some commonwealth public corporations access to bankruptcy, the same as mainland localities and agencies. That would give the island a legal guideline for how to restructure much of its $70 billion of debt. The commonwealth, as well as states, is prohibited from using bankruptcy to reorganize its finances.

"This latest development will force a race to the courthouse," Garcia Padilla said in a statement Friday.

"And with no legal framework to handle this impending litigation crisis, both the commonwealth and its creditors will soon face the opposite of due process and rule of law. This reality causes great uncertainty for all parties involved."

Rum Tax

The targeted clawback revenue comes from the Puerto Rico Highways and Transportation Authority, the Puerto Rico Convention Center District Authority and the Puerto Rico Infrastructure Financing Authority, known as Prifa. Ambac paid $10.3 million in interest that was due Jan. 1 for the Prifa bonds.

The Prifa default was the second by a Puerto Rico agency. The Public Finance Corp. in August began missing monthly debt-service payments because lawmakers failed to allocate the funds. The PFC also missed a Jan. 1 payment.

Shares of Ambac dropped 9 cents Friday to $12.74, the lowest level since the insurer emerged from bankruptcy in May 2013. Assured Guaranty declined 36 cents to $25.15 as of 2:44 p.m. in New York.

Financial Guaranty Insurance Co. will pay 22 percent of $6.4 million in Prifa interest it insures. Edward Turi, general counsel for FGIC, didn't immediately respond to an e-mail and phone message seeking comment on the Ambac and Assured Guaranty suit.

Prepa Deal

Less than two weeks before Prifa's payment default, Assured Guaranty, along with MBIA's National Public Finance Guarantee Corp., agreed to restructure $8.2 billion of Puerto Rico Electric Power Authority debt. While the utility's funds aren't subject to clawback, Garcia Padilla's revenue diversion goes against the restructuring pact, Dominic Frederico, Assured Guaranty's president and chief executive officer, said in a statement Thursday.

"These actions stand in contrast to the consensual agreement that we and other creditors recently reached with Puerto Rico's electric utility, Prepa," Frederico said.

In a Dec. 29 letter to the governor and his administration, bond insurers said the commonwealth should return rum-tax revenue to Prifa. The insurers calculate as much as $94 million was redirected before Dec. 1. That's when Garcia Padilla signed an executive order to begin the clawback.

The Highways and Transportation Authority and the Convention Center District Authority said last month that they would use reserve cash to repay investors after Puerto Rico redirected their revenue, according to regulatory filings.

Bloomberg Business

by Michelle Kaske

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San Bernardino Bankruptcy Leaves Little for Police-Brutality Payouts.

Officers were praised after mass shooting, but California city's fiscal woes mean plaintiffs in excessive-force lawsuits could get just 1% of promised settlements

Terry Wayne Jackson died March 1, 2009, after several San Bernardino, Calif., police officers, responding to complaints that the 21-year-old mentally ill man wasn't wearing pants in a park, wrestled him to the ground and tasered him.

His mother, Sheryl Nash, sued and won. City leaders promised to pay $686,000 by July 15, 2012. Two weeks after that deadline, San Bernardino filed for bankruptcy.

City officials now say they can't afford to pay Mr. Jackson's mother or the more than 100 others who have sued San Bernardino for injuries and deaths allegedly caused by its police officers and employees.

Under the city's recent proposal to exit bankruptcy protection that still needs a judge's approval, she might get only 1% of what the city settled for: $6,860.

Lawyers for Mr. Jackson's mother and other families with settlements are fighting the proposed cost-cutting plan—a battle that shines a light on the police department's troubles amid an outpouring of praise for how its officers handled the Dec. 2 mass shooting that killed 14 people. Politicians and law-enforcement experts lauded the city's officers for a quick response that prevented the attack from escalating.

San Bernardino's police department has been hit hard by the city's financial problems, losing 30% of its officers in recent years despite the city's high violent-crime rate. Under the bankruptcy plan, the city would spend $56.5 million in the next five years to hire more officers and buy new vehicles.

The plan, however, would inflict some of the deepest cuts on people who have sued over incidents of alleged police brutality or excessive force. San Bernardino faced 109 lawsuits seeking a total of $19 million in "personal injury and bodily injury" claims against the city and its employees as of Nov. 25.

Lazaro Fernandez, a lawyer for Mr. Jackson's mother and other families with settlements, said they are "entitled to collect the full amounts" owed by the city.

"[These are] individuals whose lives have been forever changed by the actions of employees of the [city]," Mr. Fernandez said in court papers.

Gary Saenz, a lawyer for San Bernardino, didn't respond to emailed requests for comment.

U.S. Bankruptcy Judge Meredith Jury is scheduled to review objections to the city's bankruptcy-exit summary at a March 9 hearing. If she approves the plan, it would go to creditors for a vote.

Paul Glassman, a lawyer for San Bernardino, defended the proposed cuts at a recent court hearing, calling San Bernardino "a deeply service-insolvent city."

Cities that declare bankruptcy have the power to cut payments they have promised to Wall Street, retired workers and other creditors. But bankruptcy law doesn't say how much people behind police lawsuits should be paid when a city files for protection.

San Bernardino's plan proposes a 1% payment rate, though city officials promised to negotiate each lawsuit separately. Some might get insurance money, the city said, though it hasn't provided details.

A federal judge cleared Detroit to pay less than 15% of what it owed in lawsuit settlements and judgments despite protests from those affected that the amount was too low. A California judge who handled an excessive-force lawsuit in Vallejo, which emerged from bankruptcy in 2011, called it "alarming" that bankruptcy law can let a city "erase its own liability" when its police officers violated a person's civil rights.

"Civil-rights advocates may need to go to Congress and get clarification so there are better protections for victims of police brutality," said Melissa Jacoby, a law professor at the University of North Carolina-Chapel Hill.

San Bernardino filed for bankruptcy Aug. 1, 2012, saying it would otherwise run out of money to pay city employees. Housing prices in the city, about 60 miles east of Los Angeles, plummeted during the economic slowdown, leading the city to take in less revenue from property taxes.

City lawyers who drew up a bankruptcy-exit strategy freed up money for the city's roads, information-technology systems and city hall, which needs $20 million to prepare it for earthquakes. The plan proposes steep cuts to health-care benefits for retired city workers and to payments to a European bank that lent the city $51 million to cover pensions. Like Mr. Jackson's mother, bondholders can expect to be repaid 1% and have objected to the plan.

In Detroit's bankruptcy, the largest municipal case in U.S. history, city leaders offered a higher recovery rate of 13% to people who had sued the city and to other groups with similar debts, though city officials are expected to negotiate each claim individually.

Among those suing Detroit when it filed for bankruptcy was Walter Swift, who was wrongfully convicted of criminal sexual conduct in 1982 and spent 26 years in prison. His lawyer complained in court papers that the city's bankruptcy further delayed the civil-rights lawsuit filed in 2010. The case was settled after Detroit's bankruptcy ended in late 2014 and Mr. Swift received $2.5 million, said Bill Goodman, his lawyer.

"We settled for less than we otherwise would have because of the reality of the bankruptcy," Mr. Goodman said.

Those who were offered the 13% recovery had the chance to vote to reject the offer, and many of them did. But a bankruptcy judge ruled Detroit's survival outweighed the rights of people with judgments against the city.

"Detroit's inability to provide adequate municipal services runs deep and has for years," Judge Steven Rhodes said at the time. "It is inhumane and intolerable, and it must be fixed."

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By KATY STECH

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