Illinois Forces Towns to Either Eat Higher Costs or Avoid Market.

Illinois's budget stalemate is leading investors to demand higher yields to lend to its towns and villages, causing bond sales to tumble while borrowers outside the state rush to capture the lowest interest rates in a generation.

The drop in issuance this year stands in contrast to the rest of the $3.6 trillion U.S. municipal market, where bond offerings are on pace to reach the highest level since at least 2002, according to data compiled by Bloomberg. Illinois is one of only five states where they've fallen: issuers have sold $8.4 billion of debt through Sept. 11, down from $9.9 billion a year earlier. It's the biggest decline nationwide.

When municipalities do borrow, investors are requiring higher yields because of the association with the state, said Tim McGregor, head of municipals at Northern Trust Corp. in Chicago.

Illinois, with the lowest credit rating of any state, has been without a budget since the year began on July 1 because of a political standoff. That's forcing Illinois to leave some bills unpaid and casting doubt over how it will close a $6.2 billion shortfall.

"You're definitely getting a little extra yield as an investor, even in credits that may not have a direct link to the state," said McGregor, who oversees $27 billion of state and local government securities.

The financial pressure on the local governments has been underscored by Chicago, whose credit rating was cut to junk by Moody's Investors Service in May because of the soaring bills the city faces from its underfunded employee pension funds. It isn't alone: Half of the state's local retirement systems have less than 60 percent of the assets needed to cover all the benefits due as workers retire, according to a commission created by the legislature.

Bond buyers will have their choice of two large deals from the state this week. The Metropolitan Pier and Exposition Authority, which runs Chicago's convention center, is selling $223 million of bonds Wednesday.

OSF Healthcare System, a hospital operator, plans to offer $368 million of tax-free debt through the Illinois Finance Authority on Thursday.

McGregor said Illinois hospitals are being penalized for the state's crisis.

"Health-care bonds in Illinois are probably trading 25 to 50 basis points cheaper, just because of the situation in Illinois, than they would be otherwise," said McGregor.

There's no sign of a resolution to the budget impasse, which has lasted longer than any in the state's history, according to the Civic Federation, a Chicago-based research group. Republican Governor Bruce Rauner and the Democrat-led legislature can't agree on how to fix a deficit left after temporary tax increases expired.

Illinois's bills are piling up without a budget, with the unpaid tab set to reach $8.5 billion by the end of the year from $5.5 billion in August, state comptroller Leslie Geissler Munger said last week. The state is paying about 90 percent of what it owes even during the standoff, she said.

The budget delay has already dealt a blow to the Metropolitan Pier and Exposition Authority, which was unable to make a deposit into its debt-payment fund in July because lawmakers hadn't appropriated the money.

While lawmakers approved the funds last month, the lapse caused Standard & Poor's to lower the authority's rating seven steps from AAA to BBB+, three ranks above junk.

OSF, which operates 10 Illinois hospitals, hasn't felt a direct impact yet, said Dan Baker, its executive director of Treasury services. Proceeds from its sale will be used in part to finance construction and renovation at medical centers in Bloomington, Peoria and Rockford, offering documents show.

"Most of the investors we talk to understand the situation," said Baker. "There's been a little delay in payment at times, though it's not too far behind right now — although it may be without the budget being approved."

Catherine Kelly, a spokeswoman for Rauner, declined to comment on the increasing borrowing costs for Illinois agencies and municipalities. She said on Sept. 2 that the state was "being cautious about bond sales" and plans to issue some debt this year, though it hasn't announced any details. Illinois 10-year general obligations yield 1.94 percentage points more than benchmark munis, near the most since late 2013, Bloomberg data show.

Investors penalized local borrowers even before the new fiscal year began as Illinois lawmakers dueled over the budget deficit. A school district in Rockford, 88 miles (142 kilometers) west of Chicago, issued $40 million of debt in February, with 20-year bonds priced to yield 4.17 percent, Bloomberg data show. That compared with a 3.21 percent rate on an index of similarly rated AA bonds.

Lake County, which borders Chicago's home county to the north, sold $90 million of top-rated general obligations in June. The portion due in about 30 years priced to yield 4.05 percent, compared with 3.43 percent for an index of top-rated municipals.

"Some of their headlines have caused Illinois spreads outside of the state and Chicago to widen out, and there are a lot of very strong municipalities within the state of Illinois," said Rick Taormina, head of municipal strategies at J.P. Morgan Asset Management, which oversees $56 billion in state and local debt.

"We're looking to take advantage of that widening if it occurs."

Bloomberg News

by Brian Chappatta

September 14, 2015 — 9:01 PM PDT Updated on September 15, 2015 — 5:55 AM PDT

Chicago's Met Pier Pays the Price of Illinois Fiscal Stalemate.

Chicago's Metropolitan Pier and Exposition Authority, which runs the nation's largest convention center, is discovering the price of Illinois's political paralysis.

The authority sold about $220 million of federally tax-exempt securities Wednesday for yields of as much as 6 percent, according to preliminary data compiled by Bloomberg. Thirty-year bonds are being offered at 4.87 percent, about 1.6 percentage points more than top-rated securities.

It's the agency's first offering since skipping a July payment into its debt-service fund because lawmakers and Governor Bruce Rauner didn't appropriate the money amid a deadlock over the budget. As a result, Standard & Poor's slashed the authority's rating by seven steps from AAA to BBB+, three grades above junk.

The lapse highlighted the risk to investors from bonds with debt bills that depend upon the approval of lawmakers. While Rauner signed a bill last month to free up tax money for Met Pier, the agency's bonds haven't rebounded from the rout that followed the missed deposit.

"The downgrade, which resulted from the budget impasse, hurt them in terms of interest costs," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "Investors realize probably it's a lot better than a BBB credit, but because of what's happened and because of the appropriation nature, it's a BBB and not much you can do."

Met Pier is among borrowers most affected by the impasse between the Republican governor and the Democrat-led legislature that's left Illinois without a budget for more than two months. The failure had led investors to push the difference between Illinois bond yields and top-rated debt near a record high.

Met Pier bonds maturing in 2050, its most actively exchanged securities, traded for an average of 100 cents on the dollar Wednesday, down from $1.02 on Aug. 4, the day before the rating cut. That's pushed the yield up about half a percentage point to 5 percent.

The securities offering is the authority's first since 2012, according to data compiled by Bloomberg, and illustrated how it's being penalized by investors. In 2012, its 30-year bonds were sold for yields as low as of 4.15 percent, about a percentage point more than top-rated debt at the time. That gap swelled to 1.6 percentage point Wednesday.

The proceeds will help pay for the construction of a 40-story hotel and refinance debt, bond documents show. The securities included zero-coupon bonds, which were offered at a top yield of 6 percent for those maturing in 2052.

"This transaction will lock up the financing" for the authority's projects, said Richard Oldshue, Met Pier's chief financial officer. He declined to comment on what kind of reception he's expecting for the deal.

Fitch Ratings gave the bonds a BBB+ rating, three steps above junk, with a negative outlook. The company said Met Pier's ability to make "full and timely" debt service depends on the Illinois General Assembly to appropriate the revenue, which ties the authority's credit to Illinois, the worst-rated state in the nation.

Met Pier never missed any interest or principal payments to investors and the agency now has the authority to tap tax money to cover its debts. The bonds are backed by authority taxes and state sales taxes. The authority taxes, which includes levies on hotels, reached $140.2 million in 2015, up 42 percent from 2010, bond documents show.

"This is still a solid credit backed by the economic activity in the city of Chicago in terms of sales taxes and hotel taxes — and all our indications are that business is booming in Chicago," said Paul Mansour, head of municipal research in Hartford, Connecticut, at Conning, which oversees $11 billion in state and local-government securities, including those sold by Met Pier. "It creates a buying opportunity for people willing to take the longer view."

Bloomberg News

by Elizabeth Campbell

September 16, 2015 — 12:00 AM PDT Updated on September 16, 2015 — 1:55 PM PDT

Pennsylvania Bond Penalty Grows as State Budget Impasse Deepens.

Pennsylvania is facing rising penalties from investors as Democratic Governor Tom Wolf plans to veto a temporary budget being advanced by Republican legislators, promising to prolong a political impasse that's left the state without a spending plan for more than two months.

The state's 10-year bonds yield about 2.87 percent, about 0.59 percentage point more than benchmark municipal debt, according to data compiled by Bloomberg. That's approaching the 0.61 percentage point reached in July, which was the highest since the data begin in 2013.

"Each week and each month where they don't have a budget, that concern will increase," said Alan Schankel, a managing director at Janney Montgomery Scott LLC in Philadelphia. "They're playing a game of chicken."

Pennsylvania has been operating without a spending plan for the year that began in July because the Republican-led legislature and first-term governor have remained at loggerheads over proposed tax increases and overhauls to the public employee pension system.

The uncertainty led Moody's Investors Service last week to downgrade schools that issue debt through a state program that diverts aid to investors when needed.

The Pennsylvania Senate on Thursday is set to vote on a short-term budget that would provide state and federal funds to alleviate pressures on school districts and social service agencies.

Wolf told reporters Wednesday that he would veto the temporary spending plan because he wants them to consider his proposals for the full budget and concessions on the retirement system. He said the failure to compromise and balance the budget could imperil Pennsylvania's credit rating.

"We're going to continue to have the credit downgrades we've had because we're not doing anything else differently than we've done," Wolf said. "It's status quo."

The state's $53 billion unfunded pension liability has weighed on its bonds. The Keystone State is paying more to borrow than any other state except Illinois and New Jersey, according to data on 20 major states compiled by Bloomberg.

Standard & Poor's and Fitch Ratings cut Pennsylvania's rating last year to AA-, the fourth-highest level, citing the pension burden. Moody's grades Pennsylvania Aa3, also the fourth-highest rank.

Bloomberg News

by Romy Varghese

September 17, 2015 — 9:59 AM PDT

Bloomberg Brief Weekly Video - 09/17/15

Taylor Riggs, an editor at Bloomberg Brief, talks with reporter Kate Smith about this week's municipal market news.

Watch the video.

September 17, 2015

Puerto Rico Electric at Odds With Insurers on Debt Agreement.

The debt-restructuring agreement Puerto Rico's main electric utility unveiled with great fanfare at the start of the month is turning out to be far from a done deal.

The Puerto Rico Electric Power Authority, known as Prepa, still needs to come to terms with about two-thirds of creditors, including bond-insurance companies, or the agreement falls apart. An accord that keeps the negotiations out of court expires late Friday. All forbearing creditors except insurer MBIA Inc. are part of that contract, called a forbearance agreement.

"They still have to do quite a bit of work," said Mikhail Foux, a municipal-debt strategist at Barclays Plc in New York. "They have only about a third of the people on board. We're talking about monolines and bond funds that effectively bought at par."

The utility reached a tentative agreement on Sept. 1 with bondholders including OppenheimerFunds Inc., Franklin Advisers Inc., BlueMountain Capital Management and Goldman Sachs Group Inc. Investors agreed to take losses of about 15 percent under a debt exchange. Prepa, which has about $8.3 billion in debt, has been negotiating with creditors for over a year after saying it needed to reduce its obligations.

Some bondholders bought Prepa securities for as low as 33 cents on the dollar, giving them room to accept less than par. Bond insurers would have to make investors whole on any deferred payments or potential haircuts, making them less inclined to accept concessions, Foux said.

Forbearance Agreement

A Prepa restructuring would be the biggest ever in the $3.6 trillion municipal-bond market, surpassing Detroit's record bankruptcy filing in July 2013. The utility, which relies mainly on oil to produce electricity, is the largest U.S. public power provider, with 1.47 million customers and $4.68 billion in electric revenue in 2013, according to the American Public Power Association.

The utility has asked creditors to extend the forbearance agreement by two weeks, according to two people with direct knowledge who asked for anonymity because the talks are private. It first signed the pact in August 2014 with bondholders, banks and insurers after the agency used its capital budget to pay for fuel. Its been extended seven times.

Bond insurers Assured Guaranty and MBIA last week offered a proposal that doesn't include exchanging insured Prepa debt at a discount, according to a person with direct knowledge of the proposal. That would fit into the tentative plan with forbearing bondholders, the person said, without elaborating. Prepa has yet to respond to the proposal, the person said.

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

Jose Echevarria, a spokesman in San Juan for Prepa, and Jenni Main, chief financial officer at Millstein & Co., an adviser on the utility's restructuring, declined to comment.

Governor Alejandro Garcia Padilla visited Washington this week as the island seeks to reduce its $72 billion debt load and delay payments to bondholders. A commonwealth agency, the Public Finance Corp., defaulted in August and September on debt payments, the first for a Puerto Rico entity. The administration plans to give commonwealth investors a debt-restructuring offer in a few weeks, after saying the government has only an estimated $5 billion to repay $18 billion of principal and interest coming due in the next five years.

After meeting with Garcia Padilla Thursday, U.S. Treasury Secretary Jacob J. Lew reiterated his support for legislation in Congress that would allow some Puerto Rico public corporations to file for bankruptcy.

"Given the commonwealth's projection that it will exhaust its liquidity later this year, Congress must act now to provide Puerto Rico with access to a restructuring regime," Lew said in a statement Thursday.

"Without federal legislation, a resolution across Puerto Rico's financial liabilities would likely be difficult, protracted, and costly."

Prepa bond prices show the difficulty the utility faces in reaching an agreement with creditors, Foux said.
Bonds maturing July 2040 traded Thursday at an average 60.1 cents on the dollar, according to data compiled by Bloomberg. That's higher than an average 53.5 cents on Aug. 28, the last time the bonds traded before the Sept. 1 agreement. But that's still lower than the 85 cents that bondholders would receive in a proposed debt exchange.

Legacy Debt

"One of the reasons they're trading substantially lower is that there's still quite a bit of an execution risk," Foux said.

Puerto Rico may ask holders of its general-obligation bonds and sales-tax debt, called Cofina, to take losses, and Prepa could again look to its investors if the proposed debt-exchange fails to improve the utility's finances, Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics, wrote in a Sept. 14 report. That plan would swap existing bonds for new securitized debt repaid with a utility-customer surcharge.

"There is reasonably a risk that the commonwealth and/or Prepa would entertain a similar path should Prepa's restructuring fail to be enough to achieve fiscal solvency," Fabian said.

Investors who haven't participated in the forbearance, such as individual bondholders and some municipal-bond funds, would also need to exchange their securities for new bonds, leaving no more than $700 million of legacy debt remaining, according to the agreement.

MBIA's National Public Finance Guarantee Corp. insures about $1.4 billion of Prepa debt, while Assured Guaranty backs $904 million, according forbearance documents. Syncora Guarantee Inc. insures $197 million.

Those firms must also take into consideration their exposure across all Puerto Rico securities. Assured guarantees $6.2 billion of Puerto Rico debt through 2047, as of June 30. National insures $4.5 billion through 2046, as of June 30.

"If monolines agree to some haircuts here, what would that mean for them with the rest of the bond stack?" Foux said.

Puerto Rico securities have lost 7.2 percent this year through Sept. 17, according to S&P Dow Jones Indices. The broader muni market has gained 0.9 percent.

Bloomberg News

by Michelle Kaske

September 17, 2015 — 3:47 PM PDT Updated on September 18, 2015 — 8:13 AM PDT

Fitch: Bill Could Challenge Some CA Public Power Utilities.

Fitch Ratings-New York-15 September 2015: California's public power utilities could face additional financial pressure over the medium to long term following the state legislature's passage of SB 350, Fitch Ratings says. The Clean Energy and Pollution Reduction Act of 2015 includes a number of provisions that are expected to increase direct costs for public power utilities. The bill's more notable provisions include an increase of the state's renewable portfolio standard (RPS) to 50% by 2030 and additional efficiency and conservation programs. Utilities have already begun to transition their power supplies toward lower emission resources due to other state regulations, including a RPS of 33% by 2020.

Fitch expects compliance with the more stringent environmental regulation will require the state's public power utilities to transition an even greater portion of their power supply to less flexible and potentially more costly renewable energy. Rate flexibility and the ability to preserve financial metrics in the face of these regulatory changes will be fundamental to maintaining long-term credit quality.

The higher RPS requirement will be phased in over a 10-year period, with utilities mandated to reach interim targets of 40% by 2024, 45% by 2027 and 50% by the end of 2030. This significant increase in renewable energy will push public power utilities to identify and acquire resources that are generally more expensive and less flexible than thermal resources. Positively, the bill allows for the indefinite banking of certain resources beginning in 2021, which will allow those utilities that exceed their annual target to roll over credits toward future compliance years.

SB 350 is expected to be signed into law as the bill conforms in large part to the governor's previously stated objectives of raising the RPS to 50% and reducing greenhouse gas emissions to 40% below 1990 levels by 2030.

Contact:

Matthew Reilly, CFA
Director
U.S. Public Finance
+1 415 732-7572
650 California Street
San Francisco, CA

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

Detroit Schools Paying Penalty in Bond Market Post Bankruptcy.

Detroit's schools are paying a hefty penalty for persistent financial woes as the district taps the tax-exempt debt market in the wake of the city's record bankruptcy.

The $121 million in notes maturing in August being sold through the Michigan Finance Authority were priced to yield 5.75 percent, according to preliminary data compiled by Bloomberg. That's about 5.5 percentage points more than one-year benchmark municipal bonds.

"The market pricing is just reflective of many buyers' uncertainty regarding the legal standing of this type of security package for a name that has suffered so much fundamentally in recent decades," said Gabe Diederich, a Menomonee Falls, Wisconsin-based money manager at Wells Capital, which manages about $39 billion of municipals, including some Michigan school holdings.

The proceeds of the deal will refinance debt to help cover the district's budget deficit, according to bond documents. The district, which has been run by a state-appointed manager since 2009, is in Wayne County, which entered into a consent pact with the state last month to try to mend its own spiraling finances.

Michelle Zdrodowski, a spokeswoman for the schools, said in an e-mail that the district was not going to make any comment during the pricing period.

Detroit Public Schools' financial problems mirror a shrinking population, a trend that has contributed to slumping enrollment. The "severe declines" in the number of students enrolled at Detroit schools has limited state aid available for debt payments, according to Standard & Poor's, which rates the notes SP-3, its lowest short-term grade. The schools saw average annual enrollment declines of more than 12 percent from 2007 to 2012, according to S&P.

In May, the Michigan Finance Authority sold $82.8 million of notes maturing in June 2016 at a yield of 4.75 percent.

The district is behind on its pension payments by about $92 million, bond documents show. The state's office of retirement systems can ask the Michigan treasurer to intercept state aid to the schools to get the funds. While the director of the pension system has said that he doesn't plan to do that as long as the district sticks to its plan to make payments in October, the pension costs remain a drag on school finances.

The state is working to ease the district's fiscal woes. In April, Gov. Rick Snyder proposed a restructuring of the school system into two parts. One district would be charged with paying off the $483 million of operating debt using an existing property tax, and the other would be tasked with educating students and collecting state aid funds, according to bond documents. Legislation on the plan is expected to be introduced in the coming months, according to bond documents dated Sept. 4.

"Ultimately there just doesn't appear to be a near-term catalyst for boosting enrollment and changing the trajectory of the trends of Detroit public schools itself," said Diederich, who passed on the note sale Thursday.

Bloomberg News

By Elizabeth Campbell

September 11, 2015

Pennsylvania GO and Appropriation Ratings are Unchanged for Now Despite Absence of an Enacted Budget.

NEW YORK (Standard & Poor's) Sept. 9, 2015–Standard & Poor's Ratings Services today said its ratings, including its 'AA-' general obligation (GO) rating, on the State of Pennsylvania are unchanged despite the lack of an enacted budget for fiscal 2016. As we noted in our report in "Late State Budgets: Summer Cliffhangers No One Wants To See," published on June 4, 2015, on RatingsDirect, most state governments exhibit a strong commitment to debt repayment and have demonstrated willingness to honor their obligations even in the absence of a budget, in our view. This commitment could take different shapes or modalities, but whether it is a continuing resolution, a standing appropriation or some other method, the intended outcome is the same: to ensure full and timely payment of debt service.

Two months into fiscal 2016, Pennsylvania's lawmakers have yet to agree on a budget. Negotiations have continued as lawmakers try to reach an agreement on pension reform and education funding, without which budget passage is unlikely. From a credit standpoint, Pennsylvania's constitution provides that if sufficient funds are not appropriated for timely payment of all commonwealth general obligation (GO) bond debt service, the treasurer shall set apart from the first revenues thereafter a sum sufficient to pay principal and interest on the debt. As such, GO debt has a priority lien on state revenues and is paid even in the absence of a budget. Pennsylvania, which is no stranger to late budgets, typically schedules its non-GO debt to mature in December and June, with a few exceptions, which the state has currently addressed.

These include debt issued by the Pennsylvania Economic Development Financing Authority (PEDFA), lease revenue bonds, and certificates of participation (COPs). On Sept. 1, the state paid its debt service on PEDFA's series 2012 bonds for the Forum Place. The state made lease payments prior to the end of the previous fiscal year that were sufficient to cover debt service on Sept. 1, 2015.

Philadelphia Regional Port Authority's lease revenue debt (series 2008), also due Sept. 1, was paid with proceeds from a loan to the Pennsylvania Department of Transportation from the state's Motor License Fund. Payments for debt service on COPs issued by the Department of Human Services (DHS) come due on Oct. 1 and are included in payments made to DHS to keep the facilities operating in order to ensure the health, safety, and welfare of its citizens. The state has also indicated that the payments for the Pittsburgh and Allegheny County Sports and Exhibition Authority, series 2010 lease revenue bonds will be made from the commonwealth's Gaming Economic Development Tourism Fund and are not subject to appropriation.

In the absence of a budget, there are no state aid payments that flow to Pennsylvania's school districts (see "Pennsylvania School District Ratings Based On State Aid Intercept Program Put On Watch Negative on Budget Delay," published Sept. 4, 2015).We believe that the lack of funding for school districts could translate into increased pressure on lawmakers and provide an incentive for them to reach budget consensus over the next couple of months. We will continue to monitor the state's ongoing budget deliberations to determine what impact, if any, the protracted budget negotiations have on Pennsylvania's credit quality.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Primary Credit Analyst: John A Sugden, New York (1) 212-438-1678; john.sugden@standardandpoors.com

Secondary Contact: Robin L Prunty, New York (1) 212-438-2081; robin.prunty@standardandpoors.com

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Georgia's New P3 Law Expands Opportunities for Investors, Developers.

The new Partnership for Public Facilities and Infrastructure Act allows state and local agencies to expand their pursuit of public-private partnerships beyond the highway and water reservoir P3s already being conducted in Georgia. The law authorizes agencies to pursue P3s to build and maintain public buildings and for other types of transportation and water-related projects. This breakthrough will increase state and local agencies' ability to undertake projects they might otherwise lack the financing or construction expertise to pursue.

To help state and local officials and developers understand and use the law to procure such projects, NCPPP and the American Council of Engineering Companies of Georgia will co-host a one-day event, The Future of P3s in Georgia, on Sept. 24 in Atlanta. During the event, experts will discuss how P3s are conducted, what types can be pursued under the new law and how successful projects in Georgia and other states have been carried out.

To set the stage for this meeting, P3 Digest asked several experts who will speak at the conference to describe the new law and the ways it will influence how agencies and private developers negotiate P3s in Georgia.

The new law, signed May 5 by Gov. Nathan Deal, allows "qualifying projects," to be pursued as P3s, a term that is defined broadly as those that meet a public purpose or need, explained Brad Nowak, a partner at Morris, Manning & Martin, LLP. Previously, only transportation projects — chiefly highways — and university campus housing could be built through such partnerships. The new law expands the types of P3s that can be negotiated to include various types of public buildings, many different transportation, water, wastewater and stormwater projects, and solid waste facilities, he added.

Georgia already has some experience in public building P3s. Corvias Campus Living negotiated a partnership with the University System of Georgia in 2014 to build, manage and maintain student housing at multiple locations. “The partnership is reportedly the first time that a state system has privatized student housing across a portfolio of campuses,” Nowak noted.

However, the new law will greatly streamline the negotiating process for conducting such projects and other types of P3 projects, noted Michael Sullivan, president and CEO of ACEC Georgia. Before the new law took effect, Georgia did not permit state or local agencies to negotiate non-highway P3s directly with private firms. The University of Georgia System project required involving a private real estate foundation in the project to generate financing and a separate county development authority to provide bond financing. “It’s a very convoluted process. The new law provides a clear, transparent process for agencies in Georgia to use P3s for almost any kind of public infrastructure,” said Sullivan.

The law establishes a statutory framework for P3s and a committee that will craft optional procurement guidelines for localities. This adds transparency and consistency to the procurement process, commented Robert Fortson, a partner at McGuireWoods LLP, which worked hard to win passage of the legislation. “The lack of these support mechanisms created barriers to entry for both public and private sector participants,” he said.

The 10-member Partnership for Public Facilities and Infrastructure Act Guidelines Committee will prepare model guidelines local governments can use to receive and consider unsolicited project proposals, although these governments can choose to develop their own. However, locally developed guidelines must cover certain details, such as time frames for receiving and processing the proposals, how proposal financial review and analysis will be conducted, and procedures for reviewing and considering competing proposals, Nowak explained. The model guidelines committee recently was appointed and expects to issue the guidelines by July 1, 2016, he added.

The new opportunity to develop many types of infrastructure P3s makes this an excellent time for state and local agencies to learn more about this procurement option, these experts say.

Discussing these types of projects with officials who already have conducted them in Georgia is a good way to get up to speed, Nowak advised.

Valuable lessons also could be learned through a study of the types of partnerships that have been conducted in Virginia, Florida and Texas, all of which have P3 laws similar to Georgia’s.

“The success of Virginia’s P3 law offers a great model for the types of projects that are possible — everything from wastewater treatment facilities to aquatic centers to parking decks. The model guidelines committee should also serve as a great resource to educate local cities, counties and school districts about best practices in P3 procurement,” said Fortson.

“Many outside consultants, such as engineers, attorneys and other advisors who often represent the public sector on P3 projects can also help explain the ins and outs of the new law, its application to developing projects and ways to properly procure, structure and document them,” said Nowak.

Sullivan believes that the insights that will be shared about the new law and successful case studies discussed during the event will help attendees quickly get up to speed on P3s.

"I am very excited about this year's P3 Summit and hope that many state and local government officials — as well as private firms — will attend and find out how to use Georgia's new P3 law as another tool in the toolbox for providing all kinds of public infrastructure in a new way," he said.

The Future of P3s in Georgia will be held at the Georgia International Convention Center, adjacent to Hartsfield-Jackson Atlanta International Airport. For more details, including registration information, visit the event website.

NCPPP

By Editor September 10, 2015

Puerto Rico Bond Plan Said to Outline Debt Service Affordability.

A long-awaited plan that addresses Puerto Rico's $72 billion debt load will include projections of how much debt-service the island can pay over the next five years, according to a person with direct knowledge of the proposal.

Governor Alejandro Garcia Padilla is set to receive from his top officials and outside restructuring advisers on Tuesday what is being called by his administration as an economic recovery and debt-adjustment plan, or the Working Group plan. The governor plans to release the proposal publicly on Wednesday, Victor Suarez, his chief of staff, said in a statement.

That report will include annual revenue and expenditure projections for the next five years after taking into account proposed spending reductions and measures to boost revenue collection rates, according to the person, who asked for anonymity because the discussions are private.

Those calculations won't include annual principal and interest costs, so the gap between estimated revenue and anticipated spending, what the report will call a "primary surplus," will indicate how much Puerto Rico can afford to pay for debt service every year, the person said. The person declined to say what the primary surplus would be.

"This is really just the beginning of a new stage, but this stage still could last years," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics. "You have different sets of buyers, all with different expectations for their recovery and all with different willingness to negotiate on price."

Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said Monday that the bank didn't have a comment at this time. Betsy Nazario, a spokeswoman in San Juan for the GDB, and Jesus Manuel Ortiz, a spokesman in San Juan for the governor, didn't immediately respond to e-mails.

In a statement e-mailed to reporters Tuesday, Suarez said Garcia Padilla will be presented with the plan during the afternoon and has instructed his advisers to make it public Wednesday.

"This plan is an indispensable element to put Puerto Rico on track toward economic growth, to face fiscal challenges and bring back social well being for Puerto Ricans," he said.

The commonwealth and its agencies pay about $4 billion each year in debt service, not including principal and interest costs for the Electric Power Authority and the Aqueduct and Sewer Authority, the person said. A Puerto Rico agency, the Public Finance Corp., missed a Sept. 1 interest payment, according to a filing with the Municipal Securities Rulemaking Board. It's the second skipped payment for the agency after failing to pay $58 million of principal and interest Aug. 3 because lawmakers didn't allocate the funds in a budget crunch.

Garcia Padilla in June directed his administration to evaluate the island's obligations and said the commonwealth was unable to repay all of its debt on time and in full and would seek to delay debt payments "for a number of years."

The Working Group plan follows a Sept. 1 tentative agreement the Electric Power Authority reached with some of its bondholders that would offer investors 85 percent of the value of the bonds they hold through a debt exchange.

Puerto Rico bonds rallied last week following the tentative agreement struck with holders of about 35 percent of the electric debt. General obligations with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 76 cents on the dollar, up from a record-low 66.6 cents on June 30, according to data compiled by Bloomberg. It was the highest since June 26, the last trading day before Garcia Padilla said the commonwealth's debt was unpayable and directed officials to work on a plan to ease debt payments.

Commonwealth securities gained 3.95 percent last week, the biggest advance for the period since October 2008, according to S&P Dow Jones Indices. Puerto Rico debt has still dropped in value this year, losing 7.2 percent through Sept. 4 compared with a one percent gain for the broader municipal-bond market.

A Puerto Rico restructuring would be the largest in the $3.6 trillion municipal-bond market, surpassing Detroit's record bankruptcy filing in July 2013 that involved about $8 billion of bonded debt. Along with $72 billion of debt, Puerto Rico's largest pension fund has only 0.7 percent of assets to cover $30.2 billion of projected costs, according to financial documents. It's the worst-funded among U.S. state retirement plans and stands to deplete its assets by 2020, according to Moody's Investors Service.

Bloomberg News

by Michelle Kaske

September 7, 2015 — 9:00 PM PDT Updated on September 8, 2015 — 7:21 AM PDT

Muni Sales Poised to Rise as Redemptions Slow; Fund Flows Drop.

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

States and localities plan to issue $10.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.8 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

North Texas Tollway Authority plans to sell $750 million of bonds, Illinois Finance Authority has scheduled $468 million, Austin, Texas, will offer $293 million and Lee Memorial Health System, Florida will bring $277 million to market.

Municipalities have announced $11.1 billion of redemptions and an additional $12.9 billion of debt matures in the next 30 days, compared with the $25.8 billion total that was scheduled a week ago.

Issuers from Florida have the most debt coming due with $1.79 billion, followed by California at $1.17 billion and New York with $1.16 billion. Washington, D.C. has the biggest amount of securities maturing, with $413 million.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $715 million from mutual funds that target municipal securities in the week ended August 26, compared with an increase of $50 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $100.3 million last week, reducing the value of the ETFs by 0.58 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 105.209 percent of Treasuries, compared with 104.213 percent in the previous session and the 200-day moving average of 101.835 percent, Bloomberg data show.

Bonds of Tennessee and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Tennessee's securities narrowed 15 basis points to 2.15 percent while Michigan's declined 6 basis points to 2.46 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 110 to 11 percent and Illinois's rose 40 basis points to 4.20 percent.

Bloomberg News

by Kenneth Kohn

September 8, 2015 — 4:32 AM PDT

Puerto Rico Investors May Shun Debt-Exchange Offer, Moody's Says.

Puerto Rico Governor Alejandro Garcia Padilla wants bondholders to accept less than they're owed to help the island dig out from its fiscal crisis. Few may be willing to go along, according to Moody's Investors Service.

The governor's advisers said in a report released Wednesday that the commonwealth should ask investors to voluntarily exchange their bonds for new securities, which would allow it to cut debt payments. Such a restructuring plan will be released in a few weeks, said Jim Millstein, chief executive officer of Millstein & Co., which is advising the government.

"It is unlikely that holders of the many Puerto Rico bonds will agree to forgo or defer substantial sums of promised principal and interest," Moody's analyst Ted Hampton said in a statement after the report's release. "There is a high probability of protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections."

The expected bondholder response shows the difficulty Puerto Rico faces as it embarks on a restructuring unprecedented in the $3.6 trillion municipal market. Puerto Rico general-obligation bonds are protected by the commonwealth constitution and others are backed by dedicated revenues, which may lead some investors to challenge the island in court.

The commonwealth has already clashed with bondholders over the issue. When Garcia Padilla signed a law that would've helped its public corporations reorganize, the mutual-fund companies OppenheimerFunds Inc. and Franklin Resources Inc. persuaded a federal judge in San Juan to throw out the act.

Detroit's $18 billion bankruptcy illustrates the difficulty of getting investors to part with their bonds. Seeking to cut its interest bills, the city offered to buy back $5.2 billion of water and sewer debt, with most investors receiving more than 100 cents on the dollar. Only 28 percent of the securities were ultimately sold back.

Puerto Rico says it has $13 billion less than it needs to cover debt payments over the next five years, even after taking into account proposed spending cuts and measures to raise revenue. That estimate excludes the electric and water utilities.

Island officials haven't indicated what terms may be offered to owners of its various classes of debt. Moody's, which projects that some investors may recoup as little as 35 cents on the dollar, said signs of steeper losses would lead to further rating cuts.

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 9, 2015 — 11:33 AM PDT

Puerto Rico Seen Trying to Avert Defaults One Bond at a Time.

Puerto Rico may have to begin taking revenue that repays highway debt to help the struggling commonwealth pay for its general-obligation bonds as soon as this budget year, according to Height Securities.

The Caribbean island, which says it's short $13 billion needed for bond payments in the next five years, must pay investors $1.1 billion this year on general-obligation debt guaranteed by its constitution. That pledge has been increasingly called into question. Standard & Poor's dropped Puerto Rico's rating to CC, the third-worst grade, saying in a report late Thursday that all of its tax-backed debt is highly vulnerable to default.

Facing potential cash shortfalls as soon as November, Puerto Rico may use petroleum and gasoline taxes that fund its highway-agency's debt, raising the risk of a default on the securities, Daniel Hanson, an analyst at Height, a Washington-based broker dealer, said Thursday on a conference call with clients.

"It seems reasonable to expect that considerable amounts of cash are about to be clawed back from corporations to help cover general-obligation debt service," Hanson said.

Governor Alejandro Garcia Padilla on Wednesday released a report showing that Puerto Rico has only $5 billion available to cover $18 billion of principal and interest payments in the next five years. The government also projected that it may run out of cash by the end of 2015 and will have a $500 million shortfall when the fiscal year ends in June, right before an $805 million payment to general obligation bondholders is due July 1.

Puerto Rico said in a May 7 quarterly report that it could resort to emergency measures to cover its debt bills, including taking "taxes or other revenues previously assigned by law to certain public corporations to secure their indebtedness." Its Public Finance Corp. defaulted on debt-service payments in August and September after lawmakers failed to allocated funds.

Puerto Rico's highway bonds carry higher yields than other commonwealth securities, reflecting the risk. Debt maturing in 2028 last traded for an average of 13 cents on the dollar on Aug. 28 to yield 42 percent. That's almost four times the yield on Puerto Rico's most frequently traded general obligations.

Taxes on gasoline and petroleum products that Puerto Rico allocates to its highways agency for debt service are considered "available commonwealth resources," according to bond documents. The island's constitution requires that the government use such revenue to pay general obligations if needed. The island has about $4.7 billion of highway bonds outstanding, according to the May 7 report.

Puerto Rico has about $541 million of mostly petroleum and gas taxes dedicated to highway bonds that it could use in the fiscal year ending June 30, Hanson said. Another $290 million from a petroleum-tax increase implemented last year and not currently pegged to specific debt is also available.

"In accordance with the constitution of Puerto Rico, the proceeds of such taxes and license fees are subject to being applied first to the payment of general obligation debt of and debt guaranteed by the commonwealth," according to bond documents.

Tolls and other fees from the authority aren't subject to a so-called clawback. Documents from Puerto Rico's most recent highway bond sale in 2010 highlighted that it never had to use appropriated money to pay general obligations.

Investors who bought debt knowing they have priority over other bondholders will probably assert their rights in court, Moody's Investors Service said Thursday in a report. The credit rater maintained its projected recovery rate of 65 percent to 80 percent for general obligations. Highway securities may recoup just 35 percent to 65 percent.

To ease the budget shortfall, the administration may consolidate 135 schools, reduce public-worker overtime, cut government subsidies and end corporate-tax loopholes, according to the report Wednesday. Puerto Rico lawmakers may also want to use the $680 million of annual sales-tax revenue that goes straight to repaying other bonds, called Cofina by their Spanish acronym, Hanson said.

"That may make Cofina much more at risk than people think," Hanson said.

Puerto Rico's $15 billion of Cofina bonds have stronger protections than the highway debt. The first $680 million of sales-tax collections are sent to a trustee to pay bondholders, with the rest put into the general fund, Hanson said. Puerto Rico law protects the portion that's sent to the trustee from being used by the government, according to bond documents.

General obligation investors are likely to challenge that law in court by claiming that their payments have priority under the constitution, Howard Sitzer, senior municipal analyst at CreditSights Inc., said in a conference call with clients on Thursday.

“We think that the legal opinions behind the sales-tax financing corporation debt are subject to dispute and likely to be the subject of litigation going forward,” Sitzer said. General obligations “are to be paid by the first revenues received by the government, which implies that any tax revenues would be available.”

Bloomberg News

by Michelle Kaske and Brian Chappatta

September 10, 2015 — 11:45 AM PDT Updated on September 10, 2015 — 2:58 PM PDT

Puerto Rico Fails Without Washington Help, Morgan Stanley Says.

Puerto Rico’s attempt at a sovereign-like debt restructuring without complete lawmaking authority is likely to fall short in the absence of intervention by U.S. political leaders, according to Morgan Stanley.
“We doubt Puerto Rico’s ability to execute this style of restructuring without U.S. Congressional action, keeping us from adopting a clearly bullish position,” Michael Zezas, chief municipal strategist at Morgan Stanley in New York, wrote in a report dated Sept. 10.

Puerto Rico’s fiscal crisis should spur Congress to help the island negotiate with its creditors, either by implementing a fiscal control board at the federal level or allowing some public corporations to file for Chapter 9 bankruptcy projection, Morgan Stanley said. Unlike cities and municipalities of U.S. states, the island’s localities cannot access Chapter 9.

Governor Alejandro Garcia Padilla’s administration on Wednesday unveiled a proposal that estimates Puerto Rico will have only $5 billion of available funds to repay $18 billion of debt-service costs over the next five years. The commonwealth may seek to defer principal payments for several years on some of its $72 billion debt burden.

It’s unclear whether general-obligation bondholders will be offered smaller losses than owners of Puerto Rico’s sales-tax supported debt under a restructuring, Morgan Stanley said. The island’s constitution stipulates that general-obligations must be paid before other expenses. The revenue bonds, known as Cofina, are repaid from dedicated sales-tax revenue.

If general-obligation bonds are treated senior in repayment, then bondholders would receive a internal rate of return of 8 percent on debt that carries an 8 percent coupon and 6.6 percent on debt with a 5 percent coupon, Zezas wrote. The recovery rates will be lower if sales-tax bonds get first payment, he said.

General obligations with an 8 percent coupon and maturing July 2035 traded Friday at 73.1 cents on the dollar, down from an average 75.5 cents on Sept. 8, the day before the plan was released, according to data compiled by Bloomberg. The yield was 11.5 percent.

"There's a good argument to be made that general obligations appear fairly valued, particularly considering that the lower end of expected internal rate of returns would rise with greater austerity," Zezas wrote. "Yet, these reports imply that Puerto Rico can execute an effective sovereign-style restructuring in a timely manner, something we dispute."

Bloomberg News

Michelle Kaske

September 11, 2015 — 10:56 AM PDT

Bloomberg Brief Weekly Video - 09/10/15

Taylor Riggs, an editor at Bloomberg Brief, talks with Joe Mysak about this week's municipal market news.

Watch the video.

September 10, 2015

Puerto Rico Plan Calls for Spending Cuts, Tax Overhaul.

Puerto Rico's proposed restructuring plan brings the U.S. commonwealth one step closer to a long-awaited showdown with the investors who are being asked to take losses on the island's $72 billion in debt.

The five-year plan released Wednesday is light on specifics, analysts said, but investors agree it clearly could affect the island's general obligation bonds, which are protected by its constitution, as well as its sales tax-backed debt.

Several investors and analysts said the proposal didn't provide enough detail about how much debt the island wants to cut, what form such cuts may take or which bonds might be affected. Some said it relies too much on future actions by lawmakers in Washington and San Juan and successful negotiations with bondholders and other stakeholders.

"I don't see anything to work with at this point," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt debt, including some from Puerto Rico. "Now they have to speak up and say what it is they really want."

The plan doesn't include specific estimates of losses on Puerto Rican debt, though prices for some bonds fell after its release. Some general obligation bonds maturing in 2035 traded Wednesday at around 74 cents on the dollar, down from about 76 cents Tuesday.

The product of a working group appointed by Gov. Alejandro Garcia Padilla, who in June called the island's debts unpayable, the plan says that even if all proposed structural changes are adopted by policy makers, the commonwealth will still fall billions short of securing the amount it needs to pay bondholders in the next five years.

Those proposals seek to reduce a $28 billion financing gap over the next five years by adjusting taxes, reducing government spending, revamping welfare and the minimum wage, consolidating public schools, and creating a control board to ensure such changes are implemented.

“The key finding of this plan is that even if we implemented all the measures contained in it, they wouldn’t be enough to achieve the necessary balance,” the governor said in a televised address Wednesday. “The massive public debt of Puerto Rico is an impediment to growth. It is time for the creditors to come to the table and share the burden of the sacrifices.”

The plan has been awaited by investors, who are bracing for losses amid falling bond prices and a growing fiscal crisis, and who have wanted to see new structural changes before lending Puerto Rico any more money. The commonwealth has often borrowed to fund deficits during a decade of economic stagnation and population declines, and officials say it is rapidly running out of cash for operations. A government agency defaulted on a $58 million payment last month.

That makes the island the latest trouble spot in the market for U.S. municipal debt, which has been rocked in recent years by large bankruptcies in Detroit and Jefferson County, Alabama. Puerto Rico bonds are widely held by individuals and mutual funds around the U.S. because of their tax advantages.

Ted Hampton, vice president at Moody’s Investors Service, said the recommended changes will pose political challenges and likely prompt contentious negotiations with bondholders, with a high probability of “protracted litigation, particularly on the part of investors holding general obligation or other securities with strong legal protections.”

Officials say investors have begun organizing themselves into groups based on the type of bonds they own, and the government will begin talks with each group over the next several weeks.

The plan comes after one agreement was struck with commonwealth bondholders. The Puerto Rico Electric Power Authority, known as Prepa, last week reached an accord with its bondholders that would give them 85% of the face value of their junk-rated bonds in exchange for new securities designed to get investment-grade ratings. Prepa, which owes about $9 billion, is still negotiating with other creditors.

The plan also seeks help from the U.S. government, asking Congress to allow some Puerto Rico government entities to access bankruptcy protections. The commonwealth is currently barred from granting its agencies access to that legal process and officials say the lack of a framework is a significant obstacle to the restructuring effort.

The federal government should also reconsider the island’s relatively high minimum wage for young workers or exempting the island from the Jones Act shipping law—a move that could help reduce the cost of transporting goods, a summary of the plan said. Federal help is also needed to stave off a growing health-care crisis, by equalizing the funds Puerto Rico receives relative to U.S. states, it said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said the report includes serious measures to adjust the island’s budget and policy but lacks important details for investors, such as the engines of economic growth, the powers of the control board, or how the island will treat its constitutionally protected general obligation bonds versus its sales-tax debt.

“I am not sure that this report has moved the process along to any great extent, which may only come when they sit down with bondholders,” he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated Sept. 9, 2015 4:07 p.m. ET

—Leslie Josephs contributed to this article.

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

Puerto Rico's Recovery Plan Faces Much Doubt, Many Obstacles.

NEW YORK/SAN JUAN — Puerto Rico's new plan to haul itself out of a huge financial hole is long on ifs and buts and short on confident predictions.

Faced with the prospect that its cash will run out within months, the Caribbean island is proposing numerous measures that require support from its divided legislature, action from a U.S. Congress that may not be supportive, and the willingness of a wide range of bondholders to take losses.

It calls for spending cuts that would hit the U.S. territory's population and a restructuring of its debt that would hurt mom-and-pop investors, as well as U.S. funds. There would also be extensions of excise taxes.

The proposals are all an attempt to close a projected $28 billion funding gap between 2016-2020 as it struggles with a $72 billion debt burden.

Some experts on municipal restructurings said the proposals from a working group established by the Puerto Rican government should force creditors to deal with a clearly worsening situation.

"I sincerely hope that the bondholders will see this report for what it is – a wake up call to come to the table," said Steven Rhodes, who handled the Detroit bankruptcy when he was a judge, and has been hired to advise Puerto Rico. "I don't see a way in which bondholders could be made whole."

But coming only 14 months before Puerto Rico Governor Alejandro Garcia Padilla is up for re-election, and given there is a skeptical Republican-controlled U.S. Congress, the plan is likely to encounter major political obstacles.

"Anything that is perceived by the populace as something that's taking away rights is going to be difficult to implement on a pre-election cycle," said Jose Perez-Riera, former secretary of economic development and commerce under former governor Luis Fortuno, and now an advisor at a private economic development group in Puerto Rico.

Devised by Puerto Rico officials and advisors, the plan was based on an influential report, released in June, penned by former International Monetary Fund economists who proposed sweeping cuts and reforms in an attempt to reinvigorate growth.

Showing some signs of the challenges to get to even this point, Garcia Padilla said the plan was appropriately light in two areas: new taxes on the population and demands for sacrifices from workers.

Garcia Padilla presented the plan as the "beginning of a negotiation" with creditors that would result in a “major humanitarian crisis” if a deal wasn’t reached.

“It’s not going to be easy,” said Andrew Wolfe, one of the former IMF economists who wrote the earlier report. “There are so many moving parts here – you are requesting actions from the Federal Government and the creditors.”

FACING A HAIRCUT

Puerto Rico is likely to face an uphill battle with investors as it tries to cut debt, particularly general obligation bonds. They are seen as sacrosanct in the municipal bond market and viewed as having the best protection in a restructuring.

“The debt restructuring is going to be the most difficult, I think, just because you’re asking bondholders to accept less than they thought they were going to get,” said Peter Hayes, head of asset manager BlackRock’s Municipal Bonds Group, which owns various non-government Puerto Rico bonds.

Bondholders are facing a significant haircut on their debt – the working group who devised the plan said only around $5 billion is available to pay principal and interest on the $18 billion of debt coming due in the coming five years. If the government gets its way, the difference is most likely to come from a loss of both interest payments and delayed payments of principal.

That could lead to protracted litigation if some bondholder factions choose to fight.

“In litigation or a negotiation, there will be requests to do more, to cough up more money and yet I do think it’s a fair statement to say that a very high debt burden absolutely has a negative impact on the economy and if you sit back and just continue with austerity it gets worse,” said John Miller, co-head of fixed income for Nuveen Asset Management, which holds $300 million in par value of Puerto Rico bonds which are either insured or non-governmental obligations.

Unlike U.S. municipalities, Puerto Rico cannot seek federal bankruptcy protection under Chapter 9. That makes a restructuring much more complicated than faced the city of Detroit, for example, when it filed for bankruptcy in 2013. Puerto Rico has argued that it needs access to Chapter 9 but bills seeking to allow it have stalled in Congress.

“Chapter 9 provides a focus, a mechanism, an urgency, and a supervision that’s lacking without it,” said Rhodes.

PROTESTS PLANNED

One alternative is a financial control board, proposed in Wednesday’s plan. That board would be selected by the Governor from among nominees chosen by interested parties, the working group said.

However, U.S. lawmakers may come up with an alternative plan for a board. “That may be a contentious issue,” said Wolfe.

Miller said getting all the reforms passed would be a “long shot” with the U.S. presidential election and the Puerto Rico election both coming up in 2016.

One measure proposes bringing in an Economic Activity Tax Credit, designed as a replacement for tax preferences for manufacturers from the U.S. mainland, which were phased out by 2006. Those had helped the island become a manufacturing hub, particularly for pharmaceutical companies.

“It’s not necessarily sustainable,” said Wolfe of the proposal for the new tax credit. “Maybe this government on a chance enacts it but a future one could take it away and then you’re back to where you are.”

Opposition to the plan by labor unions could be a hurdle. The plan calls for a two percent annual attrition rate for public employees, reductions in vacation and sick leave, and potential cuts to teacher pensions. Proposed reductions in the budgets for schools and the island’s university may also trigger action by teachers, professors and students.

Already, at least one labor group is planning protests. The Coordinadora Sindical, a collective of labor unions in Puerto Rico, announced on its Facebook page it will hold protests on Friday in San Juan, the island’s capital, “in order to stop the so-called fiscal adjustment plan.”

“I’m sure unions will oppose this very actively,” said Francisco Cimadevilla, a San Juan consultant and head of communications firm Forculus.

The island’s university may also see student protests.

“I’m already hearing talk about (protests), and I think most likely there will be, once the public gets the information and can digest it,” said Mario Maura Perez, a finance professor at the university’s Rio Piedras campus.

By REUTERS

SEPT. 10, 2015, 12:12 A.M. E.D.T.

(Reporting by Megan Davies and Jessica DiNapoli in New York and Nick Brown in San Juan; Editing by Martin Howell)

Texas Law on P3 Selection Process Takes Effect.

A Texas law establishing a center to help government agencies select projects to be developed through public-private partnerships took effect Sept. 1.

HB 2475, signed into law by Gov. Greg Abbott on June 19, established the Center for Alternative Finance and Procurement within the Texas Facilities Commission, which will consult with government agencies regarding best practices for procuring and financing qualifying projects. The center also will assist agencies “in the receipt of proposals, negotiation of interim and comprehensive agreements and management of qualifying projects.”

The law could spur municipalities and public agencies with tight budgets to look to the private sector for financing and management services and state and local governments could use it to help address infrastructure needs, such as vital water projects, noted law firm Vinson & Elkins LLP in a blog post.

“With Texas’ demand for water on the rise, coupled with projected population and economic growth, the bill is an important step toward meeting emerging challenges to the state’s water security,” the law firm wrote.

The center will be required to arrange for an architect, professional engineer or registered municipal advisor to advise agencies about a P3’s costs and benefits. For construction or renovation projects with an estimated cost of less than $5 million, these advisory services can be provided by qualified agency employees. More costly projects must be evaluated by an independent expert.

The law also allows the agency procuring the project to charge a “reasonable” fee to cover the costs of the center’s project review and consultation services.

HB 2475 places a notable exception on the types of P3s that developers can pursue by eliminating an agency’s option to consider unsolicited proposals, Christopher Lloyd of McGuireWoods Consulting LLC pointed out during a session at NCPPP’s 2015 P3 Connect conference.

The new law adds to the level of P3 oversight some agencies already exert. Both the state’s facilities commission and its department of transportation have adopted guidelines on project application requirements, review criteria and evaluation processes. El Paso, San Antonio, Dallas and Houston have established similar guidance,

These requirements, while adding steps to those that agencies already follow to pursue P3s, also signal the state’s willingness to a growing variety of such projects, Vinson & Elkins argues.

“By enacting House bill 2475, the Texas Legislature sent a strong signal that it is open to private involvement in infrastructure financing and delivery across a wide range of sectors,” the firm wrote.

NCPPP

By Editor September 3, 2015

Kentucky City Claiming Bankruptcy May Not Be Broke, Moody's Says.

Hillview, Kentucky, the first city to file for bankruptcy since Detroit, may struggle to prove it’s insolvent and in need of court protection, Moody’s Investors Service said.

Because of an $11.4 million legal judgment to a local company, Hillview filed for protection Aug. 20. The locality of about 8,000 people has about $13.8 million in debt, compared with revenue of $2.5 million in the 2014 fiscal year. Though the burden seems insurmountable, Hillview under Kentucky law can issue bonds to cover losses in legal judgments and pay off the resolution over the course of a decade, Moody’s analyst Nathan Phelps said Monday in a report.

The local company, Truck America Training LLC, has indicated it may fight the city’s bankruptcy by asking the judge overseeing the case for permission to interview city officials under oath and for access to internal city financial documents. Should Truck America or another creditor convince U.S. Bankruptcy Judge Alan Stout in Louisville that the city isn’t eligible to remain under court protection, the case would be dismissed and the company free to try to collect the judgment.

Hillview’s plight parallels that of Mammoth Lakes, California, a ski resort community of 8,200 near Yosemite National Park that filed for bankruptcy in 2012 because of a $43 million development lawsuit, Moody’s said. The locality exited Chapter 9 after about four months because it reached a settlement with the land-acquisition company.

Tax Increase

Hillview, which hasn’t defaulted on its general-obligation bonds, also has room to increase taxes on wages, business profits and property, Moody’s said. Kentucky courts have said municipalities can raise levies above the maximum rate to repay debt backed by their full faith and credit, according to Moody’s.

After filing a Chapter 9 petition, a municipality automatically gains temporary protection from creditors. Unlike in corporate bankruptcies filed under Chapter 11, the city or county can’t proceed with its restructuring case until it convinces a judge it’s eligible to remain under court protection, in part by showing it isn’t paying debts as they come due.

In Aug. 28 court filings, the city claimed it was eligible because it lost the court case to Truck America. The case, which is related to a land sale, led to a judgment for the company of $11.4 million plus annual interest of 12 percent.

The city claimed it tried unsuccessfully to negotiate with creditors before filing for bankruptcy.

The case is In re City of Hillview, Kentucky, 15-32679, U.S. Bankruptcy Court, Western District of Kentucky (Louisville).

Bloomberg News

by Steven Church and Brian Chappatta

August 31, 2015 — 7:45 AM PDT Updated on August 31, 2015 — 9:12 AM PDT

Emanuel Said to Plan Property-Tax Boost for Chicago Pensions.

Chicago Mayor Rahm Emanuel is preparing to press for a property-tax increase of about $500 million to shore up police and firefighter pensions that threaten the city’s solvency, the Chicago Tribune reported.

The proposal will be part of Emanuel’s Sept. 22 spending plan for the budget year beginning Jan. 1, the newspaper reported. The increase, expected for months, would be the centerpiece of a budget that is $426 million out of balance.

When asked how difficult it will be to raise real-estate levies, Emanuel expressed confidence on Thursday that such an increase specifically to fund public-safety workers’ pensions would pass the city council.
“We’re going to do it in a fair and progressive way,” Emanuel told reporters. “If you’re asking me, do I believe we’ll get it done, the short answer is yes because I actually believe aldermen are up to the task of charting a new course for Chicago’s future.”

Chicago needs to pay down a $20 billion debt to its retirement funds that’s left it with a lower credit rating than any big U.S. city except Detroit, which went through a record bankruptcy.

“It serves as a clear demonstration of Chicago’s willingness to make the difficult but necessary decisions,” Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, said in an e-mail. The company manages about $30 billion in municipal bonds, including some Chicago debt.

Reckoning Day

The city faces a reckoning after years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended. Its next annual pension payment is projected to jump 10 percent, to $976 million.

Chicago's effort to reduce its liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought were illegal. The city will appeal to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

The challenges and subsequent credit downgrades have spurred a drop in the price of Chicago bonds. A portion of $44.9 million of federally tax-exempt securities maturing in 2033 traded Thursday at an average of 91.8 cents on the dollar. That's down from $1.01 when it was first offered in 2014. The yield averaged 6 percent Thursday, 3.2 percentage points more than benchmark debt.

Bloomberg News

by Tim Jones and Elizabeth Campbell

September 3, 2015 — 7:03 AM PDT Updated on September 3, 2015 — 1:45 PM PDT

Puerto Rico Balloon Payments Seen as Risk for Some Bond Insurers.

For bond insurers, Puerto Rico's balloon payments on debt that puts off interest bills for decades is a billion-dollar asterisk.

With Governor Alejandro Garcia Padilla set to receive a plan as soon as next week to restructure $72 billion of debt, the commonwealth's capital appreciation bonds, which were first sold for pennies on the dollar because they don't pay interest until maturity, threaten to saddle Ambac Financial Group Inc. and MBIA Inc. with swelling liabilities.

The companies typically use the price at which the bonds were issued when disclosing the potential payouts they face. Once interest is included, Ambac says its Puerto Rico exposure jumps to much as $10.5 billion from $2.4 billion. For MBIA's National Public Finance Guarantee Corp., it more than doubles to about $10.5 billion.

"The difference between principal at issuance and the amount due at maturity is enormous" on capital-appreciation bonds, said Tamara Lowin, director of research at Rye Brook, New York-based Belle Haven Investments, which oversees $3 billion in munis. "Ignoring the accreted value is irresponsible."

Bond insurers, which agree to make interest and principal payments if an issuer defaults, are among those with the most at stake as Puerto Rico is pushed to the financial brink. Years of borrowing caught up to the island as the economy languished and residents moved out. The territory defaulted last month for the first time, when it made just a fraction of a payment due on uninsured securities sold by one of its agencies, and Garcia Padilla's advisers are scheduled to present a debt-adjustment plan on Sept. 8.

Shares of Ambac, MBIA and rival Assured Guaranty Ltd., which tumbled as the commonwealth veered toward default, rose this week after Puerto Rico's electric company struck an agreement that left investors facing smaller losses than some analysts had predicted. Puerto Rico's bonds also climbed amid speculation that the government will be able to reach other such deals.

Island officials have yet to say how much of their debt they'll seek to cut, or which securities may be affected. Some investors have snapped up insured Puerto Rico securities, confident that insurers have enough to cover any defaults.

Assured, which insures $9.1 billion of commonwealth debt as measured by principal and interest, has $12.6 billion in claims-paying resources, according to company filings. Ambac has $8.8 billion to meet obligations and National has $4.9 billion, company disclosures show.

National and Ambac say they're confident in their ability to weather a Puerto Rico restructuring, and the biggest balloon payments faced by the commonwealth won't come due for decades. Assured says its $72 million exposure to capital-appreciation bonds is minimal.

MBIA is rated AA-, the fourth-highest grade, from Standard & Poor's, which ranks Assured AA, one step higher. Ambac isn't rated by S&P.

Those rankings are based on their ability to pay debt service on the island securities they insure for the next four years, said David Veno, an analyst at S&P in New York. The largest portions of Puerto Rico's capital appreciation bonds, or CABs, don't factor into that calculation because they don't mature in that time.

Ambac guarantees at least $7.3 billion of Puerto Rico's payments on CABs, most of which are backed by sales taxes and aren't due until 2047. National has more than $4 billion.

MBIA began including the full debt-service total along with the par amount in its last two quarterly reports, which reflect its exposure to CABs. Adam Bergonzi, National's chief risk officer, said the bonds, known by the Spanish acronym Cofina, are backed by a top claim on sales taxes that are sufficient to cover the debt payments.

"We are comfortable with our Cofina exposure," he said in a statement. Though CAB payments may seem large, "collection levels exceed amounts necessary to service all senior debt in future years."

Ambac discloses its exposure to Puerto Rico interest payments on its web site, though its most recent quarterly filing includes only a tally based on the amount of bonds outstanding.

"You need some sort of consistent basis to disclose your par exposure in your portfolio, and that's a metric over time that investors have found valuable in assessing the guarantors and their risk," David Trick, chief financial officer of Ambac, said in an interview. "It's hard to make everything perfectly apples-to-apples without making disclosures extremely complex and potentially confusing."

CABs have drawn scrutiny in states including California, Michigan and Texas because of the financial squeeze the securities put on local governments when they come due. All three have banned or limited the ability of officials to sell them.

Texas's bill, which took effect Sept. 1 and restricts CAB maturities to 20 years, is a credit positive for the state's school districts because they will have more stable debt burdens, Moody's Investors Service said Thursday in a report.

In 2007, Puerto Rico issued Cofina bonds backed by Ambac due in August 2054 that netted the commonwealth $701 million up front, data compiled by Bloomberg show. As the debt matures, investors are supposed to receive about 10 times that amount.

The securities have traded at about 6.8 cents on the dollar over the past month, compared with 9.2 cents when they were issued. Usually zero-coupon bonds increase in price as they get closer to maturity.

“The biggest risk for National and Ambac is Cofina,” said Bill Bonawitz, director of municipal research in Philadelphia at PNC Capital Advisors. Because of the CABs, “they would ultimately owe enormous numbers.”

Bloomberg News

by Brian Chappatta

September 3, 2015 — 9:01 PM PDT Updated on September 4, 2015 — 6:02 AM PDT

Puerto Rico’s Power Authority Reaches Deal With Bondholders.

Puerto Rico’s power authority said Wednesday that it agreed on a debt restructuring plan with a group of bondholders, in what officials painted as an important step in the island commonwealth’s efforts to improve its finances.

The deal, after months of talks between the Puerto Rico Electric Power Authority and a group of mutual-fund companies and hedge funds, could pave the way for similar agreements between investors and the island’s struggling public agencies, analysts said.

The Government Development Bank, the island government’s fiscal agent, is already laying the groundwork for negotiations with investors who own some of its bonds. Some Puerto Rico bonds rallied as much as 23% on news of the power utility’s deal, though they continued to trade at a deep discount to par value.

The bondholders who reached the agreement with the power authority, such as Franklin Resources Inc., OppenheimerFunds and hedge funds including BlueMountain Capital Management LLC and Marathon Asset Management, are slated to receive 85% of the face value of their bonds in exchange for new securities that will be designed to carry investment-grade ratings. Bonds from the authority, which has about $9 billion in debt, are currently rated junk.

The agreement “sends a positive message to the market that there is a way to get a consensual deal that is equitable for both parties,” said Lisa Donahue, chief restructuring officer for the authority. The power utility released a term sheet outlining the framework of the plan, though the parties still have to prepare a more formal agreement.

Puerto Rico has been struggling with a sluggish economy and high unemployment for years. The situation prompted Gov. Alejandro García Padilla in June to call the island’s $72 billion in debt unpayable, and he has directed a group of government officials to produce a broader fiscal adjustment plan for the island. Its financial troubles are the latest to hit the usually quiet market for municipal bonds, which has been rattled in recent years by large bankruptcies in Detroit and Jefferson County, Ala.

The deal gives the power authority “a fresh start and financial flexibility, with bondholders providing meaningful sacrifices to make that happen," Stephen Spencer of Houlihan Lokey, the bondholders' financial adviser, said in a statement. He said the bondholders will work "to finalize these steps and complete the transaction as quickly as possible."

The restructuring agreement is still contingent on several factors, including obtaining legislative authority for certain aspects of the agreement, underscoring the complexity of the challenges Puerto Rico faces in reducing its debt. Bond insurance companies, including Assured Guaranty Ltd. and MBIA Inc., and other lenders haven't agreed to the restructuring deal, though the power authority said in a statement that it will continue to negotiate with those parties.

"We have a strong track record of protecting our economic interest related to credits in financial distress and are continuing to negotiate in good faith," said Robert Tucker, head of investor relations and communications at Assured, in a statement.

Most of the power authority's creditors also agreed to extend a so-called forbearance agreement until Sept. 18, in which they agree not to exercise certain remedies. MBIA unit National Public Finance Guarantee Corp., however, didn't extend the agreement. A spokesman for National declined to comment on why the insurer didn't extend, or whether any action would be taken.

"There's a lot of detail still to be worked out," said Rick Donner, senior credit officer at Moody's Investors Service. Still, the fact the forbearance agreement was extended suggests "the negotiations have reached a critical stage," he said.

Bonds from the power authority rallied after the deal, reflecting the mood among some investors that the bondholder losses were less severe than expected. On Wednesday, a 2026 bond from the utility traded at 67.25 cents on the dollar, up from 54.57 cents on Monday, a 23% gain, according the Electronic Municipal Market Access website.

Not all investors were buying.

"I still have a lot of questions, and I'm not willing to jump into purchasing anything yet," said Howard Cure, director of municipal research at Evercore Wealth Management, which oversees $6 billion and doesn't own any bonds from the power authority.

According to the restructuring plan, bondholders will have the option to receive two types of securities in exchange for their existing bonds, with one carrying interest rates as high as 4.75% and the other as high as 5.5%. The first set of bonds will pay interest for the first five years, but the group of higher-rate bonds will defer interest payments during that time. The bonds will be scheduled to mature in 2043, according to the term sheet.

All investors who own uninsured bonds from the power authority will have the opportunity to participate in the exchange. The bondholder group that led the talks also agreed to discuss providing financing so the authority could offer cash to other investors who don't want the new bonds. An offering price hasn't yet been worked out.

The agreement is forecast to reduce the authority's debt principal by about $670 million and save more than $700 million in principal and interest payments over the next five years.

THE WALL STREET JOURNAL

By MIKE CHERNEY

Updated Sept. 2, 2015 5:35 p.m. ET

Write to Mike Cherney at mike.cherney@wsj.com

Chicago and Mayor Emanuel Face a $20 Billion Reckoning.

Chicago Mayor Rahm Emanuel sat on a stage at a community college gymnasium for nearly two hours as residents stepped up to the microphone to plead for more money for buses, schools and programs for the mentally ill.
The mayor jotted notes as the crowd erupted into angry chants and jeers. Then he explained there was little extra cash to be had. “We have a budget deficit and then pension payments,” Emanuel, a Democrat, said at the end of the meeting Monday at Malcolm X College. “We have changes we’re going to have to make.”

Chicago is facing a $426 million budget shortfall next year and needs to pay down a $20 billion debt to its workers’ retirement funds that’s left it with a lower credit rating than any big U.S. city except Detroit.

After its bond prices tumbled this year when investors demanded higher premiums to lend to the third-largest city, Emanuel is under growing pressure to stanch the fiscal bleeding by raising taxes, cutting spending and putting more into a pension system the city has shortchanged for years. He’s set to release a spending plan on Sept. 22.

“Chicago is really at a crucial point here,” said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, which manages about $30 billion in municipal bonds, including some Chicago debt. “It’s going to be within Chicago’s control to demonstrate to the market that they have the willingness to make the difficult but necessary fiscal decisions.”

While Chicago’s economy recovers, the population grows and its tax revenue rebounds from the toll of the recession, the city is facing a fiscal reckoning from years of failing to save enough to pay the benefits it promised employees. Over the past decade, Chicago has put $7.3 billion less into the pension funds than actuaries recommended, which is pushing up its bills. The city’s next annual pension payment is projected to jump to $976 million, an increase of 10 percent.

The mounting debt led Moody’s Investors Service to lower its rating on Chicago’s $8.1 billion of general obligations by two steps to Ba1 in May. Standard & Poor’s and Fitch Ratings followed by downgrading the city to BBB+, three levels above speculative grade.

The downgrades have caused the price of Chicago bonds to tumble. A portion of $58.5 million of taxable securities maturing in 2033 traded Tuesday at an average of 88.6 cents on the dollar, down from 99.7 cents on April 30.

That pushed the yield to 6.3 percent, 3.6 percentage points more than benchmark debt. That gap is up from 2.5 percentage points at the end of April.

When Chicago sold bonds in July, investors demanded yields of 5.67 percent on 20-year federally tax-exempt securities, about 2.5 percentage points more than benchmark municipal debt.

“Their big issue continues to be their long-term liability in the form of pension obligations,” said Peter Hayes, the head of municipal bonds for New York-based BlackRock Inc., which oversees $116 billion of the securities. He said the firm isn’t adding to its Chicago holdings. “How they build some of the elements of that into the budget is going to be very, very critical. If they truly address this liability from the revenue standpoint and that becomes credible, the bonds would have the ability at improve."

Chicago's effort to reduce its pension liabilities hit an obstacle in July, when a judge ruled the benefits cuts it sought to implement were illegal. The city will appeal the decision to the Illinois Supreme Court, which in May threw out a pension overhaul adopted by the state, saying workers' pensions are protected.

On top of next year's deficit, the city still hasn't come up with the $549 million it needs to put into its police and firefighter funds this year. While Illinois's Democrat-led legislature passed a plan to lower that payment to $328 million, Republican Governor Bruce Rauner has yet to sign it.

Emanuel, who took office in 2011, hasn't raised property, gas or sales taxes. During his reelection campaign this year, he said an increase to real-estate taxes, which generated $824 million last year, would be a last resort.

As the mayor entered the town hall meeting Monday, he was met with the chant "Rahm don't care" by those angered at neighborhood school closings. Over almost two hours, he listened as residents suggested boosting taxes on liquor, regulating ride-hailing companies such as Uber Technologies Inc., taxing trades at Chicago's options and commodities exchanges, and suing banks to recoup fees the city had to pay to back out of derivative trades after its credit rating was cut.

Wilhemenia Taylor, 58, who owns a home in the city, said she's concerned about what the budget will bring.
"I'm worried about cuts to the public school system, and higher taxes," Taylor, a teacher's assistant, said in an interview while sitting on red bleachers. "And the neighborhoods are going down."

Despite the difficulty, it's important for Chicago to demonstrate to investors and credit-rating companies that it's taking strides to meet long-term obligations that have been neglected for years, said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services, which analyzes municipal finance.

"They've got to come up with a plan to show some willingness to pay," Ciccarone said. "We need to show the city's ability to tap that economic base that it has."

Bloomberg

Elizabeth Campbell

September 1, 2015 — 9:00 PM PDT Updated on September 2, 2015 — 8:25 AM PDT

[Vanguard, Once Thwarted, Launches a Muni-Bond Rival to BlackRock's iShares.]

The Vanguard Group Inc. was playing catch up when it was getting ready to launch its first municipal bond index fund in 2010.

Its competitors had already successfully brought similar products to the market, including State Street Global Advisors and BlackRock's iShares. Those issuers, who at the time had substantially larger ETF businesses than Vanguard, offered a suite of muni-bond products with more than $2 billion in assets apiece.

But Vanguard was forced to call off its launch. The December 2010 prediction by the analyst Meredith Whitney on “60 Minutes” — that bonds issued by U.S. cities and states would see billions in defaults — worsened the mood of investors shell-shocked by the financial crisis. A fund launch then could have been catastrophic, according to Christopher W. Alwine, the head of Vanguard’s municipal bond group.

“People thought munis were the next shoe to drop,” Mr. Alwine said. “There were heavy outflows in the muni market at the time. It wouldn’t get any interest or it’d get redemptions, and it would make it difficult to produce tight ‘tracking’ in the product,” capable of successfully matching the returns of its benchmark.

Five years later, Vanguard, now the top mutual fund company and No. 2 ETF shop behind iShares, is hoping that this time is different.

The Vanguard Tax-Exempt Bond Index Fund (VTEBX), launched Monday, is the mutual fund industry’s first passive municipal bond fund, according to Nadine Youssef, a spokeswoman for fund researcher Morningstar Inc. But its ETF counterpart, which Vanguard now runs under the ticker VTEB, will be going head to head with deeply entrenched competitors.

The top product, managed by BlackRock Inc., is a colossus: The iShares National AMT-Free Muni Bond ETF (MUB) manages more than $5.2 billion.

The Vanguard product is the cheapest fund of its kind, with annual expenses of 0.12% for both the ETF and the lowest-cost mutual-fund share class.

Mr. Alwine said that expense ratio will allow the funds to top the performance of its competitors, including the comparable iShares product. A BlackRock spokeswoman declined to comment.

They’re launching the fund into a much healthier market, analysts said, with many cities and states displaying stronger financial conditions and refinancing their debts at lower rates in the past several years. But it’s also potentially an environment of rising interest rates, which to some degree will erode the value of bonds.

The S&P National AMT-Free Municipal Bond Index, tracked by the Vanguard and iShares products, focuses on investment-grade bonds exempt from U.S. federal taxes and excludes the troubled U.S. territory Puerto Rico, which has been purchased by a number of municipal bond mutual funds. The index has averaged a 2.4% return over each of the last three years, or 3.7% each of the last five.

Over five years, 45% of active fund managers have topped the return of that index, according to Todd Rosenbluth, director of ETF and mutual fund research at S&P Capital IQ.

Like many bond index funds, this product looks to match the returns of its index not through buying every underlying bond but by “sampling,” using the assets they have to buy a representative group that matches the characteristics of the bonds in the index.

“While investors should expect that this product should be performing closely in line with the S&P index and should perform close from an ETF perspective to MUB, which tracks the same index, there will be some slight deviation in performance and how well it tracks the benchmark,” particularly before the fund reaches a critical mass of assets, Mr. Rosenbluth said.

“Especially in a world of soon-to-be-rising interest rates, that should make it harder for bond funds to perform as well as they have historically," he added. "By shaving off the expense ratio, that increases the likelihood of stronger performance."

Investment News

By Trevor Hunnicutt

Aug 27, 2015 @ 12:52 pm

Investors Brace for Puerto Rico's Debt-Restructuring Plan.

Investors will be watching Puerto Rico this weekend for details of a restructuring plan for its $72 billion debt load, as government officials face a Sunday deadline to deliver a draft of the plan to the governor.

The deadline kicks off what could be a busy week for the struggling island commonwealth, which defaulted on bonds from one of its public agencies earlier this month. Under previous agreements, the Puerto Rico Electric Power Authority, bondholders and other creditors are facing a Tuesday cutoff to shake hands on a restructuring program for the electric utility.

It isn't clear whether the government will release a draft version of its broader restructuring plan on Sunday, and analysts caution that any draft will likely be subject to heavy revisions. Daniel Hanson, an analyst at Height Securities, estimated in a recent research note that it could be up to two weeks before the full plan is officially released.

Earlier this week, Puerto Rican newspapers reported on some details of the proposed plan. The reports implied that Puerto Rico is "still intending to deeply haircut bondholders of many (or most) Puerto Rican bonds," meaning investors could face significant losses, Mr. Hanson wrote in his note.

"People are now looking for this report to give more color," said Bill Black, who helps oversee the $7.2 billion Invesco High Yield Municipal Fund.

Some Puerto Rico bonds have risen in price in recent days, reflecting optimism that investors will soon get a better idea of how the restructuring plan might look. A big chunk of Puerto Rico general-obligation bonds traded at 72.75 cents on Friday, up from 70.5 cents a week earlier, according to the Electronic Municipal Market Access website.

Puerto Rico, whose bonds are widely held by U.S. mutual funds, has been struggling with a lackluster economy and high unemployment for years. In June, Gov. Alejandro Garcia Padilla called the island's debts unpayable and directed a so-called working group of government officials to develop a draft restructuring plan and present it to him by Sunday.

The deadline comes after Puerto Rico this week further delayed a $750 million bond sale for its water and sewer authority. The sale has been scheduled for the past two weeks, but underwriters haven't been able to attract enough orders from investors to sell all the bonds, according to people with knowledge of the deal.

Officials have said they don't anticipate water and sewer bonds taking a hit as part of the restructuring plan, assuming the authority can sell bonds and its financial projections are met. Some investors, however, say the island commonwealth has been sending mixed messages. For example, Puerto Rico recently asked the U.S. Supreme Court to review a decision voiding a law allowing certain government agencies, including the water and sewer authority, to restructure their debts.

"You have one hand out telling people you can't pay your bills, and you have another hand out hoping to collect money, saying you can pay your bills," said Hugh McGuirk, head of municipal bonds at T. Rowe Price, which oversees about $22 billion in municipal debt. "The market is asking, which is it?"

The sewer authority planned to use the bulk of the proceeds for improvements to the water and sewer system. But it also planned to use the cash to pay off a $90 million credit line from Banco Popular de Puerto Rico, which comes due on Monday. The authority pledged the "bulk of its cash reserves" as collateral for the loan, according to Fitch Ratings, which gave the planned sewer bonds a junk rating.

THE BOND BUYER

By MIKE CHERNEY

Aug. 28, 2015 5:40 p.m. ET

Christie's Recovery Elusive as Bond Market Penalizes New Jersey.

As New Jersey prepared for its biggest bond sale in more than two years, Governor Chris Christie's office said a break in rating cuts for the Garden State showed that its finances are on the mend. Bond prices suggest otherwise.

The extra yield investors demand to buy New Jersey bonds instead of top-rated debt is holding close to the highest since at least January 2013. When New Jersey began marketing the $2.2 billion of securities last week, 20-year bonds were offered for a yield of 5.07 percent, more than 2 percentage points above the benchmark, according to three people familiar with the sale who requested anonymity because pricing wasn't final.

"The state is going to continue to have issues," said Scott McGough, who helps manage about $3 billion of municipal debt as director of fixed income for Glenmede Trust Co. in Philadelphia and isn't buying New Jersey bonds. He said officials aren't "making the adjustments you would want them to do."

New Jersey has a lower rating than any state except Illinois after nine downgrades since Christie took office in January 2010 and vowed to repair a government battered by the recession and squeezed by swelling shortfalls in its pension funds. That deficit, now $83 billion, has continued to grow despite a cut to benefits, as the slow recovery left Christie without money needed to make up for years of shortchanging the retirement system.

Ratings Respite

While New Jersey's bond yields have climbed relative to other securities, they're still less than they were in 2013 as municipal borrowing costs hover at a five-decade low.

New Jersey Assistant Treasurer Steven Petrecca said yield penalties have risen because of heightened investor scrutiny brought on by the fiscal struggles of Puerto Rico and Chicago.

“The bottom line here is that we believe that our bonds will be received because we always pay our debt,” he said.

The state won a respite from the cuts to its rating ahead of the sale Tuesday by its Economic Development Authority, which is raising money to refinance debt and fund school construction. It’s New Jersey’s biggest securities offering since January 2013, Petrecca said.

Fitch Ratings on Aug. 18 changed the outlook on New Jersey to stable from negative, signaling that the state won’t be downgraded again soon. The New York-based company said conservative revenue forecasts reduce the risk of another late-year budget deficit like those that have “plagued the state in recent years.”

‘Continued Progress’

Christie, who is campaigning for the Republican presidential nomination as a politician who cleaned up a fiscal mess he inherited, seized on the assessment.

The report from Fitch recognizes Christie’s “continued progress in responsibly managing the state’s finances by cutting discretionary spending, increasing reserves, and conservatively forecasting revenue,” his office said in a statement.

The administration also drew on a less sanguine assessment from Moody’s Investors Service, which said New Jersey’s rating could be reduced again if the pension strains worsen, to make the case for further benefit cuts. “The problem is the unwillingness of Democrats in the legislature to come to the table and fix a broken system,” his office said.

Assemblyman Gary Schaer, a Democrat who chairs the house’s budget committee, said Christie has continued to shortchange the retirement system and failed to put needed money into schools and infrastructure.

Festering Wounds

“All of these problems remain and they are, at best, festering wounds with little or no triage going on,” Schaer said. “There’s no long-term plan to confront any of the fiscal issues facing the state.”

The pension-system deficit may widen because Christie’s administration is contributing $1.3 billion to it this year, less than half the $3.1 billion set by a 2011 law he signed that sought to make up for years of underfunding. He used the money to cover the government’s bills when tax collections fell short of forecasts.

Fitch and Standard & Poor’s grade New Jersey debt A, the sixth-highest level, while Moody’s places it in the same rank at A2.

“There’s been no success really in terms of dealing with the liability side of the equation,” said Paul Brennan, a money manager in Chicago at Nuveen Asset Management, which oversees about $100 billion of munis. “We’re now at the point where it’s becoming critical.”

Market’s View

His view is reflected in the bond market. Ten-year New Jersey debt yields 3.2 percent, or 0.96 percentage point more than benchmark tax-exempt munis. That’s close to the record high touched in July, according to data compiled by Bloomberg. The data begin in January 2013.

Investors have also demanded a higher premium to buy bonds sold by the economic development authority, which are rated one step below the state's general obligations. Securities due December 2016 traded Monday for a yield of 1.5 percent, about 1.16 percentage points over benchmark munis. That's higher than the average of 1.1 percentage point since March.

Bloomberg

Romy Varghese and Terrence Dopp

August 23, 2015

[California Rainy Day Fund Yields Results in Bond-Market Recovery.]

California is once again the Golden State in the eyes of municipal-debt investors.

Bonds of the state, which was so strapped after the recession that it took to issuing IOUs and drew comparisons to Greece, are the best performers in the $3.6 trillion tax-exempt market this year after the obligations of Michigan. Investors are even willing to accept yields lower than benchmark indexes on the state's short-maturity debt, data compiled by Bloomberg show.

California plans to take advantage of the renewed faith in its finances by selling $1.9 billion in general obligations this week in the first offering of the securities since Standard & Poor's raised the state's credit rating to its highest level in 14 years. California's economy is expanding faster than the nation's, in part because of the technology-industry boom.

"The state of California has done a very nice job as far as improving its fiscal situation," said Greg Kaplan, director of fixed income in San Francisco at City National Bank's Rochdale unit, which manages $4.4 billion in munis. "Five years ago, people didn't want that paper. That fear is gone."

In July, S&P lifted the state's rating to AA-, its fourth-highest level, and pointed to passage of a budget that directed money to a rainy-day fund approved by voters in November. The fund, which requires the state to save a portion of capital-gains taxes, helps cushion the state when receipts fall, the company said.

Credit Environment

"It was important to see them enact a budget that represented an extension of their recent approach to their fiscal policy, which has been to emphasize structural alignment between the ongoing revenues and recurring expenditures," Gabriel Petek, a San Francisco-based S&P analyst, said Monday.

Investors have also liked how California under Governor Jerry Brown has notched budget surpluses after more than $100 billion of cumulative deficits from 2000 through 2010.

"Governor Brown has put the fiscal house in order," said Ben Woo, senior municipal analyst at Columbia Threadneedle Investments, which manages about $30 billion in local debt. "Compared to the chaotic political environment we're seeing in New Jersey and Illinois, California is a much better credit environment than some other states."

Penalty Declines

Investors are demanding about 0.18 percentage point over top-rated debt to own 10-year California securities, close to the 0.17 percentage point low since 2013, according to data compiled by Bloomberg. That's down from a peak of about 1.7 percentage points in 2009, when the state resorted to IOUs to pay bills.

That's also better than the 0.52 percentage point for debt issued by Pennsylvania, which has the same investment-grade ratings from S&P and Moody's Investors Service.

If mutual-fund flows remain consistent, it's a "pretty easy case to make" that California spreads can go to 0.1 percentage point this year, Kaplan said.

That level was seen in 2006 and 2007, before deficits for the nation's most indebted state soared amid the recession and sparked comparisons to Greece, which recently received its third bailout since 2010 from European authorities to repay creditors.

Capital Projects

California is selling bonds mostly to refinance debt and to fund capital projects such as roads and public buildings.

"We have to take advantage of our recent credit upgrades, and I encourage individual and institutional investors to get behind California and help us make this sale a success," State Treasurer John Chiang said in a statement.

On Tuesday, when individual investors had a chance to order the securities, 10-year bonds were being marketed at a yield of 2.38 percent, according to a person familiar with the sale who requested anonymity because pricing wasn't final. That compares with 2.21 percent for top-rated munis. Final prices will be set Wednesday.

The size of the deal might "take some digestion" and may prevent the state from testing new lows for yields, said Woo, the analyst at Columbia Threadneedle.

Adrian Van Poppel, who helps run a California fund for Wells Capital Management in San Francisco, said he would want risk premiums above those seen on existing bonds before buying.

"It'll just come down to pricing for us," he said. "You're not getting much" in extra yield for debt maturing under five years.

Investors are demanding 0.57 percent to own California two-year bonds, less than the 0.6 percent for benchmark munis, according to data compiled by Bloomberg.

"We'll definitely be following it," Van Poppel said. "They've been moving in the right direction."

Bloomberg

Romy Varghese

August 24, 2015

New Jersey Penalized in Biggest Muni Bond Sale Since 2013.

The New Jersey Economic Development Authority sold $2.2 billion of bonds at yields that were more than 2 percentage points higher than benchmark tax-exempt securities in the state's biggest debt sale since 2013.

The bond offering shows the penalty New Jersey is paying to borrow as it faces financial pressure from an $83 billion deficit in its employee-retirement system, which state leaders have shortchanged for years. The escalating bills to the pension funds have left New Jersey with the second-lowest credit rating among states after Illinois.

"Unless the state can show that it can make long-standing strides in its pension and health-care obligations, the state should be prepared to be penalized when it brings new issues to market," said Neil Klein, senior managing director in New York at Carret Asset Management, which oversees $750 million of municipal debt. Carret didn't buy any of the bonds.

Yields ranged from 3.24 percent for a bond maturing in 2019 to 5.1 percent for a 2040 security, according to data compiled by Bloomberg. Bank of America Merrill Lynch was the lead underwriter of the sale.

The 10-year securities were priced at 4.37 percent, compared with 2.21 percent yield on comparable top-rated debt. The $401.9 million in taxable bonds carried yields from 3.38 percent for 2017 securities to 4.45 percent for five-year bonds, the data show.

School Bonds

New Jersey ended up paying more in 10 years than A rated Guam, which sold comparable maturity debt Tuesday at a yield of 3.14 percent. Cobb County, Georgia's top-rated taxable bonds, also priced Tuesday, yielded 3.25 percent in 10 years.

Proceeds for the New Jersey issue will fund school construction costs, refinance debt and terminate derivative contracts. The bonds are rated A3 by Moody's Investors Service, the company's seventh-highest investment grade.

The deal accomplished the state's goals, and its true interest cost is 4.58 percent, said Christopher Santarelli, a spokesman for the Treasury Department.

"The offering saw widespread market acceptance with $450 million retail orders from mom and pops to some of the largest institutional municipal investors in the country," Santarelli said by e-mail.

Bloomberg

Romy Varghese

August 25, 2015

Puerto Rico Optimistic About Bond Sale as Buyer Doubts Increase.

Puerto Rico isn't giving up hope just yet that it can sell $750 million in water bonds while moving toward a debt-restructuring plan that may leave some investors with significant losses.

After initially announcing a sale date last week for the island's Aqueduct & Sewer Authority issue, the sale was pushed back to a day-to-day status as investors demanded higher yields and more protection against the risk of the bonds being caught up in a reorganization proposal that may be released as soon as next week. The offering has remained in limbo since.

“We are not expecting to price this week since some investor’s requested, and we have agreed, to wait until after Sept. 1,” Alberto Lazaro, the water utility’s executive director, said in an e-mail Thursday. “There is not a set date, but rather we will evaluate and determine the appropriate timing, but are expecting it would be in early September.”

The water authority, know as Prasa, anticipates that investors should be able to make more informed decisions after Puerto Rico officials deliver the debt-restructuring proposal and the island’s electric utility also unveils a turnaround plan on Sept. 1, Lazaro said.

Investors aren’t convinced. While Puerto Rico officials tried Monday to assure would-be buyers that the water utility doesn’t need to restructure its debt, the commonwealth last week petitioned the U.S. Supreme Court to reinstate a law that would allow some public corporations, including Prasa, to negotiate with bondholders to reduce what they owe.

“I’d be shocked if they get the deal done,” said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. “Unless there’s some big change between now and then, they’re still looking at empty pockets for their debt.”

Prasa had already increased the preliminary yield to 10 percent last week from an earlier offer of 9.5 percent, according to two people familiar with the sale who requested anonymity because pricing wasn’t final. That’s more than three times the 3.16 percent yield on benchmark 30-year municipal bonds, according to data compiled by Bloomberg.

Sale proceeds would help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Prasa is negotiating with the bank and other financial institutions, Lazaro said.

“They’ve exhausted the traditional municipal buyer and now they’ve lost the bulk of the hedge fund industry,” Dalton said.

Bloomberg

Michelle Kaske

August 26, 2015

A Decade Later, New Orleans Mends Finances and Neighborhoods.

When Matt Wisdom tried to round up investors for his three-D modeling company after Hurricane Katrina hit, people scoffed.

“They treated us like we were part of the developing world,” said Wisdom, 43, chief executive officer of TurboSquid, which was founded before the storm. “The response we often got was, ‘We’ll invest in New Orleans, but we’ll treat it like it is Estonia.”’

Today venture-capital funds with more than $1 billion are lining up to provide money for entrepreneurs, and philanthropies, including the John D. and Catherine T. MacArthur Foundation, are providing grants for city projects.

“It’s a sea change,” Wisdom said. “We’ve become trendy.”

New Orleans has rebounded from the costliest natural disaster in U.S. history, as tourists and tax collections near pre-storm levels and property values rise to new peaks. Beyond the determination of residents to return, recovery has been driven by billions of dollars in federal investment, including an improved levy system, state aid for local governments, loans to help businesses rebuild and bond ratings that top those before the storm.

“The city was literally under water for three weeks, so there were a lot of doubts,” said Adrienne Slack, vice president in the New Orleans branch of the Federal Reserve Bank of Atlanta. “Now there is a focus on how the city can better position itself for the future.”

Rising Graduation Rates

The school system is being rebuilt with funds that include $1.8 billion from the Federal Emergency Management Agency. Graduation rates have risen to 73 percent in 2013-2014 from 54 percent in 2003-2004, and the percentage of students who are proficient on all state tests for all grades increased to 62 percent from 35 percent.

The city has repaired infrastructure, even though fixing all the streets will cost an estimated $9 billion. The Superdome — which sheltered thousands during the storm — has been renovated and now carries the Mercedes-Benz name. A new veterans’ hospital is scheduled to open in December 2016, and the new $1.1 billion University Medical Center New Orleans was designed with its emergency department and other mission-critical elements 21 feet above base flood elevation.

“Our vision is to make New Orleans a premier national and international health-care destination,” said Michael Hecht, president of Greater New Orleans Inc., which promotes economic development. Part of that plan is a 1,500-acre district focused on biosciences research and medical care that will create an estimated 34,000 jobs.

“If adversity is the mother of invention, then Katrina was the biggest mother of all,” Hecht said. President Barack Obama is visiting the city today, to celebrate its progress but also note its continuing economic inequality, according to the White House.

80 Percent Submerged

The Category 5 storm hit Louisiana and Mississippi on Aug. 29, 2005, with maximum winds of 125 miles an hour, according to the National Hurricane Center. Water surged as much as 28 feet above normal tide levels and destroyed levies designed to protect the city, which lies mostly below sea level. Floods covered 80 percent of New Orleans, and hundreds of thousands of the city’s 455,000 residents eventually fled; by 2006 only 211,000 remained.

The day after the storm, Standard & Poor’s warned it was reviewing ratings for the city and other local and state governments, which had about $8 billion of debt outstanding. Similar announcements followed from Fitch Ratings and Moody’s Investors Service.

Rating analysts had no way to predict when or how quickly the people and the tax bases would return, said Steve Murray, senior director with Fitch.

“This had never happened before to an American city,” Murray said. “It was so unprecedented to have such a dislocation of the population.”

State Treasurer John Neely Kennedy pushed the state to approve about $200 million in borrowing for local governments to cover service on outstanding debt until their tax revenues recovered, along with additional matching funds. The money was instrumental in helping many avoid default, he said.

Opportunity Bonds

The state also approved most of the $7.8 billion of so-called Gulf Opportunity Zone bonds, passed by Congress, to help rebuild low-income housing and facilities for businesses. Billions more flowed in through grants from FEMA, the Department of Housing and Urban Development, and government and private insurance.

New Orleans has worked its way back up to investment grade after Moody’s and S&P cut its credit ratings to junk; the main drivers have been reduced deficits and higher tax revenue. In March, S&P raised its rating to A- from BBB+ when Katrina struck. Moody’s rating now is A3, compared with Baa1 when the storm hit; it said in an Aug. 24 report that the city is financially and structurally better prepared for storms than before 2005.

The New Orleans Aviation Board sold $565 million in debt earlier this year primarily to fund construction of a new terminal at Louis Armstrong New Orleans International Airport. It will generate an estimated 21 percent increase in spending and support about 11,000 new jobs in the metro area, according to an economic-impact report released last year.

Challenges remain, including some that pre-date Katrina. The recovery has been uneven, with neighborhoods including the flood-ravaged Ninth Ward not coming back as quickly as others. Poverty and joblessness persist, especially among the black population. And crime continues to be a problem, although it is lower than it was in the 1990s.

Business Startups

Even so, business startups in metro New Orleans have outpaced those for the U.S. in the years since Katrina. The three-year-average was 471 per 100,000 adult population as of 2012, compared with 288 nationwide, according to a report by The Data Center, which compiles statistics about greater New Orleans and southeast Louisiana.

Three years after the storm, Patrick Comer relocated to the city from Los Angeles at the request of his wife, a New Orleans native.

“We made the decision to move there so we could contribute,” said Comer, 41, who started an online survey and data company in 2010. Lucid Corp. now employs more than 80 people and plans to open a London office this fall.

By 2014, the most recent year for which data are available, the population had rebounded to 384,000, and the value of real estate had risen 56 percent compared with 2005. Retail sales totaled a record $6.5 billion, and 9.5 million visitors came to the city, the second highest since a record 10.1 million in 2004.

New Orleans received a MacArthur grant to reduce incarceration rates in its jails that could provide as much as $2 million for implementation. It also is among the first municipalities to participate in “What Works Cities Initiative,” a program to help enhance the use of data to improve residents’ lives from Bloomberg Philanthropies, established by Michael Bloomberg, majority shareholder in Bloomberg News parent Bloomberg LP.

“I thought it would take 20 years to get back to where we were,” said TurboSquid’s Wisdom, who helps entrepreneurs raise capital as a board member of the New Orleans Startup Fund. “Instead we’ve moved ahead.”

Bloomberg

Darrell Preston

August 26, 2015

Illinois Budget Standoff Grinds On as State Finds a Way to Cope.

Republican Governor Bruce Rauner and Democratic House Speaker Michael Madigan, two of the most powerful politicians in Illinois, have been trying to outlast one another in a dispute that for two months has left the nation’s lowest-rated state without a budget.

Illinois muddles through. Government employees get paid, thanks to court orders. Children go to school, thanks to Rauner’s signing an education-funding bill. The state fair went on last week as scheduled and the governor signed a bill Aug. 14 designating pumpkin as the official pie.

The veneer of normalcy belies what Madigan terms an “epic struggle” with the venture capitalist-turned-politician. At stake are further credit downgrades for Illinois, and increased stress for Chicago and its schools, which are seeking relief from the state — relief delayed by the impasse.

“We’re all a bunch of idiots,” said Representative Jack Franks, a Democrat from the northern Illinois town of Woodstock.

“Just because Bruce Rauner says ‘Republicans need to do this,’ and Speaker Madigan says ‘Democrats need to do that,’ doesn’t mean we have to listen to them,” Franks said.

Yet Republicans line up behind Rauner, who insists on labor, tax and regulatory changes, and Democrats follow Madigan, who says the budget must be passed and revenue raised. There is no hint of a break in the impasse. Bondholders get paid, although many state vendors are getting stiffed to the tune of at least $3.5 billion.

Rauner, a first-time officeholder, is also Illinois’s first Republican governor in a dozen years.

Campaigning on a pledge to shake up the government, a $62 billion enterprise, he has repeatedly challenged Democrats who hold veto-proof legislative majorities.

“I was elected by millions of people; he’s been elected by 17,000 people,” Rauner told a crowd at the Illinois State Fair last week, referring to Madigan. “Why is he there blocking what we need to do to reform and improve our great state?”

Rauner’s confrontational strategy isn’t meant to solve the budget standoff, said Doug Whitley, the former president of the Illinois Chamber of Commerce.

“The real story is how much of this whole exercise is posturing for the 2016 election,” he said. “This thing could drag out until after next year’s March primary.”

In the tumultuous Midwest, Republican governors like Wisconsin’s Scott Walker, Michigan’s Rick Snyder and former Indiana Governor Mitch Daniels have prevailed in battles with organized labor, the Democrats’ traditional support group. Rauner, who cites those governors as role models, wants to do the same in reliably blue Illinois.

David Yepsen, director of the Paul Simon Public Policy Institute at Southern Illinois University, said Rauner has misunderstood why he won election.

“He didn’t get elected to gut the labor movement,” Yepsen said. “He got elected because people were angry with Pat Quinn,” the previous Democratic governor.

Two Gallants

Madigan’s obduracy hasn’t made him a hero with the electorate, either, Yepsen said.
“Nobody has the high ground with voters, and the people of Illinois say a plague on all their houses,” he said.

When legislative and executive branches go to war over budgets, there are usually immediate consequences. Minnesota’s government shut down in 2011, closing parks and rest stops in the summertime and engendering widespread outrage. It was over in three weeks.

Illinois is living with it. Rauner signed an education aid bill in June, enabling schools to open this month. State employees won court judgments to assure that they get paid. Another court mandated Medicaid payments, and lawmakers cleared the way for more than $5 billion in federal payments to state programs.

“This is a caricature of Illinois and all of its mismanagement,” said James Nowlan, a former Republican legislator who has written about politics and policy in the state. “Nobody’s looking beyond the next month, the next year, or the next 10 or 15 years.”

At some point the consequences will demand attention, said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance. Illinois is spending without regard for a projected $6.2 billion deficit in the current year.

“As we get closer to the calendar year — maybe October — there will be struggles to pay higher education and hospitals and other institutions,” Ciccarone said. “Things could really start to back up then.”

Illinois could also be harmed by budget stress in Chicago and Chicago Public Schools, each of which has asked the state for relief from solvency-threatening pension obligations.

Whitley said local governments’ pain and protests might end the stalemate.

“Right now we’re spending about $4 billion or $5 billion more than we have,” Franks said. “How long does this go? Forever.”

Bloomberg

Tim Jones

August 27, 2015

[Moody's: New Orleans' Credit Profile has Improved Post-Katrina, but Fiscal Pressures Remain.]

New York, August 24, 2015 — In the decade since Hurricane Katrina, New Orleans (A3 stable) has improved its fiscal management, rebuilt and bolstered its infrastructure and benefitted from the revitalization of its communities and the tourism industry. At the same time, the city's rising fixed costs, reliance on the volatile oil and gas sector, and vulnerability to flooding remain credit challenges, says Moody's Investors Service.

Compared to before the hurricane, New Orleans has improved its fiscal position by focusing on growing revenues, controlling expenses, and building reserves. Better sales tax collections and growth in property taxes have boosted the city's budget in both 2014 and 2015. New Orleans will also receive $36 million from its settlement with British Petroleum following the Deepwater Horizon oil spill.

The city also received a significant amount of federal aid after the hurricane which, combined with local and state funding, was used to strengthen levees, build new infrastructure and increase the city's emergency preparedness, according to Moody's new report "Ten Years After Katrina, New Orleans Better Prepared for Future Storms."

"The recovery of the local economy is a key stabilizing factor that has driven the city's recent positive momentum, by bringing people back, rebuilding communities and revitalizing the tourism industry, which is a key source of revenue for the city," says Andy Hobbs, a Moody's Assistant Vice President and Analyst.

The city's taxable property value has grown consistently since the hurricane, the number of conventions and trade shows hosted by the city has increased since the convention center reopened, and new developments such as the recent announcement that Viking Cruises will start operating out of the Port of New Orleans in 2017 are all factors that buoy the city's credit position.

However, offsetting these positive factors are the city's rising fixed costs for debt service, pension contributions and retiree healthcare payments, which have increased to $198 million in 2014, from $129 million in 2009.

"The city's fixed costs exceeds 30% of its operating revenues," says Hobbs. At the same time, "the city's contribution to its pension plans fell short by $17.7 million in fiscal year 2014, and annual pension requirements are expected to increase going forward".

In addition, New Orleans' dependence on the volatile oil and gas sector, declining employment in the public sector and below-average population growth leave the city trailing other metro areas in the US South in terms of key economic indicators. The city's population remains roughly 18% below pre-hurricane levels.

New Orleans also has weak liquidity because it used reserves to fill budget gaps during the recession.

Overall, though, the State of Louisiana and the education and transportation sectors have emerged stronger post-Katrina. The state received a significant amount of money in the form of federal aid and insurance proceeds, which provided the liquidity for a post-storm rebuilding boom and helped the state mitigate the effects of the national recession.

The city's ports emerged relatively unscathed from the hurricane, but nevertheless received federal and state financial support to make up for the decline in cargo and cruise activity following the hurricane. The airport also received aid that has allowed it to expand capacity and attract more flights to more destinations.

And while total university enrollment is still down 15% from pre-Katrina levels, emergency funds helped New Orleans' universities emerge stronger by allowing them to invest in capital facilities.

Moody's subscribers can access this report here.

Puerto Rico Turmoil Sinks Sewer Bond.

Up against a deadline to reveal its plan to restructure its staggering debt, Puerto Rico has decided not to move ahead with a controversial proposal to borrow an additional $750 million to pay for improvements to its water and sewer authority.

It attributed the decision, made late Monday, to the turmoil in the global markets. But the government also appears to have decided it could not borrow the money — by issuing bonds — at an affordable interest rate.

Just a few days earlier, Puerto Rico petitioned the United States Supreme Court asking for the right to restructure its debt — which has reached $72 billion — under its own quasi-bankruptcy law. Puerto Rico, a United States commonwealth, enacted the law last year because it has no access to the federal bankruptcy courts. But the law was later found unconstitutional and was voided by the courts.

Investors who at one time might have been potential buyers of the water and sewer bonds seemed taken aback by the island's move, on the one hand, to sell new bonds (and incur new debt) while also telling the Supreme Court that it had to restructure its old debt.

"You could take it on face value and say, 'Either they're lying to investors about the bonds being payable, or lying to the Supreme Court about the bonds being unpayable,' " said Matt Fabian, a partner at Municipal Market Analytics, a financial research firm. "I see it as a blunder, ultimately, and not anything more heinous, but it really undermines their ability to negotiate."

Taken together, the steps demonstrate some of the confusion within the government as it faces a Sept. 1 deadline to outline its restructuring plan. A working group, appointed by the governor, has been trying to put a proposal together for several months. But in a signal of political conflicts to come, the island's main opposition party has dropped out of the group.

"It's not like we wait till Sept. 1 and then we've got a road map to fixing everything," said Kent Collier, chief of Reorg Research, a firm that monitors Puerto Rican affairs for clients that include hedge funds.

About two months after the restructuring plan is issued, he said, the government is supposed to seek the authorizing legislation, setting off an unpredictable political process.

Eventually, Puerto Rican officials have expressed hopes of resolving their problems through a global debt-for-debt swap, in which the holders of the island's bonds would turn those in and receive new bonds that would be worth less but be far more likely to be paid off. But the details are sketchy and many other things must happen first.

“Their economy does need to grow, and I don’t disagree that their debt is too high to do all the things they need to do to make their economy grow and provide for the health and welfare of their citizens,” said Gerry Durr, senior municipal credit analyst at Wilmington Trust. “But you know, I think the only way this thing really gets solved is if there’s a strong, independent control board, and I don’t think Congress has the appetite to impose one.”

Until recently, senior Puerto Rican officials had sought to reassure investors that its water and sewer authority, known as Prasa, was a credible borrower.

Puerto Rico announced Prasa’s plans to issue the $750 million of bonds just days after another branch of the government had defaulted on a different group of bonds, but the president of the Government Development Bank, Melba Acosta Febo, said that was not relevant.

It “reflects the individual financial circumstances of the various debt issuers across the commonwealth,” she said.

The bonds that defaulted were issued by the Public Finance Corporation, a small, single-purpose entity that has no power to levy taxes. Its bond-marketing materials warn that investors will have little or no recourse in the event of a default.

Prasa, by contrast, provides essential services and can increase rates, within reason, because it is a monopoly. Prasa’s bondholders have a first claim on that revenue if cash gets tight, and they can bring in a receiver to enforce collections.

In addition, the new Prasa bonds were expected to include such investor-friendly terms as a make-whole agreement, which would discourage Puerto Rico from refinancing them at lower interest rates in the future, if Puerto Rico’s fortunes changed for the better.

“They were within striking distance of settling this deal,” said Stephen Snowder, an associate editor at Reorg Research.

But the deal started to come unglued on Friday, after Puerto Rico filed its petition to the Supreme Court. It sought a review of the legality of its so-called Recovery Act, which tried to create a bankruptcylike restructuring framework for public corporations on the island. Among other things, the petition said that it needed to have a legal framework in case Prasa’s debts have to be restructured.

“That’s not the phrase you want in the middle of a bond deal,” said Mr. Fabian.

On Monday, Prasa filed a statement from Victor Suárez Meléndez, the governor’s chief of staff. “We currently do not contemplate Prasa necessitating a restructuring of its debt,” he said.

But Mr. Suarez also tried to explain why Puerto Rico needed a safe place to restructure: “If any Puerto Rico utility ever needs to restructure its debts, it should be done in a way that is fair not only to their creditors but also to the people such utilities serve.”

The next thing Mr. Snowder knew, he said, the deal was off. He said a colleague called Prasa’s executive president, Alberto Lázaro, Monday evening to find out what was going on.

“Victor Suarez was making nice statements, and then a couple of hours later, we had Lázaro telling us that the deal was delayed, postponed or canceled,” said Mr. Snowder. “No one has explained it to me.”

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

AUG. 25, 2015

Detroit's Paying a Penalty on First Bond Sale Since Bankruptcy.

Detroit is paying a high price in its return to the $3.6 trillion municipal-bond market for the first time since emerging from a record bankruptcy.

The $245 million of bonds, to be sold Wednesday through the Michigan Finance Authority, have the top claim on city income taxes to ensure investors are repaid. Even so, 14-year debt is being offered at an initial yield of 4.75 percent, according to three people familiar with the sale who requested anonymity because it isn't final. That's 2.1 percentage points more than top-rated securities.

"It's still Detroit," said Dennis Derby, a portfolio manager in Menomonee Falls, Wisconsin, for Wells Capital Management, which holds the city's water bonds among its $39 billion of munis. "There's still concerns of whether or not they can have positive momentum."

Detroit filed for bankruptcy protection two years ago to escape from debts it couldn't afford after the population tumbled, tax collections slid and the automobile-industry's decline left the economy reeling.

That allowed the city to cut $7 billion from its obligations by the time it emerged from bankruptcy in December, an effort to steady the government's finances and hasten its revival.

Investor Losses

The plan left some general-obligation bondholders recovering as little as 41 percent of what they were owed, according to Moody's Investors Service. Those losses called into question the long-held assumption that cities would do everything possible to repay securities backed by their full faith and credit.

To persuade investors to lend to the city again, Michigan Governor Rick Snyder signed legislation giving bondholders first claim to the income taxes that will repay the debt sold this week. That led Standard & Poor's to award the deal an A rating, five steps above junk and nine levels higher than its grade on Detroit's general obligations.

John Naglick, Detroit's deputy chief financial officer, marketed the securities during a presentation in New York and in phone calls with investors. He declined to comment on the expected yields ahead of the sale.

"We feel that investors really took the time to understand the security provisions that came with this bond," said Naglick. "People looked even beyond the bond at the recovery of the city of Detroit."

Detroit Rebound

Detroit's leaders have been seeking to revive the city, whose population of about 680,000 as of July 2014 was less than half the peak after the Second World War. There are signs of progress: employment has risen 3 percent over the last four years and income-tax revenue grew 18 percent from 2010 to 2015, according to Moody's.

The proceeds from this week's sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy, Naglick said. They will also finance city projects, including upgrades for the fire department's fleet.

The city's income-tax collections are strong enough to cover the bonds, S&P said in a statement last month.
While Moody's wasn't hired to rate the deal, it said it may have assigned the securities an investment-grade rank even though the city is five levels below that threshold.

Skeptical Investors

The deal isn't the first for Detroit since it filed for bankruptcy. Michigan's finance agency sold $185 million of bonds in June 2014 for Detroit's lighting authority. With investor protections similar to those being offering this week, the 30-year securities sold for a yield of 4.6 percent, in line with an index of revenue bonds with the lowest investment grades, according to data compiled by Bloomberg.

The bankruptcy may deter some would-be buyers, said Dan Solender, who helps manage $17 billion as head of munis at Lord Abbett & Co. in Jersey City, New Jersey. The firm owns some of Detroit's water and sewer debt.

"The history there is pretty weak considering how they dealt with bondholders with their bankruptcy," Solender said. "They'll have market access. It's just at a cost."

Bloomberg

Elizabeth Campbell

August 17, 2015 — 9:01 PM PDT

Puerto Rico Bond Offer Postponed, Seen Luring High-Yield Funds.

NEW YORK Aug 18 (Reuters) – Puerto Rico postponed until later this week its first bond sale in public markets since it defaulted, investors said on Tuesday, an offering that according to Fitch ratings agency may attract high-yield municipal funds.

According to data company IPREO, the $750 million deal for the Puerto Rico Aqueduct and Sewer Authority (PRASA) was slated to price on Tuesday.

One investor in contact with underwriters, who declined to be named, said they had been told the issue was postponed to Thursday.

"From everything I know now, I don't think (buying the issue) is a good idea," that investor said, adding they were concerned about the risk of default.

Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, also said that it was his understanding that the release would happen Thursday.

It is meant "just to give investors more time to do their work," said Fitterer, who said he learned of the postponement from one of the underwriters.

PRASA and Bank of America Merrill Lynch, the lead underwriter for the deal, did not respond to requests for comment on the date of the pricing.

Bloomberg earlier reported the issue's delay.

High-yield closed-end funds may participate in this week's PRASA bond sale because of the authority's stable prices compared to other debt issuers from the island, Fitch Ratings said on Tuesday.

A return of municipal closed-end fund managers to Puerto Rico would be a source of liquidity for the U.S. commonwealth, according to Fitch.

The PRASA bond sale follows a failure by Puerto Rico to make a full payment due on bonds sold by its Public Finance Corp. The partial payment was considered a default by its creditors and ratings agencies, the first by the U.S. territory.

Fitch Ratings on Monday rated Puerto Rico's planned bond sale 'CC', meaning that default of some kind appears probable, and that there are very high levels of credit risk.

S&P, which lowered its rating on PRASA to CCC- in July, said on Tuesday that "events could unfold within the next three months that could expose PRASA to greater restructuring efforts."

Puerto Rico was scheduled on Monday to conclude its presentations to investors on the bond sale. The island had been conducting presentations since late last week.

By Jessica DiNapoli

(Additional reporting by Megan Davies; Editing by Paul Simao and Alan Crosby)

Detroit's $245 mln Bonds Priced in First Post-Bankruptcy Issue.

Aug 19 Detroit's post-bankruptcy debut in the U.S. municipal bond market on Wednesday resulted in hefty yields for $245 million of bonds.

Tax-exempt bonds totaling $134.7 million were priced at par with a top yield of 4.50 percent in 2029. Nearly $110.3 million of taxable bonds maturing in 2022 were priced at par with a 4.60 percent coupon.

Reuters

(Reporting By Karen Pierog Editing by W Simon)

California GO Refunding And New Issue Bonds Assigned 'AA-' Rating.

SAN FRANCISCO (Standard & Poor's) Aug. 18, 2015–Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating, and stable outlook, to California's estimated $1.9 billion of general obligation (GO) bonds, consisting of $550 million in tax-exempt various purpose GO bonds and $1.35 billion in GO refunding bonds.

At the same time, Standard & Poor's affirmed its 'AA-' long-term ratings and underlying ratings (SPURs) on California's $76 billion of GO bonds outstanding, as of July 1, 2015. The outlook on all ratings is stable.

Finally, we affirmed the long-term component of the 'AAA/A-1+' and 'AAA/A-2' ratings on some of the state's GO variable-rate demand bonds. The long-term component of the ratings is based jointly (assuming low correlation) on that of the obligor, California, and the various letter of credit (LOC) providers. The short-term component of the ratings is based solely on the ratings on the LOC providers.

"California's finances have been brought into structural alignment," said Standard & Poor's credit analyst Gabriel Petek. "Under current conditions, the state's fiscal structure generates modest operating surpluses that translate to larger projected budget reserves, according to the state Department of Finance's forecast, than the state has had in recent memory. Still, the state's tendency for revenue volatility coupled with the lack of an automatic process for midyear corrective budget actions — other than the governor declaring a fiscal emergency — constrain our rating on the state," added Mr. Petek.

Aided by temporary tax increases and a six-year bull market for equities, California is enjoying an extended period of strong revenue trends. The Department of Finance recently reported that tax collections for fiscal 2015 topped its updated May forecast by 0.6% on a cash basis. Revenue collections look even stronger when compared with the assumptions included in the original fiscal 2015 budget. On that basis, the state controller reports that tax receipts for the year came in $6.8 billion (6.4%) higher than projected at the time of budget enactment. In our view, the state's stronger credit quality primarily reflects its much improved fiscal position, which lawmakers have engineered with the help of the multi-year revenue rebound.

Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.

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

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Puerto Rico Aqueduct and Sewer Authority plans to sell $750 million of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Portland, Oregon, Sewer System will offer $404 million and Illinois Finance Authority will bring $400 million to market.

Municipalities have announced $10.1 billion of redemptions and an additional $17.9 billion of debt matures in the next 30 days, compared with the $29.5 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $6.12 billion, followed by California at $1.77 billion and New Jersey with $929 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

ETF Flows

Investors removed $106 million from mutual funds that target municipal securities in the week ended Aug. 5, compared with a reduction of $91 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $10.2 million last week, reducing the value of the ETFs by 0.06 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 103.273 percent of Treasuries, compared with 103.156 percent in the previous session and the 200-day moving average of 101.301 percent, Bloomberg data show.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 5 basis points to 2.48 percent while California's declined 1 basis points to 2.48 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 137 to 11.14 percent and Illinois's rose 36 basis points to 4.16 percent.

Bloomberg

Kenneth Kohn

August 17, 2015

[Puerto Rico Seen Paying Triple Benchmark Yields in Return to Market.]

Puerto Rico's water utility may have to pay yields three times higher than top-rated municipal borrowers as it sells $750 million of bonds, the first securities offering from the commonwealth since it defaulted this month.

The island's Aqueduct and Sewer Authority, called Prasa, is offering 30-year bonds for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That compares with yields of 3.1 percent for benchmark securities. The bonds would carry an 8 percent coupon.

The sale comes amid an escalating fiscal crisis for Puerto Rico's government, which is seeking to restructure its $72 billion of debt and made only part of an interest and principal payment due by one of its agencies on Aug. 3. Prasa bonds maturing in 2042 traded Monday for an average of 69 cents on the dollar for a yield of 8.1 percent.

"They have to come with a pretty deep discount just to be in line with how bonds are trading in the secondary," said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

The Prasa sale is a test of Puerto Rico's ability to access the capital markets and is the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Attracting Buyers

To attract buyers to that sale, which was the largest junk-rated offering ever in the municipal market, the commonwealth issued the securities, which had an 8 percent coupon, for 7 percent less than face value. Hedge funds bought the bulk of the bonds.

Kristen Kaus, a spokeswoman at Bank of America Merrill Lynch, the lead underwriter on the sale, didn’t immediately respond to phone and e-mail messages seeking comment on the pricing.

Puerto Rico securities have been trading at distressed levels for two years on concern that the island of 3.5 million wouldn’t repay its obligations on time and in full. Officials aim to craft a plan by the end of the month for restructuring the government’s debts.

Prasa’s bonds may be sheltered from that proposal. Government Development Bank President Melba Acosta, the island’s top debt official, said the bank doesn’t foresee the water agency reorganizing its obligations.

Bonds’ Backing

Prasa, which had almost $5 billion of bonds and notes as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018. The utility provides water to 97 percent of the island’s population and wastewater service to more than half. The bonds are repaid with fees on water use.

There should be enough buyers for the sale, even though Puerto Rico is seeking to lower its combined debt load, said David Tawil, co-founder of hedge fund Maglan Capital LP.

“There should be adequate appetite for the deal in order to get it completed,” said Tawil, who manages $80 million in New York. “The entity by all accounts is solvent and is self sufficient, vis a vis cash flow.

With a very robust coupon that you frankly cannot find out of any similar type of issuer, all that together gets you to a conclusion that this is a good investment.”

Bloomberg

Michelle Kaske

August 17, 2015

Illinois Budget Logjam Spurs Downgrades While Lawmakers Debate Pie.

Illinois Governor Bruce Rauner agreed last week with lawmakers to designate pumpkin the official state pie. Reaching consensus on a budget is proving to be more difficult, and that’s starting to ripple into the bond market.

The Chicago school district’s credit rating was cut to junk on Aug. 14 as it waits on state help to close its deficit. Public university bonds may be downgraded, and securities sold by Chicago’s convention center slid after lawmakers failed to approve a deposit needed for debt bills. Even Rauner said he wouldn’t be surprised if there’s another cut to Illinois’s bond grade, which is already lower than any other state.

“As long as the budget impasse continues, the likelihood of a further downgrade does exist,” said Peter Hayes, who oversees $116 billion, including some Illinois holdings, as head of municipal securities at New York-based BlackRock Inc. The company isn’t buying state bonds amid the impasse.

Illinois has gone 49 days without a spending plan since the fiscal year started July 1 and there’s no end in sight. Rauner, the state’s first Republican governor in 12 years, and the Democrat-led legislature can’t agree on how to fix a $6.2 billion deficit that was left after temporary tax increases expired.

Rauner is calling for limits on the power of unions, changes to business regulations and spending cuts before agreeing to new taxes. Democrats want steeper levies on the highest earners, among other revenue-raising measures.

Unprecedented Standoff

Illinois has had other budgetary jams, such as standoffs in the 1990s between the legislature and Republican Governor Jim Edgar, though none has lasted as long, according to the Civic Federation, a Chicago-based research group.

“There is no recent precedent in Illinois history for operating over two months into the fiscal year without a budget,” Laurence Msall, president of the federation. “In addition to being highly unusual, this extended impasse is also fiscally reckless and expensive.”

Investors have long penalized the state with higher borrowing costs. Yields on 10-year Illinois obligations reached 4.2 percent Tuesday, the highest among the 20 states tracked by Bloomberg. That’s almost 2 percentage points more than top rated debt, near the record high reached in October 2013.

And even without a budget, the state hasn’t been forced into a partial government shutdown. Illinois is paying its employees because of court orders, and money has been set aside for schools. The General Assembly may approve a bill this week, which Rauner said he’ll sign, that releases $5 billion of federal funds for social services.

Credit Ripples

The effects are beginning to be felt beyond the capital. In Chicago, school officials are waiting for the legislature’s help with pension costs that are fueling its own budget shortfall. Because of that gap, Standard & Poor’s on Aug. 14 lowered the district to BB, two steps below investment grade. That followed similar cuts since May by Fitch Ratings and Moody’s.

Investors who bought bonds sold by the Metropolitan Pier and Exposition Authority, which runs the largest convention center in the nation, have also taken a hit. When the budget’s delay prevented tax money from being transfered into its debt-service fund, S&P this month reduced its rating by seven notches. That caused its bonds maturing in 2050 to fall to an average of 100 cents on the dollar Monday from $1.05 on July 30. That pushed the yield up by more than a percentage point to 5.2 percent.

University Outlook

S&P reduced its outlook to negative from stable on some University of Illinois revenue bonds on Aug. 10, citing the lack of a budget and potential for funding cuts.

Illinois politicians are showing little haste in resolving the standoff. This week, Rauner was among those hobnobbing with voters at the state fair in Springfield, the capital, where politicians flock each year to glad-hand supporters, munch corn dogs and take in the agricultural bounty. House Speaker Michael Madigan is scheduled to be there for Democrat Day on Thursday.

"The longer it takes them to put together a final budget agreement, the greater the cost," said Ralph Martire, executive director of the Center for Tax and Budget Accountability, a Chicago-based research group. "The more they'll have to raise in taxes, and the more they'll have to cut in spending."

Bloomberg

Elizabeth Campbell

August 18, 2015

[Detroit Disciplined in Return to Bond Market After Bankruptcy.]

Detroit found that investors haven't forgotten the largest municipal bankruptcy in U.S. history.

The city sold $245 million of bonds Wednesday, its first offering since emerging from court protection last year. Tax-exempt securities due in 2029, which have the longest maturity, were priced to yield 4.5 percent, according to preliminary data compiled by Bloomberg. That's almost 2 percentage points more than top-rated debt, even though the bonds have a secured claim on the city's income-tax collections.

"They are still, yes, paying the price," said Michael Johnson, managing partner at Gurtin Fixed Income Management, which oversees $9.5 billion of munis in Solana Beach, California, which doesn't own the city's debt and didn't buy on Wednesday. "The forces that have hampered Detroit up until now are still in place."

After decades of population loss, shrinking tax revenue and an economy reeling from the fading automobile industry, Detroit filed for Chapter 9 protection from creditors two years ago. The move allowed the city to lower its obligations by $7 billion by the time it exited bankruptcy in December, though it still has a lower credit rating than any other big U.S. city.

To persuade investors to lend to the city again, Governor Rick Snyder signed legislation in April giving bondholders first claim to the income taxes that will repay the new debt, which was sold through the Michigan Finance Authority. That assurance prompted Standard & Poor's to rate the bonds A, five steps above junk and nine levels higher than its grade on Detroit's general obligations.

Fresh Scrutiny

Detroit's bankruptcy increased scrutiny of legal safeguards on municipal bonds, especially those sold by financially distressed local governments. When Detroit adjusted its debts, some general-obligation bondholders recovered just 41 percent of what they were owed, according to Moody's Investors Service.

S&P still considers Detroit speculative grade and gives the city a B rating, five levels below investment grade, citing its "very weak" economy, management structure and budgetary flexibility.

The city's income tax collections are strong enough to pay for the bonds. The money that will be deposited in a fund earmarked for debt payments will be about 6.5 times what's needed, S&P said last month.

Detroit initially offered 14-year tax-exempt debt for a yield of 4.63 percent, according to three people familiar with the sale who requested anonymity as the pricing wasn't final. Demand allowed underwriters to cut the final yield.

Paying Premium

The federally-taxable portion maturing in 2022 yielded 4.6 percent, according to data compiled by Bloomberg. That's more than twice 10-year U.S. Treasuries.

"Even though I think they are paying a premium, people are comfortable with the analysis and what the city is offering in terms of the security, the pledge, and where they think the city is going financially," said Joseph Rosenblum, director of municipal credit research in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds. His firm put in an offer for some of the new securities.

The proceeds from the sale will repay a loan from Barclays Plc that helped Detroit emerge from bankruptcy. The funds will also finance city projects, including upgrades for the fire department's fleet.

Bloomberg

Elizabeth Campbell

August 19, 2015

BlackRock Says Puerto Rico Possibly Attractive After Plan.

Puerto Rico bonds may become attractive after the junk-rated commonwealth releases a debt-restructuring plan, according to BlackRock Inc.'s head of municipal debt.

Puerto Rico officials are working on a proposal that would reduce its $72 billion debt load or allow the island to temporarily suspend debt-service payments. Governor Alejandro Garcia Padilla expects to receive that plan at the end of the month. Such changes to the debt may push prices on Puerto Rico bonds even lower, creating a potential buying opportunity, Peter Hayes, head of municipal debt at the world's biggest money manager, said in an interview Thursday on Bloomberg Television.

"We do see another leg down," Hayes, who helps oversee $116 billion of munis. "And at that point in time we do think it becomes interesting because it's a governmental entity. They have to continue to provide services."

Garcia Padilla in June said the commonwealth was unable to repay all of its obligations on time and in full. The Public Finance Corp. Aug. 3 failed to make a full $58 million debt-service payment to investors, the first default for a Puerto Rico entity.

Prasa Sale

The Puerto Rico Aqueduct & Sewer Authority, known as Prasa, was tentatively scheduled sell to

$750 million in revenue bonds Thursday. The offering would be the first sale of long-term debt from the island since it issued $3.5 billion of general-obligation bonds in March 2014.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, and Norma Munoz, a spokeswoman for Prasa in San Juan, didn't immediately respond to e-mails Thursday on whether the bonds would be priced.

The water utility was offering 30-year bonds on Tuesday for a preliminary yield of 9.5 percent, according to four people familiar with the sale who asked for anonymity because the deal isn't final. That's about triple the yield for benchmark securities.

Puerto Rico securities have lost 11.2 percent this year through Aug. 19, the biggest decline for the period since at least 2007, according to S&P Dow Jones Indices.

Bloomberg

Michelle Kaske

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Kentucky Town Is First to File for Bankruptcy After Detroit.

Hillview, Kentucky, population 8,000, found a way to put itself on the map.

The town 13 miles south of Louisville on Thursday became the first city to file for bankruptcy since Detroit did two years ago. It joins an elite, if infamous, club: Only 54 cities, towns and counties have sought court protection from their creditors since 1980, said James Spiotto, managing director at Chapman Strategic Advisors, which advises on financial restructuring. Among them were San Bernardino, California, and Jefferson County, Alabama.

Hillview, which faced legal damages it couldn't afford, is only the third Chapter 9 filing this year, following an Oklahoma hospital and a special district in California.

As the economy has improved, tax revenues have followed, easing the strain on local governments. Others may have seen Detroit, which emerged from a record-setting municipal bankruptcy in December, as a cautionary tale.

"People saw Detroit — the pain, suffering, uncertainty, expense — and nobody seemed to be getting what they wanted," Spiotto, a Chicago-based lawyer, said. "It helped motivate governments and creditors to find other solutions."

Despite a spate of bankruptcies following the recession that ended six years ago, cities and counties rarely turn to federal court to escape from their debts. Even so, in an Aug. 5 report, Moody's Investors Service said it's not as taboo as it once was for governments reeling from chronic financial stress.

Contract Dispute

Hillview's Chapter 9 filing is the outcome of a contract dispute with a local company, Truck America Training, over a land sale. In February, Standard & Poor's lowered its rating to junk after the city unsuccessfully appealed a court ruling ordering it to pay $11.4 million in damages to the company.

The city last sold bonds in 2010, when it issued $1.4 million of general-obligation debt, according to data compiled by Bloomberg. A $210,000 portion of the securities maturing in 2017 last traded for 90 cents on the dollar on June 24, down from 99.7 cents when they were first offered.

Hillview estimated its liabilities as high as $100 million and assets as high as $10 million, according to the filing in U.S. Bankruptcy Court in Louisville. Truck America is the city's largest unsecured creditor.
City attorney Tammy Baker called the filing a "very difficult decision" for the city council. The mounting interest from the court judgment is more than $3,700 a day, she said.

"The city really ended up with no choice," Baker said in an interview. "With the interest accruing at that rate, it's just really going to be impossible for the city to pay that judgment."

Bloomberg

Elizabeth Campbell

August 20, 2015

[Puerto Rico Finds Waning Demand for Water Bonds Amid Debt Talks.]

Puerto Rico is running into resistance as the commonwealth tries to sell $750 million in bonds while crafting a debt-restructuring plan that would likely leave some investors with deep losses.

After aiming to price the Puerto Rico Aqueduct & Sewer Authority issue as early as Tuesday, the bond sale is now listed as day-to-day. That's even after adding bondholder protections and raising the preliminary yield levels to more than three times the level of benchmark securities.

"It's a pretty difficult thing to try to raise money when out of the other side of your mouth you're talking default and trying to pass laws that allow you to default," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of municipal securities, including Puerto Rico debt. He doesn't plan to buy any of the water bonds.

Puerto Rico raised the ire of investors by defaulting Aug. 3 on a $58 million agency bond payment, saying the legislature hadn't appropriated the funds and cash was being conserved to provide basic services.

Governor Alejandro Garcia Padilla in June said the island was unable to repay all of its $72 billion debt burden and directed officials to craft a debt-restructuring plan by the end of August that may suspend payments.

Price Talks

"We did not price yesterday in order to provide investors with the time they need to adequately review and analyze the materials so they can make the most informed decision about their potential investment," Barbara Morgan, who represents the Government Development Bank at SKDKnickerbocker in New York, said in an e-mail.

The bank works on the island's debt sales. Morgan declined to say when Prasa may sell the bonds.

Underwriters were talking Thursday about preliminary yields of 10 percent on the 30-year securities, up from 9.5 percent earlier in the week, according to two people familiar with the sale who requested anonymity because pricing wasn't final.

Kristen Kaus, a New York-based spokeswoman for Bank of America Merrill Lynch, the lead underwriter of the sale, declined to comment on when the bonds would be priced. Norma Munoz, a San Juan-based spokeswoman for the water agency, known by the Spanish acronym Prasa, didn't respond to e-mails.

Acceleration Fee

The utility also made adjustments to the deal that gives investors an acceleration fee in the event of a default and mandates that Prasa raise water rates by as much as 25 percent, if needed, to repay the bonds, according to sale documents.

Prasa needs the proceeds of the bond sale to help repay a $90 million bank loan with Banco Popular that expires Aug. 31. Other monies will finance infrastructure upgrades to help the utility meet clean-water requirements under a settlement agreement with the U.S. Environmental Protection Agency, according to bond documents.

Hedge funds are expected to purchase the bulk of the Prasa bonds, as they did when Puerto Rico sold $3.5 billion of general-obligation debt in March 2014. Buyers of distressed securities have been investing in commonwealth debt for about two years as traditional municipal-bond investors have reduced or eliminated their exposure.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. The island's economy has shrunk every year but one since 2006 and is projected to contract 1.2 percent this fiscal year.

Restructuring Plan

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services. Average monthly customer consumption decreased by about 6 percent in the year that ended in June.

Prasa's bonds may not undergo a debt restructuring. Government Development Bank President Melba Acosta, the island's top debt official, said the bank doesn't foresee the water agency reorganizing its obligations if the debt sale is completed.

Credit-rating companies aren't so sure. Standard & Poor's, which rates the utility CCC-, its third-lowest junk grade, may downgrade the agency because "events could unfold within the next three months that could expose Prasa to greater restructuring efforts," S&P analyst Theodore Chapman wrote in a report Tuesday.

Relative Value

The preliminary 10 percent yield compares with 3.1 percent on benchmark 30-year municipal debt, according to data compiled by Bloomberg. With a proposed 8 percent coupon, that's equal to a price of about 83 cents on the dollar, the two people said.

That's more expensive than existing Puerto Rico bonds. General obligation debt sold in March 2014 with an 8 percent coupon and maturing July 2035 traded Friday at an average price of 70.5 cents, for an average yield of 11.9 percent, data compiled by Bloomberg show. Prasa bonds with a 5.25 percent coupon and maturing July 2042 traded Friday at an average price of 63 cents, for a yield of about 8.9 percent.

Adding to the investor reluctance to buy the bonds is concern that this is another example of a commonwealth entity borrowing money to paper-over shortfalls rather than investing in infrastructure to improve long-term finances.

“You still have the same broken-down infrastructure and collections are terrible,” Belle Haven’s Dalton said.

Bloomberg

Michelle Kaske

August 20, 2015

Detroit Sells First Municipal Bonds Since Emerging From Bankruptcy.

Detroit returned to the municipal-bond market for the first time since the city emerged from bankruptcy, selling $245 million of bonds Wednesday to investors demanding a premium for the securities despite extra protections for bondholders.

The tax-exempt bonds, maturing in 2029, sold through the Michigan Finance Authority, yielded 4.5%, more than a percentage point higher than other single-A rated debt, according to Thomson Reuters Municipal Market Data. The bonds’ safeguards include a first claim on city income taxes, earning an investment-grade rating from Standard & Poor’s Ratings Services, despite the city’s credit rating, which is in junk territory.

The yield premium highlights the challenges Detroit faces with borrowing in the wake of a bankruptcy that left some investors concerned about the financial health of U.S. municipalities and questioning the safety of bonds backed by their full faith and credit.

“The positive is they do have market access; the negative is that they’re paying for it,” said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt bonds. “There’s demand for yield, and a decent enough portion of the market is willing to focus on the yield and structure of this deal, as opposed to the history.”

The sale included about $135 million of tax-exempt bonds maturing between 2020 and 2029, with yields between 3.4% and 4.5%, and $110 million in taxable debt maturing between 2018 and 2022, yielding 4.6%, according to MMD. The money from the bonds will pay for city services and projects and repay underwriter Barclays PLC for lending which helped Detroit out of bankruptcy.

The income tax provides more than enough money to cover the debt payments, despite the city’s still-weak economy and limited budgetary flexibility, S&P said in a July report. The need for investor protections and premiums shows the city’s access to borrowing remains weaker than for most other issuers.

“We feel Detroit will continue to be challenged to deliver the services residents need and address the backlog of capital and other needs a large city has,” S&P said.

Even with the additional assurances, there is enough uncertainty surrounding Detroit’s recovery to unnerve investors, who remember losses on the city's debt, said Steven Shachat, who helps manage more than $1 billion of municipal bonds at Alpine Woods Capital Investors.

"When a municipality goes through bankruptcy, it's hard to jump right back in the pool," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

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Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com

Court's Free-Speech Expansion Has Far-Reaching Consequences.

WASHINGTON — It is not too early to identify the sleeper case of the last Supreme Court term. In an otherwise minor decision about a municipal sign ordinance, the court in June transformed the First Amendment.

Robert Post, the dean of Yale Law School and an authority on free speech, said the decision was so bold and so sweeping that the Supreme Court could not have thought through its consequences. The decision's logic, he said, endangered all sorts of laws, including ones that regulate misleading advertising and professional malpractice.

"Effectively," he said, "this would roll consumer protection back to the 19th century."

Floyd Abrams, the prominent constitutional lawyer, called the decision a blockbuster and welcomed its expansion of First Amendment rights. The ruling, he said, "provides significantly enhanced protection for free speech while requiring a second look at the constitutionality of aspects of federal and state securities laws, the federal Communications Act and many others."

Whether viewed with disbelief, alarm or triumph, there is little question that the decision, Reed v. Town of Gilbert, marks an important shift toward treating countless laws that regulate speech with exceptional skepticism.

Though just two months old, the decision has already required lower courts to strike down laws barring panhandling, automated phone calls and "ballot selfies."

The ordinance in the Reed case discriminated against signs announcing church services in favor of ones promoting political candidates. That distinction was so offensive and so silly that all nine justices agreed that it violated the First Amendment.

It would have been easy to strike down the ordinance under existing First Amendment principles. In a concurrence, Justice Elena Kagan said the ordinance failed even "the laugh test."

But Justice Clarence Thomas, writing for six justices, used the occasion to announce that lots of laws are now subject to the most searching form of First Amendment review, called strict scrutiny.

Strict scrutiny requires the government to prove that the challenged law is "narrowly tailored to serve compelling state interests." You can stare at those words as long as you like, but here is what you need to know: Strict scrutiny, like a Civil War stomach wound, is generally fatal.

“When a court applies strict scrutiny in determining whether a law is consistent with the First Amendment,” said Mr. Abrams, who has represented The New York Times, “only the rarest statute survives the examination.”

Laws based on the content of speech, the Supreme Court has long held, must face such scrutiny.

The key move in Justice Thomas’s opinion was the vast expansion of what counts as content-based. The court used to say laws were content-based if they were adopted to suppress speech with which the government disagreed.

Justice Thomas took a different approach. Any law that singles out a topic for regulation, he said, discriminates based on content and is therefore presumptively unconstitutional.

Securities regulation is a topic. Drug labeling is a topic. Consumer protection is a topic.

A recent case illustrates the distinction between the old understanding of content neutrality and the new one.

Last year, the federal appeals court in Chicago upheld an ordinance barring panhandling in parts of Springfield, Ill. The ordinance was not content-based, Judge Frank H. Easterbrook wrote, because it was not concerned with the ideas panhandling conveys. “Springfield,” Judge Easterbrook wrote, “has not meddled with the marketplace of ideas.”

This month, after the Reed decision, the appeals court reversed course and struck down the ordinance.

“The majority opinion in Reed effectively abolishes any distinction between content regulation and subject-matter regulation,” Judge Easterbrook wrote. “Any law distinguishing one kind of speech from another by reference to its meaning now requires a compelling justification.”

That same week, the federal appeals court in Richmond, Va., agreed that Reed had revised the meaning of content neutrality. “Reed has made clear,” the court said, that “the government’s justification or purpose in enacting the law is irrelevant” if it singles out topics for regulation. The court struck down a South Carolina law that barred robocalls on political and commercial topics but not on others.

Last week, a federal judge in New Hampshire relied on Reed to strike down a law that made it illegal to take a picture of a completed election ballot and show it to others, including on social media. The law was meant to combat vote buying and coercion, which were common before the adoption of the secret ballot.

“As in Reed,” Judge Paul Barbadoro wrote, “the law under review is content-based on its face because it restricts speech on the basis of its subject matter.”

In a concurrence in the Reed decision, Justice Stephen G. Breyer suggested that many other laws could be at risk under the majority’s reasoning, including ones concerning exceptions to the confidentiality of medical forms, disclosures on tax returns and signs at petting zoos.

Professor Post said the majority opinion, read literally, would so destabilize First Amendment law that courts might have to start looking for alternative approaches. Perhaps courts will rethink what counts as speech, he said, or perhaps they will water down the potency of strict scrutiny.

“One or the other will have to give,” he said, “or else the scope of Reed’s application would have to be limited."

In her concurrence, Justice Kagan scratched her head about how a little dispute about church signs could have gotten so big. "I see no reason," she wrote, "why such an easy case calls for us to cast a constitutional pall on reasonable regulations quite unlike the law before us."

THE NEW YORK TIMES

By ADAM LIPTAK

AUG. 17, 2015

Muni Sales Set to Fall as Redemptions Decline; Puerto Rico Sells.

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

States and localities plan to issue $8.7 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Puerto Rico Aqueduct and Sewer Authority plans to sell $750 million of bonds, New York State Convention Center Development Corp. has scheduled $640 million, Portland, Oregon, Sewer System will offer $404 million and Illinois Finance Authority will bring $400 million to market.

Municipalities have announced $10.1 billion of redemptions and an additional $17.9 billion of debt matures in the next 30 days, compared with the $29.5 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $6.12 billion, followed by California at $1.77 billion and New Jersey with $929 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

ETF Flows

Investors removed $106 million from mutual funds that target municipal securities in the week ended Aug. 5, compared with a reduction of $91 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt fell by $10.2 million last week, reducing the value of the ETFs by 0.06 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 103.273 percent of Treasuries, compared with 103.156 percent in the previous session and the 200-day moving average of 101.301 percent, Bloomberg data show.

Bonds of Michigan and California had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 5 basis points to 2.48 percent while California's declined 1 basis points to 2.48 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 137 to 11.14 percent and Illinois's rose 36 basis points to 4.16 percent.

Bloomberg

Kenneth Kohn

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Puerto Rico Agency Sets $750 Million Bond Sale After Default.

Puerto Rico's main water utility plans to sell $750 million of revenue bonds, the first debt offering from the financially struggling Caribbean island since it defaulted on securities sold by one of its agencies last week.

The deal may price as soon as next week. It will follow the Public Finance Corp.'s failure to make a full bond payment on Aug. 3 and come just weeks before the commonwealth is set to propose a plan for restructuring its $72 billion of debt. Melba Acosta, the island's top debt chief, doesn't foresee the water agency reorganizing its obligations in such a move.

The utility's sale will test Puerto Rico's ability to access the capital markets. Governor Alejandro Garcia Padilla in June said the U.S. territory can't afford to repay what it owes as the population falls and the economy struggles to grow. Its bond prices have dropped amid speculation about the scale of the losses facing investors.

"This is going to be a bumpy ride for the commonwealth," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding, which manages $32 billion of municipal bonds, including Puerto Rico securities. He said investors need to consider "what's the spillover to the value of my bonds?"

AllianceBernstein will determine whether to buy once it sees the prices that are offered, Rosenblum said.

Lower Yields

The Aqueduct and Sewer Authority, called Prasa, will use the proceeds to finance capital improvements to help the water utility comply with environmental regulations. Its debt is repaid with money from customers' bills.

The yields on Prasa bonds are some of the lowest among the commonwealth's different agencies, reflecting their relative safety amid the island's escalating crisis. Bonds maturing July 2042 traded Tuesday at an average 68 cents on the dollar to yield 8.2 percent, less than Puerto Rico's general obligations, data compiled by Bloomberg show.

The securities have risks and will be initially sold in denominations of $100,000, according to the bond documents. Prasa has been rationing water since May in parts of the island because of a drought, which increases expenses and lowers demand, according to the documents.

Puerto Rico public corporations could also win the power to file for bankruptcy, the bond documents warn. Island officials have been lobbying Congress to allow some agencies to do so.

Default Risk

"If the authority is unable to charge and collect rates that are sufficient to provide for debt service on its bonds and other indebtedness and meet its operating expenses, the authority may be unable to meet its debt and other obligations as they become due," according to bond documents.

Puerto Rico and its agencies are reeling from years of borrowing to pay bills. Officials plan to present a debt-restructuring proposal by Sept. 1. If Prasa is able to sell the bonds, it won't need to restructure its debt, Melba Acosta, president of the Government Development Bank and one of the officials crafting the island's debt proposal, said Tuesday in a statement.

Prasa, which had almost $5 billion of bonds and notes, as of May 31, plans to raise rates by as much as 4.5 percent annually beginning in fiscal 2018.

The utility provides water to 97 percent of the island's population and wastewater service to more than half. As residents continue to leave for the U.S. mainland, that has cut into demand for its services.

Average monthly customer consumption decreased by about 6 percent in the year that ended in June.

Pitching Deal

Efrain Acosta, the utility's finance director, will begin meeting with investors this week to discuss the offering, he said in a telephone interview from San Juan.

Some agency bonds have more than three times the revenue needed to cover debt-service and reserves sufficient for a year's worth of principal payments, he said.

It's hard to estimate at what coupon and yield the bonds would find enough buyers after the default and with the prospect of some entities gaining access to Chapter 9, said Daniel Solender, who helps manage $17 billion, including Puerto Rico debt, as head of munis at Lord Abbett & Co. in Jersey City, New Jersey.

Whether the firm will participate in the sale depends on the pricing and structure of the deal, Solender said.

"It's going to have to be an attractive price given the default," Solender said. "It's probably the credit that could get the lowest yield right now, but it's still a test to see what the yield would be and if there are enough buyers."

Legal Jurisdiction

To sell $3.5 billion of general obligations in March 2014, the debt was priced with an 8 percent coupon at a yield of 8.73 percent, or 93 cents on the dollar.

The Prasa bonds also allow for any legal dispute to occur in a New York state or federal court, rather than in San Juan, according to bond documents. That's a feature that hedge funds demanded in order to buy the general obligations sold last year.

Bank of America Corp. is the lead underwriter on a the deal, with a syndicate that includes

JPMorgan Chase & Co., Popular Securities and Santander Securities.

Puerto Rico securities, including Prasa bonds, have been trading at distressed levels for two years on concern the island wouldn't repay its debts on time and in full.

Prasa last sold bonds in 2012, Efrain Acosta said. The utility has been working on this borrowing for a year, he said.

"After a tough year for Prasa and Puerto Rico, we finally got the bond document out," he said. "We have to close this chapter soon."

Bloomberg

Michelle Kaske

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California's New Law Creates Hybrid P3 Model to Build Civic Center.

Legislation Gov. Jerry Brown signed Aug. 11 allows Long Beach, Calif., to combine elements of several types of public-private partnership agreements into a hybrid model to expedite the construction of the city's new civic center. The project's new buildings will include a seismically safe city hall, headquarters for the Port of Long Beach and the main city library. A park will be redesigned as well. Transit-oriented mixed-use developments, high-rise condominiums and retail shops also will be built on the almost 16-acre site, the city announced in a press release.

The law places sections of state and case law that apply to lease-leaseback public-private partnerships and design-bid-finance-operate-maintain (DBFOM) P3s into one section of state law that applies specifically to the civic center project. The law reduces the risk of the procurement method being legally challenged because, to date, it has been used only to develop infrastructure projects, not city hall buildings, according to the city.

The law also authorizes the private partner to lease or own all or part of the project for up to 50 years. Under existing law, private leasing or ownership of such projects expires after 35 years, the legislative counsel's digest of the law says.

The civic center project will create 3,700 jobs construction-related jobs; it also will bring the Port of Long Beach's headquarters back to the city's downtown and re-establish its waterfront presence after a year-long, temporary relocation a few miles outside the city, said Lori Ann Guzman, president of the Long Beach Board of Harbor Commissioners.

"Long Beach residents are closer to seeing significant revitalization and modernization in downtown" as a result of the new law, said Sen. Ricardo Lara, the bill's primary sponsor. "The civic center is at the core of Long Beach and the expansion project will benefit residents for years to come."

This project has been in the planning stages for some time. Two teams of developers presented proposed plans for the civic center to the city in October. In January, the Long Beach City Council selected a DBFOM team, led by Plenary Group, to negotiate the real estate andP3 terms of the civic center project.

The civic center is not Long Beach's first P3. The city used this procurement method to build its award-winning courthouse, which opened in 2013.

NCPPP

By Editor August 13, 2015

[Detroit's Home County Avoids Bankruptcy With State Agreement.]

Wayne County will operate under state oversight and enter into a consent agreement with Michigan, allowing the home county of Detroit to bolster its finances and avoid bankruptcy.

The Wayne County Commission voted 14 to 1 Thursday to approve a consent agreement with the state, Joseph Slezak, a county spokesman said in an e-mail. The pact stops short of Chapter 9 and will allow County Executive Warren Evans to impose pay and benefit cuts. The arrangement, negotiated between Evans and the Michigan treasurer's office, was delivered to the commissioners for consideration on Tuesday.

The move seeks to improve the county's cash position, end its $52 million annual deficit and lower pension liabilities for its retirement system that is less than 50 percent funded. Wayne isn't alone. Three other Michigan municipalities and two school districts are under consent agreements.

Evans has 30 days to continue negotiations with unions before he can demand employment terms. After that, he has the power to enact wage or benefit reductions on the county's nine unions, which have expired contracts.

"This is a very sad day for Wayne County," said Gary Woronchak, chairman of the commission.

Under the pact, Wayne officials can't issue debt or sell county assets valued at more than $50,000 without Treasurer Nick Khouri's approval.

Jail Bonds

Moody's Investors Service said in July that the county's move to seek state help and spending cuts are "credit positive." Moody's rates Wayne Ba3, three steps below investment grade, and has noted that a consent agreement would empower local officials. The county has $654 million of long-term general-obligation debt outstanding.

A portion of $143 million outstanding of 10 percent jail bonds traded Thursday at an average of 84.8 cents on the dollar to yield 11.9 percent. That's down from an average of 96.4 cents on June 17, the day Evans asked the state for a financial emergency declaration. The federally taxable bonds that mature in December 2040 back an unfinished jail that costs the county $14 million a year in debt service.

Bloomberg

by Elizabeth Campbell

August 13, 2015 — 8:20 AM PDT Updated on August 13, 2015 — 9:47 AM PDT

Puerto Rico Staring at $400 Million Short-Term Funding Squeeze.

Puerto Rico is approaching an inflection point that may prove to be more challenging than the commonwealth's decision this month to skip a bond payment for the first time.

After borrowing internally, omitting debt-service payments and slowing tax rebates, the island is at risk of running out of cash to fund day-to-day operations. Puerto Rico must raise $400 million through a bank loan or a sale of short-term securities by November, Victor Suarez, Governor Alejandro Garcia Padilla's chief of staff, said Aug. 10 in San Juan.

Garcia Padilla's administration had already alienated creditors before defaulting on $58 million of bonds Aug. 3 by saying they need to restructure a $72 billion debt burden that it can no longer sustain. Puerto Rico appears to be betting that investors will provide access to capital markets again once the commonwealth unveils a debt-restructuring proposal Sept. 1.

"They're going to have some severe liquidity issues," said David Hitchcock, a Standard & Poor's analyst in New York. "Without cash-flow financing, they're going to have a very difficult time trying to just pay for ongoing operations as well as their upcoming debt payments in the next six months."

It's not clear how much operating cash Puerto Rico has on hand. The island's Government Development Bank, which lends to the commonwealth and its localities, stopped providing monthly updates as of May, when it had $778 million of net liquidity. That was down from $2 billion in October.

Anticipation Notes

Like most U.S. states, Puerto Rico tends to sell tax-and-revenue anticipation notes in the first half of a fiscal year to help finance operating needs before revenue collections pick up.

When the GDB sold short-term debt in October, the last such borrowing for the island, it paid a yield of 7.75 percent for notes that matured in eight months. The discount rate on benchmark six-month U.S. Treasury bills was around 0.05 percent at the time.

Yields on an index of one-year Puerto Rico debt were 39 percent Thursday, more than three times the average of 9.9 percent over the past two years, according to data compiled by Bloomberg. Benchmark one-year municipal debt yields about 0.27 percent.

Mounting Payments

"Whatever little good faith we had has been completely wiped out by this missed payment" by the Public Finance Corp., said Sergio Marxuach, public-policy director at the Center for a New Economy, a research group in San Juan. "And after November, things become a little more unclear."

Puerto Rico and its agencies face $1.4 billion of principal and interest payments in December and January, including $357 million for general-obligation debt, according to data compiled by Bloomberg.

Borrowing another $400 million may not be enough, Hitchcock said. In fiscal 2015, which ended June 30, the island sold $1.2 billion of short-term debt and still ended the year with a projected budget gap of as much as $740 million.

"Ability to access the market can be important for liquidity purposes," Hitchcock said. "And we feel right now they have very limited market access, if any."

Water Bonds

Puerto Rico may test market access as soon as Tuesday. The island's Aqueduct and Sewer Authority, known by the Spanish acronym Prasa, wants to sell $750 million of bonds to fund capital improvements. While the bonds have a dedicated revenue source in the form of user fees, the agency still anticipates selling the debt at an average interest rate of at least 10 percent. Prasa bonds maturing July 2042 traded Thursday at an average yield of 8.3 percent, or 67.6 cents on the dollar, according to data compiled by Bloomberg.

"It would be amazing if they can get the deal done," said Matt Dalton, chief executive office of Rye Brook, New York-based Belle Haven Investments, which manages $3 billion of munis, including Puerto Rico. "I'm just not sure who they're going to sell it to."

Moody's assigned a Caa3 rating to the proposed sale Friday, saying exposure to the government's financial, economic and political risks indicates a heightened loss potential.

Even though Puerto Rico isn't setting aside cash every month to make the general-obligation debt payment, officials anticipate the island will have the cash flow to pay the January debt bill, Chief of Staff Suarez told reporters in San Juan on Aug. 10.

Selling $400 million of additional tax-and-revenue anticipation notes to outside investors would help finance day-to-day government operations beyond November, Suarez said.

Without additional borrowing, the administration would need to consider unpaid furloughs, additional payment suspensions to suppliers or extending IOUs, Marxuach said. That would force residents and businesses to spend less and banks might actually start reducing the amount of credit they extend to companies with contracting work through the government, he said.

"Obviously that's going to have a negative ripple effect on the economy," Marxuach said. "All that matters in the market is the perception, and the perception is Puerto Rico defaulted."

Bloomberg

by Michelle Kaske

August 13, 2015 — 9:00 PM PDT Updated on August 14, 2015 — 11:42 AM PDT

Municipal Sales Set to Rise, Redemptions Fall; Kansas Sells $1B.

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

States and localities plan to issue $10.1 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $8.6 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Kansas State Development Finance Authority plans to sell $1.01 billion of bonds, New York State

Convention Center Development Corp. has scheduled $640 million, Charlotte, North Carolina Water and Sewer System will offer $463 million and District of Columbia Hospital will bring $382 million to market.

Municipalities have announced $11.4 billion of redemptions and an additional $18.1 billion of debt matures in the next 30 days, compared with the $31.2 billion total that was scheduled a week ago.

Issuers from Texas have the most debt coming due with $7.81 billion, followed by California at $2.07 billion and New Jersey with $910 million. Texas has the biggest amount of securities maturing, with $5.4 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $88 million from mutual funds that target municipal securities in the week ended July 29, compared with an increase of $250 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Yield Ratios

Exchange-traded funds that buy municipal debt increased by $72.4 million last week, boosting the value of the ETFs 0.42 percent to $17.2 billion.

State and local debt maturing in 10 years now yields 106.083 percent of Treasuries, compared with 103.105 percent in the previous session and the 200-day moving average of 101.035 percent, Bloomberg data show.

Bonds of Michigan and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Michigan's securities narrowed 3 basis points to 2.55 percent while Tennessee's declined 2 basis points to 2.33 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 129 to 11.05 percent and Illinois's rose 31 basis points to 4.15 percent.

Bloomberg

Kenneth Kohn

August 10, 2015 — 4:49 AM PDT

Chicago to Argue for Pension Reforms Before State High Court in November.

CHICAGO — Lawyers for the city of Chicago will appear before the Illinois Supreme Court in November to argue that a law aimed at shoring up two of the city's financially shaky public pensions is constitutional, according to a Thursday court order.

A Cook County judge had ruled against the law in late July, saying it violates pension protections in the Illinois constitution. The ruling was a setback for Mayor Rahm Emanuel, who has repeatedly said he will not raise taxes without pension reforms.

The Illinois Supreme Court set a calendar for lawyers' written briefs and oral arguments on Thursday.

Cook County Circuit Court Judge Rita Novak rejected Chicago's arguments that the 2014 law results in a net benefit because it will save the municipal and laborers' retirement systems from insolvency and that the law was backed by a majority of affected labor unions.

Novak also took issue with the city's contention that it was not legally on the hook to pay pensions.

The law requires Chicago and affected workers to make bigger contributions to the pensions and replaces an automatic 3 percent annual cost-of-living increase for retirees with one tied to inflation. Those increases are also skipped in some years.

Pension payments are devouring bigger chunks of budgets for Illinois and Chicago and both face crippling spending cuts or big tax increases if those payments are not reduced. Illinois has the worst-funded pension system among U.S. states and a $105 billion unfunded pension liability, while Chicago's unfunded liability for its four systems is $20 billion.

Arlene Bohner, a Fitch analyst, said in July that a ruling by the state supreme court tossing out the law "could very well lead to a downgrade."

Representatives for the nation's third-largest city and for the union representing city workers were not immediately available for comment.

By REUTERS
AUG. 13, 2015, 4:40 P.M. E.D.T.

(Reporting by Mary Wisniewski; Editing by Lisa Lambert)

[Palace Intrigue: Stadium Fights Explode in Milwaukee and L.A.]

Back during the previous Gilded Age, even Mark Twain surrendered. "It is a time when one is filled with vague longings," he wrote. "When one dreams of flight to peaceful islands in the remote solitudes of the sea, or folds his hands and says, 'What is the use of struggling, and toiling and worrying anymore? Let us give it all up.'" Were the old gentleman alive today, and if he could see American cities once again falling all over themselves to romance the various plutocrats who own the nation's sports teams, he might abandon the dream of escaping to those peaceful islands and try to find a way to shoot himself to the moon.

I truly thought we were beyond all of this, but that may be simply because I live in Massachusetts, where, at one time or another, public pressure has saved Fenway Park, and has forced the owner of the New England Patriots to build his own stadium with (mostly) his own money, and, most recently, has caused the city of Boston to rise up and tell the United States Olympic Committee and a host of influential local yahoos to pound sand. I don't mean to sound haughty, but why in the hell are so many of our fellow citizens such suckers?

Right at the moment, a few familiar scams are being run out in public. Remarkably, the St. Louis Rams are in the middle of several of them, which is odd because the Rams haven't been central to much of anything since they bolted from Los Angeles. (Along with the Raiders' departure, this left L.A. without a professional football team and, not coincidentally, left the NFL with a handy cudgel to use every time a city balked at the kind of blackmail that gets stadiums built.) Last week, the Rams got a nice little ruling from a local judge that invalidated a city law requiring a referendum before any public money could be used to build a stadium. This was a big step toward constructing a proposed $1 billion complex, the cost of which would include about $400 million in public money. St. Louis is being knuckled by an owner named Stan Kroenke, who is worth about $6 billion and keeps threatening to move his team to Los Angeles, which also is romancing the Raiders and Chargers.

There are serious proposals to build not one but two stadiums in and around Los Angeles, the metropolitan area of which extends to somewhere east of Mongolia. In Inglewood, Kroenke has proposed to build a stadium with a see-through roof. Meanwhile, down in Carson, there's been a roiling brawl over a proposed $1.7 billion stadium; in June, a City Council meeting nearly devolved into a fistfight. Both the Raiders and Chargers have been flirting with the Carson proposal, but they are being very coy about it. At another City Council meeting, scheduled to update residents on the progress of the onrushing fiscal calamity, neither team bothered to send a representative. The activity has been so frenzied that even John Oliver on HBO noticed and pronounced himself appalled. "Most new stadiums nowadays," Oliver marveled, "look like they were designed by a coked-up Willy Wonka." Welcome to America, big guy.

But nowhere has the scam worked so brilliantly as it has in Milwaukee, where once I watched the Warriors of Al McGuire — and the Bucks of Larry Costello — play basketball in the Milwaukee Arena, which looked like the world's largest rolltop desk. Both Marquette and the Bucks moved to the Bradley Center — now the BMO Harris Bradley Center — in 1988. It was built in the vain hope of attracting an NHL team. It was financed by the family of Harry Lynde Bradley, who got rich as the cofounder of the Allen-Bradley Company. That wealth also finances a variety of conservative causes and politicians. Which brings us all the way around to a new arena proposal and the guy pushing it the hardest, who also happens to be running for president of the United States.

In April 2014, former U.S. senator Herb Kohl sold the Bucks for $550 million to a pair of hedge-funders named Wesley Edens and Marc Lasry. This was considered at the time to be a wild overpayment for one of the NBA's fiscal basket cases. The new owners promised to keep the team in Milwaukee and "work toward" the construction of a new downtown arena to replace the Bradley Center, which, after all, was 26 years old at the time and, therefore, by the calculations of the people who want to build new arenas with somebody else's money, might as well be Angkor Wat. Luckily, just at their moment of direst need, along came a savior with ambitions named Scott Walker.

Having largely succeeded in rolling back more than a century of progressive government in a state where progressive government was long an institution, and having been elected three times in five years, Walker was gearing up for his presidential run. He proposed to use $250 million of public money to build the Bucks a new arena so the team would not leave town. Walker's political opponents hastened to note this was the exact amount he proposed to cut from the University of Wisconsin system. But the real action came from his erstwhile allies. Conservative legislators went straight up the wall, inveighing against what was obviously a whopping gob of corporate welfare. (They also weren't thrilled at handing over $250 million to Edens and Lasry, who previously had contributed a lot of money to Democratic campaigns.) For his part, Walker defended the decision and uncorked almost every discredited argument for publicly funded stadiums that anyone has ever made.

He argued that only $80 million would come from the state and that local and county government would cover the rest, as though people lived and paid their taxes in some place called the state, and not in towns or counties. This is the pea-under-the-shells technique. He claimed the state would lose $419 million over the next 20 years if the Bucks left town. Included in these calculations was his estimate of how much revenue would be drained if the Bucks players were no longer paying taxes in Wisconsin, which implies that the players themselves employ accountants who are stupid, drunk, or dead. He then told ABC News that these deals have been good for local economies all over the country. It was about here when actual economists began to throw themselves out of windows.

Walker, who is running for president almost wholly on his conservative bona fides, found himself crossways with the Cato Institute.

That this is as noisy a fight as it has become is a promising sign. So, for that matter, is the fact that the Carson City Council nearly came to blows over a stadium proposal. It means the old sales pitches for this snake oil don't work as well as they used to. Pure civic jingoism doesn't have that old magic anymore. Citizens generally have gotten wise to the fiscal palaver and fast-talking from the people who want to get into their pockets. They aren't as easily conned by politicians, and they aren't as easily flattered by local Babbitts, and they aren't as easily bamboozled by any unholy combination of the two. Unfortunately, there is still blackmail, and the jury is still out on whether that tactic still works.

It certainly seems to be working in Wisconsin, where Walker is trying to get the ransom money transferred as best he can. It remains to be seen whether it will work on behalf of the St. Louis Rams, or the San Diego Chargers, or the Oakland Raiders, a team that has spent almost its entire history playing Oakland and Los Angeles off each other. The problem the NFL had was not that the Raiders were gaming the system but that the Raiders were gaming the system without permission. They were the functional equivalent of the people who go into casinos and count cards. You can see how it's supposed to work by watching how Kroenke plays off St. Louis and Los Angeles, and how the Chargers and Raiders play off two proposed stadiums against the cities where they presently play.

In this new Gilded Age, nothing should surprise us anymore. In Wisconsin, where Walker is moving heaven and earth to get a couple of Democratic sugar daddies a new playpen, his campaign named one Michael Grebe to be its chairman. Grebe's day job is as chairman and CEO of the Bradley Foundation, founded with the same money that once built the Bradley Center, which is obsolete because other money says so. Mark Twain was right. Those peaceful islands look very good right now.

GRANTLAND.COM

by CHARLES P. PIERCE

AUGUST 10, 2015

Municipal Sales Set to Rise, Redemptions Fall; Kansas Sells $1B.

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

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Bloomberg

Kenneth Kohn

August 10, 2015 — 4:49 AM PDT

San Francisco Seeks Rent Break Through Bonds.

With tech workers flooding San Francisco, one-bedroom apartment rents have climbed to $3,500 a month, more than in any other U.S. city. Residents are being priced out. Evictions routinely spark political rallies.

Mayor Ed Lee, under pressure to deal with the soaring cost of living as he runs for re-election, is backing a partial fix: a $310 million debt sale to build affordable housing that will go before voters in November.

It’s the largest housing bond in the city’s history.

San Francisco’s push bucks the national decline in the sale of municipal debt for housing, which was slashed in half to $10.7 billion in 2014 from $20.8 billion a decade earlier. It may revive interest in the bonds as mayors from New York to Seattle seek to add homes for lower-income residents as real-estate prices climb.

“You’re seeing cities looking at a variety of ways to try to accommodate poor people,” said Howard Cure, director of municipal credit research in New York for Evercore Wealth Management LLC, which manages $6 billion. “It’s a big issue in certain areas where places have gentrified or the rental market is such that it’s becoming more unaffordable for working-class people.”

In California, cities and counties need to sell housing debt directly after Gov. Jerry Brown dismantled their redevelopment agencies. Those bonds were repaid with taxes from new projects.

Below AAA

That shift may benefit San Francisco, whose fast-growing economy has left investors willing to accept yields on some securities that are lower than top-rated municipals.

When San Francisco sold $67 million of general obligations on June 23, 10-year securities were priced to yield 2.34 percent. That was less than the 2.37 percent rate on benchmark municipal debt with the same maturity, according to data compiled by Bloomberg. The 20-year bonds yielded 3.62 percent, about half a percentage point more than top-rated debt.

“It’s viewed as a very safe credit to the point where you’re not going to get much yield above the AAA scale,” Cure said. “It’s a high-tax state so there’s a lot of demand for the bonds to begin with, and the city is doing pretty well.”

If approved by two-third of voters, the bonds would be used to advance Lee’s effort to build and renovate 30,000 homes over the next five years. The proceeds would fund the construction of rental units and create a program to help residents, including teachers, buy their first homes.

‘Housing crisis’

A boom among tech startups seeking to become the next Uber Technologies Inc., Facebook Inc. or Spotify Ltd. has drawn thousands of well-paid workers to California’s fourth-largest city, reducing the unemployment rate to 3.5 percent. The influx is fueling higher rents and sparking protests over evictions and affluent condominium developments in working-class neighborhoods.

The median asking price for a San Francisco one-bedroom apartment is $3,500, $400 more than in New York, the second most-expensive city, according to a report this month by Zumper, an online listing service. In June, the median price of a home was $1.14 million.

“San Francisco’s housing crisis demands aggressive action,” Lee, who’s seeking re-election in November, said in a statement. “Housing that is affordable to low- and middle- income families promotes diversity and equity.”

A separate measure on the November ballot would develop affordable housing from little used city properties.

Swaying voters

The bond issue, approved for the ballot by the county Board of Supervisors in July, won’t increase property taxes. San Francisco voters rejected a $250 million affordable-housing plan in 2002 — and another $200 million bond two years later — that included property-tax increases.

If voters approve the latest proposal, the city plans to sell the first of the debt in 2016, said Nadia Sesay, San Francisco’s public-finance director. Revenues from property taxes will be used to repay the 20-year debt, which may include some taxable bonds depending on use, she said.

"The bond will trade great," said Craig Brothers, a Los Angeles-based money manager at Bel Air Investment Advisors, which oversees $3 billion. "It will trade like any other San Francisco general-obligation bond."

By: Bloomberg News August 10, 2015 1:25 pm

Kansas Tops U.S. Municipal Bond Calendar with $1 Bln Pension Deal.

Kansas will offer $1 billion of taxable pension bonds in the U.S. municipal market next week in a move that could make investors skittish given a recent default on some bonds in Puerto Rico and credit ratings downgrades in Chicago.

Debt service on the bonds is subject to annual appropriation, meaning that Kansas' legislature must decide each year whether to allot money to make the payments.

Just this week, there was a default on Puerto Rico appropriation-backed bonds, while credit ratings on more than $3 billion of Chicago convention center bonds were severely downgraded because an impasse over Illinois' fiscal 2016 budget blocked a monthly transfer of tax revenue to the bond trustee.

Alan Schankel, a managing director at Janney Capital Markets, said the combination of pension and appropriation bonds will come at a higher cost to Kansas.

"I think anybody has to take a look at appropriation debt and require a little more yield," he said.

Meanwhile, the Government Finance Officers Association in January advised states and local governments not to issue pension bonds because they carry "considerable risk."

The practice, which relies on the assumption that invested proceeds will result in higher returns than the interest cost on the bonds, came under heightened scrutiny particularly in the wake of Detroit's $1.4 billion issuance that was tied in part to soured interest-rate swaps that helped drive the city to file the biggest-ever municipal bankruptcy in 2013.

Kansas' deal is the largest on next week's nearly $5.8 billion calendar of competitive and negotiated municipal bond and note sales.

The state's fixed-rate bonds will be issued through its development finance authority and will be structured with serial maturities from 2017 through 2030 and term bonds due in 2037 and 2045, according to the preliminary official statement.

A state law limits the bond interest rate to 5 percent. Pricing is scheduled for Monday through senior underwriters Bank of America Merrill Lynch and Wells Fargo Securities.

The bonds are rated Aa3 by Moody's Investors Service and AA-minus by Standard & Poor's, which has a negative outlook on the rating due in part to the state's pension payments falling short of actuarially required levels.

Kansas projects that the bond sale will improve the funded ratio for pensions to 73 percent in 2020 from 59 percent at the end of 2014.

REUTERS

Fri Aug 7, 2015

(Reporting by Karen Pierog in Chicago and Hilary Russ in New York; Editing by Paul Simao)

Insurance Stocks to Watch as Puerto Rico Defaults.

The Greek crisis is still fresh in our memories but there seems no end to bad news. Unable to repay its huge debt, Puerto Rico has defaulted. The island's Government Development Bank could pay back only $0.6 million of the $58 million due to its creditors of Public Finance Corporation. The amount was part of the interest on bonds.

Puerto Rico has a hefty debt balance of over $70 billion. Melba Acosta-Febo, President of the Government Development Bank, stated, "the partial payment was made from funds remaining from prior legislative appropriations in respect of the outstanding promissory notes securing the PFC bonds."

"First Time Defaulter"

While the default is the first time in Puerto Rico's history, it raises concerns about the economic future of the island as well as the liquidity of the commonwealth. The picture is of widespread gloom as Moody's sees this as among the first of bigger defaults on commonwealth debt and Standard & Poor's portends other defaults over the next few months and signs of dismal liquidity. Going by a Reuters report, Puerto Rico had halted monthly deposits to its general obligation redemption fund for a temporary period.

The $58 million in bonds were issued by a subsidiary of the Government Development Bank to procure funds for school construction and the creation of landfills among others. While the government bank financed those projects initially, it prudently shifted the liabilities from its own balance sheet by refinancing them through its subsidiary, the Public Finance Corporation. The bonds were already facing downgrades and moved to the junk territory in March by Moody's Investors Service and Standard & Poor's.

The Puerto Rico debt includes approximately $18.6 billion of general-obligation bonds and government-guaranteed debt, $15.2 billion of sales-tax-backed bonds and $24.1 billion of bonds issued by government agencies, like the Puerto Rico Electric Power Authority.

Puerto Rico has been stressed by government debt crisis for several years. The island owed many debt payments on Aug 1, of which it could pay only the interest portion of $58 million.

Way Out for Puerto Rico

The Puerto Rico debt crisis is worse than Detroit's $20-billion crisis (Detroit filed for bankruptcy two years back) but much lesser than the $350-billion crisis of Greece. However, Puerto Rico cannot file for bankruptcy as the island is not covered under the U.S. Bankruptcy Code. Moreover, it is unlikely that any institution will come for rescue as we saw in the case of the Greek distress where International Monetary Fund came to rescue.

Nonetheless, Puerto Rico intends to restructure its debt with policymakers so that they can work a way out with creditors and investors. Puerto Rico even fears a government shut down if further funds are not raised.

To add to its woes, the residents of Puerto Rico are moving out as high unemployment and economic instability are forcing them to look for survival outside the island. This, in turn, will hit Puerto Rico even harder as it lower the tax base of the island — the major source of revenue for any economy.

According to Morningstar Inc., about half of the U.S. municipal-bond mutual funds have coverage in Puerto Rico. So the island's default could cause serious damage to the concerned investors, who have already incurred heavy losses after the commonwealth's credit ratings were downgraded to junk and bond prices collapsed.

Sensing tough times, Monarch Alternative Capital LP, which had invested in commonwealth's general-obligation bonds, got rid of some. However, the latest crisis will surely act as a dampener to the fortunes New York-based MBIA Inc. and Bermuda based Assured Guaranty Ltd. (AGO – Analyst Report) that are exposed to Puerto Rico

MBIA Inc. has almost twice the exposure of Assured to Puerto Rico's stressed power authority called Prepa. While the crisis could eat away the statutory capital of MBIA's National Public Finance Guarantee Corp., about 40% of Assured's funds will be washed out as together they insure about 20% of the islands through municipal debt as per media reports.

While MBIA Inc. lost 2% in yesterday's trading, another bond insurer Ambac Financial Group, Inc.'s shares dropped 3.4%.

by Zacks Equity Research

Published on August 04, 2015

S&P: Chicago Budget Forecast Remains Grey - City Faces Continued Budget Gaps, Stressed Bottom Lines.

CHICAGO (Standard & Poor's) Aug. 6, 2015–Chicago's budgetary challenges for fiscal years 2016 to 2018 were highlighted in the release of its annual financial forecast — specifically the hurdles it faces in balancing its budget, even before approaching the issues of its rising debt burden and pension contributions.

We expect that during the next five months, as the mayor progresses with his proposed budget and then what is ultimately adopted by the city council, the city will demonstrate how serious it is about implementing both immediate and far-reaching plans to address the structural cracks in its budget. Given the uncertainty regarding the reform of its police, fire, municipal and laborers plans, we expect city management to consider contingency plans for addressing its pension liabilities, regardless of the outcome for all four of its plans.

In the base case scenario, the city's operating budget gap for 2016 is $232.6 million; add in its increased pension contributions and debt, and the number rises to $426 million. The corporate fund is not the only fund that contributes to the pensions; the enterprise funds and library fund also pay a share. The forecast factors in an incremental $328 million increase in police and fire pensions, based on the assumption that the city will gain state approval of a phased-in approach to the pension payments rather than the $550 million increase it currently faces, and that the Supreme Court will uphold the city's reformed municipal and laborers pension plans. In our view, it would be more conservative to assume the $550 million payment. Additionally, the forecast assumes that the city will pay $100 million more in debt service due to the phase out of its "scoop and toss" practice, in which the city made debt payments from refunding bond proceeds rather than from current revenues.

The forecast presents two scenarios in addition to the base case: positive and negative. Even in the positive outlook, with revenues more strongly recovering from the recession than in the base- case scenario, there is still an operating budget gap of $83.0 million in 2017, and it rises to $132.4 million in 2018. In the negative outlook, which assumes stagnant revenues and more accelerated operating expenditure growth, the city faces operating gaps of $577 million in 2017 and $801 million in 2018. The forecast approaches and discusses debt and pension contributions separately and those numbers are not included in the aforementioned figures.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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Primary Credit Analyst: Helen Samuelson, Chicago (1) 312-233-7011;
helen.samuelson@standardandpoors.com

Secondary Contact: Jane H Ridley, Chicago (1) 312-233-7012;
jane.ridley@standardandpoors.com

Atlantic City Cut Three Steps by S&P, Citing Lack of Debt Plan.

Atlantic City had its debt rating cut deeper into junk by Standard & Poor's, which said the New Jersey gaming hub has no "clear plan" to address its fiscal woes.

The municipality, which has been run by an emergency manager since January, was reduced three steps to B, the fifth level into junk, and may be lowered further, the ratings company said Monday.

Since Emergency Manager Kevin Lavin released a report in March citing the potential for deferred debt payments and job cuts, there has been no "additional clarity" on how the city can address its $101 million budget deficit and eroding tax base, Timothy Little, an S&P analyst, wrote in a release.

"The lack of clear and implementable reforms to restore fiscal solvency without payment deferrals or debt restructuring remains uncertain as the city continues to operate in a difficult fiscal environment," he said in the statement.

Bankruptcy protection may be a "potential course of action" if as yet unimplemented solutions are unsuccessful, Little said.

Atlantic City's finances haven't changed since May, when it sold securities with an S&P ranking of A-, the fourth-lowest investment grade, Michael Stinson, the city's revenue and finance director, said Monday. The bonds were issued through a New Jersey program that diverts state aid to debt payments, which lessens the risk to bondholders.

"For a downgrade at this point, it just doesn't make sense," he said.

Atlantic City "continues to make progress" in addressing its budget shortfall and longer-term structural deficit, Lavin, the emergency manager, said in an e-mailed statement.

Governor Chris Christie had appointed Lavin to come up with a plan to revive the finances of the city, where four of 12 casinos closed last year. The governor's move led Moody's Investors Service and S&P to downgrade Atlantic City because of the risk that a turnaround plan could foist losses on bondholders. Moody's ranks the city Caa1 with a negative outlook.

Bills that the state legislature passed in June, including a measure that would create payments in lieu of taxes from the the city's casinos, are part of the financial plan, Stinson said. The legislation still has to be signed by Christie.

Kevin Roberts and Brian Murray, spokesmen for Christie, didn't immediately return a call and e-mail requesting comment.

Tax-free general obligations due in December 2027 traded Monday with an average yield of 7.26 percent, or about 4.7 percentage points over benchmark munis, data compiled by Bloomberg show.

Bloomberg

by Romy Varghese

August 3, 2015 — 1:17 PM PDT

Puerto Rico Debt Crisis: A Bond Guide as Potential Defaults Loom.

Puerto Rico's fiscal crisis reached a turning point this week when one of its agencies, the Public Finance Corp., defaulted on a bond payment for the first time.

Standard & Poor's said the decision could imperil the government's ability to borrow money as it risks running out of cash within the next few months. The rating company said more defaults may follow.

Like other municipal borrowers, the island has many types of bonds, sold by different agencies and backed by different funds and legal safeguards.

Here's a list of the commonwealth's biggest bond issuers, how much long-term debt they have, and when major monthly payments are due, according to data compiled by Bloomberg. Puerto Rico's bond payments total about $209 million from September through November before swelling to a combined $1.4 billion in December and January, the data show.

General-obligations: $13 billion. They're backed by the commonwealth's full faith and credit. The island's constitution says general obligations must be repaid before other expenses. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Sales Tax Financing Corp.: $15.2 billion. These bonds, called Cofinas, are repaid from dedicated sales-tax revenue. A $6.2 billion portion of the debt, called senior-lien, is repaid first. The remaining $9 billion, called subordinate-lien, get second dibs. Maturity and interest payments are due in August, with the bulk of other interest paid in February.

Puerto Rico Electric Power Authority: $8.3 billion. Prepa, as it's called, is the island's main supplier of electricity and repays the debt from what it charges customers. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Government Development Bank: $5.1 billion. The GDB lends to the commonwealth and its localities. When those loans are repaid, the bank can pay off its debt. The agency covered debt bills due this month. Its next bond payment is in December.

Puerto Rico Highways & Transportation Authority: $4.7 billion. The highway agency repays its debt with gas-tax revenue. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Public Buildings Authority: $4.1 billion. The PBA bonds are repaid with lease revenue from public agencies, departments and instrumentalities of the commonwealth. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Aqueduct & Sewer Authority: $4 billion. The utility, called Prasa, supplies most of the island's water. The debt is repaid from water rates charged to customers. Maturity and interest payments are due in July, with the bulk of other interest paid in January.

Puerto Rico Pension-Obligation Bonds: $2.9 billion. The taxable debt was sold to bolster the island's main pension fund. The bonds are repaid from contributions that the commonwealth and municipalities make to the retirement system. The next maturity is July 2023.

Puerto Rico Infrastructure Financing Authority: $1.9 billion. Called Prifa, the agency has sold the island's rum-tax bonds. These are securities repaid from federal excise taxes on rum made in Puerto Rico. Most of Prifa's bonds mature every July, with additional interest payments in January.

Puerto Rico Public Finance Corp.: $1.09 billion. The PFC bonds are repaid with money appropriated from the legislature. The agency defaulted on its Aug. 1 debt-service payment because the legislature failed to do so. Maturity and interest payments are due in August, with the bulk of other interest paid in February.

Bloomberg

by Michelle Kaske

August 4, 2015

Muni Funds Lose Most Cash in Five Weeks Amid Puerto Rico Default.

Individuals pulled $308 million from muni funds in the week through Wednesday, Lipper US Fund Flows data show. That's the largest withdrawal since the period through July 1, during which Puerto Rico Governor Alejandro Garcia Padilla said the U.S. commonwealth can't afford to pay its debts.

High-yield muni funds, which are the most likely to hold Puerto Rico securities, saw about $58 million of outflows, the most in four weeks. Investors yanked $208 million from funds holding long-term obligations. Despite the withdrawal, muni prices were little changed this week, according to Bloomberg benchmark indexes.

Puerto Rico said Aug. 3 that it paid just $628,000 of the $58 million due on securities sold by its Public Finance Corp. The struggling commonwealth is seeking to restructure its $72 billion of debt, which is widely held because the interest is exempt from federal, state and local income taxes nationwide.

Bloomberg

Brian Chappatta

August 6, 2015 — 2:49 PM PDT

Moody's Comments on PREPA's Restructuring Proposal.

New York, August 06, 2015 — Moody's Investors Service has reviewed the new restructuring proposal filed by the Puerto Rico Electric Power Authority (PREPA; Caa3 negative), which states that non-forbearing bondholders would recover 65%-70% of the original legal promise in cash, depending on maturity, and which makes default a virtual certainty. The EMMA filing also includes alternative plans filed by PREPA, a bondholder group, and a bond insurers' group.

Although bondholder recoveries are volatile and hard to predict, recovery expectations play a large role in Moody's PREPA ratings, and the proposal's overall recovery rates are in line with Moody's expectations at PREPA's current Caa3 rating, which incorporate a recovery range of 65%-80%. Moody's outlines the proposal for the different bondholders in the new report, "Moody's Comments on PREPA's Restructuring Proposal."

In contrast to non-forbearing bondholders, forbearing bondholders would receive an exchange offer, nominally at par. However, these bondholders could still incur substantial losses because the original promise to pay cash would be replaced with a new security that defers interest and principal and would be subject to the risk that it will not be paid.

PREPA's forbearing bondholders, which comprise both insured and uninsured bondholders, hold just over 66% of the authority's $8.1 billion bonds; the uninsured non-forbearing bondholders hold the remainder.

"For the forbearing bondholders, our analysis suggests a mid-range recovery rate of 67%, based on a discount rate of 7.5%" says Rick Donner, a Moody's Vice President — Senior Credit Officer. "But regardless of the discount rate, we doubt the recovery rate for the forbearing bondholders would be any worse than the 65%-70% cash offer being presented to the non-forbearing bondholders."

Under PREPA's plan, the insured legacy bonds would be excluded from any transactions and would remain unchanged. However, the bond insurers could still incur economic losses, as they are being asked to provide a new wrap for up to $1.3 billion with zero compensation, even as they continue to carry the risk associated with the current insurance.

Finally, all of the publicly disclosed proposals, including PREPA's, call for deferring debt service for at least five years, to fund capital expenditures.

If a restructuring agreement can be reached, a default in the form of a distressed exchange sometime in the next few months is the most likely outcome. The broad consistency of the proposals and counter-proposals indicates ongoing progress, but substantive creditor issues could very well preclude a deal. And even if PREPA can reach an agreement with its creditors, the execution risk will be substantial, particularly in light of the island's weak economic conditions.

The report is available to subscribers here.

Puerto Rico Defaults on Most of $58 Million Debt Payment.

Puerto Rico missed most of a $58 million bond payment Monday, marking the first default by the U.S. commonwealth and escalating its attempt to restructure about $72 billion in debt.

The payment to bondholders is the first skipped since Gov. Alejandro García Padilla in June said the island's debts were unsustainable and urged negotiations with creditors, which range from individuals to hedge funds.

Analysts said the missed payment isn't likely to provoke an acute marketwide reaction from investors, many of which have been inching away for the commonwealth for years amid dire economic news.

But the episode is the latest confirmation that Puerto Rico doesn't have the money to meet all of its coming obligations, said Emily Raimes, vice president at Moody's Investors Service.

"This is a first in what we believe will be broad defaults on commonwealth debt," she said.

The Government Development Bank for Puerto Rico said the island's legislature didn't set aside money for the appropriation bonds, a decision that reflects "serious concerns about the Commonwealth's liquidity" and its need to balance paying bondholders with maintaining essential services, according to a news release from the bank. The bank did pay about $628,000 remaining from prior funds.

The nonpayment is another setback for investors in debt from Puerto Rico, which is struggling with a decade of economic stagnation and high unemployment, underscoring the commonwealth's effort to prioritize payments as it attempts to preserve its cash and avoid a government shutdown.

About half of municipal-bond mutual funds in the U.S. have exposure to Puerto Rico, according to research firm Morningstar Inc.

Those investors have already suffered losses as the commonwealth's credit ratings fell to junk in recent years and bond prices plummeted.

Some Puerto Rico bonds sold in 2014 traded Monday at about 69.25 cents on the dollar, down from about 73 cents in mid-July, according to Thomson Reuters Municipal Market Data.

The corporation's missed payment suggests how Puerto Rico may treat different forms of debt going forward, said John Miller, co-head of fixed income at Nuveen Asset Management LLC in Chicago, which manages about $100 billion in tax-exempt bonds. Investors in the appropriation bonds have little recourse because the bonds are backed only by the legislature's willingness to find the money for them. Other bonds have greater legal protections.

"It is somewhat meaningful that this is their first monetary default," Mr. Miller said. "However, if people have been paying attention to the plans, this was anticipated, and it doesn't really change the orchestrated direction that the government's taking."

That direction has even some former boosters backing away. Monarch Alternative Capital LP, which at one point had about 5% of its now $5 billion under management invested in the commonwealth's general-obligation bonds, told investors late last week that it sold off part of the position in recent weeks.

"We believe that the probability of a default scenario has significantly increased and could risk extending the timeline for a resolution to the island's situation," co-founder Michael Weinstock and other firm executives wrote to investors in a letter reviewed by The Wall Street Journal.

In particular, he flagged the firm's discussions with the island's political leadership. "We ultimately came to the view that the sentiment of Puerto Rico's leadership had shifted and that they would be unwilling to implement the fiscal reform measures needed to regain the market's confidence and avoid a potential default," the letter said.

A group of Puerto Rico policy makers are working on a restructuring plan and scheduled to present their findings at the end of August. Creditors, including mutual funds, hedge funds and other distressed-debt investors, have been splitting into committees based on which bonds they own.

Puerto Rico has said its debt includes about $18.6 billion of general-obligation bonds and government-guaranteed debt, $15.2 billion of sales-tax-backed bonds and $24.1 billion of bonds issued by government agencies, like the Puerto Rico Electric Power Authority, which is already negotiating a restructuring with creditors. Many investors hold bonds across the different sectors, which could recover different amounts in a restructuring.

The restructuring process is uncertain in part because Puerto Rico is neither a U.S. state nor a sovereign nation.

All states are barred from filing for bankruptcy, but cities, such as Detroit, can seek protection under chapter 9 of the U.S. bankruptcy code. Puerto Rico is lobbying the U.S. Congress for a law allowing some of its entities to access chapter 9 protections. Until such a law passes, the island's leaders must negotiate with creditors without that process.

Matt Fabian, partner at research firm Municipal Market Analytics, Concord, Mass., said that while worries about Puerto Rico have had little impact on the broader market for municipal bonds, a missed payment could spur new selling in other commonwealth debt.

"The Puerto Rico market is huge and diverse," he said. "You have to presume there will be some knock-on selling."

THE WALL STREET JOURNAL

By AARON KURILOFF

Aug. 3, 2015 4:30 p.m. ET

—Rob Copeland contributed to this article.

Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com

[Seattle Transit Authority Plans Biggest-Ever Green Muni Bond.]

This week, the Central Puget Sound Regional Transit Authority plans to sell about $923 million of green bonds, which help finance environmentally friendly projects. It would be the world's largest green-bond issue from a municipal entity, providing a boost to green-bond sales figures that have been tracking below expectations so far this year.

Green bonds have surged in popularity over the last few years, as companies, governments and development banks take advantage of investor demand for securities that are seen as aiding the environment. But this year's volume of green-bond sales has disappointed some advocates amid concerns about whether projects financed with green bonds are truly "green."

So far, roughly $19 billion of green bonds have been sold this year, according to a tally from the Climate Bonds Initiative, a nonprofit group based in London. The group, however, forecast $100 billion of new green bond sales this year, a figure that looks unlikely now. Last year, nearly $37 billion of bonds were sold, the most on record.

The Seattle agency, known as Sound Transit, plans to use proceeds from its sale to expand the region's light-rail system, as well as refinance existing debt used for previous projects. The agency expects to finalize pricing of the bonds on Tuesday.

Brian McCartan, chief financial officer for Sound Transit, said the agency is hoping to diversify its investor base with the new green bonds, as well as promote its sustainability program and deepen the green-bond market.

Unlike some other recent municipal issuers, the agency commissioned a study from research-an--analysis firm Sustainalytics to sign off on the environmental benefits of the agency's new bonds. Green-bond investors say these outside opinions are useful in determining whether a project is truly environmentally friendly.

In its review, Sustainalytics said Sound Transit "aims to support projects that will provide low-carbon public transit" in the region, reducing greenhouse-gas emissions, and found the green bonds "robust and credible." The opinion should "really give investors that additional vote of confidence that the moneys will be used for sustainable projects," Mr. McCartan said. The firm charged a "modest fee" for the review, he said.

The bonds will be repaid from sales-tax collections. They are expected to carry a triple-A rating from Standard & Poor's Ratings Services, the highest rating available, and a Aa2 rating, the third highest, from Moody's Investors Service. J.P. Morgan is leading the deal.

THE WALL STREET JOURNAL

By MIKE CHERNEY

Aug 3, 2015

Border Jails Facing Bond Defaults as Immigration Boom Goes Bust.

Jails built to profit from an illegal immigration boom are weighing down the finances of rural counties in the U.S. Sunbelt as border apprehensions slow and the federal government orders the release of more migrants.

In Texas, the heart of a jail-building boom over the past decade, nine of 21 counties that created agencies to issue about $1.3 billion in municipal bonds to build privately run correctional facilities largely for migrants have defaulted on their debt. A dozen other facilities from Florida to Louisiana to Arizona, many that housed immigrants, have also defaulted, according to figures from Municipal Market Analytics, a bond-research firm based in Concord, Massachusetts.

The slowdown in border detentions is putting a fiscal strain on counties that rushed to build jails in anticipation that a two-decade boom in immigrant inmates would continue. Municipalities that banked on those facilities for revenue and jobs are desperate to keep them afloat as a glut of beds goes empty and walls gather dust.

"My fear's always been that this would happen," said Joel Rodriguez Jr., judge of La Salle County, Texas, about 67 miles (107 kilometers) north of the U.S.-Mexico border, who is overseeing the fate of a distressed detention center. "When this facility was sold to the county, they sold it as a money-making facility that was going to be a great economic boon."

Almost Empty

Today the 566-bed facility, called the La Salle County Regional Detention Facility, sits almost empty behind thick coils of razor ribbon in tiny Encinal, whose 579 residents barely outnumber prison beds. Another border detention center was destroyed in a riot by prisoners after cost-cutting efforts led to deplorable conditions. Another, on the banks of the Rio Grande River, is slated to close next month after too few inmates walked through the doors to keep up with big debt payments.

"The number of people detained and incarcerated for immigration matters hasn't kept up with the pace of construction for these new beds," said Bob Libal, executive director of Grassroots Leadership, an advocacy organization based in Austin, Texas, that opposes private prisons.

The drop-off follows an almost two-decade boom that saw the number of immigrant detainees mushroom, partly as a result of more people crossing into the U.S. and partly due to a get-tough attitude toward illegal border crossers. County jails grew overcrowded.

Good Bet

"The populations were just hanging off the trees," recalled Michael Harling, executive vice president at Municipal Capital Markets Group Inc., a Dallas firm that co-managed many of the jail bond issuances in Texas.

Prison operators crisscrossed the South pitching rural towns on the purported economic salvation of detention facilities. Under the arrangement, local governments would typically receive daily fees from the federal government based on the number of beds or persons filling them, and private prison operators would get a portion, usually the lion's share.

For some of the nation's smallest and most impoverished communities, locking up immigrants seemed like a good bet. To finance their construction, counties issued debt through conduit borrowers, limiting the county's liability, while allowing projects to be built quickly.

Lease-Purchase

Last year, Texas counties had $709 million in scheduled debt service for so-called lease-purchase obligations, most of which are for jail facilities, up from $273 million in 2000, according to figures from the Texas Bond Review Board.

The increased debt grew right before migration patterns and immigration policy began to shift. Last year, there were 487,000 apprehensions, about the same level as in 1973, compared with a peak of nearly 1.7 million in 2000, according to the U.S. Border Patrol. That's partly because an improving Mexican economy and drug cartel violence kept fewer people from venturing north.

At the same time, the trend of locking up migrants has eased. More local officials are refusing to detain migrants at the behest of federal immigration officials and the Obama administration recently narrowed the categories of migrants that should be detained.

The number of immigration detainees last year was down 11 percent from 2012, when incarcerations were at an all-time high, according to figures from U.S. Immigration and Customs Enforcement. The average daily population in ICE detention was 31,164 in June, down 16 percent over the same time period a year earlier.

Fewer Detentions

Detentions may continue their downward march. Last month, a federal court rebuked the administration for its policy that jailed a wave of women and children fleeing violence in Central America.

"The system has been built up to be able to house criminal aliens," said A. J. "Andy" Louderback, past president of the Sheriffs' Association of Texas. "When all of a sudden at the stroke of a pen those folks are released to live, work and play in our communities, those beds are going to be vacant."

The Encinal detention center was opened in 2004 after a county corporation issued almost $22 million in revenue bonds. At the time, local residents warned that revenue projections were too rosy.

Leaking Roof

Last winter, the facility's private operator, Emerald Correctional Management LLC of Shreveport, Louisiana, suddenly pulled out all inmates, said Rodriguez, leaving the county with empty beds, a leaking roof and almost $20 million in debt.

Since then, the county has assumed responsibility for the facility and, in an effort to salvage the 100 jobs tied to the jail, is working with bondholders to get it back up and running.

Bonds issued for the jail that mature in March 2024 traded July 17 at 40 cents on the dollar, to yield about 25 percent, data compiled by Bloomberg show. The securities are down from 70 cents at the start of the year.
In 2006, the Willacy County Local Government Corp. issued its first bonds, totaling $61 million, to build a detention facility. The 3,000-bed facility that featured a collection of white Kevlar domes to house inmates became a source of grievances, from maggots in the food to allegations of sexual abuse.

In February, inmates rioted and destroyed the facility with metal pipes. All 2,800 prisoners were removed from the facility, federal officials canceled their contract and Standard & Poor's downgraded the debt to junk.

In Maverick County, where the county seat of Eagle Pass sits along the banks of the Rio Grande River, an immigrant detention facility built in 2007 using $43 million in revenue bonds is slated to close this month after failing to service its debt. Officials say they never got the promised prisoners and that the project now looks like a bad deal.

"The amount of the loan that was taken out on this facility was just ridiculously too high," said Maverick County Commissioner Jerry Morales. "It doesn't add up."

Bloomberg

by Lauren Etter

August 2, 2015 — 9:00 PM PDT

[Puerto Rico Official Says Island Will Default on Agency Debt.]

Puerto Rico said it won't make a bond payment due Saturday, putting the commonwealth on a path to default and promising to initiate a clash with creditors as it seeks to renegotiate its $72 billion of debt.

The government doesn't have the money for the $58 million of principal and interest due on Public Finance Corp. bonds, Victor Suarez, the chief of staff for Governor Alejandro Garcia Padilla said during a press conference Friday in San Juan.

"We cannot make the payment tomorrow because we do not have the funds available," Suarez told reporters. "This payment will be made as we address how to restructure the government's debt prospectively."

The default marks an escalation in the debt crisis that's been racking the island, where officials are pushing for what may be the biggest restructuring ever in the municipal market. Puerto Rico bond prices have slipped amid speculation that the island won't be able to repay what it owes as its economy stagnates and residents leave for the U.S. mainland.

"An event like this is significant enough that it could hurt prices for Puerto Rico bonds," said Richard Larkin, director of credit analysis at Herbert J Sims & Co. in Boca Raton, Florida. "I can't believe a default on debt with Puerto Rico's name will go unnoticed."

Island officials had said that Puerto Rico may skip the payment on the Finance Corp. bonds, which can be made as late as Monday because Aug. 1 is a Saturday. The Finance Corp., which has borrowed to help balance the government's budget, has about $1 billion of debt outstanding.

No Appropriation

The securities are paid for with money appropriated by the legislature, unlike general-obligation bonds that are protected by the commonwealth's constitution and have a claim on its tax money. That leaves bondholders with little recourse because the commonwealth hasn't guaranteed repayment and the legislature isn't obligated to allocate the funds.

Faced with a budget shortfall, lawmakers didn't provide the money when they passed the annual spending plan. Island officials said that Puerto Rico's available cash was limited to funding essential services such as health and safety.

Puerto Rico Government Development Bank President Melba Acosta said in a statement Friday that a separate $169 million debt-service payment for the bank's bonds will be made.

Shared Sacrifice

Garcia Padilla said in June that the commonwealth cannot pay all of its obligations, following years of borrowing to paper over budget shortfalls, and that bondholders need to share in the sacrifice to help steady the island's finances. Officials plan to draft a debt-restructuring plan by Sept. 1.

The governor has drawn opposition from investors including OppenheimerFunds Inc., which said it will fight to ensure that the commonwealth repays its debt. A report by three former International Monetary Fund economists, which was commissioned by a group of hedge funds, said the island can balance the budget without a broad debt restructuring.

Puerto Rico's economy has contracted every year but one since 2006 and is projected to decline by 1.2 percent this year. The island's population shrunk 7 percent in the past decade. Another 245,000 residents are estimated to leave by 2025 as they seek employment on the U.S. mainland. Puerto Rico's June jobless rate of 12.6 percent is more than double what it is in the U.S.

Essential Problem

"The essential problem in Puerto Rico is the economy and the outmigration of individuals," said Phil Fischer, head of municipal research at Bank of America Corp. in New York. "And neither of those seems to be improving."

While Garcia Padilla surprised investors by pushing for a restructuring, two months after he said it would be a mistake to default, the island's worsening debt crisis hasn't rippled through the municipal-bond market. Municipal bonds in July had their strongest return since January as investors recognized that Puerto Rico's problems are unique.

The commonwealth's securities have traded at distressed levels for two years. General obligations maturing July 2035 and originally sold in March 2014 at 93 cents on the dollar traded Friday at an average of 69.5 cents on the dollar, according to data compiled by Bloomberg. The average yield was 12.1 percent.

Puerto Rico debt has lost 10.8 percent this year through July 30, the worst for the period since at least 2007, S&P Dow Jones Indices show.

Bloomberg

by Michelle Kaske

July 31, 2015 — 4:46 PM PDT Updated on July 31, 2015 — 6:48 PM PDT

Chicago Eyes Issuing Costly Capital Appreciation Bonds.

The latest general obligation bond proposal from Chicago Mayor Rahm Emanuel could have the cash-strapped city selling up to $500 million of capital appreciation bonds (CABs), a form of debt that government finance experts say could be costly and risky.

CABs are municipal debt for which payments are deferred until the bonds' maturity while interest compounds. Emanuel's administration on Wednesday proposed a refunding of outstanding GO bonds that would give the city the flexibility to issue CABs or the more commonly used current interest bonds for which interest is paid on a periodic basis.

A spokeswoman for Chicago's finance department said the city has not sold CABs since 2009 and expects to issue current interest bonds for the refunding.

Still, the fact that CABs are listed as an option raised concerns as Chicago struggles with low credit ratings, growing budget deficits and already high borrowing costs.

Richard Ciccarone, president and CEO of Merritt Research Services, said Thursday the move would allow the city to "kick the can down the road" by deferring debt service payments for as long as 40 years.

Laurence Msall, president of the Chicago-based Civic Federation, a government finance watchdog group, called CABs "an extraordinarily expensive form of borrowing."

"Going into the market and asking creditors to wait 10, 20, 40 years before receiving any payment carries a very stiff premium," he said.

Emanuel in April announced a plan to clean up the city's debt practices, including converting variable-rate bonds to fixed-rate and eliminating related interest-rate swaps – a move the Civic Federation applauded, according to Msall.

That plan got fast-tracked after Moody's Investors Service downgraded Chicago to junk in May triggering $2.2 billion in accelerated debt and fee payments by the city.

A $1.08 billion GO bond sale earlier this month resulted in higher borrowing costs for Chicago than most issuers in the U.S. municipal bond market.

The city, the third largest in the United States by population, is struggling with a projected $430 million fiscal 2016 budget gap. The deficit is due in part to escalating pension payments that include a looming $550 million contribution increase to its public safety workers' retirement funds.

Msall said he hoped the city council and its new financial analysis office head will take a close look at the bond proposal.

CABs have proved controversial in the past. California in 2013 enacted a law limiting total debt service on the bonds to four times the principal and maturities to a maximum of 25 years. The law also requires CAB deals to allow early repayment of the debt when maturities are longer than 10 years.

The law was sparked in part by reports that a San Diego-area school district's $105 million of CABs would end up costing nearly $1 billion.

More recently, Puerto Rico's financially troubled public utility PREPA rejected an offer by bondholders to restructure some of its debt into CABs.

REUTERS

CHICAGO, JULY 30 | BY KAREN PIEROG

(Reporting by Karen Pierog; Editing by Cynthia Osterman)

As Chicagoans Die, Police Pension Burden Hobbles City's Response.

An average of six Chicagoans have been shot each day this year, up from five in 2014. In its effort to respond to the carnage, the city is hamstrung by obligations to police, the very people it needs to protect the public.

With the second-largest number of sworn officers in the U.S., Chicago is struggling to pay an extra $550 million in pension obligations owed to public-safety workers. That leaves the city with little financial flexibility as homicides have risen more than 18 percent from last year and shootings 17 percent.

"They're fighting a war on two fronts," said Richard Ciccarone, president and chief executive officer of Merritt Research Services, which analyzes municipal finance.

Red ink is drowning Democratic Mayor Rahm Emanuel's budget. The city's projected 2016 deficit is up 45 percent, to $430 million. The additional pension payments are due next year, and the city has yet to identify money for them. Chicago's credit rating has been cut to junk because of $20 billion in unfunded retirement obligations.

New York's increase in homicides is a third of Chicago's — 5.5 percent through mid-July — yet Mayor Bill de Blasio has proposed adding 1,300 officers to the city's 34,500-member force, the nation's largest. Chicago has no such recourse.

Draining Resources

The Policemen's Annuity and Benefit Fund of Chicago is only 27 percent funded, and beneficiaries outnumber active officers 13,320 to 12,020, according to its 2014 annual report.

"In normal times, they'd be fighting the battle for public safety," said Ciccarone, who's based in Chicago. "But with the pensions, so much of their capital will be swept away for services already performed."

Chicago underfunded its four pensions by $7.3 billion from 2005 to 2014, according to bond documents. The retirement system was 36 percent funded as of December, compared with 61 percent in 2005.

The city suffered another setback Friday when a state court struck down a pension restructuring for municipal workers and laborers because it would force them to accept reduced benefits. The ruling could cost residents hundreds of millions more.

At the same time, legal settlement and judgment costs are soaring, from $82 million in 2011 to $199 million in 2013. About two-thirds is the result of police-related litigation.

Emanuel will submit his 2016 budget in mid-September, a month earlier than normal, to give the city council time to address the pension shortfall. Asked whether the mayor would push for more police officers, Adam Collins, a spokesman, said it “would be premature to discuss specifics.”

Illinois’s Democrat-led legislature passed a plan to lower Chicago’s extra payment next year to its police and fire retirement systems to $330 million from $550 million, but Republican Governor Bruce Rauner has yet to sign the measure.

The higher amount is roughly equal to the annual expense of keeping almost 4,000 cops on the street, the city said in a 2014 report.

Emanuel won re-election in April against Cook County Commissioner Jesus “Chuy” Garcia, who promised to hire 1,000 new officers. The mayor and Police Superintendent Garry McCarthy have resisted hiring in favor of paying current officers overtime. Those costs totaled about $100 million in each of the past three years.
This year’s increase in gun violence isn’t unique to Chicago. The number of homicides has jumped more than 30 percent midway through the year in Milwaukee, St. Louis and Houston.

Yet, Chicago’s slaughter has been incessant. During the Fourth of July weekend, 62 people were shot, nine fatally. One victim, 7-year-old Amari Brown, was killed by a bullet to his chest. Hundreds attended his funeral.

Chicago officials have been sensitive to the city’s image. Emanuel said he expressed his unhappiness to director Spike Lee about his upcoming movie “Chiraq,” which examines gun violence in the city.

“I was clear that I was not happy with the title,” Emanuel told the Chicago Tribune for an April story. Emanuel and McCarthy point out that the 2014 murder total of 407 was the lowest since the mid-1960s. They blame the proliferation of guns, citing the police recovery of 3,500 illegal firearms this year.

“As much as I am an advocate for better gun-control laws and getting these guns off the street, that’s not going to dramatically reduce the violence,” said Ira Acree, a West Side pastor and chairman of Leaders Network, a community development organization. “There must be more interest and focus on reviving the economic engine here.”

That revival depends, in part, on Chicago stabilizing its fiscal affairs. While officials reject comparisons to formerly bankrupt Detroit, Rauner is blunt.

“Chicago is in deep, deep yogurt,” he said in April.

Violence continues to weigh down city finances. A 13-month-old was killed earlier this month after a shooting suspect fleeing the police ran him down during a chase in a South Side neighborhood. Last week, his mother said she’s suing the city and police.

Bloomberg

by Tim Jones

July 28, 2015 — 2:00 AM PDT

Puerto Rico Fails to Sink Muni Market's Best Rally in Six Months.

It doesn't matter if Puerto Rico defaults, at least not to investors in the $3.6 trillion municipal market.
With the island just days away from potentially missing a Public Finance Corp. debt payment, state and local-government bonds are poised for the biggest monthly gain since January, Bank of America Merrill Lynch data show. The securities have returned 0.64 percent in July, outpacing the 0.45 percent increase for the broader U.S. fixed-income market.

Munis overcame a rocky start: After Puerto Rico Governor Alejandro Garcia Padilla said the island can't afford its $72 billion debt load, individuals yanked $1.2 billion from muni funds in the week ended July 1, Lipper US Fund Flows data show. The money began flowing back in as munis rallied, showing the lack of fallout from the commonwealth's long-brewing crisis.

"The municipal market is going to prove very resilient in the face of a default on the PFC bonds in Puerto Rico," said Tom McLoughlin, head of municipal fixed-income at UBS Wealth Management Americas, which oversees $1.1 trillion. Investors have "psychologically ring-fenced Puerto Rico because we've been talking about it for two years."

Solid Footing

For the muni market, the Federal Reserve and overseas turmoil were more powerful than Puerto Rico. State and local debt joined Treasuries in climbing this month on signs the U.S. central bank will raise interest rates gradually and as investors sought a haven from Greece's debt crisis and China's stock-market swings.

The monthly rally, munis' first since March, comes as states and cities gain from rising real-estate prices and a growing economy. State and local tax revenue rose 4.2 percent during the first quarter from the year earlier, according to Census Bureau figures. Only one borrower rated by Moody's Investors Service has defaulted since 2013.

"The overall municipal market is on solid footing," Peter Hayes, the head of municipal debt at New York-based BlackRock Inc., the world's biggest money manager, said in a blog post Thursday. "Creditworthiness is strong and attractive relative yields should continue to draw demand."

That's made Puerto Rico an outlier. After years of borrowing to pay bills as its population declined, officials by Sept. 1 may propose the biggest debt restructuring ever in the muni market. The Caribbean island may miss a bond payment for the first time on Aug. 1, when $58 million is due from the Public Finance agency.

Cutting Holdings

Investors had time to prepare. Puerto Rico was cut to junk in early 2014, and mutual funds have been paring their holdings of its bonds. Hedge funds now own more of the securities than mutual funds, according to estimates from Morningstar Inc. and Barclays Plc.

The shift has cushioned the impact as the island's crisis escalated over the past month.
"The potential for wider market disruption seems fairly muted," said BlackRock's Hayes.

Yields on top-rated 10-year munis were 2.28 percent on Thursday, down from 2.38 percent at the start of the month. Seizing on a slide in borrowing costs, states and cities issued $36 billion of debt in July, keeping sales on pace this year to be the most since at least 2003, according to data compiled by Bloomberg.

Weathering Distress

Both are signs that the market is able to weather pockets of distress such as Puerto Rico and Chicago, whose credit rating has tumbled as it contends with soaring bills for its pension funds.

“What the market is getting better at is differentiating those risks,” said Lyle Fitterer, who oversees $38 billion as head of tax-exempt fixed-income at Wells Capital Management in Menomonee Falls, Wisconsin.
By some measures, state and local debt is still cheap.

Ten-year munis yield about the same as similar-maturity Treasuries, compared with 96 percent since the start of 2014, Bloomberg data show. A higher ratio signals state and city debt — which is exempt from federal income taxes — offers greater relative value.

For the highest earners, the yield on AAA 30-year munis is equivalent to about 5.8 percent on a taxable security, Bloomberg data show. Similarly dated corporate debt yields 4.09 percent, while 30-year Treasury bonds yield about 2.94 percent, according to data from Moody’s Investors Service and Bloomberg.

“Muni bonds on a tax-adjusted basis are still by far the best value out there,” said Krishna Memani, chief investment officer at OppenheimerFunds Inc., which oversees $24 billion in state and local-government debt.

Bloomberg

by Brian Chappatta

July 30, 2015 — 9:01 PM PDT Updated on July 31, 2015 — 5:48 AM PDT

Puerto Rico Veers Toward First Bond Default: Questions Answered.

Puerto Rico Governor Alejandro Garcia Padilla wants to negotiate with investors to reduce $72 billion of debt he says the island can’t afford.

The U.S. commonwealth has paid bondholders what they’re owed since it was ceded to the U.S. following the Spanish-American War. That may soon change.

Puerto Rico’s Public Finance Corp., which has sold $1 billion of debt, is likely to miss a $58 million payment due on Aug. 1. The bonds are repaid with appropriations allocated by the legislature. Faced with a budget shortfall, lawmakers didn’t provide enough money to service the debt.

While the securities are a small share of the island’s debt costs, failing to pay would be a warning shot to investors that officials aren’t afraid to default.

Here are some of the questions you may have, starting right at the very beginning:

Q: What is a default?

A: Investopedia.com defines default as “the failure to promptly pay interest or principal when due.

Default occurs when a debtor is unable to meet the legal obligation of debt repayment." Moody's Investors Service says a missed payment is a default.

Q: What is the Public Finance Corp.?

A: It's a subsidiary of the Government Development Bank, which works on the island's debt sales. It was created in 1984 to sell bonds on behalf of the commonwealth and its agencies. Most of the proceeds it has raised were used to balance Puerto Rico's budget.

Q: Is a default definite?

A: While officials haven't said for certain whether they'll pay the interest and principal bill, it's likely they won't.

No money was transfered to the trustee in July to make the payment, and Victor Suarez, Garcia Padilla's chief of staff, said on July 27 that the island doesn't have the cash.

Investors appear to view a default as a near certain: PFC bonds maturing in 2031 traded on July 30 for 16 cents on the dollar.

Q: What happens if the PFC fails to pay?

A: Bondholders could sue, but they have few remedies. The legislature isn't legally required to allocate the money. The commonwealth hasn't guaranteed repayment and the PFC has no power over taxes to raise funds on its own. Nor are bondholders able to demand early repayment in the event of a default.

The PFC has until the end of business on Aug. 3 to make the payment because the first day of August is a Saturday.

Q: What does a default mean for holders of other Puerto Rico bonds?

Analysts and investors say it may cause Puerto Rico securities to lose value by casting doubt on the government's willingness to pay its other debts. An index of Puerto Rico securities slid this week to a six-year low.

Q: Why won't Puerto Rico just find the money, given that it's not expected to default on other debt payments due the same day?

A: Commonwealth officials say the island's available cash is limited. It's delayed tax refunds, suspended payments to some suppliers and borrowed from its insurance agencies to help preserve cash to continue making payroll and support essential government services.

The PFC bonds have the weakest legal protections, so the island will suffer fewer pitfalls from a default on those bonds.

Q: Which firms are set to receive interest payments on Aug. 1?

A: OppenheimerFunds Inc., Franklin Resources Inc. and Nuveen Asset Management are among those that held PFC bonds as of June 30.

Q: What is the federal government doing in response to Puerto Rico's debt crisis?

A: Treasury Secretary Jacob J. Lew said July 29 that there isn't any discussion of a federal bailout.

Lew, the White House and the Federal Reserve have urged Congress to work with commonwealth officials. Bills to allow some Puerto Rico agencies to file for Chapter 9 bankruptcy, introduced in both chambers, haven't advanced so far because of a lack of support from Republican leaders.

Q: Why can't Puerto Rico turn to U.S. bankruptcy court to lower its debts, as Detroit and other municipalities have?

A: Like U.S. states, Puerto Rico's central government isn't eligible for Chapter 9 bankruptcy protection, nor would it be under the legislation proposed in Congress. However, the bankruptcy code never gave Puerto Rico that option for its agencies or publicly run corporations, either.

Q: How much debt does Puerto Rico have?

A: Puerto Rico and its agencies owe a combined $72 billion. That includes $13 billion of general-obligation debt, which Puerto Rico's constitution says must be repaid before other expenses, and another $5.5 billion guaranteed by the commonwealth.

There is also $15 billion of debt payable from island sales taxes. Other agencies, such as the Puerto Rico Electric Power Authority, the government power company, have also sold bonds.

Q: Who holds Puerto Rico's debt?

A: Hedge funds hold almost $22 billion, while local investors on the island have about $20 billion. More than half of U.S. mutual funds that focus on municipal securities have exposure to Puerto Rico debt, for a combined $10 billion.

Q: Why can't Puerto Rico and its localities repay the entire $72 billion?

A: The commonwealth and its agencies have borrowed for years to paper over budget shortfalls, with the expectation that the economy would improve and the need to keep relying on debt would disappear. It didn't. Puerto Rico's economy has declined every year but one since 2006 and, with a population exodus for the U.S. mainland, there's fewer people around to pay taxes needed to finance the debt.

At the same time, health care and retirement expenses are projected to increase. Its employee-retirement system is also deeply underfunded.

Q: What is Puerto Rico doing now?

A: Island officials are working on a debt-restructuring plan, to be finished by Sept. 1, and a five-year fiscal plan to improve the economy and balance the budget. Officials have said it's premature to say by how much it will seek to reduce its debt and which securities could be affected.

Bloomberg

by Michelle Kaske

July 31, 2015 — 9:51 AM PDT

[Puerto Rico Should Collect Unpaid Taxes, Hedge Fund-Backed Economists]

Say.

Economists working for a group of hedge funds and other firms with major investments in Puerto Rican bonds said Sunday night that the government could solve its debt crisis largely by stepping up tax collections and obtaining additional financing over the next two years.

The message of sustainability is sharply at odds with the recent announcement by Puerto Rico's governor, Alejandro García Padilla, that the commonwealth's debt is "unpayable."

The face value of the territory's outstanding municipal bonds is about $72 billion. In addition, it has about $40 billion of unfunded pension obligations to public workers on the island, and other unpaid bills. The governor is seeking a moratorium on bond payments.

"There may be an issue of liquidity in the short term," in Puerto Rico, "but the debt itself, in global terms, is sustainable," said Claudio Loser, the chief executive of Centennial Group Latin America, which will officially release its report Monday morning. The consulting firm, based in Washington, was hired several months ago by the group of hedge funds and other investment firms to analyze Puerto Rico's economy and finances.

Mr. Loser said he believed that Puerto Rico would need short-term financing of about $2.5 billion to get through 2016 safely. That amount, he said, would be used to pay the commonwealth's current overdue bills to vendors, make scheduled payments on existing debt and finance a budget deficit projected to be less than $500 million.

The economists have decades of experience with the International Monetary Fund.

The governor based his analysis on a study by another group of sovereign-debt experts, known as the Krueger Report for its lead author Anne O. Krueger, also an economist with a background at the I.M.F.

As a result of that report, the governor has appointed a high-level task force to work out a five-year program of structural economic changes on the island. Senior economic figures in his administration have said the moratorium might last for five years, or even longer.

In a response to the report Sunday night, Víctor Suárez, chief of staff to Gov. García Padilla said, "The simple fact remains that extreme austerity placed on Puerto Ricans with less than a comprehensive effort from all stakeholders is not a viable solution for an economy already on its knees."

Mr. Loser said, "We feel that the moratorium is certainly costly and not a good idea." He called instead for an "orderly and consensual discussion" on ways to resolve the debt obligations.

While the I.M.F. is generally associated with bringing fiscal austerity measures to countries in financial trouble, Mr. Loser said his team was not calling for a lot more belt-tightening on the island.

In a briefing for journalists Sunday night, another economist, Jose Fajgenbaum, said that much of the belt-tightening necessary had already been done.

"The deficit has already been reduced," he said, adding that the governor's own analysis also showed that Puerto Rico might even achieve a budget surplus by 2017. The commonwealth has not had a structural budget surplus in more than a decade. Much of its existing debt was incurred by issuing bonds to pay previous debt and to plug budget holes.

The economists also said they were not suggesting that Puerto Rico ought to impose any more tax increases on residents who were already paying the taxes they owe. Mr. Loser said the commonwealth was managing to collect far less of the taxes due than the 50 states, and that it would not have to increase tax rates at all if it could capture what residents are now supposed to be paying.

The advisers also argued that Puerto Rico could improve its finances by allowing for-profit companies to operate its public works. The commonwealth had already contracted with a Mexican firm to operate its largest airport, and turned one of its highways into a toll road.

“If anybody would say that we are promoting fire sales, we are totally against that,” Mr. Loser said. “I want to make that clear.”

The analysts declined to provide details about whether they thought that all of Puerto Rico’s debt was sustainable, or whether the commonwealth ought to default on certain types of debt while continuing to pay other types. Puerto Rico has issued many different types of bonds, including general-obligation bonds and revenue bonds.

“What we have said is there is no need for a general restructuring of debt for the government,” said Mr. Loser. “We are not talking about specific issues.”

He said the complex details of Puerto Rico’s debt structure were outside the scope of the report.

The study was commissioned by a group of hedge funds and other investment firms known as the Ad Hoc Group, which includes Fir Tree Partners, Brigade Capital Management, Monarch Alternative Capital and Davidson Kempner.

The Ad Hoc Group owns about $5.2 billion of debt, mostly general-obligation bonds and other bonds that are guaranteed by the central government.

Hedge funds and other investment firms that own large amounts of Puerto Rico’s debt have been scrambling since the governor announced late last month that he would seek a “negotiated moratorium” on the commonwealth’s debts.

The announcement caught many of these so-called distressed investors by surprise. They had been buying up billions of dollars of the island’s bonds over the last two years at deep discounts, betting that fears about a Puerto Rico default or restructuring were overblown.

Some of them also offered earlier this year to loan Puerto Rico about $2 billion, to help get the commonwealth through another year of its perennial budget shortfalls. But the government declined those offers, saying the terms were too onerous.

The island’s financial problems deepened over the last year, particularly after the commonwealth’s credit ratings fell into junk territory. Many of the mutual funds that had previously held Puerto Rico’s bonds then sold them, and the distressed-debt investors acquired them at prices far below what the sellers initially paid.

They hoped for a profit but so far have suffered losses. Some of their holdings fell by nearly 17 percent in the two days after Mr. García Padilla first discussed a debt moratorium in an interview with The New York Times.

Privately, some hedge fund managers have expressed frustration that Mr. García Padilla’s administration and his army of legal and financial advisers have been able to convince many people that only drastic measures like a broad restructuring can save Puerto Rico.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH and MICHAEL CORKERY

JULY 26, 2015

Chicago Loses Bid to Keep Pension Reform Alive Pending Appeal.

CHICAGO — A judge on Wednesday denied Chicago's request to keep a pension reform law in effect while the city appeals a court ruling that voided the law on constitutional grounds.

Cook County Circuit Court Judge Rita Novak, who tossed out the law last Friday, rejected Chicago's motion to suspend her ruling until the Illinois Supreme Court ultimately decides the law's fate.

Novak's latest ruling means that unless the high court temporarily keeps the law in place, the city's municipal and laborers' retirement systems must refund higher contributions that the affected workers were required to make since the law took effect on Jan. 1. Retirees who received lower cost-of-living increases mandated by the law would also be owed money.

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

The cash-strapped city is betting that the state supreme court will overturn Novak's ruling, which rejected Chicago's argument that the 2014 law results in a net benefit because it will save the retirement systems from insolvency.

The high court in May found public sector workers have iron-clad protection in the Illinois Constitution against pension benefit cuts. That decision came in litigation over a 2013 law that reduced benefits for workers in state retirement systems.

By REUTERS

JULY 29, 2015, 5:58 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Grant McCool)

Puerto Rico Nears Default as Debt Restructuring Beckons.

NEW YORK — Puerto Rico on Friday made a payment on debt owed by its Government Development Bank, but the U.S. territory may still be short of the funds needed to pay all of its imminent obligations.

"The GDB will make the $169 million payment for the debt service on its bonds today," GDB President Melba Acosta said in a statement released Friday. A payment on that debt was due to be made Saturday Aug. 1.

Puerto Rico, however, is expected to default on a $58 million payment on Public Finance Corporation

(PFC) bonds also due Saturday in what is seen as possibly just the first step in the largest U.S. municipal debt restructuring in history.

Whether Puerto Rico defaults may not be known until Monday. According to PFC documents, a payment falling on a weekend can be made on the next business day, which would be Monday, Aug. 3.

“What could surprise investors is when they actually hear the word ‘default,’ and that a default occurred,” said Lyle Fitterer, head of tax-exempt fixed income at Wells Capital Management, which holds mostly insured Puerto Rico debt.

“The immediate reaction might be a slight sell-off in the marketplace because I think people will start to anticipate, ‘OK, what’s the next series of debt they’re going to default on?'”

Puerto Rico Governor Alejandro Garcia Padilla shocked investors in June when he said the island’s debt, totaling $72 billion, was unpayable and required restructuring.

The possible default on debt due this weekend would mark the first missed debt payment. According to a 2014 bond offering statement, Puerto Rico has never defaulted on the payment of principal or interest of debt.

A non-payment by Puerto Rico would be the most notable since Detroit, which had about $8 billion of bonds, defaulted on $1.45 billion of insured pension bonds before it filed for bankruptcy in 2013.

Victor Suarez, Puerto Rico’s chief of staff, has said the island will do “everything that is possible” to ensure that the $169.6 million Government Development Bank (GDB) debt payment due Aug. 1 is paid.

The commonwealth is expected to send that payment to the trustee on Friday for payment on Monday, a source familiar with the situation said on Friday.

John Miller, co-head of fixed income for Nuveen Asset Management, had said it would be positive for the short term if Puerto Rico made the GDB payment. But he said if it failed to pay, it could be a negative sign for debt such as its general obligation debt.

Suarez said on Monday that the commonwealth did not have the current cash flow to pay the PFC bonds.

“I bought my (PFC) bonds with the anticipation of them defaulting,” said Ben Eiler, managing partner at First Southern Securities in Puerto Rico. “They’re going to restructure in some form or fashion, and I believe that restructure is going to be higher than that level.”

The likelihood of a restructuring is leading investors to wonder how Puerto Rico will prioritize debt payments versus citizens’ needs.

“We’re beginning to discern a … mindset on the island that the government is weighing the interest of investors against the economic interest of the island,” said Thomas McLoughlin, UBS chief investment officer wealth management research.

DEFAULT DEBATE

Suarez told reporters in San Juan on Wednesday that a missed payment would not constitute default. Bond documents state that Puerto Rico’s legislature is not legally bound to appropriate the funds for payment.

However, credit rating agency Standard & Poor's said it would view non-payment of rated PFC bonds on their due date as a default. Moody's said it would also consider it a default.

"It (would be) the first failure by the government to pay on a debt to public investors and indicates the weakness of the government's ability and willingness to pay," said Timothy Blake, managing director of Moody's Public Finance Group.

A default could open the door to a fight with investors, although that may be an uphill battle.

"Our reading of the legal documents is that bondholders have very limited remedies," said David Hitchcock, an analyst at S&P. "Puerto Rico could potentially just ignore the bondholders."

Officials may give information after a scheduled meeting by a working group created by the governor which was ongoing.

"It's going to be a long process, a very long, drawn-out process," said Michael Comes, portfolio manager and vice president of research at Cumberland Advisors in Florida, which holds insured Puerto Rico debt. "It's kind of like watching the Titanic sink."

By REUTERS

JULY 31, 2015, 10:49 A.M. E.D.T.

(Additional reporting by Karen Pierog in Chicago and a contributor in San Juan; editing by Clive McKeef and Dan Grebler)

[Nonpayment on Bonds Would Have Consequences for Puerto Rico.]

Debt-ridden Puerto Rico faces its next big test in just a few days, when $58 million in bond payments come due — and already the government is mounting a defense against the possibility that it will not have the cash.

Government advisers on the island have been sending memos to the news media over the last several days suggesting that even if the government cannot make the payments, it will not technically be in default — something Puerto Rico is desperately trying to avoid. A default would have enormous legal and financial consequences, putting the United States commonwealth in the uncomfortable company of Greece.

The payments coming due are on so-called moral obligation bonds, which the government can issue without any legal requirement to repay.

Despite the advisories from Puerto Rican officials, however, independent financial experts said even a small nonpayment, whether it is technically a bond default or not, would have major reverberations. Failing to pay the moral obligation debt would taint the credibility of all other types of Puerto Rican debt, they said, which in turn would drive down the value of other bonds and raise the cost of whatever money the commonwealth might still be able to borrow at that point.

"This may be a little bit like 'beauty is in the eye of the beholder,' " said James E. Spiotto, a specialist in Chapter 9 municipal bankruptcy law, who is not advising Puerto Rico or any of its creditors. He said Puerto Rico was correct in saying that it had no legal obligation to pay the bonds. But, he added: “From a bondholder’s perspective, there was a promise to pay, a moral obligation, and that promise was not lived up to.” Therefore, he said, the market would say that Puerto Rico was in default, even if bondholders could not do anything about it.

Moral obligation bonds were created in the 1960s by John N. Mitchell, who later became President Richard Nixon’s attorney general. Mr. Mitchell devised them at the behest of Nelson Rockefeller, who was then governor of New York.

It was the failure of a moral obligation bond in New York in 1975 that ushered in the financial crisis that engulfed the city that year.

Puerto Rico now seems to be veering down a similar path. The commonwealth is facing overall bond-related debts of $72 billion and an estimated $40 billion of unfunded retirement benefits that it owes its public workers. In June, Gov. Alejandro García Padilla began calling the debts “unpayable” and advocating a “negotiated moratorium” on payments.

Since then, a working group created by the governor has been recommending sweeping changes in Puerto Rico’s economy — such as an exemption from the federal minimum wage and lower welfare payments. An investor group issued a report this week that said that the commonwealth could climb out of its crisis by raising its tax collection rate — which it said was lower than the average of any of the 50 states — and obtaining bridge loans for the next two years.

So far, the United States government has declined to come to Puerto Rico’s rescue. Jacob J. Lew, the Treasury secretary, said in a letter on Tuesday to Senator Orrin G. Hatch, chairman of the Senate Finance Committee, that there should be no bailout of Puerto Rico but that its financial situation was “urgent” and Congress should consider some orderly process to restructure the island’s “unsustainable liabilities.” Under current laws, Puerto Rico has no access to federal bankruptcy courts.

Despite the governor’s pronouncement in June, Puerto Rico has continued making bond payments on time, and officials have even said the commonwealth might borrow another $500 million.

“They’re trying to pay their debts, but they don’t have enough cash flow,” Mr. Spiotto said. “It’s like musical chairs. Ultimately, the music is going to stop, and there’s going to be somebody who doesn’t have a chair.”

The official deadline for payment of the $58 million is Aug. 1, a Saturday. If the first nonpayment occurs on Monday, the first business day after the deadline, the losers will be the holders of bonds issued by Puerto Rico’s Public Finance Corporation.

The corporation, created in 1984 to help Puerto Rico finance various governmental activities, has a little more than $1 billion of bonds outstanding. It cannot raise taxes, and instead relies on the legislature to appropriate enough money every year to repay the debts as they come due.

But when the legislature completed the current fiscal year’s budget, no such appropriation was made. As a result, the corporation did not transfer the payment to the trustee who would, in turn, pay the bondholders.

Independent legal experts confirmed that moral obligation bondholders had no way of enforcing their claims. But they stopped short of saying that Puerto Rico would not be in default.

“It is extremely rare for a government to consider not paying” moral obligation bonds, said Timothy

Blake, a managing director at Moody's Investors Service. "Most governments would view that as very negative to their reputation in the capital markets."

Rhode Island considered not repaying a $75 million moral obligation bond in 2013, after the project being financed — a video game company led by Curt Schilling, the former Boston Red Sox pitcher — went bankrupt. After extensive debate, Rhode Island decided to keep paying the bondholders to protect its credit rating.

States that issue moral obligation bonds often do so because their constitutions strictly limit the issuance of general obligation bonds, which an entity is legally required to repay. Bondholders could, for example, seek a court-ordered tax increase if that was what it took to get their money.

Because the general obligation bond pledge is so powerful, states have also made it hard to issue too many of the bonds. In many states, they cannot be issued without approval by the voters.

That is why Mr. Mitchell came up with the moral obligation bond. At the time he was seeking to help Governor Rockefeller, who was trying to fight the loss of manufacturing jobs by mounting huge building projects and did not want to go through the unpredictable process of letting voters approve general obligation bonds.

Mr. Blake said lawmakers usually take their moral obligation bonds seriously and appropriate the money each year. But in rare cases where they do not, the bondholders have no way of forcing them.

"The losses can be very severe," he said. Moody's has assigned the bonds of Puerto Rico's Public Finance Corporation the rating of Ca, meaning not only that default is likely but also that any recovery will be small. It is Moody's second-lowest rating.

THE NEW YORK TIMES

By MARY WILLIAMS WALSH

JULY 29, 2015

How Hedge Funds Are Profiting from Puerto Rico's Pain.

Puerto Rico is in the throes of a fiscal crisis and Congress appears unwilling to help. House and Senate legislation that would extend Chapter 9 protection to municipalities in Puerto Rico is opposed by the Republican majority, even though it would not cost US taxpayers a penny.

Opposition to the legislation is based in part in a concern for bond investors. Congressman Trent Franks (R-AZ) told Bloomberg Politics that investors relied on the fact that infrastructure investments on the island were protected from the threat of bankruptcy, and that changing the bankruptcy rules in the middle game would be unfair.

However, the history of municipal bonds suggests otherwise. In the late 1920s and early 1930s, thousands of US municipalities defaulted on their bonds. The problem started in Florida, where local governments overbuilt infrastructure. With the onset of the Depression, municipal defaults spread to many other states, with especially high concentrations in North Carolina, New Jersey, Michigan, Ohio and Arkansas.

There was no municipal bankruptcy law at the time, giving rise to uncertainty over creditor rights and complex litigation. In 1934, Congress addressed the situation by adding Chapter 9 to the bankruptcy code, creating a mechanism for municipal debt adjustment. The new law passed by a wide 45-28 margin in the Senate and its enactment was applauded by municipal finance experts.

The idea that the lack a legal bankruptcy mechanism protects bond investors from default risk is clearly refuted by the Depression experience, as well as by the more recent default by Harrisburg, Pennsylvania — a state that explicitly forbid a Chapter 9 filing for the city. In fact, Puerto Rico bonds have been paying substantially higher coupons than US Treasuries for years – despite their favorable tax treatment – suggesting that investors were aware of and demanding compensation for default risk.

Further, the 1934 law changed the rules for municipal bondholders in the 48 states, yet it was welcomed by market participants and almost no one would advocate repealing it today. Although cities in Puerto Rico and other U.S. territories had outstanding bonds at the time, none appear to have been in default, perhaps explaining why the 1934 legislation was not extended to US possessions.

A better criticism of legislation extending Chapter 9 to Puerto Rico is that it is insufficient. If the bill were enacted, the commonwealth government would not be able to declare bankruptcy. Further, as noted bond commentator Kristi Culpepper explains, public corporation debt backed by service charges and other "special revenues" cannot be adjusted in a municipal bankruptcy process, leaving revenue bonds issued by some publicly owned corporations out of the process. But Chapter 9 could be applied to some classes of public corporation debt as well as the obligations of Puerto Rico's 78 "municipios" (local governments). As I reported in The Bond Buyer earlier this year, a number of these municipios are flat broke and would thus be eligible for the Chapter 9 process.

While Culpepper and congressional Republicans are correct in arguing that Chapter 9 extension is an incomplete solution to Puerto Rico's debt problem, it is far better than the prevailing alternative of no federal action whatsoever.

It thus appears that the only real reason for not extending Chapter 9 to Puerto Rico is investor protection – but just who are these investors? Much of the commonwealth's debt has been snapped up by hedge funds at steep discounts. If the funds can compel Puerto Rico public sector entities to service their bonds on time and in full, they will make substantial profits. One out of every five dollars of this profit will go to hedge fund managers, who are taxed at lower capital gains rates. Securities regulations have helped hedge funds and other Wall Street institutions corner the market on Puerto Rico bonds by prohibiting trades of less than $100,000 for any newly issued securities. With this minimum in place, individual investors are effectively barred from buying commonwealth bonds.

Since the source of repayment for government bonds is often tax revenue, Wall Street interests are really trying to maximize their take from taxpayers – and not just taxpayers in Puerto Rico. A very large proportion of Puerto Rico government revenue comes from taxpayers in the fifty states.

Public sector entities in Puerto Rico receive over $7.2 billion in federal grants annually. This amount represents over 10% of the Commonwealth's GNP and 22% of total government spending. I have uploaded a list of recipient entities and amounts for FY 2013 here.

Further, according to USASpending.gov, the US federal government spent a total of $21.3 billion in Puerto Rico in fiscal year 2014, while the IRS reports that commonwealth residents and corporations contributed just $3.6 billion in federal tax revenue during the same year. The difference between these two figures – net transfers from taxpayers in the fifty states – represents about a quarter of Puerto Rico's GNP.

Thus, Puerto Rico and its governments derive much of their revenue from US taxpayers. Although federal grants are always made for a specific purpose, government revenues and expenditures are fungible. Governments receiving federal support can shift their own-source revenue away from federally subsidized priorities and towards other purposes – such as enriching hedge fund managers.

By denying the Chapter 9 option to Puerto Rico municipalities and public corporations, congressional Republicans might well be doing a disservice to the middle class taxpayers they claim to represent.

By Marc Joffe, The Fiscal Times

July 28, 2015

Investors See Golden Opportunity in Chicago's Budget Woes.

Mayor Rahm Emanuel has warned Chicago homeowners that property tax bills could "explode" without budget relief from Springfield. The Chicago Public Schools are facing massive budget cuts that would force hundreds of layoffs. Residents across the city are paying higher fees for water, vehicle stickers, cable TV and more.

But there is one group that looks at Chicago's financial mess and sees a golden opportunity: the affluent individuals, investment funds and other global companies that buy the city's debt.

Some city bonds sold this month pay returns on par with what investors earn on lucrative but risky junk bonds sold by distressed oil and gas companies. Unlike corporate bonds, the city's debt is guaranteed by an unlimited flow of tax dollars from Chicago residents.

The forces making Chicago bonds a hot commodity are as old as the free market. As the risk grows that the city will default on its debt, investors demand higher returns. Some risk-averse buyers avoid Chicago debt altogether.

But to investors who can tolerate the risk of default – or think it is overstated – Chicago bonds can look tantalizingly lucrative.

Those investors are betting that Chicago residents will ultimately shoulder the cost of the city's massive borrowing, whether by enduring service cuts, by indebting future generations or by paying significantly higher property taxes.

The investment banking arm of the London-based bank Barclays declared in a research report last month that Chicago city bonds "present attractive strategic opportunities," reasoning that city officials could increase sales and property taxes.

"Even in the worst-case scenario, the median tax bill would have to increase only 15 percent (or $756) to address the pension issue fully next year," the report said.

Chicago debt is being marketed not only to investors in government bonds but also to some wealthy speculators who more typically gravitate to distressed companies. One analyst told the Tribune he is touting Chicago to his hedge fund clients as an investment less risky than troubled energy companies — and just as profitable.

These investors' gain is Chicagoans' loss. This month's two-part $1.1 billion bond deal will cost the city roughly $150 million more in interest in today's dollars than if the city still carried the A-level credit rating it had less than two years ago, the Tribune calculated.

Chicago Public Schools is likely to pay similar penalties if it follows through on plans to borrow up to $1.2 billion later this year. Some analysts have been touting CPS bonds as well, noting that while the schools' financial situation is more dire, the district's fate is largely dependent on the city that controls it.

Concord, Mass.-based Municipal Market Analytics accurately predicted in April that Chicago school bonds would drop to junk status but encouraged buyers to consider them anyway.

"The situation in the city will compromise the ability to keep quality schools, to keep the streets clean," said partner Matt Fabian. "But for investors who can stomach the ups and downs that are probably coming for Chicago, (the bonds) give an attractive amount of income."

The three major debt rating agencies have differing opinions on the city's future, with Moody's Investors Service giving the city a junk status rating and a 5 percent chance of defaulting on its loans within three years. Fitch Ratings and Standard & Poor's maintain a low investment-grade rating of BBB+.

All three agencies cite Chicago's estimated $20 billion in pension debt, the result of many years in which the city put off paying its full share of worker pensions. A Cook County circuit court judge on Friday struck down Emanuel's plan to scale back benefits for some city workers.

Chicago has more than $8 billion in outstanding long-term bonds, the result of years of ambitious borrowing that included loans to pay for questionable projects and short-lived expenditures.

The city technically lacks the ability to default on that debt. Illinois, like about half of states, does not allow cities or school districts to declare bankruptcy, and a bill to change that stalled in committee this year.

Still, Chicago's poor ratings put the city's debt off limits for some firms. Sarasota, Fla.-based Cumberland Advisors, for example, does not buy debt rated below A.

Some less conservative investors see potential for high returns, especially if they believe the risk of default is overstated.

"Most people think it's not a triple B credit but it's really in the single A category," said Jon Barasch, director of municipal evaluations at New York City-based Interactive Data, a firm that evaluates municipal bonds.

The process that sets interest rates is far from scientific. The bank underwriting the bond sale surveys investors to gauge how much interest they will demand, then works with city or school finance officials to determine what they are willing to pay in interest.

The people reaping the benefits of Chicago and CPS' high interest payments are mostly individual investors who buy bonds either directly or through funds that invest their money. Bond dealers also buy the debt and resell it to investors.

To help local governments raise money for long-term projects, the federal government doesn't collect taxes on most municipal bonds. As a result, the bonds appeal particularly to well-off individuals in higher tax brackets who accept low returns in exchange for a chance to preserve their wealth and reduce risk.

The $347 million in tax-exempt bonds Chicago sold July 16 offered investors yields of up to 5.69 percent — almost unheard of for tax-backed debt issued by a city.

Buyers of those bonds stand to earn at least 50 percent more than those who invested in Philadelphia bonds issued this month.

The other part of Chicago's deal — $743 million in taxable bonds priced July 15 — caused a stir beyond the typical market for government debt.

Because officials wanted to use borrowed money to cover short-lived expenditures and close budget gaps, Chicago had to give up the federal tax exemption and offer yields approaching 8 percent — rates more typical of the corporate sector — to compensate for what investors would lose to taxes.

That put Chicago in the same ballpark as for-profit companies — a group considered far more likely to default — and even then the city's debt stood out as lucrative. The rate of return on Chicago's taxable bonds is only slightly lower than the Barclays U.S. corporate high-yield bond index, a benchmark rate of return for companies rated junk status.

"You have a very attractive interest rate for the potential risk," said Triet Nguyen, a managing director at New York City-based NewOak, an independent research and advisory firm that focuses on corporate and municipal debt.

Nguyen said he recommended Chicago taxable bonds to his hedge funds clients. His reasoning: They could earn returns more typical of junk bonds issued by troubled oil and gas companies — at much lower risk.

"I would take the credit of the city of Chicago over any of the smaller energy companies any day," said Nguyen, who lives in suburban Lake Forest. "They can certainly go bankrupt at any time, and Chicago at this point doesn't even have that option."

The additional $150 million Chicago can expect to pay through 2042 on the bonds issued this month as a result of its deteriorating credit comes on top of a similar penalty on bonds issued in May. That $674 million tax-exempt deal will cost $70 million more — in today's dollars — over the life of the debt than if the city had maintained the A3 rating from Moody's Investors Service that it carried as recently as February 2014, according to the Tribune's calculations. The city's 2015 budget is $7.3 billion.

Emanuel, who already has increased a variety of city fees, said in a plan released in March while he was running for re-election that "property tax bills will explode next year" in the absence of comprehensive pension relief from the Illinois legislature.

As with other cities, Chicago's debt contracts pledge that officials will increase property taxes "without limitation" if the city can't find money elsewhere to make debt payments.

Wells Capital Management, an investment management firm under the umbrella of San Francisco-based Wells Fargo, has increased its investment in debt from the city and CPS over the past year.

"We believe the city has the ability to raise revenue and cut expenses," said Wells Capital portfolio manager Lyle Fitterer. “If you are a citizen within the city you don’t necessarily want to hear that.”

The Chicago Tribune

July 26, 2015

By Heather Gillers

hgillers@tribpub.com

Twitter @hgillers

NYC’s Elite-School Debt Boom Swells as Brearley Seeks to Borrow.

The Brearley School is poised to join the borrowing boom among New York City’s elite prep schools. The all-girls academy, whose alumnae include Caroline Kennedy and actress Kyra Sedgwick, won approval Tuesday from a city agency to sell $50 million of tax-exempt bonds to help finance an expansion on Manhattan’s Upper East Side.

New York’s private schools are moving toward selling record amounts of debt this year as endowments swell and interest rates are at generational lows. They’re replacing decades-old buildings and dangling the latest amenities to draw the children of the wealthiest, mirroring what’s been happening on college campuses. Brearley’s tuition is $43,680 a year.

“Money is available,” said Richard Anderson, president of the New York Building Congress, a construction trade group that’s been tracking spending by schools. “If Columbia and NYU can raise money, then Collegiate and Packer and Brearley and all these other places can raise money, too.”

Bond sales by New York’s private and religious schools may exceed the almost $280 million issued in 2002, the highest on record, according to data compiled by Bloomberg.

Riverdale Country School, Saint Ann’s School and La Scuola d’Italia Guglielmo Marconi have received permission to borrow a total of almost $150 million through Build NYC Resource Corp., the economic-development unit that authorized Brearley’s sale. Ethical Culture Fieldston School and Packer Collegiate Institute have already sold a combined $71.4 million of debt this year.

Half-Century Low

The schools are seizing on municipal borrowing costs holding close to a five-decade low. When Fieldston sold $49.4 million bonds in April, it paid yields of 2.8 percent on 10-year tax-exempt debt, about 0.7 percent more than benchmark securities.

Brearley, founded in 1884, plans to spend $107.5 million to raze three tenements and replace them with an eight-to-10 story facility. The building will house its lower school, science and music departments, an auditorium and a gym, according to its application with the city. With 700 students from kindergarten through the 12th grade, Brearley says it’s outgrown its building on East 83rd Street, which was constructed in 1929 for 440.

“For the past 20 years, Brearley has been thoughtfully searching for the best way to add badlyneeded educational space to accommodate its student body," Rahul Tripathi, the school's chief financial officer, said in an e-mailed response to questions.

Schools Repay

The prep schools are responsible for repaying investors, who are willing to accept lower yields because the income isn't taxed. Build NYC receives fees for arranging the sales. It isn't on the hook if they default.

Like other New York private schools, Brearley has ties to Wall Street. Ellen Jewett, a former Goldman Sachs Group Inc. public finance banker, is president of the board. Other members include Samara Epstein Cohen, head of financial instruments at BlackRock Inc.

In addition to the bond money, Brearley plans to use $37.5 million from a capital campaign and $20 million from its $132.5 million endowment to fund construction, which is projected to start in Feb. 2017.

The school bought three tenements a block away on East End Avenue in May 2010 and will demolish them to make room for the new facility.

In April, Brearley reached a settlement with 15 rent-stabilized tenants who agreed to leave their apartments, said David Rozenholc, a lawyer who represented them. Rozenholc declined to provide the size of the settlement, citing a confidentiality agreement.

"It involved a very substantial amount of money that they were comfortable doing, but they were fair," Rozenholc said. "The tenants can go on with the rest of their lives and the Brearley School can build the Brearley School."

Bloomberg

by Martin Z Braun

July 20, 2015 — 9:01 PM PDT Updated on July 21, 2015 — 6:57 AM PDT

[Puerto Rico Left Adrift by Washington as Bankruptcy Bills Stall.]

As California risked being locked out of the credit markets during the recession, officials sought federal loan guarantees to avert deep spending cuts that threatened to cascade through the biggest U.S. state.
Washington turned them away.

Six years later, as a Puerto Rico agency veers toward a default as soon as Aug. 1, federal officials in the nation's capital have echoed a refrain heard during recent state and local fiscal crises: Fix the problem on your own.

President Barack Obama's administration and the Federal Reserve have said it's up to Congress to decide how to assist the island as it struggles with $72 billion of debt. Yet on Capitol Hill, Puerto Rico's push to allow some agencies to file for bankruptcy has stalled. Efforts to find a Republican to co-sponsor the legislation haven't borne fruit.

"Federal authorities seem to be taking the position that the only possible options are the extremes of a bailout or nothing at all," said Arturo Estrella, a former Federal Reserve Bank of New York economist.

Puerto Rico has been moving toward the largest restructuring ever in the $3.6 trillion municipal-bond market since last month, when Governor Alejandro Garcia Padilla said the commonwealth can't afford to pay its debts. The securities have tumbled amid speculation over how much investors stand to lose as his administration moves to draw up a restructuring proposal by Sept. 1.

Default Probability

The island may miss a $36.3 million principal payment on Public Finance Corp. bonds due on Aug. 1 because the legislature didn't allocate the money. Standard & Poor's called a default on the securities a "virtual certainty," while Moody's Investors Service said the probability of a Puerto Rico default is approaching 100 percent. The Puerto Rico Electric Power Authority, the island's main power provider, is also in talks with creditors over its $9 billion debt load.

Investors shouldn't expect any new help from Washington, said Daniel Solender, who oversees $17 billion as head of municipal debt at Lord Abbett & Co. in Jersey City, New Jersey.

"There's no real sign of any move towards helping them other than conversations," Solender said. "But that's not solving the problem."

Federal Help

Puerto Rico has more debt than any state but California and New York from years of borrowing as the economy struggled to grow and residents left for the U.S. mainland. Its bonds are widely held by American investors and mutual funds because they're exempt from income taxes and pay higher yields than other securities.

Federal intervention wouldn't be unprecedented. Washington helped to rescue New York in the 1970s, and it put a control board in charge of the District of Columbia's finances in the 1990s.

So far, the U.S. hasn't taken a central role. The Treasury Department has been holding discussions with Puerto Rico for more than two years, according to Melba Acosta, president of the Government Development Bank, which works on the island's debt sales. Treasury officials have pushed the commonwealth to come up with a long-term plan to steady its finances and back giving agencies the power to file for bankruptcy, just as U.S. cities and government-run corporations can.

Ignoring Pleas

Washington has rarely shown interest in rescuing local governments.

Officials declined to provide aid to Jefferson County, Alabama, as soaring debt bills pushed it toward bankruptcy after credit markets seized up. Cities including Philadelphia unsuccessfully sought a share of the bailout money for Wall Street banks, and a 2009 request by then California Treasurer Bill Lockyer for it to backstop short-term debt was rebuffed.

When Detroit's record bankruptcy threatened to slash workers' retirement checks, even then U.S. Senator Carl Levin, a Michigan Democrat, said the city shouldn't receive a bailout.

Estrella, the former New York Fed economist, said the steps Washington has taken so far have done little to help.

The advice “that the White House said the Treasury has shared with Puerto Rico officials over the last year or two has clearly been ineffectual,” he said.

There’s been no will to make helping Puerto Rico a priority in Congress, said Brandon Barford, a partner at Beacon Policy Advisors LLC. He said the Treasury can’t provide a loan guarantee through the Federal Financing Bank without approval from Congress.

Feeling Abandoned

The Obama administration and key Democrats have supported extending Chapter 9 bankruptcy protection to Puerto Rico. The legislation has yet to advance, and Republicans including Representative Darrell Issa have questioned whether changing the law is fair to investors who thought their bonds were exempt from the risk of being adjusted in court.

Alberto Baco Bague, Puerto Rico’s secretary of economic development, told Spain’s El Mundo newspaper that Washington has shown little interest in helping.

“One never loses hope, but they’ve been very negative,” he said in an interview published this week.

“As U.S. citizens, we feel very abandoned by Washington,” he said. “At the highest levels, the United States has more interest in Greece and in Cuba. And neither of those are U.S. territories.”

Bloomberg

by Michelle Kaske & Kasia Klimasinska

July 21, 2015 — 9:01 PM PDT Updated on July 22, 2015 — 7:51 AM PDT

Puerto Rico Default Recovery Rates as Low as 35%, Moody’s Says.

Investors may receive as little as 35 cents on the dollar under a restructuring of Puerto Rico debt if the commonwealth defaults, Moody’s Investors Service said.

Debt sold by the island’s Government Development Bank, Highways and Transportation Authority, Infrastructure Finance Authority and Municipal Finance Authority is among the $26 billion with the lowest recovery rates, Moody’s estimated Wednesday in a report. The debt is ranked Ca, the second-lowest rating from the New York-based company.

“We believe that the probability of default is approaching 100 percent, and that losses given default are substantial,” Moody’s analysts wrote. “Bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections.”

Investors including BlackRock Inc. and Pacific Investment Management Co. have speculated about bondholder losses in Puerto Rico since Governor Alejandro Garcia Padilla last month called the island’s $72 billion of debt unpayable. Moody’s said the commonwealth could support 60 percent to 65 percent of its net tax-supported debt, assuming no economic rebound.

Holders of debt with stronger safeguards, like general obligations and bonds from the commonwealth’s Electric Power Authority and Aqueduct and Sewer Authority would probably fare better than others, with recoveries of 65 percent to 80 percent, Moody’s said.

The credit rater said its estimates are based on cuts in principal and interest payments of about 40 percent a year through 2023, as the government decides to reduce debt service payments to avoid budget shortfalls.
Bankruptcy alone wouldn't be enough to dig Puerto Rico out from under its debt burden, Moody's said.

If Puerto Rico agencies had access to Chapter 9, island officials have said it may apply only to certain public corporations, such as the power utility, water agency and highway authority. Those entities owe about $20 billion combined.

Bloomberg

by Brian Chappatta & Michelle Kaske

July 22, 2015 — 1:33 PM PDT

Chicago Worth the Risk to Pimco, Wells Capital as Deficit Swells.

As Chicago wrestles with rising pension costs, cash-strapped schools and a swelling budget deficit, investors from Pacific Investment Management Co. to Wells Capital Management say they aren't counting the Windy City out.

Wells Capital is increasing its exposure to the junk-rated metropolis, while Pimco said this week it sees long-term value in the city's debt. A longer-term perspective may come in handy, with a judge to rule Friday on the legality of an overhaul of two of four city employee-pension programs.

"Our big point is not that the city and its finances are necessarily on a very short-term upward trajectory, but that investors are being paid to be there," said Gabe Diederich, a Menomonee Falls, Wisconsin-based portfolio manager at Wells Capital, which manages about $39 billion of munis, including $529 million from Chicago. "The city has options longer-term to correct their finances."

The nation's third-most populous city had to pay yields approaching 8 percent as part of a $743 million taxable-bond offering last week, putting it in the league of junk issuers such as telephone company CenturyLink Inc. A $346 million tax-exempt portion of the sale yielded as much as 5.7 percent.

Pension Turmoil

Already the worst-rated major city except Detroit, Chicago risks being downgraded again if the pension changes are overturned. Yields on Chicago debt are close to the highs reached after Moody's Investors Service cut the city's credit rating to below investment grade in May.

"Despite the fact that we all know that they have their problems, and Chicago politics and Illinois politics are really, really difficult, it's hard to ignore that kind of embedded yields," said Jim Colby, chief municipal strategist at Van Eck Global, which bought some of Chicago's tax-exempt deal last week. "I know the risks."

Chicago and the state of Illinois are among localities that have shortchanged retirement funds for years. Pensions in the U.S. have $1.4 trillion less than needed to cover promised benefits nationally, according to Federal Reserve figures.

The pension system in Chicago is $20 billion short, and the state of Illinois's retirement fund has a $111 billion shortfall. Chicago's retirement system is only 36 percent funded as of December 2014, compared to 61 percent in 2005.

Union Lawsuits

A partial solution was found last year when state lawmakers approved a plan, touted by Mayor Rahm Emanuel's administration, that restructured the pensions of the laborers and municipal workers. That affects about 60,000 workers. The fix forces employees to pay more with lower benefits while also boosting the city's contribution. Some unions sued to block the law that went into effect Jan. 1.

Friday's ruling will decide whether that law is constitutional. The decision is expected to be appealed to the state Supreme Court, which in May unanimously ruled that Illinois couldn't cut retiree benefits. Four days later, Moody's cut Chicago's credit to Ba1, one step below investment grade, saying the decision increased the likelihood that the city's reform won't hold up.

"Seeing how the state supreme court ruled earlier in the spring, I don't expect the decision to go favorably for Chicago," said Joseph Gankiewicz, an analyst at Blackrock Inc. in Princeton, New Jersey, which oversees $116 billion in municipal debt and owns Chicago bonds. "Now with that said, it might give cover to some of the rating agencies to downgrade the city."

Chicago's Viewpoint

If the law is overturned, Chicago's pensions will be broke in about 10 years, the city's lawyers have argued.

"An adverse ruling from the circuit court and from the Illinois Supreme Court is just going to make it more difficult for the city of Chicago to extricate itself from its financial difficulties," said Sarah Wetmore, vice president of the Civic Federation, a watchdog group that has been tracking the city's finances since 1929.

The city said it could be downgraded again if the court finds the law unconstitutional, according to bond documents for last week's bond sale.

City officials, including Emanuel, have said the city's plan "fully complies" with the state constitution since it protects benefits and ensures that the funds will stay solvent.

Payment Jumps

Chicago's changes didn't affect the pensions of police officers and firefighters. The city's payment into their funds will jump by $550 million next year. While the Democrat-led legislature passed a plan to lower that bill, Republican Governor Bruce Rauner has yet to sign it.

Even with its retirement debt, Chicago has the capacity to raise revenue to meet those liabilities, said Matthew Sinni, New York-based vice president and municipal credit research analyst at Pimco, which manages about $40 billion of state and local debt.

"Despite its pension overhang, Chicago remains a dynamic city with sufficient revenue capacity to meet its steep fiscal challenges in the coming years," Sinni said in the blog post on July 20. Pimco declined to comment beyond the note.

Pressure from pensions is expected to ramp up next year as Chicago owes about $1.1 billion to its retirement funds in 2016 if current law stands. The city is projecting a budget shortfall of $430 million next year, up from $297 million this year, according to bond documents.

It's hard to believe that Chicago won't find a solution, whether it's cutting spending or raising taxes or fees to "rehabilitate their credit profile," said Van Eck's Colby, who has about $3 billion in tax-exempt assets across six exchange-traded funds, two of which are high-yield.

Bloomberg

by Elizabeth Campbell

July 22, 2015 — 9:00 PM PDT Updated on July 23, 2015 — 6:56 AM PDT

Puerto Rico Power Utility Says Debt Exchange Plan Unworkable.

The Puerto Rico Electric Power Authority said a bondholder proposal to restructure the utility's debt isn't achievable because it imposes disproportionate risks on ratepayers and other creditors.

A group representing owners of 40 percent of the securities unveiled a $8.1 billion debt exchange Thursday that would delay payments for several years and give the junk-rated agency $2.5 billion to upgrade power systems. The utility, known as Prepa, has been negotiating with creditors including mutual-fund provider OppenheimerFunds Inc. and hedge fund BlueMountain Capital Management LLC for almost a year on how to overhaul its finances.

The plan "does not provide a path for a successful restructuring," Yohari Molina, a spokeswoman for Prepa in San Juan, said in a statement. "It does not share the burden."

Under the plan, debt-service payments would be suspended on existing securities and interest payments reduced by selling new obligations that would be repaid from a surcharge on Prepa's customers. Delaying principal payments would free up about $2.5 billion through 2025 to upgrade plants and diversify fuel sources for commonwealth's main electricity provider. A June 1 proposal from Prepa included at least $2.3 billion to rehabilitate facilities on the island, where electricity costs are double those on the U.S. mainland.

LIPA Example

"It almost creates interest-free borrowing for the island's utility," Tom Wagner, co-founding partner of hedge fund Knighthead Capital Management, said Thursday during a Bloomberg television interview. Knighthead owns Prepa bonds.

New York's Long Island Power Authority used a similar financing, Wagner said. Bondholders plan to continue their "constructive" talks with Prepa on the plan, he said.

Assured Guaranty Ltd. also has concerns about the bondholder's latest plan, although borrowing off of a new fee would help improve the utility, Ashweeta Durani, a spokeswoman for the Bermuda-based bond insurer said in an e-mailed statement.

"While we do not support the recovery plan proposal released last evening by the ad hoc bondholder group, we believe that a properly structured securitization transaction could play an important role in Prepa's recovery plan," Durani said.

While such a financing could be the foundation of a long-term plan, "the proposal was developed without consultation with bond insurers and disproportionately impacts our interest," Kevin Brown, a spokesman at MBIA Inc.'s National Public Finance Guarantee Corp., based in Purchase, New York, said in an e-mail.

The two bond insurers guarantee about $2.4 billion of Prepa debt.

Default Speculation

Puerto Rico and its agencies amassed $72 billion of debt by borrowing to fill budget gaps as the island's economy has struggled to grow since 2006. Governor Alejandro Garcia Padilla last month said the commonwealth can't afford to pay its debts, igniting concern it will default. Officials are set to draw up a restructuring proposal by Sept. 1.

The utility in August 2014 signed a contract with investors, banks and bond insurers that keeps negotiations out of court, called a forbearance agreement. Prepa must craft a debt-restructuring plan by Sept. 1 or that accord will expire. The utility avoided defaulting on a July 1 bond payment with the help of a loan from bond insurers.

Forbearance Pact

OppenheimerFunds, the biggest holder of Puerto Rico debt among municipal mutual-fund providers, Franklin Templeton Investments, Angelo Gordon & Co., Knighthead Capital, BlueMountain Capital and units of Goldman Sachs Group Inc. have signed the forbearance pact.

The creditor's proposal would delay principal payments for an average of 7.8 years and cut the coupons on as much as $5.7 billion to an average rate of 4.1 percent from 5.24 percent. Another $2.4 billion of securities would be sold as capital-appreciation bonds, which would push out principal and interest costs for up to 19 years.

The first tranche of current-interest bonds would be issued at a price of about 150 basis points above benchmark tax-exempt debt and the capital-appreciation bonds would be priced at about 200 basis points above top-rated munis, according to the bondholder plan.

Prepa's customers would be charged a new fee, with that revenue stream repaying the bonds. Under the plan, Prepa clients would pay an average 24 cents per kilowatt hour compared with the utility's historical rate of 28 cents. That surcharge may prove to be a tough sell.

"It's very hard to see how the politicians can line up behind this proposal," said Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, said in a telephone interview.

Prepa bonds maturing July 2042 traded Thursday at an average price of 56.2 cents on the dollar, the highest since June 8 and up from 49 cents Wednesday, data compiled by Bloomberg show. The average yield was 9.6 percent.

Bloomberg

by Michelle Kaske

July 22, 2015 — 9:09 PM PDT Updated on July 23, 2015 — 1:58 PM PDT

Moody's: U.S. Unlikely to Bail Out Puerto Rico; Bankruptcy Not a Viable Solution.

New York, July 22, 2015 — Moody's ratings assume no US federal payment on Puerto Rico's (Caa3 negative) debt, and any effort by the federal government on the commonwealth's behalf would have marginal near-term effects, Moody's Investors Service says in a new report.

"The federal government does not provide states or local governments with extraordinary funds to avert defaults on their debt, in part because doing so would induce other governments to take on unsustainable amounts of debt or engage in reckless fiscal practices," says Moody's VP — Senior Credit Officer Ted Hampton in "Frequently Asked Questions About Puerto Rico's Fiscal and Debt Crisis."

The FAQ also addresses the challenges Puerto Rico faces in current efforts to introduce Chapter 9 bankruptcy measures under the US bankruptcy code.

"Since Chapter 9 is unlikely to be a viable way to achieve a consolidated restructuring of all the commonwealth's debt, bankruptcy authorization would not be sufficient by itself to manage Puerto Rico's current pressures," says Hampton in the FAQ.

The very high likelihood that Puerto Rico will default and significantly restructure its obligations affecting all of its bondholders to varying degrees, provokes questions about expectations for bondholder recoveries.

"We believe bondholder recoveries will be lowest on securities lacking explicit contractual or other legal protections. These securities consist of those rated Ca, including notes issued by the Government Development Bank for Puerto Rico (GDB, Ca negative) and the commonwealth's subject-to-appropriation debt," Hampton says.

Moody's ratings below investment grade are based on both the probability of default and the expected bondholder loss given default.

The expected debt restructuring will be unusual, consistent with of Puerto Rico's status as neither an independent nation nor a US state. While similar to US states, Puerto Rico lacks the same legal rights and does not have representation in the US Congress. Unlike Greece (Caa3 on review for downgrade) Puerto Rico cannot turn to a lender of last resort, such as the International Monetary Fund.

The FAQ also address other questions regarding the recent loan by bond insurers to the Puerto Rico Electric Power Authority (PREPA — Caa3 negative), pension assets and the ability of the commonwealth recover fast enough to support its debt.

The report is available to Moody's subscribers here.

Michigan: Wayne County Designated for Financial Emergency Status.

Gov. Rick Snyder on Wednesday declared that Wayne County, home to Detroit, is in a financial emergency, agreeing with the findings of a state-appointed review team. The review team said on Tuesday that it had concluded there was a financial emergency based on the county's out-of-balance budgets over the last four years and an estimated $1.3 billion unfunded health care liability. The county executive, Warren Evans, requested the review last month, asking the state for a fiscal emergency declaration and a consent agreement to fix problems. Under Michigan law, local governments can choose a consent agreement, emergency manager, neutral evaluation or Chapter 9 municipal bankruptcy to deal with a financial emergency. Detroit went through a similar review process that led to the filing of the biggest-ever American municipal bankruptcy, which the city exited last December after shedding about $7 billion of its $8 billion of debt and obligations.

By REUTERS

JULY 22, 2015

Muni Funds Get First Cash Inflow Since April as Bonds Rally.

Investors added money to municipal-bond mutual funds for the first time since April, snapping an 11-week streak of outflows, as state and local debt leads a rally in the fixed-income market.

Individuals poured $125 million into muni funds in the week through Wednesday, Lipper US Fund Flows data show. The stretch of withdrawals that began May 6 had been the longest in 18 months. The last inflow was in the week ended April 29.

The $3.6 trillion municipal market has gained 0.6 percent in July, on track for the strongest return since January, Bank of America Merrill Lynch data show. It's outpacing the rally in U.S. Treasuries and investment-grade corporate debt, which have earned 0.5 percent and 0.3 percent this month, respectively, the data show.

Bond prices have gained amid speculation that the Federal Reserve will begin to raise interest rates at a gradual pace.

Even with the gains, the 2.34 percent yield on benchmark AAA munis compares with 2.25 percent for similar-maturity Treasuries, data compiled by Bloomberg show. The ratio of the two yields, at about 104 percent, is the highest since June 1.

Investors are frequently willing to accept lower yields on municipal bonds because their interest payments are exempt from the federal income tax.

Bloomberg

by Brian Chappatta

July 23, 2015 — 2:14 PM PDT Updated on July 24, 2015 — 6:06 AM PDT

Sports Owners Dip Into the Public's Purse, Despite Their Billions in the Bank.

CLEVELAND — The billionaire owner of the Cleveland Cavaliers, Dan Gilbert, is a lucky man. When LeBron James, his transcendent native son, left for Miami, the owner threw an impressive tantrum, going on about "cowardly betrayal."

Despite that, James felt the tug of home and returned to Cleveland to revive Gilbert's moribund franchise. In the N.B.A. finals, James resembled a Sherpa as he strapped a depleted team to his back and tried to drag it to the summit.

In the off-season, Gilbert dug his fingers into another pile of money, this one made up of taxpayer dollars. A year earlier, Gilbert and his fellow sports billionaires here — Larry Dolan, who owns the Indians, and Jimmy Haslam, who owns the Browns — had worked together to push through a referendum that extended a countywide "sin tax" on cigarettes, beer and liquor.

Over the next 20 years, taxpayers in Cleveland and Cuyahoga County will sluice $262 million into improvements for the city's arenas and stadiums. This straitened city has already pumped $800 million into its sports stadiums.

Sweet deals for team owners are a distinguishing feature of pro sports capitalism. Costs are socialized, and profits remain private. Cleveland's owners argue that this is only just: The stadium and the arena are publicly owned, and like any landlord, the city and the county should look after repairs and improvements.

Their logic does not apply more broadly. The team owners took control of the process of auctioning off naming rights for these public stadiums. The Browns sold their stadium's rights for $100 million to FirstEnergy Corporation; the Indians will get $58 million over 16 years from Progressive Insurance; Gilbert's home loan business paid a terrific sum to Gilbert's team to name the place Quicken Loans Arena.

The owners shared not a penny with the hard-pressed city.

The Cleveland Indians have their hearts set on a new sound system. The Browns' Haslam — whose truck-stop company, Pilot Flying J, just last year paid a $92 million fine to avoid a federal fraud prosecution — has compiled a list of improvements to be funded out of the public purse.

That sports teams, which are active charitable givers, have an umbilical tie to civic identity is not a fanciful notion. That this means that teams are drivers of economic progress, however, is a hallucination.

When James decided to return to Cleveland, city leaders and a few journalists retailed a narrative about L'Effect LeBron. They estimated that his return would pour many tens of millions of dollars into the city and speed the "Cleveland Renaissance."

Cleveland has charming, leafy neighborhoods, fine museums and theaters and splendid lake views. More college-educated young adults are moving downtown, and there is indisputably more investment, building cranes and vibrancy to be found in Cleveland than a decade ago. At the same time, in the last month for which figures are available, Cuyahoga County's job growth rate was 0.0.

The city's poverty rate hovers near 37 percent, and the infant mortality rate is 13.0 per thousand births, compared with about 4.0 in New York City, which has no shortage of poverty.

Public schools have absorbed cut after cut.

I called George Zeller, who has analyzed the economy here for decades. He declined to talk renaissance, saying no such animal existed. "The theory that all of these sports teams are producing a gigantic boom is completely false," he said.

Yet sin-tax dollars tumble into the hands of billionaires who employ millionaires.

The day after the end of the N.B.A. finals, I walked into the Cleveland office of Peter Pattakos. An ebullient lawyer, a sports fan and an Akron native, he helped lead the battle against the sin-tax extension. Ask a question, and he's off at a sprint.

"It's outrageous that these are public entities and we let these billionaires derive untold profits," he said. "They kept saying, 'Keep Cleveland strong,' with the implied threat that they'd leave town if we didn't underwrite their stadiums."

The anti-sin-tax campaign was a peasant crusade. Pattakos's ragtag band suggested a $3 surcharge on sports tickets. The owners rolled their collective eyes.

"Proposing to punish Cuyahoga County families and sports fans by imposing a new, large ticket tax to pay for major repairs," the owners complained in a news release, "is terribly flawed."

A surcharge, they complained, would make it even more difficult for families to buy tickets. That argument has an out-of-body quality, as the owners set the prices. (The Cavaliers will raise ticket prices 15 percent next year, the first such hike in five years.)

The teams' owners and supporters outspent opponents, $3 million to $30,000. The vote to extend the sin tax, however, was not a blowout. Voters in the city of Cleveland rejected it; suburban voters carried the election.

Pattakos motioned for me to follow him, and we clattered downstairs. He led a walking tour of the Warehouse District. We passed handsome restaurants and bars, and lots of for-rent signs on vacant storefronts. Job losses are like a river eroding the shore.

"You're telling me we should spend our tax money fixing up stadiums?" he asked, over his shoulder.

The Gateway Economic Development Corporation of Greater Cleveland acts as the landlord for the basketball arena and the Indians' field. (The Cavaliers and the Indians pay Gateway's operating expenses, about $3 million per year.) I placed phone calls and sent detailed emails to its executive director, Todd Greathouse. The next peep I hear from that office will be the first.

In editorializing for the sin tax, The Cleveland Plain Dealer argued that the city had a landlord's responsibility to pay for upkeep. Left unexplained was why the landlord had never tried to renegotiate terms with ever more wealthy teams.

(Note: The Indians offer a sort of exception. They rank next to last in the American League in attendance. The night I attended a game, the crowd had the feel of an extra-large backyard barbecue, and 25 percent of the fans seemed to be rooting for the visiting Chicago Cubs.)

Over the winter, the Cavaliers' emissaries arrived with a new proposal. They wanted locals to split the cost — in addition to the sin-tax dollars — of overhauling their arena. Adam Silver, the N.B.A. commissioner, added his voice, saying that the league would love to have the All-Star Game in Cleveland, if only its burghers would ante up again for the billionaire owner.

The Cavaliers' chief executive says the overhaul would add to Cleveland's "economic momentum."

To be a wealthy sports owner is to feel no burn of embarrassment.

THE NEW YORK TIMES

JULY 21, 2015

By MICHAEL POWELL

Junk-Bond Stigma is Costing Chicago.

(Bloomberg) — Chicago is paying a price for the $20 billion pension-fund shortfall that pushed it into junk-bond territory.

The nation's third-most populous city had to pay yields approaching 8 percent as part of a $743 million taxable-bond offering Wednesday. That puts it in the company of issuers such as telephone company CenturyLink Inc., whose $650 million of similar-maturity securities yield 8.53 percent.

Chicago has been stung by rising borrowing costs as Mayor Rahm Emanuel refinanced floating-rate debt over the past two months, seeking to avoid as much as $2.2 billion of penalties triggered when Moody's Investors Service cut it below investment grade. The May downgrade left the city of 2.7 million with a lower rating than any major U.S. city except for Detroit, a result of years of failing to put enough into its retirement system to cover promised benefits.

"They've taken a notch in the right direction by reducing the liquidity threat related to variable-rate debt," said Richard Ciccarone, chief executive of Chicago-based Merritt Research Services LLC, which analyzes municipal finance. "But the city will pay a price, and deservedly so."

ADDITIONAL LIABILITIES

Chicago's pension obligations are rising, increasing pressure on officials to boost property taxes. The city owes an additional $550 million to police and fire funds next year.

Lawmakers approved a plan to reduce that payment, but Governor Bruce Rauner has yet to sign it. Uncertainty around the city's pension liabilities worsened after the state Supreme Court ruled that Illinois can't lower retiree benefits, casting doubt on Chicago's overhaul of its pension system to stem costs.

The taxable issue and a $344 million tax-exempt offering set for Thursday are the last in Emanuel's plan to convert variable-rate bonds to fixed-rate securities. The floating-rate debt threatened to add to Chicago's financial pressures because its tumbling credit rating allowed banks to force Chicago to pay it off early, which it couldn't afford to do.

'We expect continued positive investor feedback on the City's reform efforts," Elizabeth Langsdorf, a city spokeswoman, said in an e-mailed statement.

COURT DECISION

The city's escalating borrowing costs are a consequence of a financial outlook that has yet to improve, said Paul Mansour, head of municipal research at Conning & Co., which oversees about $11 billion in municipal debt, including Chicago holdings.

He said he's not going to buy any of the debt.

The Chicago bonds sold Thursday are exempt from the federal income tax, so the yields will be lower than those set Wednesday. The city's tax-exempt bonds maturing in 2035 last traded for a yield of 5.6 percent, about 2.5 percentage points more than top-rated debt, according to data compiled by

Bloomberg.

The latest sale, authorized by the city council on June 17, will also allow Chicago to push some bills into the future, said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

Chicago's effort to close the gap in its pension funds could be dealt a setback in court as soon as next week, when a judge is to decide whether Emanuel's overhaul of the pension system is legal. The restructuring, affects about 60,000 municipal employees. Some unions sued to block its implementation.

INVESTOR RISK

If the judge overturns the law, Chicago's credit rating may be cut further, Fabian said. Chicago could have junk ratings from all four rating companies in the next two years, he said.

"With the risk of them potentially losing more investment grade ratings, buyers can't be aggressive," Fabian said.

"There aren't many speculators who are willing to make a bet on Chicago tightening yet. This is a kind of deal that would price cheaply."

John Donaldson isn't among such speculators. Donaldson, who helps manage about $700 million of munis, including Chicago debt, as director of fixed income at Haverford Trust Co. in Radnor, Pennsylvania, said he's steering clear of the city.

"We've shied away from it," Donaldson said. "It's all the liabilities, including the pension, current budget. Do I need that headache right now? No, I do not."

July 16, 2015

New York Bonds Headline $9.48 bln Muni Supply Next Week.

An abundance of New York issuance will hit the U.S. municipal bond market next week amid total supply of bonds and notes estimated at $9.48 billion, down from about $10.5 billion this week, according to Thomson Reuters on Friday.

New York State's Dormitory Authority will offer $1.16 billion of state sales tax revenue bonds through Morgan Stanley. The deal is structured with serial maturities from 2016 through 2025, according to the preliminary official statement (POS). An additional $50 million of bonds will be priced on Thursday via Raymond James & Associates.

Another New York issuer, the Metropolitan Transportation Authority, will sell $500 million of revenue refunding bonds through Siebert Brandford Shank & Co and Morgan Stanley with a retail order period on Wednesday ahead of formal pricing on Thursday.

Moody's Investors Service last week upgraded MTA's rating to A1 from A2, citing growing passenger volume and stable finances.

The deal consists of $500 million of fixed-rate bonds with serial and term maturities, $50 million of mandatory tender bonds and $50 million of LIBOR floating rate tender notes, according to the POS.

Citigroup will price $110 million of New York State Environmental Facilities Corporation tax-exempt and taxable revolving funds revenue bonds on Tuesday.

Topping next week's competitive calendar is a $347 million general obligation bond issue for the Metropolitan Government of Nashville and Davidson County scheduled for Tuesday.

Meanwhile, net outflows from U.S. municipal bond funds decreased to $29.2 million in the week ended on Wednesday from $305.7 million in the previous week, Lipper reported on Thursday. It was the eleventh-straight week of net outflows for the funds.

Flows turned positive for high-yield muni funds with net inflows of $14.5 million posted in the latest week after two weeks of net outflows.

Reuters

(Reporting by Karen Pierog, editing by G Crosse)

July 17, 2015

House Approves Short-Term HTF Fix.

DALLAS — The House on Wednesday voted 312 to 119 to approve a bill that would extend federal transportation funding through Dec. 18, with an $8.1 billion transfer from general funds to the Highway Trust Fund.

The measure proposed on Monday by Rep. Paul Ryan, R-Wis., chairman of the House Ways and Means Committee, would maintain the flow of reimbursements to states for highway and transit projects through that date.

"We want to get to a long-term, six-year highway bill," Ryan said during Wednesday's floor debate. "We're not going to get there in the next two or three weeks. It's going to take two or three months."

The Senate is working on a two-year transportation bill, he said.

Rep. Bill Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee and co-sponsor of Ryan's HTF fix, said there's not enough time to pass a multiyear bill before the current two-month extension ends July 31.

"I believe we can get there, but we can't get there in the next three weeks," he said. "We are committed to a six-year bill."

Lawmakers rejected a proposal by the Democrats to replace the Ryan bill with President Obama's six-year, $478 billion Grow America Act funded with $240 billion of gasoline and diesel tax revenues and $238 billion from a mandatory 14% tax on overseas corporate earnings. "This bill represents what the House should be taking up today on surface transportation," said Rep. Peter DeFazio, D-Ore., one of the sponsors of the Obama proposal and the ranking Democrat on the House Transportation and Infrastructure Committee.

The $8.1 billion transferred from the general fund will require a similar amount of offsets over the next 10 years. The offset revenue includes $3.1 billion of airline passenger security fees and $5 billion from enhanced tax compliance.

President Obama reluctantly supports the HTF extension only in the hope that it leads to a long-term bill before the end of the year, the Office of Management and Budget said Wednesday morning in a Statement of Administration Policy.

The need to keep federal transportation reimbursements flowing to states during the busy summer construction season is an “unfortunate reality” created by a series of short-term HTF fixes, OMB said.

The Transportation Department notified state officials earlier this week that federal reimbursements for road and bridge projects could come to an end Aug. 1 without congressional action on the HTF.

“The administration expects that Congress will use this five-month extension to pass a multiyear bill with significant increases in investment to address the system’s maintenance and repair deficit, enhance safety, and lay the foundations for future growth in critical areas like freight movement,” the statement said. “The administration will not support continued failure to make the investments the nation needs.”

The Senate is expected to take up a transportation bill on Thursday, but Majority Leader Sen. Mitch McConnell declined to provide specifics after Tuesday’s weekly Republican caucus. McConnell said he was “fairly optimistic” about a long-term measure.

“There’s a lot of bipartisan enthusiasm for a multiyear highway bill,” he told reporters. “We’ve had some conversations inside our conference about a way to pay for that, and I’ve also had conversations with prominent Democrats that were involved in this issue,” McConnell said. “We’re hoping to be able to come together behind some way to get a multiyear highway bill.” Senate Minority Leader Harry Reid, D-Nev., was unenthusiastic about Ryan’s HTF proposal. “I don’t know what the House is going to do,” he said. “I’ll take a look at it.”

The Senate Environment and Public Works Committee in June unanimously approved a six-year, $277 billion highway-only bill that does not deal with the $100 billion revenue shortfall in the HTF over that span.

Sen. Ted Cruz, R-Texas, a candidate for the Republican nomination for president in 2016, said on Wednesday he would filibuster a transportation bill that includes a provision reauthorizing the Export-Import Bank as McConnell has proposed.

“I’m willing to use any and all procedural tools to stop this corporate welfare and this corruption from being propagated,” Cruz said.

The Bond Buyer

by Jim Watts

JUL 15, 2015 3:21pm ET

BlackRock Sees 40% Haircut in Puerto Rico Debt Restructuring.

Puerto Rico bondholders may receive an average of just 60 cents on the dollar if the commonwealth wins the ability to restructure its $72 billion in obligations, according to BlackRock Inc.’s head of municipal debt.

The Caribbean island and its agencies need to cut their debt to $40 billion, Peter Hayes, who helps oversee about $116 billion of munis at the world's biggest money manager, said in an interview on Bloomberg Television. That would mean an average recovery of about 60 percent on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Puerto Rico bond prices have tumbled since Governor Alejandro Garcia Padilla last month said the commonwealth can't afford to pay its debts, raising the specter of an unprecedented restructuring in the $3.6 trillion municipal-bond market.

The Government Development Bank, which lends to the commonwealth and its agencies, said last week it may purchase its notes through cash or exchange the securities at less than par. Standard & Poor's said Tuesday that it considers such an exchange as a default.

Default Risk

S&P cut the GDB's rating by one step to CC on the view that a default "is virtually certain," Brendan Browne, an S&P analyst in New York, wrote in a report.

Puerto Rico and its localities have a history of borrowing to fix budget deficits, racking up more debt than any U.S. state except California and New York. With an economy that has contracted every year but one since 2006, Puerto Rico officials have been building a case for convincing investors to accept less than they are owed.

Puerto Rico officials met with creditors Monday at Citigroup Inc.'s New York headquarters, the first gathering with investors since Garcia Padilla's comments. Officials said they will evaluate every bond as they work on a recovery plan and haven't given any details about which securities may be affected.

Recovery Rates

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Such debt maturing July 2041 changed hands Tuesday at an average price of 61.3 cents on the dollar, the highest since June 26, according to data compiled by Bloomberg.

Sales-tax bonds, called Cofina, that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.
They "are likely to get a fairly low recovery," Hayes said.

Electric Power Authority bonds are trading at levels above what investors may get in a restructuring because the publicly owned electric utility needs to upgrade its plants, Hayes said. Prepa debt maturing July 2028 traded Tuesday at an average 49.1 cents on the dollar, about the same level as the start of the year, Bloomberg data show.

Bloomberg

by Michelle Kaske and Erik Schatzker

July 14, 2015 — 9:29 AM PDT Updated on July 14, 2015 — 1:16 PM PDT

Perry Joins Bullish Puerto Rico Camp as BlackRock Sees Losses.

The divide over the outlook for Puerto Rico's bonds is widening as investors and speculators take sides on the commonwealth's debt restructuring proposal.

Richard Perry, head of Perry Capital, said Wednesday the commonwealth is in better shape than most people realize. Jeffrey Gundlach, co-founder of DoubleLine Capital, likes the debt at current prices. BlackRock Inc. warned Tuesday that investor risk receiving an average of just 60 cents on the dollar in a reorganization.

Perry, speaking at the CNBC Institutional Investor Delivering Alpha Conference in New York, said that the population has only fallen marginally, and that government debt is about 70 percent of GDP, lower than in many other countries, including Japan.

"It's often mischaracterized in the U.S. and it's painted like Detroit," said Perry, who's New York-based firm holds Puerto Rico securities, including its Government Development Bank debt.

Puerto Rico and its agencies owe $72 billion after borrowing for years to fix budget deficits. The island's economy has shrunk every year but one since 2006. Governor Alejandro Garcia Padilla last month directed island officials to create a debt-restructuring plan by Aug. 30 that would delay payments. Garcia Padilla says Puerto Rico cannot pay all of its obligations.

Bearish View

The commonwealth needs to slash its debt load to $40 billion, Peter Hayes, who helps oversee about $116 billion as head of municipal debt at New York-based BlackRock, the world's biggest money manager, said in an interview Tuesday on Bloomberg Television. That would mean an average recovery of about 60 cents on the dollar on its securities, which include general-obligation bonds, sales-tax debt and those from its electric utility, he said.

"They have all this debt that they can't afford," said Hayes, whose firm held just $28 million of Puerto Rico debt as of May 31, according to Morningstar. "How do you get out of debt? You either grow your way out — they're not growing — or you restructure. So from the point of view of its citizens, it's the best outcome."

Recovery rates will differ, Hayes said after his television interview. Holders of general obligations may get at least 60 cents on the dollar, he said. Subordinate sales-tax bonds that are second in line for repayment may get restructured at below 60 cents on the dollar if the commonwealth chooses to use that revenue stream for other expenses, he said.

Returns Forecast

The island's constitution says the commonwealth must repay general obligation bonds before other expenses. Such debt maturing in July 2041 and carrying an 8 percent coupon traded Wednesday at an average price of 72.6 cents on the dollar, the highest since June 26, before the governor called for a debt-restructuring plan.

OppenheimerFunds Inc., the largest U.S. mutual-fund investor of Puerto Rico securities, said last week that sales-tax collections, unemployment and income growth show the economy is strong enough for the government to repay.

Gundlach said he hopes those bonds "might return par," if a presidential candidate were to campaign on helping out Puerto Rico. He spoke on CNBC from the conference.

DoubleLine's $2.24 billion Income Solutions Fund held $45 million of Puerto Rico's 2041 general obligations, as of May 29, data compiled by Bloomberg show. Its $137 million Multi-Asset Growth Fund held $2.5 million of the same securities, as of June 30.

That debt will need to gain in price for investors to consider negotiating changes in debt payments, Perry said.

"The government obligations that are really in the highest part of the pecking order, they are going to have to trade at par if they're going to make this restructuring work," Perry said.

Bloomberg

by Michelle Kaske

July 15, 2015 — 1:21 PM PDT

Puerto Rico Closer to Default After Missed Funds Transfer.

Puerto Rico lurched one step closer to default, saying one of its agencies failed to transfer cash to a trustee to cover an Aug. 1 debt payment because the legislature didn't appropriate the funds.

It's unclear whether the Public Finance Corp. will pay $36.3 million of bonds maturing that day. If it doesn't, that would mark the first time Puerto Rico has defaulted on a debt payment and would come as the commonwealth seeks to negotiate with creditors to restructure $72 billion of obligations.

The missed transfer underscores the fiscal squeeze on the U.S. commonwealth, which is pushing for Congress to allow some of its public corporations to file for Chapter 9 bankruptcy protection.

"This payment may not be made and will probably lead to the government trying to exchange this paper," Luis Fortuno, Puerto Rico's governor from 2009 through 2012, said during a telephone interview. "I don't think this, in and by itself, is enough to cause Congress to act on Chapter 9. There is a lot of talks about some strings attached to Chapter 9, although it's not clear exactly what that would be."

The Public Finance Corp. owes about $1 billion of debt repaid through legislative appropriation, according to the Government Development Bank, which works on the island's debt sales.

Legislative Approval

"In accordance with the terms of these bonds, the transfer was not made due to the non-appropriation of funds," Melba Acosta, president of the GDB, said Wednesday in an e-mailed statement.

Puerto Rico is in need of cash because investors have effectively closed the island's access to the capital markets by demanding high interest rates

Last month, lawmakers included about $300 million in the current budget to repay GDB debt. The bank may be able to use the money to pay bondholders next month, though it would need legislative approval to do so. The legislature is out of session until mid-August.

“Should resources be required from this fund, the GDB only needs to inform, request, and justify the need for these funds to the legislature,” Senator Jose Nadal Power, who chairs the Senate Finance Committee, said in a statement Thursday that was in Spanish.

Debt of the Public Finance Corp., which has borrowed to help pay the government’s bills, traded July 1 at an average 68 cents on the dollar, a record low, according to data compiled by Bloomberg.

Default Expectations

“Most PFC debt is held on-island, but some is held by U.S. mutual funds and in retail accounts and a further small portion is held by the hedge fund community,” Daniel Hanson, an analyst at Height Securities, a Washington-based broker dealer, wrote in a report Thursday. “We expect the technical default event will signal that more defaults are coming and draw further attention to the liquidity issues facing the commonwealth.”

The trustee, U.S. Bank, has hired the law firm Hogan Lovells “to advise it in connection with this matter,” according to a filing with the Municipal Securities Rulemaking Board.

Puerto Rico is in need of cash because investors have effectively closed the island’s access to the capital markets by demanding high interest rates. The development bank, a source of available cash for the commonwealth, had $778 million of net liquidity as of May 31, down from $2 billion in October. To avoid running out of cash by Sept. 30, the bank wants to exchange its notes for longer-maturity debt.

Next Payment

Another $140 million of development bank bonds mature Aug. 1, Bloomberg data show. The GDB said last week it may purchase its notes “from time to time” with cash, new securities or a combination. Such purchases are expected to be at prices “that are materially less than par,” according to a filing through the Municipal Securities Rulemaking Board.

Governor Alejandro Garcia Padilla last month directed island officials to create a debt-restructuring plan by Aug. 30. The governor says Puerto Rico cannot afford to repay what it owes.

Key Democrats including U.S. Senator Chuck Schumer, who represents New York, are backing legislation that would allow Puerto Rico’s public corporations to file for Chapter 9, just as U.S. cities can. A bill to do so has stalled for lack of Republican support.

Bloomberg

by Michelle Kaske

July 15, 2015 — 7:39 PM PDT Updated on July 16, 2015 — 2:27 PM PDT

Piper Jaffray Agrees to Acquire BMO Municipal-Bond Business.

Piper Jaffray Cos., the investment bank founded in 1895, agreed to buy Bank of Montreal’s GKST

Inc. to expand in municipal bond sales, trading and origination.

The deal is expected to be completed in the fourth quarter and is subject to regulatory approval, Minneapolis-based Piper Jaffray said Monday in a statement that didn't disclose terms. Most of the 130 employees working for the GKST unit will move to Piper Jaffray, said Nini Krishnappa, a BMO spokesman.

Piper Jaffray Chief Executive Officer Andrew S. Duff has been boosting capital markets operations. The company last month added a group of dealmakers from Sterne Agee Group, the firm that was acquired by Stifel Financial Corp.

"The fixed-income business has been a longstanding and core focus for Piper Jaffray, and our commitment to sustainable growth led us to GKST," Duff said in the statement.

New bond sales are accelerating in the $3.6 trillion municipal market. States and cities have issued $231 billion of debt this year, up more than 50 percent from the same period in 2014 and the fastest pace since at least 2003, according to data compiled by Bloomberg.

Muni bonds have gained about 0.4 percent in 2015, while Treasuries are little changed and investment-grade corporate securities declined 0.45 percent, according to Bank of America Merrill Lynch data.

Managers Depart

BMO's decision to divest GKST follows the departure in May of portfolio managers Duane McAllister, Erik Schleicher and analyst Joseph Czechowicz, who all left for Baird Advisors.

Bank of Montreal bought Griffin, Kubik, Stephens & Thompson in 2008 for about $33 million, more than doubling its municipal-bond business at the time. The broker, founded in 1980, employed about 100 people across offices in Chicago, Milwaukee and Monticello, Illinois.

"We're confident that the transaction will enable BMO Capital Markets to focus resources on growing our core U.S. businesses, including our institutional fixed-income business, and strengthen relationships with our institutional clients," Krishnappa said in an e-mail.

Legal advisers on the deal were Mayer Brown LLP for Bank of Montreal and Faegre Baker Daniels for Piper Jaffray. BMO Capital Markets and Berkshire Capital were financial advisers for Toronto-based Bank of Montreal.

Bloomberg

by Katherine Chiglinsky and Katia Dmitrieva

July 20, 2015 — 6:37 AM PDT Updated on July 20, 2015 — 7:10 AM PDT

Chicago Issues Bonds With 'Stunningly' High Yields.

The city of Chicago has been battling a financial crisis since mid-May when a state court rejected its fix for its underfunded pension plan and Moody's downgraded its debt to junk status.

As part of the larger solution to the financial chaos that downgrade unleashed, the city is issuing

$1.1 billion in bonds, both taxable and tax-free. The cash raised will reduce its reliance on short-term debt to pay its bills.

Those new bonds priced Thursday and Friday at rates that have surprised some municipal bond investors, who find them very attractive.

A taxable issue (the city had to issue taxable bonds since the money isn't technically going towards a public good) that is maturing in 2042 priced Thursday with a yield of 7.98%.

The tax-free issue maturing in 2039 priced Thursday at 5.69%. For an investor in the highest federal tax bracket, that's equivalent to a 9% taxable yield.

"That's stunningly high," says Jim Colby, chief municipal strategist at Van Eck Global. "It's far and away significantly cheaper and more attractive than anything of a similar credit quality in the muni space."

One reason these yields strike experts so high is because both Fitch Ratings and Moody's Investors Service rated the issues BBB-plus, which is investment grade (Moody's wasn't hired to rate these issues by the city). "Chicago is not Detroit," says Colby. "It is not a city whose credit rating should be below investment grade."

Colby says he'll be looking at the tax-free issue for both the investment grade and high-yield exchange-traded funds he manages (both can by triple-B securities). For comparison, the 30-day yield of his Market Vectors High Yield Municipal Index ETF (HYD) is currently 4.61% in comparison, says Colby.

Dan Heckman, senior fixed income strategist at U.S. Bank Wealth Management, cautions that the yields are higher because some market participants judge that they are riskier than bonds with the same credit ratings.

"The market really views them as a weaker credit than the rating agencies," says Heckman. "They are attractive if you have an appetite for what is frankly a weaker credit."

Barron's

July 16, 2015, 3:17 P.M. ET

By Amey Stone

Demand and Rates High for Chicago's Bond Sales.

(Reuters) – Chicago's $1.08 billion of bond sales this week had big investor demand, but still resulted in hefty interest rates due to the city's festering fiscal woes.

Mayor Rahm Emanuel's office said Thursday's sale of $345 million of tax-exempt, general obligation bonds was 10 times oversubscribed with investor orders.

That allowed underwriters led by Morgan Stanley to reprice the bonds, dropping yields 2 to 8 basis points in several maturities, according to a pricing scale.

The top yield was shaved 8 basis points to 5.69 percent for bonds due in 2039 with a 5.50 percent coupon. That resulted in a 252 basis point spread over Municipal Market Data's benchmark triple-A scale, signaling the fiscally struggling city continues to pay higher borrowing costs than most issuers in the U.S. municipal bond market.

"There's a significant penalty," said Dan Solender, lead portfolio manager at Lord Abbett.

Solender said bonds in tougher sectors of the muni market are able to attract lower yields than Chicago, pointing to $361 million of revenue bonds for a nonprofit corporation financing student housing at Texas A&M University. Tax-exempt bonds rated triple-B-minus in that deal were priced this week to yield 4.54 percent in 2035 — 113 basis points lower than the 5.67 yield for higher-rated bonds due the same year in Chicago's deal.

The city, the third largest in the United States by population, is struggling with a projected $430 million fiscal 2016 budget gap. The deficit is due in part to escalating pension payments that include a looming $550 million contribution increase to its public safety workers' retirement funds.

Chicago sold the tax-free bonds a day after nearly $743 million of taxable GO bonds were priced. Both deals were part of the city's plan to restructure its short-term debt into longer-term, fixed-rate bonds.

Moody's Investors Service, which was not asked to rate this week's Chicago bond sales, in May dropped the city's credit rating to junk, triggering $2.2 billion in accelerated debt payments and fees that led the city to undertake the restructuring.

Since then the city converted more than $900 million of variable-rate debt to fixed rate to end interest rate swaps and bank letters of credit. The deals were also popular with investors but resulted in hefty yields.

Bond sales this week will repay all but about $140 million of the city's short-term borrowing program.

Thu Jul 16, 2015

(Reporting By Karen Pierog; Editing by Andrew Hay)

Puerto Rico Urges Creditors to Avoid Lawsuits Over $72 bln Debt.

(Reuters) – Puerto Rico pleaded with creditors on Monday not to engage in lengthy litigation over its $72 billion debt, but provided little information about how a debt restructuring would affect them.

At a packed meeting with bondholders at Citibank's New York offices, a clutch of the island's top officials and advisors again painted a bleak picture for the U.S. territory's economy and said fixing it would require pain to be shared by everyone with a stake in its future.

"We are hopeful we can … avoid adverse consequences that a highly litigated process could result in," said Jim Millstein, founder and chief executive officer of restructuring advisory firm Millstein & Co, which is advising the island.

Millstein warned bondholders that litigation would hurt the commonwealth's economy, reducing the tax dollars that are the lifeblood of bond payments.

Some top bondholders have already taken Puerto Rico to court over a restructuring law passed last summer which would have affected the island's public agencies.

Two weeks ago, Puerto Rico Governor Alejandro Garcia Padilla called for a wide-ranging restructuring of the island's debt. U.S. fund manager OppenheimerFunds, the largest holder of Puerto Rico debt among U.S. municipal bond funds, warned the island it stands ready to defend the terms of bonds it holds.

The meeting came after Garcia Padilla dropped a bombshell on holders of Puerto Rico's $72 billion debt on June 29, saying he wants to restructure debt and postpone bond payments.

"There is some urgency about the entire situation," former IMF economist Anne Krueger said at Monday's meeting. She co-authored a government-commissioned report released in June which painted a bleak picture for the island.

"A delay has costs. If you want to see what those costs are take a look at Greece now."

The meeting on Park Avenue drew a small protest of about 30 people who yelled "No to the Krueger Plan."

"(The Governor) should make the foreign corporations, the U.S. corporations in the island, pay for the debt, and the rich," said Fatima Santana, a nurse who is Puerto Rican but lives in New York.

Inside the meeting, Millstein and Government Development Bank (GDB) head Melba Acosta took a handful of prepared questions after a presentation given by Acosta and Krueger.

Creditors asked questions to try and clarify what kind of adjustment the government planned for their debt, but Millstein said he was not in a position to talk about particular issuers' debt. He said it would be examined on an "entity to entity" basis.

A fund manager from a prominent mutual fund firm who attended the meeting said he saw no sign investors would heed calls to accept voluntary bond restructuring.

"I am pretty sure that the mood with the creditors is going to be: 'I am going to stick hard with principles on whatever you promised'," the fund manager said.

Joseph Rosenblum, director of municipal credit research at AllianceBernstein, said as he exited Citi's offices that the meeting was "rather general in terms of presentation and the questions they had and answered."

Acosta said implementing a turnaround plan would require "sacrifice from all our stakeholders, including first and foremost the people of Puerto Rico" who endured a decade of stagnation; as well as government employees and local and multinational businesses. A plan also needs to include the federal government which can aid the economy and its financial creditors, Acosta said.

Replying to a question about whether the commonwealth could get by without federal help, Acosta said the island was "not asking the government for a bail-out" but was seeking help with policies that would remove barriers to economic stability.

A consensual plan agreed with creditors is ideal, Acosta said, with a drawn-out contentious plan bad for the island. She added that it would be premature to suggest the amount of debt adjustment required.

Acosta added that the administration would propose a financial control board be created with the tools to ensure compliance with the plan's targets.

Millstein said he hoped Monday's meeting would be the first in a series of constructive discussions between the commonwealth and investors to put Puerto Rico on a trajectory to growth.

Mon Jul 13, 2015

By Megan Davies and Edward Krudy

(Additional reporting by Jessica DiNapoli; Editing by David Gregorio)

Municipal Bond Sales Poised to Accelerate as Redemptions Rise.

NEW YORK — 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 $16.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $10.5 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 State University plans to sell $1.07 billion of bonds, Chicago has scheduled $1.07 billion, Maryland will offer $500 million and North Carolina Eastern Municipal Power Authority will bring $478 million to market.

Municipalities have announced $10.9 billion of redemptions and an additional $16.1 billion of debt matures in the next 30 days, compared with the $24.8 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $3.49 billion, followed by California at $3.02 billion and Massachusetts with $1.35 billion. New York City has the biggest amount of securities maturing, with $1.73 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $861 million from mutual funds that target municipal securities in the week ended July 1, compared with an increase of $105 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $13.6 million last week, boosting the value of the ETFs 0.08 percent to $16.7 billion.

State and local debt maturing in 10 years now yields 95.625 percent of Treasuries, compared with 98.105 percent in the previous session and the 200-day moving average of 100.033 percent, Bloomberg data show.

Bonds of Wisconsin and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Wisconsin's securities narrowed 2 basis points to 2.49 percent while Tennessee's declined 1 basis point to 2.33 percent. Puerto Rico and Illinois handed investors the worst results. The yield gap on Puerto Rico bonds widened 233 to 11.93 percent and Illinois's rose 31 basis points to 4.10 percent.

By Ken Kohn and Luis Daniel Palacios, Bloomberg News

July 13, 2015

Cash-Strapped Chicago Borrows at Rates Approaching 8 Percent.

Mayor Rahm Emanuel's decision to borrow for costs such as debt payments, bank fees and penalty payments on old deals gone bad — the kind of bills cities typically pay with operating funds — will cost Chicago more than $500 million in interest over the next three decades.

Data released Thursday show the city is paying rates that approach 8 percent on the $743 million in taxable debt sold Wednesday. Chicago's borrowing costs have risen dramatically relative to other borrowers as its credit rating has deteriorated.

The high interest costs — calculated by the Tribune using the value of today's dollars — are "punitive," said Richard Ciccarone, president and CEO of Merritt Research Services.

"The weight of the city's problems are clearly reflected in the pricing," he said.

The deal represents the largest taxable bond issue the city has ever sold. Totaling $1.1 billion, it also contains $347 million in tax-exempt debt.

Taxable debt is by nature costly because the federal government discourages borrowing for short-lived expenditures by collecting taxes on the interest investors earn. But Chicago has little room in its operating budget to cover its wide range of bills — many of them racked up before Emanuel took office — and the mayor has so far chosen not to raise property taxes.

Expenditures the city will pay with taxable bonds, which the city detailed for the first time Thursday in connection with the bond sale, include costs related to former Mayor Richard M. Daley's lease of the city's parking meters and his failed Olympic bid, as well as some debt payments coming due on old debt.

Emanuel is adding to the debt burden by borrowing $136 million at taxable rates in order to set aside interest payments for the first two years the bonds are outstanding, a maneuver called capitalized interest. That means the city is borrowing more than $100 million extra so that it doesn't have to pay interest on the bonds until 2017.

Thursday's bond issue was the final step in Emanuel's plan to protect the city against sudden burdensome demands from banks. More than half of the costs the bonds financed were outstanding on the city's line of short-term credit, akin to a city credit card. Some of those credit agreements allowed banks to demand repayment immediately if the city received a junk status rating. Moody's Investors Service rated the city at Ba1 — junk status — in May.

About $140 million remains outstanding on the city's credit card. Officials said those are short-term projects with dedicated revenue sources.

Costs covered by the smaller tax-exempt bond issue included about $150 million to pay back credit used to cash out of variable-rate bonds and interest rate swaps taken on by Daley, liabilities that also exposed the city to possible penalty payments from banks.

Investors settled for slightly lower rates on that debt than they demanded on the city's last tax-exempt bond issue in May, a sign that the city's credit could be improving slightly.

"It's a little bit less lousy," said Matt Fabian, a partner at the municipal bond research firm Municipal Market Analytics. "The city has miles to go and it's only advanced a couple feet."

Indeed, the overall cost the city pays for tax-exempt borrowing — a crucial source of funds for maintaining and improving infrastructure — remains high compared with other major cities and the rates Chicago has paid in the past.

Daniel Berger, an analyst with Thomson Reuters, noted that the interest rates the city is paying for tax-exempt borrowing have increased by a full 2 percentage points since 2010. "That's kind of dramatic," he said.

By Heather Gillers and Hal Dardick

Chicago Tribune

July 17, 2015

Signature Bank in N.Y. Forms Municipal Finance Unit.

Signature Bank in New York has formed a subsidiary to specialize in municipal finance and hired three executives for the division.

Signature Public Funding will provide tax-exempt lending and leasing products to government bodies throughout the U.S., including state and local governments, school districts and fire and police departments. The division is located in Towson, Md.

The $28.6 billion-asset Signature Bank sees an opportunity to provide financing equipment purchases for critical services and for infrastructure-enhancing projects, said Signature Chief Executive Joseph DePaolo.

DePaolo in April told American Banker that Signature was eyeballing the muni-finance market. Its plans were in place before General Electric began its selloff of GE Capital, but GE's exit means there's one less competitor in the field, he said.

"Hopefully we'll be able to buy some assets from them, and hopefully we'll be able to hire some quality people," DePaolo said.

Signature has hired Donald Keough to oversee the muni-finance unit's daily operations as senior managing director. Keough previously worked for Womble Carlyle Sandridge & Rice as a public-finance attorney and for SunTrust Equipment Finance & Leasing. Signature also hired Richard Cumbers from BankUnited's Bridge Capital Leasing as senior managing underwriter; and it hired Tonia Lee from Grant Capital Management as senior documentation officer.

AMERICAN BANKER

by JACOB PASSY

JUL 13, 2015 11:41am ET

Puerto Rico Confronts Bondholders as Debt Talks Turn Contentious.

If you thought Greece's negotiations with its creditors were ugly, just wait for the reception Puerto Rico officials will receive after saying they want to restructure their $72 billion debt load.

More than 300 participants ranging from institutional investors to hedge funds to bond insurers are scheduled to attend Monday's presentation in New York explaining why the Caribbean island cannot repay all of its obligations on time. Complicating matters is a push by commonwealth officials to seek federal assistance and even changes in bankruptcy laws.

"It will be a very protracted battle given Puerto Rico lacks a mechanism for restructuring like Chapter 9," Peter Hayes, head of municipal debt at BlackRock Inc., which manages $114 billion of the securities, including Puerto Rico debt, said in an e-mail. "There is likely to be a multitude of lawsuits given the unlikely event creditors are acceptable to terms to be proposed by Puerto Rico."

The New York-based firm plans to attend the meeting, Jessica Greaney, a spokeswoman for BlackRock, said in an e-mail. A link to a live Internet stream of the meeting will be available on the Government Development Bank's website. The bank works on the island's debt sales and lends to the commonwealth and its localities.

Exchange Proposal

Governor Alejandro Garcia Padilla said in a June 29 televised speech that he will seek to postpone debt repayment for "a number of years," and directed island officials to craft a restructuring plan by Aug. 30. A report from three former International Monetary Fund economists made public last week suggests that Puerto Rico swap current bonds for new ones with later maturities and lower payments. The report will serve as a focal point during the 3 p.m. meeting at Citigroup Inc.'s offices on Park Ave.

OppenheimerFunds Inc., the largest U.S. mutual-fund investor of Puerto Rico securities disagrees. Sales-tax collections, unemployment and income growth show the economy is strong enough for the government to repay, its money managers said on a conference call last week.

Garcia Padilla's comments leaves the $3.6 trillion municipal-bond market wondering how much of the island's debt will be altered, for how long and which credits with undergo change. The island's constitution stipulates the government must repay general obligations before other expenses and sales-tax bonds are backed by a dedicated revenue stream.

Competing Agendas

"It has the potential to get ugly," said Craig Brandon, a portfolio manager at Eaton Vance Management, which oversees about $29 billion of munis, including Puerto Rico. "Everyone has a different agenda and everyone has a different endpoint of where they want to get to."

The Boston-based firm plans to attend the meeting, Robyn Tice, a spokeswoman for Eaton Vance, said in an e-mail.

The island of 3.5 million racked up the highest debt per capita in the U.S. as the commonwealth and its agencies borrowed for years to fix budget deficits as its economy shrank almost every year since 2006. That was the final year of a 10-year phaseout of an incentive that had offered businesses outside Puerto Rico tax-free U.S. income for operations on the island.

Tax Exemption

As the unemployment rate grew and residents began to leave the island for jobs on the U.S. mainland, investors were still eager to lend to Puerto Rico, with its securities tax-free nationwide and offering yields higher than comparable investments. The commonwealth faces a cash crunch and lenders have effectively shut the door on more borrowing, leaving it wondering how it will repay all of its obligations.

Puerto Rico securities have been trading at distressed levels for two years on concern the island wouldn't be able to repay its obligations on time and in full. The three largest credit-rating companies slashed the island to junk in February 2014 and deeper downgrades followed.

Commonwealth general obligations maturing July 2035 and initially sold in March 2014 at 93 cents on the dollar — the most actively-traded island debt in the past three months — changed hands Monday at an average 70.3 cents on the dollar, for a yield of about 12 percent, data compiled by Bloomberg show. The debt fell to as low as 66.6 cents on June 30, with a yield of 12.6 percent, the day after the governor's televised speech.

Shrinking Population

Investors will have to compromise given the commonwealth's troubles, Anne Krueger, a former IMF official and one of the authors of the report, said July 8 at a conference on Puerto Rico at The Heritage Foundation in Washington. The island's gross national product is projected to contract by 1.2 percent in the fiscal year that began July 1, according to the island's Planning Board, which calculates economic output. The island is expected to lose another 245,000 residents by 2025, according to the Planning Board. Its population has shrunk by 7 percent in the past decade, according to U.S. Census data.

"Without some kind of re-profiling, or whatever you want to call it, they will get back even less over the longer term," Krueger said at the conference about creditor repayment. "There are inter-creditor disagreements there which would also make those tougher."

A group of 35 hedge funds that hold $4.5 billion of Puerto Rico securities declined to say whether they would attend, said Russ Grote, a spokesman for the firms at Hamilton Place Strategies in Washington. The group is headed by Fir Tree Partners, Brigade Capital Management and Monarch Alternative Capital LP.

Budget Deficit

In the near term, the island is running out of cash. The budget gap for the fiscal year that ended June 30 is projected to widen to as much as $740 million, from earlier estimates of $191 million, according to financial documents. The Government Development Bank had $778 million of net liquidity as of May 31, down from $2 billion in October.

The island faces a $93.7 million debt-service payment on Public Finance Corp. bonds due July 15. The GDB Friday said it may purchase the bank's notes "from time to time" as $300 million of tax- and revenue- anticipation notes matured last week. Another $140 million of GDB bonds mature Aug. 1, according to data compiled by Bloomberg.

Municipal debt sold on the island has lost about 9.7 percent through July 10, the worst performance for the period since at least 2007, according to S&P Dow Jones Indices. The broader muni market has earned 0.04 percent.

Biggest Holders

Melba Acosta, Puerto Rico's top debt chief and president of the Government Development Bank, will lead the meeting, being held at Citigroup's 350-seat auditorium.

Spokespeople at OppenheimerFunds Inc. and Franklin Templeton Investments, the two biggest holders of Puerto Rico debt among muni mutual-fund firms, declined to say if the companies will attend the meeting in New York. MBIA Inc.'s National Public Finance Guarantee Corp., which insures $4.5 billion of Puerto Rico debt, plans to attend, Kevin Brown, a spokesman for the Purchase, New York-based insurer, said in an e-mail.
Ashweeta Durani, spokeswoman at Hamilton, Bermuda-based Assured Guaranty Ltd, which guarantees $6 billion of commonwealth debt, declined to say if the company will be at the meeting.

Those who are in attendance may have the same experience as those watching online. Any questions must be submitted prior to the meeting, according to the GDB. Wells Capital Management's Lyle Fitterer said this is just the beginning of a likely protracted process.

"We're not going to fly someone out to New York just to be at this meeting," said Fitterer, who helps oversee $38 billion of munis, including Puerto Rico securities, for Wells Capital in Menomonee Falls, Wisconsin.

Bloomberg

by Michelle Kaske

July 12, 2015 — 4:00 PM PDT Updated on July 13, 2015 — 6:03 AM PDT

Virginia Recovers $149 Million from Failed P3.

DALLAS — Virginia will recoup more than half the money it has spent on a cancelled toll road from the design-build group contracted to construct the failed public-private partnership project in southeastern Virginia.

Gov. Terry McAuliffe announced the settlement with Route 460 Mobility Partners late last week at a ceremonial signing of the Virginia's new P3 legislation passed in April by the General Assembly. The enacted House Bill 1886 amends Virginia's Public-Private Transportation Act of 1995 to provide more public overview of P3 proposals from beginning to end.

McAuliffe said at the July 2 bill signing that U.S. 460 Mobility Partners has agreed to return $46 million of expended funds back to the state and cancel an additional $103 million claim the company had filed under the contract.

McAuliffe terminated the contracts for the proposed $1.4 billion toll road in April after Virginia spent almost $300 million on the project that never received its required environmental clearance.

The total $149 million concession is the result of months of negotiations between the administration and the company, McAuliffe said.

“This settlement will bring millions in taxpayer dollars that were wasted on the U.S. Route 460 project back to taxpayers and prevent the Commonwealth from having to pay millions more,” he said.

The new procedures in the state’s P3 law should prevent similar fiascoes in the future, McAuliffe said.

“The fact remains that Virginians have already spent hundreds of millions of dollars on a project that will never be built because state officials negotiated a contract that left the Commonwealth holding the bag when the environmental risks were too great to move forward,” McAuliffe said. “I regret that that contract did not allow for greater steps to mitigate the impact of this failed project.”

The state paid a total of $240 million to US 460 Mobility Partners in monthly payments that were cut off in 2014 and Virginia Department of Transportation spent approximately $43 million on the project before the project was suspended, said Virginia Transportation Secretary Audrey Layne.

The state had hoped to build the 55-mile Commonwealth Connector toll road as a public-private partnership and fund it mostly with toll revenue bonds, but instead created the Route 460 Funding Corp. as a non-profit to collect the tolls, issue bonds, and operate the highway. The new P3 rules require that proposed transportation projects be certified early in the process by a steering committee as being in the public interest before the state could sign a P3 procurement agreement.

The new law establishes a steering committee that will determine if a proposed project could be financed as a P3 or by the state. The committee will include the staff directors of the House Committee on Appropriations and the Senate Finance Committee, two members of the Commonwealth Transportation Board, a deputy sectary from Virginia Department of Transportation, the chief financial officer from either Virginia DOT or the Department of Rail and Public Transportation, and a non-agency financial expert selected by the transportation secretary.

The transportation secretary will have to certify that sufficient risk had been transferred to the private investors before a final P3 agreement could be signed.

The new procedures will protect taxpayers from undue risk while allowing the use of the P3 process to deliver projects efficiently, Layne said.

“There will be no way to duck responsibility for transportation decisions,” he said.

The Route 460 Funding Corp. of Virginia said after the project’s termination in April that it would use extraordinary redemption provisions to call $293.3 million of revenue bonds it had issued for the project.

The Bond Buyer

by Jim Watts

JUL 6, 2015 2:22pm ET

Can California Find a Way Out of Its Pension Calamity?

The longer you wait to solve a problem, the more painful the fix becomes. Californians are being reminded of that simple truth as their leaders attempt to grapple with the state's snowballing public-pension woes.

As of late last year, California's 130 public-pension systems had a combined unfunded liability of an estimated $198 billion. In 2003, the figure was $6.3 billion. That's an increase of more than 3,100 percent in just over a decade.

In the latest effort to turn those shocking numbers around, a bipartisan group of California pension-reform advocates is trying to get an initiative called the Voter Empowerment Act onto the ballot. It would amend the state constitution to require voter approval for defined-benefit pensions for new public employees, any enhancements to current employees' pensions, and establishment of any pensions in which government subsidizes more than half of a public employee's retirement benefit.

Its sponsors include the mayors of San Bernardino and Vallejo, two cities that have declared bankruptcy due in part to overwhelming pension obligations. If supporters can gather enough signatures, the measure would go on the 2016 statewide ballot. If passed, it would take effect in 2019.

The new initiative effort comes after courts have struck down recent attempts to address the pension problem. Last year, voters in Ventura County collected thousands of signatures for a measure that would have allowed the county to opt out of the current defined-benefit system and replace it with a 401(k)-type system, but a county judge ruled that residents couldn't vote to leave a pension system created by the state.

In 2012, San Jose voters overwhelmingly approved a measure that would have given city employees a choice between a less-generous pension or staying in the current system but contributing a larger portion of their salaries toward paying down the pension debt. A Santa Clara County Superior Court Judge overturned that measure for violating the "vested rights" of public employees.

By applying mostly to new employees, the Voter Empowerment Act is designed to get around the so-called "California rule," which grew out of court cases dating back to 1955 and is followed by a handful of other states. The California rule provides not only that public employees have the right to the amount of the pensions that they have already earned but that they also have the right to continue earning pensions based on rules that are at least as generous. The only provision of the Voter Empowerment Act that would impact current workers is the requirement that voters approve any pension enhancements.

While there is nothing in the ballot proposal that addresses California's current unfunded pension liability, it would go a long way toward preventing that number from continuing to grow.

That's clearly preferable to the status quo. But there's a reason why the Founding Fathers decided the United States should be a representative rather than direct democracy. Any pension referenda would likely result in fed-up taxpayers venting their frustrations at the ballot box rather than any thoughtful decisions about public pensions.

The best result would be if the Voter Empowerment Act pushes the state's leaders to do what they should have done years ago: Craft a political solution to California's pension problems that stops the bleeding, begins to pay down liabilities and sets the pension systems on a path to sustainability.

That won't be easy, both because of the prohibition against impacting the pensions of current employees and the fact that it would require elected officials to take the heat for tough decisions they make now when the benefits of those decisions wouldn't be felt for many years. None of the alternatives is appealing, but it's becoming increasingly clear that they're all better than continuing along the current unsustainable path.

GOVERNING.COM

BY CHARLES CHIEPPO | JULY 8, 2015

Puerto Rico's Development Bank Says It May Purchase Notes.

Puerto Rico's Government Development Bank said it may purchase the bank's notes "from time to time" as the commonwealth pushes to restructure its $72 billion of debt.

The GDB handles the island's debt sales and lends to the junk-rated commonwealth and its localities. The bank expects to sell $300 million of tax- and revenue-anticipation notes this month to pay off securities due Friday, according to financial documents posted on the bank's website. It has another $140 million of debt maturing Aug. 1, according to data compiled by Bloomberg.

Governor Alejandro Garcia Padilla is set to meet with federal officials in Washington Friday about the commonwealth's fiscal situation, according to a statement from his office.

Puerto Rico officials also plan to meet Monday with creditors in New York to discuss the island's high debt and unstable finances. Citigroup Inc. is hosting the meeting, and may also help the GDB with the note purchases, according to a filing Friday through the Municipal Securities Rulemaking Board.

"Other alternative lenders, such as Citi, have made the decision to potentially provide liquidity in the absence of sufficient liquidity at the government level," said Robert Donahue, managing director at Municipal Market Analytics Inc., a Concord, Massachusetts-based research firm.

The GDB had $787 million of net liquidity as of May 31, down from $2 billion in October. It may run out of cash by Sept. 30 unless Puerto Rico issues $2.9 billion of oil-tax bonds or the bank can delay maturities by exchanging its debt.

Purchases of the notes could be made for cash, new securities or a combination, according to the filing. Any purchases are expected to be at prices "that are materially less than par," according to the filing.

The GDB notes maturing Aug. 1 traded Friday for an average 76.5 cents on the dollar, down from 91.3 cents in January, Bloomberg data show.

Bloomberg

by Michelle Kaske

July 10, 2015 — 7:36 AM PDT Updated on July 10, 2015 — 10:05 AM PDT

Citigroup to Host Monday Meeting with Puerto Rico Bondholders.

Citigroup Inc. intends to host a meeting of Puerto Rico bondholders on Monday in New York that will include a presentation by former International Monetary Fund official Anne Krueger, according to a person familiar with the situation.

A recent report by Ms. Krueger, former first deputy managing director of the IMF, recommended reducing the commonwealth's debt payments by offering to exchange some debt for new bonds with longer maturities. Citi has handled such exchanges in the past, including a deal to buy back and refinance water and sewer bonds that helped Detroit save money during its bankruptcy.

Puerto Rico has about $72 billion in debt outstanding and is struggling with a weak economy and declining population. Gov. Alejandro Garcia Padilla said last week the commonwealth can't pay its debts and called for negotiations with bondholders. Analysts have said the commonwealth's government could run out of cash in coming months, which could lead to a government shutdown, employee furloughs and other emergency measures.

Some Puerto Rico bonds sold last year traded Wednesday at about 70 cents on the dollar, after touching all-time lows of around 64 cents last week, according to the Electronic Municipal Market Access website.

Ms. Krueger's presentation is scheduled for 3 p.m. and will be streamed live on the Internet, according to the person familiar with the plans. Citigroup is working as a broker-dealer for the island, handling assignments such as bond tenders and debt exchanges, the person said.

Other Puerto Rico consultants—including restructuring adviser Millstein & Co. and municipal-bond adviser PFM Group, as well as government officials—may also speak Monday.

The meeting comes after the Puerto Rico Electric Power Authority paid all principal and interest due to bondholders last week, buying the publicly owned utility time as it works to reach a deal with creditors. The authority, known as Prepa, said it had agreed with creditors, which include bondholders, banks and bond insurers, to extend restructuring talks to September.

A bondholders' group said in a news release that they would continue to work with Prepa to reach a long-term plan. In addition to negotiations about Prepa's $9 billion in debt, the talks involve plans to modernize the utility's operations.

Investors and analysts had feared a default by Prepa could be the first of many from the commonwealth. Now, there's hope among some investors that the utility will work out an agreement that could be a model for restructuring other Puerto Rico agencies.

THE BOND BUYER

By AARON KURILOFF

Updated July 8, 2015 6:24 p.m. ET

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

S&P Cuts Chicago Debt One Notch.

Chicago is now three notches above junk

Standard & Poor's Ratings Services has downgraded Chicago one notch to triple-B plus from A-minus, predicting that a "structural imbalance" will lead to "corrective budget measures over several years."

S&P said "in our opinion, the city has not yet fully identified a credible plan" to address the imbalance.

S&P removed the rating, which is now three notches above junk, from CreditWatch. The rating firm has a negative outlook.

In May, Moody's Investors Service cut its rating on Chicago's debt by two notches to junk, citing expected increases in unfunded pension burdens after a ruling by the Illinois Supreme Court that overturned state pension changes.

Shortly after the downgrade, Moody's missed out on a lucrative assignment for Chicago when the city instead hired rivals S&P, Fitch Ratings and Kroll Bond Rating Agency Inc. to provide grades for a refinancing of general-obligation bonds.

S&P cut Chicago's rating by two rungs in May.

S&P said Wednesday that the city "has successfully addressed its most immediate liquidity pressures," but said Chicago needs to address police and fire pension costs.

Moody's changed its methodology for calculating pension liabilities in 2013, a move that has been linked to stricter municipal-debt ratings than those from S&P and Fitch.

Moody's said in a 2013 statement that it believed pension liabilities were "underreported from a balance sheet perspective."

THE WALL STREET JOURNAL

By JOSH BECKERMAN

Updated July 8, 2015 6:56 p.m. ET

Write to Josh Beckerman at josh.beckerman@wsj.com

U.S. Court Upholds Ruling Against Puerto Rico Bankruptcy Law.

(Reuters) – A U.S. appeals court affirmed a lower court decision to strike down Puerto Rican legislation aimed at granting local municipalities the right to enter bankruptcy, but one judge in a concurring opinion said excluding the U.S. territory's public entities from federal bankruptcy law was unconstitutional.

Puerto Rico passed the so-called Recovery Act last year to give certain public corporations, with around $20 billion in debt, the ability to restructure financially in an orderly process. Puerto Rico is currently struggling with a total debt load of around $72 billion, which it says it is unable to pay.

“Besides being irrational and arbitrary, the exclusion of Puerto Rico’s power to authorize its municipalities to request federal bankruptcy relief should be re-examined in light of more recent rational-basis review case law,” Judge Juan Torruella said in a concurring opinion attached to the ruling. The Recovery Act was struck down by a federal court in Puerto Rico in February after bondholders in the island’s power authority, including Franklin Advisers, OppenheimerFunds and Blue Mountain Capital, argued in a law suit that the legislation contravened the U.S. bankruptcy code, which expressly excludes Puerto Rico. While the 49-page ruling ostensibly vindicates the bondholders’ position, the one judge’s concurring opinion also makes a forceful case that Puerto Rico should be given access to Chapter 9 of the U.S. bankruptcy code, which deals with municipal bankruptcies. Bondholders have consistently opposed this view.

The in-depth opinion, steeped in legislative history, may strengthen the case for Congress to act on a bill, currently before a House committee, that seeks to change Chapter 9 to treat Puerto Rico like any other state for the purposes of bankruptcy.

(This July 6 story corrects headline to remove “slams exclusion”; corrects paragraph 1 to show comments on Chapter 9 were from one judge in a concurring opinion, not full three-judge panel; corrects paragraphs 3, 5 attribution of quote to one judge; corrects paragraph 5 to show ruling was 49 pages, not 75.)

By REUTERS

JULY 7, 2015, 10:49 A.M. E.D.T.

(Reporting by Edward Krudy; Editing by Nick Macfie)

Illinois Governor Proposes Sweeping Pension Legislation.

CHICAGO — Illinois Governor Bruce Rauner on Wednesday unveiled pension legislation that calls for sweeping changes, including the ability to file for municipal bankruptcy, to save billions of dollars for the state and local governments.

Illinois and its biggest city Chicago are sinking under huge public pension obligations that are draining money away from core government services. The problem was exacerbated in May when the Illinois Supreme Court ruled that public sector workers have iron-clad protection in the state constitution preventing their pension benefits from being reduced.

Rauner, a Republican, said the bill, crafted with input from Chicago Mayor Rahm Emanuel and Democratic Senate President John Cullerton, would ease contributions to local police and firefighter pensions for Chicago and other cities. The measure also includes Cullerton’s proposal to give state and local workers choices between cost-of-living increases in retirement and having future wage hikes count toward pensions.

The bill would also give Illinois’ local governments a route to Chapter 9 municipal bankruptcy following an evaluation by a third party or the declaration of a fiscal emergency. Rauner has suggested both Chicago and its public school district could be candidates for bankruptcy due to their huge pension funding problems.

A spokeswoman for Emanuel said the mayor had not yet reviewed the proposal.

"The governor's recognition of the Cullerton model is encouraging, but we will have to review the details of the governor's new proposal," said Rikeesha Phelon, Cullerton's spokeswoman.

Chicago Teachers Union Vice President Jesse Sharkey called the bill an "unconstitutional mishmash of proposals which diminish and impair pensions."

A coalition of labor unions that successfully challenged a 2013 reform law for state retirement systems said the governor's proposal "completely disregards" the state Supreme Court's recent ruling.

Rauner said the pension bill will not be tied to a new state budget for the fiscal year that began July 1. The Democrat-controlled House may vote Thursday on a one-month emergency budget passed by the Senate last week that Rauner said he will not sign. Last month, Rauner vetoed a $36 billion budget full-year budget passed by Democrats, saying it had a $4 billion deficit.

The governor said the legislature must adopt his turnaround reform agenda before he will entertain new revenue for the budget. He said he will present bills for legislative term limits, redistricting changes, a local property tax freeze, workers' compensation and liability lawsuits. And he singled out powerful Democratic House Speaker Michael Madigan, for obstructing his reforms.

"Speaker Madigan needs to make a decision – support reform or support a tax hike," Rauner said, noting that Madigan has enough Democratic members in the House to pass a tax increase.

Madigan's spokesman Steve Brown said the House has already taken up and in some cases rejected some of Rauner's reforms.

"It's really a lot of name calling by the governor," Brown said.

Rauner last month launched a state-wide television campaign mainly targeting Madigan for Illinois' fiscal woes.

By REUTERS

JULY 8, 2015, 3:58 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Richard Chang and Lisa Shumaker)

Illinois House Passes One-Month State Budget.

CHICAGO — The Illinois House of Representatives on Thursday passed a bill to fund "essential services" and state worker paychecks for a month, as the chamber controlled by Democrats remained at an impasse with the Republican governor over a full-year fiscal 2016 budget.

The measure, which passed with a veto-proof 71 votes, now heads back to the Senate. That body, also controlled by Democrats, passed a $2.26 billion temporary spending bill last week. However, that bill did not include a provision for worker paychecks.

House Majority Leader Barbara Flynn Currie said the one-month budget would allow Illinois to fund critical services for the disabled, elderly and others, while making sure state workers get paid. But

House Republican Leader Jim Durkin said the bill was a futile exercise.

"It won't be signed into law and we'll be back at square one," he said, after blaming Democrats for the state's fiscal mess.

A spokesman for the state's biggest union, American Federation of State, County and Municipal Employees Council 31, said a St. Clair County judge on Thursday ordered the state to pay its workers.

That contradicted a Tuesday ruling by a Cook County judge who said state workers cannot be paid in full and on time without an enacted budget. The first paychecks for fiscal 2016, which began July 1, are due out on Wednesday, July 15.

The House vote came after a lengthy debate in which Republicans pointed fingers at Democrats over Illinois' huge fiscal woes. There was also name-calling. One lawmaker even sang a made-up song about the state budget with lyrics that included "Budget, budget we need a budget now." Illinois has the worst-funded pensions and lowest credit ratings among the 50 U.S. states.

Currie said Republican Governor Bruce Rauner will be able to use his veto to alter the bill.

Lance Trover, Rauner's spokesman, blasted Democratic House Speaker Michael Madigan and his members, saying they "irresponsibly voted for yet another unbalanced budget plan."

On Wednesday, Rauner dared Madigan to push a tax hike. He also made it clear he would not consider new revenue until the legislature adopts his agenda that includes a local property tax freeze and legislative term limits.

At a press conference following the House session, Madigan made it clear his members cannot accept most of the governor's agenda. He also held out the possibility Rauner may reverse course as he did on other matters and sign the one-month budget.

"If you follow the governor's action day by day, there's a lot of u-turns in the road," Madigan said.

The governor last month vetoed a $36 billion full-year budget passed by Democrats because it had a $4 billion deficit. The Senate is scheduled to be back in session on Tuesday. In the meantime, Illinois Treasurer Michael Frerichs announced on Thursday a deal with credit unions to offer state workers interest-free loans until payroll resumes.

By REUTERS

JULY 9, 2015, 6:55 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Richard Chang and David Gregorio)

[Puerto Rico Not Too Broke to Pay Debt, OppenheimerFunds Says.]

Puerto Rico's governor says the island's $72 billion debt load is too big to pay. OppenheimerFunds Inc., the largest mutual-fund holder of the bonds, disagrees.

As Alejandro Garcia Padilla begins to make the case for delaying debt payments, the New York-based company is building the opposite argument. On a conference call this week, its money managers said data on sales-tax collections, unemployment and income growth indicate the economy is strong enough for the government to keep paying what it owes.

“The governor’s new rhetoric, which we see as political cover after signing a budget that required unpopular spending cuts, is disappointing,” OppenheimerFunds wrote in a summary of the July 6 conference call. “The ability to pay remains intact.”

OppenheimerFunds has emerged as one of the earliest — and most vocal — opponents on Wall Street of Puerto Rico’s unprecedented push to restructure its municipal bonds. The firm’s comments provide a window into how others may seek to protect their investments in the cash-strapped island, which has amassed more debt than any state except California and New York.

Puerto Rico can’t use bankruptcy to wipe out the debts of its publicly owned corporations, such as its teetering power provider, and its general-obligation bonds are protected by the commonwealth’s constitution. That’s forcing the government to negotiate, a process that’s set to begin next week in New York.

Bonds Tumble

Puerto Rico bonds tumbled after Garcia Padilla last week said the commonwealth’s debts are unpayable. A report by former International Monetary Fund economists released by Puerto Rico said the situation is dire, with high debt, unstable finances and a stagnant economy.

With speculation building about the island’s solvency, Puerto Rico bonds have lost 9.5 percent in 2015, according to S&P Dow Jones Indices data.

No firm has felt the impact as much as OppenheimerFunds. It had about $4.4 billion worth of uninsured obligations from the island as of July 9, according to data compiled by Bloomberg.

Puerto Rico obligations make up 13.8 percent of OppenheimerFunds’s total holdings, excluding tobacco bonds, insured debt and pre-refunded securities, the money manager said in its statement.

OppenheimerFunds’s state funds hold securities from Puerto Rico, which are tax-exempt nationwide. Its Virginia, Arizona, New Jersey, Maryland and North Carolina funds have the biggest losses among open-end, single-state muni funds this year, Bloomberg data show.

Fortune’s Reversal

OppenheimerFunds predicts that the commonwealth’s securities will rebound from record lows reached in the past two weeks.

“We believe Puerto Rico bonds will contribute to very strong total returns going forward and that, at current prices, there is far more upside than downside,” according to the summary of the conference call. The speakers were fund managers Dan Loughran, Scott Cottier and Troy Willis, along with Digby Clements, the product director of OppenheimerFunds.

Ray Pellecchia, a spokesman for OppenheimerFunds, said the managers declined to comment further. He declined to comment on whether the money manager would be represented at a planned July 13 creditor meeting in New York.

That meeting, with Government Development Bank President Melba Acosta, will start at 3 p.m. in Citigroup Inc.’s New York headquarters, said Todd Hagerman, head of investor relations in San Juan for the development bank, which handles the island’s debt transactions. It will focus on the IMF report.

Little Help

OppenheimerFunds disputes that the island's fiscal health would improve if some of its agencies were allowed to file for bankruptcy. Legislation to do so has yet to advance in the Republican-controlled U.S. Congress, even though key Democrats support it.

For one, the commonwealth's aqueduct and sewer authority probably couldn't prove it is insolvent, the money manager said, nor could Puerto Rico convince a court to reduce its sales-tax-backed bonds, known as Cofinas. Proving insolvency is a first step to seek court protection.

Additionally, the Puerto Rico Electric Power Authority, the cash-strapped agency for which legalizing Chapter 9 could be useful, is already working to renegotiate its $9 billion of debt out of court, the company said.

"The financial and reputational costs associated with a Chapter 9 filing are such that most issuers see bankruptcy as the course of last resort," OppenheimerFunds said. "The administration needs to execute on the balanced budget, recognize its capacity to raise taxes, and continue to reduce the size of its underground economy, all of which should help the economy grow."

Bloomberg

by Brian Chappatta

July 9, 2015 — 10:08 AM PDT Updated on July 9, 2015 — 12:06 PM PDT

Muni Yields Driven Lower by Greece as Puerto Rico Woes Ignored.

Who would have guessed that the turmoil in Greece would matter more to municipal-bond investors than Puerto Rico's flirtation with insolvency?

Yields on U.S. tax-exempt debt are the lowest since May, joining a broad fixed-income rally amid Greece's standoff with creditors even after Puerto Rico declared its $72 billion of debt unpayable.

Ten-year yields fell to 2.28 percent Wednesday, the least since May 13, data compiled by Bloomberg show. At the same time, outflows from municipal mutual funds swelled to $1.2 billion in the week through July 1, the most in 18 months, according to Lipper US Fund Flow data.

"It's a very interesting dynamic: you've seen successive weeks of outflows," and yet yields have dropped, said Jeff Lipton, head of municipal research in New York at Oppenheimer & Co. "We've seen a flight to quality, and a lot of that has to do with Greece."

Puerto Rico Governor Alejandro Garcia Padilla's abrupt announcement last week that he wants to restructure the junk-rated commonwealth's debt coincided with an escalating crisis in Greece. The euro-zone tension sent investors into safer assets, with 10-year U.S. Treasury yields plunging 0.15 percentage point on June 29, the most in three months. The highest-quality state and local debt also rallied.

About 40 percent of the fund outflows last week were from high-yield funds, which are the most likely to hold Puerto Rico's bonds. Commonwealth securities have plunged 7.2 percent since June

26, the last trading day before Garcia Padilla's announcement, S&P Dow Jones Indices data show.

The ratio of 10-year muni interest rates to those of Treasuries, a measure of relative value, is about 102 percent, up from 97 percent on June 26. A higher figure signals tax-free bonds have weakened relative to their federal counterparts.

Bloomberg

by Brian Chappatta

July 8, 2015 — 10:43 AM PDT

Puerto Rico Insured Debt at 76 Cents Lures Muni Buyers to Island.

After Puerto Rico bonds tumbled by the most in at least 17 years, Wells Capital Management, MacKay Shields and Belle Haven Investments sifted through the wreckage and decided it was time to buy.

They're not expecting an end to the fiscal crisis gripping the junk-rated Caribbean island. They're betting insurers can stand by promises to cover principal and interest bills if Puerto Rico reneges on its debt.

Governor Alejandro Garcia Padilla's announcement last week that the island can't afford to repay what it owes sparked a rout that caused some insured Puerto Rico securities to trade for as little as 76 cents on the dollar. Prices rebounded as investors snapped up the debt, speculating that a widespread default won't wipe out the biggest guarantors.

"It's one of these classic muni headline issues: A lot of people want to be the first out of the door and sell theirs first," said John Loffredo, who helps oversee $13 billion of munis at MacKay in Princeton, New Jersey. "We've been actively participating in AA rated insured muni bonds that are triple tax-exempt that we believe are mispriced."

The escalation of Puerto Rico's debt crisis last week rattled mutual and hedge funds that have parked money in the island's debt because it's tax-exempt nationwide and offered yields higher than other investments.

$72 Billion

The commonwealth and its agencies owe $72 billion after years of borrowing to paper over budget shortfalls. Garcia Padilla said he wants to negotiate with investors to delay payments that are draining the government's coffers.

Prices on some general obligations backed by a unit of Assured Guaranty Ltd. slid 7 cents on June 30 to an average of 85 cents on the dollar, pushing the yield to 6.4 percent. The same day, sales-tax debt backed by the company plunged 14 cents to 80 cents, after trading for as little as 76 cents. The securities pared losses by July 2, with the general obligations trading for 88 cents and the sales-tax bonds for 87 cents.

Uninsured general obligations due in 2041, by contrast, trade at about 59 cents on the dollar.

Assured Guaranty is rated AA, the third-highest investment grade, by Standard & Poor's, which affirmed the grade last week. Comparably rated 30-year municipal bonds yield about 4 percent.

Bond insurers pledge to pay interest and principal on time if a borrower defaults. That means that even if Puerto Rico officials are able to postpone debt payments, holders of insured securities won't be affected as long as the companies have sufficient funds.

Insurers Stumble

Shares of Assured Guaranty and rivals MBIA Inc. and Ambac Financial Group Inc. fell last week amid speculation about the fallout from Puerto Rico. CreditSights Inc. issued a report Wednesday questioning Ambac's claim that it had $4.8 billion available to cover Puerto Rico losses. The company said its figures are accurate.

Belle Haven and Wells Capital purchased shorter-dated insured bonds because there's greater certainty that the guarantors will have enough cash to weather a default.

Bonds due in less than three years were "down way too much," said Lyle Fitterer, who oversees $38 billion of munis at Wells Capital in Menomonee Falls, Wisconsin. "We have confidence in the claims-paying ability of the monolines in that type of time horizon."

Cash Reserves

Assured Guaranty and MBIA's National Public Finance Guarantee Corp. are each on the hook for about $10 billion of Puerto Rico principal and interest payments, though that would be spread over the next three decades. Ambac has backed $2.4 billion of commonwealth debt.

Investors "can rely on our $12 billion in claims-paying resources and unconditional and irrevocable guaranty of the scheduled payment of principal and interest when due," Robert Tucker, head of investor relations for the Hamilton, Bermuda-based Assured Guaranty, said in a statement.

Kevin Brown, a spokesman for Purchase, New York-based MBIA, said its National unit "will ensure that its policyholders will continue to receive all of their scheduled interest and principal payments on time and in full."

Ambac Interim Chief Executive Officer Nader Tavakoli said in a statement that "if it were to become necessary, we are confident in our ability to pay timely principal and interest."

Pimco Waits

The price declines still weren't enough to attract some investors. Pacific Investment Management Co. is steering clear of Puerto Rico debt until there's a restructuring plan in place and a strategy to grow the island's economy, said Joe Deane, New York-based head of munis for Pimco, which manages $40 billion of state and local debt.

"Show me a solution and I'll show you the money," Deane said. "But until I can clearly see a path forward that would make that debt at whatever price viable, there's absolutely no number in my mind where I would necessarily buy."

Last week's rout echoed one from a year ago, after Garcia Padilla signed a law that would have let some public agencies restructure debt. The Assured-backed Puerto Rico general obligations that slid this week dropped to as low as 80 cents on the dollar in July 2014, only to rebound to 100 cents in less than two months. The law was struck down in court this year.

“I would expect over the coming weeks and months that the insured paper will stabilize,” said Brian Steeves, who helps manage about $3 billion of municipal debt at White Plains, New York-based Belle Haven Investments, which has been adding different Puerto Rico credits guaranteed by Assured.

Bloomberg

by Brian Chappatta and Michelle Kaske

July 5, 2015 — 9:01 PM PDT Updated on July 6, 2015 — 6:19 AM PDT

Illinois Rating Unchanged for Now, Amid Budget Impasse Between State Executive and Legislative Branches.

NEW YORK (Standard & Poor’s) July 6, 2015—Illinois begins fiscal 2016 without an adopted budget as the stalemate between the executive and legislative branches intensifies. On June 25, Gov. Bruce Rauner vetoed 19 of the 20 budget bills that encompass the fiscal 2016 spending proposal sent to him by the Illinois legislature, identifying a $4 billion budgetary gap. As Standard & Poor’s Ratings Services noted in its report, “Late State Budgets: Summer Cliffhangers No One Wants To See,” (published June 4, 2015, on RatingsDirect) it expects Illinois’ budget negotiations to drag out through the summer. Actions both sides have taken so far suggest that they are digging in for a protracted budget negotiation. The governor’s signed education bill, which will ensure that schools open, asked agencies to stock up on critical supplies before the end of fiscal 2015, and the governor is making efforts to ensure state employees continue to get paid in the absence of an adopted fiscal 2016 budget. Likewise, the legislature attempted to pass a one-month budget that would keep government spending in place and provide more time for negotiations.

From a credit standpoint, the absence of a budget does not have an immediate impact on the state’s ability to pay debt. General obligation (GO) debt service in Illinois benefits from a continuing appropriation and the state has made provisions to ensure payment of its moral obligation debt coming due through August. Pension payments and spending tied to federal consent decrees also benefit from continuing appropriations and can still be paid. Because the state has a backlog of payments (estimated at $4.25 billion as of May), it is paying its vendors several months in arrears. Illinois’ ability to continue making payments owed from fiscal 2015 will delay the cash flow impact on vendors, at least while these vendors continue to collect back payments from fiscal 2015. However, to the extent that budget adoption is delayed, the state will continue to build on its payables as payments that require appropriations cannot be made. Furthermore, protracted budget negotiations could have a detrimental effect on the state’s economy due to reduced and delayed spending and investment. Illinois already ranks 48th in year-over-year change in personal income in first-quarter 2015, 49th in year-over-year population change as of July 1, 2014, and 38th in year-over-year employment change as of May 2015.

In our view, the absence of a budget, while not affecting debt service, reflects a failure in the fiscal policymaking process. The legislature is looking for the governor to propose tax increases to close the budgetary gap. Gov. Rauner has indicated his willingness to increase income taxes and expand the sales tax base to tax services, but only in exchange for several reforms he is proposing and which haven’t garnered significant support from the legislature. These measures include worker’s compensation and tort reform, and a property tax freeze tied to limits on prevailing wage requirements and collective bargaining. We have yet to see either side exhibit flexibility on their core policy objectives. And while an extended legislative session can sometimes result in an improved structural alignment or adoption of substantive policy reforms, it can also lead states to resort to budgetary gimmicks. On May 8 we placed our Illinois ratings, including our 'A-' GO rating on the state, on CreditWatch with negative implications. In our view, the outcome of the fiscal 2016 budget deliberations will be pivotal to the state's credit trajectory given the magnitude of structural imbalance, pension spending burden, and overall liquidity. As we indicated in our CreditWatch, we could take a rating action within the next two months, even in the absence of an adopted budget if, in our view, there is limited progress in budget deliberations or if credit fundamentals weaken.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Primary Credit Analyst: John A Sugden, New York (1) 212-438-1678;
john.sugden@standardandpoors.com

Secondary Contact: Robin L Prunty, New York (1) 212-438-2081;
robin.prunty@standardandpoors.com

California GO Debt Rating Raised To 'AA-' And Removed From CreditWatch Upon Budget Enactment.

SAN FRANCISCO (Standard & Poor's) July 2, 2015–Standard & Poor's Ratings Services removed from CreditWatch and raised its rating on California's general obligation (GO) debt to 'AA-' from 'A+'. Standard & Poor's has also raised its rating on the state's general fund annual appropriation-secured debt to 'A+' from 'A'. The outlook on both ratings is stable.

"The rating action follows enactment of California's 2015-2016 budget, which, in our view, marks another step forward in the state's journey toward improved fiscal sustainability," said Standard & Poor's credit analyst Gabriel Petek. Seeing the potential for this, in May we placed our 'A+' GO rating on the state on CreditWatch with positive implications, pending the outcome of budget negotiations that were underway at the time. In June, lawmakers reached agreement on a budget package that is just $61 million (0.05%) above what the governor had proposed. The spending plan is built upon the Department of Finance's (DOF) revenue forecast and leaves the state with budget reserves totaling $4.6 billion, or 4% of expenditures, which we consider good. In addition, the budget pays down $1.85 billion in various general fund debt-like obligations, most of which had been incurred during prior years to finance budget deficits.

"Lawmakers' adoption of the DOF revenue forecast as part of the final budget agreement was significant, in our view," added Mr. Petek. "Had the legislature adopted the higher Legislative Analyst's Office's revenue forecast, lawmakers could have, in effect, generated capacity for new discretionary spending commitments while projecting that operating balance would be maintained. However, by diverging from — and surpassing — the DOF's forecast, primarily by projecting higher capital gains-related tax revenue, the Legislative Analyst's Office's forecast rests on more favorable performance of a volatile revenue stream."

In the end and as they have in recent years, lawmakers agreed on a restrained approach to setting fiscal policy instead of budgeting to a more aggressive set of assumptions. The result is favorable to credit quality, not least because it enables the DOF to project that general fund operations will generate modest surpluses for at least three years. But the projected operating surpluses are narrow and largely spoken for by transfers to the rainy day fund.

Puerto Rico Utility Averts Default After Deal With Creditors.

Puerto Rico's junk-rated power utility said it made a full $415 million bond payment due Wednesday and reached an agreement to continue negotiations with creditors to restructure its $9 billion of debt. Its bonds rallied.

The Puerto Rico Electric Power Authority, called Prepa, made the principal and interest payment by selling $128 million of short-term debt to the companies that insure its bonds, including Assured Guaranty Ltd. It also tapped reserves and used $153 million from its general fund, the agency said in a statement.

The utility's ability to avoid a default marks a break in Puerto Rico's escalating fiscal crisis as the commonwealth and its agencies teeter under $72 billion of debt. The talks with creditors may advance the utility's effort to pare its debt load, which would free up money to modernize a company whose high electricity costs have left it saddled with unpaid bills.

"They seem to be making progress toward a more comprehensive type of agreement," said Joseph Rosenblum, director of municipal credit in New York at AllianceBernstein Holding LP, which manages $32 billion of municipal bonds. He said the agreement may help resolve Prepa's debt issues and "probably moves them further along" toward overhauling its power plants.

Talks Continue

The utility extended a forbearance pact with creditors until Sept. 15, which will keep discussions out of court. It must negotiate a plan to overhaul its debts by Sept. 1 to keep the deal in place, according to Stephen Spencer, a managing director at Houlihan Lokey Inc., the financial adviser to Prepa bondholders.
The utility's bonds rallied Wednesday. The price of uninsured securities maturing in 2042 jumped to an average of 43 cents on the dollar, up 11 percent from Tuesday, data compiled by Bloomberg show.

The payment also eased the immediate risk to companies that insure Puerto Rico bonds against default, whose shares slid this week after Governor Alejandro Garcia Padilla said the commonwealth can't make good on all its debts.

Assured Guaranty bought $72.6 million of Prepa's new bonds, reinsuring some against the risk of default, the company said in a statement. MBIA Inc.'s National Public Finance Guarantee Corp. said it bought $45 million. Together the two companies insure about $2.4 billion of Prepa debt, according to disclosures on their websites.

Buying Time

Assured Guaranty Chief Executive Officer Dominic Frederico said the arrangement will give "all parties time to negotiate a permanent, consensual restructuring."

Prepa said it will repay the short-term securities in December.

The power company's deal follows Garcia Padilla's announcement this week that his administration will seek to persuade investors to delay payments on some of the commonwealth's $72 billion of debt. That rattled financial markets by raising the risk of losses on Puerto Rico's direct debt, instead of just securities from agencies such as Prepa.

The island's crisis has resulted from years of borrowing to pay its bills as the economy struggled to grow. Its power company relies mainly on petroleum to produce electricity, instead of lower-cost fuel such as natural gas. That's left many residents unable to pay electricity bills because rates are twice as high as those on the U.S. mainland.

"We are pleased we were able to reach an agreement that allowed us to make the payment to our bondholders today and avoid a default," Lisa Donahue, Prepa's chief restructuring officer, said in a statement. "Today's outcome would not have been possible without the support of the insurers and other creditors."

While investors believe there's opportunity to reach a plan for paring Prepa's debt burden by Sept. 1, the agreement may be scuttled if Puerto Rico treats bondholders "unnecessarily unfairly during this process," Spencer, the adviser to bondholders, said in a statement.

Bloomberg

by Michelle Kaske

July 1, 2015 — 7:00 AM PDT Updated on July 1, 2015 — 12:29 PM PDT

[Chicago Cuts 1,400 Jobs as Pension Fight Drags On.]

CHICAGO—Mayor Rahm Emanuel on Wednesday said the nation's third-biggest school district is cutting 1,400 jobs and boosting borrowing in response to the growing fiscal crisis facing Illinois and its largest city.

The job cuts at the Chicago Public Schools, which largely shield teachers and include positions that are vacant, are part of a plan to cut annual spending by $200 million, or roughly 3.5%.

That followed a decision by city officials to make a $634 million payment due to the teachers' retirement system before a Tuesday night deadline.

"These payments do not come without a cost," Mr. Emanuel said. "There is a series of political compromises and patchwork over the years that can no longer continue."

State and city pensions systems have long been underfunded, leaving the funds well short of the assets needed to pay promised benefits. Chicago schools have sought help from state lawmakers, who have considerable control over education spending and the pension systems. However, they so far have taken no steps to assist the city school system.

“Your stalemate is having consequences,” Mr. Emanuel said.

In the short term to ensure schools open on time and keep class sizes from rising, the district drew down on two credit lines to make the pension system payment due this week and is asking to put off for a year $500 million in pension payments due in the new fiscal year.

Mr. Emanuel has proposed that teachers’ pension contributions and local property taxes would be increased if the state would make increased payments into Chicago’s teacher retirement system.

Parts of such a proposal are being discussed at the Illinois capitol. But the Illinois government remains mired in a battle over the next state budget, which had yet to be approved as a new fiscal year began Wednesday, an impasse that threatens to force a partial state government shutdown.

The Democratic-controlled legislature and Republican Gov. Bruce Rauner, who took over in January promising to overhaul state government, remain divided over spending and tax policies. They face an estimated shortfall of more than $6 billion for fiscal 2016 that must be closed.

Mr. Rauner has pushed for deep cuts and changes he says will promote business growth, including curbs on unions and overhauling the medical malpractice system. Democrats oppose many of Mr. Rauner’s proposals and are looking to blunt the cuts, but haven’t provided details on how they would pay to preserve services. “We got a mess. It is going to take a little while to fix,” Mr. Rauner said this week.

Nationally, Illinois and Chicago remain outliers among state and municipal governments. Illinois has the lowest credit rating among U.S. states, while Moody’s Investors Service has lowered the debt rating of Chicago and its school district to below investment grade in recent months.

The budget impasse will likely immediately hurt private, nonprofit agencies that rely in some cases exclusively on state funds, like health-care clinics, mental health treatment centers and housing for victims of domestic violence.

State workers aren’t likely to be affected initially, since paychecks for the last two weeks of June are typically paid by July 15. But if the impasse carries on, they could end up in court to ensure pay continues without a budget in place. On Wednesday, a one-month stopgap budget that would continue funding state services passed in the Senate, but failed in the House.

The job cuts in Chicago have reignited a strained relationship between the district and the Chicago Teachers Union, which are in the midst of negotiating a contract that ended this week. Teachers here went on strike in 2012, and while the relationship between the mayor and the union have shown signs of improving, labor leaders described the latest round of reductions as deceptive and retaliatory.

THE WALL STREET JOURNAL

By MARK PETERS and MICHELLE HACKMAN

Updated July 1, 2015 7:12 p.m. ET

Write to Mark Peters at mark.peters@wsj.com

Michigan Sets Formal Fiscal Review of Detroit's County.

(Reuters) – Wayne County, home to Detroit, was under "probable financial stress," the state of Michigan said on Wednesday and announced plans to start a formal fiscal review.

The state's Local Emergency Financial Assistance Loan Board said Governor Rick Snyder will appoint a review team that includes Michigan's treasurer and budget director to see if a financial emergency exists.

"While county officials have taken some important steps in an effort to remedy the current crisis, the county continues to face significant financial difficulties that must be addressed now," State Treasurer Nick Khouri, who chairs the Emergency Loan Board, said in a statement.

A preliminary review of the county pointed to chronic budget deficits projected to hit $171.4 million by fiscal 2019 and big pension pressures. Since fiscal 2004, the county's pension funding ratio has fallen to 45 percent from nearly 95 percent and the unfunded pension liability has climbed to $910.5 million from just $49.6 million, according to the review.

Detroit went through a similar process that led to the filing of the biggest U.S. municipal bankruptcy, which the city exited last December after shedding about $7 billion of its $8 billion of debt and obligations.

Wayne County Executive Warren Evans requested the review last month, asking the state for a fiscal emergency declaration and a consent agreement to fix the problem.

Last week, the county sold nearly $188 million of taxable notes due on Dec. 1, 2017 with a hefty 6 percent yield and 5.75 percent coupon.

By REUTERS

JULY 1, 2015, 5:01 P.M. E.D.T.

(Reporting By Karen Pierog; Editing by Grant McCool)

Puerto Rico's Deepening Crisis Threatens High-Yield U.S. Funds.

(Reuters) – Puerto Rico's deepening financial crisis could speed up an exodus of money from U.S. municipal bond funds that have placed big bets on the cash-strapped Caribbean island.

Investors, for example, pulled $634 million from muni bond funds run by OppenheimerFunds during the first five months of 2015, according to Lipper Inc, a unit of Thomson Reuters.

And that was before Puerto Rico Governor Alejandro Garcia Padilla admitted Monday that the country's budget gap was bigger than thought and it could not repay more than $70 billion in debt.

Over the past year, funds run by Goldman Sachs Group Inc have increased their exposure to Puerto Rico to attract yield-hungry investors, U.S. regulatory filings show.

Before this week's bad news, veteran Eaton Vance bond fund manager Tom Metzold said Puerto Rico's problems could trigger a domino effect, partly from portfolio managers selling assets to meet investor redemption demands.

“I’m worried about that contagion effect,” said Metzold, who’s leaving his post July 31 to join muni bond insurer National Public Finance Guarantee Corp., a unit of MBIA Inc.

U.S. municipal bond funds are the largest owners of Puerto Rico debt, in a strategy that seeks high yield amid rock-bottom interest rates. The bonds are typically exempt from local, state and federal income taxes, widening their appeal to single-state funds that use Puerto Rico debt to diversify their portfolios while boosting income for investors.

To be sure, investing in Puerto Rico could be a winning strategy for those able to stomach the many recent episodes of tumult.

The $6 billion Oppenheimer Rochester Fund Municipals has generated a 1-year return of 4.81 percent, beating 91 percent of peers, using a mix of New York muni bonds (about 77 percent of assets), with much of the rest invested in Puerto Rico, according to Morningstar Inc.

The fund lost nearly 11 percent in 2013 as Puerto Rico’s fiscal woes triggered an industry-wide sell off.

Nuveen Asset Management’s exposure to Puerto Rico is about $330 million out of $100 billion in overall municipal bond assets. Nuveen says 100 percent of Puerto Rico debt is either insured, escrowed by U.S. treasuries or tobacco bonds.

By contrast, OppenheimerFunds, a unit of MassMutual Financial Group, mostly owns uninsured Puerto Rico debt. Its stable of Rochester muni bonds funds owns about $5 billion in Puerto Rico debt. That’s the largest amount in the U.S. fund industry, making up 21 percent of the muni bond group’s $26 billion in assets.

OppenheimerFunds declined to comment for this story. During the 12-month period that ended May 31, investors withdrew $2.73 billion from the muni fund group, according to Lipper.

Meanwhile, Puerto Rico’s budget gap is estimated to surge to $7 billion by 2018, from about $3.7 billion in 2016, according to a report by former International Monetary Fund economists.

“Perhaps of greatest concern to investors is (the report’s) inclusion of general obligation debt in debt relief,” said Robert Donahue, a research analyst at research firm Municipal Market Analytics Inc.

Restructuring general obligation debt carries a heavy implication because most investors see those bonds as the safest among fixed-income securities.

By REUTERS

JUNE 29, 2015, 8:04 P.M. E.D.T.

(Editing by Bernadette Baum)

Hedge Funds Fight to Save Puerto Rico Investments.

Hedge funds like Appaloosa Management, Paulson & Company and Blue Mountain Capital gathered in a conference room at the Barclays offices in Midtown Manhattan last September to talk about what was then the hottest trade: Puerto Rico.

An hour into the conversation, however, it became clear that if things started going bad, not everyone in the room was going to get along. Some had wagered on real estate, while others had bought up the debts of the central government and its troubled electric utility.

Those divisions intensify an increasingly contentious battle the hedge funds are beginning to wage to salvage an investment that, less than a year ago, looked like a sure thing.

This week’s announcement by Gov. Alejandro García Padilla of Puerto Rico that the commonwealth may seek to delay debt payments has thrown the hedge funds’ investment strategies into turmoil.

Even debts that appeared to be secure now seem in jeopardy, sending hedge funds and other investors scrambling to re-examine their legal rights and potential remedies should the government push for a restructuring.

A vast restructuring of the commonwealth’s bonds could scare away more risk-averse investors from buying them for many years to come, causing major problems for the hedge funds.

“Those investors are not coming back,” said Robert Donahue, a managing director at Municipal Market Analytics. “The hedge funds miscalculated and they are feeling the pain.”

While some hedge fund managers say they were caught off guard by Governor García Padilla’s call for a debt restructuring, they are not panicking, even as the price of some of their bond holdings has fallen 17 percent in the last two days.

They see the governor’s announcement as more of an opening salvo in a negotiation rather than an indication of imminent and widespread defaults, particularly on debts that Puerto Rico’s Constitution says must be repaid.

Some analysts say the governor’s announcement may have been intended in part to drive down the value of the hedge funds’ bonds so that the firms would be more willing to agree to concessions in order to minimize their losses.

“The Puerto Rico government has engaged in the creation of a crisis where there isn’t one,” said Hector Negroni, a principal at Fundamental Advisors, which owns Puerto Rico debt. “But I don’t think they will ultimately flout the rule of law. At the end of the day, they need to borrow money again. And no one will lend them money if they break the Constitution.”

Lending more money to Puerto Rico had been a major part of some hedge funds’ strategy. They planned to allow the commonwealth to help fund its operations with borrowed money so it could take steps to jump-start the economy.

When Puerto Rico issued $3.5 billion in general obligation bonds last March, a long list of hedge funds participated, including Paulson & Company and Och-Ziff Capital Management.

Paulson & Company immediately sold its approximately $120 million holding, according to a person familiar with the firm’s trading, and it was unclear whether the other hedge fund managers later sold their similarly sized positions.

The bonds were sold last March at about 93 cents on the dollar. On Tuesday, the bonds were trading as low as 64 cents, according to Municipal Market Analytics.

Many of the same hedge funds have been offering to lend the government as much as $2.9 billion in a bond supported by a fuel tax. But the government has refused to negotiate a deal in recent months, hedge funds managers say.

Aides to Governor García Padilla said in an interview last week that they had not ruled out borrowing more money from hedge funds, but that they first needed to examine all their options, including a vast restructuring of current debts. The aides added that the initial deal terms were too onerous.

Some hedge funds had invested in Puerto Rico debt, expecting a restructuring all along. Firms like Blue Mountain Capital have bought up bonds owed by the Puerto Rico Electric Power Authority at steep discount. On Tuesday, the utility was close to a deal that would avert a default and possibly allow some of its creditors to eventually profit from their investments in its $9 billion in debt.

Until this week, a restructuring of general obligation bonds, which carry a constitutional guarantee to repay, seemed like an impossibility, making the hedge funds' investment look bulletproof.

For the hedge funds, the idea was to lend the money at high interest rates, then flip the bonds to traditional municipal bond investors, like mutual funds, once the fiscal crisis on the island had passed. As part of that strategy, some of the hedge funds circulated research last summer arguing that Puerto Rico's problems were overstated.

But Governor García Padilla is now contending exactly the opposite, releasing a report by former officials at the International Monetary Fund and the World Bank that says that Puerto Rico's deficit is worse than it appears and that the commonwealth cannot solve its problems without restructuring its debts, possibly even its general obligation bonds.

Still, Puerto Rico's relationship with the hedge fund industry is complicated. At the same time the government is gearing up for a series of restructurings with hedge funds and other creditors, officials are courting investments in the broader economy.

Hedge funds have been among the few investors willing to take a chance that Puerto Rico can turn things around.

Puerto Rico's biggest hedge fund cheerleader in New York has been the billionaire John A. Paulson. Mr. Paulson told investors at an investment conference in San Juan last year that Puerto Rico's economy was turning a corner. He went as far as to predict it would be the Singapore of the Caribbean, referring to the Southeast Asian city-state that is considered the region's biggest economic success story.

Mr. Paulson bought up some of the island's most exclusive luxury hotels, including the St. Regis Bahia Beach Resort, the Condado Vanderbilt Hotel and the La Concha Renaissance hotel and tower.

And he has acted as a de facto liaison between the commonwealth and Wall Street.

Mr. Paulson recently suggested that Puerto Rico officials attend the hedge fund industry's biggest event of the year — the SkyBridge Alternatives Conference in Las Vegas, according to Alberto Bacó Bagué, Puerto Rico's secretary of economic development.

Mr. Paulson met with Mr. Bagué on the sidelines of the conference and helped arrange a meeting with James J. Murren, the chief executive of MGM Resorts, Mr. Bagué said.

"He is building a home, and he is validating our economic model with all his colleagues and friends and the investments that he has," Mr. Bagué said.

THE NEW YORK TIMES

By MICHAEL CORKERY and ALEXANDRA STEVENSON

JUNE 30, 2015

Puerto Rico Signals Chapter 9 Push With Ex-Detroit Judge on Board.

NEW YORK — When Puerto Rico hired former Detroit judge Steven Rhodes it sent a signal to creditors that one possible solution it sees is the one thing it cannot do now: declare bankruptcy.

Gaining access to the U.S. Chapter 9 bankruptcy laws for the commonwealth would give a framework for creditors and debtors of public corporations to work out their differences. Allowing the Commonwealth itself to follow the same path as the city of Detroit, which emerged from bankruptcy last year, would be a further step.

"The parallels between Detroit and Puerto Rico are strong enough that I think any of the public corporations or the commonwealth itself could take advantage of the same kind of process that we used in Detroit," Rhodes told Reuters.

A more concerted push for a bankruptcy framework concerns some creditors, who fear it will weaken their negotiating position and reduce their chances of recovering their money.

"Every time Chapter 9 is used, bondholders get destroyed," said one creditor source.

In testimony ahead of a February congressional hearing on a proposal to allow Puerto Rico to apply the code to its municipalities, Thomas Mayer, a partner at Kramer Levin law firm representing PREPA utility's bondholders, cited recoveries in Detroit, Stockton, Vallejo and Jefferson County and concluded that the code hurt bondholders.

Puerto Rico's Governor Alejandro Garcia Padilla dropped a bombshell on holders of its $73 billion debt on Monday by saying that he wants to restructure debt and postpone bond payments. He also called on Washington to make changes to U.S. bankruptcy laws to include Puerto Rico.

Padilla's office had hired Rhodes, who is retired, on June 1, to use his experience from presiding over Detroit – the biggest U.S. municipal bankruptcy. Rhodes will be devoting 25 percent of his time to the island, he said.

"(Rhodes) has made a very public statement about wanting Chapter 9 applied to the Commonwealth," said David Tawil, president of New York-based hedge fund Maglan Capital, which sold its Puerto Rico exposure about a year ago. "It's a big deal."

The creditor source said Rhode's appointment gave them the impression that Puerto Rico was "hiring him to help push for Chapter 9," because of his experience.

Chapter 9 is the bankruptcy statute governing municipal filings. Puerto Rico's entities now cannot use the statute because it only covers political subdivisions or public agencies of a state.

The island's congressional delegate, Democrat Pedro Pierluisi, has already proposed legislation to allow Puerto Rico's public corporations such access.

Rhodes said that creditors "need to accept that the island, the commonwealth and its public corporations are simply not able to pay their obligations as they come due."

"What bondholders need to understand is that the filing of a bankruptcy by itself doesn't create any harm to any creditors," Rhodes said. "What creates the harm to creditors is the inability of public corporations to pay their debt."

CHAPTER 9 STRETCH

Allowing Puerto Rico to use Chapter 9 as it is currently proposed would not apply to general obligation debt issued by its government because the statute excludes states from restructuring their own debt, said Daniel Hanson, analyst at Height Securities.

"To give them a special ability to restructure their obligations on a state level would be different to what the rest of the states have," said Hanson. "It seems extraordinarily unlikely to pick up any kind of political traction."

One large Puerto Rico bondholder said that anything that opened the door to a restructuring of the island's general obligation bonds would be negative for the bonds, but played down such a possibility.

"They will have a hard time defending why bondholders should be getting less than they are currently getting."

Puerto Rico would have to amend the bankruptcy laws to have it considered a state for the purpose of Chapter 9; and then get a provision to allow it to file its state debt.

Pierluisi himself sees no appetite in Congress for giving Puerto Rico more favorable treatment than the states have, his spokeswoman said.

But Rhodes said there could be less resistance to allowing such an option for the territory than it would have been with a state.

"Territories are not sovereign entities in our constitutional structure the same way states are," Rhodes said. "So while from a constitutional perspective, Congress probably could even authorize a state to file bankruptcy, the political, legal and constitutional sensitivities are very much stronger when you are dealing with a state compared to a territory."

The push for Chapter 9 took on more importance when a U.S. federal judge in February voided a restructuring law Puerto Rico had introduced to make some of its agencies eligible for court-supervised debt restructuring.

But Chapter 9 also looks like a long shot and some negotiations go on despite the lack of a legal framework. Puerto Rico's utility PREPA continues to negotiate a restructuring of its $9 billion debt and on Wednesday struck a deal to avoid default. Puerto Rico could also consider setting up a financial control board, such as that used by the then nearly-bankrupt District of Columbia in 1995.

Rhodes said some form of a settlement was still the best option, but that could be facilitated if Chapter 9 were available, even if it were not used.

"All parties would much rather have an out of court solution," said Rhodes, who is not expecting to play any role in negotiations with creditors. “Bankruptcy is always the last resort.”

By REUTERS

JULY 3, 2015, 11:28 A.M. E.D.T.

(Additional reporting by Edward Krudy and a contributor in San Juan; Editing by Tomasz Janowski)

Puerto Rico Crisis Leaves Few Market Ripples as Yields Fall.

The $3.6 trillion municipal-bond market’s first reaction to Puerto Rico saying it can’t pay its $72 billion of debt? A collective yawn, as far as prices went.

While the commonwealth’s securities tumbled after Governor Alejandro Garcia Padilla said his administration will seek to restructure its debt, the fallout has so far been contained: Yields on top-rated 10-year municipal bonds declined 0.02 percentage point, or 2 basis points, this week, as prices rose, according to data compiled by Bloomberg. Top-rated 30-year bond yields were little changed, even as investors pulled money from municipal-bond funds for a ninth straight week.

Puerto Rico securities have traded at speculative levels for more than a year, which has given investors time to pare holdings of the junk-rated island. The long-building strains on the U.S. commonwealth, which has more debt per resident than any state, are also unique.

“Problems with Puerto Rico aren’t news,” said Phil Fischer, head of municipal research at Bank of America Merrill Lynch in New York. “Puerto Rico paper has been treated as speculative for a long time now.”

Garcia Padilla said this week that his administration will seek to put off some debt payments for a “number of years.” The specter of such a restructuring caused Puerto Rico’s newest general-obligation bonds to trade at an average of 69.8 cents on the dollar Thursday, down from 77.3 cents last week.

Risk Appetite

Fischer said individual investors have reduced their holdings of Puerto Rico bonds, many of which are now owned by hedge funds and other buyers with more appetite for risk. About half of U.S. mutual funds that focus on municipal debt hold the securities, down from 77 percent in October 2013, according to Morningstar Inc.

The island’s debt crisis could force fund managers to sell other bonds if losses lead investors to withdraw their money. Investors have pulled cash from municipal-bond funds for the past two months, and some analysts say a Puerto Rico restructuring could weigh on a market already bracing for higher interest rates.

Investors withdrew $1.2 billion from municipal bond funds in the week ended Wednesday, the most since Jan. 2014, Lipper US Fund Flows data released Thursday show. About 40 percent of that total was from high-yield funds.

High Yield

If Puerto Rico defaults, some high yield funds, which have higher concentrations of the commonwealth's bonds, may be the hardest hit. Municipal debt backed by a 1998 national settlement with tobacco companies and those issued by lower-rated hospitals may be vulnerable, said Mikhail Foux, municipal debt strategist at Barclays Plc.

Still, Bank of America's Fischer said Puerto Rico's struggles don't reflect any broader financial pressure on state and local governments.

"The risk with regard to Puerto Rice is not in some sense a contamination of other municipal credits," he said. "There's almost no economic dependency of other muni issuers on Puerto Rico."

Bloomberg

by Martin Z Braun

July 2, 2015 — 12:19 PM PDT Updated on July 2, 2015 — 3:16 PM PDT

Franklin Templeton Sees Costly Legal Fight Over Puerto Rico Bonds.

Municipal bond researchers at Franklin Templeton, whose funds are among the largest owners of Puerto Rico debt, on Wednesday predicted a "long and costly" legal battle as the Caribbean nation tries to restructure more than $70 billion in obligations.

"At the very least, in our assessment, Puerto Rico can expect creditors to seek legal affirmation and protection of contractual rights," said Rafael and Sheila Amoroso, co-directors of the municipal bond department at Franklin Templeton. Their report was published on the company's website.

"Unfortunately, we think it will likely be a long and costly battle regardless of the outcome," they said.

However, the co-directors said they didn't see Puerto Rico's problems affecting the rest of the $3.7 trillion U.S. municipal bond market in a negative way.

Reuters

Wed Jul 1, 2015 12:39pm

(Reporting By Tim McLaughlin)

Best Credit Data Partners with Exchange Data International to Distribute Municipal Bond Pricing Data.

Best Credit Data (BCD), a provider of end of day bond pricing data, is partnering with Exchange Data International (EDI), to distribute BCD Municipal Bond End-of-Day Pricing data to EDI clients around the world.

BCD Municipal Bond Pricing provides end of day pricing for over 1.25 million US municipal bonds every day and roughly 8 years of daily history. The partnership gives EDI's customers the opportunity to subscribe to BCD municipal bond pricing data. Customers will be able to access data fields including: price, yield, spread, multiple duration calculations, convexity, and OAS.

“We are excited to partner with EDI,” says Pierre Robert, CEO of Best Credit Data Inc. “Its global presence and its extensive experience with data-feeds makes it an ideal partner.”

“We are excited to bring BCD on as a new partner to help us fill the need for customers in regards to municipal bond pricing,” says EDI CEO, Jonathan Bloch, “It is the perfect partner to help bring transparency to a market sorely in need of high quality information due to severe illiquidity.”

MBIA Plummets After Downgrade.

The firm BTIG came out on Monday and downgraded Assured Guaranty Ltd. (NYSE: AGO) and MBIA Inc. (NYSE: MBI). BTIG said that this risks makes the two insurers not buyable and that investors should not get involved in the names. Assured Guaranty and MBIA are municipal bond insurers, and their ratings were each downgraded to Neutral from Buy.

Puerto Rico has warned that it is effectively near default after Puerto Rico’s governor said that its $72 billion in debt is unpayable. The governor had previously said that Puerto Rico would effectively do whatever was necessary to pay its debt.

Puerto Rico faces crunch time this week with a June 30 deadline to restructure some of its debt or bump the deadline.

It is estimated that Puerto Rico stands to have an overall deficit of $2.5 billion per year, over the next five years.

MBIA Inc. (NYSE: MBI). shares fell 23.50 % by days end to $6.36 per, down $1.95 per share with more than 20 million shares trading hands. The average daily volume is 3 million shares. That marks the lowest level for the issue since mid-November 2012 when it bottomed at $6.78.

About MBIA

MBIA Inc. (NYSE:MBI) provides financial guarantee insurance, as well as related reinsurance, advisory and portfolio services, for the public and structured finance markets, and asset management advisory services. MBIA conducts its United States public finance only financial guarantee business through its subsidiary National Public Finance Guarantee Corporation (National), and its global structured finance and non-United States public finance financial guarantee insurance business through its subsidiary MBIA Insurance Corporation and its subsidiaries (MBIA Corp.). Related advisory and portfolio services are provided by the Company’s subsidiary Optinuity Alliance Resources Corporation (Optinuity), which provides support services, such as surveillance, risk management, legal, accounting, treasury and information technology.

Ira Market Report

June 30, 2015

By Don Miller

U.S. Muni Bond Issuance Jumps 49 pct in 1st-Half 2015.

U.S. municipal bond issuance rose to $213 billion in the first half of 2015, nearly 49 percent higher than the same period last year, according to preliminary Thomson Reuters data on Tuesday.

Refundings comprised $139.6 billion, or 66 percent, of the total for the period.

Reuters

Jun 30, 2015 3:26pm EDT

(Reporting by Hilary Russ in New York)

Puerto Rico's Crisis Deals a Blow to Municipal-Bond Funds.

Puerto Rico's debt headache isn't confined to the island. Some of the largest mutual funds have placed sizable wagers on the U.S. commonwealth's municipal bonds.

One fund, in fact, had nearly half its assets in Puerto Rican debt.

Now, investors are bracing for losses after the island's governor said Puerto Rico can't pay its debts. Already, some of the Puerto Rico holdings in the mutual funds are touching record lows.

In a low-interest rate world, Puerto Rico's bonds have offered investors juicy yields over the past several years. Puerto Rico's $3.5 billion in general-obligation bonds issued in 2014 initially had a yield of 8.7%. The yield on 10-year U.S. Treasury notes, by contrast, hovered between 2% and 3% last year.

But now investors are getting a fast lesson on the risk that comes with those sorts of high yields. More than half of all U.S. municipal-bond funds, or 298 of 565, have invested in Puerto Rico's debt, according to the most recent fund holdings compiled by Morningstar.

Municipal-bond mutual funds run by OppenheimerFunds and Franklin Resources BEN -0.24%' Franklin Templeton Investments have the highest exposure to Puerto Rico's debt, Morningstar says. OppenheimerFunds and Franklin Templeton respectively hold roughly $4.5 billion and $2.3 billion of Puerto Rico's $73 billion in municipal debt, according to the most recent Morningstar data.

The mutual fund with the biggest exposure, a roughly $230 million fund called the Franklin Double Tax-Free Income Fund trading under the ticker "FPRTX", had about 47% of its assets in Puerto Rico debt at the end of the first quarter, the highest on Morningstar's list. OppenheimerFunds' Oppenheimer Rochester line of funds have between 2% and 37% of their assets in Puerto Rico's debt.

Of Wells Fargo's 14 municipal-bond funds, ten have wagered on Puerto Rico's debt, and 20 of Eaton Vance's 27 muni funds have invested in Puerto Rico's bonds, according to Morningstar.

Puerto Rico bonds pay interest that is exempt from federal taxation and have the ability to issue bonds exempt from federal and state taxes in every state. By contrast, most muni-bond interest is exempt from both federal and state income taxes only if the investor lives in the state where the bonds were issued.

A spokesperson for OppenheimerFunds said that its among creditors that have offered Puerto Rico's governor "numerous creative and viable solutions to the current fiscal situation," and said the firm is "disheartened" by the governor's recent comments. He added: "We expect Puerto Rico to act within the tenets of the law, including the Commonwealth's Constitution, and are ready to defend the previously agreed to terms in each and every bond indenture."

A spokesperson for Franklin Templeton said in an email that they "are currently analyzing the report, and we are waiting to hear more from the governor on next steps."

THE WALL STREET JOURNAL

By MAUREEN FARRELL

Jun 30, 2015

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12 New Ways to Close Infrastructure Funding Gaps Highlighted by CA Fwd and Economic Summit Partners.

It's a problem state government can't solve with existing resources, the private sector won't take on without public partners, and nonprofits can't address alone.

California lacks funding for every type of infrastructure—from moving goods to moving information—but the scope of this challenge (a $300 billion shortfall over the next 10 years just for maintaining the state's transportation system) has proven too much for traditional public investment. The state and federal government simply haven't been able to close these gaps.

Continue reading.

JUNE 25, 2015 BY JUSTIN EWERS

U.S. Muni Bonds Lifted by Greek Credit Woes.

Prices on benchmark U.S. municipal bonds rose on Monday, driving down yields as much as 6 basis points on Municipal Market Data's preliminary scale read.

The lift came after a weekend of financial turmoil in Greece left investors pulling money out of stock markets and pouring into safe haven securities including bonds, according to MMD analyst Gregory Saulnier. MMD is a unit of Thomson Reuters.

Reuters

(Reporting by Hilary Russ)

Mon Jun 29, 2015 10:14am EDT

Will Maine Create a $500 Municipal Broadband Fund?

The state of Maine is firmly committed to municipal broadband — it just doesn't want to pay for it.

If Maine Gov. Paul LePage signs LD1185, the state will create a new fund that would endeavor to provide residents with a wider array of high-speed broadband providers in the coming years. The fund would offer grants to research how municipalities might build open-access gigabit broadband networks, expanding competition in a rural state dominated by Time Warner Cable and Fairpoint Communications.

When the bill was introduced, the fund was $12 million, then reduced to $6 million; now the fund is a $500 placeholder that Congress will revisit next year.

Originally municipalities would have been eligible to apply for up to $200,000 in funding to research the development of an open-access gigabit network. The old version of the bill required that a minimum of 50 such grants be made available, at least half of which would be granted to low-income areas. If signed, the new fund will exist in spirit, but with no funds to distribute.

The organization that would distribute the funds should they become available would be the ConnectME Broadband Authority, the state's broadband advocacy and engagement arm. Lisa Leahy, associate executive director of ConnectME, said the bill is an excellent idea that has had a lot of support from all directions.

"It establishes that there can be a fund and now the work will continue in regard to 'OK, how do we fund it?'" Leahy explained. "At this time, I think there's been such a concern around budget that any bill that has a fiscal note attached to it is being looked at very closely."

When or how the fund would contain more than $500 is unknown, but it's something the state Legislature will look at next year, Leahy said.

Chris Mitchell of the Institute for Local Self-Reliance said that what the state is doing is smart, though the lack of funding is disappointing.

"The thing that I found really exciting is it's only for municipalities or nonprofit types of approaches and it's requiring open access, and I think that's a real smart thing for states to do," Mitchell said. "Because I think local governments can be trusted to maintain that sort of open-access approach for a very long time, where I think the private sector might decide to go back to a monopoly model."

In an open-access model, a network's physical infrastructure is available for rent to any company that wants to sell services to the public, allowing for more competition than if each provider is required to build their own network to compete.

"I like that it's open access because in most of Maine, if you don't build competition into your system, there won't be competition," Mitchell said. "Either one of the existing incumbents will stick around or the city will build a system, but people aren't going to have a real robust choice unless you build a network that allows multiple providers to do it, and there's one company already operating in Maine called GWI that does a really good job."

In Maine today, several municipalities are investing in municipal fiber, like the town of Rockport, which is working with GWI to develop an open-access municipally run fiber network. Broadband development often goes slowly — projects often take years rather than months — but if this bill is signed into law, consumers might find in the next few years that both the speed of Internet access and the number of providers available will have increased dramatically.

It’s frustrating to see such a promising piece of legislation relegated into uncertainty, Mitchell said.

“It still sets an interesting precedent in terms of targeting municipal open-access approaches, which I think is valuable, although clearly much less so if they’re not going to put any money into it,” he said. “Just about every elected official wants to vote and tell their constituents that they supported better broadband, but they really don’t want to upset the Fairpoint and Time Warner Cable lobbyists, so they’ve kind of done both. The lobbyists are happy because there’s no real funding, but a lot of people will go home and say, ‘Well, I voted for better broadband for the state.’”

The bill’s potential passage into law could have some positive effects. If federal funding becomes available, Maine would be well positioned with such a fund in place to apply for it. Such funding from the federal government, however, doesn’t appear to be forthcoming, Mitchell said, nor would Maine be guaranteed a slice of the pie anyway.

There is at least one precedent of an unfunded state broadband fund that might indicate the future of Maine’s legislation, which can be found in the Virginia Resource Authority — a state agency that funds infrastructure projects. In 2007, the state of Virginia decided to add broadband to its repertoire, but as with Maine’s recent legislation, it provided no funding to support such projects. In the department’s 2014 annual fiscal report, there is just one mention of broadband: The department maintains authority to fund such projects. Any evidence of actual funding for such projects is absent.

Editor’s Note: This story was updated on June 26, 2015 to reflect the fact that Rockport is a town, not a city.

Governing.com

Colin Wood Colin Wood | Staff Writer

Colin has been writing for Government Technology since 2010. He lives in Seattle with his wife and their dog. He can be reached at cwood@govtech.com and on Google+.

Phoenix's Quest to Turn Trash Into Cash.

As City Manager Ed Zuercher tells it, trash “is in Phoenix’s DNA.” From two guys throwing cans of garbage into the back of a truck to automated side-loading trucks to single-stream recycling, Phoenix, says Zuercher, has always been innovative in solid waste. Now the desert city has plans to take its long-running relationship with waste innovation a step further: It wants to turn trash into a resource.

That’s the tagline for the city’s new sustainability initiative, which calls for reducing the amount of trash sent to city landfills by 40 percent over the next five years. It’s an ambitious goal. While Phoenix was one of the first cities in the country to introduce single-stream recycling, it only has a 16 percent diversion rate — well below the national average of 34 percent.

In order to meet the ambitious target, Phoenix needs an ambitious plan. That’s where its Resource Innovation Campus comes in. As its name suggests, the campus will be a hub for waste innovation. The focus will be on what city leaders call the “5 R’s”: reduce, reuse, recycle, reconsider and reimagine. This might mean, for instance, turning a beer bottle into new glassware or compost into natural gas.

Construction on the hub is scheduled to start next year on 50 acres of vacant land in the southern portion of the city. Adjacent to a closed landfill, a transfer station and a recycling facility, the land will become home to an Arizona State University (ASU) research center and waste-to-products companies. With access to the city's solid waste stream, these businesses will work with the university to create new uses for garbage. "We're giving local researchers the tools they need to turn trash into cash," says Mayor Greg Stanton.

In addition to the research and development campus, Phoenix is building a compost facility on the site, which will be completed and in operation by next summer.

Part of the incentive for creating the hub is growth. Like many cities, Phoenix is expecting to see rapid expansion in the next few decades. "With our population projected to double by 2050, it's just not sustainable for us to keep burying trash," says John Trujillo, director of the city's public works department. "With this program, we are trying to create a circular economy. We want to create a system where the material gets used over and over again here in Phoenix."

While still in the preliminary stages, the Resource Innovation Campus has already garnered a lot of interest. When Phoenix put out a "call for innovators" this spring, it received 117 proposals from 70 different companies across the U.S., Canada and abroad, including Sweden, Switzerland and the U.K. Perhaps the most important attention it has earned so far came in the form of funding. The Closed Loop Fund, which is composed of Fortune 100 consumer goods companies and retailers such as Coca-Cola, Procter & Gamble and Walmart, will offer below-market interest rate loans (some as low as zero percent) to the businesses selected to be part of the campus. The group, according to Trujillo, is also interested in providing funding to help build the site.

Specialized hubs like Phoenix's Resource Innovation Campus are becoming more and more common. Milwaukee started transforming an old industrial area in the southeast part of the city into a center for water research and technology a few years ago. Charlotte, N.C., is working to be a clean energy hub. These hubs are largely modeled after university business parks. In the 1980s, North Carolina State University's Centennial Campus brought academics, nonprofits and businesses together to facilitate the interaction required to bring research breakthroughs to market.

For Phoenix, bringing everyone together in one place "creates an entrepreneurial spirit around garbage," says Trujillo. As he sees it, trash can become a valuable resource that encourages entrepreneurship, creates jobs, brings environmental benefits to the community, elevates the quality of life and creates alternative forms of energy. "Who," he says, "would have thought trash would be so exciting?"

Governing.com

Elizabeth Daigneau | managing editor

edaigneau@governing.com

Texas Sets $8 Billion Bond Deluge for Water Works After Drought.

The worst Texas drought in half a century has ended, with storms flooding downtowns and onceparched prairies. A deluge of $8 billion of bond sales for water works in the Lone Star state is just getting under way.

The Texas Water Development Board is planning to sell $800 million of municipal debt this year, beginning a decade-long borrowing spree for projects like reservoirs, pipelines and plants that make saltwater fit to drink.

No state is growing as much as Texas, whose infrastructure is being taxed by a population that's swelling by more than 1,000 a day. The water supply is no exception: It's projected to decline over the next 50 years, while global warming is raising the risk of droughts like the one still gripping the far West. So Texas is borrowing to lend cities money for needed work, using $2 billion of its reserves to subsidize the cost.

"It's very hard to capture the funds needed to ensure large supplies," said Randall Gerardes, vice president for municipal research at Wells Fargo Securities LLC in New York. "This could be a model for how states work with smaller jurisdictions."

The Texas economy expanded at the second-fastest pace in the U.S. last year, even as a slide in the price of oil began rippling through the energy industry. With an influx of residents, the state is pouring billions into construction to keep up. Texas and its localities have sold $23 billion of debt this year, 47 percent more than the same period a year earlier, according to data compiled by Bloomberg.

Drought Racked

In November 2013, voters approved tapping the state's reserves for the water program, following the onset of a drought that devastated its farms. Texas forecasts that the amount of available water will decline by about 10 percent by 2060, while its population will grow by some 20 million.

Under the program, top-rated Texas will sell bonds and lend the proceeds to local governments. Those loans will be cheaper than issuing debt on their own: Texas will charge as much as 36 percent less than what it pays to borrow.

The state expects to sell $8 billion of bonds over the next 10 years, with the first coming in September or October, said Amanda Lavin, assistant deputy executive administrator with Texas's water board. Over the next five decades, the program may finance as much as $27 billion of work.

The agency has received applications for about 25 projects that will cost a total of $3.9 billion, said Merry Klonower, its spokeswoman. It will decide by the end of July which to fund with the first round of bond money.

Dallas Saves

Dallas is among those looking to borrow. It's working on a $2 billion pipeline with the neighboring Tarrant Regional Water District, which supplies more than 1.7 million people. Terry Lowery, assistant director of business operations for Dallas's water utility, said the subsidies would cut costs by about $1 million a year.

"It helps us, but it also helps utilities that don't have a lot of funding," Lowery said.

Texas already enjoys low borrowing costs because it's one of just nine states with the highest general-obligation bond rating from both Standard & Poor's and Moody's Investors Service. Its 30-year bonds yield 3.57 percent, or 0.16 percentage point above benchmark municipal debt, according to data compiled by Bloomberg.

Unlike other water programs funded with Texas general-obligation bonds, the new securities will be backed by the revenue it receives when the loans are repaid.

Brandon Ratzlaff, a financial adviser with Carter Financial Management in Dallas, said he expects yields to be around 3 percent, based on estimates from its affiliate, Raymond James Financial Inc. That's equivalent to about 5 percent for an investor in the top federal tax bracket.

"It's not going to come with a coupon that will get everyone excited," said Ratzlaff, whose firm manages $850 million. "But the social impact appeals to some of our investors because they want to make a difference."

Bloomberg

by Darrell Preston

June 21, 2015 — 9:01 PM PDT Updated on June 22, 2015 — 4:29 AM PDT

Chicago Fire's Arena Losses Have Village Taking on More Debt.

Bridgeview, Illinois, is saddling taxpayers with more debt as the arena it built almost a decade ago to host Major League Soccer's Chicago Fire fails to hit the economic goal promised by its proponents.

The village 15 miles (24 kilometers) southwest of Chicago is selling $16 million in general-obligation debt this week to refinance existing securities, most of which are tied to the site that opened in June 2006. The venue, called Toyota Park, generates an annual loss of $3 million to $4 million for Bridgeview, said Daniel Denys, owner of Austin Meade Financial Ltd., the government's financial adviser.

Standard & Poor's this month cut the municipality's grade one step to BBB, two levels above junk, and said it could reduce it again because of its high debt burden. After the sale, the village would have about $250 million in debt, mostly tied to the stadium and the area around it slated for redevelopment, Denys said.

Bridgeview's experience demonstrates the challenges faced by small communities building facilities for sports teams, said Jim Colby, who manages about $1.6 billion of high-yield munis at Van Eck Global in New York.

"It's very hard to stomach the long-term risks that occur with some of these stadium financings," Colby said. For Bridgeview, "it has to be a pretty significant fiscal drag on their budget because they are the ultimate payer relying on a soccer team."

Colby said he would consider buying its new bonds since the rating fits the criteria for his purchases. Denys said the sale may be Wednesday.

'Economic Anchor'

The cost of hosting professional sports has strained municipal finances, from hockey and baseball spring-training facilities in Glendale, Arizona, to the NFL stadium in Indianapolis. States and cities have sold more than $9 billion of debt for professional sports sites since the 1980s, seeking to keep teams or revitalize local economies.

A 2004 Bridgeview newsletter to residents said the soccer stadium would be “an economic anchor” that would pay for itself and spur development around it. A much-publicized water park never materialized. A gas station that opened this year is the only business on the site around the stadium that was expected to be redeveloped, said Denys, who’s based in Naperville, Illinois. Bridgeview officials are closing on deals with developers for more growth, he said.

“We’re optimistic that the economic development will help reduce or eliminate the need for future debt restructuring,” Denys said. “If not, there’s still a solid tax base there that could sustain our worst-case plan. Either way, we’re fine.”

Debt Burden

The village sold $134.6 million of bonds in 2005 for the project, and its debt burden has nearly doubled from subsequent refinancing deals. If restaurants and other revenue-generating ventures don’t work out, Bridgeview could push its debt back to 2056 with another restructuring and tax increases, Denys said.

Residents have paid higher taxes for the past five years due to stadium losses, Denys said. The levies more than doubled between 2009 and 2013, according to the S&P report this month.

Each resident’s share of the village’s total debt burden is about $18,000, deal documents show. The home of the Fire, which is in last place in its conference this season after finishing second-to-last in 2014, is “not yet self-sustaining,” according to the documents.

S&P said there’s “at least one-in-three chance” it could lower the community’s rating again in a year, depending on its financial position, costs and ability to win more revenue.

A Bridgeview general-obligation due in December 2043 traded on June 19 at an average yield premium of 4.48 percentage points, compared with the 3.12 percentage point average this year, data compiled by Bloomberg show.

Residents like having the stadium in their hometown, said Denys, who said he was speaking about the issue for Mayor Steven Landek, who had pushed for the venue.

“There is high enthusiasm in the community,” Denys said. “There’s a lot of pride.”

Bloomberg

by Romy Varghese

June 23, 2015 — 2:00 AM PDT Updated on June 23, 2015 — 5:30 AM PDT

U.S. States Reduce Debt for First Time in 28 Years, Moody’s Says.

The debt load of U.S. states declined in 2014 for the first time in almost three decades and probably won’t rebound this year, showing lawmakers are still reluctant to borrow even six years after the recession.

Total net tax-supported debt among states fell 1.2 percent to $509.6 billion last year, according to a

Moody's Investors Service report released Wednesday. It marked the first annual drop in the 28 years the company has compiled the data.

States and cities have rejected raising fresh cash at the lowest interest rates since the 1960s, instead opting to tap the $3.6 trillion municipal market mostly to refinance. The scars from the financial crisis and tepid economic growth have left lawmakers struggling to balance budgets and wary of embarking on capital projects.

"States continue to be reluctant to take on new debt with tight operating budgets, a slow economic recovery, and uncertainty over federal fiscal policy," analysts at New York-based Moody's said in the report. "We expect debt levels to remain stable or even decline again in 2015."

Credit Barometer

The debt medians can serve as a barometer of a state's creditworthiness. New York and California were two of the three states that paid down the most debt last year, according to the report. They both won rating increases in June 2014.

In contrast, Moody's two lowest-rated states, Illinois and New Jersey, had the largest increases in 2014 as they borrowed for transportation and other projects.

About two-thirds of the $206 billion of munis sold this year through June 18 were for refunding, rather than new projects, according to Bank of America. That would be the biggest portion since 1993. Most refinancing deals don't add to municipalities' debt load because the higher-cost bonds are replaced with obligations carrying lower interest rates.

California, Massachusetts, Pennsylvania and Washington are among issuers with the biggest refunding deals of 2015, data compiled by Bloomberg show.

Debt Aversion

"Most states will continue to avoid major new debt service commitments in the face of moderate revenue growth and continuing pressure for increased education and health care spending," Moody's said. "Few states have announced large new borrowing initiatives."

An index of state obligations has lost 0.2 percent this year, compared with a 0.1 percent decline for all munis, Bank of America Merrill Lynch data show. The governments' securities have still outpaced Treasuries and investment-grade company debt, which have fallen 0.6 percent and 0.9 percent, respectively.

Adjusted for inflation, tax revenue is still lower than at the start of the recession in 21 states, according to a report Tuesday from the Nelson A. Rockefeller Institute of Government in Albany, New York.
Connecticut, where officials are confronting limits in how much revenue they can squeeze out of their tax base, has the most debt per capita among states, at $5,491.

Massachusetts, Hawaii, New Jersey and New York round out the top five, each with more than $3,000 of obligations per person.

Puerto Rico, the junk-rated U.S. commonwealth, had $55.5 billion of net tax-supported debt last year, more than all states except California and New York. That comes out to $15,637 per person.

Bloomberg

by Brian Chappatta

June 23, 2015 — 9:01 PM PDT Updated on June 24, 2015 — 6:42 AM PDT

Municipal Bond Sales Poised to Accelerate as Redemptions Fall.

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

States and localities plan to issue $12.9 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $11.6 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Los Angeles plans to sell $1.386 billion of bonds, Massachusetts has scheduled $938 million, Miami-Dade County School Board will offer $461 million and Maryland Health and Higher Education Facilities Authority will bring $263 million to market.

Municipalities have announced $12.8 billion of redemptions and an additional $32.2 billion of debt matures in the next 30 days, compared with the $49.9 billion total that was scheduled a week ago. Issuers from California have the most debt coming due with $8.51 billion, followed by New Jersey at $3.66 billion and New York with $3.38 billion. California has the biggest amount of securities maturing, with $2.82 billion.

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Fund Flows

Investors removed $653 million from mutual funds that target municipal securities in the week ended June 10, compared with a reduction of $1 million in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $87.72 million last week, boosting the value of the ETFs 0.53 percent to $16.761 billion.

State and local debt maturing in 10 years now yields 102.783 percent of Treasuries, compared with 100.086 percent in the previous session and the 200-day moving average of 99.236 percent, Bloomberg data show.

Bonds of Puerto Rico and Tennessee had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on Puerto Rico's securities narrowed 24 basis points to 9.33 percent while Tennessee's declined five basis points to 2.36 percent. Illinois and New Jersey handed investors the worst results. The yield gap on Illinois bonds widened 38 to 4.2 percent and New Jersey's rose 25 basis points to 3.18 percent.

Bloomberg

by Luis Daniel Palacios and Kenneth Kohn

June 22, 2015 — 4:12 AM PDT

GFOA Accepting 2015 Standing Committee Membership Applications.

Applications to become a GFOA standing committee member are being accepted through July 24. Serving on a standing committee is an excellent opportunity for GFOA members to contribute their experience and knowledge to the entire membership. GFOA's seven standing committees meet twice each year and develop best practices, advisories, and policy statements for the approval of the Executive Board and membership. GFOA associate members from the private sector may also apply to be advisors to one of the committees.

The GFOA's seven standing committees are: Accounting, Auditing and Financial Reporting; Canadian Issues; Economic Development and Capital Planning; Governmental Budgeting and Fiscal Policy; Governmental Debt Management; Retirement and Benefits Administration; and Treasury and Investment Management.

Submit your application today.

Wednesday, June 17, 2015

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Bloomberg

by Luis Daniel Palacios & Kenneth Kohn

June 22, 2015 — 4:12 AM PDT

Asset Manager Wants SEC to Probe Providence Pensions.

Controversy, Intrigue, Investigations Surrounding 38 Studios Investigations are Far from Over
A Rhode Island asset manager has asked the U.S. Securities and Exchange Commission to investigate the pension fund of capital city Providence after an accounting firm acknowledged a $62 million spike in its unfunded liability.

"I did file an official complaint," said Michael Riley, co-founder of investment firm Coastal Management Group LLC in Narragansett, R.I. "My feeling is that this has been going back a long time. I think it's huge."

Riley, who ran for Congress in 2012, said he noticed what he considered irregularities while participating in a Stanford Graduate School of Business class. He questions how the city's handling of municipal bond documents and financial disclosure statements, and also said the shortage could run up to $200 million.

City and state officials say the problem reflects timing and cash flow, not mismanagement or chicanery.

"All would agree that the timing of the city's contributions to its pension plan is not the norm or desirable," state Auditor General Dennis Hoyle wrote Riley. "However, my perspective is that the city has appropriately accounted for these events consistent with generally accepted accounting principles.

"I don't believe it is fair or appropriate to characterize the city's accounting for this matter as a 'scam and fraud.' My point is not to endorse the city's practice of making its pension contribution subsequent to year-end. However, I believe it is important not to mischaracterize the situation unfairly."

Hoyle said he would continue to work with city officials to explore options of making contributions "on a more normal and frequent basis" during the fiscal year.

A $62 million payment to the pension fund is due June 30. Providence traditionally has been making such payments in October.

Two months ago, accounting firm Segal Group Inc. told the City Council's finance committee that an actuarial asset method change and to a lesser degree a change in rate-of-return assumptions increased the unfunded liability of the Employee Retirement System of the City of Providence by $62.2 million. Segal officials at the time said the system's unfunded liability stood at $894.3 million as of July 1, 2014.

Segal officials advised the city to begin making its payments in June.

"We will not be able to do this immediately, but we will make sure it happens. We're working with our actuary," said Evan England, press secretary to Mayor Jorge Elorza. "We've done everything to be open, transparent and proactive on this."

According to England, Elorza's administration is working to bring the city's long-standing pension payment practices into compliance with new reporting standards, notably the Governmental Accounting Standard Board's rules 67 and 68. In consultation with Segal, said England, the administration is developing a three-year plan that phases in periodic pension contributions so the city can complete its actuarially required contribution, or ARC, payment by June 30.

England called the late payments "a not-a-best-practice decision made a decade ago."

Elorza succeeded Angel Taveras in January, after Taveras vacated his seat in an unsuccessful run for governor.

Segal replaced Buck Consulting Inc. after the city fired Buck and sued it early in 2013, accusing the firm of miscalculating $700,000 in savings. Segal told council members in April that the plan's funded ratio has dropped to 29% on a market-value basis and 27.4% on an actuarial basis.

Last year Segal said Providence shouldn't count future pension contributions as part of current assets. "We recommend that future valuations exclude discounted contributions from reported assets," the firm said in mid-2004. "This does not affect the determination of the contribution requirement, which is based on projected liabilities and assets."

City officials at the time – and shortly after criticism from Riley — rewrote bond documents to include Segal's concerns.

In May, Local 799 of the International Association of Firefighters said it would sue the city, alleging misreported pension funds and seeking immediate replenishment of the $62 million.

"Our concern is that this practice dates back farther than we originally understood when the issue came to light, and that our members may suffer – or may have already suffered – a loss because of this unorthodox and potentially illegal practice," union president Paul Doughty said at the time.

As of Friday, though, no evidence existed of such a lawsuit filed. A message seeking comment was left with Doughty.

Separately, the union this week asked Rhode Island Superior Court to block Elorza's plan to restructure the department until both sides can agree on payment to firefighters for working 14 extra hours each week.

Providence in 2012 crafted a series of pension and health care benefit reductions after Taveras likened the situation to a "Category 5 hurricane" and said the city was headed to bankruptcy.

The new package reduced the city's costs by suspending cost-of-living adjustments for retired pensioners for 10 years and transferred retirees to Medicare. City officials at the time estimated nearly $15 million of annual savings in pension contributions.

THE BOND BUYER

BY PAUL BURTON

JUN 22, 2015 9:30am ET

Federal Judge Overturns OK of Illiana Toll Road.

CHICAGO – A federal judge has ruled that the federal government's approval of the controversial Illiana toll road is invalid.

The decision could deliver a death blow to the bi-state project, which has already been on life support.

The June 16 ruling comes a week after Illinois Gov. Bruce Rauner, who has never publicly supported the project, halted all work on the Illiana to save money for the cash-strapped state, which is facing a budget crisis.

The project, estimated to cost $1.5 billion, would build a 47-mile toll road between Indiana and Illinois. Both states planned to use public-private partnerships to finance their portions.

U.S. District Judge Jorge Alonso of the Northern District of Illinois Eastern Division ruled that federal approval was "arbitrary and capricious" and in violation of environmental law because state transportation officials used a "fatally flawed" analysis to justify the project.

"It's a very big deal," Howard Learner, executive director of the Environmental Law & Policy Center, which represented the environmental groups, including Openlands, Midewin Heritage Association and the Sierra Clubs, that brought the lawsuit.

The environmental law center describes Illiana as a waste of taxpayer money that conflicts with long-term regional development plans and threatens globally significant wildlife prairie habitat.

The center argues that rebuilding, modernizing and maintaining current roadways in high-density areas makes more sense than building a greenfield highway project it sees as encouraging sprawl.

The U.S. Department of Transportation and the Illinois and Indiana transportation departments were defendants.

"This ought to be the opportunity for the federal and state transportation departments and Gov. Rauner and [Indiana] Gov. [Mike] Pence to stop wasting money and bring the Illiana tollway to and end and move forward with high-priority projects," Learner said.

The opinion overturns the federal highway administration's tier one record of decision approving the project. A separate lawsuit targets the tier two record of decision, which the FHWA granted in December 2014, allowing the two states to move from planning to the implementation stage.

Learner said the new ruling will likely invalidate the tier two record of decision as well.

"As a practical matter the tier one record of decision was the foundation for the tier two record of decision," said Learner. "The federal highway administration, the Indiana and Illinois departments of transportation need to go back to square one and redo the environmental review process in a way that complies with federal law and good policy sense, or not do it at all and simply bring the proposed boondoggle to an end."

Alonso ruled that state transportation officials used a "faulty" analysis that, among other things, relied on the research of "market-driven forecasts developed by consultants" instead of long-range forecasts crafted by professional planners Chicago Metropolitan Agency for Planning and Northwestern Indiana Regional Planning Commission.

The transportation agencies also relied on a faulty 'no build' review when deciding to move forward with the Illiana, the ruling said.

"In short, the purpose and need for the Illiana Corridor identified in the EIS are derived directly from the faulty 'no build' analysis," Alonso wrote. "Because that analysis does not substantiate the purpose and need, the FHWA's approval of the [record of decision] and final [environmental impact statement] is arbitrary and capricious and in violation of [the National Environmental Policy Act."

The Illinois transportation department said it was reviewing the ruling and "exploring our options."

A spokesman for the Indiana department also said its attorneys were reviewing the ruling and that meanwhile, work "remains temporarily suspended."

THE BOND BUYER

BY CAITLIN DEVITT

JUN 17, 2015 3:29pm ET

Chicago Schools Seen as City's Next Hurdle as Pension Bill Looms.

Chicago's next financial obstacle lies with its school system, which for the first time ever may not have enough cash to make a required payment into its teachers' retirement fund.

As the Chicago Board of Education faces a $634 million pension payment due June 30, yields on some of its bonds are climbing toward records set last month. Officials of the nation's third-largest school district are also struggling to plug a $1.1 billion deficit for the fiscal year starting July 1 and trying to get out of $228 million of termination payments for derivatives that went awry.

Given the demands, the district may fail to make the full pension payment, inflating its retirement-fund shortfall and leaving it vulnerable to more downgrades after its $6.2 billion of debt was cut to junk last month, said Laurence Msall, president of the Civic Federation, a Chicago-based research group that's tracked the city's finances since 1929.

"Of all the Chicago issuers, CPS seems to be the one that's struggling the most," said Adam Stern, director of muni research in Boston at Breckinridge Capital Advisors, which oversees $20 billion in municipal strategies, but holds no Chicago school debt. "I don't think anyone is investing with the thought that the spreads are going to come back in. There are a lot of medium- and long-term structural issues.”

‘Tough Choices’

Charles A. Burbridge, executive director of the teachers’ pension fund, called for the full payment in a statement Wednesday, while noting the “tough choices” confronting the district. Bill McCaffrey, a schools spokesman, didn’t respond to e-mail and phone queries Thursday regarding the payment.

Mayor Rahm Emanuel signaled a solution has to come from the state capital. Chicago, with 2.7 million people, gets less pension cash than suburbs and cities downstate, he said.

“Springfield has to step up and help,” Emanuel told reporters Wednesday. Kelley Quinn, a city spokeswoman, didn’t respond to e-mail and phone messages seeking comment Thursday.

The school system may not get much assistance given Illinois’s deteriorating finances. The state doesn’t have a spending plan for the year starting July 1, and if a budget isn’t passed, schools won’t get aid set for distribution Aug. 10.

Junk Move

Moody’s Investors Service and Fitch Ratings cut the district, which educates about 400,000 students in more than 600 schools, to one level above junk in March, giving banks the right to demand payments to end interest-rate swaps. Moody’s lowered the district again in May to Ba3, three levels below investment grade, citing the strain of pension costs on its “precarious financial position.”

Board of Education bonds maturing in December 2039 yielded 2.66 percentage points above benchmark munis Thursday, the widest spread since May 21, according to data compiled by Bloomberg on the most-traded debt of the past week. The data are for trades of more than $1 million, a benchmark for institutional investors.

The securities yielded as high as 6 percent, approaching the record of 6.5 percent set May 14.

Burbridge at the teachers’ fund said that to his knowledge the board has never missed a required payment.

The system, which was 51.5 percent funded as of June 30, 2014, has three options, said Msall at the Civic Federation: skip or delay the payment, make budget cuts or seek relief from state lawmakers.

“It would not be surprising to find that the Chicago Public Schools may have difficulty having the cash to make the payment,” Msall said.

‘Worse Picture’

“Any deferral of the pension contribution could provide short-term budgetary relief, but it would also provide for a much worse picture down the road,” Rachel Cortez, a Moody’s analyst in Chicago, said by phone.

The board has already cut more than $740 million in non-classroom spending since 2011 and drawn on reserves.
After the mayor-appointed school board closed 50 schools in 2013, saving an estimated $40 million, the move fueled a voter backlash that helped push Emanuel into an unprecedented mayoral runoff election.

“The sad reality is how many schools can you shut down? How many teachers can you lay off?” said Dan Heckman, senior fixed-income strategist at U.S. Bank Wealth Management, which oversees about $127 billion in Kansas City, Missouri. The firm holds no Chicago school debt, because of the rating.

“They’re still going to have daunting challenges financially,” he said.

Bloomberg

by Elizabeth Campbell & Brian Chappatta

June 18, 2015 — 9:01 PM PDT Updated on June 19, 2015 — 6:10 AM PDT

Moody's: Flood Risk in Coastal Virginia Supports Need for Proactive Planning, Capital Investments.

New York, June 18, 2015 — Coastal cities in southeastern Virginia’s Hampton Roads region are becoming more vulnerable to flooding risk caused by weather-related and tidal flooding, and will require continued capital investment and effective planning to mitigate negative credit effects on the municipalities, Moody’s Investors Service says in a new report.

The region includes notable cities like Virginia Beach (Aaa stable) and Norfolk (Aa2), whose significant urbanization and military development has exacerbated flooding risks and stormwater drainage issues. Hampton Roads is home to the world’s largest naval base and second-largest US east coast port.

“Annual planning and spending for stormwater management in the near term reduces the need for Hampton Roads municipalities to spend larger amounts later. However, cost forecasts indicate a potential need for greater investment in this area by local governments across the region,” Moody’s Analyst Tiphany Lee-Allen says in “Virginia’s Hampton Roads Region Responds to Flood Risk.”

Hampton Roads’ municipalities have relatively high credit ratings and conservative fiscal management, owing to the region’s economic strength, which is buttressed by its concentrated military and government presence, port activity and tourism, Moody’s says. These cities therefore possess the financial flexibility to manage fixed costs and support day-to-day operations.

In the last three years, Hampton (Aa1) has spent $28.7 million on flood mitigation and has set aside funds in its 2016 budget for additional consultancy preparation.

Other cities, such as Virginia Beach have completed $43 million in flood control projects in the last five years and plans to spend $135 million in the next decade on multiple stormwater management projects.

Norfolk’s annual capital investments of $7 million for flood resiliency projects have helped minimize long-term costs and allowed the city to manage increases related to storm events without significantly impacting its debt profile.

The report is available to Moody’s subscribers here.

Justices Rule for Small Arizona Church in Sign-Law Dispute.

WASHINGTON — The Supreme Court ruled Thursday for an Arizona church in a dispute over a town's sign law in a decision that three justices said could threaten municipal sign regulations across the country.

The court unanimously agreed to strike down a law in Gilbert that set tougher rules for signs that direct people to Sunday church services than for signs for political candidates and real estate agents.

But the justices divided over why the law violated the rights of the Good News Community Church.

Gilbert's attorney said the ruling will make it exceptionally hard for cities across the nation to regulate signs, and it will be a special problem for Arizona because of a state law specifically allowing political signs.

"All municipalities throughout the country and especially in Arizona are going to have to review this matter," said Gilbert Town Attorney Michael Hamblin. "Arguably, the contention is if you allow political signs in the right of way for these periods of time then you can't make distinctions for other types of signs."

But the attorney for the church, David Cortman of the Scottsdale, Arizona-based Alliance Defending Freedom, said the fears of cities were overblown.

"I think it's an overstatement – I don't think the sky is falling, nor will it," Cortman said. "Towns and municipalities have many different ways to regulate signs in a constitutional fashion."

The church complained that the law forced the church to put up smaller signs than those for political candidates, real estate agents and others. The church's signs also could be in place for short periods of time.

Lower federal courts upheld the town's sign ordinance, saying the distinction it drew between different kinds of temporary signs was not based on what a sign said.

Justice Clarence Thomas rejected that argument in his majority opinion for six of the nine justices. Thomas said political signs are "given more favorable treatment than messages announcing an assembly of like-minded individuals. That is a paradigmatic example of content-based discrimination."

Under the rigorous review the court gives to laws that treat speakers differently because of content, the law must fall, Thomas said.

Justice Elena Kagan said she fears that all sign ordinances now will have to face the same strict review and many "are now in jeopardy" because of Thursday's decision.

There was a narrower way to decide the case in the church's favor, Kagan said. The town's defense of its sign ordinance was marked by the "absence of any sensible basis" for distinguishing between signs and did not pass "even the laugh test," she said.

Justices Stephen Breyer and Ruth Bader Ginsburg joined Kagan's opinion.

"I think Justice Kagan got it right," said Charles Thompson, executive director and general counsel for the International Municipal Lawyers Association. “It’s likely to make the courts a super sign board. We’re going to be seeing the federal courts litigating questions over whether a sign falls within the narrow exception.”

Thomas said the decision would not prevent cities and towns from regulating signs to take account of safety and aesthetic concerns.

The Good News Community Church is led by Pastor Clyde Reed and serves roughly 30 adults and up to 10 children, but lacks its own building. The church and Reed sued Gilbert for treating religious groups more severely than others, alleging violation of the First Amendment’s guarantee of religious freedoms.

The sign ordinance struck down Thursday allowed directional signs, like the ones put up by the church inviting people to Sunday worship, to be no larger than 6 square feet. They had to be placed in public areas no more than 12 hours before an event and removed within an hour of its end.

Signs for political candidates, by contrast, can be up to 32 square feet and stay in place for several months.

By THE ASSOCIATED PRESS

JUNE 18, 2015, 5:36 P.M. E.D.T.

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Associated Press reporter Bob Christie contributed from Phoenix

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Detroit's County Seeks State Help on Fiscal Woes, Delays Note Sale.

(Reuters) – Michigan’s Wayne County, home of Detroit, has asked the state for a fiscal emergency declaration to deal with a chronic budget deficit, spokesmen for the county and state confirmed on Thursday.

Wayne County Executive Warren Evans late on Wednesday formally asked Michigan Treasurer Nick Khouri to initiate a review process that would lead to a consent agreement between the county and the state.

The action led the county to postpone until next week the sale of nearly $187 million of general obligation, limited-tax notes through Bank of America Merrill Lynch that had been scheduled for Thursday.

“It is now expected to be rescheduled to Wednesday or Thursday of next week in order to give investors time to digest and react to the executive’s announcement as well as understand the strengths and vitality of the delinquent tax program,” Wayne County Deputy Treasurer Christa J. McLellan said in a statement.

In a letter to Khouri, Evans said the county’s general fund budget deficit was projected to jump to $171.4 million in fiscal 2019 from $9.9 million this year due to declining tax revenue and escalating personnel costs. In addition, the county’s finances are sagging under an $870 million unfunded pension liability and its credit ratings have fallen into the junk level.

Michigan Treasury spokesman Terry Stanton said the county's request was under consideration.

Wayne County's taxable notes, which mature on Dec. 1, 2017, will raise money to cover delinquent 2014 property taxes due the county and local governments in it.

In its offering document for the note sale, the county warned potential investors it could be headed to federal bankruptcy court if it did not implement its plan to address chronic budget deficits by curbing pension and healthcare benefits and cutting wages. That could lead to an appointment of an emergency manager, who could recommend a Chapter 9 municipal bankruptcy filing, the document said.

Detroit exited the biggest-ever municipal bankruptcy last year, shedding about $7 billion of its $18 billion of debt and obligations.

By REUTERS

JUNE 18, 2015, 11:09 A.M. E.D.T.

(Reporting by Karen Pierog; Editing by Lisa Von Ahn)

Chicago City Council Approves Mayor's $1.1 bln Bond Plan.

The Chicago City Council on Wednesday approved with no debate Mayor Rahm Emanuel's proposal to sell $1.1 billion of bonds to continue restructuring outstanding debt and pay other obligations.

"This is a step that is necessary to refund existing debt and begin to take steps to claw out of the financial condition we are in at the present time," said Alderman Ed Burke, chairman of the council's finance committee, which approved the bond plan on Monday.

The city is repairing damage from Moody's Investors Service's downgrade of its credit rating to junk last month, even as it braces for a possible further drop in the rating as pension payment pressures mount.

Chicago will use the authorization to convert short-term commercial paper into long-term fixed-rate bonds and complete the refinancing of interest rate swap agreements. The bond deal will free up $170 million for the city's coffers by pushing payments on outstanding bonds into future years.

Proceeds will also be used to cover obligations, including $75 million in retroactive police pay.

The general obligation (GO) bonds will be priced through senior underwriter Morgan Stanley this summer.

Moody's downgrade of Chicago's GO bond rating to Ba1 triggered $2.2 billion in accelerated debt and fee payments by the city.

Forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it gave the city time to convert $918 million of variable-rate debt into fixed-rate bonds so far. Those debt conversions attracted many yield-hungry investors, but still left Chicago with hefty interest costs compared to higher-rated issuers in the U.S. municipal bond market.

The city, the third largest in the United States by population, is struggling with a projected $300 million structural budget deficit and a looming $550 million contribution increase to its public safety workers' retirement funds.

A bill passed by the Illinois Legislature last month would reduce the pension payment, but Governor Bruce Rauner, who has criticized the legislation, may not sign it into law.

With hope fading, the mayor is moving up the process for the city's next budget that normally starts in October.

"I think it's important for the city of Chicago to seize the moment and as best it can determine its own future and not have it held somewhat by (the state government) and their inaction," Emanuel told reporters after the city council meeting.

Wed Jun 17, 2015 4:00pm EDT

REUTERS/JIM YOUNG

(Reporting by Karen Pierog; Editing by James Dalgleish and Jeffrey Benkoe)

Georgia Passes New Social P3 Legislation: Ballard Spahr.

Georgia Governor Nathan Deal signed into law new public-private partnership (P3) legislation, the Partnership for Public Facilities and Infrastructure Act (SB 59) (the Act) on May 5, 2015. The Act allows state and local government entities to partner with private entities on "qualifying projects," broadly meaning any project deemed to meet a public purpose or public need and satisfying those requirements set forth under the Act.

The Act covers those qualifying projects pursued with local government entities, meaning any county, municipality, consolidated government, or board of education, as well as with state government entities, including institutions of the University System of Georgia.

The Act does not apply to projects procured through the State Transportation Board, the Department of Transportation, or the State Road and Tollway Authority; these state authorities are already authorized to engage in and procure P3 projects. Projects involving the generation of electric energy for sale, communication services, cable and video services, and water reservoirs, however, are not eligible to be qualifying projects under the Act.

Summarized below are some of the key terms of the Act. The procurement process and requirements for projects on the local level are similar in many respects to the procurement process the State is required to follow. Certain distinctions are worth highlighting, however, and we have addressed these in more detail below.

New P3 Committee

The Act requires the establishment of a new 10-person committee (the Committee) to prepare model guidelines for local government entities, including counties and municipalities. The Governor will appoint four members, and the Speaker of the House of Representatives and the Lieutenant Governor will each appoint three members to the Committee.

The Committee is required to issue model guidelines to local governments by July 1, 2016. These guidelines then are required to be updated every two years.

Guidelines

Local Government P3 Projects

A local government must adopt a set of guidelines prior to executing an agreement for a qualifying project with a private entity. It may adopt the model guidelines from the Committee or establish its own set of guidelines as a policy, rule, regulation or ordinance, but such guidelines must contain such information that is required to be contained in the model guidelines under the Act.

At a minimum, the model guidelines must set forth the following:

- Key Dates: Specific periods during the calendar year when the local government will consider unsolicited proposals for qualifying projects.
- Financial Review: Procedures for the financial review and analysis of an unsolicited proposal.
- Fees: Criteria for determining any fees that the local government elects to charge the private entity for the processing, review, and evaluation of an unsolicited proposal.
- Issuance of an RFP: A requirement that the local government issue a request for proposal (RFP) if it decides to proceed with a qualifying project pursuant to an unsolicited proposal.
- Certain Procedures for Competing Proposals: Procedures for posting and publishing notice of the opportunity to offer competing proposals, procedures for the processing, review, and consideration of competing proposals, procedures for determining whether information included in an unsolicited proposal should be released as part of any RFP to ensure fair competition, and procedures for identifying and appointing an independent owner adviser with certain expertise to assist the local government in evaluating unsolicited proposals if the local government elects to have such an adviser.

State Government P3 Projects

The Act also requires that those public entities at the state level participating in the procurement of qualifying projects adopt a set of guidelines, and designates specific entities as responsible for setting such guidelines. For qualifying projects undertaken by the State Properties Commission, guidelines for the process must be developed by the Georgia State Financing and Investment Commission. For qualifying projects undertaken by the University System of Georgia, guidelines for the process must be developed by the Board of Regents of the University System of Georgia. The Act does not specify any further guideline requirements for other state government entities.

Unsolicited Proposals

Private entities may submit for consideration, and the applicable local or state government may approve, an unsolicited proposal for qualifying projects.

Certain materials and information must be submitted as part of any unsolicited proposal, including a project description, a feasibility statement, a project schedule, a financial plan, a business case statement describing benefits to be derived from the project, and any such other materials that may be reasonably requested by the local or state government.

The private entity bears all risk in submitting an unsolicited proposal and the local government has the right to reject any such proposal at any time without providing reason for its denial.

Additional Requirements for State Level Projects

For those projects on the state level, unsolicited proposals must be submitted to a “responsible public entity” between May 1 and June 30 of each year. A responsible public entity means a public entity that has the power to contract with a private entity to develop an identified qualified project. More specifically, for any unsolicited proposal for a project at one or more institutions at the University System of Georgia, the responsible public entity is the Board of Regents of the University System of Georgia or its designees. For any unsolicited proposal for a project for one or more state entities other than an institution of the University System of Georgia, the State Properties Commission is the responsible public entity.

There is an additional notice requirement for private entities submitting proposals for qualifying projects at the state level. Any private entity submitting an unsolicited proposal to a responsible public entity must also notify each affected local jurisdiction, meaning any county, municipality, or school district in which all or a portion of a qualifying project is located, by furnishing each such jurisdiction with a copy of its proposal.

There will be a comment period for unsolicited proposals. Each affected local jurisdiction that is not a responsible public entity for such project may submit comments to the responsible public entity within 45 days of receiving such notice, indicating whether the project is compatible with local plans and budgets. For instance, a project must be consistent with zoning and land use regulations of the responsible public entity and of each affected local jurisdiction.

Determination of a Qualifying Project

Before the procurement process begins, the state or local government must decide which projects, both solicited and unsolicited, become “qualifying projects.” For unsolicited proposals, once a state or local government receives an unsolicited proposal, such public entity must review such proposal according to its guidelines adopted pursuant to, and the requirements set forth under, the Act and make a determination of whether such project meets a public purpose or public need. If a determination is made that a project is a qualifying project, the relevant state or local government entity will take the following steps:

- First, seek competing proposals for the qualifying project by issuing an RFP;
- Second, review all such proposals received in response to the RFP and rank them based on various factors, such as the cost of the project, the design of the project, the general reputation, expertise and financial capacity of the private entity, and benefits of the project to the public, among other factors; and
- Lastly, negotiate with the highest-ranked private entity, or the next-ranked private entity if it is unable to reach a comprehensive agreement or interim agreement with the highest-ranked entity.

At any time during the above process, and prior to executing a comprehensive agreement, the relevant state or local government entity may cancel its RFP or reject all proposals received in response to an RFP for any reason whatsoever without any liability to the private entities or third parties.

Comprehensive Agreement

Upon determination of a qualifying project, the relevant state or local government entity and the selected private entity may enter into a comprehensive agreement setting forth the terms and conditions of such project. In addition to any terms and conditions that the state or local government entity determines will serve the public purpose contemplated by the Act, each comprehensive agreement must include, among other provisions, the following:

- A thorough description of the duties of each party in the completion and operation of the qualifying project.
- Dates and schedules for the completion of the qualifying project.
- Any user fees, lease payments, or service payments as may be established by agreement of the parties (as well as any process for changing such fees or payments) and a copy of any service contract.
- Any reimbursements to be paid to the state or local government entity for services provided by such public entity.
- A process for reviewing the plans and specifications for the qualifying project, inspecting such, and monitoring the practices of the private entity by the relevant state or local government.
- Terms regarding performance and payment bonds and insurance policies.
- Provisions governing the rights and responsibilities of the parties in the event of termination or material default.
- In the event of a material default by the private entity, the ability of the relevant state or local government entity to terminate the comprehensive agreement and exercise any other rights and remedies that may be available at law or in equity.

Miscellaneous

All power or authority granted under the Act to public entities is in addition to and supplemental to, and not in substitution for, the powers conferred by any other general, special, or local law. Remember, the Act does not apply to all procurement projects. For instance, state or local government entities that proceed with procurement pursuant to competitive sealed bidding or any other traditional purchasing options available under existing law are not required to comply with this Act.

by Han C. Choi, Brian Walsh, Stephanie S. Kim, and Steve T. Park

June 1, 2015

Attorneys in Ballard Spahr's P3/Infrastructure Group routinely monitor and report on new developments in federal and state infrastructure programs. For more information, please contact Han C. Choi at 678.420.9308 or choih@ballardspahr.com, Brian Walsh at 215.864.8510 or walsh@ballardspahr.com, Stephanie S. Kim at 678.420.9366 or kimss@ballardspahr.com or Steve T. Park at 215.864.8533 or parks@ballardspahr.com, or the member of the Group with whom you work.

Reluctant Chicago Finance Committee Authorizes $1.1 Billion Borrowing.

Amid comparisons to "shuffling the deck chairs" on the Titanic, the City Council's Finance Committee agreed Monday to add another $1.1 billion to the mountain of debt piled on Chicago taxpayers after aldermen were warned the city's junk bond rating demanded it.

When its bond rating dropped below investment grade, Chicago could have faced paying nearly $2.2 billion to bankers under a series of complex deals dating back to former Mayor Richard M. Daley's tenure.

The city has already eliminated roughly half that risk by converting $918 million in variable rate debt to fixed interest rates and by terminating 21 "swap" agreements. The other half was still outstanding, and therein lies the risk.

"We are technically in default…There would be the potential that we would have to come up with close to $900 million to pay back the banks if we did not execute this transaction," newly-appointed Chief Financial Officer Carole Brown told the Finance Committee.

"It's a critical first step. … We are addressing some …financial practices that … were inherited and have happened over the course of many years. We're trying to get [them] off the balance sheet … to help prepare the finances of the city and this body for some of the financial choices you're gonna be asked to make in the future."

The biggest borrowing of Mayor Rahm Emanuel's tenure will be used to pay those "legacy costs" inherited from Daley and to complete Emanuel's debt restructuring plan to end or move away from risky financial practices that Daley used to "mask" the true cost of city government.

Plans for the borrowing include: $151 million to convert variable-rate general obligation bonds to fixed interest rates; $192 million to cover swap termination costs; $40 million in variable-rate penalties triggered by the double-drop in the city's bond rating; $170 million to continue so-called "scoop and toss" and two years of capitalized interest.

Bond proceeds also include: $35 million to make the city's 2015 payment on a loan Daley used to purchase the site of the old Michael Reese hospital for an Olympic Village that was never needed; $19 million to compensate the consortium that leased Chicago's parking meters for meters taken out of service; $62 million to pay a judgment tied to Daley's decision to authorize a parking garage at the Aqua building even though the deal that privatized downtown parking garages included a do-no--compete clause; $4 million to terminate an equipment lease transaction; $181 million to terminate a 2005 agreement that financed work on the CTA's Orange Line and $75 million to bankroll a retroactive pay raise and back pension payments for Chicago Police officers.

As promised, the police borrowing will be paid back over the two years remaining on the contract.

The kitchen sink of projects without any discussion of new revenue to solve the city's $30 billion pension crisis infuriated Ald. John Arena (45th). He peppered Brown with questions, even though he is not a member of the Finance Committee.

"Are we just shuffling the deck chairs [on the Titanic]?" Arena asked Brown.

"We don't hear anything about new revenue. We get fines here and fees there and everybody knows it's not enough. When we have $1.1 billion put in front of us and say, 'Approve this' without at least a plan for revenue — this is irresponsible. It makes it very hard for me to support this strategy because I don't know this strategy. I don't know the plan."

Brown countered: "This is not kicking the can. This is not shuffling the deck chairs. This is a real step toward doing what I think all of you … want to see us doing, which is to return to a state of more fiscal stability."

The CFO acknowledged that new revenue "has to be part of a larger discussion around — not just this year's budget, but budgets going forward" and said that's a debate Emanuel is "committed" to having in plenty of time for aldermen to weigh the difficult choices.

"I understand the frustration. But what the administration has to bring to this body is a responsible plan that addresses all of the upcoming obligations of the city. That's what the mayor is committed to doing," she said.

Since Arena does not have a vote on the Finance Committee, his Progressive Caucus colleague, Ald. Scott Waguespack (32nd), cast the only "no" vote.

"We're just kicking the can down the road. They're not addressing the core issues that the rating agencies keep telling us is the problem. … We need to find hundreds of millions to pay off what we're borrowing here today," Waguespack said.

The senior managing underwriter on the $1.1 billion borrowing with an estimated $2.64 million in fees is Morgan Stanley. The company's affidavit was signed by William Daley Jr., whose uncle is the former mayor and whose father and namesake replaced Rahm Emanuel as White House chief of staff.

That not only raised eyebrows among black and Hispanic aldermen demanding a bigger seat on the gravy train tied to city bond issues. It rankled Arena.

"The same folks who told us we should sell these assets to generate all this revenue and then turned around and sued us are now gonna benefit from these actions because this is how we're generating the money to do this. They're the ones in the room telling us this is the right step. There's got to be a certain amount of caution or skepticism," Arena said.

Rookie Ald. David Moore (17th) asked Brown whether there was any alternative to the $1.1 billion borrowing. The CFO said there was not. Moore then asked whether the massive borrowing came with a guarantee that there would be no further ratings downgrade. Once again, Brown's answer was no.

Emanuel has promised to phase out the dubious practice of scoop-and-toss by 2019. But, he still plans to use it to the tune of $225 million this year, $150 million next year, $100 million in 2017 and $50 million in 2018, Brown said.

THE CHICAGO SUN-TIMES

WRITTEN BY FRAN SPIELMAN

POSTED: 06/15/2015, 12:43PM

Michigan County Selling Notes Amid Possibility of Bankruptcy.

Michigan's Wayne County plans to sell nearly $187 million of general obligation limited-tax notes next week, while warning potential investors that it could be headed to federal bankruptcy court.

The note sale is part of about $8 billion of debt expected to be offered in the U.S. municipal bond market in the coming week, according to Thomson Reuters estimates on Friday.

Wayne County said if its plan to address chronic budget deficits by curbing pension and healthcare benefits and cutting wages is not implemented, the state of Michigan is likely to appoint an emergency manager, who could recommend a Chapter 9 municipal bankruptcy filing, according to offering documents for the note deal.

Detroit, which is in Wayne County, exited the biggest-ever municipal bankruptcy last year, shedding about $7 billion of its $18 billion of debt and obligations.

Wayne County's taxable notes, which mature on Dec. 1, 2017, are scheduled to be priced by Bank of America Merrill Lynch on Thursday. The deal will raise money to cover delinquent 2014 property taxes due the county and local governments in the county. The notes are rated SP-1, one notch below the top investment-grade level for notes by Standard & Poor's. The county's long-term GO debt is rated in the "junk" level by all three major credit rating agencies.

Next week's biggest negotiated offering is $750 million of New York City Transitional Finance Authority building aid revenue bonds. Lead underwriter Goldman, Sachs & Co will hold a Monday and Tuesday retail presale period for the bonds ahead of formal pricing on Wednesday. The bonds are structured with serial maturities in 2016 through 2044 along with a term maturity, according to the preliminary official statement.

Topping the week's competitive calendar is a $155 million South Carolina Transportation Infrastructure Bank revenue refunding bond issue pricing on Thursday.

Meanwhile, investors pulled money out of municipal bond funds for a sixth week in a row. Net outflows totaled $411.8 million for the week ended June 10, up from $380.7 million in outflows the previous week, according to Lipper, a unit of Thomson Reuters.

REUTERS

(Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis)

Jun 12, 2015

BlackRock Sees Potential Risk to Wider Market from Puerto Rico.

Debt-burdened Puerto Rico has the potential to upset the municipal bond market if there is a broad restructuring of the U.S. commonwealth, causing uncertainty among retail investors, the head of asset manager BlackRock's Municipal Bonds Group said on Thursday.

Puerto Rico finance officials have said the island could run out of money by the end of September without financing. Governor Alejandro Garcia Padilla in May signed into law a tax bill expected to provide about $1.2 billion in revenue for the next fiscal year, allowing Puerto Rico to pursue negotiations with creditors over a much-delayed bond deal of up to $2.95 billion.

BlackRock's Peter Hayes said at a press briefing that the delay in the bond deal, originally expected late 2014, "should be concerning to investors because lack of access to the capital markets and higher borrowing costs is always an indication of greater problems."

Puerto Rico bonds are fairly widely held by a variety of investors, he said, and a default or restructuring has the "bigger potential to upset the market."

"It has the potential to create some uncertainty among retail and the potential for some outflows, if you get a larger broader restructuring of commonwealth in general," Hayes said.

BlackRock does not own any bonds of power utility PREPA, which is struggling with $9 billion of debt and is currently working on a turnaround plan. But he said he could see a buying opportunity if the price fell from around 50 cents on the dollar to around 30 cents on the dollar. PREPA's bonds maturing 2043 are trading around 53.50 cents on the dollar.

BlackRock also cited concerns about some states, particularly Illinois and Alaska, wrangling with budgets before their fiscal 2016 begins in July.

Overall, BlackRock forecast that municipal bond issuance was on pace for more than $400 billion this year. Total issuance was $315 billion in 2014 according to Thomson Reuters data.

REUTERS

(Reporting by Megan Davies; Additional reporting by Jessica DiNapoli; Editing by Richard Chang)

Jun 11, 2015

U.S. Municipal Bond Market Grows to $3.694 trln in First Quarter.

The U.S. municipal bond market grew to $3.694 trillion during the first quarter, following an increase to $3.652 trillion in the prior quarter, according to a quarterly report from the Federal Reserve released Thursday.

Retail buyers acquired a total of $13 billion of municipal bonds, a rebound from 16 straight quarters of declines in bonds held by households, the biggest buyers in the municipal bonds market.

Institutional investors picked up their buying, as bank holdings of municipal bonds grew $68.5 billion in the first quarter, after increasing by $41 billion in the prior quarter.

Mutual funds holdings grew by $59.4 billion in the first quarter, compared with $57.9 billion in the fourth quarter, the Federal Reserve said.

Property casualty-insurance companies shed $5.7 billion and life-insurance companies picked up $1.3 billion in municipal bonds.

REUTERS

(Reporting by Elvina Nawaguna; Editing by Chizu Nomiyama)

WASHINGTON, JUNE 11

[San Diego’s NFL Stadium Dream Counts on Munis for Chargers’ Home.]

San Diego, still dealing with the legacy of a pension crisis that led politicians to consider bankruptcy a decade ago, may throw taxpayer money behind municipal bonds for a football-stadium bidding war.

The city and the National Football League’s Chargers are negotiating on a proposed $1.3 billion coliseum to keep the team from leaving for Los Angeles. A plan backed by a city panel would have San Diego pay $121 million of the new stadium’s debt, even though it still owes $52 million for the Chargers’ current home. San Diego County would chip in, too.

The quest to keep the team has triggered a debate over whether to finance professional football as the city deals with $2 billion of deferred maintenance brought about in part by mounting pension costs. The city’s retirement system has a shortfall just as large, which led voters three years ago to approve reducing benefits for city workers.

“A core function of government isn’t to subsidize private companies,” said Bob Ottilie, a lawyer who’s organizing opposition to using tax money for the stadium. “A sports stadium doesn’t do anything for your community. It doesn’t create jobs or expand the tax base.”

Debt Sales

States and cities have sold more than $9 billion of debt for professional sports facilities since the 1980s, seeking to revitalize local economies or keep teams from fleeing. Last week, Wisconsin Governor Scott Walker, a Republican, backed using as much as $250 million of public funds for a new home for the Milwaukee Bucks of the National Basketball Association.

Mark Fabiani, a spokesman for the Chargers, which have been seeking a new stadium for 14 years, declined to comment on the negotiations.

Matt Awbrey, a spokesman for Mayor Kevin Faulconer, said voters would have to approve any deal after the terms have been finalized. The team and city officials are set to meet Monday afternoon to continue negotiations.

“The mayor has committed to giving voters a final say with a public vote,” Awbrey said.

The financing plan from the panel appointed by Faulconer is intended to keep the football team from moving 120 miles (193 kilometers) north to Carson, a Los Angeles suburb. While Carson isn’t offering any subsidies, the location would give the team access to a larger population. The Oakland Raiders are also considering the site.

Public Funds

The San Diego mayor’s panel last month proposed covering about one-third of the stadium’s cost with public funds, including $225 million from land sales. Adam Day, who heads the committee, said the stadium could be financed by $1 billion of bonds sold by a newly created authority, which would repay the debt with stadium revenue and the taxpayer funds.

Faulconer last month lauded the panel for finding a way to keep the team without raising taxes, though he didn't comment on its specific recommendations.

The San Diego plan was designed to overcome a tax-wary electorate, which shot down tax increases for fire protection even after devastating wildfires, said Day.

"We have to take into account the political and economic conditions here in San Diego," he said. "We do think it's fair for the team, the city and the taxpayers."

The proposal would rely on $300 million from the team, $200 million from the NFL and more than $100 million from the sale of seats, parking and tickets. An additional $173 million could come from debt backed by the team's rent payments.

Brian McCarthy, spokesman for the NFL, didn't respond to a request for comment.

The Risks

There's also risk to the city, said Erik Bruvold, president of the National University System Institute for Policy Research in San Diego. The amount planners expect to raise through land and seat-license sales may fall short, he said, and the public may need to raise the subsidies if attendance doesn't hold up.

"If those things don't materialize, somebody is going to have to make up the difference, and that's going to be the taxpayers," he said.

San Diego has been working to steady its finances for over a decade, since its retirement fund was left reeling from the collapse of the Internet stock bubble. In 2005, then-Mayor Dick Murphy resigned after a $1.2 billion shortfall in the city's pension fund prompted criticism of its accounting practices.

When Faulconer proposed a budget in April, he said San Diego has turned a corner toward a "healthy financial future." San Diego has the third-highest credit rating from Moody's Investors Service and Standard & Poor's. Both companies have a stable outlook on its rating.

Cory Briggs, a lawyer who opposes the stadium project, said the city shouldn't take on additional risk, given the pressure it still faces to shore up the pension fund. He said the subsidies the city's offered may not be enough to hold the team.

"City officials are putting something together so they can say they tried," he said. "But it's probably too little, too late."

Bloomberg

by James Nash & Darrell Preston

June 7, 2015 — 9:01 PM PDT Updated on June 8, 2015 — 12:32 PM PDT

Christie Wins Court Battle Over Funding New Jersey Pension Gap.

Governor Chris Christie won a decisive victory over New Jersey unions when the state's highest court ruled he isn't required to fill a $1.57 billion pension budget gap, defusing an issue that hung over his potential presidential campaign.

While the ruling averts an immediate cash crunch, the pension hole continues to restrain spending on schools, tax relief and municipal aid. Christie has vowed not to raise taxes even as he acknowledges there’s no alternate plan for closing a deficit that may top $2.7 billion through June.

The New Jersey Supreme Court ruled it’s up to the state legislature to resolve the pension funding issue. Legislators have the power to appropriate funds as necessary for the financial health of the state, the court said Tuesday in a 5-2 decision.

“That the state must get its financial house in order is plain,” the court said. “The need is compelling in respect of the state’s ability to honor its compensation commitment to retired employees. But the court cannot resolve that need in place of the political branches.”

Christie hailed the ruling as an important victory for taxpayers “who simply cannot afford these unsustainably high costs.”

“The court’s position is clear, as is mine, it is time to move forward and work together to find a tangible, long-term solution to make our pension system and public employee health benefits costs affordable,” Christie said in a statement posted on Twitter.

Union Response

Hetty Rosenstein, state director for the Communications Workers of America representing about 40,000 of 74,000 state workers, said her union will lobby politicians to include funding in the budget they send Christie later this month, and said it plans to press for full funding with demonstrations, if necessary.

“It’s a terrible decision for the pension plan,” Rosenstein said in a phone interview. “People in the pension plan have legal rights. If we don’t pay them, there will be a total collapse of the New Jersey economy. One in seven people in this state rely on that plan.”

Christie, a Republican, said last year that an unanticipated drop in revenue forced him to trim pension payments to balance the budget, as required by law. The move came after he and the Democratic-led legislature approved a bill in 2011 that increased the state’s annual payments into the pension fund in exchange for higher employee contributions.

Christie made the first two payments, deferred $887 million last year when revenue sagged, and withheld payment on the remainder for the year ending June 30.

Unions Sue

Unions for teachers, firefighters and other public employees sued seeking full payment into a pension system underfunded by $83 billion. State court Judge Mary Jacobson sided with the governor in June 2014.

She said that confronted with “staggering” shortfalls in the state’s budget that year, Christie acted reasonably in making only a partial payment.

Jacobson, however, ruled in February that Christie and state legislators had had enough time to find a solution and ordered him to work with lawmakers to fill the gap.

The Supreme Court majority disagreed with Jacobson’s interpretation of the 2011 agreement and ruled the deal didn't create a legally enforceable contract. The state's constitution prohibits such long-term financial arrangements without voter approval, the court said.

Judges Dissent

Chief Supreme Court Justice Stuart Rabner and Justice Barry Albin dissented saying the decision strikes down the promises made to thousands of public workers and will have "far-reaching, negative consequences."
"Public workers continue to pay into a system on its way to insolvency," Albin wrote.

The issue is dire for New Jersey as the retirement burden grows, casting a shadow on the state budget and driving down its credit rating, which has already been cut a record nine times.

David Rosen, the legislative budget officer, told lawmakers last month that it may not be "fiscally possible" to come up with the amount needed to make a full payment. Assistant Attorney General Jean Reilly told the Supreme Court at a hearing last month that the governor is willing to pay an additional $200 million before the fiscal year ends.

Christie's bid for state pension reform helped propel him into the national spotlight and could continue to haunt him as he weighs a run for the White House in 2016. The issue may leave an opening for Republican rivals who also have gubernatorial experience such as Scott Walker of Wisconsin, Jeb Bush in Florida and John Kasich in Ohio.

Opponents' Response

Those men have the ability to say "we ran our state a lot better than you have," Patrick Murray, director of polling at Monmouth University in West Long Branch, New Jersey, said in a phone interview on Monday.

Christie's total 2016 spending plan of $33.8 billion has yet to be scheduled for a vote in the legislature as it approaches the June 30 deadline. A separate union lawsuit is also pending on a $3.1 billion commitment that Christie cut to $1.3 billion.

The case is Burgos v. New Jersey, L-1267-14, Superior Court of New Jersey, Mercer County (Trenton).

Bloomberg

by Sophia Pearson & Terrence Dopp

June 9, 2015 — 7:05 AM PDT Updated on June 9, 2015 — 8:57 AM PDT

Yields Trimmed for $111.7 mln Chicago Sales Tax Bonds.

Investor demand allowed Chicago to lower yields on $111.7 mln of sales tax revenue refunding bonds that were priced on Wednesday, according to details of the deal released on Thursday.

But Chicago continues to pay a penalty for its financial woes, which include a $20 billion unfunded pension liability.

Yields fell one to five basis points in most maturities in a repricing through lead underwriter RBC

Capital Markets that dropped the top yield to 4.62 percent from an initial 4.67 percent for bonds due in 2034 with a 5 percent coupon, according to the final pricing scale.

That narrowed the spread over Municipal Market Data's benchmark triple-A scale for the U.S. municipal bond market from the initial pricing by 10 basis points to 160 basis points, indicating investors continue to demand much fatter yields from Chicago compared to most other issuers.

The issue is part of the city's plan to convert certain variable-rate debt into fixed-rate bonds to end bank letters of credit and interest-rate swaps. Last week, big investor demand drove yields down by as much as 16 basis points for $674 million of Chicago general obligation bonds. Still, the spread over the MMD scale was a hefty 264 basis points for bonds due in 2042.

Chicago officials said investors put in $464 million of orders for the $111.7 million of sales tax bonds, which were rated AAA by Standard & Poor's, AA-plus by Kroll Bond Rating Agency and BBB-plus by Fitch Ratings.

The city did not request a rating from Moody's Investors Service, which pushed its rating on Chicago's GO and sales tax bonds into the junk level last month.

The Moody's downgrade triggered $2.2 billion in accelerated debt and fee payments by Chicago. However, the city entered into forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it to allow time for the bond conversions, according to city bond offering documents.

Reuters

Thu Jun 4, 2015 2:31pm EDT

(Reporting By Karen Pierog; Editing by Chris Reese)

Yields Top Out at 4.67 pct for Chicago Revenue Bonds.

(Reuters) – Chicago's $111.7 mln of sales tax revenue refunding bonds were initially priced on Wednesday with a top yield of 4.67 percent for bonds due in 2034 with a 5 percent coupon, according to a pricing scale obtained by Reuters.

The issue is part of the city's plan to convert certain variable-rate debt into fixed-rate bonds to end bank letters of credit and interest-rate swaps.

The spread over Municipal Market Data's benchmark triple-A scale for the U.S. municipal bond market was much tighter for the revenue bonds than it was for $674 million of general obligation bonds Chicago converted to fixed rate last week, about 170 basis points versus 264 basis points.

The sales tax bonds were rated AAA by Standard & Poor's, AA-plus by Kroll Bond Rating Agency and BBB-plus by Fitch Ratings. Moody's Investors Service dropped its rating on Chicago's GO and sales tax bonds to the junk level of Ba1 last month, but Moody's was not asked by the city to rate the bond conversions.

The Moody's downgrade triggered $2.2 billion in accelerated debt and fee payments by Chicago. However, the city entered forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it to allow time for the bond conversions, according to city bond offering documents.

Wed Jun 3, 2015 10:59am EDT

(Reporting By Karen Pierog; Editing by Chizu Nomiyama)

[S&P: Florida Still Has Time, but Late Budget Adoption Could Signal Weaker Management and Pressure Outlook.]

NEW YORK (Standard & Poor's) May 29, 2015–Standard & Poor's Ratings Services today said that it believes the State of Florida (AAA/Stable) still has time to reach budget agreement in its special session that begins on June 1, but it would be unprecedented and significant if the Florida legislature failed to pass a budget by fiscal year-end.

The senate and the house have called the special session to complete the state budget over the course of 20 days and by the end of June. Florida constitution requires the state to adopt a balanced budget for each fiscal year and Florida has never passed a late budget. Assuming the absence of a budget in early fiscal 2016, we expect 'AAA' rated Florida will continue to make its debt service payments on time and in full. However, should budget disagreement extend well into July without an appropriation, we note that the state would need to make Aug. 1, 2015, debt service payments from debt service reserve funds held by the trustee. From a credit standpoint, continued political brinkmanship that results in a late budget (past June 30) with a need to use debt service reserve funds to cover scheduled debt service payments would reflect a weakening of state budget management that we consider uncharacteristic of a 'AAA' rated state.

The Florida constitution requires that the state pass a balanced budget for each fiscal period and it does not have a provision that calls for a continuation budget. Gov. Scott has asked agencies to identify critical services that need state funding if Florida is unable to pass the budget on time, thereby causing a government shutdown. The governor's office has also identified a baseline budget at fiscal 2015 levels, in addition to critical spending needs, that could serve as a budget model, although we understand the legislature and governor would still need to approve such a plan. Florida has passed a budget after the end of regular session only three times since 1992 when it adopted the budget on the last day of that fiscal year. More important, although extremely close in 1992, the state has never failed to pass a budget before July 1.

The house's unprecedented early adjournment on April 28 with no budget, two days before the end of the regular session, reflected positions in the legislature that were far apart and entrenched. The primary cause of the budget impasse is a disagreement about health care funding. The state previously received $1.3 billion of federal revenue for the $2.2 billion low income pool (LIP) program based on a federal waiver that expires in June 2015. The house and governor disagree with a senate plan that would have offset the potential loss of funding from the LIP program by expanding Medicaid. The federal Centers for Medicare and Medicaid Services (CMS) sent a letter to the state last week preliminarily estimating $1 billion in total federal and state funding needs for the LIP program for fiscal 2016, although it still did not guarantee the funding. Should the CMS decide not to renew funding by July 2015 and should Florida decide not to replace that funding, payments to health care providers could drop. The special session agenda includes the state budget, Medicaid expansion, tax cuts, the implementation of Amendment 1, and the associated use of documentary stamp taxes, along with several other issues.

In the event the Florida legislature is unable to adopt a fiscal 2016 budget before July 1, state officials report that there are sufficient resources appropriated from the fiscal 2015 budget to meet all July 1 debt service payments for revenue, appropriation, and full faith and credit-backed bonds, which are due to the paying agent at least one day before the debt service date. Fiscal 2015 budget appropriations also cover scheduled Sept. 1, 2015, debt service payments for the Department of Management Services' facilities pool revenue bonds. We understand, however, that without a fiscal 2016 appropriation, Florida might need to tap debt service reserves for Florida Correctional Finance Corp.'s certificates of participation debt service
payments due Aug. 1, 2015. State officials report that amounts in associated debt service reserve funds held with the trustee are sufficient to cover such a contingency; nevertheless, we would view a need to use debt service reserves as uncharacteristic of a 'AAA' rated state. A budget standoff that continued past June 30, without appropriations in place for upcoming debt service payments, would be a sign of weak budget management that could pressure our outlook on Florida. We will continue to monitor the status of deliberations as the state works through its budget impasse during the special session.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

29-May-2015

Primary Credit Analyst: Sussan S Corson, New York (1) 212-438-2014;
sussan.corson@standardandpoors.com

Secondary Contact: John A Sugden, New York (1) 212-438-1678;
john.sugden@standardandpoors.com

Former California City Officials Move to Put Pensions on Ballot.

New state and local government employees in California would no longer earn guaranteed public pensions unless voters decide otherwise, under a 2016 ballot measure proposed by two former city officials.
Former San Jose Mayor Chuck Reed and former San Diego City Councilman Carl DeMaio, who championed efforts to reduce benefits in their cities, said Thursday the measure would allow local voters to decide how to balance employee pensions against the cost of municipal services.

Growing public employee retirement costs have hobbled California cities since the recession, contributing to municipal bankruptcies in Vallejo, San Bernardino and Stockton. Elected officials in cities and counties began boosting pensions for police and firefighters after lawmakers in 1999 raised benefits for state troopers. At the time, the California Public Employees' Retirement System had 138 percent of the assets needed to cover projected liabilities. It now has about 77 percent.

"We're filing this because pension costs and retirement costs generally are going up dramatically in California," Reed said on a conference call with reporters. "This initiative is to empower local governments to do what is necessary in their communities. We're not telling them how to solve the problem."

They would need to overcome opposition from public-employee unions and gather 585,407 valid signatures by Nov. 25 to place their "Voter Empowerment Act" on the November 2016 ballot.

The measure wouldn't affect pensions for current state and local government workers, except for prohibiting enhancements to their benefits without voter approval, Reed and DeMaio said.

Retirement Security

Employees hired after Jan. 1, 2019, would be placed in 401(k)-style defined-contribution plans, with the government paying no more than 50 percent of retirement costs, unless voters decide differently.

"This is yet another destined-to-fail attempt to eliminate the retirement security of teachers, firefighters, school bus drivers and other public employees that they have earned and agreed to in good faith at the bargaining table," Dave Low, chairman of union-backed Californians for Retirement Security, said in an e-mailed statement.

Across the nation, state and local governments are grappling with pension deficits that exceed a combined $2 trillion, according to a Moody's Investors Service report last year.

DeMaio said the measure would save "billions" over the next 30 years, although he wasn't more specific.

In 2012, voters in San Diego and San Jose, the second- and third-largest cities in California, approved measures to curb employee pension costs.

San Diego's measure put new employees except police into a 401(k)-style retirement plan, rather than one with guaranteed payments, while San Jose's allowed current employees to choose whether to pay more to keep their existing retirement plan, or switch to one with reduced benefits and a higher retirement age. Reed, a Democrat, backed the San Jose plan while DeMaio, a Republican, endorsed San Diego's.

Reed's city measure was stymied by unions, which sued to block the changes.

Last year, Phoenix voters rejected a ballot measure that would have made Arizona's capital the largest U.S. city to do away with guaranteed pensions for new public workers. Almost 57 percent of voters turned down a proposal to replace pensions with 401(k)-style defined contribution plans for city workers other than police and firefighters.

Bloomberg

by James Nash

June 4, 2015 — 11:57 AM PDT

Puerto Rico Utility's Restructuring Moves Toward Legal Showdown.

Puerto Rico's junk-rated electric utility, weeks away from owing a $416 million debt payment, is moving closer to a legal showdown as bond insurers consider blocking a move to give it more time to fix its finances.

The Puerto Rico Electric Power Authority, called Prepa, has been negotiating with insurers, banks and bondholders since August on ways to revamp its operations and finances, under a pact known as a forbearance agreement. That accord, which keeps the talks out of court, expires Thursday. The power provider said this week that it isn't generating enough cash to service its $9 billion of obligations.

Without the forbearance pact, creditors can sue Prepa, which has breached bond contracts by using reserves for debt payments. Units of Assured Guaranty Ltd., MBIA Inc. and Syncora Guarantee Inc. insure about $2.6 billion of the debt, according to their websites. Some members of that group are weighing ending the accord because the turnaround process is taking too long, according to three people with knowledge of the discussions who requested anonymity because the talks are private.

Negotiating behind closed doors "appears to be unworkable," said Robert Donahue, managing director at Municipal Market Analytics Inc., a Concord, Massachusetts-based research firm. "Now the likelihood is high that this will be forced into a court and that near-term losses are almost certain."

July 1

A restructuring of Prepa, the main electricity supplier on the island of 3.5 million, would be the largest ever in the municipal-bond market.

Its next principal and interest payment is July 1. It's premature to predict whether Prepa will pay what it owes on time, U.S. Bank National Association, the bond trustee, said in a May 7 filing. Moody's Investors Service warned in March that Prepa may default on next month's bill.

"No decision has been made about the July 1 payment," Lisa Donahue, Prepa's chief restructuring officer, said in an e-mail. "There can be no assurance that the payment will be made."

Kevin Brown at Armonk, New York-based MBIA, Ashweeta Durani at Hamilton, Bermuda-based Assured, and Michael Corbally at Syncora in New York declined to comment.

Distress Case

Prepa's securities, along with other bonds from the commonwealth, have traded at distressed levels for almost two years as the local economy reels.

The agency's bonds have recovered from their lows. Securities maturing in July 2028 have risen to an average price of 52.6 cents on the dollar, up from a 2014 low of about 37 cents, according to data compiled by Bloomberg on Prepa's most actively traded securities Wednesday. The tax-exempt bonds yield about 12.5 percent.

The utility is discussing an extension of the forbearance agreement with creditors and will make an announcement before the deadline, Prepa's Donahue said Monday. A turnaround plan she submitted to some creditors that day said ratepayers, employees, bondholders and management need to share the burden of the agency's recovery.

Default Trigger

In the event of a default, the bond trustee can ask a court to appoint a receiver to take over Prepa's operations, if holders of at least 10 percent of the debt agree, bond documents show.

Investors say Prepa can come up with the money to pay its bonds by cracking down on overdue bills. Late balances among residents, businesses and government tallied $1.75 billion in September, according to a report compiled by a subsidiary of FTI Consulting Inc. The agency is also obligated to pass on to consumers its cost savings from lower oil prices.

A Prepa default would undermine bondholders' faith that the island will honor its debts, said Richard Larkin, director of credit analysis at Herbert J. Sims & Co. in Boca Raton, Florida. Puerto Rico bonds rallied after lawmakers last month moved to ease a cash crunch by boosting the sales-tax rate.

"That confidence will be diminished, however, if one of its largest authorities, Prepa, continues to subsidize lower rates and free municipal service at the expense of repaying investors," Larkin wrote in a report Wednesday.

If investors push Prepa into the courtroom or the hands of a receiver, the utility still would have to keep the lights on across the Caribbean island. That may require bondholders to take a loss, said MMA's Donahue.
"Can Prepa honor all of the legal pledges it's made as well as its critical mission to provide power?" he said. "This situation is at a head where Prepa's ability to do just that is clearly in question."

Bloomberg

by Michelle Kaske

June 3, 2015 — 5:00 PM PDT Updated on June 4, 2015 — 7:29 AM PDT

Puerto Rico Utility Gets More Time in Forbearance Debt Talks.

Puerto Rico's junk-rated power authority won a two-week extension to an agreement with creditors that will give it more time to sort out its finances as it teeters under $9 billion of debt.

The accord will end June 18, the agency said in an e-mailed statement Friday. It allows the Puerto Rico Electric Power Authority, known as Prepa, to negotiate with bondholders, banks and debt insurers outside of court on ways to revamp its operations and finances. Talks have been going on since August.

It's the fourth time creditors have consented to prolong the agreement, which was set to expire Thursday night. Prepa has breached bond contracts by draining its reserves and may default on an interest and principal payment due next month.

"While progress has certainly been made towards a negotiated solution, the timeline is not on the side of a peaceable, agreed-to outcome," Daniel Hanson, an analyst at Height Securities LLC, a Washington-based broker dealer, wrote in a report Friday. "The utility is likely to pursue a plan that impairs bondholders over their objections, which could result in a protracted legal battle."

Without a forbearance agreement, the creditors could sue Prepa. Some bond insurers earlier this week weighed blocking an extension because the restructuring talks were taking too long, according to three people with knowledge of the discussions who requested anonymity because the talks are private.

Insurers' Role

"We continue to work with creditors towards a consensual resolution and the transformation of Prepa for the benefit of all stakeholders," Lisa Donahue, Prepa's chief restructuring officer, said in the statement.
Units of Assured Guaranty Ltd., MBIA Inc. and Syncora Guarantee Inc. insure about $2.6 billion of Prepa's debt, according to their websites.

Prepa owes investors $416 million of principal and interest July 1. Most of the bonds maturing that day carry bond insurance, data compiled by Bloomberg show.

It's premature to predict whether Prepa will pay what it owes on time, U.S. Bank National Association, the bond trustee, said in a May 7 filing. Moody's Investors Service warned in March that Prepa may default on next month's bill.

"No decision has been made about the July 1 payment," Donahue said in an e-mail Wednesday. "There can be no assurance that the payment will be made."

A restructuring of Prepa, the main electricity supplier on the island of 3.5 million, would be the largest ever in the municipal-bond market. The utility's securities and other debt from the commonwealth have traded at distressed levels for almost two years.

Prepa bonds maturing in July 2040 were little changed Friday, trading at an average price of 52.1 cents on the dollar, for a tax-exempt yield of about 10.8 percent, according to data compiled by Bloomberg. The bonds have recovered from as low as about 38 cents in July 2014.

Debt from the island has earned about 0.6 percent this year, while the entire municipal market has lost almost 0.1 percent, S&P Dow Jones Indices show.

Bloomberg

by Michelle Kaske

June 5, 2015 — 5:01 AM PDT Updated on June 5, 2015 — 10:02 AM PDT

Push to Change California Pensions Set to Roil Calpers.

A group of politicians and business leaders is making a new effort to reduce California's mounting pension problems, with a ballot campaign that would curb retirement benefits for new hires and give voters a larger say on future cost increases.

The California coalition hopes to ask voters next fall to approve an initiative giving governments the power to deny guaranteed retirement payouts to new workers and instead cycle employees into 401(k)-style plans starting in 2019. Future increases to the benefits of current pensioners would also be subject to a popular vote, among other changes.

The effort is expected to be watched closely around the U.S. as it sets up a potential battle with the California Public Employees' Retirement System, known as Calpers, which controls retirement money for many municipal and state workers as the country's largest public pension fund.

Calpers relies on contributions from governments to fund worker pensions, and it has argued those retirement benefits are guaranteed by California law and can't be cut.

Pension contributions are among the heaviest costs shouldered by California municipalities. California cities are expected to make a total of $5.1 billion in contributions during fiscal 2015, accounting for nearly 7% of total revenue, according to the California Policy Center, which analyzed 459 municipalities. Higher contributions often mean cash-strapped cities are forced to cut services or raise taxes to cover the bill.

"We need to do something to get control over these skyrocketing costs," said former San Jose Mayor Chuck Reed, one of the backers of the new campaign.

A Calpers spokeswoman said via email that "comprehensive pension reform has already been enacted in California," adding that "defined benefit plans are the most cost-effective way to save for retirement and should remain an important tool in retirement planning."

The proposed California initiative would put new hires onto a 401(k)-style plan, requiring municipalities that want to keep a more traditional defined-benefit plan to put it up for a popular vote. Otherwise, new government hires would be placed into the system starting Jan. 1, 2019, which more closely resembles those at private-sector companies.

In a traditional pension plan, administrators choose where to put the money and employees receive a set payout at retirement regardless of how well or poorly the funds were invested. In a 401(k)-style plan, employees typically decide where to invest their funds. At retirement, they have a sum of money reflecting how much was contributed and how the investments fared.

Voters don't typically have much say when it comes to designing retirement benefits, a responsibility typically left to elected officials. "It's unusual for pension benefits to be subject to popular vote," said Keith Brainard, research director at the National Association of State Retirement Administrators.

The ballot-measure campaign still has several hurdles to clear, needing to gather around 560,000 signatures and emerge from a review by Attorney General Kamala Harris. The ballot campaign would also have to overcome opposition from organized labor, which is expected to mount opposition to it.

A similar effort to curb pension benefits in California failed to come up for a vote last year. Where this attempt differs is that it doesn't ask for benefit reductions from current employees.

The group backing the new effort includes former San Diego council member Carl DeMaio, a Republican, and Mr. Reed, a Democrat who was able to pass a pension overhaul in his previous job as mayor of San Jose. The group has spent $180,000 so far on the campaign but ultimately could require around $25 million, Mr. Reed said.

If successful, the initiative "puts the power in the hands of the voters to service a check on bad deals made by politicians," Mr. DeMaio said.

THE WALL STREET JOURNAL

By TIMOTHY W. MARTIN

Updated June 4, 2015 5:16 p.m. ET

Write to Timothy W. Martin at timothy.martin@wsj.com

In Puerto Rico Debt Talks, Things Are Heating Up.

It is shaping up as a hectic summer for investors in Puerto Rico's more than $70 billion in outstanding debt.

On Monday, the U.S. commonwealth's publicly owned electric monopoly presented creditors with a restructuring plan, a month before a roughly $400 million payment comes due that analysts say the utility doesn't have.

The plan includes efforts to modernize the authority and increase efficiencies, with a goal of stabilizing power rates, according to Chief Restructuring Officer Lisa Donahue, who declined to talk about a possible debt restructuring, citing continuing confidential talks with creditors.

The power authority, known as Prepa, is negotiating with creditors ahead of a June 4 deadline to extend talks or face a possible default. Prepa has been drawing on reserves to make debt payments and doesn't have enough in those accounts to make the July payment, its trustee said in an April bond disclosure.

The episode highlights the volatility of Puerto Rico's fiscal situation as the commonwealth and its indebted public agencies face a series of deadlines in coming weeks, each of which has the potential to change investor attitudes toward the island's debt.

The average price of Puerto Rico bonds sold last year rose above 84 cents on the dollar last week, their highest level since March, after lawmakers approved a sales-tax increase and moved toward a value-added tax, according to Municipal Market Data. That bolstered confidence that Puerto Rico can balance its budget and borrow enough to avoid running out of cash.

But Guy Davidson, director of municipal investments at AllianceBernstein, which manages about $33 billion in tax-exempt debt, said the island still must deliver spending cuts and a plan for economic growth, which remains elusive amid a decade of stagnation.

"Our view is that all these things they have to do—raise taxes, lower expenses, take on debt—all of these things are short-term solutions," he said. His firm is avoiding Puerto Rico bonds.

Investors are waiting on lawmakers to wrap up a budget by July and sell an additional $3 billion in bonds. The government says it may have to shut down by September if it can't raise fresh funds.

Puerto Rico lobbyists, meanwhile, are fighting on Capitol Hill to clear a potential path to bankruptcy. As a commonwealth, the island is currently excluded from chapter 9 of the U.S. bankruptcy code, the statute that covers municipalities like Detroit. Puerto Rico is working to change that.

Daniel Hanson, an analyst at Washington-based investment researcher Height Securities LLC, prepared a calendar last week packed with more than two dozen important dates and deadlines for Puerto Rico stretching through June 2016.

"They're now up against a real serious material liquidity constraint, and they have yet to deliver on reform, despite two years of grandstanding about it," he said.

Puerto Rico's bonds also have benefited from low interest rates in the $3.7 trillion market for debt sold by U.S. state and local governments, which have left investors pushing into riskier securities in pursuit of higher yields. Hedge funds bought more than half of the debt offered in the island's $3.5 billion bond sale in 2014, and investors including Jeffrey Gundlach's DoubleLine Capital have been purchasing the island's debt.

Ms. Donahue said Prepa's plan calls for about $2.3 billion in capital investment, which will involve a competitive bidding process for third parties to build and operate new generating plants. Creditors, which include funds managed by Franklin Templeton Investments and OppenheimerFunds Inc., have proposed a $2 billion plan to revamp Prepa, saying it would provide the agency with liquidity while replacing its antiquated, oil-burning generators with natural-gas facilities.

A consortium of NRG Energy Inc., ITC Holdings Corp. and York Capital Management also is proposing a $3.5 billion plan to modernize Prepa. That would include building new natural-gas facilities and transmission lines and selling power to Prepa, saving the authority money. The plan doesn't include job cuts at Prepa and doesn't spell out what Prepa would do with money saved, said Jeff Rosenbaum, managing director at York, which oversees about $26 billion.

Stephen Spencer, a managing director at investment bank Houlihan Lokey who is financial adviser to Prepa's bondholders, said that, while some elements of Prepa's proposal will require further negotiation, "Overall, we feel the plan provided a basis for this further collaboration, and we remain committed to finding a fair solution for all parties."

The authority is still talking with creditors about extending the June 4 deadline, Ms. Donahue said.

Whatever the immediate outcome at Prepa, which has extended numerous deadlines with creditors, there is still much work ahead. John Miller, co-head of fixed income at Nuveen Asset Management LLC, which manages about $100 billion in municipal bonds, ticked off a summer to-do list for Puerto Rico that included passing a budget, issuing the new bonds, paying short-term notes and implementing the tax changes.

"I think there's a lot left to be accomplished," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

June 1, 2015 7:22 p.m. ET

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

New California Measure Proposed on Public Worker Pension Reform.

(Reuters) – A new statewide ballot measure campaign aimed at reforming public worker pensions was filed in California on Thursday, led by former Democratic San Jose mayor and longtime pension reform advocate Chuck Reed.

The ballot initiative is the latest in a long fight to reduce public pension obligations in California, where debts are particularly burdensome and have contributed to municipal bankruptcies in some cities.

Voters would be required to approve pension benefits for new government employees and any increases in benefits to existing workers. The measure would also prohibit taxpayers from subsidizing more than 50 percent of government retirement benefit costs, unless approved by voters.

While California's economy has improved in the past few years, public worker pension debt grew to $198 billion in 2013 from $6.3 billion in 2003. Unfunded liabilities for retiree healthcare benefits is approximately $150 billion, according to the group.

"We're filing this because pensions costs are going up dramatically," Reed said. "We're giving voters the opportunity to weigh in on employee benefits that they have not had in the past."

As San Jose mayor, Reed helped pass a pension reform measure for his city, parts of which have been struck down after union lawsuits. He abandoned a similar statewide ballot initiative in 2014, after Kamala Harris, California's Democratic attorney general, altered the wording.

A coalition of politicians and business people led by Reed and former Republican San Diego City Council member Carl DeMaio spent several hundred thousand dollars on policy and polling work ahead of this ballot initiative. They are in discussions with various potential donors, including John Arnold, hedge fund billionaire-turned-philanthropist and the single biggest donor for Reed's last, failed ballot initiative.

This initiative – unlike his last one, which sought to give mayors and other local officials the power to alter pension benefits for current workers – asks workers hired after January 2019 to cover at least half of their retirement benefits costs.

"This protects taxpayers," Reed said.

Dave Low, chairman of Californians for Retirement Security, called the initiative "another destined-to-fail attempt to eliminate the retirement security" of state public employees.

Expected to appear on the November 2016 ballot, the initiative would apply to all California local governments, not just workers covered by the state pensions fund Calpers. Big cities, such as Los Angeles, San Francisco and San Jose, have their own pension systems and Reed's proposed law would also apply to them.

By REUTERS

JUNE 4, 2015, 2:58 P.M. E.D.T.

(Reporting by Robin Respaut, additional reporting by Tim Reid; Editing by Chizu Nomiyama and Grant McCool)

Georgia Denies Permit for Kinder Morgan Pipeline: Smith Gambrell

On May 19, 2015 The Georgia Department of Transportation ("GDOT") announced that it will not allow Kinder Morgan to exercise eminent domain to seize private property in order to build the

Palmetto Pipeline. Kinder Morgan plans to build a pipeline that would stretch between Belton, South Carolina and Jacksonville, Florida, transporting gasoline, diesel, and ethanol at a rate of up to 167,000 barrels per day. The GDOT's decision is a major roadblock for the proposed pipeline. However, Kinder Morgan plans to "pursue all available options to move forward with the project."

More details on this story are available in the WOTC article.

Article by David M. Moore and Andrew S. Bauer

May 21 2015

Smith Gambrell & Russell LLP

Big Demand Slices Yields for $674 mln of Chicago Bonds.

May 27 (Reuters) – Strong investor demand pushed yields lower for $674 million of Chicago bonds priced on Wednesday, but the city continued to pay a penalty for its shaky finances.

Carole Brown, Chicago's CFO, said the four bond issues attracted $6 billion in orders.

"This further shows that investors remain confident in the city's credit and a secure economic future for Chicago," she said in a statement.

Chicago initially offered bonds due in 2042 with a hefty 6 percent yield and 5.75 percent coupon. A repricing cut the yield by 16 basis points to 5.84 percent with a 5.50 percent coupon. The lower yield compressed the spread over Municipal Market Data's benchmark triple-A scale for the U.S. municipal bond market to 264 basis points from 280 basis points. The city's bonds had been trading about 300 basis points over the scale.

But the spread was still nearly 300 basis points over the scale for yields on bonds due in 2021-2013, according to MMD. While there was big demand for long bonds, underwriters had to take some bonds with shorter maturities into their inventories, a market source said.

On May 12, Moody's Investors Service downgraded Chicago's credit rating to junk, due to an Illinois Supreme Court ruling that narrowed the city's options for dealing with its $20 billion unfunded pension liability.

Tom Metzold, a portfolio manager at Eaton Vance Management, said he did not participate in the deals.

"We didn't think (the bonds) were priced appropriately given (the city's) risk profile," he said.

The city, the third-largest in the United States by population, is struggling with a $300 million structural budget deficit and a looming $550 million contribution increase to its public safety workers' retirement funds.

Yields in several maturities in the four issues repriced through lead manager Bank of America Merrill Lynch fell by 1 to 15 basis points.

The general obligation bond issues are part of Chicago's plan to convert about $805 million of variable-rate debt to fixed rate and end related interest-rate swaps and bank letters of credit.

The Moody's downgrade triggered $2.2 billion in accelerated debt and fee payments by Chicago. However, the city entered into forbearance agreements with banks that provided letters of credit backing the variable-rate debt or swaps used to hedge interest-rate risk on it, according to city bond offering documents. Those give Chicago until June 8 to complete converting the bonds to a fixed-rate mode.

By Karen Pierog

(Reporting by Karen Pierog; Editing by Jeffrey Benkoe, Dan Grebler, Christian Plumb and David Gregorio)

S&P: Florida Still Has Time, But Late Budget Adoption Could Signal Weaker Management and Pressure Outlook.

NEW YORK (Standard & Poor's) May 29, 2015–Standard & Poor's Ratings Services today said that it believes the State of Florida (AAA/Stable) still has time to reach budget agreement in its special session that begins on June 1, but it would be unprecedented and significant if the Florida legislature failed to pass a budget by fiscal year-end.

The senate and the house have called the special session to complete the state budget over the course of 20 days and by the end of June. Florida constitution requires the state to adopt a balanced budget for each fiscal year and Florida has never passed a late budget. Assuming the absence of a budget in early fiscal 2016, we expect 'AAA' rated Florida will continue to make its debt service payments on time and in full. However, should budget disagreement extend well into July without an appropriation, we note that the state would need to make Aug. 1, 2015, debt service payments from debt service reserve funds held by the trustee. From a credit standpoint, continued political brinkmanship that results in a late budget (past June 30) with a need to use debt service reserve funds to cover scheduled debt service payments would reflect a weakening of state budget management that we consider uncharacteristic of a 'AAA' rated state.

The Florida constitution requires that the state pass a balanced budget for each fiscal period and it does not have a provision that calls for a continuation budget. Gov. Scott has asked agencies to identify critical services that need state funding if Florida is unable to pass the budget on time, thereby causing a government shutdown. The governor's office has also identified a baseline budget at fiscal 2015 levels, in addition to critical spending needs, that could serve as a budget model, although we understand the legislature and governor would still need to approve such a plan. Florida has passed a budget after the end of regular session only three times since 1992 when it adopted the budget on the last day of that fiscal year. More important, although extremely close in 1992, the state has never failed to pass a budget before July 1.

The house's unprecedented early adjournment on April 28 with no budget, two days before the end of the regular session, reflected positions in the legislature that were far apart and entrenched. The primary cause of the budget impasse is a disagreement about health care funding. The state previously received $1.3 billion of federal revenue for the $2.2 billion low income pool (LIP) program based on a federal waiver that expires in June 2015. The house and governor disagree with a senate plan that would have offset the potential loss of funding from the LIP program by expanding

Medicaid. The federal Centers for Medicare and Medicaid Services (CMS) sent a letter to the state last week preliminarily estimating $1 billion in total federal and state funding needs for the LIP program for fiscal 2016, although it still did not guarantee the funding. Should the CMS decide not to renew funding by July 2015 and should Florida decide not to replace that funding, payments to health care providers could drop. The special session agenda includes the state budget, Medicaid expansion, tax cuts, the implementation of Amendment 1, and the associated use of documentary stamp taxes, along with several other issues.

In the event the Florida legislature is unable to adopt a fiscal 2016 budget before July 1, state officials report that there are sufficient resources appropriated from the fiscal 2015 budget to meet all July 1 debt service payments for revenue, appropriation, and full faith and credit-backed bonds, which are due to the paying agent at least one day before the debt service date. Fiscal 2015 budget appropriations also cover scheduled Sept. 1, 2015, debt service payments for the Department of Management Services' facilities pool revenue bonds. We understand, however, that without a fiscal 2016 appropriation, Florida might need to tap debt service reserves for Florida Correctional Finance Corp.'s certificates of participation debt service payments due Aug. 1, 2015. State officials report that amounts in associated debt service reserve funds held with the trustee are sufficient to cover such a contingency; nevertheless, we would view a need to use debt service reserves as uncharacteristic of a 'AAA' rated state. A budget standoff that continued past June 30, without appropriations in place for upcoming debt service payments, would be a sign of weak budget management that could pressure our outlook on Florida. We will continue to monitor the status of deliberations as the state works through its budget impasse during the special session.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Standard & Poor's Ratings Services, part of McGraw Hill Financial (NYSE: MHFI), is the world's leading provider of independent credit risk research and benchmarks. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Primary Credit Analyst:
Sussan S Corson, New York (1) 212-438-2014;
sussan.corson@standardandpoors.com

Secondary Contact:
John A Sugden, New York (1) 212-438-1678;
john.sugden@standardandpoors.com

Christie Pension Albatross Has Investors Dumping New Jersey Debt.

No matter whether Governor Chris Christie wins or loses a New Jersey Supreme Court case on his $1.6 billion pension-payment cut, the municipal-bond market sees his state's credit suffering.

As New Jersey grapples with a growing retirement burden and a record nine downgrades, investors are demanding the most extra yield since at least January 2013 to own its bonds instead of benchmark munis, according to data compiled by Bloomberg.

Bondholders are souring on the state's fortunes as the court is poised to rule as soon as this month on whether the second-term Republican and potential presidential candidate must make full pension contributions, after he cut payments for this fiscal year amid a revenue shortfall. While a decision in his favor would avert a sudden budget crunch, it would exacerbate a pension-funding deficit that's restraining spending on schools, tax relief and municipal aid.

"There are negative credit implications either way," said Joseph Pangallozzi, a managing director at New York-based BlackRock Inc., which oversees $114 billion of munis. "If the court rules against the administration, they have to come up with the money fast. If they rule with the administration, there is still no concrete long-term plan in place for addressing the unfunded liability."

Record Gap

Ten-year New Jersey debt yields 3.2 percent, or almost 0.9 percentage point above AAA munis. That gap has more than tripled in the past year to the widest since Bloomberg began compiling the data in January 2013. The state carries an A grade from Standard & Poor's, sandwiched between California's A+, and Illinois at A-. The three are the lowest-rated U.S. states.

Aside from Illinois, whose highest court rejected a solution this month for its $111 billion pension shortfall, New Jersey's spreads are the widest among the 20 states tracked by Bloomberg. They're almost triple those on California, which S&P put on "CreditWatch with positive implications" Thursday.

Eaton Vance Management is reducing New Jersey holdings and expects the state's spreads may keep increasing whichever way the ruling goes, said Tom Metzold, senior portfolio adviser in Boston at the firm, which oversees $28.6 billion in munis. Unlike Illinois, as a high-tax state New Jersey has less room to raise levies even if Christie agreed to that step, Metzold said.

'Hard Look'

"I would be taking a hard look at considering a downgrade because I don't see how you can keep it at its current level given their unwillingness to even consider a solution," Metzold said.

With the biggest parts of the budget already spent and no taxes that could generate revenue quickly, a full pension payment this year may be impossible, David Rosen, fiscal analyst at the nonpartisan Office of Legislative Services, said this week at a hearing in Trenton.

Brian Murray and Kevin Roberts, spokesmen for Christie, didn't return an e-mail and phone call requesting comment.

The three biggest rating companies have lowered New Jersey nine times under Christie, a record for a governor of the state, citing the pension-funding shortfall, now $83 billion.

Deferred Payments

Christie and the Democratic-led legislature approved a bill in 2011 that increased the state's annual payments in exchange for cost-cutting, such as higher employee contributions. Christie made the first two payments, deferred $887 million last year when revenue sagged, and withheld about $1.6 billion for the year ending June 30.

State lawyers, in response to a suit by public-worker unions seeking the full contributions, claim the 2011 law was unconstitutional.

The governor has called for reducing pension benefits to control costs. Democrats have said they won't agree to cuts until Christie makes full payments.

"As governor, I have put more money into the pension system than any governor in history," Christie said in a town hall meeting May 14, according to a transcript.

Through fiscal 2015, Christie will have contributed $2.89 billion to the pensions, more than any of his predecessors.

If the court orders payments, Christie and legislators have options, Treasurer Andrew Sidamon-Eristoff said without specifying details during a Trenton committee meeting this week.

Illinois, which also has shortchanged retirement obligations, is getting punished even more severely in the bond market. Yields on 10-year Illinois debt are about a percentage point above New Jersey's, the biggest gap since November.

"Both states seem to be in denial as to making required payments that they agreed to make," Metzold said.

Bloomberg

by Romy Varghese and Elise Young

May 21, 2015

Puerto Rico's 10 Percent Yields Prove Too Tempting for Goldman to Skip.

Puerto Rico's descent into junk has made its bonds more attractive to Goldman Sachs Asset Management and OppenheimerFunds Inc. even as their rivals flee.

Goldman Sachs increased its stake in Puerto Rico bonds to $1.3 billion as of May 5 from $351 million in February 2014, when the island was cut to speculative grade, according to data compiled by Bloomberg. OppenheimerFunds has snapped up sales-tax backed debt since the downgrade.

The two are bucking the trend among the 10 largest mutual-fund holders of Puerto Rico bonds by increasing their stakes as yields on some securities have climbed to 10 percent. That's the equivalent of almost 18 percent for top earners when factoring in the tax exemption. Those payouts are alluring with municipal-bond yields holding near a five-decade low.

"There's a point where there's going to be value — these securities aren't worthless," said Gabe Diederich, a research analyst at Wells Capital Management, which ranks seventh among mutual-fund owners of Puerto Rico bonds. It holds mostly insured debt. "We have been hearing more and more that traditional buyers have been looking at buying Puerto Rico again."

Too Speculative

The split among the mutual funds highlights how Puerto Rico debt has increasingly become too speculative for many municipal-bond buyers, who seek tax-free income, not the outsized returns chased by hedge funds.

OppenheimerFunds's increased stake keeps it the biggest mutual-fund owner of Puerto Rico bonds. The push from Goldman Sachs elevated the company's rank to third from eighth since February 2014. Franklin Resources Inc.'s holdings have declined by more than $1 billion since then, though it's still the second-biggest owner.

The jump in Goldman's investment began with the commonwealth's record junk deal in March 2014 and kept going as it more than tripled its ownership of the securities. The buying was led by its Strategic Income Fund, which invests in global bonds and uses derivatives to bet that asset prices will fall.

New York-based OppenheimerFunds has made Puerto Rico a core holding for years because it's tax-free nationwide. The company's position in sales-tax bonds, known as Cofinas, increased to $325 million by the end of 2014, up from $40.6 million earlier in the year, Bloomberg data show. The securities, which don't mature until 2057 and aren't insured, trade at about 65 cents on the dollar.

Insurance Split

Andrew Williams, a spokesman for Goldman Sachs in New York, declined to comment on the holdings, as did Ray Pellecchia, a spokesman for OppenheimerFunds. Stacey Johnston Coleman, a spokeswoman for San Mateo, California-based Franklin, also declined to comment.

Puerto Rico and its public agencies are struggling with $72 billion of debt and a sluggish economy. Bond prices have been trading at distressed levels for more than a year on speculation the island won't be able to pay all investors.

Last week, its House of Representatives passed a tax plan that may help the commonwealth balance the fiscal 2016 budget. That pushed Puerto Rico's newest general-obligation bonds to a two-month high. The Senate passed an amended version Monday, sending it back to the House.

OppenheimerFunds created a "Puerto Rico Roundup" part of its website and said its shareholders "may want to bookmark" it. The most-recent commentary on May 20 said elected officials usually "know better than to contemplate compromises related to their full and timely payments on general obligation debt."

Different Roadmaps

MacKay Shields and Capital Group Cos., the fourth- and eighth-biggest holders, respectively, have expanded their ownership by largely buying insured debt. They weren't in the top 10 when the island lost its investment-grade rank.

Nuveen Asset Management, which oversees more than $100 billion in munis, has been paring its position: It was the third-largest holder of Puerto Rico bonds in February 2014. It now ranks sixth.

"The lack of a roadmap for how you get to recovery, and what that recovery might be, is one of the hardest things to figure out right now," said John Miller, co-head of fixed income in Chicago at Nuveen. "We'd want to have a better sense of that before committing capital."

Eaton Vance Management, at ninth, has about 95 percent of holdings backed by insurers, said Craig Brandon, who helps oversee the company's $28.6 billion in munis.

'No Referee'

“There came a point where we were uncomfortable with each credit on an individual basis,” Brandon said. “Without Chapter 9, you’re playing the game with no referee — anything can happen out there.”

Unlike U.S. local governments, Puerto Rico’s indebted authorities, including its public-power company, can’t file for bankruptcy to have their debt restructured in court.

Allison Scott, a spokeswoman for MacKay, said most of the company’s $330.8 million in Puerto Rico bonds are insured. Neither Robert DiMella nor John Loffredo, the co-heads of muni investments, were available for an interview, she said.

Below is a table of the fund companies with the biggest Puerto Rico holdings.

Spokespeople or money managers for the funds declined to comment, with the exception of those cited above.
The figures are based on the most recent company filings to Bloomberg, except for MacKay, which provided more up-to-date data. The tallies exclude derivatives and debt that’s pre-refunded or escrowed to maturity.
Bond values were calculated as position multiplied by market price. Pricing figures are from either Municipal Securities Rulemaking Board trade data or Bloomberg Valuation data, and if neither are available, par or accreted value.
===
Rank Debt Holder Amt (Millions)
===
1 OPPENHEIMERFUNDS INC. $5,469
2 FRANKLIN RESOURCES INC. $2,275
3 GOLDMAN SACHS GROUP INC. $1,294
4 MACKAY SHIELDS $331
5 LORD ABBETT & CO. $318
6 NUVEEN ASSET MANAGEMENT $314
7 WELLS FARGO & CO. $287
8 CAPITAL GROUP COS. $281
9 EATON VANCE MANAGEMENT $251
10 INVESCO LTD. $248
===
SOURCE: Bloomberg

Bloomberg

by Brian Chappatta

May 26, 2015

Puerto Rico's Debt Crisis Is Big Business for Washington Lobbyists.

That ugly B word, bailout, has come to dominate debate in Washington about Puerto Rico’s debt crisis.

One side argues that passing a bill allowing Puerto Rican government agencies to restructure their debts will stave off an eventual bailout of the whole island. The other side says that's all wrong: The very act of approving the legislation will constitute a bailout.

The public battle for ownership of the word underscores how despised such assistance remains in America seven years after the financial crisis. It also shows how the U.S. territory's $72 billion debt saga has become a booming business for Washington lobbyists, who are developing websites, creating advertisements and lining up the support of conservative advocacy groups.

"Puerto Rico may soon reach a height of budget crisis that can be addressed only through a massive bailout package from the federal government," says a Web page for the Puerto Rico Fiscal Stability Coalition, an organization promoting passage of the bankruptcy bill. A group of 35 asset managers, including Fir Tree Partners Inc., Brigade Capital Management LLC and Monarch Alternative Capital LP also supports the bill.
A website set up by 60 Plus Association, a senior-citizen advocacy group, opposes the legislation.

"Make no mistake: Extending Chapter 9 bankruptcy protection to Puerto Rico is not a way to avoid a bailout," says NoBailout4PR.org. "It is a bailout."

Bond Risk

Opponents also include BlueMountain Capital Management LLC, OppenheimerFunds Inc. and six other investment managers, who are "not coordinating with any third-party advocacy groups at this time," according to Dan Zacchei, their spokesman. They are fighting the bill because they own bonds issued by the Puerto Rico Electric Power Authority, or Prepa, so bankruptcy would put their holdings at risk.

The 35 asset managers and other supporters own Puerto Rico's general-obligation and sales-tax bonds, so restructuring Prepa's debt would leave more money to pay off their holdings.

The U.S. territory's legislature passed a bill this week raising the sales tax to 11.5 percent, higher than in any state, to ease the financial strains. The junk-rated island's woes have been a topic of debate on Capitol Hill since February, when Pedro Pierluisi, the island's resident commissioner in the U.S. House of Representatives, introduced H.R. 870.

Amend Code

The legislation would amend the Federal Bankruptcy Code to treat Puerto Rico as a state, giving it the option to authorize its municipalities and public agencies to file for Chapter 9 protection. This would help Prepa restructure its $8.6 billion of debt.

Chapter 9 currently doesn't apply in Puerto Rico, a territory since the Spanish-American War.

The lobbying efforts focus on Republicans, who control the House. BlueMountain, Franklin Resources Inc. and several other investment managers have hired former high-ranking Republican staffers from the House Financial Services Committee and Senate Banking Committee who now work at Venable LLP, a law and lobby firm, to defeat the bill, according to disclosure records.

Others that oppose the legislation include Tea Party activists and the Alexandria, Virginia-based 60 Plus, which describes itself as a "seniors advocacy group with a free enterprise, less government, less taxes approach."

'Shortchange Millions'

“Chapter 9 is a bailout and a deliberate effort by Puerto Rico to evade its debt obligations,” 60 Plus Chairman Jim Martin said in a press release. “It would shortchange millions of seniors, pensioners and other unwitting Puerto Rican bondholders who placed their faith — and life savings — in Puerto Rican bonds, only to see the rules changed.”

On the other side, the 35 asset managers favoring the legislation share that support with the Puerto Rico Fiscal Stability Coalition, co-chaired by former Puerto Rico Governor Luis Fortuno. Russ Grote, a spokesman for the managers, declined to comment on whether they provided any financial support.

The coalition’s spokesman, Phil Anderson, is a former special assistant to Dan Quayle, U.S. vice president from 1989 to 1993, and held positions in the National Republican Party. He is now president and a founder of Navigators Global LLC, a Washington-based lobbying group that has set up English- and Spanish-language websites and produced video ads targeting the Puerto Rican public and Congressional members and staff.

Gathering Support

The coalition has gathered backing for Pierluisi’s bill from groups such as Citizens Against Government Waste and Grover Norquist’s Americans for Tax Reform.

Allowing Puerto Rico entities to file for bankruptcy would prevent what Anderson calls the “potential collapse” of the $3.6 trillion municipal-bond market, about 40 percent of which is held directly by U.S. households. An orderly restructuring would allow debtors and creditors to settle the dispute without involving taxpayers, he said.

“What solution is in the best interest of the U.S. taxpayer and what’s the most conservative solution to apply to the problem,” Anderson said in a telephone interview. He declined to say who is funding the fiscal-stability coalition’s publicity campaign or to quantify its budget.

Darrell Issa, a Republican from California, has been the most outspoken member of Congress in questioning the legislation.

“Do we have a constitutional and legitimate role in retroactively changing contracts in place so that a bankruptcy can occur?” Issa asked during a February hearing on Pierluisi’s bill before the House Judiciary Subcommittee on Regulatory Reform, Commercial and Antitrust Law.

Regular Meetings

Pierluisi is meeting regularly with members of the House Judiciary Committee to argue that the bill isn’t a bailout, Carmen Feliciano, his chief of staff, said in an interview.

The committee’s chairman, Republican Representative Bob Goodlatte of Virginia, recently met with Puerto Rico Governor Alejandro Garcia Padilla to discuss the economic consequences of the legislation. While Goodlatte hasn’t backed it, he feels the committee has responsibility to review its merits, according to an aide.

The full panel hasn’t taken up the bill, however, and it hasn’t been introduced in the Senate, where Puerto Rico doesn’t have a representative, so opponents may win by default. Given the difficulty Congress has passing any legislation, the likelihood of enacting H.R. 870 is low, according to Daniel Hanson, an analyst in Washington with Height Securities LLC.

Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics Inc., says

Puerto Rico's deteriorating situation increases the chance of Congress considering the bill at some point, which is why opponents and supporters are boosting the amount of money they're spending.

The island and its agencies have amassed more debt than all but two U.S. states, and the bonds have traded at distressed levels for more than a year. The commonwealth's newest general obligations, which mature in July 2035, yield about 9.85 percent, or about 6.7 percentage points above benchmark debt.

"There is so much money being invested in the Puerto Rico-related strategies," Fabian said. "The bill might move in the future."

Bloomberg

by Kasia Klimasinska and Martin Z Braun

May 27, 2015

[Illinois Budget Impasse Drives Borrowing Costs to 17-Month High.]

Illinois's Republican governor and Democratic-led legislature are at an impasse over how to fill a $6.2 billion budget hole, undermining the state's credit in the eyes of investors and driving up borrowing costs.

The extra yield buyers demand on Illinois bonds relative to benchmark debt has climbed to the highest since 2013, according to data compiled by Bloomberg. Asset managers at Conning and Wasmer, Schroeder & Co. say Illinois, already with the lowest credit rating among U.S. states, is at risk of being cut closer to junk.

Challenges have only mounted since voters last year chose Governor Bruce Rauner, a Mr. Fix-it business executive, to repair Illinois's finances. Lawmakers are poised to pass a spending plan that's short by billions of dollars for the second straight year. The state also lacks a solution for the nation's worst-funded pension system after the state Supreme Court this month overturned a 2013 overhaul.

"They haven't been really willing to make tough decisions and get something done politically that everyone can agree upon," said Justin Land, who helps oversee $4 billion of munis as director of tax-exempt management at Wasmer, Schroeder in Naples, Florida. "The market is telling you that things aren't going to be fixed, at least not in the near-term."

Bill Burden

After meeting with legislative leaders Friday in Springfield, Rauner told reporters his plans for tax and regulatory change have been on the table for months. There's ample time to reach an agreement by Sunday's deadline to pass bills by a simple majority, he said.

"We will know if they are sincere and we have true reform — we'll know by Sunday night," Rauner said outside the Executive Mansion. "Nobody's going to have to say, 'Well, we didn't have enough time to think about it.' That's baloney."

Thirty-two states are confronting budget gaps this year, next year or both, according to Standard &

Poor's. Some are reducing services, while others are proposing tax increases, even in Republican-led capitals. Yet the struggles of Illinois, with a backlog of $4.4 billion of unpaid bills, stand out, partly because the strains have left it ranked four steps above junk.

While Rauner won't agree to new taxes without spending cuts and steps such as letting localities exempt workers from union dues, Democrats demand more revenue, suggesting steeper levies on high earners. The deficit for the fiscal year starting July 1 emerged after an income-tax increase approved in 2011 expired at the start of January.

Investors are penalizing Illinois as the fiscal pressure builds. Yields on the state's 10-year obligations reached a 16-month high of 4.17 percent last week, data compiled by Bloomberg show. The spread was about 1.8 percentage points above benchmark debt, the widest since December 2013.

Debt from Illinois has lost about 1.3 percent this year, while the entire municipal market is about flat, Barclays Plc data show.

Downgrade Risk

Illinois is graded A3 by Moody's Investors Service and an equivalent A- by S&P. While both give it a negative outlook, S&P put Illinois on review for a rating cut after the court's May 8 ruling, and said it would decide within three months.

"I don't see how this credit does not get downgraded within the next two months," said Paul Mansour, head of municipal research in Hartford, Connecticut at Conning, which oversees $11 billion in munis for insurance companies.

Trading in Illinois bonds suggests the municipal market is moving in that direction. Federally tax-exempt general obligations maturing in March 2032 traded Thursday for an average yield of about 4.9 percent. In comparison, a Bank of America Merrill Lynch index of BBB general obligations due in about 17 years has an effective yield of 4.85 percent.

Voting Hurdle

Legislators' task is about to get more difficult. After Sunday, a three-fifths vote will be needed to approve a spending plan.

The Democrats "are only interested in maintaining the status quo of broken budgets," Catherine Kelly, a Rauner spokeswoman, said in an e-mail.

Democratic House Speaker Michael Madigan, who controls the legislative agenda, told reporters this week that the $36.3 billion budget he intends to send to Rauner, a former private-equity executive, is about $3 billion short. Democrats plan to work with Rauner to raise the money, Madigan said.

Steve Brown, a spokesman for Madigan, said by phone Thursday that Rauner's budget, proposed in February, had "significant" gaps, including more than $2 billion in unrealized pension savings.

While Illinois voters elected their first Republican governor since 1998 in November, the choice hasn't done much to alter the political balance of power. Democrats held onto super-majorities in the legislature, setting up the potential for bipartisan compromise — or gridlock.

"People were hopeful coming into the session because it was a fresh start," said David Yepsen, director of the Paul Simon Public Policy Institute at Southern Illinois University. "Now it's turned sour.”

Bloomberg

by Elizabeth Campbell and Tim Jones

May 28, 2015

Chicago Pays a Premium at Bond Sale.

Chicago sold about $674 million in bonds at yields approaching 6%, a sign that investors are demanding a premium to purchase the city’s debt following a recent downgrade by Moody’s Investors Service.

The nation’s third-largest city paid a top yield of 5.84% on Wednesday. That is as much as about 2 percentage points more in yield than a measure of A-rated municipal bonds, according to Municipal Market Data. Standard & Poor’s Ratings Services rates the city A-minus, an investment-grade rating, while Moody’s rates the city Ba1, a speculative grade.

The sale attracted $6 billion in orders, while proceeding with Mayor Rahm Emanuel’s plan to address the city’s debt portfolio and eliminate “a substantial amount of taxpayer risk,” according to a statement from Carole Brown, Chicago’s chief financial officer.

“This further shows that investors remain confident in the city’s credit and a secure economic future for Chicago,” she said.

Major ratings firms have taken unusually divergent stances on the nation’s third-largest city. Moody’s stands alone in rating Chicago’s debt as junk. Meanwhile, S&P and Fitch Ratings view the city several levels into investment grade.

Chicago didn’t hire Moody’s to rate the recent refinancing deal, but the yield gap shows the impact of the downgrade, said Daniel Solender, head of municipal bond management at Lord Abbett & Co., who helps manage about $17 billion.

The gap reflects investor uncertainty over the outcome of the city’s budget and pension funding situations, though robust demand lowered yields during the day, he said.

“Even though the deal does not have a Moody’s rating, the bonds are being priced at below investment-grade level anyway,” he said. “The upside is that Chicago does have market access and with interest rates at a low level, the interest rate is not too prohibitive for borrowing.”

The top yield paid by Chicago for bonds maturing in 2042 was lower than some government borrowers with distressed finances. Cash-strapped Puerto Rico last year sold $3.5 billion of junk-rated debt maturing in 2035 at an 8.72% yield.

Some Chicago general obligation bonds maturing in 2040 traded at an average price of about 92.2 cents on the dollar Tuesday, up from a low of about 88.5 cents after the downgrade, according to MMD. Yields fall as prices rise.

Moody’s downgraded Chicago debt to junk earlier this month, citing expected increases in unfunded pension burdens after a ruling by the Illinois Supreme Court that overturned a state law seeking similar pension cuts. Chicago's four pensions collectively have more than $20 billion in unfunded liabilities, the city says.

Moody's, meanwhile, pegs Chicago's pension costs at $32.1 billion. Mr. Emanuel called the Moody's downgrade "irresponsible."

Chicago is the lowest-rated of the top 100 U.S. cities Moody's analyzes except for Detroit, according to the firm.

Moody's junk rating also could have triggered up to $2.2 billion in accelerated payments and fees on some variable-rate debt, the ratings firm said. Chicago has negotiated with banks to avoid those payments and fees, allowing the city to complete its already-planned refinancing of those bonds on Wednesday, according to offering documents.

THE WALL STREET JOURNAL

By AARON KURILOFF and TIMOTHY W. MARTIN

May 27, 2015 6:32 p.m. ET

Write to Aaron Kuriloff at aaron.kuriloff@wsj.com and Timothy W. Martin at timothy.martin@wsj.com

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Arkansas Plans to Sell Muni Bonds to Build Lockheed Martin Plant.

(Reuters) – Lockheed Martin received a deal this week to expand a plant in Arkansas using $87 million of state general obligation bonds, an unusual method of funding a private project with taxpayer debt.

The deal, which could be signed by the governor before week's end, is contingent on Lockheed winning a contract from the U.S. Department of Defense to manufacture joint light tactical vehicles.

States regularly utilize various tools to lure companies within their borders, such as tax abatements or low-risk conduit bonds. But Arkansas' plan to sell general obligation bonds to fund construction of Lockheed's new facility is more uncommon. In the case of default, the state would be responsible for paying bondholders.

Americans for Prosperity, a political group supported by billionaire brothers David and Charles Koch, called the deal a "multi-million dollar, debt-financed giveaway to a single corporation."

"Arkansas taxpayers should not be fronting the money for one of the largest and most successful companies in the world," the group posted on its website.

"This is out of the ordinary," said Mike Taylor, senior municipal bond analyst at Columbia Threadneedle Investments. Although legally authorized by the Arkansas legislature, "It's unusual for a state to provide funds for what would be considered a private activity like this."

Lockheed Martin, one of three firms competing to build ground vehicles to replace the iconic Humvee, would locate the plant adjacent to an existing facility in Calhoun County, population 5,200, in southcentral Arkansas.

Lockheed would not reimburse Arkansas for the debt, but it agreed to spend at least $125 million on capital improvements and to provide almost 600 new jobs.

Republican Governor Asa Hutchinson described the deal as “a golden opportunity” and “exactly what we need to be doing, even in tight budget times, because growing our economy is going to allow us to address all of the needs.”

“We would all like to be purists in which there is not any government involvement in high-stakes super-projects, but the fact is we’ve got a competitive environment with other states,” Hutchinson said this week.

John Lenio, senior vice president at CBRE, a large commercial real estate services firm, said a deal this size comes to a region like southcentral Arkansas once every five years on average, which is why the state is pursuing it aggressively.

Lockheed Martin would be required to repay a portion of the money if it failed to meet its commitment to hire workers.

“The state is being fiscally responsible,” said Lenio. “They are not just giving to a company without contingencies.”

But after one corporation enjoys a public financing, said Greg LeRoy, executive director of Good Jobs First, a policy resource center and subsidy watchdog, what stops other companies from expecting the same treatment?

“If I were an Arkansas taxpayer, I would be nervous about putting my public eggs in a private basket,” LeRoy said. “That’s a risky principle.”

By REUTERS

MAY 28, 2015, 5:27 P.M. E.D.T.

(Reporting by Robin Respaut; Editing by Cynthia Osterman)

S&P: California 'A+' GO Rating Placed on CreditWatch Positive on Accelerating Revenue and Debt Paydown.

SAN FRANCISCO (Standard & Poor’s) May 21, 2015–Standard & Poor’s Ratings Services today placed its ‘A+’ general obligation (GO) and ‘A’ appropriation-backed debt ratings on California on CreditWatch with positive implications. The CreditWatch placement follows the release on May 14 of Gov. Edmund G. Brown’s revised budget proposal for fiscal 2016.

“Fueled by upward revenue estimates, the budget plan shows the state’s fiscal rebound not just continuing, but accelerating,” said Standard & Poor’s credit analyst Gabriel Petek. “Under the governor’s plan, the state would pay down most of a large funding obligation owed to its schools, continue to retire what remains of its budgetary debts, and make significant deposits to its reserve funds,” added Mr. Petek.

Progress on these fronts, pending agreement from the legislature, would be well ahead of what the Department of Finance (DOF) projected as recently as January. We expect to resolve the

CreditWatch within three months.

“Our primary focus,” according to Mr. Petek, “will be on the enacted budget and whether it reflects a fiscal structure similar to that of the governor’s revised budget proposal. In our view, the governor’s revised proposal avoids a disproportionate reliance on windfall-like revenues from capital gains to fund ongoing commitments, thus allowing the DOF to forecast budgetary balance beyond fiscal 2016. Insofar as the forecast the DOF produces after the budget is enacted shows the same, we could raise the state’s rating, mostly likely by one notch. We expect any potential rating action would follow the DOF’s release of the state’s projected monthly cash flows, which typically become available within a month of final budget enactment.”

The “May Revise” also shows the state paying over $800 million more in budgetary debt than in January. The state’s success in reaching these fiscal milestones while still projecting underlying operating balance, including into future years, has led us to reevaluate the near-term trajectory of California’s credit quality. We have concluded that, to the extent the enacted budget anticipates fiscal results similar to those shown in the revised proposal, the state’s credit quality could be consistent with a higher rating.

Arizona Upgraded to 'AA' from 'AA-' on Good Fund Balances and Expected Structural Balance; Outlook Stable.

NEW YORK (Standard & Poor’s) May 20, 2015–Standard & Poor’s Ratings Services has raised its issuer credit rating (ICR) on the State of Arizona to ‘AA’ from ‘AA-‘, as well as raised its rating on the state’s general fund appropriation-secured certificates of participation (COPs) outstanding to ‘AA-‘ from ‘A+’. The outlook for both the ICR and COP ratings is stable.

“The upgrade reflects what we consider Arizona’s good fund balance position, on a budgetary basis, and expected near structural budget balance in fiscal 2016, based on recent above-budgeted growth in tax revenues,” said Standard & Poor’s credit analyst David Hitchcock. “This follows a period of imbalance triggered by the expiration of a temporary sales tax hike at the end of fiscal 2013,” Mr. Hitchcock added.

The state had budgeted in fiscal 2015 for an almost complete drawdown of its large general fund balance in fiscal 2015 and a modest draw on in its budget stabilization fund (BSF); the state now reports revenues significantly above budget because of surging income tax collections that could potentially negate the need to draw on the BSF in 2015. Based on the additional revenues, we foresee no drawdown in the BSF in either fiscal years 2015 or 2016, and only a very small decrease, or possibly an increase, in the general fund balance in fiscal 2016.

The rating on the COPs reflects what we view as:

- The long-term creditworthiness of Arizona; and
- Pledged lease revenues subject to annual appropriation by the state.

Our view of Arizona’s long-term creditworthiness, as reflected in our ‘AA’ ICR, is based on what we consider the state’s:

- Diverse economy, with continued strong population growth, and adequate, but below-average and slowly declining income levels, as well as a turnaround in a housing market that had suffered a severe downturn;

- Strong financial position, and anticipated structural balance in fiscal 2015, despite the expiration of a temporary sales tax surcharge at fiscal year-end 2013; and
- Low other postemployment benefits (OPEB) and moderate debt burden.

Partially offsetting factors, in our opinion, are Arizona's:

- Historically cyclical finances, including large general fund balance drawdowns in fiscal years 2007 through 2009;
  fiscal years 2010 and 2011 would also have reported drawdowns if not for one-time borrowing for ongoing operational purposes, while fiscal 2014 had a large drawdown following expiration of a temporary sales tax; and
- Restrictions on operational flexibility as a result of voter initiatives, notably a two-thirds requirement for a legislative vote to increase state revenues (Proposition 108) and a high bar on executive or legislative modification of programs or revenues approved by voters (Proposition 105).

In addition, recent litigation has required the state to resume inflation funding for local schools that had not occurred during the recession, and could hamper Arizona's ability to make cuts in future downturns. The state has not fully funded a lower court's mandated increase in school inflation funding — the case is currently on appeal.

For the COPs and lease revenue debt, Arizona's obligation to make lease payments is absolute and unconditional, subject to annual appropriations by the state legislature and annual allocations of such appropriations for lease payments.

The stable outlook reflects recent strong revenue growth and spending restraint that we expect to keep Arizona near structural balance in fiscal 2016 and for the foreseeable future, as well as limited future debt plans.

Although housing may again experience slumps, we do not expect the state to repeat such a severe housing crisis as it did in the last recession for the foreseeable future.

Should large structural budget imbalances develop again, we could adjust our rating or outlook downward.

Rating improvement would likely require improved income levels and lower pension liabilities. We believe Arizona's credit quality is also somewhat constrained by an active voter initiative process and recent court decisions on school funding that are unlikely to change impediments to expenditure flexibility over our two-year outlook horizon.

Illinois Scrambles for Solutions to a Mounting Pension Crisis.

CHICAGO — Illinois is facing one of the worst fiscal crises of any state in recent decades, largely because it has mismanaged its pension system.

The shortfalls could potentially mean sharply higher taxes and cuts in spending. And even though the state's highest court just this month threw out a landmark plan to cut worker and retiree benefits, some lawmakers say they may have to find another way to make those reductions as well.

Illinois's problems resonate well beyond its borders. Pennsylvania, New Jersey and Kentucky are among the states confronting similar problems, and to them, Illinois is a model of what can go wrong

— with political intransigence, mounting costs and a complicated legal terrain.

So elected officials, union leaders, investors, fiscal hawks and even bankruptcy lawyers across the country are watching Illinois closely to see how it addresses the crisis. In Washington, some Republicans have even raised pointed concerns that President Obama's home state might someday seek federal help.

The state faces a range of problems. Illinois has one of the worst-funded pension systems in the nation. Chicago also has a pension crisis, leading Moody's Investors Service to downgrade its credit rating to junk status on May 12, potentially threatening the city's ability to borrow.

And the state faces an expected budget deficit of $6 billion, which it needs to address quickly. With just days before a legislative deadline, the new Republican governor, who ran on cutting costs and holding down taxes, is at odds with Democrats who hold a veto-proof supermajority in the legislature.

"Really, it's not a clear road map at this point," the governor, Bruce Rauner, said of solving the pension crisis.

"We have to make big decisions," Mr. Rauner told reporters. "The state is in dire financial straits. Chicago is in big, big challenges. And everybody's a little bit on edge."

Courts in other states, including Colorado and Minnesota, have sometimes approved measured pension cuts for public workers, especially for the benefits that current workers have not yet earned. And in Detroit and Stockton, Calif., federal judges have said pensions could be cut in a bankruptcy.

But Illinois has one of the most explicit constitutional pension guarantees of any state. The State Supreme Court found that the landmark plan was unconstitutional, and interpreted the clause in a way that protects even benefits that current public workers have not yet earned, as well as cost-o--living adjustments for retirees.

That has made a dire situation worse and raised the possibility that Illinois, its biggest city and Chicago's schools must all simultaneously find a way to keep running pension systems that are already unsustainable.

"What has happened is the loudest wake-up call possible," said Laurence J. Msall, president of the Civic Federation, a watchdog group. "This is a financial tsunami for the City of Chicago and the State of Illinois that will not be fixed without politically painful changes.

Many states and cities around the country have been doing what Illinois did — promising pensions without calculating the costs correctly or really preparing to pay them — but to a lesser degree.

Other states have pulled back from the brink of fiscal disaster through extraordinary measures, including New York in 1975, to deal with the threat of bankruptcy in New York City, and California in 2012, when Gov. Jerry Brown talked his famously tax-averse voters into approving a tax raise.

But the Illinois public pension system is at or near the bottom of national rankings. Standard & Poor's Rating Services said in 2014 that the Illinois system was last among state systems, with just 40 cents available for every dollar of promised benefits.

The pension system sank over decades, as officials promised pensions without setting aside enough money to pay them. In its unanimous opinion on May 8, the State Supreme Court cited commissions dating to 1917 that had warned of a crisis as more retired workers started drawing benefits.

Warnings were ignored, though, and shortfalls accumulated. It was easy for officials to let that happen, because actuarial calculations can understate the true cost of a pension plan, and Illinois had some of the biggest actuarial distortions of any state. In 2013, Illinois became the second state in history, after New Jersey, to be accused of fraud by the Securities and Exchange Commission, which found that it had misled the public about the condition of its pension system.

In recent years, with the system estimated to be more than $100 billion short and Illinois's yearly pension payments consuming more and more of the state's budget, Democratic leaders broke with unions that had traditionally been their allies.

In late 2013, Gov. Pat Quinn signed what was considered a landmark bill that claimed to bring the state's pensions up to full funding, in part by curtailing cost-of-living increases for workers, capping salary levels used to calculate pension benefits and raising the retirement age for some.

The state argued that the changes did not violate the provision in the State Constitution banning the reduction of pensions, because a financial emergency had taken hold. But the Illinois Supreme Court said that any emergency was of the state's own making and that the cuts could not stand.

That has left officials scrambling at a moment when the state has a divided government for the first time in a decade and the political differences between Mr. Rauner and the Democratic-controlled legislature make compromise difficult. A splintered set of political leaders is now debating options including tax increases, large spending cuts, new pension reductions, changes to the State Constitution and even legislation to permit Illinois municipalities to file for bankruptcy.

Some in Illinois assert that changes to pension benefits remain possible under certain conditions, and various deals are being discussed in the State Capitol in Springfield, though cuts are all but certain to draw more legal challenges.

Mr. Rauner has proposed switching workers into a pension plan that would let them earn less generous benefits starting in July, but he has acknowledged that even he is uncertain whether his idea would hold up in court.

Some leaders want to amend the State Constitution so benefit changes for future years of service can be made — an idea that other states are closely watching. But that path is long and uncertain: An amendment would need support from three-fifths of the House and Senate, then approval from voters.

“I do think there should be attempts to amend constitutions for current employees, not just in Illinois but probably other states, including California,” said Joshua D. Rauh, a finance professor at Stanford University who has written about public pensions.

Others say the State Supreme Court ruling takes benefit changes off the table and means that the government must pay what has been promised even if it means sharp increases in taxes and spending cuts.

“This will present major challenges for any policy maker, and they really have no other alternative,” said Richard C. Dreyfuss, an actuary and senior fellow at the Commonwealth Foundation, a public policy research organization in Harrisburg, Pa.

For Chicago, the state pension ruling could not have come at a worse time. The city is facing about $20 billion in unfunded pension liabilities, an additional $550 million yearly pension payment it must start making next year, and a school system that has a $1 billion deficit of its own, underfunded pensions and a new contract for teachers under negotiation.

Only a few American cities have shakier pension systems than Chicago's, according to a 2013 Pew Charitable Trusts report on 61 major city pension systems.

The State Supreme Court ruling raised new doubts about efforts Chicago has made to shore up two of its four main pension funds. Last year, after discussions with some unions, Mayor Rahm Emanuel pressed state lawmakers to approve an overhaul that would require some workers in the two funds to pay more for retirement benefits, and would slow cost-of-living increases for retirees.

That overhaul is also being challenged in court, but city officials have argued that, over the long term, it would protect the existence of the pensions rather than unconstitutionally diminish them. Talks are underway with those tied to the city's remaining pension funds, and Mr. Emanuel has sought permission for a Chicago-based casino to help fund those systems.

Facing debts including unfunded pensions, Detroit in 2013 became the largest city ever to seek federal bankruptcy protection. But bankruptcy is not an option available to any state, and legislators would need to pass a law to allow an Illinois city to take such a step. Some here, including Mr. Rauner, have said they support such a notion.

Mr. Emanuel, who was sworn in on May 18 for a second term, disputed Moody's downgrades as outliers and said Chicago, despite its pension problems, still had a vibrant economy. Asked what the developments all bode for a property tax increase in Chicago, Mr. Emanuel told WTTW television's "Chicago Tonight" this month that revenue "has to be part of any solution." Yet Mr. Emanuel said a tax increase would be a last option, not the first one, adding, "You cannot put all the burden on the taxpayers alone."

Illinois is racing to settle on a budget for the fiscal year that starts July 1, and pension costs are estimated to consume as much as a quarter of general fund spending — an unusually high share and a sign of real trouble.

In a State Capitol that had grown accustomed to being run by Democrats, the election of Mr. Rauner has complicated hopes for a budget solution by Sunday, after which the number of votes required for passage will increase.

He opposed an extension of a temporary income tax increase enacted four years earlier and has demanded billions in spending cuts. Democrats accuse him of trying to use the budget impasse to leverage concessions on other elements of his agenda to shrink union power and help businesses. Republicans assert that the state's Democratic leaders are not genuinely negotiating.

By Friday, there was talk of the Democrats drawing up their own budget, and Mr. Rauner's allies were offering new legislation featuring his priorities, including property tax freezes and term limits for legislators.

"So far, it looks like partisan bickering is the dominant theme," said Bob Reed, director of programming for the Better Government Association, a watchdog group based in Chicago. "Governor Rauner and House Speaker Michael Madigan talk about compromise and negotiation, but there's no evidence of that happening, and time is running out."

By MONICA DAVEY and MARY WILLIAMS WALSH

MAY 25, 2015

Monica Davey reported from Chicago, and Mary Williams Walsh from Harrisburg, Pa.

Emanuel Forging Ahead with $805 Million Refinancing Despite Higher Cost Tied to Junk Bond Status.

Mayor Rahm Emanuel is forging ahead with a massive refinancing to convert $805 million in variable-rate debt to fixed-interest rates, even though the price will be higher now that Chicago's bond rating has been reduced to junk status.

The refinancing is at the center of Emanuel's plan to move away from risky financial practices that former Mayor Richard M. Daley used to "mask" the true cost of city government.

It will now be completed in two phases: $382.6 million in variable-rate debt will be converted to fixed-interest rates on May 29 and $422.8 million will be refinanced on June 8.

Chicago taxpayers will have to wait until the bonds are priced Wednesday to find out how much the $30 billion pension crisis that prompted Moody's Investors Service to drop the city's bond rating to junk status will increase city borrowing costs.

"We will pay a modestly higher price, but we won't know how high that price is until we price the bonds next Wednesday," said departing Chief Financial Officer Lois Scott.

"What we'll see is that investors have their own view about what our value is. Investors are taking the Moody's rating into consideration. But they also look at many other factors, including the opinion of three other rating agencies. Most investors also have their own analyses. They rate that more heavily" than the Moody's rating.

In an affidavit filed in the state pension case, Scott warned that any further downgrade in the city's bond rating would cost the city hundreds of millions of dollars in penalties and interest costs, "crowding out" funding available for other vital city programs.

On Thursday, Scott said she foresees no circumstance under which the price of the Moody's double-downgrade would be so high that the massive refinancing would be called off. She noted that "interest rates in general are at some of the lowest levels in history."

"Our spread for credit has widened. . . . [But] we made a decision to move out of variable debt. We are just executing on that plan. We believe the market will be reasonable. There's nothing on the horizon" that would suggest pulling back, she said.

Earlier this week, municipal finance expert Matt Fabian said Chicago is "paying Detroit's bills" when it comes to the hundreds of millions of dollars in penalties and higher interest rates it will pay, now that its bond rating is no longer investment-grade.

"Detroit fractured trust between borrowers and lenders in the municipal bond market. That has created an extra cost for Chicago. Now, trying to assure those same investors that it is not going the same way" will cost more, Fabian said.

"If the city had changed course five years ago, four years ago or three years, they wouldn't be in this position now. Interest rates for the city's debt wouldn't have risen by one- or two-hundred basis points in the last few days."

The Illinois Supreme Court's decision to overturn state pension reforms has placed Emanuel's plan to save two of four city employee pension funds in similar jeopardy.

That triggered a downward spiral of events that saw Moody's downgrade Chicago's bond rating to junk status and do the same at the Chicago Public Schools and Chicago Park District. Standard & Poor's and Fitch announced lesser drops.

Unless the General Assembly lifts the hammer, Emanuel and the new City Council must decide by December how to meet a state-mandated, $550 million payment to shore up police and fire pension funds.

The Chicago Public Schools is on the brink of bankruptcy with a $9.5 billion pension crisis, a $1.1 billion budget deficit and a federal investigation that has forced Schools CEO Barbara Byrd-Bennett to take a paid leave of absence.

In the so-called "preliminary re-offering circular," the city talks about, what Emanuel has described as "good discussions" with police and fire unions about giving the city more time to ramp up to 90 percent funding levels.

"The city is currently in discussions with unions . . . concerning amendments that, if enacted by the General Assembly, could materially impact the contributions required to be made by the city . . . [and] reduce the city's required payment in the initial years to allow for a more gradual phase-in of the requirement," the circular states.

"The General Assembly may also consider other proposed legislation that could effect the city's payment obligations and/or funding sources for those obligations, including a city-owned casino. The city makes no presentation whether or when any such legislation would be enacted."

Emanuel said earlier this week he wants to wait to see how the frenzied final days of the spring session play out before asking the new City Council to begin the search for new revenue to solve the pension crisis.

The circular makes the same claim.

"The city expects the City Council will consider options for addressing its pension funding requirement, including improvements in operating efficiencies and incremental revenues, after the Illinois General Assembly concludes its spring session," the filing states.

If a property tax increase was the "sole source" of the payment to shore up police and fire pensions, the $549 million increase would have to be filed "no later than the last Tuesday in December," the circular states.

The increase — in an overall property tax levy of $4.2 billion including other units of local government — would be collected in two installments in the spring and fall of 2016.

THE CHICAGO SUN-TIMES

Posted: 05/21/2015, 04:30pm | Fran Spielman

Chicago Faces Test in Muni Market Next Week.

Chicago will get its first taste of selling debt in the U.S. municipal bond market after its credit rating was dropped to "junk" by Moody's Investors Service when it converts $805.7 million of variable-rate bonds to fixed-rate next week.

Competitive and negotiated sales, including notes, will reach $6.34 billion in a holiday-shortened week, according to data compiled by Thomson Reuters. U.S. markets are shut on Monday for the Memorial Day holiday.

Moody's downgraded Chicago's general obligation rating to Ba1 on May 12, triggering $2.2 billion in accelerated debt and fee payments by Chicago to banks.

The bond conversion is aimed at terminating bank letters of credit and swaps used to hedge interest-rate risk on the variable-rate debt. New forbearance agreements with the banks give Chicago until June 8 to complete the conversion.

The bonds, which will be priced on Wednesday through lead underwriter Bank of America Merrill Lynch, are likely to come cheap with fat yields.

The city's bonds have been trading at yields about 300 basis points over the U.S. municipal bond market's benchmark triple-A scale, according to Municipal Market Data, a unit of Thomson Reuters. Still, city officials are optimistic.

"Recent trading in Chicago bonds show interest rates normalizing as investors learn more about the ability of Mayor (Rahm) Emanuel and his finance team to adapt and manage through the effects of the Moody's downgrade," a Chicago official said on Thursday.

The Chicago Board of Education, which has also had its credit ratings downgraded, was socked with high interest rates in recent bond sales. Yields in a nearly $300 million GO bond issue priced in April topped out at 5.63 percent for bonds due in 2039. That yield was 283 basis points over the benchmark scale.

Offering documents for the upcoming Chicago debt conversion indicate the bonds will be rated by Standard & Poor's, Fitch Ratings and Kroll Bond Rating Agency, all of which still have investment grade ratings for the city's GO debt, but not Moody's.

REUTERS

May 22, 2015

(Reporting by Karen Pierog in Chicago and Edward Krudy in New York; Editing by Matthew Lewis)

'Ugliest Damn Building' in New Jersey May Get $675 Million Bonds.

New Jersey's American Dream entertainment and shopping center, the incomplete mega mall that Governor Chris Christie once called "the ugliest damn building" in the state, is poised for a jumpstart from the municipal-bond market.

A decade after ground was broken for the project in New Jersey's Meadowlands Sports Complex, proceeds from about $675 million of bonds could speed up construction, according to East Rutherford Mayor James Cassella. The debt would be issued on behalf of Triple Five Group, which took over the project after previous developers ran out of cash and the financial crisis stymied funding.

As a first step, the borough council of East Rutherford, the site of the vacant structure, on Tuesday evening introduced an ordinance to authorize the sale of bonds for the Edmonton, Alberta-based Triple Five. The debt may be issued as taxable securities, instead of tax-free as initially planned, which would help prevent lawsuits against the borough should anything go awry, Cassella said.

Christie in 2011 had counted on American Dream, called Meadowlands Xanadu when it started, to bolster the local economy. The project by Triple Five, the developer of the Mall of America in Minnesota, was slated to open in 2013.

"We're one step closer to finalizing this, and hopefully we can get it done," Cassella said.

Meadowland Slope

Plans for the mega mall about 10 miles west of Manhattan include the country's first indoor ski slope and a theme park. A spokesman told Bloomberg News in September the mall may open in 2016.

Debbie Patire, a spokeswoman for the project, didn't return a call Tuesday, after earlier declining to comment on the financing. Brian Murray and Kevin Roberts, spokesmen for Christie, didn't return e-mails requesting comment. Michael DuVally, a spokesman for Goldman Sachs Group Inc., which is underwriting the debt, declined to comment.

The state Local Finance Board in 2013 signed off on the issuance of as much as $550 million in municipal bonds. The borough must seek approval for the revised agreement before it can vote on the bond deal, Cassella said.

Payments by the developer would back the bonds issued by the borough. The sale could take place by November, he said.

Hang Up

"The big hang-up" between the borough and the company has been the municipality's desire to be protected from any potential defaults or bondholder lawsuits over issues unique to the tax-exempt market, Cassella said.

"That goes away with the taxable bonds," he said.

About 150 union members attended the council meeting to show their support for the project, said Rick Sabato, president of the Bergen County Building and Construction Trades Council. He said the developer may hire more than 5,000 construction workers.

"It's been a long time waiting, and we finally got it," he said. "It's tremendous. It's going to to change the face of the Meadowlands."

Bloomberg

by Romy Varghese

May 19, 2015

Puerto Rico Tax Plan Spurs Bet Island Will End Bond Logjam.

The $3.6 trillion municipal-bond market is signaling growing confidence that Puerto Rico lawmakers can enact a tax increase that would open the door to a debt sale and ease the island's cash crunch.

Prices on the commonwealth's most frequently traded bonds have risen to almost seven-week highs as its House of Representatives prepares to meet Wednesday and potentially vote on a plan to raise the sales levy. The governor and legislative leaders agreed on the tax proposal last week, part of efforts to boost revenue and revive an economy that's saddled with $72 billion of debt.

The accord, after the House rejected a previous tax overhaul last month, is feeding optimism that the junk-rated U.S. territory will be able to sell long-term debt for the first time since March 2014 and gain breathing room to repair its finances.

"It makes sense that the investors want to see a tax increase that will bring some balance and stability," said Bob Donahue, a managing director at Concord, Massachusetts-based research firm Municipal Market Analytics.

While still trading at distressed levels, the island's bonds have drawn renewed interest this week. Commonwealth general obligations maturing in July 2035 traded Wednesday at an average price of about 82 cents on the dollar, the highest since early April, according to data compiled by Bloomberg. That's up from 79.13 cents May 13, the day before the announcement of the tax proposal.

Way Out

Wednesday's average yield of about 10.1 percent is about seven percentage points above benchmark debt. The securities are the most-traded commonwealth general obligations in the past three months. Puerto Rico debt has gained for five straight days, the longest stretch since mid-March, S&P Dow Jones Indices show.

Puerto Rico bonds have still lost 2.3 percent in the past three months, underperforming the 0.7 percent decline for the broader municipal market, according to S&P Dow Jones Indices.

Governor Alejandro Garcia Padilla on Monday night sent legislators a plan that would raise the sales tax to 11.5 percent and convert that levy into a value-added tax by April 1. Signs of a broader consensus than in April are bolstering the debt.

"It increases the possibility that the commonwealth will be able to negotiate itself out of this difficult immediate financial position," said Gary Pollack, who manages $6 billion of munis as head of fixed-income trading at Deutsche Bank AG's Private Wealth Management unit in New York.

The tax change requires at least 26 votes to pass the House. It had support from 27 members as of last week, Rafael "Tatito" Hernandez, who chairs the House Treasury Committee, said from San Juan. Members are reviewing the governor's proposal, he said.

Opposition Plan

Opposition lawmakers plan to vote against the bill, according to Representative Jose "Quiquito" Melendez of the minority New Progressive Party.

The tax increase would help Puerto Rico balance its budget for the fiscal year starting July 1 and attract investors to a planned $2.9 billion sale of bonds backed by oil-tax revenue, according to the Government Development Bank, which lends to the commonwealth and its localities. Proceeds would repay money the highways authority owes the bank and help avert a partial government shutdown.

The GDB needs the cash. Its net liquidity dropped to $1.02 billion as of April 30, from $2 billion in October.

The island, with an unemployment rate that's double the national average, faces challenges even if lawmakers approve the tax increase and pass a spending plan by June 30, said Joseph Rosenblum, director of muni credit in New York at AllianceBernstein Holding LP. The company manages about $32 billion of state and city bonds.

"It's a step forward, but in the grand scheme of things it's just a small piece of much larger problems they need to address," Rosenblum said.

Bloomberg

by Michelle Kaske

May 19, 2015

Santa Paula's Water Recycling Facility Purchase Caps Successful Public-Private Partnership.

The City of Santa Paula's decision to purchase its much-touted and award-winning water recycling facility highlights how this pioneering public-private partnership project has proven to be a triumphant model of risk assessment and transfer critical to the success of any P3.

The City Council voted in April to issue bonds to buy back the facility — designed, constructed and operated by PERC Water and financed by Alinda Capital Partners — seven years into a relationship that many local and state leaders view as a potential flexible model for public infrastructure procurements in California. The P3 agreement included flexibility for the City to buyback the facility at any time after commissioning, under agreed upon pricing and terms.

When completed in 2010, the facility was the largest privately funded municipal wastewater plant of its kind in California. PERC Water will continue to run the day-to-day operation of the facility under a services contract with the City.

To date, the partnership worked well for the city, PERC Water and the investors, all of which benefited from the project. More than 2,000 acre-feet (more than 650 million gallons) of recycled water per year was delivered — under budget and ahead of schedule — to a city that could not have built the project on its own using traditional delivery methods in 2008 when the public finance markets were not operating.

The P3 project broke new ground in terms of its vision, and the results speak for themselves. As a result of changing from the design-bid-build option to the P3 approach, Santa Paula was able to avoid $18 million in construction costs, $1.8 million per year of current operating costs, increase design capacity by 25 percent, reduce facility footprint by 70 percent, reduce energy consumption by 30 percent and avoid $8 million of accrued fines assessed by the state.

Thus, in the final analysis, the City successfully transferred the risk associated with the design, construction, financing, commissioning and performance of the facility to the private partner and now, with five years of operational history, has decided to buy back the facility and take the forward risk associated with the timing and funding of routine capital expenditures, estimated at $30 million over the next 25 years.

JD Supra Business Advisor

by Seth Merewitz | Best Best & Krieger LLP

5/20/2015

S&P Signals It May Upgrade California's Ratings.

Standard & Poor's Ratings Services indicated it may upgrade California's debt ratings, saying the state's fiscal rebound appears to be accelerating.

The rating firm said Thursday it could upgrade the ratings by one notch based on the state Department of Finance's cash-flow projections, which are typically released within a month of the state's adopting a spending plan for the year.

S&P currently rates California's general obligation debt A-plus and appropriation-backed debt A.

The move follows the release of Gov. Jerry Brown's spending proposal last week.

Under Mr. Brown's proposed budget, California would pay most of the money owed to schools and retire most debts while stashing away significant money for future expenses, S&P credit analyst Gabriel Petek said in a news release.

Mr. Petek credited the governor's revised proposal for avoiding "disproportionate reliance on windfall-like revenues from capital gains," which would help the state Finance Department project budget balances beyond the current fiscal year.

THE WALL STREET JOURNAL

By MARIA ARMENTAL

May 21, 2015

Write to Maria Armental at maria.armental@wsj.com

San Bernardino Council Backs Bankruptcy Plan That Hammers Bondholders.

LOS ANGELES — San Bernardino's council approved a bankruptcy exit plan on Monday night that seeks to virtually eliminate the southern California city's pension bond debt while paying Calpers, the state pension system, in full.

The city council voted 6-1 for the plan after a debate which included input from residents.

The bankruptcy blueprint, called a plan of adjustment, must now be presented to the federal judge overseeing the city's bankruptcy by May 30, under a court-imposed deadline.

Under the plan, city officials want to slash their $50 million pension debt to just a penny on the dollar. The city previously agreed to pay Calpers, its biggest creditor, in full now and at all times in the future, an agreement incorporated into the plan.

The Luxembourg-based bank EEPK, holder of the $50 million pension obligation bonds, Ambac Assurance Corp, which insures a portion of the bonds, and Wells Fargo, the bond trustee, have declined to comment since the plan was released last Thursday.

San Bernardino also intends to virtually eliminate retiree health care costs under the plan, and to outsource its fire, emergency response and trash services.

San Bernardino, a city of 205,000 65 miles east of Los Angeles, declared bankruptcy in August 2012 with a $45 million deficit.

Along with Detroit, Michigan, and Stockton, California, it has been one of a handful of municipal bankruptcies that have been closely watched by the $3.6 trillion U.S. municipal bond market.

(Reporting by Tim Reid; Editing by Richard Borsuk)

By REUTERS
MAY 19, 2015

As Illinois Runs Out of Options in Budget Crisis, Tax Rises Seen in the Cards.

NEW YORK/CHICAGO — With no easy way to financially engineer or negotiate its way out of a budget and pensions crisis, Illinois is likely to dish out some unpleasant medicine to its residents in the next few years. And investors say that is most likely to come in the form of higher taxes.

Given the Democrats' control of the state legislature and their opposition to many proposals for spending cuts, municipal bond fund managers see little alternative for Republican Governor Bruce Rauner other than eventually agreeing to hike taxes, such as raising the state's income tax or broadening its sales tax base.

The state has a chronic structural budget deficit, as well as the lowest credit ratings and worst-funded pension system among the 50 states. Chicago, the third biggest U.S. city and the place where about one in five of the state's residents live, is suffering from similar pension issues and may have to take additional pain, the investors said.

"What is quite simple a solution is to raise taxes," said Tom Metzold, senior portfolio manager at Eaton Vance Management, which has been paring down its Illinois exposure. "You're going to have a game of chicken over who blinks first – the cutting expenditure side or raising taxes side."

Rauner got into office in a November election after campaigning for eliminating a temporary 2011 personal income tax hike to 5 percent from 3 percent enacted under former Democratic Governor Pat Quinn. That was largely rolled back in January to 3.75 percent.

Rauner has ruled out hiking taxes unless he can get pension cuts and other reforms, including creating areas where employees in unionized workplaces can opt out of joining unions or paying union dues. The Democrat-controlled House rejected this so-called right-to-work proposal last week.

Balancing Illinois' out-of-whack budget without raising taxes for the next fiscal year is already proving difficult. While Rauner got spending cuts passed by lawmakers to help plug a $1.6 billion hole in the current year, his $32 billion proposed budget for the fiscal year beginning July 1 met resistance from Democrats.

The contentious point is $6.6 billion in proposed spending cuts, and a key component of the budget – slashing $1.2 billion in spending from its human services department (which includes housing and child care services) – has already been voted down by the House.

SKIPPING AND SKIMPING

By far the biggest problem facing Illinois and Chicago are their grossly underfunded pension funds, the result of years of skipping and skimping on contributions and sweetening benefits for a mainly unionized workforce.

That already dire situation got a lot worse on May 8 when the Illinois Supreme Court threw out the state's landmark 2013 pension reform law, saying it violated a clause in the state constitution. The reform attempted to rein in costs by reducing and suspending cost-of-living increases for pensioners, raising retirement ages and limiting salaries on which pensions are based.

"The court ruling will increase the likelihood of new revenue eventually becoming part of the budget solution," said Nuveen analysts in a research note. "This could mean an expanded sales tax base or income tax increase."

Illinois' unfunded pension liabilities total $105 billion and the funded ratio is only 42.9 percent.

The day of reckoning is approaching as Rauner and legislators have to balance the budget for the next fiscal year. If they fail to agree on tax increases or spending cuts to make required payments to its pensions of $7.6 billion for 2016, the state risks further downgrades in its credit rating.

Rauner's budget for next fiscal year relies in part on moving current state workers into less-generous pensions – now harder after the Supreme Court's ruling. State contributions are ratcheting higher every year and are projected to grow to more than $10 billion a year in 12 years.

"New revenue cannot be discussed until we address the underlying structural issues that contributed to Illinois' fiscal crisis," said a spokeswoman for Rauner when asked about any possible tax increases.

A spokesman for powerful House Speaker Michael Madigan, a Democrat, said the budget plan should be a balance between spending cuts and revenue. Madigan scheduled a House vote this week on a proposal for a 3 percent additional tax on income over $1 million.

Illinois Senate President John Cullerton, also a Democrat, is hoping for a bipartisan budget solution that addresses both income and expenses, said his spokeswoman.

APPEAL SEEN UNLIKELY

Legal experts largely dismiss the idea of an appeal of the ruling, noting that the U.S. Supreme Court might decline to hear a case that is so tied to Illinois state law. A spokesperson for Illinois' attorney general did not respond to a request for comment.

Rauner wants to amend the constitution to ensure his pension proposal sticks – but it is a formidable challenge to get the three-fifths majority vote required and even if successful would take years to take effect.

“Until citizens begin paying for the services they receive at the right price, the problems of the past 30-plus years will continue,” said Marti Kopacz, a restructuring consultant who advised the judge in Detroit’s historic bankruptcy.

“It doesn’t take much of a tax increase and/or a combination of some spending cuts to solve their problems, it just takes the political will,” said Guy Davidson, director of Municipal Fixed Income at AllianceBernstein, which owns some Illinois state general obligation bonds.

While Illinois ranks 31st among the states in terms of its state business tax climate for 2015, according to the Tax Foundation research group, its flat personal income tax rate is well below many other states, particularly for higher-income earners.

The state’s sales tax is 6.25 percent, though there are exemptions for some goods. Consumers also face additional sales taxes from local authorities – taking the total rate in Chicago, for example, to 9.25 percent.

The recent high court ruling could breathe new life into pension proposals that have previously been floated.

In one, Illinois would shift some costs from the Teachers Retirement System to local school districts. But this would likely pass an increased tax burden on in a different way and meet resistance from some state lawmakers.

SCOOP AND TOSS

As Illinois’ woes pile up, bankers are likely to pitch creative solutions such as pushing out debt maturities or privatizing assets. Those options each face major political or legal obstacles and cannot alone fill the unfunded liability, investors say.

Extending debt maturities can buy time. Debt service costs account for 5.6 percent of the state’s budget, according to Nuveen. However, the Illinois constitution prohibits “scoop and toss,” a practice used to free up revenue by pushing principal and interest payments into future years.

Privatizations could be a possibility, say some bankers, noting that selling Illinois’ toll roads and interstate highways is one option. This would, though, risk a political backlash. Privatizations got a bad name after the company that leased Chicago’s parking meters immediately tripled rates.

The state could also issue pension obligation bonds to boost funding levels – though critics say they just add to the burden of future taxpayers. Illinois already has $13.8 billion of outstanding pension obligation bonds, according to S&P.

Despite all the problems, Illinois state bonds with a 5 percent coupon trade at or above par, reflecting a sense that Illinois will avoid a default or a haircut for investors.

“The legal framework as it exists right now is that the bonds get paid in full, and there’s no talk yet of changing that,” said Emanuel Grillo, bankruptcy attorney and muni restructuring expert from Baker Botts.

There is no provision for U.S. states to file for bankruptcy under federal law – which means there is less pressure for everyone to get around the bargaining table.

In a corporate or municipal bankruptcy, stakeholders may fight hard to protect their investments, but often wind up in a deal that spreads the pain. In state finance, bondholders and pensioners can resist haircuts until the state “has exhausted its tax base,” Grillo said.

By REUTERS
MAY 20, 2015

(Reporting by Megan Davies and Nick Brown in New York and Karen Pierog in Chicago; Editing by Martin Howell)

Moody's Sees Mixed Bag in Upcoming A.C. Bond Sales.

An analysis issued by Moody’s Investors Service on Monday said Atlantic City could benefit from state support when it tries to sell about $55 million in bonds over the coming weeks, but added the municipality still faces fiscal uncertainty and significant challenges.

The city is receiving support from the state’s Municipal Qualified Bond Act program, which diverts future aid to municipal bond payments. The program aims to provide increased confidence the bonds will be paid back, security better borrowing rates in the process.

The Moody’s analysts said the MQBA program “should improve the city’s market access,” and that the sale “will remove a major short-term obstacle facing the city: a $40 million emergency bridge loan from the state.”

That loan was taken out in December to cover casino tax appeal payments. The city also aims to sell an additional $12 million in bonds borrowed in February.

However, Moody’s said it remains unclear how the city’s bonds will be rated by the market.
In addition, “Atlantic City continues to grapple with a $101 million structural deficit and narrow liquidity, which its planned MQBA bond issues do nothing to address,” Moody’s wrote.

Major state aid packages, such as the payment-in-lieu-of-taxes, or PILOT, bill affecting casino tax payments, also remain unresolved, Moody’s said.

“Without a significant liquidity infusion in 2015 and significant increase in recurring revenues,” Moody’s wrote, “debt service payments still remain highly susceptible to default in 2015 and the city’s future operations continue to face pressure from a large structural deficit.”

Finance Director Michael Stinson declined to comment on the Moody’s report Tuesday, saying instead that the city is moving ahead with its bond sales and is working to secure the best borrowing rates it can.

Tuesday, May 19, 2015 2:47 pm

Press of Atlantic City

By JOHN V. SANTORE, Staff Writer

U.S. Muni Bond Trading Volume Falls 13 pct in Q1.

Trading volume in U.S. municipal bonds dropped 13 percent to $618.5 billion in the first quarter of 2015 from $709.8 billion during the same period in 2014, the Municipal Securities Rulemaking Board (MSRB) reported on Tuesday.

“Historically, first quarter municipal trading volume has declined an average of 12.4 percent annually since 2008,” the MSRB said in a statement.

Fixed-rate bonds made up 68 percent of the par amount of bonds traded in the quarter, while the number of interest rate resets on variable-rate demand obligations reached a new low of 133,896, according to the MSRB, which regulates municipal securities firms.

REUTERS

May 19, 2015

(Reporting by Karen Pierog; Editing by Jeffrey Benkoe)

U.S. Muni Bond Sales Seen Increasing to Over $10 Billion Next Week.

U.S. municipal bond sales are expected to reach $10.3 billion next week, led by a $750 million issue of bonds by a Florida state insurance company preparing for hurricane season.

The Citizens Property Insurance Corporation of Florida is issuing $750 million Coastal Account Senior Secured Bonds, Series 2015A-1.

The corporation was created by the Florida Legislature in 2002 as a not-for-profit, tax-exempt, government entity. Its mission is to provide insurance protection to Florida policyholders entitled to but unable to find property insurance coverage in the private market.

The new bond issue is meant to increase liquidity in preparation for Florida’s approaching hurricane season.

“This financing program provides a necessary cash ‘bridge’ to certain claims paying resources, especially reimbursements from the Florida Hurricane Catastrophe Fund,” Jennifer Montero, the corporation’s chief financial officer, said in a statement.

Overall bond issuance is expected to reach $10.3 billion, with the tender of tax-exempt bonds reaching $9 billion next week, above the weekly year-to-date average of $7.8 billion, said Dorian Jamison, a municipal research analyst at Wells Fargo Advisors.

Jamison added that since Jan. 30, yields for 30-year Triple-A rated municipal bonds have risen 75 basis points, much of that due to high supply. Through April, supply has been at its highest for 10 years, due mainly to a rash of refunding, he said.

The second biggest issue on schedule for next week is a $515 million sale of public utility refunding revenue bonds by the city of Springfield, Missouri.

REUTERS

LOS ANGELES | BY TIM REID

May 15, 2015

(Reporting by Tim Reid. Editing by Andre Grenon)

Municipal Bond Sales Rise As Redemptions, Calls Hit $34 Billion.

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

States and localities plan to issue $12.2 billion of bonds over the next 30 days, according to data compiled by Bloomberg. A week ago, the calendar showed $12.1 billion planned for the coming month. Supply figures exclude derivatives and variable-rate debt. Some municipalities set their deals less than a month before borrowing.

Citizens Property Insurance Corp. of Florida plans to sell $750 million of bonds, Springfield Missouri Public Utility has scheduled $515 million, Port Authority of New York and New Jersey will offer $500 million and the Miami and Dade County Florida Water and Sewer authority will bring $482 million to market.

Municipalities have announced $17.4 billion of redemptions and an additional $17.0 billion of debt matures in the next 30 days, compared with the $29.3 billion total that was scheduled a week ago.

Issuers from New York have the most debt coming due with $1.88 billion, followed by California at $1.87 billion and Florida with $1.38 billion. Citizens Property Insurance has the biggest amount of securities maturing, with $765 million.

Shrinking Market

The $3.6 trillion municipal market shrank by 4 percent in 2014. This year, maturities are poised to drop 38 percent to $176 billion from the 2014 levels.

Investors removed $36 million from mutual funds that target municipal securities in the week ended May 6, compared with an increase of $1 billion in the previous period, according to Investment Company Institute data compiled by Bloomberg.

Exchange-traded funds that buy municipal debt increased by $9.2 million last week, boosting the value of the ETFs 0.05 percent to $16.8 billion.

State and local debt maturing in 10 years now yields 107.04 percent of Treasuries, compared with 102.555 percent in the previous session and the 200-day moving average of 97.756 percent, Bloomberg data show.

Bonds of South Carolina and Michigan had the best performance over the past year compared with the average yield of AAA rated 10-year securities, the data shows. Yields on South Carolina’s securities narrowed 2 basis points to 2.37 percent while Michigan’s declined less than one basis point to 2.60 percent. Puerto Rico and New Jersey handed investors the worst results. The yield gap on Puerto Rico bonds widened 95 to 10.42 percent and New Jersey’s rose 25 basis points to 3.08

percent.

MAY 18, 2015 • BLOOMBERG NEWS

[Chicago’s Downgrade to Junk Makes Timing for Bond Deal Uncertain.]

Less than a week after Chicago’s credit rating was cut to junk by Moody’s Investors Service, the timing on the biggest piece of a $383 million bond deal has been cast into doubt.

A $201 million offering managed by Ramirez & Co. and initially planned for Tuesday has been shifted to day-to-day status, according to data compiled by Bloomberg. The sale is part of an effort to refinance floating-rate debt that exposed the city to penalties after Moody’s cut Chicago to junk on May 12. Standard & Poor’s and Fitch Ratings also lowered the city last week, while giving it an investment grade.

The potential shift in the sale’s schedule is a setback for Mayor Rahm Emanuel, who began his second term Monday, as he moves to end some swaps and convert variable-rate debt to fixed-rate to bolster the city’s finances. The downgrades threaten to raise the city’s borrowing costs, as investors are demanding higher yields on its securities.

“If the market fails to do these deals, then of course market access becomes a front-and-center type of risk,” said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services LLC, which analyzes municipal finance. Selling bonds would show “that the markets are still giving the city time to work out its problems.”

Kelley Quinn, a city spokeswoman, didn’t immediately respond to e-mail and phone messages seeking comment on the deal’s timing. Phillip Culpepper at Ramirez in Chicago didn’t respond to a voicemail seeking comment.

Tuesday Timing

A segment of about $182 million is still scheduled to price Tuesday, data compiled by Bloomberg show.
Federally tax-exempt Chicago bonds maturing in January 2033 traded May 15 at yields as high as 6.16 percent, the most since their issuance three years ago, Bloomberg data show. The spread of 3.28 percentage points over benchmark municipal bonds was the widest yet. They were the most-traded Chicago bonds on May 14-15, combined.

The Moody’s cut to Ba1, one step below investment grade, means Chicago may have to pay banks as much as $2.2 billion. The reduction allows banks to demand that the city repay debt early and exposes Chicago to fees to end swaps contracts.

Bloomberg

by Brian Chappatta and Elizabeth Campbell

May 18, 2015

Wichita Exploring Water Infrastructure P3.

The Wichita City Council this week approved the first step in a process that could lead to a public-private partnership to help pay for an estimated $1.6 billion in water and sewer infrastructure repairs and upgrades. The city will seek bids from companies interested in loaning money and expertise to the city. In exchange, the selected company would receive annual payments from the city, according to The Wichita Eagle.

"The whole goal in looking at these public-private partnerships is to see if we can pick up efficiencies in the way that we operate our system and looking at some unique tools that aren't available to us today that may change our bond indebtedness in the future," said Mayor Jeff Longwell.

The city would retain ownership of the water and related assets — such as plants, pumps and pipes — as well as the ability to set rates and make policy decisions, said public works director Alan King. "We would enter into a financial arrangement where we would commit to pay back that private capital over time and it would give us some flexibility we don't currently have when we issue revenue bonds as a utility," King said.

Currently, the city pays for infrastructure repairs and improvements with cash or revenue bonds, said Ben Nelson, strategic services manager for public works. The money ultimately comes from rate payers. An aging system, paired with deferred maintenance over the years, led to Wichita's $1.6 billion water and sewer infrastructure needs, King said. City staff has been working on the P3 proposal for more than a year.

The first phase of the proposal will invite companies to evaluate Wichita's infrastructure and create a plan to repair it. Staff then would seek City Council approval in July, King said. "To evaluate these proposals, we're going to be looking to make sure we maximize our service levels at the lowest rates. That's always been our guiding principle," he said.

If approved by the council, the second phase likely would include a 10-year implementation agreement to put the plan into place. The selected company would bring in experts as consultants to work with the city's field staff, assess the current conditions of the infrastructure, evaluate the risks, determine the remaining life of each asset and make recommendations on what to repair or replace first, King said.

It won't be clear how much this will cost until the city receives bids, King said. If it's not advantageous to the city after the initial bids, the city won't be obligated to continue the 10-year implementation phase.

"We still needed to do a full assessment of the system regardless, and it kind of gives us an opportunity to look at our expertise and techniques and compare it to what they're willing to offer from the private sector," Longwell said. "I can't see any downside to at least taking it to that next level."

NCPPP

By Editor

May 14, 2015

[Detroit County’s Armageddon Warning Heeded as Jail Bonds Tumble.]

As Detroit emerges from a record bankruptcy, its home county faces a fiscal crisis that’s jolting bondholders and leaving officials struggling to avert a state takeover.

Three months after Wayne County Executive Warren Evans warned of possible “financial Armageddon” in the face of a looming budget deficit, he’s proposing to reduce wages while ending health-care benefits for future retirees and trimming their pensions.

Bondholders are signaling skepticism that the junk-rated county of 1.8 million residents can solve its fiscal woes, including a stalled jail project that eats up $14 million a year through bond expenses. Yields on the debt set new highs last week as investors speculated the county will skip payments to conserve cash.

“There’s a lot of challenges with this security that are ahead of it,” said Adam Buchanan, senior vice president of sales and trading at Ziegler, a Chicago broker-dealer. “Despite the large yield, we haven’t found a way to find value in it. There are too many unknowns.”

Junk Grades

Moody’s Investors Service and Standard & Poor’s dropped the municipality to junk after Evans’s fiscal warning in February.

Fitch Ratings, which had already given the county a speculative grade, said the jail debt may be “particularly vulnerable,” as officials sort out its finances. If there is a bankruptcy, bonds backing an unfinished project would be the most likely to go unpaid, said Buchanan at Ziegler.

The county sold $200 million of securities in 2010 through a local agency to build a 2,000-bed jail in downtown Detroit. Officials halted construction in 2013 amid cost overruns.

The jail bonds, the most frequently traded Wayne County debt in the past three months, are serving as a proxy for investor bets on the municipality’s finances.

Debt backing the jail and maturing in December 2040 traded at an average yield of about 10.7 percent May 6, the highest yet, according to data compiled by Bloomberg. In the latest trading Monday, the yield fell to 10.34 percent, or about 7.5 percentage points above benchmark debt. The federally taxable obligations yielded 7.44 percent Feb. 4, the day before Evans’s warning.

Recovery Plan

Evans said in a recovery plan released last month that if his recommendations are implemented, the county can plan a new jail. Whether finishing the partially built facility is the answer remains an “open question,” according to his report.

He has proposed changes to cut $53.4 million from spending. The county has to negotiate wage and benefit reductions with unions. The largest, the American Federation of State, County and Municipal Employees Council 25, is pushing back, saying its members have already taken pay cuts.

The county, home to the headquarters of Ford Motor Co. and General Motors Co., says debt payments are safe. There is “no chance” of vendors or bonds not being paid, Gary Woronchak, chairman of the County Commission, said in an interview.

State intervention is "increasingly likely," Fitch said in March, when it dropped the county to B, five steps below investment grade. If that does occur, the likely outcome is a consent agreement, in which county officials and the state agree on measures to resolve the crisis, according to Woronchak. Three Michigan communities and two school districts operate under that arrangement.

While the governor could appoint an emergency manager, that step won't be needed because the financial challenges are manageable and bankruptcy "is not in the realm of what's going to happen," Woronchak said.

Detroit Echo

Wayne County faces many of the same stresses that plagued Detroit, which emerged from bankruptcy in December after 17 months.

Plummeting property taxes are putting its deficit on track to swell to $200 million by 2019, from $159.5 million in 2013, according to Fitch. The county's pension assets are $910 million less than promised payouts, and retiree health care is underfunded by $1.3 billion.

"When we look at Wayne County's tax base, its budget, its balance sheet, it looks eerily similar to the city of Detroit's problems," said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, which manages about $30 billion in munis. The company hasn't owned Wayne debt for about a year.

Bloomberg

by Elizabeth Campbell and Chris Christoff

May 11, 2015

Rauner's Illinois Pension Fix Depends on Three Sizable Ifs.

Illinois Governor Bruce Rauner says he knows how to pull the state out from under a mountain of pension debt. Simply create a new retirement plan and change the constitution. That'll do it, he says.

If the legislature goes along. If voters approve a constitutional amendment. And if the Illinois Supreme Court, which last week overturned a 2013 pension repair, agrees the plan is sound.

The state's highest court ruled Friday that any restructuring can't cut promised benefits that have created a $111 billion shortfall. Rauner's Plan B would preserve those that have been currently earned, create a new 401k-type plan and ask voters in 2016 to remove language from Illinois's charter that protects retirement payments.

"It seems less likely that the governor's plan will pass – – or that any plan where benefits are curtailed would pass — the state court's test," said Matt Fabian, a partner at Concord, Massachusetts-based Municipal Market Analytics.

Rauner, 59, said his plan will pass legal muster as long as voters approve the constitutional change. "We can't afford to have years and years in court," he told reporters Friday.

Yet that's exactly what many lawmakers and legal experts predict, given the plans outlined by Rauner, a former private equity executive who is the first Republican elected Illinois governor since

1998.

‘Reckless’ Approach

His proposal is scheduled for a hearing Wednesday in a Illinois House of Representatives committee. The panel’s chairman, Democratic Representative Elaine Nekritz, said she doubts the measure would avoid a legal challenge.

“It would be my reading of the Supreme Court decision that his solution would be precluded,” Nekritz said.

House Speaker Michael Madigan, a Chicago Democrat who controls much of the legislative agenda, called Rauner’s plan to use $2.2 billion of anticipated savings from his pension-reform pitch “reckless” after the governor proposed his fiscal 2016 budget in February.

Asked to respond to such criticism, Rauner spokeswoman Catherine Kelly referred to his Friday comments.
Investors already have been punishing Illinois. The state’s 10-year bonds yield about 3.7 percent, the highest since November and the most among the 20 states tracked by Bloomberg.

About $4.6 million of taxable Illinois debt maturing in June 2033 changed hands today at an average yield of 5.6 percent, the highest since January 2014, according to data compiled by Bloomberg.

The pressure is unlikely to recede anytime soon; the road to a constitutional change is strewn with obstacles. Adding an amendment to an Illinois ballot would require a three-fifths margin by both houses of the Democrat-led legislature.

To get adopted, it would then need to win approval by three-fifths of voters casting ballots on the amendment, or a majority of all those voting in the election, according to the state constitution.

If voters did approve it in November 2016, a court challenge could further delay relief for the system.
The court’s ruling suggested that lawmakers bypassed a simpler fix: raising taxes. Rauner has rejected that option.

In its Friday decision, the court questioned why lawmakers allowed a temporary personal-income tax increase in 2011 to expire at the start of 2015. The move, in defiance of then-Governor Pat Quinn’s desire to keep the levies, opened a budget hole in the current fiscal year that lawmakers are still trying to close.

“No possible claim can be made that no less drastic measures were available,” the court ruling said.

In the wake of the decision, a new battle is evolving over alternative approaches to stabilizing the state pensions and those of Chicago, where a $20 billion shortfall threatens the city’s solvency.

Among the short list of suggestions is allowing municipalities to declare bankruptcy; shifting more retirement costs from the state to local government; and raising taxes.
The road ahead for Rauner and lawmakers is unclear.

“I don’t think anybody really has a firm grasp on what kind of outcome we’re going to have here,” said Adam Buchanan, senior vice president of sales and trading at Ziegler, a broker-dealer in Chicago. “They can’t file bankruptcy, they can’t impair pensions, so what can they do?”

by Tim Jones, Elizabeth Campbell, and Brian Chappatta

May 12, 2015

Five Reasons Chicago Is in Worse Shape Than Detroit.

Forget all the nicknames attached to Chicago for generations — Windy City, City of Big Shoulders, the City that Works. This gleaming metropolis of 2.7 million people is now, along with Detroit, junk city.

When Moody's Investors Service downgraded Chicago's debt on Tuesday to junk status, it deepened the city's financial crisis and elevated comparisons to the industrial ruin 280 miles to the east.

Chicago partisans, starting with Mayor Rahm Emanuel, argue vehemently that their city isn't Detroit. They cite population growth, a diverse economy bolstered by an abundance of Fortune 500 companies, vibrant neighborhoods and a booming tourist trade.

Yet here are five reasons, now more than ever, that suggest Chicago is akin to Detroit — or, by some measures, even worse. Or, as Illinois Republican Governor Bruce Rauner put it last month: "Chicago is in deep, deep yogurt."

BIG, SCARY NUMBERS: Chicago's unfunded liability from four pension funds is $20 billion and growing, hitting every city resident with an obligation of about $7,400. Detroit's, whose population of about 689,000 is roughly a quarter of Chicago's, had a retirement funding gap of $3.5 billion, meaning each resident was liable for $5,100. A January 2014 report from Morningstar Municipal Credit Research showed that among the 25 largest cities and Puerto Rico, Chicago had the highest per-capita pension liability.

HOSTILE COURT: When Detroit filed for Chapter 9 in July 2013, a federal bankruptcy judge exerted his considerable powers and decreed that everyone — taxpayers, employees, bondholders and creditors alike — would get a haircut to settle the crisis. When the Illinois Supreme Court ruled on May 8, it said the state couldn't cut pension benefits as part of a solution to restructure the state retirement system.

That decision sent a clear signal to Chicago, which was trying to follow the state's benefit-cutting lead. Where the Detroit judge acted, the Illinois justices told elected officials to clean up the mess of their own making.

POLITICAL PARALYSIS: Just as Detroit slid into bankruptcy after decades of economic and actuarial warnings, Chicago politicians have watched the train wreck rumble toward them for more than a decade. During that time, they skipped pension payments and paid scant attention to the financial damage being done. In 10 years starting in 2002, the city increased its bonded debt by 84 percent, according to the Civic Federation, which tracks city finances. That added more than $1,300 to the tab of every Chicago resident.

In Michigan, Governor Rick Snyder acted when the crisis in Detroit couldn't be avoided. He invoked a state law giving an emergency manager what amounts to fiscal martial-law power. In Chicago's case, there's no political pressure to invoke a similar law. And a proposal supported by Rauner that would allow municipalities to seek bankruptcy protection without state approval is languishing in the Illinois legislature.

NO BAILOUT: Detroit's bankruptcy filing allowed it to restructure its debt, officially snuffing out $7 billion of it by cutting pensions and payments to creditors. In Illinois, the nation's lowest-rated state with unfunded pension obligations of $111 billion, Rauner had a blunt message last week in an unprecedented address to Chicago's City Council: The city will get no state bailout.

DENIAL: After years of denial, Detroit officials finally, if grudgingly, agreed to major surgery. At least for now, Chicago's Emanuel is sticking to his view that the Illinois Supreme Court's rejection of a state pension reform law doesn't apply to the city. "That reform is not affected by today's ruling, as we believe our plan fully complies with the State constitution because it fundamentally preserves and protects worker pensions," he said in a statement on Friday.

Four days later, Moody's begged to differ. "In our opinion," it wrote, "the Illinois Supreme Court's May 8 ruling raises the risk that the statute governing Chicago's Municipal and Laborer pension plans will eventually be overturned."

Bloomberg

by Tim Jones

May 13, 2015

San Bernardino to Replace Firefighters, Cut Bonds Under Proposal.

Wildfire-prone San Bernardino will replace its firefighters unless their union agrees to cut costs to help the Southern California city exit bankruptcy.

The proposal, made public Thursday as part of a plan to emerge from court protection, is among the most aggressive threats aimed at public employees by a city trying balance its budget.

"We would hope that the closer we get to that option, that they would be willing to come to the table," said Gary Saenz, the elected attorney for the city of 213,000 about 60 miles (97 kilometers) east of Los Angeles.

Since filing bankruptcy in 2012, the city has imposed cuts worth $26 million a year on its labor unions. To make further cuts that would be permanent, it must win approval of the debt-cutting proposal, known as a plan of adjustment. The plan made public Thursday also calls for saving about $4 million annually by paying investors who hold pension obligation bonds about 1 percent of what they are owed.

General unsecured creditors would get back 1 percent.

Under the plan, the city would also cut retiree health care benefits and contract for ambulance services, graffiti removal and park maintenance. It would ask voters to extend a 0.25-cent sales tax increase they approved in 2006.

San Bernardino may ask voters in November to rescind part of the city charter that makes it difficult to negotiate wage cuts with police and firefighters. Voters rejected a similar ballot measure last year.

San Bernardino cut deals with its smaller unions and California Public Employees' Retirement

System while firefighters walked out of talks a few months ago, Saenz said.

Fire Danger

The city's location at the foot of the San Bernardino Mountains, where fires often rage during dry and hot summers, makes fire protection a critical consideration. City officials are expecting to receive at least one detailed proposal from a fire agency seeking to take over for the local department, Saenz said.

David Goodrich, a firefighter union attorney, didn't immediately return a call seeking comment on the proposal.

The city's stance toward firefighters is tougher than that taken by Detroit in its bankruptcy-exit plan, said Robert Gordon, an attorney who represented that city's pension system in the municipal bankruptcy.

A city study of the 120 highest-paid firefighters in San Bernardino found the average annual salary for the top third was $190,000; the next third averaged $166,000; and the others got $130,000 on average.

Temporary Agreement

This year, San Bernardino won permission from U.S. Bankruptcy Judge Meredith Jury to cancel its contract with the firefighters union. The department is now working under a temporary pact that saves the city money, Saenz said.

The debt-cutting plan must be sent to creditors for a vote before the judge decides whether to approve it.
The city, now nearing a deal with its police union, had considered replacing the police department before deciding the initiative would cost too much, Saenz said.

"The city has had a long and difficult time in bankruptcy court," said Matt Fabian, managing director of Concord, Massachusetts-based Municipal Market Advisors. "Its experience shows that bankruptcy is not at all an easy solution."

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

Bloomberg

by Steven Church and James Nash

May 14, 2015

Emanuel Names Barclays Muni Banker as Chicago Financial Chief.

Chicago Mayor Rahm Emanuel named Carole L. Brown, a managing director at Barclays Capital, as chief financial officer, the same day the city reeled from its third credit rating cut this week.

Brown will replace Lois Scott, who announced earlier this month that she's stepping down after four years. Brown's appointment comes one week after the Illinois Supreme Court overturned the state's pension overhaul, prompting multiple downgrades and complicating the city's options for reducing its own $20 billion pension shortfall.

"Carole Brown brings decades of financial experience to the City of Chicago," Emanuel said in an e-mailed statement. "Carole's experience and reputation as a tough, but honest financial manager will be a valuable asset as we continue to create a conducive environment for job creation and economic growth for the City of Chicago."

Earlier Friday, Fitch Ratings lowered its rating by one step to BBB+, three levels above junk status. That followed Moody's Investors Service move on Tuesday to cut the city's general-obligation bonds to below investment grade. Standard & Poor's lowered its rating for the city to A- on Thursday.

Brown heads Barclays Midwest municipal practice, serving as a senior investment banker for municipal clients. Barclays is among the city's bankers.

"I am eager to begin working with the Mayor's financial team to address the city's financial challenges," Brown said in the statement.

Bloomberg

by Elizabeth Campbell

May 15, 2015

Lust for Bigger Yachts Leads California Port to Tap Bond Market.

Long Beach, a blue-collar California town known for cargo freighters, is selling $112 million of bonds to make itself a beacon for another kind of ship: the yachts of the prosperous Pacific coast.

Catering to the tiny-vessel owner has been a struggling business since the recession, as money-minded sailors left marinas to store their boats on land, said Rick DuRee, chairman of Long Beach's Marine Advisory Commission. That costs about half as much as parking at the docks.

So the city of 469,000 is replacing hundreds of small slips to make way for $2 million pleasure craft, just as nearby wharves have done.

"This is an offshoot of the way the economy was going a few years ago," DuRee said. "Boating is an expensive activity, no way around it. The big boats are getting bigger, while the idea of keeping your boat on land is a better option for the middle-income boater."

Long Beach, an industrial hub known as the hometown of rapper Snoop Dogg, is scheduled to sell the bonds next week. About half the proceeds will repay loans from California for previous improvements. The rest will rebuild the Alamitos Bay Marina, which is some 20 miles (32 kilometers) north of Newport Beach, one of the state's wealthiest enclaves.

Long Overdue

The marina is partially vacant, as crews scoop up garbage from the water and tear up buckled wooden docks to replace them with concrete structures. The work is long overdue, said Phil Friedrich, an Orange County retiree who docks his 60-foot power boat, Blarney, in the marina.

“This work was supposed to be done years ago,” he said. “But the finished product is just excellent.” The Long Beach sale comes as investors are pushing up municipal bond yields, anticipating the Federal Reserve will raise a benchmark interest rate it’s kept near zero since 2008.

The debt is backed by revenue from Long Beach’s marina fund, which collects slip fees, rather than the general fund. Fitch Ratings ranks the securities BBB, two steps above junk.

Yields on 10-year revenue-backed bonds rated BBB rose Thursday to 3.27 percent, the highest in almost nine months, according to data compiled by Bloomberg. The difference in yield between those bonds and benchmark munis widened to 1 percentage point from 0.7 percent point in March.

Cautious Buyers

“You definitely have to be cautious about buying lower-rated paper in this environment unless you get paid for it,” said Kenneth Naehu, a managing director at Banyan Tree Asset Management in Los Angeles. “Those are the things that widen the most in a rising interest-rate environment.”

Long Beach, with a south-facing coastline buffered from the Pacific Ocean waves, is home to the nation’s second-busiest container port. With a median household income of $53,000, it has a more blue-collar character than other area marina towns, such as Newport Beach, where the income is twice as high.

Other ports are chasing bigger vessels, too. Los Angeles County, to the north, is eliminating more than a quarter of its slips at Marina Del Rey this year to replace them with larger ones. Dana Point Harbor, in Orange County, is making similar changes.

A recovering economy and retiring baby boomers with money to spend are driving the trend, said Wendy Larimer, legislative coordinator for the Association of Marina Industries in Washington.

$2 Million

New 40-foot sailboats range in price from $159,000 to $565,000 on Yachtworld.com. Power-driven craft that size run as high as $2 million.

Long Beach, whose three marinas can hold more than 3,000 ships, has rehabilitated two already by replacing rotting wooden docks and enlarging boat slips.

Next week’s bonds will finance similar work at Alamitos Bay, which is eliminating some slips for boats shorter than 30 feet to add more than 200 spaces for those 35 feet or longer. The city projects that revenue from Alamitos Bay will increase from $7.4 million this year to $11.4 million by 2018, when the docks will be completely redone.

After the recession struck, Alfredo Fernandez, the owner of a 25-foot sailboat, saw mariners like himself move out. He said dry storage costs about $100 a month for a 25-foot boat. A slip costs $287.

“After 2008 I saw the smaller boats disappear,” said Fernandez, who’s on the board of the Long Beach Marina Boat Owners Association. “But the bigger boats stayed.”

Bloomberg

by James Nash

May 14, 2015

Detroit Delays Bond Sale Related to Bankruptcy Exit.

(Reuters) – Detroit's public sale of $275 million of bonds that financed the city's exit from bankruptcy has been delayed but should take place no later than early August, a city official said on Monday.

Detroit is taking advantage of a new law that should give the bonds investment-grade ratings that could save the city between $20 million and $30 million over the life of the issue, according to the office of Michigan Governor Rick Snyder, a Republican.

The law took effect in April and places a specific statutory lien on Detroit income tax revenue pledged to pay off the debt.

The city is hoping the stronger payment pledge on the bonds will result in lower interest rates.

Detroit privately placed $275 million of variable-rate bonds with Barclays Capital to finance its Dec. 10 exit from the biggest-ever U.S. municipal bankruptcy. As part of the city's U.S. Bankruptcy Court-approved plan, that debt was due to be sold in the U.S. municipal market in a fixed-rate mode by May 9. The deal will mark the city's first post-bankruptcy public bond sale.

John Naglick, the city's deputy chief financial officer, said Barclays and Detroit finalized an agreement late last week for a 90-day extension requested by the city. Detroit asked for the delay while awaiting final action on the Michigan bill and the completion of a fiscal 2014 audit by May 31, he said, adding that the public bond sale should occur no later than Aug. 7.

Proceeds from the privately placed bonds were earmarked for retiring a prior $120 million Barclays loan to the city, to pay certain creditor claims from the bankruptcy and to finance city improvements.

By REUTERS
MAY 12, 2015, 2:06 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Lisa Shumaker)

Illinois: Chicago's Credit Rating Is Downgraded.

Days after the Illinois Supreme Court rejected an overhaul aimed at shoring up the state's troubled pension system, Chicago, the state's largest city, saw its credit rating downgraded two levels to junk status on Tuesday by Moody's Investors Service. The move could mean higher borrowing costs for Chicago, which is wrestling with an underfunded pension system of its own. The State Supreme Court opinion, issued last week, barred the state from lowering pension benefits for public employees under a provision of the Illinois Constitution, but it also raised doubts about the legality of changes Chicago has made to two of its pension funds. Mayor Rahm Emanuel criticized Moody's downgrade as premature. "While Chicago's financial crisis is very real and at our doorsteps, today's irresponsible decision by Moody's to downgrade the city's credit by two steps goes far beyond that reality," Mr. Emanuel said.

THE NEW YORK TIMES

By MONICA DAVEY

MAY 12, 2015

Puerto Rico Fights to Restore Law Allowing Public Debt Revamp.

Puerto Rico is trying to revive a law allowing its public agencies and utilities to restructure their mounting debt as Detroit and other U.S. cities have done.

Creditors won the first fight in the case by persuading a federal judge in San Juan to throw out bankruptcy protections similar to those alloted municipal entities in the 50 U.S. states.

Puerto Rico on Wednesday is asking the U.S. Court of Appeals in Boston to reverse that ruling as the commonwealth struggles with $73 billion in debt.

By blocking enforcement of the restructuring law, the lower court relegated Puerto Rico "to an anomalous legislative no man's land," lawyers for Governor Alejandro Garcia Padilla and Secretary of Justice Cesar R. Miranda Rodriguez said in a court filing. "If Congress had intended to leave utilities, and the people they serve, at the mercy of their creditors, it surely could and would have so indicated."

Franklin Resources Inc. and OppenheimerFunds Inc. investment funds and BlueMountain Capital Management LLC won a ruling in February from the judge in San Juan that the local restructuring law was in "irreconcilable conflict" with federal statutes. The firms, which at one time held about $2 billion in bonds issued by the Puerto Rico Electric Power Authority, alleged that the new law might force them to accept unfavorable restructuring terms if the heavily indebted utility sought to use it.

Congressional Intent

The dispute springs from the island's status as a U.S. territory dependent on federal lawmakers to grant it benefits provided states. Congress intended to exclude Puerto Rico from Chapter 9 bankruptcy protections, the investment funds argue.

Commonwealth officials "argue for a topsy-turvy world, where Congress' expressed preemption of state-enacted municipal bankruptcy laws becomes an option for states to enact such laws," lawyers for some of the investment funds said in court filings.

The island's agencies may seek protection under those provisions "only if the legislative body that exercises ultimate control over them — Congress — determines to so authorize," lawyers for the funds said.

After years of borrowing to balance budgets, Puerto Rico and its agencies have racked up $73 billion of debt, more than any U.S. state except California and New York. Because most of the debt is tax-exempt nationwide, it's held by mutual funds and individual investors.

Creditor Negotiations

The island has struggled to grow since 2006 and is losing population, spurring speculation it will fail to repay the obligations. Puerto Rico's power utility has been negotiating with creditors and may ask them to take a loss, which would be the biggest restructuring ever in the municipal-bond market.

The commonwealth's debt has been trading at distressed levels since August 2013. Prices on Puerto Rico's newest general obligations touched the weakest yet after the governor's tax overhaul proposal was rejected by lawmakers.

Bonds maturing in July 2035 traded May 1 at an average price of 77.57 cents on the dollar, the lowest since they were issued in March 2014, according to data compiled by Bloomberg. The average yield on the tax-exempt securities was 10.74 percent.

The Puerto Rico Public Corporations Debt Enforcement and Recovery Act was passed under threat of "fiscal emergency" last year, the bondholders alleged. Investors called the law a "harsher copy" of federal bankruptcy provisions that allow financially distressed municipal entities to seek protection from creditors while negotiating changes to debt terms.

The island's representative in Congress, Pedro Pierluisi, has been advocating for a bill to amend the bankruptcy code to include Puerto Rico. The measure, which was a subject of a House Judiciary Committee subcommittee hearing this year, is supported by most of the island's creditors, Pierluisi said in a statement in February.

The case is Franklin California Tax-Free Trust v. Commonwealth of Puerto Rico, 15-1218, U.S. Court of Appeals for the First Circuit (Boston).

Bloomberg

by Christie Smythe

May 6, 2015

Puerto Rico Appeals for Options to Restructure $9 Billion in Muni Debt.

Puerto Rico's troubled electric utility on Wednesday asked a U.S. appeals court for an alternative to restructure some $9 billion in debt, saying it would otherwise be at the mercy of U.S. bond funds.

The Puerto Rico Electric Power Authority (PREPA) is seeking to reverse a federal judge's decision in February that blocked the utility's bid to restructure its debt under court supervision, much like in a bankruptcy case. The legal battle moved on Wednesday to Boston where lawyers for both sides argued for more than an hour before the U.S. Court of Appeals for the First Circuit.

The Puerto Rico Public Corporation Debt Enforcement and Recovery Act, passed last year, was supposed to give PREPA some breathing room as it slipped into financial crisis. But OppenheimerFunds, a unit of insurer MassMutual Financial Group and Franklin Templeton, immediately sued the utility and argued that the recovery act violates the U.S. Constitution.

The value of PREPA's long-dated bonds dropped about 15 percent as investors feared the Recovery Act would prevent them for getting full payment of principal and interest. Municipal bond funds run by OppenheimerFunds and Franklin Templeton were hit particularly hard, as they were among the largest investors in the PREPA debt.

But as PREPA lawyer Lewis Liman, of Cleary Gottlieb Steen & Hamilton LLP in New York, put it to the appeals court, the absence of restructuring alternatives is "a euphemism for a stick up, a euphemism for pay me or else."

PREPA is largely the only source of electricity for Puerto Rico, which is battling a dwindling population and the exodus of its businesses. PREPA's electric rates, meanwhile, are about two times higher than what mainland U.S. utilities charge, leaving PREPA no room to boost revenue.

"There's just not a pot of money there to raise rates," Liman said.

Lawyers representing the interests of the U.S. funds and the insurance companies that back municipal bonds argued that Puerto Rico's recovery act would undercut the rights of bondholders. Matthew McGill, a lawyer for BlueMountain Capital Management, said Congress passed Section 903(1) of the Bankruptcy Code to prevent states and territories such as Puerto Rico from passing their own bankruptcy laws.

"Congress' intention was not to give them carte blanche," McGill told the court. Uniformity, lawyers for investors argue, is essential for the smooth operation of the $3.7 trillion municipal bond market.

Martin Bienenstock, a lawyer for the Government Development Bank for Puerto Rico, said that Congress has affirmed Puerto Rico's constitution, which allows it to use police powers in a time of crisis.

Bienenstock said those police powers can be used to deal with an economic crisis, too.

The appeals court did not make a ruling in the case, giving no indication of when a decision might be made.

"It's a very important case and we will work very hard on it," Chief Judge Sandra Lynch said.

The First Circuit includes the Districts of Maine, Massachusetts, New Hampshire, Puerto Rico and Rhode Island

BOSTON | BY TIM MCLAUGHLIN

(Reporting by Tim McLaughlin; Editing by Diane Craft)

May 6, 2015

Report Calling for Consolidation of Some St. Louis County Police Departments Draws Angry Reaction.

Northwoods Police Chief Earl Heitzenroeder said Monday that he hadn't heard a Washington-based police policy think tank was calling for the end of his department, but he didn't think much of it.

The department, whose 21 officers patrol 0.71 square mile of north St. Louis County, is one of many police departments in the county that seem more focused on raising revenue through tickets than keeping the public safe, according to a report issued Monday by the Police Executive Research Forum.

As the Post-Dispatch reported Sunday, reforms suggested by the research group include a proposal to combine 18 police departments in north St. Louis County into three clusters. Under the proposal, the police departments in Northwoods and several of the town's neighbors would become part of the much larger University City Police Department, which has 66 officers patrolling 6 square miles. Two other clusters would be part of St. Louis County police precincts.

“I know what they’re getting at, but I have no comment on that,” said Heitzenroeder. “Might be like me coming down and telling you how to run your newspaper.”

The report noted that about a third of the county’s municipalities have police departments that cover less than a square mile. The fragmentation makes it difficult to coordinate crime-fighting efforts regionwide, it said.

Several police and municipal officials lashed out at the report on Monday, saying they were upset that the research group did not contact them for comment.

“They haven’t come by here,” said Velda City Police Chief Dan Paulino. “I don’t know what surveys, what audits or what they’ve looked at. But they certainly have not come here. … I seriously question the research they used to come up with whatever they printed.”

The 79-page report recommended centralized training, data collection and communications for police across St. Louis and St. Louis County, and strengthening oversight of officers.

The group said the St. Louis area’s fragmented, revenue-oriented policing, uneven standards for law enforcement officers and the perception of racial bias undermine public safety and have contributed to high crime rates and costly services.

The report was commissioned by Better Together, a St. Louis-based nonprofit group studying possible benefits of regional cooperation, which has published a series of reports pointing to inefficiencies in public safety, public finance, public health and economic development.

Chuck Wexler, the research group’s executive director, said he was not surprised by the negative reaction.

He said the investigators who studied St. Louis-area policing had never seen anything like the dozens of tiny municipalities stacked on top of one another, using their police to raise revenue. The study found that police departments in a number of those cities were lacking.

“These cities were picked based upon high crime rates, high amounts of tickets written and a high number of officers, and they stopped people at a significant rate for minor things,” he said. “So it wasn’t like we picked them arbitrarily. We had criteria.

“Ultimately, these decisions are made by the people who live in these communities,” he added.

“The people who live there deserve the best type of policing and the best service.”

But Alan Baker, the city attorney for Hillsdale, questioned whether the best service would be turning his city’s policing over to University City.

He said about a decade ago, “we floated a proposal to St. Louis County about what it would cost and what we would receive if they took over the police department. … I could tell you at the time their bid was between 30 and 40 percent more than we were paying and it was for half the service. They were going to have one officer on a shift instead of a minimum of two.”

The study didn’t mention anything “about what U. City’s officers could do that our officers aren’t doing.”

Myrtle Spann, mayor of Beverly Hills, said she had not heard about the report calling for her city to join University City's police department.

The policing policy group pointed to her city's massive rate of arrests for nontraffic offenses, such as housing code violations: 1,088 violations per 1,000 residents. By comparison, St. Louis County police make just 21 such arrests per 1,000 people.

"This is something I believe has to be started by our citizens," she said. "They're the ones who started our police force."

St. Louis Post-Dispatch

May 04, 2015 11:15 pm • By Jeremy Kohler

[Louisiana Bond Blues Deepen as Rating Cut Seen on Budget Deficit.]

With tax revenue from the oil industry falling short of projections, the deficit has swelled to $1.6 billion for the fiscal year that starts July 1. Moody's Investors Service and Standard & Poor's say they may lower Louisiana's credit rating if officials don't come up with sustainable budget solutions.

Louisiana paid the price when it sold $335 million of general obligations Wednesday, its first deal this year. Borrowing costs jumped compared with an issue in November, with the yield spread more than doubling on some maturities.

"They have to make significant cuts across the board — it's almost a foregone conclusion they'll be downgraded," said Tom Metzold, co-director of municipal investments in Boston at Eaton Vance Management, which oversees $25 billion in local debt.

Lawmakers are grappling with the state's finances in part as the price of crude oil, which along with natural gas generates 13 percent of its revenue, is down about 40 percent from mid-2014. The mounting fiscal strains threaten to pinch funding for programs such as higher education, contributing to a buyers' revolt last month against a bond sale from the state's flagship university.

School Deal

Investors asked for extra compensation to own the state's debt in Wednesday's offering. Obligations maturing in May 2025 priced at a yield of 2.5 percent, or about 0.3 percentage point above benchmark munis, according to data compiled by Bloomberg. The gap swelled from 0.03 percentage point when the state issued 10-year securities in November.

Louisiana State University scrapped its $114 million bond offering after officials warned that exigency, which would allow it to restructure and fire tenured faculty, may be a worst-case scenario for the school.

Treasurer John Neely Kennedy had warned that the canceled deal might push up the state's borrowing costs.
"When a state mismanages its money, it can't expect people to give it more until it proves it changed its ways," Kennedy said in an interview before the bond sale.

Waiting Game

Both Moody's and S&P affirmed Louisiana at the third-highest rank last month. The companies dropped their outlooks to negative in February after sinking crude prices led the state to cuts its revenue forecast.

"They're struggling to figure out how to balance their budget and we're waiting to see" what happens, Marcia Van Wagner, a Moody's analyst in New York, said in an interview.

As part of the fiscal fix, Governor Bobby Jindal, a potential Republican presidential candidate, is proposing cutting more than $200 million from higher education and lowering corporate tax credits by over $500 million.

"When there are budgetary challenges, we manage them in a timely way," Kristy Nichols, Louisiana's commissioner of administration, said in an interview from Baton Rouge before the bond issue. "There's confidence that we'll move through the legislative process in the next month and a half and walk away with a balanced budget that addresses some structural issues by identifying recurring savings and recurring revenue."

Proceeds from Wednesday's deal will fund hospital and sports-arena projects in New Orleans, nicknamed "The Big Easy," Nichols said.

The yield spreads in recent trading aren't enough for some investors.

Steve Hlavin, who runs a Louisiana fund for Nuveen Asset Management in Chicago, said he hasn't bought state general obligations since 2010 and probably won't dive back in Wednesday.

"For a state that's exhibited chronic structural budget imbalance, you aren't being compensated with a lot of credit spread," Hlavin said. "They're being forced to come to terms with the fact that one-shot solutions are no longer available."

Bloomberg

by Brian Chappatta

May 5, 2015

Oakland's Unwanted Sports Arenas Leave $179 Million Bond Burden.

An authority overseen by the city and Alameda County last month refinanced debt for the home of the National Basketball Association's Golden State Warriors that won't be repaid until 2026, even though the team plans to move in three years. Meanwhile, as the National Football League's Raiders and Major League Baseball's Athletics negotiate with Oakland for new facilities, taxpayers are on the hook for $99 million of bonds for the coliseum those two teams share, bond records show.

The borrowing burden reflects the downside of competition among municipalities to keep teams from leaving. States and cities have sold more than $9 billion of debt for professional sports facilities since the 1980s, including some no longer in use, according to data compiled by Bloomberg.

"Stadiums' economic lives are often shorter than the lives of their debt," said Randall Gerardes, vice president for municipal research at Wells Fargo Securities LLC in New York. "A building may stand for many years after the economic factors that once made it attractive to the owner no longer exist."

Unique Arrangement

When the Oakland-Alameda County Coliseum Authority sold about $80 million of taxable bonds last month to refinance the basketball-arena debt, 10-year securities yielded 3.64 percent, or about 1.8 percentage points above similar-maturity Treasuries.

Fitch Ratings, which ranks the debt AA-, said the risk to investors is low even if the Warriors follow through on a move to San Francisco. Officials will likely continue to pay for the arena's bonds, concerned that they would be punished by higher borrowing costs if they defaulted, Fitch said.

Oakland and surrounding Alameda County pay about $20 million a year combined for their two stadiums, including debt payments.

The A's and the Raiders are pushing for a replacement for the half-century-old O.co Coliseum, the only venue in the U.S. that's shared by a big-league football and baseball team.

Debt Weary

Mayor Libby Schaaf said in an interview that the city is looking for a way to fund any new venues privately and avoid taking on more debt.

"We will not be financing new stadiums," Schaaf said.

Susan Muranishi, the Alameda County administrator, couldn't be reached to comment on the bonds.

The A's and Raiders want new stadiums to replace a coliseum that's considered obsolete: sewage has leaked into the clubhouse. The Raiders played their first game there in 1966, followed by the A's in 1968.
"We are still working on a location in the Bay Area that would work for both us and the majority of our fans," Ken Pries, a spokesman for the A's, said in an e-mail.

The competition for teams has intensified amid efforts to lure the NFL to the Los Angeles area. The Raiders, the St. Louis Rams and the San Diego Chargers have all explored moving there.

Last month, the City Council in Carson, California, outside Los Angeles, approved a $1.65 billion stadium project that may be a rival home for the Raiders. Will Kiss, a Raiders spokesman, didn't respond to requests for comment on the team's plans.

There are precedents for municipalities being stuck with debt for empty venues. King County, Washington, is set to finally pay off bonds for the Kingdome this year, 15 years after the demolition of the former home of the NFL's Seahawks.

"Anytime you have the volatility of sports you have considerable risk," said Alan Schankel, a managing director of fixed-income strategy at Janney Capital Markets in Philadelphia. "There's a lot of dynamics going on, including sports-team economics and media-market economics, that don't always jibe with the interests of a municipality."

Bloomberg

by Darrell Preston

May 4, 2015

Fitch: California Water Credits May Struggle with New Rules.

Fitch Ratings-New York-08 May 2015: The California State Water Resources Control Board's new water conservation mandate will reduce revenues available to pay bondholders at many agencies and could create an unintended disincentive to invest in necessary local water supply and storage projects, Fitch Ratings says.

The rules adopted this week dictate cuts in customer usage regardless of local supply conditions. The impact will be greatest in Southern California communities that have borrowed billions of dollars to invest in water supply reliability and now must meet some of the highest reductions. The cutback levels and short compliance timeframe set by the board suggest many utilities will likely fail to meet the targets.

The state water board rules require all retail California water utilities to reduce usage from 2013 levels by 8% to 36% between June 2015 and February 2016. Utilities are acting quickly to curtail their retail usage through water conservation ordinances, mandatory use reductions to retail customers and price signals. However, it may be very difficult for utilities required to meet the higher percentage reductions to garner significant water consumption behavior changes in this short time frame. California's Proposition 218 limits the speed at which new rates can be implemented, including rates that incentivize consumers to conserve. Initial compliance will be measured beginning in June 2015, and the state water board has indicated its willingness to work with utilities that are exhibiting a good faith effort to meet the requirements.

We expect the financial impact will occur primarily in fiscal 2016 and to vary across the 49 Fitch-rated retail California water utilities. Utilities that have decoupled revenues from water sales through a number of mechanisms will likely sustain their credit quality during this emergency compliance order. Tools that protect revenues from declines in consumption include drought rates, fixed drought surcharges, higher fixed charges in the overall rate structure, rate stabilization reserves and imported water expenditures that decline with lower usage. However, the speed of the cuts will force some to spend down their reserves or divert capital funds, possibly reducing credit quality in the short run. Fitch believes most utilities will adjust rates appropriately, avoiding widespread credit rating downgrades.

The state water board's decision to impose conservation from the top down ignores various local supply conditions and brings local control regarding water supply planning into question. Fitch's rating criteria assesses the quality of a utility's long-term supply planning and acquisition of supplies, storage and backup arrangements to manage through cyclical hydrological conditions, including severe drought years. To the extent the emergency rules begin to shape long-term water supply planning and investments in the state, the impact could unintentionally delay long-term water supply investments. The board has indicated that the temporary rules are designed to preserve water supply into next year during these extraordinary emergency conditions and should not impair investment decisions during normal times.

Contact:

Douglas Scott
Managing Director
U.S. Public Finance
+1 512 215-3725
111 Congress Avenue

Suite 2010
Austin, Texas

Kathryn Masterson
Senior Director
U.S. Public Finance
+1 512 215-3730

Andrew Ward
Director
U.S. Public Finance
+1 415 732-5617
650 California Street, 4th Floor
San Francisco, CA

Shannon Groff
Director
U.S. Public Finance
+1 415 732-5628

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

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com.

Fitch: Oversight Would Challenge US Public Power Credit Quality.

Fitch Ratings-New York-07 May 2015: Legislation introduced in multiple states this year could, if advanced, have a material impact on the credit quality of two large public power utilities. Both Austin Energy (AA-/Stable) and Florida Municipal Power Agency (FMPA; [A+/Stable]) were the intended focus of legislation that would subject each of the utilities to extraordinary oversight by each of their state's respective public service commissions. While Fitch does not anticipate either measure gaining traction, the proposed rules represent a credit concern as enactment would likely lead to negative rating action.

The ability of public power utilities to operate with limited regulatory oversight, particularly as it relates to ratemaking and the preservation of their exclusive service areas remains a hallmark of the sector and a key contributor to credit quality. Although Fitch does not believe that these initiatives represent a broader trend toward the regulation of public power systems, it will continue to monitor legislative developments that could have an impact on the credit quality of rated utilities.

Legislation currently pending in the Texas State legislature (Senate Bill 1945) would allow Austin Energy's customers with load requirements above a certain threshold to effectively appeal their electric rates to the state public utilities commission (PUC). Depending on the PUC's ruling and Austin Energy's response to such a ruling, customers would potentially be permitted to purchase power from another provider in the deregulated market and pay Austin Energy solely to use its transmission and distribution infrastructure. The statutory change would limit Austin Energy's ratemaking autonomy and challenge its monopolistic business nature.

A similar statute (House Bill 773) was proposed in Florida earlier this year, aimed at bringing FMPA under the regulatory authority of the state Public Service Commission. Passage of the bill would have stripped the joint action agency of its independent authority to establish electric rates to its wholesale customers. While the bill did not advance during the most recent legislative session, introduction of the legislation bill remains notable.

Contact:

Christopher Hessenthaler
Senior Director
U.S. Public Finance
+1 212 908-0773
33 Whitehall Street
New York, NY

Dennis Pidherny
Managing Director
U.S. Public Finance
+1 212 908-0738

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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Fitch: Oregon Pension Fund Will Manage Court Decision.

Fitch Ratings-New York-06 May 2015: Last week's Oregon Supreme Court decision to restore a 2% cost-of-living-adjustment (COLA) to approximately 120,000 state retirees and employees who were members prior to the 2013 law change is expected to lower the state's Public Employees Retirement System (PERS) funded ratio and raise ongoing required contributions, according to Fitch. The state estimates its portion of PERS's liability to be funded at 97% before the court's decision. The court ruled that it was legal to reduce COLAs for services accrued after the 2013 reforms as they were not contractually guaranteed. This decision contrasts with other rulings across the country where COLA changes have been upheld by courts under the principle that COLAs differ from core retirement benefits.

In our view, Oregon will be able to manage the immediate impact of the court's restoration of the COLA as it has reserve funds available for retroactive payments and other sources of flexibility.

Before the Supreme Court's decision, PERS had projected plan savings over time of approximately $5 billion from this and other pension reform efforts; a share of these savings is expected to remain in place as the court upheld other parts of the legislation. Funded ratios have also been bolstered in recent years by strong investment results and Fitch expects the state's portion to remain well-funded, albeit at a lower level, than it was before the court decision.

The total impact of retroactive payments due to the employees and retirees from this ruling will be calculated over the next few weeks. The state has two potential sources for funding these payments. There are approximately $600 million in PERS's contingency funds which could offset retroactive payments. And, the state could redirect a portion of a likely personal income tax credit from the current biennium. The state's most recent quarterly report (March 2015) forecast personal income tax as growing by 14.8% in the current biennium with general fund revenues exceeding the kicker threshold by $59 million. This would lead to an income tax credit to be issued to taxpayers in the 2016 tax year of approximately $349 million.

PERS contribution rates for the next biennium (July 1, 2015 through June 30, 2017) have already been set by the pension system, but could be adjusted, subject to applicable rate collars. Any adjustment would have a financial impact on the budget currently being debated in the legislature. Contribution rates for subsequent biennia will include the required COLAs.

Contact:

Marcy Block
Senior Director
U.S. Public Finance
+1 212 908-0239
33 Whitehall Street
New York, NY

Douglas Offerman
Senior Director
U.S. Public Finance
+1 212 908-0889

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com.