
New Jersey Capital City, Trenton, Scraps Bond Deal.

(Reuters) – New Jersey's capital city, Trenton, has canceled a bond refunding sale because a credit downgrade on Monday left it unable to save enough money for the deal to meet legal standards, Trenton's finance director told Reuters.

The scrapped deal is one of the first signs of local financial fallout from broader concerns about New Jersey's public pension problem and Governor Chris Christie's appointment of an emergency manager for the struggling gambling hub Atlantic City.

Cash-strapped Trenton had planned to sell about $17.8 million of general improvement and sewer utility refunding bonds on April 28. As a result of the ratings cut by Moody's Investors Service, however, the city would have to pay a higher interest rate and therefore would not have met the minimum 3 percent savings required by state law, Trenton Finance Director Ronald Zilinski said.

"The state's getting hammered, hence we're getting hammered," Zilinski said.

Christie, a likely 2016 Republican presidential candidate, appointed an emergency manager in January to run Atlantic City. The appointment signaled to investors in the $3.7 trillion U.S. municipal bond market that the state's historically strong support of its struggling cities could be eroding.

Christie also slashed $1.6 billion from the state's 2015 pension contribution, which New Jersey could now be forced to pay anyway with just over two moths left in the fiscal year. That would put further strain on the already tight state budget and could prompt cuts in state aid to Trenton and other struggling cities.

In March, Moody's warned that it could downgrade seven distressed New Jersey cities, including Trenton, Newark and Paterson.

Moody's cut its rating on the state a week ago, New Jersey's ninth credit downgrade by Wall Street since Christie took office in 2010.

Debt from six of the seven cities subject to Moody's review was priced weaker on Thursday than at the start of the year, according to a Reuters analysis of price evaluation data provided by Markit.

One of those cities, Newark, saw the price of one of its bonds drop by $1.74 since Jan. 2, but it's still above par at $104.57, according to Markit.

Overall, though, the seven cities' bonds have mostly charted the same path as benchmark 10-year muni yields, according to Municipal Market Data, a unit of Thomson Reuters.

Cities are also getting a lift from yield-hungry investors, who are paying higher prices even for riskier credits amid a shortage of available new muni bonds.

“Tax-free bonds are in huge demand, so people are willing to pay a little more to get yield than in the past,” said Ben Eiler, a partner at Georgia-based muni bond broker dealer First Southern Securities.

That could be good news for Trenton. It is still planning to sell $10.6 million of new bonds on May 28, though it will now have to pay more to insure them, Zilinski said. The city is also planning a bond anticipation note sale on June 3.

NEW YORK | BY HILARY RUSS

Apr 23, 2015

(Reporting by Hilary Russ; Editing by David Gregorio)

U.S. Municipal Bond Sales Next Week Fall Back from High Levels.

(Reuters) – Sales of U.S. municipal bonds and notes next week will total about $4.9 billion, according to Thomson Reuters estimates, a decrease from the more robust and much-heralded issuance levels so far this year.

No deal next week is expected to top the $275.4 million offering from the Dormitory Authority of the State of New York, a late entry on Thursday to the negotiated calendar.

The authority is selling State University of New York dormitory facilities revenue bonds on Thursday through lead manager Siebert Brandford. The bonds will refund outstanding lease revenue bonds the authority issued from 2003 through 2007, according to the preliminary official statement.

Separately, the authority plans to price $68.9 million of Orange Regional Medical Center Obligated Group Revenue bonds, rated Ba1 by Moody’s Investors Service, through lead manager JP Morgan.

Next week’s low level of issuance is a change from the first quarter, when primary muni sales spiked upward, driven mostly by refundings. By comparison, this week an estimated $9 billion of muni bond deals priced.

The low-interest rate environment has been favorable for refundings, with a “subdued transition upward across the curve” for the rest of the year expected, CreditSights analysts Isaac Codrey and Howard Sitzer said in a commentary on Friday.

With that interest rate outlook, “we would continue to expect strong refunding volumes over the remaining course of the year, just not at the remarkable levels that were realized” in the first quarter of 2015, they wrote.

NEW YORK, APRIL 24

(Reporting by Hilary Russ; Editing by Jonathan Oatis)

How Will California Water Utilities Fare Amid the Long Drought and New Conservation Mandates?

In light of the fourth consecutive year of drought conditions in California, concerns about the reliability of the state's water supply have spiked, as have worries about the effects of Governor Jerry Brown's recent statewide water conservation mandate. Standard & Poor's Ratings Services seeks to explain the effects of the persistent drought on California water utilities' financial performance and credit quality.

Frequently Asked Questions

What is the credit impact of the drought on California water utilities?

The financial and credit impact of the drought and required conservation levels vary across water utilities. Rate-setting flexibility, sources of supply, supply costs, and management's actions — either proactive or reactive — all factor into the degree of credit impact, and thus we are analyzing the impact of the drought case by case. Many of the California water utilities we rate entered this drought period with good to strong debt service coverage and solid liquidity positions, which can somewhat mitigate the impact of lower water sales volumes for a time. Also, many water utilities plan in advance for droughts from both an operational perspective and a financial perspective. We are closely monitoring how our rated water utilities respond to Governor Brown's executive order, including how they plan to adjust rates given the required conservation. Complicating the matter is the ruling by the 4th District Court of Appeal on April 20, 2015, in the case of Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano(1) that struck down certain tiered-rate structures, which are a common tool to encourage water conservation. If the regulatory framework the state adopts on May 5 or 6 differs significantly from the current proposal (which we describe below), then we will again comment on the potential for credit impacts.

Can you explain the executive order Governor Brown issued this month in response to the drought?

On April 1, 2015, California Governor Brown issued an executive order(2) mandating statewide water conservation. This is the first time in California's history that water use restrictions have been mandated, and it represents a departure from prior requests for voluntary statewide water conservation. The governor issued the order following three consecutive years of drought and against a backdrop of historically low water supply: Snowpack in the Sierra Nevada Mountains — a critical source of water for the state during the spring and summer periods — was a mere 5% of the historical average(3) for April 1. The National Drought Mitigation Center estimates that about 67% of the state is experiencing either extreme or exceptional levels of drought(4), and virtually the entire state is experiencing some level of drought.

The objective of the order is to reduce statewide urban potable water usage by 25% through Feb. 28, 2016, but the order does not affect other water use categories, such as water used for agricultural production. If achieved, the State Water Resources Control Board (SWRCB) estimates that this level of water conservation would total about 1.5 million acre-feet(5), or roughly the volume of water currently held in Lake Oroville(6), one of the state's largest reservoirs with a capacity of 3.5 million acre-feet.

How does the executive order affect California water utilities?

For urban water suppliers, the impact of the executive order varies primarily depending on 1) the service area's per capita water usage and 2) and the level of water conservation already achieved during the past year. Although the executive order targets a 25% statewide reduction in water usage as compared to 2013, state officials do not expect to achieve the water savings through a uniform reduction in water usage across the state. Instead, the revised regulatory framework(7) — which

SWRCB published on April 18 and is subject to board adoption on May 5 or 6(8) –contemplates nine conservation tiers ranging from 4% to 36% reductions, stepping up in 4% increments(9).

Each urban water supplier's conservation standard is based on the service area's residential per capita water use during July through September 2014, three summer months when water demand for outdoor irrigation is typically high. The conservation standard is lower for service areas with lower residential per capita usage and higher for service areas with higher residential per capita usage. Notably, the conservation standard is measured relative to water usage during a benchmark period from June 2013 through February 2014. Some urban water suppliers have already achieved the required conservation level or are nearly at the required level, and we don't expect the modest additional conservation to significantly affect those suppliers' operations or finances relative to their prior-year performance.

For example, of the 413 urban water suppliers subject to the executive order, San Francisco Public Utilities Commission (SFPUC) had the ninth-highest total water production during the benchmark period (20.4 billion gallons), but the service area had the second-lowest residential per capita water use during July to September 2014, at 45.4 billion gallons. Based on this residential per capita use, the assigned conservation standard is 8%; however, because SFPUC already achieved 8% water conservation in 2014 relative to the benchmark period, no additional conservation would be required to comply with the executive order. In contrast, Coachella Valley Water District (CVWD) had the seventh-highest total water production during the benchmark period (28.3 billion gallons), and the service area had the seventh-highest residential per capita water use during July to September 2014, at 475.1 billion gallons. Based on this residential per capita use, the assigned conservation standard is 36%. Given that CVWD achieved only 4% water conservation in 2014 relative to the benchmark period, significant additional conservation of 32% for 2015 is required to comply with the executive order.

The SWRCB plans to assess a water supplier's compliance with the executive order by examining monthly reports that the suppliers will file. Enforcement actions for noncompliance may include informal enforcement, such as warning letters, or formal enforcement, such as cease and desist orders accompanied by administrative civil liabilities of up to $10,000 per day.

Agricultural water suppliers are not subject to the executive order; however, low river flows and low allocations from the two major water projects in the state have cut into their surface water supplies.

What impact does Standard & Poor's expect the drought and the executive order to have on water utility revenues?

Although reduced volume of water sales seem likely to cause a corresponding reduction in operating revenues and net revenues, we understand that the financial performance of urban water suppliers also depends on other factors. For most retail water systems that have a volume-based component to their rate structure, reduced volume of water sales would indeed correspond to lower revenues (barring an increase in rates). However, the relationship between the percent reduction in the volume of water sales and the percent reduction in operating revenues is not necessarily one to one. User rates for most retail water systems have a fixed component, which lower sales volume would not affect.

Many rate structures also have tiered pricing, with higher water use leading to a higher per-unit rate. In these cases, the impact of lower water sales is more complex, with the loss of revenues determined in part by the water rate tiers and the amount of usage within each tier. Even further complicating the matter is the April 20 ruling on Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano. In that ruling, the 4th District Court of Appeal struck down certain tiered-rate structures; specifically, those for which the water utility has not demonstrated that the tiers closely correspond to the actual cost of providing service at a given level of usage. We understand that the case has been remanded for further proceedings related to another issue in the case. Water utilities could also offset the volume lost with increased rates, as we address below.

Can California water utilities increase rates to offset any decline in water sales volume?

In general, California water utilities have the ability to adjust rates to offset lower sales volume. However, to increase rates, they must meet the public hearing and protest requirements under Proposition 218. The requirements include a public notice and a public rate hearing at least 45 days after the notice. The rate increase can be prevented if a majority of the parcel owners within the utility's service area protest at the public hearing or in writing. In our experience, it is rare for a rate increase to be outright prevented due to this provision although significant opposition from a vocal minority of the customer base may sway decision makers from the recommended course of action.

Some utilities already have the ability to increase rates in a drought because they have been through a previous Proposition 218 process. These utilities can likely increase rates up to the preapproved level through a governing board action. If a utility has not yet gained this ability, it would likely need to undertake a public notice process to comply with the procedural requirements of Proposition 218. This process could cause a lag between required conservation and the implementation of higher rates. In particular, if the ruling on Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano is left to stand, then the timeline to adjust rates may be significantly extended if the water utility is required to conduct a new cost-of-service study to demonstrate compliance with the ruling.

Could a reduction in water sales volume lower a utility's operating expenses?

Yes. In many cases lower water sales will lead to lower operating costs, although the impact will vary among utilities depending on their water supply sources and the marginal cost of additional supply. A water system relying exclusively on groundwater from its own wells would likely save on pumping costs if it sells less water. However, the savings may only be modest relative to a utility's operating budget because high-quality groundwater tends to be a relatively low-cost supply. If a utility directly purchases imported water on a per-unit basis, on the other hand, the lower water use will of course reduce water costs, and these savings could be substantial if imported water represents a significant portion of the utility's budget.

Although utilities could see some expense reduction, many of their costs — including fixed payments to suppliers, rents, leases, and debt service — are independent from the volume of water sold and likely wouldn't change. A decline in water sales would likewise have little short-term impact on salaries, benefits, and maintenance costs.

Footnotes
(1)http://www.courts.ca.gov/opinions/documents/G048969.PDF

(2)http://gov.ca.gov/docs/4.1.15_Executive_Order.pdf

(3)http://www.water.ca.gov/news/newsreleases/2015/040115snowsurvey.pdf

(4)http://droughtmonitor.unl.edu/Home/StateDroughtMonitor.aspx?CA

(5) http://www.water.ca.gov/waterconditions/waterconditions.cfm

(6)http://cdec.water.ca.gov/cdecapp/resapp/resDetailOrig.action?resid=ORO

(7)http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/fact_sheet_implementing_25.pdf

(8)http://www.waterboards.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/regulations_fact_sheet.pdf

(9)http://www.swrcb.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/draft_usage_tiers.pdf

Primary Credit Analyst:
Tim Tung, San Francisco (415) 371-5041;
tim.tung@standardandpoors.com

Secondary Contact:
Robert L Hannay, CFA, San Francisco (1) 415-371-5038;
robert.hannay@standardandpoors.com

21-Apr-2015

Football Stadium Arms Race Pushed This School Deeper Into Debt.

Colorado State University sold $239 million of bonds to build a football stadium that students, faculty and credit-rating companies say may strain its finances. School leaders say the debt binge will help secure its future.

Colorado's second-largest university is joining an intensifying national competition to attract high-tuition, out-of-state students by pouring billions into new dormitories, classrooms, student centers and gyms.

With borrowing costs holding close to the lowest since the 1960s, the university issued debt last month to replace its 47-year-old stadium two miles from the Fort Collins campus where the Rams now play. The new arena will help push CSU's debt to $1.14 billion this year, more than double what it was in 2009, according to Standard & Poor's.

"This is one of the few things that an institution can do that's going to draw 40,000 people to campus," said Joe Parker, the school's director of athletics. "There are very few things that attract people with the same passion that athletics does."

S&P has had a negative outlook on higher-education bonds for more than a year because of the mounting debt of universities. On March 17, the company said it may lower CSU's A+ credit rating, the fifth-highest rank, as it plans to sell $160 million in additional bonds this year for new buildings.

'Greater Pressure'

The new debt will "exert greater pressure on financial resources that we already view as very weak for the rating," Jessica Wood, an S&P analyst in Chicago, wrote in a report.

Investors haven't punished the university. CSU bonds maturing in 2038 traded for an average yield of 2.9 percent on April 16, close to the lowest this year, data compiled by Bloomberg show.

Ron Speaker, chief executive officer of Equus Private Wealth Management, a municipal-bond investor, said having an off-campus stadium was discouraging attendance.

“Fixing that problem is the right thing to do despite the financial implications it has,” said Speaker, whose firm is based in Carbondale, Colorado. “They can handle it. They’ve been under-leveraged compared to other competing high-quality institutions in the state and across the country.”

Rival’s Stadium

The University of Colorado, CSU’s in-state rival about 55 miles (88 kilometers) south in Boulder, is completing a $156 million renovation of its athletic facilities, including 90-year-old Folsom Field for the Buffaloes, which play in a separate conference, the Pac-12.

CSU plans to fund debt payments with revenue from premium seats, concessions, naming rights, sponsorships and events other than football. Rich Schweigert, the university system’s chief financial officer, said the stadium won’t need money from student fees or tuition to pay off the bonds.

“We financed the stadium using the lowest projected revenue stream, which is what our current stadium is doing now,” he said. “All we have to do is perform like we are currently performing — which would be inconceivable that we can’t do better.”

While schools in the five richest college football conferences are able to use revenue from media contracts to pay for new facilities, divisions like CSU’s Mountain West have relied on student fees to help support their programs, said Amy Perko, the executive director of the Knight Commission on Intercollegiate Athletics.

“The financial policies in athletics should aim to strengthen each institution’s broader educational mission, not to detract significant resources away from it,” she said.

Football’s Share

CSU spent $12 million on football in the 2014 budget year, the second highest in the Mountain West, according to data submitted to the U.S. Department of Education. That’s up from $5.5 million in 2005, as new media contracts created an explosion of revenue and spending across college sports.

Some faculty and students opposed the school’s decision to go into debt for the stadium. S&P’s reduced outlook on CSU’s rating signals the school is over-leveraged, said Steven Shulman, chair of CSU’s economics department.

“It’s the financial equivalent of a police car pulling up behind you with lights flashing and sirens blaring,” said Shulman, who writes about the economics of higher education.

Winning Record

The Rams have played post-season bowl games in the past two years, posting a 10-3 record in 2014 that included a 31-17 win over Colorado. Even so, attendance at its six home games averaged 26,575, leaving 5,925 seats empty. The new stadium, scheduled to open in September 2017, will have a capacity of 40,085.

Some students aren’t convinced that building a stadium on campus will increase attendance or that it won’t result in higher fees.

“They should keep using the old one,” said Elizabeth Bergersen, 21, a creative-writing major, as she read a textbook in front of the student center. “I don’t think more people will go to the new one because people who like football go now."

Bloomberg News

by Jennifer Oldham

April 21, 2015

Chicago Schools Haunted by Bankruptcy Chatter Ahead of Bond Sale.

The Chicago Board of Education can't catch a break as it borrows to pay for upgrades to the third-largest U.S. school system.

First, Moody's Investors Service and Fitch Ratings cut it to one step above junk last month, delaying a planned $372 million bond sale. Then last week, before a pared-down $296 million version of the deal, set for Tuesday, Governor Bruce Rauner said the system may need bankruptcy protection, an option that's not legally open to it.

There's little prospect that the backdrop will brighten. The system faces a projected $1.1 billion budget gap next fiscal year as retirement costs climb. Its relative borrowing costs are close to a two-year high. And with negative outlooks from Moody's and Fitch, a downgrade to junk may chase off investors.

"There are a lot of balls in the air when it comes to our outlook," said John Miller, co-head of fixed income in Chicago at Nuveen Asset Management, which oversees about $100 billion of municipal debt. Nuveen may buy the new bonds for its high-yield fund, he said. "They might have to entice people with more spread, particularly with headline risk like this."

Pension Strain

The fiscal strains are an amplified version of the city's struggle to stave off insolvency. Chicago, with $20 billion of unfunded pension liabilities, has the lowest general-obligation grade among the 90 most-populous cities, apart from Detroit.

Michael Passman, a schools spokesman, said the bond sale is going forward as planned.

"The governor's suggestion is not a viable option to remedy CPS's financial difficulties," he said via e-mail. "The solution to CPS's financial situation lies in Springfield with legislators" who can help alleviate its budget deficit.

Tuesday's offer includes a portion maturing in December 2039 that is being marketed at a preliminary yield of 5.63 percent, according to three people familiar with the sale who requested anonymity because the deal isn't final. That's about 2.7 percentage points more than benchmark municipal debt, data compiled by Bloomberg show.

At that level, the deal offers extra yield relative to previous bonds from the school board. Debt maturing in December 2042 traded Tuesday at an average yield of about 5.3 percent, or 2.3 percentage points above benchmark munis, Bloomberg data show. That's close to the widest in at least two years, and up from 1.8 percentage points before Moody's March 6 downgrade.

The securities were part of the last fixed-rate offering from the schools in 2012, when they priced to yield 0.89 percentage point above benchmark munis.

Bankruptcy Specter

Moody's rates the school board Baa3, the lowest investment grade and equivalent to Fitch's BBB-. Standard & Poor's ranks it A-, three steps higher. All consider it riskier than Chicago. Mayor Rahm Emanuel effectively runs the schools, appointing the seven-member board.

Given the system's more than $9 billion in unfunded pension obligations and growing deficit, Rauner, a first-term Republican, raised the specter of bankruptcy April 14 at an education forum in Chicago. The governor, who supports giving Illinois localities authority to file for Chapter 9 reorganization, repeated his claim that union contracts are putting local governments in financial peril.

Default Doubts

The mayor dismissed the suggestion in a press conference the following day, saying it's better to focus on areas such as curbing pension costs. Chapter 9 isn't even an option at this point: While lawmakers have introduced a bill in the Illinois House to allow municipal bankruptcy filings, the measure remains in committee.

The school bonds have "minimal payment default risk" and investors seeking extra yield should consider purchasing the debt, according to a report Monday from research firm Municipal Market Analytics in Concord, Massachusetts.

In the latest hurdle for the system, Chief Executive Officer Barbara Byrd-Bennett took leave April 17 after the board was served with federal grand jury subpoenas seeking records about contracts, according to updated bond documents.

The district, which educates about 400,000 students, has $6.3 billion of Moody's-rated general obligations.
Perhaps most troubling for the board's path to solvency is that it has nowhere to turn for help, said Bill Black at Invesco Ltd., which handles $22.8 billion of munis.

"There may be more bumps in the road ahead — there's no one out there to spare money for the school district," Black said from Downers Grove, Illinois. "The city has its own issues, and so does the state."

Bloomberg News

by Brian Chappatta

April 20, 2015

Detroit May Win Investment Grade on First Bonds Since Bankruptcy.

Four months after emerging from the biggest municipal bankruptcy in history, Detroit may return to the bond market with investment-grade ratings.

Michigan Governor Rick Snyder signed legislation Wednesday that gives added security to investors who buy $275 million of debt Detroit plans to sell, which he said may save as much as $30 million in interest costs. The law gives bondholders first claim on income taxes that back the securities, on top of an arrangement with a trustee that helps shield the revenue from city officials.

The extra measure is a sign of what it will take to get investors in the $3.6 trillion municipal market to lend to the city, which collapsed into bankruptcy after a decades-long population slide. The debt sale, which will publicly re-offer securities that were privately placed with Barclays Plc, will be the city's first since exiting court protection in December, state documents show.

Michigan provided the additional safeguards to keep credit-rating companies from giving the bonds a junk rating. Detroit's $18 billion bankruptcy has increased scrutiny of the legal safeguards on municipal bonds, particularly those sold by financially distressed local governments.

"A statutory lien in general does give us more comfort that it's going to be repaid," said Jane Ridley, an analyst at Standard & Poor's in Chicago, who declined to comment on how the bonds will be ranked. "In most circumstances, it would lead to greater security and potentially a higher rating."

Detroit general-obligation bonds backed by state aid have a comparable security structure, Ridley said. That debt wasn't impaired in bankruptcy and has a AA rating from S&P, the third-highest grade.

David Jacobson, a spokesman at Moody's Investors Service in New York, said it may be too soon to comment on whether the bonds could earn investment grades. Elizabeth Fogerty, a spokeswoman at New York-based Fitch Ratings, didn't have an immediate comment.

John Roach, a Detroit spokesman, didn't have an immediate comment about when the bonds will be sold or the prospect that they will receive investment grades.

Bloomberg News

by Brian Chappatta

April 23, 2015

Louisiana State Bond Buyers Met by Insolvency Plan Next Day.

Investors who bought $114 million of debt sold by Louisiana State University on Wednesday were warned about the state's fiscal struggles. What they weren't explicitly told in bond offering documents was that the school was considering filing for exigency.

Officials at the Baton Rouge-based school said they plan to draw up a financial exigency plan, equivalent to college bankruptcy, in the wake of $608 million in budget cuts proposed by Governor Bobby Jindal. For those who analyzed offering documents, the first item listed under bondholders' risks now takes on added meaning.

"The ability of the university to make principal and interest payments on the series 2015 bonds is indirectly contingent upon sufficient annual state appropriations to continue the operations of the university," it reads.

Yet the word "exigency" doesn't appear in the 204-page document dated April 13. Exigency, declared when schools face insolvency, would allow Louisiana's flagship school to restructure and fire tenured faculty.

“It’s bad form, if nothing else,” said Bart Mosley, co-president of Trident Municipal Research in New York. “Obviously for LSU’s financial structure, the state budgeting situation is a risk factor. The question this is going to come down to is how well were potential bond purchasers informed.”

Buyer Aware

In an e-mail, Ernie Ballard, a Louisiana State spokesman, said: “We didn’t list every possible action/contingency that might ultimately be considered because the situation was and remains fluid due to the ongoing legislative process, as it is in many other states. We are confident that we were transparent and open in the offering statement about the current state budget situation to potential investors.”

The school “is exploring a wide range of contingency plans, one of which would be filing for exigency if solutions to the projected shortfall are not found,” he said.

The bond document says “the university will examine all possible options to address potential reductions to state appropriations” in fiscal 2015-2016.

The deal shrank from an initially planned $130 million, according to offering documents. The largest portion of debt matures in July 2045 and priced to yield 3.57 percent, or about 0.5 percentage point above benchmark munis, data compiled by Bloomberg show.

Yields rose Thursday among the four bond trades of at least $1 million in size. The debt due in 2045 changed hands at a yield of 3.62 percent. The yield on bonds maturing in July 2033 rose to 3.36 percent, from 3.31 percent at pricing.

Moody’s Investors Service rates the university A1, the fifth-highest grade. It lowered its outlook to stable from positive April 8, citing “material declines” in state support. Fitch Ratings ranks it a step higher, at AA-.

Bloomberg News

by Brian Chappatta

April 23, 2015

Nantucket Travelers Can Thank Muni Buyers for Comfier Ferry Ride.

Travelers enjoying a cup of chowder or luxuriating in new seats while ferrying to Nantucket and Martha’s Vineyard next year can thank municipal-bond investors.

The Woods Hole, Martha’s Vineyard & Nantucket Steamship Authority is selling $38 million of tax-exempt debt April 27, according to data compiled by Bloomberg. The biggest bond offering in the service’s 55-year history will go to build a more spacious ferry equipped with a lunch counter, said Wayne Lamson, the agency’s general manager. The authority carried 2.9 million passengers last year back and forth to the islands off Massachusetts.

The operator of the largest ferry service between Cape Cod and the islands is borrowing to replace a 60-year-old vessel, and the timing couldn’t be better. Interest rates at the lowest in five decades are fueling record muni sales.

“We have a lot of people that visit the area from all over the country that are familiar with our operation, and then you’ve got the institutional investors as well,” said Lamson, who’s based in Woods Hole. “So we’re hoping there’ll be a lot of demand to buy the bonds.”

State Backing

The authority plans to repay the bonds using operating revenue, including fares. The debt is also backed by the full faith and credit of Massachusetts. Moody’s Investors Service ranks the bonds Aa1, its second-highest grade and the same as the state. The authority had $38.9 million of bonds as of April 17, according to bond documents.

When the agency sold debt in November, bonds maturing in March 2021 priced to yield 1.66 percent, or less than 0.1 percentage point above benchmark debt, Bloomberg data show.

Demand for the service has been rising. Ridership has climbed 5.8 percent since 2010, bond documents show.
The agency raised ticket prices this year after generating about $29.4 million in passenger revenue last year. For the trip to Nantucket, about 30 miles (48 kilometers) off Cape Cod, fares rose by $1, to $18, for adult passengers without a vehicle, Lamson said. Fare changes may bring in an additional $1.9 million, bond documents show.

The authority has never needed to tap the commonwealth guarantee, said Dan Belcher, a senior muni analyst at Columbia Threadneedle Investments. The firm, which manages about $30 billion of munis, owns some of the authority’s debt.

Chowder, Beer

“From a credit standpoint, we view it as very high quality,” Belcher said from Boston. “It’s kind of a double-barreled security. It’s self-supporting, and it has the pledge of the commonwealth.”

The new vessel, to be named the M/V Woods Hole, can hold 384 passengers, about 50 percent more than the M/V Governor, which it will replace. The ship is expected to go into service in May 2016.

For the famished or parched, the lunch counter will offer sandwiches and chowder as well as beer and wine, Lamson said. The vessel will boast individual seats, rather than just benches, and will have more outlets for riders to power up electronics, he said.

The M/V Woods Hole will also carry cars and trucks, and will be able to hold 10 to 12 semi trucks, double the capacity of the M/V Governor, Lamson said.

Route Flexibility

The new ship will be able to operate in shallower channels, allowing it to make the trip between Hyannis and Nantucket and also sail from Woods Hole to Martha’s Vineyard, he said. The M/V Governor is limited to the latter.

The authority, with nine vessels that typically have a service life of about 50 years, wants to replace a ship every six or seven years, he said. The last switch was in 2007.

While low borrowing costs help, the authority needed to go to the market regardless, said Robert Davis, its treasurer and comptroller.

"If it was a higher rate, we'd still be looking to go out in all likelihood," Davis said. "The overwhelming need to maintain safe, reliable service to the islands is paramount."

Bloomberg News

by Elizabeth Campbell

April 23, 2015

Louisiana State Cancels Muni-Bond Deal After Talk of Insolvency.

Louisiana State University scrapped a $114.5 million municipal-bond deal amid investor concern that its plans to address cuts in state funding may include filing for exigency.

Officials at the Baton Rouge-based school said they're considering financial exigency, which is equivalent to college bankruptcy, because of budget cuts proposed by Governor Bobby Jindal. When the university sold the tax-exempt debt this week, the offering documents circulated to investors didn't explicitly mention that possibility.

Louisiana State told investors Friday that the bond sale had been put off, said Ernie Ballard, a school spokesman. In a separate announcement, state Treasurer John Neely Kennedy said the postponement may increase borrowing costs for other state universities and even Louisiana itself as it grapples with a $1.6 billion budget gap in the coming fiscal year.

"Maybe the university was too candid in telling our taxpayers what's going on, but they're telling the truth," Kennedy said in a telephone interview. "Every university we've got is doing contingency planning and looking at the possibility of financial exigency."

If an offering is canceled before closing, the bonds aren't considered issued, according to Jennifer Galloway, a spokeswoman at the Municipal Securities Rulemaking Board, which is based in Alexandria, Virginia. Investors don't receive the debt and also don't owe any money.

'Continued Unpredictability'

"In light of recent events, LSU has decided to postpone the issuance" of the bonds, the school said in a statement. "Due to the continued unpredictably of our state budget, we believe this is the responsible thing to do, and we will re-evaluate the offering once the state's financial picture becomes clearer."

Ballard said Thursday that the university's disclosures were adequate. Bond documents said "the university will examine all possible options to address potential reductions to state appropriations" in fiscal 2015-2016.

The U.S. Securities and Exchange Commission has been stepping up efforts to crack down on municipal borrowers that fail to make sufficient disclosures to investors.

Louisiana faces a budget shortfall next fiscal year because of declining oil-tax revenue and the state's failure to enact adequate tax increases or spending cuts. Both Moody's Investors Service and Standard & Poor's lowered their outlooks on the state to negative this year.

Jindal has proposed higher-education cuts of more than $200 million to help plug the gap, along with reductions to tax subsidies for businesses.

LSU will explore its options in case state funding dries up, the school said. Exigency, declared when schools face insolvency, would allow it to restructure and fire tenured faculty.

“We remain hopeful that the legislature will develop solutions to protect funding for LSU and higher education in Louisiana,” the university said. “But we owe it to our students, faculty and staff to prepare for every possible outcome, as any responsible fiscal manager would do.”

Bloomberg News

by Brian Chappatta

April 24, 2015

Fortress’s Muni-Fueled Florida Rail Dream Faces Wary Investors.

Fortress Investment Group LLC’s plan to sell $1.75 billion of municipal debt to build the first privately run passenger railroad in a century is drawing opposition from some Florida residents. Bond buyers may pose a bigger obstacle.

Debt of All Aboard Florida, the company owned by Fortress private-equity funds that’s building the project, has lost more than 7 percent of its market value since it was issued in June. And the company has been paying interest in kind, racking up more debt, according to data compiled by Bloomberg.

The Florida train is part of a quest in the U.S. to revive the 19th-century mode of transportation even as Amtrak, the national passenger railroad, loses money. Investors said the $3 billion project may struggle to make enough to pay its debt.

“This is a very high-risk project,” said Dan Heckman, senior fixed-income strategist in Kansas City, Missouri, with U.S. Bank Wealth Management, which oversees $126 billion. “I would question whether they would get the kind of ridership they may need quickly enough to make it work.”

The 235-mile (378 kilometer) line would link Orlando to Miami. As highways grow increasingly clogged, privately funded railroads have been proposed in Texas and the Washington area. California’s already started work on a high-speed line to be funded in part with private money.

Lower Yields

All Aboard is asking the state-run Florida Development Finance Corp. to approve the sale of municipal debt to finance the railroad, which would have stations in Miami, Fort Lauderdale, West Palm Beach and at Orlando International Airport. That approach would allow it to borrow at tax-exempt rates, which are lower than on corporate bonds.

Gordon Runte, a spokesman for New York-based Fortress, declined to comment.

The project has drawn opposition from residents who are concerned that towns along the route would suffer and question the company’s commitment to keeping it running.

“They’re going to build this all up and sell it,” said Tom Campenni, a councilman in Stuart, Florida, a coastal city along its route. “It will put a burden on our community.”

Companies can raise money for public works such as airline hangers, toll roads and real-estate developments, as long as state or local-governments agree to issue the securities. All Aboard would be responsible for paying the debt. Taxpayers won’t be liable if it defaults.

Awaiting Approval

At an April 20 meeting of Florida’s development agency in Tallahassee, dozens of people urged officials to reject the bond plan. No date has been set to vote on it, said Beth Frady, a spokeswoman for Enterprise Florida, which oversees the development agency.

All Aboard says the rail line will provide an economic boost and reduce highway congestion.

“There is tremendous need in-state for a reliable and convenient transportation alternative to air-and-car travel,” Lynn Martenstein, an All Aboard spokeswoman, said in an e-mail.

When All Aboard sold $405 million of corporate debt in June, it paid a 12 percent interest-rate on five-year bonds. The price tumbled to a record low of 93.5 cents on the dollar by April 1 from from $1.03 in June, pushing the yield to 14.7 percent, a level typically associated with distressed securities. Five-year munis with the lowest investment grades yield about 2.1 percent, according to Bloomberg data.

Not Recommended

Marilyn Cohen, president of Envision Capital Management in El Segundo, California, said she’s leery of the possibility that the project’s price tag will swell.

“The fact that they’re trying to offload their risk to investors is very telling,” said Cohen, who manages $345 million for individual investors. “This isn’t something I would recommend for my clients.”

While it will lay some tracks, All Aboard is mostly using existing freight lines. Work has already started on the segment from Miami to West Palm Beach, which the company plans to open late next year. The entire railroad is expected to be running in 2017.

On a Feb. 26 earnings call with investors, Wesley Edens, a co-chairman of Fortress, said the company will benefit from developments around the railway.

He said the railroad is a “wild card that could have nothing but upside.”

(An earlier version of this story corrected the spelling of Stuart, Florida.)

Bloomberg News

by Darrell Preston

April 26, 2015

Fitch: State Fiscal Intervention Losing Ground in IL, NJ.

Fitch Ratings-New York-20 April 2015: Recent developments in Illinois and New Jersey are lessening the chances of state intervention that could result in better outcomes for bondholders than allowing distress to lead to bankruptcy, Fitch Ratings says. We believe efforts to resolve looming budget deficits and ensure the affordability of long-term obligations would be more productive than focusing on easing laws or practices to allow bankruptcy.

Illinois governor Bruce Rauner recently proposed granting the authority to local governments to file a Chapter 9 petition. The proposal is similar to a law introduced by a state representative last fall. It supports Fitch's view that the needs of a distressed municipality are a better indication of the possibility of bankruptcy than whether current state law allows it. Current Illinois law bars local governments with populations over 25,000 from filing a Chapter 9 petition.

Further fueling concerns about the credit quality of Chicago Public Schools (CPS), Governor Rauner said this week that he fears the district may need bankruptcy as a solution to its large budget imbalance. According to CPS analysis, their reserves will likely be fully depleted by the end of fiscal 2016.

In New Jersey, the recent appointment of corporate restructuring experts to assist Atlantic City in resolving the city's fiscal crisis appears at odds with the state's strong history of aiding local governments to prevent the type of stress that could lead to bankruptcy. Of US states, New Jersey has historically provided among the strongest levels of early intervention to local governments with financial strain.

Fiscal intervention mechanisms vary by state. Most focus on helping local governments recover from distress, rather than preventing it. Many can approve or reject financial plans, budgets, and certain government contracts under state control. Their powers, however, are constrained by laws governing labor contracts, benefits including pension obligations, and service provision. Fitch believes this limits their ability to remediate financial distress.

Flexible Muni-Bond Funds Attract Advisers.

More municipal-bond fund managers today have the freedom to range across a broad array of investments.

As a result, financial advisers are beginning to embrace these flexible funds as a possible hedge against rising interest rates.

At least six muni-bond funds have been launched or retooled to give their managers more flexibility to manage duration or buy below-investment-grade bonds, according to Morningstar Inc.

BlackRock Inc. revamped BlackRock Strategic Municipal Opportunities (MAMTX) last year, for example, to permit its management team to set its duration between zero and 10 years instead of the prior 3 to 10 years. Also, the team can invest up to 50% of its assets in below-investment-grade muni bonds.

In another example, Goldman Sachs Asset Management in December changed the name of its Goldman Sachs Municipal Income Fund to Goldman Sachs Dynamic Municipal Income Fund (GSMIX), and gave it the flexibility to buy junk bonds and target a broader range of maturities.

In addition to investors' concerns over the possibility of rising interest rates, the changes stem from an evolving muni-market landscape that provides more opportunity for fund managers to distinguish themselves and the asset-gathering success of flexible bond funds that are taxable, says Elizabeth Foos, a senior analyst at Morningstar.

She recommends that investors approach the funds with caution for now. Many are new and the funds generally carry the same risks as flexible bond funds as well as some that are particular to the municipal-bond market.

For one thing: muni-bond funds fish from a far narrower universe than do their taxable counterparts, Ms. Foos says, which can make it difficult to make quick and cheap changes to credit and interest-rate exposure. Also, because these funds may have wide latitude to shift investments, investors can suffer amplified losses if a manager makes a bad call.

“The combination of thousands of unique debt obligors, ambiguous legal pledges to repay debt, and the lack of timely and consistent disclosure on the part of municipal borrowers can make it difficult to find the right high-yield investment for a portfolio,” she says. Also, junk bonds represent just a small portion of the muni market and can trade infrequently, she adds.

In addition, the market for credit-default swaps, and credit-default baskets that can be used to take broad-based exposure to credit risk, isn’t as deep or as liquid in the muni markets as it is in the taxable markets, Ms. Foos says.

Making swift and significant adjustments to duration in a muni fund also can be challenging. Taxable managers can adjust a fund’s sensitivity to changes in Treasury yields quickly and cheaply through the use of Treasury futures, and muni managers can adjust duration by changing their mix of long- and short-maturity bonds or using Treasury futures, she says.

But trading securities to adjust interest-rate sensitivity can be expensive, Ms. Foos says, and using Treasury futures can be problematic because muni and Treasury yields don’t always move in tandem. When that correlation breaks down, a muni portfolio hedged with Treasuries can behave in unexpected ways, something that caused headaches for many muni managers in 2008, she says.

Peter Hayes, head of the municipal bonds group at BlackRock, says Treasury futures aren’t perfectly correlated to munis. But over the longer term, there is a high degree of correlation between the two markets.

As for liquidity issues, they exist throughout the fixed-income markets with smaller issuers, but “most asset managers aren’t buying small, infrequently traded issuers,” Mr. Hayes says. The average credit quality of the BlackRock portfolio is around A+, he adds.

Regardless of the risks, however, investors have begun embracing the funds.

About $2.44 billion has flowed into BlackRock Strategic Municipal Opportunities since its modification in January of last year through March 31, according to Morningstar. The fund gained 4% in the 12 months through April 20, while the Barclays Municipal Bond Index rose 5.6%, according to Morningstar.

Roger Oprandi, an adviser at Vega & Oprandi Wealth Partners in Miami, has been using some flexible municipal-bond funds, including BlackRock Strategic Municipal Opportunities and Goldman Sachs Dynamic Municipal Income.

“We’re hoping that their managers will be able to navigate a rising-rate environment over time,” says Mr. Oprandi, whose firm is affiliated with Ameriprise Financial Services.

He’s using the allocation to complement clients’ municipal-bond holdings. In a portfolio calling for a 25% allocation to munis, for example, he might invest 10% in a flexible muni-bond fund. Mr. Oprandi says he hasn’t committed more to the funds partly because of their short track records.

Melissa Joy, director of wealth management at the Center for Financial Planning Inc., is also using some of the funds as a portion of clients’ muni allocations. The firm purchased the Thornburg Strategic Municipal Income (TSSIX) last summer and still holds it, says Ms. Joy, whose Southfield, Mich., firm manages $640 million.

But she does generally consider the funds more risky than a portfolio of general obligation bonds without the flexibility, and would discuss that risk with any client, she says. And managers of some of the new funds may have experience managing muni-bond funds, but no experience managing a flexible bond fund, she says.

“There will be some excellent opportunities within this space,” Ms. Joy says. “But it will take a while to figure out who’s got the staying power.”

Chad Carlson, an owner of and director of research at Balasa Dinverno Foltz in Itasca, Ill., isn’t using the funds yet for several reasons–one of which is their higher fees. He now uses two Vanguard funds for clients’ muni allocations.

In addition, performance hasn’t been great for any nontraditional bond funds generally, says Mr. Carlson, whose firm manages more than $3 billion. Most investors are concerned about rising interest rates, against which a typical defense is duration management, but it’s very difficult for managers to predict when they should alter a fund’s duration, he says.

That said, Mr. Carlson believes there’s probably room for some flexibility in a bond portfolio. In fact, his firm does use small doses of it in client portfolios through taxable bond funds.

THE WALL STREET JOURNAL

By DAISY MAXEY

April 23, 2015 9:44 a.m. ET

Write to Daisy Maxey at daisy.maxey@wsj.com

Municipal-Bond Funds Get Flexible

Some municipal-bond fund managers have more flexibility now. That means investors may need to exercise more caution.

In recent years, fund companies have changed the rules for some funds that specialize in tax-exempt muni securities to let managers buy debt that is riskier or that can be less sensitive to rising interest rates, according to Morningstar, the Chicago-based investment-research firm. The companies also have launched new muni funds that give managers a relatively free hand.

In December, for example, Goldman Sachs Group changed the rules governing a $600 million fund—and tweaked the name. The Goldman Sachs Municipal Income Fund became the Goldman Sachs Dynamic Municipal Income Fund, and managers now can invest up to 30% of its assets in below-investment-grade—or junk—muni bonds, which had been off-limits.

The fund also can vary its holdings to guard against rising interest rates to a greater extent than before. It charges annual fees of 0.79%, or $79 on a $10,000 investment. The fund has gained 4.9% over the past year, through Thursday, compared to a 5.3% gain in the Barclays Municipal Bond Index, according to Morningstar.

The $3.2 billion BlackRock Strategic Municipal Opportunities Fund made similar changes in January 2014. Managers now can invest up to 50% of the fund’s assets in junk bonds, up from 20%, and have greater leeway to adjust the portfolio to limit the impact if interest rates rise. The fund charges annual fees of 0.88%.

The changes have come at a time when many bond-fund managers are concerned that if the Federal Reserve raises interest rates, their holdings could lose value and investors could withdraw money. In addition, junk bonds tend to pay higher interest rates, which can help fund managers boost returns.

Investors have responded to the changes with enthusiasm. They poured about $2.4 billion into the BlackRock fund between Jan. 1, 2014, and March 31 of this year, according to Morningstar. The fund has gained 3.7% over the past year.

But municipal-bond funds with broader mandates could leave investors vulnerable if, for example, fund managers are wrong about the direction of interest rates or have difficulty unloading their junk bonds, which can be thinly traded in the muni market, says Elizabeth Foos, a senior analyst at Morningstar.

“For now, it’s probably best to approach these funds with caution,” she says. Their limited track records and the greater latitude they give fund managers make it “difficult to know how they’ll perform in a bout of real market stress and therefore how to best use them in the context of a broader portfolio,” she says.

Some muni funds use Treasury futures to curb their sensitivity to interest rates, according to Ms. Foos. That can pose a problem because muni and Treasury yields don’t always move in tandem—a phenomenon that caught some muni-bond fund investors off-guard when it occurred during the financial crisis in 2008, she says.

Peter Hayes, a portfolio manager for the BlackRock fund, says that over the long run, there is usually “a high degree of correlation” between Treasury futures and munis, limiting the risk.

In addition, Mr. Hayes says most asset managers don’t buy muni bonds issued by small, infrequently traded borrowers, so they are generally insulated from the risk that they will have difficulty unloading their holdings.

Roger Oprandi, whose firm, Vega & Oprandi Wealth Partners in Miami, is a franchise of Ameriprise Financial Services, says he has recently put some client money into muni funds that give managers wider latitude. In a portfolio calling for a 25% allocation to munis, for example, he might invest 10% of the overall portfolio in a flexible muni-bond fund.

“We’re hoping that their managers will be able to navigate a rising-rate environment over time,” Mr. Oprandi says. He says he hasn’t committed more to the funds in part because of their short track records.

Chad Carlson, director of research at Balasa Dinverno Foltz, an advisory firm in Itasca, Ill., isn’t using the funds, in part due to their higher fees.

Instead, Mr. Carlson, whose firm manages more than $3 billion, says he uses the Vanguard Intermediate-Term Tax-Exempt Fund and the Vanguard Limited-Term Tax-Exempt Fund, which both charge individuals 0.20% on a $10,000 investment.

Many investors are concerned about rising interest rates, but it is difficult to predict when they will rise and for a fund manager to adjust a bond portfolio in anticipation, Mr. Carlson says.

THE WALL STREET JOURNAL

By DAISY MAXEY

April 24, 2015

Write to Daisy Maxey at daisy.maxey@wsj.com

New Jersey Taps Former Bankruptcy Judge to Mediate Atlantic City Talks.

(Reuters) – New Jersey has appointed Donald Steckroth to negotiate talks between Atlantic City and the groups involved in its restructuring process, the former bankruptcy judge said on Thursday.

Steckroth, who served a 14-year term with the U.S. Bankruptcy Court in New Jersey, is currently a member of Cole Schotz as a part of its bankruptcy and corporate restructuring practice, according to the law firm’s website.

The Wall Street Journal reported the news earlier saying that Steckroth would be attempting to broker a deal between the city’s turnaround team and business and union interests.

Atlantic City faces a budget gap of more than $100 million this year, while four casino properties have closed since the start of 2014.

In January, New Jersey Governor Chris Christie had appointed an emergency management team for Atlantic City headed by Kevin Lavin. The team also includes former Detroit emergency manager Kevyn Orr.

In March, the team issued a report saying the struggling gambling hub had to consider cost cuts, layoffs and longer bond maturities, although it noted that bankruptcy was not yet on the cards.

Still, the appointment of the team has U.S. municipal bond investors and Wall Street credit rating agencies concerned that the move could signal a departure from the state’s historically strong support of its financially distressed cities.

(Reporting by Narottam Medhora and Ankush Sharma in Bengaluru and Hilary Russ in New York; Editing by Diane Craft)

By REUTERS

APRIL 23, 2015, 9:17 P.M. E.D.T.

Financial Woes, Federal Probe Drive Up Interest Rate on CPS Bonds.

Chicago Public Schools was forced to pay top-of-the-market interest rates on nearly $300 million in new bonds issued today amid the uncertainty created by a federal investigation and a looming annual budget deficit of more than $1 billion.

The top yield for investors was 5.63 percent on 25-year bonds, or 2.85 percentage points over benchmark triple-A rated bonds, according to published reports.

The Chicago Board of Education delayed the sale last month after getting hit with downgrades by three ratings agencies.

“While the board’s rating remains in investment grade territory, its yields aren’t,” according to a story published today by Bond Buyer, which tracks the municipal finance market. The yields, or amount that investors are paid, are in the range of bonds with a much lower credit rating, Bond Buyer said.

The relatively high interest rate was likely attractive to investors who discounted the chances that CPS would be unable to repay the bonds. The school district confronts a $1.1 billion budget deficit in fiscal 2016, which starts July 1. About $700 million is due in payments to the school district’s woefully underfunded retirement plan.

After this story was published, a CPS spokesman said in a statement that demand for the bonds was 1.7 times the supply, a sign that investors had a strong appetite for the bonds, given the interest rate.

“The strength of today’s bond sale is another indicator that investors have confidence in the district and the security of its bonds despite its well-known budget challenges,” according to the statement, which did not address the relatively high interest rate needed to attract buyers.

CPS had revenue of $4.94 billion in the fiscal year that ended June 30, 2014, and $6.6 billion in long-term debt, including accrued interest.

The delay in the sale gave investors the comfort of knowing the results of the April 7 runoff election, in which Mayor Rahm Emanuel won a second term. But it also added to the school board’s challenges.

TOUGH RATINGS

Reports surfaced on April 14 of a federal investigation into a $20.5 million, no-bid contract awarded to a firm with ties to CEO Barbara Byrd-Bennett. She has taken a leave of absence.

Complicating matters even more was Gov. Bruce Rauner, who talked up the option of bankruptcy for CPS and other governmental agencies. His jawboning likely unsettled investors, even if his comments were aimed at the Chicago Teachers Union, whose retirement plan is the source of much of the schools’ financial troubles.

Proceeds of the bond sale will be used to refinance existing debt. Today’s bond issue was actually a series of securities with different maturities and lower interest rates.

Even as the school board delayed the bond sale, it went ahead last month with the sale of about $180 million in floating rate debt. The rate on those notes, 4.02 percent, reflected a “steep penalty,” according to a Bond Buyer story published April 1.

Moody's Investors Service led off the downgrade parade on March 6, lowering its rating on CPS two levels to Baa3, just above junk bond status. Then Fitch Ratings cut its grade to BBB-minus, just above junk bonds, from A-minus. Standard & Poor's Ratings Services lowered the district's rating by two notches, to A-minus, two notches above junk bond status.

The ratings reduction by Moody's and Fitch triggered a possible $228 million penalty to be paid by CPS on swaps contracts the school district has on $1.1 billion in debt. Swaps are agreements intended to reduce the risk of interest rate changes.

Ahead of the new bond sale, CPS did not seek a rating from Moody's, typically the most skeptical of the ratings agencies. Instead, CPS hired Kroll Bond Rating Agency, a relative newcomer to the field, which assigned a rating of BBB-plus.

Some bond market observers viewed dropping Moody's as "rating shopping," an attempt to obtain a more favorable report, but institutional investors were likely not affected by the change.

CRAIN'S CHICAGO BUSINESS

By THOMAS A. CORFMAN

April 21, 2015

Gundlach Buys $20 Million of Junk-Rated Puerto Rico Bonds.

DoubleLine Capital's Jeffrey Gundlach bought $20 million of junk-rated Puerto Rico bonds this year as the commonwealth struggled with its fiscal crisis.

DoubleLine's $2.26 billion Income Solutions Fund held $20 million of Puerto Rico general obligations as of Feb. 27, data compiled by Bloomberg show. The fund didn't hold any commonwealth debt at the end of 2014. The bonds, which were issued in March 2014, traded Wednesday at record-low prices.

Puerto Rico securities, which are tax-exempt nationwide, have traded at distressed levels for more than a year amid speculation the commonwealth and its agencies won't be able to repay $73 billion of debt. Municipal bonds sold in Puerto Rico lost 0.72 percent this year through April 21, the worst start since 2011, according to S&P Dow Jones Indices.

"I do think they are going to make it to the goal line," Gundlach said of Puerto Rico in a March 10 conference call. The yield on the debt is "unbelievably high," especially for residents of high-tax states such as California, he said.

As the value of Puerto Rico debt has dropped, hedge funds and distressed-debt buyers have purchased more of the securities, while municipal-bond mutual funds have cut their holdings.

High Reward

The bonds purchased by DoubleLine, which mature in 2035, traded Wednesday at an average price of 79.7 cents on the dollar, the lowest yet, for an average yield of 10.4 percent, Bloomberg data show. That's equivalent to about a 17 percent yield on taxable bonds for investors in the highest tax bracket.

DoubleLine oversaw $73 billion of assets as of March 31. Its $46.2 billion Total Return Bond Fund has beaten 99 percent of peers in the past five years. Loren Fleckenstein, a spokesman for the Los Angeles-based firm, declined to comment.

The Income Solutions Fund is a closed-end fund. Corporate debt accounts for about two-thirds of its holdings, its largest allocation, Bloomberg data show. The Puerto Rico bonds are the fund's only municipal holdings, taking up less than one percent of assets.

It's not the company's first purchase of Puerto Rico debt. DoubleLine had $2.5 million of the same general obligations in its $129.6 million Multi-Asset Growth Fund at the end of March, Bloomberg data show. That fund first bought the debt last year.

Bloomberg

by Michelle Kaske

April 22, 2015

Yields Hit 5.63 pct in Chicago Schools Bond Sale.

(Reuters) – The Chicago Board of Education paid a stiff penalty for its fiscal woes on Tuesday as investors demanded fat yields for its $295.7 million general obligation bond sale.

The deal was slightly oversubscribed, but not enough to warrant a repricing, according to a market source. That left yields at their initially priced levels, which topped out at 5.63 percent for bonds due in 2039 with a 5.25 percent coupon, according to a pricing scale obtained by Reuters. That yield was 283 basis points over Municipal Market Data's benchmark triple-A scale.

Municipal bonds carrying the same ratings as the Chicago school system, A-minus by Standard & Poor's and BBB-minus by Fitch Ratings, would normally trade only 85 to 100 basis points over the scale, said MMD analyst Randy Smolik.

The 283 basis-point spread was also wider than the 250 to 255 basis points over the scale the board's bonds were fetching in secondary municipal market trading just last week.

There was no immediate comment from the Chicago Public Schools (CPS).

The nation's third-largest public school system is struggling with a huge pension liability and is projecting a $1.1 billion budget deficit in its upcoming fiscal year. Those fiscal woes factored in to credit rating downgrades by Moody's Investors Service and Fitch last month to one notch above the junk level.

The downgrades triggered the termination of interest-rate hedges on variable-rate debt that unless renegotiated could cost the district about $228 million in payments to banks.

Illinois Governor Bruce Rauner raised the possibility that CPS could be headed for bankruptcy, according to local media reports, although such a move is not currently allowed under state law.

Meanwhile, the district's chief executive officer, Barbara Byrd-Bennett, took a leave of absence pending the outcome of a federal probe into a contract the district awarded to a company that had previously employed her, CPS officials said on Friday.

(Reporting by Karen Pierog; editing by Matthew Lewis)

Tue Apr 21, 2015 5:44pm EDT

David A. Noyes & Company Hires Industry Veteran and Municipal Bond Underwriting Specialist.

David A. Noyes & Company [Noyes], a 105-year old wealth management and investment banking firm, announced today the hiring of Thomas L. Enright, as Senior Vice President of its Capital Market Division.

Enright, 55, will be responsible for growing Noyes' municipal bond underwriting business of its Capital Markets Division's Public Finance Group and fixed income platform. He will report directly to Robert Welch, Jr., Senior Managing Director of Noyes' Capital Markets Division.

Welch explained that Enright's hire is perfectly aligned with Noyes' plan to expand its fixed income platform and grow its municipal underwriting business with the intent to achieve three strategic goals: expand the firm's revenue sources, add municipal bond capabilities to its platform to anticipate and meet advisors' demand, and provide small municipalities with the level of service and attention they cannot obtain from larger Wall Street firms.

"Tom is a high-caliber professional with an impressive experience in municipal bonds," stated Welch. "His hire is a strategic addition to our team that further underscores the depth and breadth of skills Noyes consistently continues to attract. Tom's knowledge, expertise and energy lift our municipal efforts to another level."

Enright joins Noyes with more than three decades of experience in the municipal bonds industry. Throughout his career, he has underwritten in excess of $30 billion of municipal bond issues—including the $400 million Indianapolis Airport Authority bond—and priced on a yearly basis over $2 billion of bond issues. Most recently, he was Manager of Municipal Bond Trading and Manager of Capital Markets at City Securities Corporation. Prior to that, he served as Manager of Indiana Municipal Bond Operation at Raymond James and Manager of the Municipal Bond Department of Raffensperger Hughes and Company, Inc. He began his career at Indiana National Bank as Municipal Bond Trader.

"I'm excited and honored to join an organization with such a solid industry reputation and be part of a dynamic, successful and talented team," declared Enright. "In accepting this position, I was particularly impressed, among other things, with Noyes' investment in human capital and systems, the firm's enduring stability, pristine record and unwavering 'clients first' philosophy. I look forward to playing an instrumental role in helping Noyes grow a profitable and successful municipal bond underwriting business and empower them to deliver even more exceptional service and value to both their advisors and clients."

Enright obtained a B.S. degree in Finance from Indiana University.

About David A. Noyes

David A. Noyes & Company is a full-service investment firm headquartered in downtown Chicago's with branches throughout the Midwest. Founded in 1908, the firm has the unique distinction of being the oldest New York Stock Exchange Member based in Chicago, and has served the

Indianapolis area for nearly 80 years. The privately-held firm offers a comprehensive menu of products and services to individual and institutional clients. David A. Noyes & Company has seven offices in Illinois, Indiana and Michigan. For more information on David A. Noyes & Company visit http://www.danoyes.com.

CHICAGO, IL (PRWEB) April 21, 2015

Atlantic County Pays For Pay-To-Play Ordinance: Fox Rothschild.

I work with New Jersey's pay-to-play laws on a regular basis and anyone else who wades the muddy waters of this area understands that these laws are an intricate, confusing, and often conflicting web of rules, regulations, statutes, and executive orders that apply to mayoral, county, legislative, and gubernatorial elections – except when they don't. Because every county and municipality has the legal authority to promulgate their own pay-to-play rules, things can get even more interesting. Until now, there has been very little case law or guidance on New Jersey's local pay-to-play laws. That changed last week when the judiciary published an opinion on the topic.

Like many counties, Atlantic County has its own pay-to-play law that prohibits persons seeking or holding county contracts from making political contributions to anyone running for or holding county office, including the sheriff's office. When Sherriff Frank Balles decided to run for state senate, he found no harm in taking a political contribution from Ford-Scott, a county contractor. In approving Ford-Scott's contract, the Atlantic County Board of Freeholders determined that Ford-Scott was not prohibited from being awarded a county contract because Balles was not running for county office and the contribution made by Ford-Scott was specifically made towards Balles' senate bid.

Without getting into details that might make the reader's head explode, it is sufficient to say that, under normal circumstance, a person can legally contribute to a political candidate running for an office as long as the contributor does not have a contract with the particular body of government for which the candidate is running. It is for this reason that the Freeholders determined that Ford-Scott could legally take the county contract. In the first published opinion on local pay-to-play laws, the Law Division of the Superior Court disagreed.

Although the court was careful to restrict its analysis to the county pay-to-play law, its ruling was based primarily on the legislative intent. And, in one of those ironies that we see in legal opinions from time to time, the court determined that the same county governing body which wrote the pay-to-play law and approved the Ford-Scott contract actually intended for its law to preclude such contracts. The important part of this opinion lies in the reasoning behind pay-to-play laws – reducing actual and perceived government impropriety – which is the same policy behind all pay-to-play laws regardless of whether they apply locally or statewide. In other words, this precedential opinion will likely apply to any similar case under any pay-to-play law in New Jersey.

The practical impact of this opinion is widespread. For example, if Jersey City Mayor Steven Fulop decided to run for governor, and Jersey City had a local pay-to-play ordinance with similar language to the law in Atlantic County (which it does), this case could act to prevent any person who contracts with Jersey City or plans to contract with Jersey City in the future from contributing to Fulop's gubernatorial campaign. Thus, this will be an important decision for all public contractors in the future. And, as an aside, now that this opinion is public and precedential, there exists a potential for future cases on this issue to include an action under the New Jersey False Claims Act.

Last Updated: April 15 2015

Article by Michael Coco

Fox Rothschild LLP

Rauner's Dangerous Talk of Chicago Schools Bankruptcy.

Bankruptcy, as one lawyer familiar with the legal process puts it, works best as kabuki theater.

The actors get all gussied up in outlandish outfits—some as samurai warriors with scary swords and scarier faces. Everyone postures and gestures and engages in exaggerated argument. In the end, they're hopefully all frightened enough that they've worked out a compromise rather than pulling the trigger on Chapter 9.

I sure hope Gov. Bruce Rauner knows it's theater. And I hope that his political foes—particularly in organized labor—know that theater sometimes echoes reality as Chicago Public Schools heads down the horrid path to fiscal collapse.

CPS has been making lots of news lately, almost all of it bad. Even before CEO Barbara Byrd-Bennett was ensnared in a federal corruption probe, the agency faced a $1.1 billion hole for the budget year that begins July 1, a hugely underfunded pension plan and tough negotiations with the Chicago Teachers Union.

Rauner's seeming solution: bankruptcy. "The state has a crisis. The city has a crisis. I'm concerned that (CPS) is going to have to go bankrupt," he told attendees at a school conference April 14. "Bankruptcy code exists to help the organization get out of financial trouble. There's a reason for the bankruptcy code."

The governor has his allies in pushing for a state law that would allow local governments to declare bankruptcy and bust those union contracts Rauner so detests. "I'm not saying it's a good thing, but it ought to be an option," Rockford Mayor Larry Morrissey says. "Sometimes it's better to let a court work it out."

But even Morrissey considers actually doing the deed "a last resort." Others liken it to opening Pandora's box—risky in the extreme.

"It's like yelling fire in a crowded theater," says Bill Brandt, a municipal finance expert who until last month was chairman of the Illinois Finance Authority. "Look at Detroit," which just came out of bankruptcy. "People aren't flocking (to invest) there. . . .You need to use a rifle shot in negotiations, not a cannon."

Civic Federation President Laurence Msall echoes the point. "In every case around the country, the cost of government has gone up and the quality of services has gone down" after bankruptcies, Msall says. "And the risk of contagion is high" as other local governments have to pay more to finance debt, he adds, pointing to research that Detroit's neighbors now pay as much as half a percentage point more to borrow than they should.

Others draw a distinction between private companies, which usually can fire their entire workforce with relatively minor harm to the larger society, and institutions such as schools, which can't just drop math instruction this year because it's unprofitable.

For reasons like that, veteran Chicago bond lawyer James Spiotto suggested in recent state House testimony, government bankruptcy is rare—fewer than 700 cases nationwide since the Depression, only six involving schools. "Chapter 9 is not a solution to the problems of a financially troubled (government). Rather, Chapter 9 is a process" to bring about compromise, he testified.

In that vein, the Civic Federation is pushing a plan to create a state oversight board that could intervene in distressed cases and use its expertise to help local governments come up with a way to solve their problems short of bankruptcy.

Does Rauner get that? Does he understand that scaring unions to the table may be good and effective theater, but actually pushing CPS or other governmental units into bankruptcy might blow up with lots of collateral damage?

No one seems to know. One source familiar with Rauner's ways likens him to the "Animal House" character who has a devil perched on one shoulder and an angel on the other, each urging him to take different steps. Rauner's dislike of unions is so deep he may have lost objectivity.

On the other hand, should the Illinois Supreme Court rule out any real changes when it decides a case soon governing the state's troubled pensions, extreme actions might be necessary. And that's no stage play.

CRAIN'S

GREG HINZ

April 18, 2015

Don't Write Off High-Yield Munis.

Another April 15 has come and gone, and minimizing the taxes you'll owe next year may be top of mind. For most investors, that means checking out municipal bonds. And if you want more income, high-yield munis may look tempting.

The average 12-month yield for Morningstar's high-yield muni category is 4.34%, compared with 2.53% for intermediate municipal bonds. A 4% or 5% payout is impressive enough when the 10-year Treasury yields 1.9%, but for investors in the top bracket, that's equivalent to a 7% yield.

Yet high-yield munis are remarkably controversial. Their "high" yields are still at historical lows, though the risks are not: Rising interest rates threaten, and many investors are still smarting from Puerto Rico, Detroit, and other troubled issuers.

High-yield muni funds often buy low- or unrated munis, says John Miller, co-head of fixed income at Nuveen Asset Management, which manages Nuveen High Yield Municipal Bond fund (ticker: NHMAX) and an exchange-traded index fund, SPDR Nuveen S&P High Yield Muni Bond (HYMB). They are usually revenue-backed, issued to fund a new project that will bring in the revenue to pay back investors.

Even so, “you’re not getting paid to take that risk,” says Nicholos Venditti, who helps run Thornburg Strategic Municipal Income (TSSAX), which has just 6% of its $253 million in assets in high-yield munis—though it can go as high as 50%.

Two summers ago, high-yield munis were much cheaper than they are today. That’s when Richard Bernstein, chief investment advisor at his eponymous firm, started investing. “When we took our position in July 2013, high-yield muni bond yields averaged roughly 250 basis points [2.5 percentage points] over Iraq bonds,” says Bernstein—an indication the market felt U.S. municipalities with poor credit were a bigger risk than the nation of Iraq. “That’s ridiculous.” Even as of last week, “they were still 44 basis points over Iraq bonds,” he says.

At current rates, he says he’s not adding more, but the asset class still makes up nearly 20% of various portfolios.

BUT DON’T WRITE OFF high-yield munis just yet. Krishna Memani, chief investment officer at Oppenheimer Funds, calls them “the best asset class of all for investors who can take advantage of the tax benefits.”

Municipalities, even those with below-investment-grade debt, still have much lower default rates than comparably-rated corporates. Miller is optimistic, noting that state and local tax collections are rising, and economic conditions in most cities are improving. Moody’s Investor Services says municipal finances are better than they were during the 2008 financial crisis or in 2013 when Detroit’s bankruptcy and Puerto Rico’s financial woes rattled the sector.

Investors who want the income bump should go with a broadly diversified, actively managed fund at a company with a deep research process, says Morningstar senior analyst Beth Foos. Most funds use leverage and hedging strategies, which are disclosed on fund Websites and in prospectuses. Nuveen, for example, is hedging a year of duration (to manage interest rate risk) and has 20% total effective leverage (it’s capped at 30%). The greater the leverage, the bigger the risk if the market falls.

T. Rowe Price Tax-Free High Yield (PRFHX), run by Jim Murphy, is the only high-yield muni bond fund to earn Morningstar’s gold ranking. Murphy says he focuses on managing credit risk. He’s avoiding Puerto Rico and tobacco bonds. He likes hospital bonds, which have attractive yields, and some corporate-backed bonds, such as those issued by airlines, and transportation projects.

“Rates are historically low and spreads are tight,” says Murphy, “That is always uncomfortable. But when I look at the global landscape, these are among the highest yields in the world.”

BARRON’S

By AMEY STONE

April 17, 2015 11:46 p.m. ET

Puerto Rico's Power Utility, Creditors in Testy Public Battle.

(Reuters) – Negotiations between Puerto Rico’s troubled electric power authority and a group of its creditors turned into a testy public exchange on Tuesday as an agreement to prevent a possible messy default by Wednesday’s deadline proved illusive.

The public dispute, highly unusual in restructuring negotiations that are normally conducted behind closed doors, shows how difficult talks have become as the sides attempt to resolve the fate of over $9 billion in debt.

Lisa Donahue, the utility's chief restructuring officer, told a Puerto Rico Senate hearing on Tuesday that a $2 billion bondholder plan to restructure the utility, PREPA, contained overly "aggressive" elements that are unlikely to work.

Donahue's testimony came shortly after PREPA's forbearing bondholders, a group led by Franklin Advisers and OppenheimerFunds, offered to extend a forbearance agreement for another 30 days after a previous 15-day extension was reached on March 31.

The forbearance agreement, which stops creditors from calling defaults during restructuring talks, expires on Wednesday.

PREPA's board said late on Tuesday it had still not agreed to the extension and that creditors had sent the extension proposal at 10 p.m. on Monday and released it publicly on Tuesday morning without notice.

"The bondholders' public description of the proposal is incomplete, leaving out material details," the president of PREPA's board, Harry Rodriguez, said in a statement. "No agreement has been reached, and it is unclear whether the proposal has the support of all of the forbearing creditors."

Donahue said demands that creditors be paid in full and on time were unlikely to work as a starting point for negotiations, although that may be a possible outcome. She also said certain cost estimates were too low and that the plan forecasts an unlikely increase in demand.

"There are elements of the plan that can't work," Donahue told the Senate hearing. "I am disappointed the plan was made public before we had a chance to vet it."

Negotiations became public after creditors released their restructuring plan earlier this month in a step that appeared to be aimed and putting pressure on PREPA to reach an agreement.

Donahue's position is becoming increasingly difficult. In addition to having to contend with rebellious bondholders, she faced criticism during her Senate hearing from politicians who questioned the cost of restructuring, a lack of disclosure, and her experience of restructuring public utilities.

Creditors said their offer to extend the agreement included a commitment to continue working on a capital investment and rate plan, a timeline for further action, and third party review with an opportunity for public review.

A source close to the forbearing creditors acknowledged relations with PREPA are frosty but said extending the agreement was the best option. The person said Donahue's apparent rejection of the notion that bondholders be paid in full and on time as a starting point for any plan had come as a surprise given her previous statements.

Failing an extension, bondholders could seek remedies, including eventually seeking a court-appointed receiver. While most bondholders might not find that option appealing given the destabilizing effect it could have on municipal bond markets, the chances of a "renegade" group of bondholders doing that would increase, the person said.

Still, Donahue said she is "optimistic" an agreement can be reached with the creditors. She said that

PREPA has committed to responding formally to the restructuring plan by April 24 and would deliver a more comprehensive plan by June 1.

By Edward Krudy

(Additional Reporting by Nick Brown; Editing by Meredith Mazzilli and Gunna Dickson)

Tue Apr 14, 2015 6:24pm EDT

Florida's Hurricane-Free Stretch Has Insurer Bracing for Storms.

Florida hasn't been hit by a hurricane since 2005, the longest stretch in more than a century. Its state-run property insurer isn't taking any chances.

Even though forecasters predict this year will produce the fewest named Atlantic storms since 1997, Citizens Property Insurance Corp., which provides coverage when other insurers won't take the risk, is selling as much as $1 billion of municipal debt to raise cash just in case. It would be the insurer's first bond sale in three years.

With hurricane season set to start June 1, Citizens is taking advantage of interest rates close to generational lows to bolster its claim-paying ability. Investors in the insurer's tax-exempt bonds welcome the steps toward a sturdier balance sheet: One storm is all it takes to rack up billions of dollars of expenses.

"I'm not sure they can predict what's going to happen with the weather," said Justin Land, director of tax-exempt management in Naples, Florida, at Wasmer, Schroeder & Co., which oversees about $5.3 billion. "Money is so cheap this is a good time to finance their pre-event capital."

Wilma's Toll

Wilma was the last hurricane to strike the state, in October 2005. It killed five people in Florida and caused $20.6 billion of damage, according to a National Hurricane Center report. The state hasn't gone this long without a hurricane in records going back to 1851, NHC data show.

In its last bond sale in 2012, Citizens told investors that it writes policies in areas that "appear to be at the highest risk" of hurricanes and sinkholes, according to offering statements. If a storm produces enough claims to consume reserves, Citizens can ask for a surcharge on property-insurance policies sold statewide, including those from other companies, to repay its bonds. One risk is that regulators don't grant the surcharge.

The exposure to the weather can generate higher yields for investors. In the 2012 tax-exempt sale, 10-year Citizens bonds priced to yield 3.77 percent, or about 1.8 percentage points above benchmark securities, data compiled by Bloomberg show. The bonds carry an A+ grade from Standard & Poor's, the fifth-highest level.

Storm Wait

"They tend to trade a little wider based on Florida's location and the potential that they could get a hurricane or two," said Paul Brennan, a money manager in Chicago for Nuveen Asset Management LLC, which owns Citizens bonds among its approximately $100 billion of munis. "It's only a matter of time before they get another hurricane.”

This year, partly because of cooler Atlantic waters, Colorado State University researchers predict seven named storms, compared with the 30-year average of 12, with three reaching hurricane strength of at least 74 miles (119 kilometers) per hour. The season lasts through Nov. 30.

The insurer still needs cash for possible claims, in part because it plans to pay off about $2.6 billion of debt, most of which matures within three years.

Most of the deal will be tax-exempt and fixed-rate, maturing in three to 10 years, Jennifer Montero, the chief financial officer, said in an interview. It will probably price next month, she said.

“This allows us to take advantage of the yield curve and lock in rates at historically low rate levels,” she said.

Risk Reduction

The insurer determines reserve levels based on expected losses from a storm that has a one-in-100 chance of happening.

The lack of storms has drawn competition from other insurers, reducing residents’ reliance on Citizens, which has been trying to move customers off its books to reduce risk.

With storms bypassing the state, the company earned net income of more than $1 billion the past two years, raising its surplus to $7.4 billion at year-end, compared with a deficit of $1.8 billion at the end of 2005, according to financial statements.

The value of property it insures that could be subject to losses has fallen to less than $200 billion, from $518 billion in 2011. The number of policyholders has dropped to 600,000 from a peak of about 1.5 million in 2012 after a string of storms in 2004-2005. It may sink to 450,000 if no storms hit, according to the company.

With less potential for claims, the planned bond sale is about a third smaller than in 2012.

The bonds are “a very acceptable risk,” said Land at Wasmer, Schroeder. The company owns Citizens debt and will consider the new bonds.

Bloomberg

by Darrell Preston

April 15, 2015

Muni Mutual Funds See Longest Stretch of Outflows in 15 Months.

U.S. municipal-bond mutual funds suffered net withdrawals for the third straight week, the longest stretch in 15 months, as individual investors raised cash for tax bills.

Investors pulled out about $486 million in the week through April 15, the most since July, according to Lipper US Fund Flows data released Thursday. They’ve yanked a combined $820 million over the three-week span.

The outflows are curbing returns: Tax-exempt bonds have gained about 0.1 percent this month, compared with 0.2 percent for Treasuries and 0.5 percent for investment-grade corporate securities, Bank of America Merrill Lynch data show.

Muni mutual funds experienced weekly outflows seven times in 2014, as state and local debt gained in each month of the year for the first time in at least 25 years. The last time investors withdrew money for three straight weeks was the stretch through Jan. 8, 2014, at the end of a record wave of outflows that started in 2013 as interest rates rose and Detroit filed for bankruptcy.

If history is any guide, the municipal market will rally to end the month. Tax-exempt debt hasn't declined in April since 2006, Bank of America data show.

Benchmark 10-year yields in the past five years have fallen by 0.22 percentage point on average during April, more than any other month, data compiled by Bloomberg show. Through April 16, they've declined 0.02 percentage point.

Bloomberg

by Brian Chappatta

April 16, 2015

Calpers Raises Pension Plan Funding in California by 6 Percent.

(Reuters) – The largest U.S. public pension fund announced on Tuesday that the state of California and its schools will increase funding of employee pension funds by 6 percent starting July 1.

The California Public Employees' Retirement System, or Calpers, said the increases were driven by payroll growth, salary increases and retirees living longer.

The state of California must increase its contribution by $487 million to $4.7 billion. Schools must increase their contributions by $111 million to $1.3 billion.

The state pension plan is roughly 72 percent funded, while the school plan is about 86 percent funded, as of last June. That represents an approximate 6 percent increase for both plans over the previous fiscal year.

"As the fund matures, and the retired population grows, it's important that the rates reflect the changing demographics of our members," Richard Costigan, chair of the finance and administration committee, said in a statement.

The growing cost of public pensions is a key issue for state and local governments across the nation as guaranteed payments to retired employees have often forced cuts in spending on public services.

In California, where the city of San Bernardino is in municipal bankruptcy and the city of Stockton recently emerged from Chapter 9 protection, the issue of pension contributions has been particularly contentious. Both cities proposed to keep contributions to Calpers untouched while cutting debts to bondholders.

Calpers has $300 billion in total assets and the pension fund was roughly 77 percent funded as of last June.

(This story corrects 6 percent increase to plan funding, not contribution rates; adds fourth paragraph about plan funding)

By REUTERS
APRIL 14, 2015, 5:37 P.M. E.D.T.

(Reporting by Robin Respaut in San Francisco; Editing by Jonathan Oatis and Lisa Shumaker)

Kansas Lays Groundwork for $1 Billion Pension Bond Sale.

(Reuters) – Kansas has begun a search for underwriters to sell $1 billion of taxable pension bonds that won final approval this week, the state's Development Finance Authority said on Friday.

A bill signed into law Wednesday by Governor Sam Brownback authorizes 30-year bonds backed by annual state appropriations and limits the bond interest rate to 5 percent.

Potential underwriting firms have a May 1 deadline to reply to a request for qualifications for the deal.

The authority said no decision has been made on the timing or the structure for the bond sale.

Proceeds from the bond sale would flow to the Kansas Public Employee Retirement System, boosting its funded ratio to 66 percent from 60.7 percent and lowering the unfunded liability to $6.28 billion from $7.26 billion, according to a legislative report on the bill.

Kansas sold $500 million of insured pension bonds through the authority in 2004 with interest rates topping out at 5.5 percent for bonds due in 2034.

States and local governments have sold about $105 billion of taxable pension bonds since 1986, according to a July 2014 report by the Center for Retirement Research at Boston College. The practice, which relies on the assumption that invested proceeds will result in higher returns than the interest cost on the bonds, has come under 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.

By REUTERS
APRIL 17, 2015, 2:40 P.M. E.D.T.

(Reporting by Karen Pierog; Editing by Leslie Adler)

Puerto Rico, Investors Enlist Ex-IMF Officials.

The Puerto Rico government and the hedge funds that own its bonds are turning to former International Monetary Fund officials to help resolve a growing debt crisis that may require a restructuring more akin to Greece than a troubled city like Detroit.

The move comes as Puerto Rico is in talks with the funds and other investors to borrow up to about $3 billion in new bonds to replenish its nearly empty coffers. The commonwealth has more than $70 billion in debt, including that of its agencies such as the Puerto Rico Electric Power Authority, or Prepa, which is in restructuring talks with creditors ahead of a Wednesday deadline to extend some payments.

The development reflects the junk-rated commonwealth’s unusual status as neither a U.S. state nor a sovereign nation, unable to permit its municipal entities to access U.S. bankruptcy protections.

Puerto Rico has retained Anne Krueger, the IMF’s former first deputy managing director, as a consultant, while a committee representing the hedge funds is in talks about an engagement with Claudio Loser, the former director of the IMF’s Western Hemisphere department, said people familiar with the matter.

The involvement of IMF veterans highlights how market perception of Puerto Rico—a former darling of the $3.7 trillion municipal-bond market—has changed. The IMF serves as the lender of last resort to emerging-market countries, something some investors say Puerto Rico increasingly resembles.

Peter Hayes, head of BlackRock Inc.’s municipal-bonds group, said Puerto Rico is beyond simple fixes and it will be difficult for the island to escape restructuring. “The problem is they’re running out of time,” he said.

A federal judge in February blocked a local law that would have created a restructuring process for Prepa and other public authorities, and a U.S. House committee is considering a bill that would permit the commonwealth to allow those agencies access to the same Chapter 9 protections granted Detroit.

Investors have faced months of uncertainty from Puerto Rico, where the government is struggling with a weak economy, declining population and high unemployment. Its bonds are widely held around the U.S. because they are exempt from federal, state and local taxes and often provide higher yields than other munis.

As a U.S. commonwealth, the island also doesn’t qualify for IMF aid, but the excessive borrowing, inconsistent financial reporting and low tax collection that landed Puerto Rico in hot water are common in the developing countries that IMF economists deal with. Like a lot of those countries, Puerto Rico is wrestling with how to make politically contentious budget cuts and tax increases without strangling already-weak economic growth.

Puerto Rico’s government has relatively low levels of debt by international standards, and tackling the deficit is manageable, said Charles Blitzer, a former assistant director of the IMF’s monetary and capital-markets department and now principal at Blitzer Consulting.

“This is doable without great pain,” he said. “In fact, countries that have adjusted have found growth rates actually increase. I’m hopeful that the hiring of ex-IMF people by Puerto Rico signals their willingness to adjust their budgetary problems credibly and rapidly.”

The hedge funds that own much of Puerto Rico’s bonds are looking for tips from the IMF playbook on how to use the promise of new loans to coax governments into financial overhaul and, if that fails, how to negotiate with a sovereign in default, people familiar with the matter said.

Early this year, the bondholder group including Brigade Capital Management LP, Centerbridge Partners LP, Davidson Kempner Capital Management, Fir Tree Partners and Monarch Alternative Capital sent the island’s financial authorities a list of terms to include in the coming bond sale. The proposed covenants are meant to prod Puerto Rico into budget cuts and better financial disclosure, while ranking holders of the new bond above other creditors if there is a default, the people familiar with the matter said.

When Puerto Rico borrowed $3.5 billion in bond markets a year ago hoping to get financial breathing room, hedge funds bought more than half of the deal. The firms snapped up the bond for its attractive 8.7% yield but also because they hoped a successful financing would lift the prices of other Puerto Rico bonds they owned.

Since then, Puerto Rico has struggled to deliver a promised tax overhaul and bond prices have fallen. The price of the 2014 bond touched record lows below 80 cents on the dollar last month after three legislators proposed removing constitutional protections for bondholders.

Melba Acosta, president of the island's Government Development Bank, has said that the bank and the administration oppose such legislation.

The tax-overhaul plan has also received an uneasy response, facing resistance from "many quarters of the Puerto Rico economy" and its passage remains uncertain, according to Janney Capital Markets. Ms. Acosta said it would fight tax evasion and contained exemptions aimed at protecting low-wage workers.

Puerto Rico's hedge-fund creditors want more than promises of reform before they buy more bonds. The group has asked Ms. Acosta to include clauses that would raise the interest rate of the bond if the government fails to hit budget targets and would require timely standardized financial reports, the people familiar with the matter said.

"This financing explicitly seeks to bridge Puerto Rico to economic health," Mr. Loser said in an email. "The Commonwealth needs to commit to developing a comprehensive plan that balances the budget with timely and transparent financial reporting."

THE WALL STREET JOURNAL

By MATT WIRZ And AARON KURILOFF

April 12, 2015 6:37 p.m. ET

Write to Matt Wirz at matthieu.wirz@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

---

Puerto Rico Power Bonds Rally as Creditors Seek to Repair System.

Bonds of Puerto Rico's struggling power utility rallied to the highest in more than year as the agency and its creditors hammer out proposals to repair its finances.

Some debt of the junk-rated authority, called Prepa, gained after creditors last week submitted a $2 billion plan that would help diversify fuel sources to stabilize energy costs. Prepa expects to release its own proposal in the next two months, Lisa Donahue, the agency's chief restructuring officer, told Reorg Research in an April 8 article.

Prepa bonds maturing in July 2040 traded Friday at an average price of 66.19 cents on the dollar, the highest since March 2014, data compiled by Bloomberg show.

"It's a good sign that bondholders are giving legitimate proposals that, at the surface, look reasonable," said Dan Toboja, senior vice president of municipal-bond trading in Chicago at Ziegler, a broker-dealer. “That starts to look better for the underlying value of the bonds.”

Prepa, banks, investors and insurance companies are negotiating contracts to extend loans and give the agency time to create a turnaround plan. Those agreements end April 15.

The utility faces a $415.6 million principal and interest payment to bondholders July 1, according to New York-based NewOak Capital LLC. Prepa has $236.4 million in reserve, according to a filing by its bond trustee on the Electronic Municipal Market Access website.

Environmental Hiccup

Donahue expects the utility and creditors will agree to a plan enabling the agency to repay its obligations. She has said the fuel diversification offer wouldn’t meet environmental standards.

“I am optimistic that Prepa and the forbearing creditors will ultimately reach an agreement,” she said via e-mail Friday. “Any such plan will need to provide for a capital structure that allows Prepa to pay all such debts and honor other obligations as they come due in accordance with the plan.”

Investors are committed to providing capital to upgrade Prepa, Stephen Spencer, a managing director at Los Angeles-based Houlihan Lokey, adviser to bondholders, said in an e-mail Friday.

“We continue to believe the situation can be resolved consensually and productively with continued payment of Prepa’s debt and interest obligations as they come due and will do everything in our power to reach that outcome — for the benefit of Prepa, its many stakeholders and the island,” he said.

Bloomberg

by Michelle Kaske

April 10, 2015

Path to Finalizing R.I. Pension Deal Still Faces Hurdles.

PROVIDENCE, R.I. — Before a deal can be finalized to resolve years of legal wrangling over Rhode Island’s landmark public pension system overhaul, a court, lawmakers and the plaintiffs must sign off on it.

Last week the state struck a deal with most of the public sector unions and retiree coalitions suing over higher retirement ages and cuts to cost-of-living increases. Lawmakers restructured the pension system in 2011 to save $4 billion over 20 years — an effort that has been used as a model by other states.

Here is a look at what happens next in the pension saga, and what led up to the proposed settlement.

—

NECESSARY APPROVALS

The plaintiffs must amend their complaints to proceed as a class action for approving the settlement, and all of the class members must be notified about the proposed resolution. They are entitled to object.

The Superior Court judge presiding over the case will determine whether the settlement proposal is fair, and whether the court should approve it.

Separately, the settlement terms have to be approved by the General Assembly.

The pension reform was done legislatively so the terms have to be incorporated into the law. Leading lawmakers support settling, but others say they're reluctant to change the original pension reform law.

The litigation could continue if lawmakers take no action or enact legislation that is different than the terms.

—

THE SETTLEMENT TERMS

The settlement provides for cost-of-living increases and one-time stipends for retirees. The cap for calculating the benefits would increase for some retirees, and the calculation would be based on a new formula using both the performance of investments and the Consumer Price Index.

Employees would be allowed to retire earlier if they meet set requirements.

Most of the public sector unions and retirees voted to accept the terms, which means that about 59,000 past and present state employees would be affected by the deal.

Unions representing municipal police, Cranston police and Cranston fire, which collectively represent about 800 people, did not. Their lawsuits are continuing and will be addressed by the court after the settlement is implemented.

The total cost of the settlement is about $300 million. It preserves 90 percent of the savings from the pension reform.

The shortfall in the pension fund would increase from $4.6 billion to nearly $4.9 billion.

—

THE PATH TO A SETTLEMENT

The state agreed to a tentative settlement last year with the unions and retirees that pulled back on some of the changes but preserved most of the overhaul. Ultimately it was rejected after police union members voted it down.

Judge Sarah Taft-Carter ruled in February that the trial would begin April 20, despite both sides asking for more time to prepare.

With the trial date looming, many plaintiffs were receptive to the settlement proposal because they had begun to believe they would lose at trial.

Gov. Gina Raimondo, the architect of the pension reform, said the state has a strong case, but it's better to settle now and provide certainty for public employees, municipalities and the state.

The settlement doesn't prevent future lawmakers from changing the pension system again, but Treasurer Seth Magaziner said he doesn't think another major reform will be necessary.

In light of the settlement with most plaintiffs, the judge vacated the trial date. The parties have until May 18 to implement the settlement.

By THE ASSOCIATED PRESS

APRIL 7, 2015

Emanuel's Second Term: Chicago's Grim Fiscal Challenges.

(Reuters) – Ballooning pension payments, difficult negotiations with labor unions and threatened state funding cuts are some of the challenges facing Rahm Emanuel, who won a second term as Chicago's mayor on Tuesday.

The third biggest U.S. city is teetering at the edge of a fiscal precipice brought on by years of insufficient pension contributions, high debt issuance and a reliance on nonrecurring revenue to plug budget holes.

As a result, rating agency Moody's Investors Service has dropped Chicago's general obligation credit rating six notches since 2010 to Baa2, two notches above junk. The only big U.S. city with a lower Moody's rating is Detroit, which exited bankruptcy in December.

Here are the grim details of Chicago's financial problems:

– Chicago's total bond debt, including general obligation and water, sewer and airport revenue bonds, was $21.4 billion at the end of 2014, 60 percent more than in 2004.

– The city's biggest liability is its pensions. It ended fiscal 2013 with an unfunded liability of $19.2 billion in its four retirement funds, leaving them only funded 37 percent, well below the 80 percent level considered healthy. In addition, the city's unfunded liability for retiree healthcare was nearly $1 billion.

– Chicago last summer projected its contribution to its four pension funds, which totaled $478.3 million this year, will spike to $1.1 billion next year and steadily climb to $1.638 billion in 2020. At that level it would represent 46 percent of the city's current operating budget. A looming $550 million increase is due to a 2010 Illinois law that requires higher payments to public safety worker pensions to reach 90 percent funding by 2040.

– An Illinois Supreme Court ruling is due soon on a union challenge to the constitutionality of public pension reforms. If it goes against the state, the ruling could unravel a 2014 law that cut benefits for two of Chicago's four pension funds, increasing the unfunded liability in the city's municipal and laborers' retirement funds by $900 million.

– Chicago's ratings could be downgraded if the reform law is tossed out. If its ratings continue to fall, the city could be forced to fund payments nearly equal to its operating budget of $3.53 billion. A default on bank letters of credit and other liquidity facilities could potentially force the city to repay nearly $3 billion of debt, the city said in a January court filing. It may also have to make $300 million in payments to banks for debt-related contracts linked to the city's ratings. If the ratings are cut to junk then that would also substantially boost borrowing costs for future Chicago bond issues.

– Under Illinois Republican Governor Bruce Rauner's proposed fiscal 2016 state budget, Chicago would lose about $135 million in state revenue sharing and the Chicago Transit Authority, which the mayor controls, would lose $130 million.

– The Chicago Board of Education, also under mayoral control, is mired in its own fiscal crisis, projecting a $1.11 billion deficit in its budget for the fiscal year that begins July 1. The school system ended fiscal 2014 with a $9.5 billion unfunded pension liability and a funding ratio of 51.5 percent, down from nearly 80 percent in fiscal 2008. A three-year contract with the Chicago Teachers Union expires June 30.

By REUTERS

APRIL 8, 2015

(Reporting by Karen Pierog; Editing by Megan Davies and Martin Howell)

Kansas Offers Muni Bonds as Gift to U.S. for Bioterror Research.

Kansas, where Governor Sam Brownback is cutting pension payments and highway funding, sold $204 million of bonds as a "cash gift" to help the U.S. Homeland Security Department build a center for bioterrorism research.

The proceeds are part of the $307 million taxpayers are shelling out for the National Bio and Agro-Defense Facility at Kansas State University in Manhattan. The $1.25 billion facility, which will replace the Plum Island Animal Disease Center off New York's Long Island, will research ways to protect livestock from zoonoses like anthrax and Ebola that may be intentionally introduced, offering documents show.

Pledging money from last week's bond sale to the federal government shows the lengths to which states will go to secure economic-development projects. Over its first 20 years, the research facility is projected to inject $3.5 billion into the Kansas economy, according to a report cited by U.S. Senator Jerry Moran. The center may employ 326 people and support 757 construction jobs, he said.

"Kansas has a reputation in this region for being aggressive in economic development," said Dan Heckman, a fixed-income strategist who helps oversee $126 billion at U.S. Bank Wealth Management in Kansas City. He said his company looked to buy some of the bonds because the research "fits a very critical need for the country."

Knowing Zoonoses

From 2006 to 2009, the U.S. sought locations to replace Plum Island, where facilities are more than 60 years old. Manhattan, 118 miles (190 kilometers) west of Kansas City, won the competition, with the state pledging $105 million and the city offering $5 million for what at the time was a $725 million project, said Ron Trewyn, a liaison for the facility at Kansas State.

The cost swelled after years of delays and changes, including strengthening the the 713,000-squar--foot facility to withstand a tornado with winds stronger than 200 miles per hour, Trewyn said.

Last year, the federal government allocated $404 million for construction and the state pledged an additional $202 million in proceeds from the bonds, which were issued March 31 by the Kansas Development Finance Authority. According to offering documents, “the state has offered and DHS will accept a cash gift.”

Kansas Penalty

Bonds for the project due in 10 years priced to yield 2.57 percent, compared with 2 percent for benchmark munis, data compiled by Bloomberg show. The spread of 0.57 percentage point for the securities, which have the fourth-highest investment grade, was about triple the penalty on similarly rated debt.

The “weird language” about the gift, combined with Brownback’s tax cuts and pension underfunding, probably drove up borrowing costs, said Joseph Rosenblum, director of municipal credit at AllianceBernstein Holding LP, which oversees about $32 billion of munis.

“We approached it on one level as purely an appropriation risk of the state,” he said in an April 1 interview at Bloomberg’s New York headquarters. “But we like to feel comfortable that the project makes sense.”

Eileen Hawley, a spokeswoman for Brownback, a Republican, didn’t respond to requests for comments on the gift and why the state agreed to increase funding.

The financing boost contrasts with Brownback’s treatment of the state pension system, which has 60.7 percent of the assets needed to pay for future benefits. He proposed cutting contributions by $41 million in December and also sought to divert almost $100 million from highway funds.

Economic Forecast

Brownback, who cut income taxes in 2012, estimated in a January budget report that Kansas would bring in $5.77 billion this fiscal year, or $206 million lower than estimated. That’s down about 10 percent below a peak of $6.4 billion in 2012. The state won’t get back to that level of collections by 2017, according to its forecasts.

When the facility’s location was announced, “calls came in from around the world from companies wanting to know what was available near the site,” Trewyn said.

Though inquiries have slowed amid the delays, he said he expects they’ll pick back up as the project nears completion. The central utility plant is 90 percent constructed, and operations will move to the Kansas site by 2023.

That type of interest differs from the intrigue about Plum Island’s facility, which has been the subject of controversy and conspiracy theories.

Lyme Link

A 2004 book by Michael Christopher Carroll, “Lab 257: The Disturbing Story of the Government’s Secret Plum Island Germ Laboratory,” drew connections between the center and outbreaks including Lyme disease, the illness named after the Connecticut town 40 miles north of Plum Island.

The American Lyme Disease Foundation still includes on its website a response that the facility wasn’t responsible for introducing the bacteria to the northeastern U.S.

A document posted on the Homeland Security Department’s website said suggestions to construct the center in a more remote location were trumped by the proximity to Kansas State’s existing research facilities.

Bloomberg

by Brian Chappatta

April 5, 2015

NLV Mayor Backs Bankruptcy Power for Cities, Counties.

CARSON CITY — A bill that would permit Nevada cities and counties to file for Chapter 9 bankruptcy protection was endorsed Friday by North Las Vegas Mayor John Lee.

Senate Bill 475, which was heard by the Senate Government Affairs Committee, would allow the bankruptcy if the state Tax Commission found that a severe financial emergency existed and was expected to last at least three years.

It would also require such a bankruptcy petition to be reviewed and approved by the governor and attorney general before it could be filed.

Efforts would be made to avoid a bankruptcy filing which would only be a last resort. The committee did not take action on the measure.

Lee said in a letter supporting the bill that existing law fails to provide sufficient relief for distressed cities and counties. Cities and counties lack the tools necessary to ensure all stakeholders share an equal burden in a financial crisis, he said.

“I want to make it very clear: North Las Vegas does not need bankruptcy,” Lee said. “Even if existing law had allowed for municipal bankruptcy, North Las Vegas would not have sought its protection.

“However, I am convinced the existence of municipal bankruptcy in Nevada would have been a game changer for our negotiations and would have ensured all stakeholders shared equally in the burden of saving our town,” he said.

Current law allows local governments suffering from a fiscal emergency to receive assistance from the Department of Taxation and the Committee on Local Government Finance.

Lee said in May 2014 that the option of municipal bankruptcy would bring everyone to the table to find a solution in a financial emergency.

The Review-Journal reported in May 2014 that North Las Vegas faces continued declines in property tax revenue and ballooning payments on an estimated $422 million in outstanding debt obligations, a financial position that bond analysts at Fitch have likened to bankrupt municipalities in California and Pennsylvania.

Officials hope the specter of state-sanctioned bankruptcy would encourage bondholders to renegotiate those bonds in time to thwart a $7 million uptick in annual bond payments scheduled to hit the city’s books in 2016, the report said.

“Just having that threat there could make a world of difference,” Mayor’s Office Chief of Staff Ryann Juden said in May 2014. “We may never have to use it, but having it there would help out a lot.”

The bill was opposed by Barbara Flickinger, managing director of portfolio surveillance for the National Public Finance Guarantee Corp., who said in a letter that there are viable alternatives to bankruptcy.

“The most important ‘tool in the toolbox’ for distressed municipalities is fiscal discipline, a consistent focus on cost controls and revenue growth,” she said.

Bankruptcy is also expensive and time consuming, Flickinger said, noting that Detroit’s recently concluded bankruptcy cost over $180 million of taxpayer money for legal and other professional fees. It also took 18 months to resolve.

Access to Chapter 9 creates uncertainty which translates into higher interest rates on debt, she said.

“This perception will impact the cost of borrowing for local governments across the state, not just those in distress,” she said.

Marlene Lockard, representing the Nevada Service Employees International Union, also testified in opposition. She said there is another measure in the Assembly that addresses municipal financial emergencies short of bankruptcy that is a preferable alternative.

Posted April 3, 2015

By SEAN WHALEY

LAS VEGAS REVIEW-JOURNAL

Contact Sean Whaley at swhaley@reviewjournal.com or 775-687-3900. Follow @seanw801 on Twitter.

Two Members' Bickering Shakes Up Previously Genteel Newport Council.

The City Council dais in Newport Beach is becoming like a verbal boxing ring, leaving onlookers wondering when the fight might end.

Whether in the council chamber or in email blasts to supporters, recently elected Councilman Scott Peotter and veteran Councilman Keith Curry continue to jab each other during disagreements about city issues.

Previous City Councils in Newport Beach mostly managed to avoid political squabbling that in neighboring cities often marks public discussions sparked by ideological differences.

“Even when we disagreed, we always worked together for the good of the city,” Curry said of previous councils.

But since the election in November of Peotter and three other new council members, arguments between Peotter and Curry often have escalated to personal attacks or name-calling.

A slate of candidates known as “Team Newport” swept the four available seats in the fall council election, the first time in more than a decade that four newcomers had won seats on the City Council.

The slate members — Peotter, Mayor Pro Tem Diane Dixon and Councilmen Kevin Muldoon and Marshall "Duffy" Duffield — promised to rein in what they considered out-of-control spending by city officials.

"The voters spoke and proved they didn't like the direction of the old council," Peotter said.

Curry was appointed to the council in 2006 and elected later that year.

He and Peotter squared off most recently during a March council meeting over Peotter's idea of creating a debt-management fund to try to reduce the city's pension liabilities and debt from the Civic Center project.

Peotter said the fund would be a way for the city to save money in case the council ever had the opportunity to make an early payoff of the $106 million worth of Build America bonds that funded the new Civic Center.

The bonds are to be paid off in installments between 2018 and 2040, similar to a home mortgage, according to a report by Fieldman, Rolapp & Associates, an independent financial advisor to the city.

The Build America bonds were used on the project instead of traditional municipal bonds because they presented savings to the city over time. However, the bonds come with a clause in which the city can be penalized about $27 million if it pays them off early, according to city documents.

Curry blasted Peotter over the issue during the meeting, calling it a "poorly thought-out, politically motivated and half-baked" idea.

He reemphasized his point in an email to his supporters the next day.

"In all my years in and around government, I have never seen anything that compares to the financial illiteracy and the political recklessness on display at City Hall," he wrote.

Peotter did not respond to Curry during the meeting but sounded off in his own email to supporters.

"I'm not trying to pick a fight," Peotter said in an interview Wednesday. "The email is a way to set the record straight."

Peotter likened the situation with Curry to the defense used by Lyle and Erik Menendez, brothers who were convicted in the early 1990s of killing their parents in their Beverly Hills home in an attempt to gain sole access to the family fortune.

During the penalty phase of their trial, the Menendezes asked for mercy because they were orphans.

"They caused the problem and then they blame someone else for the problem," Peotter wrote in the email.

He went on to state that Curry spent $143 million on the Civic Center and $40 million on Marina Park and that "he borrowed $128 million on behalf of the taxpayers … to pay for the excesses."

"Then Curry blames me because I want to discuss possible ways to pay down the debt early … Menendez award anyone?" he wrote.

Curry said the email "speaks to Peotter's character and his fitness for public office."

"I hit him on the issues. I didn't characterize him as a serial killer," Curry said.

Peotter acknowledged that he sometimes places the blame for previous council actions squarely on Curry.

"I don't mean to pin all of that on him, but he's taking it personally," Peotter said.

Since the election, Peotter and Curry have locked horns over a variety of issues related to the city's finances and about reintroducing wood-burning fire rings to Newport's beaches.

The heated arguments have left some observers wondering whether the two will ever be able to work together.

"At the end of the day, the council had always come together, regardless of disagreements," Mayor Ed Selich said of previous members. "I'm certainly hopeful that the same thing is going to happen with this council."

The Daily Pilot

By Hannah Fry

April 1, 2015 | 7:35 p.m.

[S&P: North Dakota Municipalities' Credit Quality Could Suffer if Oil Prices Stay Low]

Standard & Poor's Ratings Services recently affirmed its 'AAA' issuer credit rating with a stable outlook on the state of North Dakota, signifying our confidence that the state is well-prepared to withstand the ongoing volatility in global oil prices. But for local governments in North Dakota's Bakken Shale region, which experienced a period of rapid revenue and expenditure growth prior to the oil price slump, the recent decline in oil prices may have more immediate negative consequences. Cities like Williston, Dickinson, and Minot could begin to experience revenue pressures in the second half of 2015 and 2016 as declining oil-industry activity reduces sales-, income-, and property-tax revenues. A decline in oil activity could contribute to a decline in state taxes, but the impact would likely be greater for local governments whose economies are concentrated in the oil industry.

Many of the issuers we rate have reported no slowdown in economic activity yet in 2015, and layoffs in the oil industry in North Dakota have been limited. Well completion and maintenance are currently contributing to overall consistent employment levels, although growth may not be at the same rapid pace as in recent months. We have not taken any rating actions yet, but we do believe that credit quality could decline if economic activity slows.

Continue Reading.

02-Apr-2015

Puerto Rico Utility Creditors Offer $2 Billion Capital Plan.

Bondholders of Puerto Rico's Electric Power Authority are offering a plan that would inject $2 billion into the junk-rated utility to modernize facilities and repair its finances.

The authority, known as Prepa, is negotiating an agreement with creditors to extend loans and lower its dependence on oil. That contract is set to end April 15 after Prepa, investors, banks and insurance companies agreed this week to a 15-day extension.

Puerto Rico, whose bonds are tax-exempt in all 50 U.S. states, has struggled under the burden of $73 billion in debt issued by the commonwealth and its agencies. The securities have been trading at distressed levels for more than a year on concern that the island won't be able to repay its obligations.

Prepa bondholders are proposing $2 billion of capital investment through existing and new investors. Converting the utility's facilities to burn natural gas will cut average electricity rates about 20 percent, according to Stephen Spencer, a managing director at Los Angeles-based Houlihan Lokey, an adviser to bondholders.

"Both Prepa and Puerto Rico need continued access to new investment capital at reasonable rates," Spencer said in a statement. "And the creditor plan is a big step toward restoring market confidence in the overall island economy."

July Deadline

Prepa, the biggest U.S. public-power authority, has $8.6 billion of debt. It must pay investors about $400 million in principal and interest July 1. If bondholders agree to take a loss, it would be the largest debt restructuring in the $3.5 trillion municipal-bond market.

Some utility debt gained in value following reports of the proposed financing. Prepa bonds maturing July 2030 traded Wednesday at an average price of 58.06 cents, the highest since June 26, according to data compiled by Bloomberg.

The plan includes General Electric Co. upgrading Prepa's Aguirre facility, near Puerto Rico's southern coast, to burn natural gas.

"The plan was designed for immediate implementation to support the transformational efforts at Prepa," Spencer said in the statement.

Jose Echevarria, a Prepa spokesman, declined to comment on the $2 billion financing proposal.

The utility last year used funds designated for infrastructure improvements to purchase fuel. It had $1.75 billion of overdue accounts in September as residents, businesses and government entities fail to pay bills on time.

BLOOMBERG

by Michelle Kaske

April 1, 2015

San Francisco Plans $200 Million of Bonds to Ease Housing Crunch.

San Francisco Mayor Ed Lee will seek voter approval for the first housing bond since 1996 as his city becomes the least affordable U.S. housing market and uproar grows about gentrification fueled by the technology boom.

Lee plans to ask the city's Board of Supervisors to place a housing bond of at least $200 million on the November ballot, spokeswoman Christine Falvey said. Unlike similar proposals rejected by voters in 2002 and 2004, Lee's housing bond plan won't trigger an increase in property taxes, a change that appeals to voters, she said.

"San Francisco is in a serious housing crisis, but we have aggressive housing goals and we need to put resources behind those goals," Falvey said in a telephone interview. "The mayor wants to make sure that San Francisco remains affordable for low- and middle-income families."

Lee's proposal would provide funding for affordable housing. Growth of technology employment in San Francisco, boosted by tax breaks Lee championed in the city's blighted Mid-Market district, has transformed California's fourth-largest city into one of the most expensive housing markets in the country. Unions, affordable-housing advocates and others have protested the incentives, accusing the mayor of damaging the city's character by transforming it into a place only the wealthy can afford.

Least Affordable

San Francisco will be the least affordable housing market in the U.S. this year, with 72 percent of median income needed to pay a 30-year, fixed-rate mortgage, according to a forecast by realtor.com. The average rent in the San Francisco metro area was $2,802 at the end of last year, second-highest in the U.S. behind New York City, according to Carrollton, Texas-based MPF Research.

Lee, who is seeking re-election in November, identified housing as his top priority when he unveiled an "affordability and shared prosperity agenda" in January that included the general-obligation bond that's part of a goal to build and renovate 30,000 homes by 2020. Lee won his seat in 2011 with backing from the technology industry after being appointed interim mayor earlier that year.

While voters approved a $100 million bond in 1996 to build or renovate low-income apartments, they rejected a similar $250 million plan in 2002 and another $200 million bond proposal two years later. General-obligation bond measures need two-thirds approval to pass.

'Very Difficult'

"It's very difficult to get past the two-thirds threshold," said Gabriel Metcalf, executive director of SPUR, a nonprofit urban policy organization. "Most people don't get to live in affordable housing, so it's a case where we're asking the voters to do something that is altruistic."

San Francisco voters in November approved a $500 million transportation bond. Lee's administration promoted the plan by stressing that it wouldn't raise property-tax rates.

He plans to do the same for his proposed housing bond, which would be used to renovate and build homes for working families and the city's poorest residents. Under a 10-year capital plan instituted in 2006, the city is required to retire old debt before issuing new bonds so that property taxes don't rise.

The demand for California debt is very high in the near term, said Michael Johnson, managing partner at Gurtin Fixed Income Management. San Francisco general-obligation bonds “are attractive to investors who are looking for high credit quality,” said Johnson, whose company oversees $9.2 billion in Solana Beach, California.

Five-Decade Lows

As municipal yields hover above five-decade lows, investors in the $3.7 trillion municipal market have treated San Francisco securities as better than AAA debt, even though Standard & Poor’s, Moody’s Investors Service and Fitch Ratings grade it one step lower.

The 1996 housing-bond measure led the city to issue $20 million in taxable general-obligation bonds each year from 1998 to 2000 and borrow the remaining $40 million in 2001, data compiled by Bloomberg show.

About 85 percent of the bond proceeds went to developing affordable housing, with the remaining 15 percent financing down-payment assistance to low-income, first-time home buyers, offering documents for the 1998 sale show.

None of the original affordable-housing bonds remain outstanding: The city included the securities in a $271 million refinancing deal in 2008 that also refunded debt for Golden Gate Park and the Asian Art Museum of San Francisco.

Additional Debt

San Francisco’s economy is on an upswing and its “budget has the capacity to absorb additional debt without necessarily affecting credit quality,” said Chris Morgan, director of U.S. local government at Standard & Poor’s in San Francisco.

The Massachusetts Development Finance Agency issued $95.5 million in tax-exempt bonds for six affordable-housing development projects in Boston, the agency announced March 2. In Seattle, another West Coast city in the midst of a tech boom, affordable-housing advocates, including staff for council members Kshama Sawant and Nick Licata, last month recommended issuing at least $500 million in bonds for low-income housing.

San Francisco’s Lee, who faces no major challengers in his re-election bid, should use his campaign and the housing bond to frame his second term, said Corey Cook, an associate professor of politics at the University of San Francisco.

Lee will have to build a broad coalition of support, including city lawmakers, public-housing advocates and housing developers, to win passage, Cook said.

If he doesn’t, “then he’s at risk of not having the public-policy tools to respond to the public’s top concern,” Cook said. “That would make for a very difficult term as mayor.”

Income disparity, aggressive competition for a limited supply of land and a frenzy of speculation on existing homes fueled the city’s housing woes, said Peter Cohen, co-director at the Council of Community Housing Organizations in San Francisco.

“You put those things together, you stir and you have on your hands one of the worst affordable-housing crises this city has ever experienced,” he said.

BLOOMBERG

by Alison Vekshin

April 1, 2015

New York City Details Plan to Rein In Employee Health Costs.

Mayor Bill de Blasio's administration for the first time laid out its plan to save $3.4 billion in employee health-care costs over the next four years. The strategy addresses a long-standing fiscal challenge and sheds light on how the city hopes to help offset raises negotiated over the past year with municipal unions.

The planned cost-cutting includes the city paying less than previously projected for employee health insurance, newly negotiated rates with insurers and greater incentives for preventative care.

At a City Council hearing Wednesday, lawmakers grilled Labor Commissioner Robert Linn over the savings, saying the administration had taken too long to offer details. The savings were first announced last May.

"We don't want to have to bring you into a public meeting to get details," City Council finance committee Chairwoman Julissa Ferreras told Mr. Linn.

Mr. Linn said the administration didn't want to discuss proposed savings until they had been fully negotiated with the Municipal Labor Committee, a group of unions that represents the city's 350,000 workers.

"I think it's counterproductive to the bargaining process to describe what we were talking about when we were talking about it," he said.

"Many thought that this was smoke and mirrors. I have to say we've demonstrated that that was wrong," Mr. Linn said.

The city's health-care costs doubled in the past decade, from $2.6 billion in fiscal 2005 to $5.3 billion in fiscal 2015, which ends on June 30, according to the Citizens Budget Commission, a nonpartisan watchdog group.

De Blasio administration officials said they were on track to secure $400 million in savings for fiscal 2015. The plan calls for an additional $700 million in savings in fiscal 2016, $1 billion in fiscal 2017 and $1.3 billion in fiscal 2018, then $1.3 billion in savings each year after that.

Mr. de Blasio said the savings were achieved by "changing the conversation with our workforce from one of deadlock and confrontation to real problem solving and collaboration."

The city's health costs continue to rise, but de Blasio officials say they have slowed the increases with a variety of approaches.

In fiscal 2015, the city will spend $17 million less than budgeted on costs because of a lower-tha--expected health-care rate increase. That figure is projected to grow to $403 million in fiscal 2018, the city said.

The city found $108 million in savings this year by cutting benefits for non-eligible employees, such as the adult children of city employees who have aged out of the plan.

And it found $153 million by reaching an agreement with the Municipal Labor Committee to lower the sum the city pays into the Health Insurance Stabilization Fund. The fund was set up to ease health-care costs for employees and is jointly controlled by City Hall and the unions.

Mr. Linn said he expected savings from many of those initiatives to be greater next year.

More than $500 million of the projected $1.3 billion in savings in fiscal 2018 will be found in “potential new initiatives to be decided by the city” and labor unions, according to the plan. City officials said that could include wellness programs to improve the general health of city employees and incentives to reduce emergency-room visits.

If the unions decline to work with the city to meet the goals, an arbitrator would step in, Mr. Linn said.

Maria Doulis, director of city studies at the Citizens Budget Commission, said the city is pursuing the right initiatives to bring down costs but called the amount of savings held out by the de Blasio administration “misleading.”

The city’s health-care costs are projected to increase to $5.6 billion in fiscal 2016, $6 billion in fiscal 2017 and $6.4 billion in fiscal 2018, city officials said.

Ms. Doulis said many of the savings weren’t reliably recurring, such as the reduction in payments to the stabilization fund. “If the purpose is to really fundamentally change the cost structure, that’s not going to do it,” she said of the plan.

Ms. Doulis also said that while the de Blasio administration listed savings from the lower health-insurance rates it negotiated, insurers could try to make up the cost by raising the city’s rates in future years.

A spokeswoman for the mayor said the administration would find other ways to save money if insurers raise the rates.

THE WALL STREET JOURNAL

By MARA GAY

April 1, 2015 9:39 p.m. ET

Write to Mara Gay at mara.gay@wsj.com

For Some Bond Investors, Chicago Isn’t Their Kind of Town.

A big pension shortfall is buffeting the Windy City. Fearing that the multibillion-dollar gap might undermine Chicago’s finances, some bond investors and credit-ratings firms are becoming wary.

Four pension funds in the nation’s third-largest city are facing a combined funding gap of about $20 billion after years of underfunding and market losses during the recession. In comparison, Chicago has a $3.5 billion annual budget for general operating expenses.

Moody’s Investors Service cut the city’s credit rating in February to Baa2, two notches above junk status, and maintained a negative outlook. The firm warned that the city’s “highly elevated” unfunded pension liabilities could increase, “placing significant strain on the city’s financial operations.” Other ratings firms give the city higher grades.

The concerns come as an April 7 mayoral runoff election approaches, pitting Mayor Rahm Emanuel against Jesus “Chuy” Garcia, a county commissioner. The city’s finances have featured prominently in the election campaign.

To make matters worse, there is a real possibility that Chicago may have to pay higher interest rates to issue new bonds.

Three bond insurers, Assured Guaranty Ltd., National Public Finance Guarantee Corp. and Build America Mutual, already have backed billions of dollars combined of Chicago bonds and are at or near their limits for how much Chicago debt tied to property taxes they are willing to insure, said people familiar with the matter. An insurer agrees to make payments if the municipality defaults, so no insurance means Chicago would have to offer higher interest rates on any new bonds to compensate investors for the added risk.

The situation is an example of how municipalities across the country still are struggling to fill gaps in their pensions, which sustained losses on investments during the financial crisis. The troubles are prompting investors to avoid debt from municipalities with large pension-funding gaps, like New Jersey, fearing officials would have to choose between promises made to bondholders and employees.

In a statement, the mayor’s office said Mr. Emanuel has “worked to right the city’s financial ship.” The statement also said the mayor has been clear that “Chicago’s pension obligations were the biggest threat to the city’s financial security.”

Burton Mulford, a portfolio manager at Eagle Asset Management Inc. in St. Petersburg, Fla., said his firm has been staying away from Chicago bonds and is waiting until the pensions are in better shape.

“There’s going to be a lot more pain before there’s improvement,” said Mr. Mulford, whose firm oversees $2.2 billion in municipal bonds.

Some Chicago bonds have largely missed out on a bond-market rally due to the concerns. The price of a 30-year Chicago bond sold in March 2014 has risen 2.7% over the past year, compared with a 22% jump in the price of a similar-maturity U.S. Treasury bond. The yield on the Chicago bond decreased from 6.3% at the time of sale to 6.1% when it last traded in mid-March, while the 30-year Treasury bond decreased from 3.6% to 2.5% over the same period. Yields fall when prices rise.

The pension gap in Chicago has some analysts warning the city could in a decade or more face the same fate as Detroit, which also had pension shortfalls before it filed for bankruptcy protection in 2013. Although Chicago’s economy is more robust, some investors said Chicago needs to address its pension situation.

“Chicago is Detroit 10 to 15 years from now, if they do not deal seriously with this pension problem,” said Tom Metzold, senior municipal portfolio adviser at Eaton Vance Management, with $28.3 billion of assets under management. Mr. Metzold said his firm has “virtually no holdings” in Chicago debt.

Mr. Emanuel has supported overhauling the city’s pensions, which are governed by state law. Last year, state lawmakers agreed to reduce benefits for city workers and retirees in two of the plans. The overhaul, however, has been challenged in court.

Another problem for the city: The ratings cut by Moody's triggered potential fees of about $38 million on interest-rate swaps tied to Chicago bonds. The swaps were designed to protect the city from increases in interest rates, but rates fell instead. The city has said it is in discussions with Wells Fargo & Co., which is a party to the swaps, regarding the fees. Wells Fargo declined to comment.

Financial problems aren't limited to the city itself. The Chicago Board of Education, which is separate from the city but whose board members are appointed by the mayor, is facing $228 million in potential swap fees after a series of credit downgrades. The school district said it is working to renegotiate the swap terms.

Not everyone sees Chicago's situation as dire. Fitch Ratings gives Chicago a single-A-minus rating, two notches above Moody's, and Standard & Poor's Ratings Services rates the city at single-A-plus, four notches above Moody's. And some traders sense an opportunity in Chicago bonds.

Dominick Mondi, president of global markets at Mesirow Financial, a Chicago-based financial firm, said yields on Chicago bonds are reasonable compared with other bonds, like debt from hospitals, that carry ratings similar to Chicago's Baa2 mark from Moody's. "There is a vibrant, alive downtown," said Mr. Mondi, highlighting one of the city's economic strengths.

Some investors said there will be appetite for Chicago debt, even without insurance guarantees, if yields are high enough.

"Chicago's economy is doing fairly well," said John Miller, co-head of fixed income at Chicago-based Nuveen Asset Management LLC, which oversees about $100 billion in municipal debt, including some Chicago bonds. "Education and health-care institutions are really strong."

THE WALL STREET JOURNAL

By MIKE CHERNEY And AARON KURILOFF

April 1, 2015 6:18 p.m. ET

—Mark Peters contributed to this article.

Write to Mike Cherney at mike.cherney@wsj.com and Aaron Kuriloff at aaron.kuriloff@wsj.com

---

Most Parties in Rhode Island Pension Lawsuit Settle the Case.

PROVIDENCE, R.I. — A deal in the legal fight over the state's 2011 landmark public pension system overhaul was unveiled in court Thursday, affecting about 59,000 past and present state employees.

Frank Williams, a retired Rhode Island Supreme Court chief justice who worked to broker a settlement, said most of the retirees and public unions suing the state had accepted the terms, calling it an "awesome achievement."

Gov. Gina Raimondo said the settlement provides certainty for public employees and for municipalities, locks in 90 percent of the savings from the pension reform and resolves six of nine lawsuits against the state.

"It's in the best interest of all Rhode Islanders, now and into the future," she said at a news conference after the hearing.

The deal, however, does not end years of legal wrangling over the higher retirement ages and cuts to cost-of-living increases that were designed to save the state $4 billion over 20 years.

The parties have to be notified and the settlement has to be formally approved by the judge. The pension reform was done legislatively, so the settlement terms have to be incorporated into the law and approved by the General Assembly.

The unions representing municipal police, Cranston police and Cranston fire, which collectively represent about 800 people, did not agree to the terms. Their lawsuits are continuing and will be addressed by the court after the settlement is implemented.

In light of the settlement with most of the plaintiffs, Judge Sarah Taft-Carter vacated the April 20 trial date. She gave the parties until May 18 to implement the settlement.

The settlement provides for cost-of-living increases and one-time stipends for retirees.

The cap for calculating the benefits would increase for some retirees, and the calculation would be based on a new formula using both the performance of investments and the Consumer Price Index. Employees would be allowed to retire earlier if they meet set requirements.

Carly Beauvais Iafrate, an attorney for the retirees, said Thursday’s announcement was the beginning of a “second process,” and she’s pleased it is starting because it is the best possible resolution.

House Speaker Nicholas Mattiello said that there’s no timetable for legislation incorporating the terms and that the House needs to “conduct its due diligence.”

Both Mattiello and Senate President Teresa Paiva Weed said the settlement was in the best interests of everyone involved.

Roger Boudreau, who leads the Rhode Island Public Employees’ Retiree Coalition, said the retirees won’t be happy with the settlement because they’re getting “a fraction” of what they were promised, and they made plans based on what they expected to receive when they retired.

But they’re also mindful that their chances of prevailing at trial are “very slim at best,” he added.

Treasurer Seth Magaziner said the past several years have been characterized by uncertainty for public employees, retirees and the state. He said the state’s credit is rated below average because of the pension lawsuit.

A previous settlement was rejected after police union members voted it down.

“It’s a sad chapter in our state’s history,” Magaziner said. “Now we can finally turn the page and move forward.”

By THE ASSOCIATED PRESS

APRIL 2, 2015, 10:01 P.M. E.D.T.

Puerto Rico Utility Bondholders Unveil $2 Billion Plan.

Bondholders of Puerto Rico's cash-strapped power utility unveiled a revitalization plan on Wednesday, days after the authority reached another agreement with creditors to push back a deadline to extend some loans.

Without a deal, the Puerto Rico Electric Power Authority may need to repay about $696 million borrowed to help fund operations. The new deadline is April 15.

The junk-rated, state-owned utility, known as Prepa, said its bondholders' plan provides for nearly $2 billion in new infrastructure investment, with bondholders and their capital partners backstopping the riskiest portion of this new investment. This new capital, Prepa says, will allow it to generate electricity at lower and more stable rates while continuing to service contractual debt obligations. It would also allow a workout of more than $700 million that Commonwealth government entities owe to Prepa.

Investors have faced months of uncertainty from Puerto Rico's economic troubles. The island has more than $70 billion in debt that is widely held because it is exempt from federal, state and local taxes.

Prepa is at the forefront of the island's financial woes. The authority, which has about $9 billion of debt, is struggling to find cash to fund operations and pay lenders as the commonwealth struggles with steep unemployment and a weak economy.

Puerto Rico is barred from permitting its government entities to access Chapter 9 bankruptcy protections afforded cities like Detroit.

THE NEW YORK TIMES

By LISA BEILFUSS

April 1, 2015 4:02 p.m. ET

Puerto Rico Extends Deadline.

Puerto Rico's cash-strapped power utility got a reprieve from creditors at a time of heightened worry about the financial health of the U.S. territory.

Prices on some Puerto Rico bonds slumped to record lows last week amid concerns that problems at the Puerto Rico Electric Power Authority, known as Prepa, could be the harbinger of bigger trouble.

The utility on Monday said it reached another agreement with creditors to push back a deadline—this time by 15 days—to extend some loans. Without a deal, it may need to repay about $696 million borrowed to help fund operations. The most recent deadline was Tuesday.

"All parties believe advances have been made and there is merit to continue conversations with our creditors to find feasible solutions," said Lisa Donahue, the authority's chief restructuring officer, in a news release.

Some general-obligation bonds backed by the island and issued last year as part of a $3.5 billion sale traded at about 82 cents on the dollar last week. Some bonds touched a record low of about 79.4 cents Friday, below the previous low in February of 81 cents. Yields, which rise as prices fall, rose to about 10%.

The S&P Municipal Bond Index Puerto Rico, a broad, market-value-weighted index of debt from the island, has fallen 1.3% this month, including prices and interest payments.

This contrasts with the rest of the bond market, where investors have shrugged off warnings about a rise in interest rates by the Federal Reserve, sending yields on the 10-year Treasury note to 1.959% on Monday and pushing the broad municipal market index up 0.2%.

“Puerto Rico seems to be moving on its own nowadays, meaning it moves down while the rest of the market is stable or up,” said Daniel Solender, director of municipal-bond management at Lord Abbett & Co., which oversees about $17 billion in tax-exempt debt. He declined to discuss if he had bought or sold the commonwealth’s bonds recently.

Investors have faced months of uncertainty from Puerto Rico’s economic woes. The island has more than $70 billion in debt that is widely held because it is exempt from federal, state and local taxes.

A Puerto Rico law that attempted to create an orderly bankruptcylike process for the power authority and other agencies has been thrown out in court.

Plans for tax overhauls have bogged down. The commonwealth is working to borrow as much as $2.9 billion to fund operations. Several island lawmakers have proposed amending the island’s constitution to remove protections for bondholders.

Mutual funds are among those paring holdings. Almost one-quarter of municipal-bond funds that owned Puerto Rico debt sold it last year, according to data from research firm Morningstar Inc.

More than half of municipal-bond mutual funds still have debt from the commonwealth, down from about 70% at the end of 2013.

Hedge funds and distressed-debt traders were among the buyers of the $3.5 billion sale in 2014. Some are now purchasing the debt below face value, expecting to recover more than they spent even in the event of a restructuring or default, several investors said.

Prepa is at the forefront of the island’s financial woes. The authority, which has about $9 billion of debt, is struggling to find cash to fund operations and pay lenders as the commonwealth struggles with steep unemployment and a weak economy.

Prepa will likely default on a $400 million July payment to bondholders, according to Moody’s Investors Service. The junk-rated authority has already missed a March 2 deadline to provide lenders with a restructuring plan.

According to Richard Donner, vice president and senior credit officer at Moody’s, it is a good sign that creditors are still negotiating.

A spokeswoman for Prepa declined to comment, citing a confidentiality agreement.

Overhauling the island’s public entities has been a priority for the administration of Gov. Alejandro García Padilla as it tries to restart the economy, eliminate budget deficits and reassure investors that the island’s fiscal health is improving.

That included passing a law in June that would have allowed the island’s power, water and transportation authorities to restructure about $20 billion in debt. Puerto Rico is barred from permitting its government entities to access Chapter 9 bankruptcy protections afforded cities like Detroit.

A spokeswoman for the commonwealth declined to comment.

Prepa bond prices, which fell after the law's passage, rose after a federal judge blocked it last month, saying it was unconstitutional. That ruling is under appeal. Also last month, a U.S. House of Representatives panel held a hearing on a bill that would permit Puerto Rico to allow its agencies access to Chapter 9 protections.

A report by Janney Capital Markets this month said that a Prepa default may be just the beginning. Population declines, increasing debt and pension burdens still drag on the economy, and other Puerto Rico bonds will probably also default or restructure in coming years, including general-obligation and sales-tax bonds.

Melba Acosta, president of the island's Government Development Bank, who is also fighting for the governor's tax-overhaul plan, said in a statement that the bank and administration both oppose the proposed legislation that would reduce investor protections on tax-supported debt.

"There seems to be a drumbeat on the island toward bondholders sharing pain," said Robert Donahue, managing director at Concord, Mass., research firm Municipal Market Analytics.

That could complicate efforts for a new bond sale by the government. Fitch Ratings last week downgraded Puerto Rico's general-obligation debt further into junk territory, citing recent statements by lawmakers that call into question the ability of the government to borrow the money and its willingness to repay debt.

John Mousseau, director of fixed income at Cumberland Advisors, Sarasota, Fla., said his firm bought the 2014 bonds and traded them quickly. While he now restricts Puerto Rico holdings to bonds protected by insurance, he said there may be value there eventually.

"You start to wonder at what price they would be a great buy," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Updated March 30, 2015 10:02 p.m. ET

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

Kingdome Debt to be Retired 15 Years After Implosion.

On the 15th anniversary of the implosion of the Kingdome, a King County official said enough lodging-tax revenue has been collected to pay off debt of the former home of the Mariners and Seahawks.

Fifteen years after the Kingdome was imploded, King County taxpayers have finally stopped paying for the stadium that was home to the Mariners and Seahawks.

King County budget director Dwight Dively said Thursday that enough lodging-tax revenue has been collected to pay off what's left of the $67.6 million in municipal bonds issued to repair the Kingdome's tile roof back in 1994. The bonds can't technically be paid in full until year's end, so the $18.7 million still owed in principal plus interest will be placed in an escrow account until that time.

"It's been a good couple of years in the hotel industry,'' Dively said of the lodging tax on hotels and motels used to pay off the debt. "It isn't just the money that's come in this year. The last two or three years have been significantly stronger than expected.

"That's not surprising, given the economy and how attractive this area is.''

The Kingdome was imploded March 26, 2000 — 15 years ago Thursday — about 24 years after it opened.

The hotel/motel tax is 15.6 percent in Seattle, with 2 percent earmarked for Kingdome roof repairs, and is expected to generate $24.8 million for the county this year. Dively said the 2 percent amount no longer needed for the Kingdome will instead go to the 4Culture program, which helps arts, heritage and preservation efforts within the county.

King County taxpayers have financed the stadium via municipal bonds since 1972, when construction began on a stadium that opened in 1976. The original $40 million in bonds used for construction costs weren't paid off until 2011.

Water seepage caused four 26-pound ceiling tiles to fall into the seating area July 19, 1994, a half-hour before fans were allowed into the stadium to see the Mariners play the Baltimore Orioles. The Mariners were forced to play their final 20 games that year on the road before the baseball players' strike ended the season.

The Seahawks had to play both home exhibition games and their first three regular-season contests at the University of Washington's Husky Stadium that year as repairs were completed. Two construction workers died during repairs before the Kingdome reopened in early November, but the falling tiles helped prompt calls to replace the Kingdome with new sports venues that eventually materialized nearby with Safeco Field and CenturyLink Field.

The Seattle Times

Geoff Baker

Originally published March 26, 2015 at 3:34 pm Updated March 26, 2015 at 6:15 pm

---

Chicago Schools Selling First Bonds Since 2013 as Finances Teeter.

(Bloomberg) — For all the financial challenges confronting Chicago, its schools are in even more precarious shape as the Board of Education sells debt for the first time since 2013.

The nation's third-largest system is grappling with pension and budget deficits that spurred the closing of 50 schools almost two years ago. This month, Moody's Investors Service and Fitch Ratings cut its credit to one level above junk, potentially triggering a $228 million payment to end interest-rate swaps. The Moody's move left the district grade one step weaker than the city.

The struggles of the system and its 400,000 students have become a rallying point for opponents to

Mayor Rahm Emanuel. As Chicago heads for an unprecedented mayoral runoff, Emanuel is dealing with voter backlash after the school board he appointed carried out the closings. The system projects a $1.1 billion shortfall next fiscal year because climbing retirement costs are consuming a growing share of resources.

“It’s very difficult to see how they get out of this pickle,” said Paul Mansour, the Hartford, Connecticut-based head of municipal research at Conning, which oversees about $11 billion in municipal debt. “We’ve been trimming our position.”

Cooler Schools

The district sold about $178 million of floating-rate debt Tuesday, and plans to price an additional $372 million of securities March 31, according to data compiled by Bloomberg. Next week’s issue will include about $77 million of fixed-rate bonds for refinancing as well as debt to reimburse the system for capital work, according to officials and Bloomberg data. The projects include installing air conditioning and upgrading classrooms, said Ginger Ostro, chief financial officer for the system.

“As those projects occur, we pay for them using a line of credit, which is less expensive for us,” Ostro said. “When that’s fully used, then we would issue the bonds that we’re issuing now to replace that line of credit.”

The district hasn’t sold debt since issuing floating-rate securities in May 2013, according to Bill McCaffrey, a spokesman. It joins governments nationwide refunding with municipal yields hovering above five-decade lows.

Bond Support

Moody’s grades the board’s debt Baa3, while Fitch gives it an equivalent BBB-. S&P assesses it at A-, three steps higher. All three have a negative outlook.

Kroll Bond Rating Agency marks the borrowings BBB+, three levels above junk, with a stable outlook, noting that the bonds have protection as state aid is the main source of repayment.

Yet the looming crisis is evident in bond documents, which say that operating revenue may tally $4.8 billion in fiscal 2016, short of expenditures of $5.9 billion.

“We have exhausted all short-term solutions to our budget crisis,” Barbara Byrd-Bennett, chief executive officer of the system, said at a Feb. 25 board meeting. Given the outlook for fiscal 2016, “it is impossible for us to cut our way to a balanced budget.”

The travails have become a central issue in the leadup to the April 7 runoff pitting Emanuel, 55, against Jesus “Chuy” Garcia, a 58-year-old Cook County commissioner. While the election is nonpartisan, both are Democrats.

Emanuel’s Lead

Emanuel held a 51 percent to 37 percent lead in a poll of 712 registered voters that was taken March 6-11 and published in the Chicago Tribune. The survey had an error margin of 3.7 percentage points.

The winner will take over as the city of 2.7 million approaches a fiscal cliff. Chicago has $20 billion in unfunded pension liabilities, with a $600 million payment due next year.

Chicago's mayor effectively runs the school system, appointing the seven-member board. Garcia has said he supports shifting to an elected board, a move voters approved in a nonbinding referendum Feb. 24.

In a TV commercial, Garcia stands in front of a shuttered school and blames Emanuel for the district's financial strain. Garcia has called the decision to close the schools a disaster, while not promising to reopen any of them. He's backed by the Chicago Teachers Union and its president, Karen Lewis, who's publicly clashed with the mayor, most notably during a 2012 teachers' strike.

Annual Savings

Emanuel, who has said the closed schools were underperforming and underused, repeatedly highlights his extension of the school day, enactment of full-day kindergarten and free community college for public-school students with a grade-point average of at least 3.0. Closings have saved an estimated $40 million a year, according to bond documents.

Since 2011, the district has reduced non-classroom spending by more than $740 million, eliminated hundreds of administrative positions and renegotiated contracts, according to officials.

In December 2012, it sold 21-year bonds to yield 3.57 percent, about 1.4 percentage points above benchmark munis, Bloomberg data show.

"We would anticipate that our credit spreads have widened slightly given the changes in our ratings, but again, that's something that we're evaluating day to day," said Walter Stock, the system's debt manager.

The district hasn't done enough to ease its fiscal woes, said Richard Ciccarone, Chicago-based chief executive officer of Merritt Research Services LLC, which analyzes municipal finance.

"The cost of procrastination is coming home to roost," Ciccarone said. "They're going to have to pay the price for that."

Mar 23, 2015 5:00 PM PDT

Elizabeth Campbell

To contact the reporter on this story: Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Flynn McRoberts

---

Emergency Manager's Report Leaves Door Open to Possible Debt Payment Delays for Atlantic City.

NEW YORK (Standard & Poor's) March 25, 2015–Standard & Poor's Ratings Services today said it is reviewing its rating on Atlantic City, N.J.'s general obligation (GO) bonds outstanding based on the Emergency Manager's 60-day report released March 23, 2015. The report does not directly reference bankruptcy. However, it does identify possible deferrals in debt service payments, which could occur as early as the current fiscal year. Therefore, our analysis will focus primarily on the debt restructuring and refinancing that the Emergency Manager identifies as potential options to address the city's fiscal situation.

Should we view these options as having a detrimental impact on bondholders, we could lower the GO rating to as low as the 'CC' category, barring an actual default or distressed exchange by the city, which in our view would warrant a 'D'. Conversely, if these actions are consistent with the terms of the bonds outstanding, our analysis will focus further on both the short- and long-term impacts of the Emergency Manager's plan, consistent with our local GO criteria.

The 'BB' GO rating remains on CreditWatch with negative implications, where it had been placed Jan. 27, 2015. We expect to review our CreditWatch placement within the next 30 days based on our analysis of additional information presented in light of the report's findings. For more information on the GO rating, please see the report published Jan. 27, 2015, on RatingsDirect.

Primary Credit Analyst: Lindsay Wilhelm, New York (1) 212-438-2301;
lindsay.wilhelm@standardandpoors.com

Secondary Contacts: Karl Jacob, Boston (1) 617-530-8134;
karl.jacob@standardandpoors.com
Lisa R Schroeer, Charlottesville (1) 434-220-0892;
lisa.schroeer@standardandpoors.com

Chicago Board of Education Faces Possible Swap Termination Payment but GO Debt Rating is Unaffected for Now.

CHICAGO (Standard & Poor's) March 23, 2015–Standard & Poor's Ratings Services is closely monitoring the reaction of the Chicago Board of Education (CBOE; A-/Negative) to possible swap termination payments in excess of $200 million following the downgrade of its general obligation (GO) debt to below 'BBB' by another rating agency. While we view the possible trigger payments as pressuring the district's budget, we do not view these payments as likely to cause a liquidity crisis at present. For now, there is no change in our long-term and underlying ratings on CBOE's debt. We believe that CBOE has several avenues to address the potential cash payments associated with swap terminations. First, we understand the board is actively negotiating with the swap counterparties to amend the swaps to avoid having to make the termination payments. However, Standard & Poor's cannot be certain that the board will be able to avoid termination payments through its negotiations. If CBOE is unsuccessful in its negotiations and is forced to immediately make the termination payments, we believe that the board would be able to handle the payments given that it currently holds $174 million in cash in its debt service stabilization fund (as of March 10, 2015), which can be used to cover the swap termination payments, and has access to cash in other funds. The board's general operating fund held $70.8 million of unrestricted cash as of June 30, 2014, and is currently at a high liquidity point in the fiscal year following the receipt of property taxes in February from the county's first tax bills of 2015. The board also has access to $500 million in bank lines of credit, which management reports would be available to help pay swap termination payments. Over the remaining three months of the current fiscal year and next fiscal year, the possible loss of so much of cash and operating reserves to cover swap termination payments would put even greater pressure on the board as it structures its fiscal 2016 budget in the face of a budget gap of $1 billion. Given operating reserves that we consider strong as of fiscal year-end June 30, 2014 (10.1% of expenditures), but are projected by management to drop in fiscal 2015 due to a general fund shortfall of up to $916 million, accommodating the termination payment would mean that the board will have to cut costs even more or identify additional revenue sources, to maintain at least adequate reserves, which is a course of action we view as challenging. As reflected in our negative outlook, maintenance of the rating at the current level is conditioned upon the board's ability to retain at least adequate unrestricted reserves. CBOE hedged most of its variable-rate debt with eight floating-to-fixed interest-rate swaps. According to management, as of March 19, 2015, the value of the board's swaps for which termination payments may be due because of the lowered ratings was negative $228 million. The swaps were structured without any collateral requirements on the part of the board, but they could be terminated by the counterparties if two of rating agencies currently rating the board's GO debt lower their ratings to below Standard & Poor's equivalent of 'BBB'. We lowered our ratings on CBOE's GO debt two notches to 'A-', with a negative outlook, on March 18, 2015, because of the board's current and projected fiscal imbalances. For more information, see our report published March 18, 2015, on RatingsDirect.

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 Kenward, Chicago (1) 312-233-7003; john.kenward@standardandpoors.com

Secondary Contact: Helen Samuelson, Chicago (1) 312-233-7011; helen.samuelson@standardandpoors.com

---

Atlantic City on the Brink of Financial Disaster.

Financially beleaguered Atlantic City is at risk of defaulting on millions in debt, a new credit analysis warned Thursday.

The city faces a $40 million loan repayment at the end of March and needs access to the credit market to refinance that loan. Its credit rating is at junk status, which will make it difficult for the city to find reasonable refinancing. "With only four business days between now and March 31," the Moody's Investors Service analysis said, "it will be difficult to refinance the loan in the capital markets."

The Moody's analysis comes just two days after Atlantic City's emergency manager Kevin Lavin released his plan to address the city's looming financial crisis. The city faces a $101 million budget gap in 2015 alone, a figure that amounts to 40 percent of Atlantic City's entire budget last year. Lavin's plan requires swift action by the state legislature, which would have to pass two bills proposed late last year to redirect nearly $48 million in special funds and taxes to the city's coffers. It also calls for a deferral in paying $42 million in state health benefit and pension payments this year.

If the city survives the March 31 deadline, Moody's predicts the state legislature will have about three months until it hits another wall with nearly $19 million in debt due on three separate dates in August.

Adding to the uncertainty are questions about the ability of struggling casinos to pay their property tax payments to Atlantic City. "Should a casino become delinquent on its property tax payments as Revel and Trump Taj Mahal did in 2014, the [emergency manager's] short-term solutions will not be enough to prevent a 2015 debt service default," Moody's said.

Atlantic City has struggled for years as the near-collapse of the gambling industry there eroded its tax base. But this January saw a significantly dramatic drop in the city's fortunes. Gov. Chris Christie appointed an emergency management team with ties to Detroit's bankruptcy and asked the team to consider debt restructuring through bankruptcy. The move resulted in "super downgrades," rare declines of multiple notches, by Moody's and Standard & Poor's to the city's credit rating.

Following the emergency manager's report this week, S&P warned it could downgrade the city's credit rating again. (Although it is low, S&P's credit rating for Atlantic City is still higher than the Moody's rating.) Both rating agencies said they are worried about the city's liquidity struggles and whether that would impair its ability to fully pay back its bondholders. S&P said it could drop the city's rating as low as CC, which would match the Moody's rating. If it defaulted on debt, it could drop to a D rating, S&P said. A rating of D is extremely rare for a U.S. city and typically given to cities in bankruptcy.

GOVERNING.COM

BY LIZ FARMER | MARCH 26, 2015

Chicago's Unmentionable Pension Solution Haunts Mayoral Election.

(Bloomberg) — Chicago could avert financial doom with a new casino or an expanded sales tax. Or it could relieve the pressure from $20 billion in pension debt by slapping a levy on commuters.

As the city's credit rating slides toward junk status, the most direct remedy to dodge the threat of insolvency — raising property taxes — is barely mentioned by the two men vying to run Chicago in the next four years.

In the race for mayor, to be decided in an April 7 run-off, Mayor Rahm Emanuel and his challenger, Jesus "Chuy" Garcia, are treating the option as political poison even though it may be inevitable.

"My plan specifically avoids increasing property taxes," Emanuel, 55, said in a March 16 debate, promoting a broader sales tax and the casino.

Garcia, too, supports expanding the sales levy, and suggested in a debate Thursday night that the city consider a luxury tax on some purchases by higher wage earners. He also says Chicago first needs performance audits to assess its financial situation.

"Difficult decisions, hard decisions are going to have to be made," Garcia said in the latest debate.

Both candidates have stopped short of issuing irrevocable declarations against boosting property taxes. Yet their political discomfort is a tribute to the enduring public furor over such levies, about four decades after California sparked a nationwide revolt against the largest source of local-government income.

Recession Whammy

The sensitivity resonates in cities like Chicago, where the double-whammy of the recession and foreclosures cut home values by an average 24 percent from their peak in 2003, according to a study by DePaul University.

While proposing a property-tax boost may be abhorrent before the election, after the vote is a different matter. Even as Emanuel, mayor since 2011, and Garcia, a 58-year-old Cook County commissioner, try to distance themselves from it, an increase has taken on a sense of inevitability.

“I believe we can truly say that it will happen, but it is all in how much,” Chicago Alderman Carrie Austin, an Emanuel supporter and chairman of the City Council’s budget committee, said this month.

“That’s a bullet that we will have to bite because we have to right our ship,” Austin said.

Credit Deterioration

Investors who have watched the city’s credit standing deteriorate say there’s no choice if Chicago is to corral the cost of pension liabilities — the annual payment will swell to $1.1 billion, from $480 million this year. Moody’s Investors Service cut its $8.3 billion of general obligations to Baa2 last month, two steps above junk, citing the retirement expenses. Chicago can’t reduce workers’ retirement benefits without state legislative approval.

“Limitations on benefit reforms will likely leave large tax increases as the only viable solution, a challenge given the city’s historical reluctance to tap its property tax base,” Matt Fabian, a partner at Concord, Massachusetts-based research firm Municipal Market Analytics, said in a March 16 report.

Chicago isn’t master of its financial destiny. State legislators would have to approve a tax on the 600,000 commuters who work in the city, or any effort to impose an income tax.

Emanuel, former chief of staff for President Barack Obama, floated a $250 million property-tax boost last year to pay for pension obligations. He dropped the plan in the face of City Council opposition, and is taking a different route this time. He’s proposing to build a casino, dedicating the revenue to retirement debt, and extend the sales tax to services. Again, he can’t do either without state approval, and even with that consent, the casino wouldn’t be built in time to contribute to next year’s pension payment.

Direct Control

A property-tax increase, though, is within the city’s direct control. The levy generated $824 million last year, equivalent to about 9 percent of this year’s spending plan, according to Chicago’s annual financial analysis.

The population of the nation’s third-most-populous city fell 7 percent in the last decade to 2.7 million, according to the Census Bureau. The drop increases pressure on the tax base to pay for retirement commitments, some made decades ago.

“The problem is you’re paying the bills of the city of 30 years ago with today’s population,” said Norton Francis of the Tax Policy Center in Washington. “That’s a huge challenge for cities.”

Tax Burden

In Chicago, property taxes have risen even as housing values dropped. The effective tax rate jumped 32 percent from tax year 2003 to 2012, according to the Civic Federation, a nonprofit research group specializing in government finance.

Although the national recession ended in 2009, housing values in parts of the South Side have yet to recover, according to the Institute for Housing Studies at DePaul University. The area is home to many mostly black precincts, where Emanuel's support has dropped relative to the 2011 election.

Opposition to property taxes is part of the campaign dialogue. Emanuel criticized Garcia for a vote he cast in favor of a higher levy — in 1986.

Credit analysts and rating companies want Chicago to enact sustainable solutions, not patchwork fixes, to its financial woes, said Paul Mansour, head of municipal research at Conning, which oversees about $11 billion in municipal debt, including Chicago holdings.

"As much as property-tax increases are abhorred by residents, we in the municipal community prefer them because they're easier to predict," said Mansour, who's based in Hartford, Connecticut.

"It's hard to imagine a situation where increases in the property taxes are not some part of the equation," he said.

by Tim Jones

March 26, 2015

To contact the reporter on this story: Tim Jones in Chicago at tjones58@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, William Selway

---

Franklin Templeton Files Opening Brief in Appeal of Stockton, CA, Bankruptcy Exit Plan.

(Reuters) – The holdout creditor in Stockton, California's bankruptcy case filed its opening brief in an appeal of the city's reorganization plan on Monday, claiming "no bondholder has ever received so little in the history of municipal bankruptcy."

The creditor, two funds managed by Franklin Templeton Investments, said Stockton's plan to exit Chapter 9 bankruptcy was discriminatory and punitive.

Franklin said it would receive less than 1 percent of its $30.5 million unsecured claim in the case, now before the U.S. Bankruptcy Appellate Panel of the Ninth Circuit.

The brief claimed that by confirming a plan providing such a small distribution, compared with recoveries of 52 percent to 100 percent for other unsecured claims, U.S. Bankruptcy Judge Christopher Klein erred in backing Stockton's exit plan.

"The court's errors of law, and the erroneous findings of fact on which those conclusions were premised, require reversal and remand with a direction for the city to fashion equitable plan treatment for Franklin," the brief said.

Suffering a steep decline in revenue, Stockton filed for bankruptcy protection from its creditors in 2012. The Northern California city of about 300,000 residents got the green light from Klein to exit Chapter 9 last fall over objections by Franklin's legal team.

The Franklin team argued that Stockton would leave its two funds with little while leaving the city's pension fund, the California Public Employees' Retirement System, untouched.

Stockton's case had been closely watched in the $3.6 trillion U.S. municipal debt market, with a focus on its pension dispute. The issue is of growing concern for state and local governments, especially whether pensions can be cut during bankruptcy.

Klein said Stockton had the authority to cut pensions but the city declined to do so. It instead eliminated health care for more than 1,000 of its retired employees to help cut spending.

The city also reworked labor agreements, won concessions from various creditors and won voter approval for a sales-tax increase to help bolster its finances, moves that helped it win Klein's support for its reorganization plan.

The plan took effect last month.

The case is In re City of Stockton, California, in U.S. Bankruptcy Appellate Panel of the Ninth Circuit, Case No. EC-14-1550

For Franklin: James Johnston, Jones Day

For Stockton: Marc Levinson, Orrick, Herrington & Sutcliffe

By REUTERS

MARCH 23, 2015, 6:07 P.M. E.D.T.

(Reporting by Robin Respaut and Jim Christie; Editing by Bernard Orr and Dan Grebler)

[Atlantic City Turnaround Team Bets on Cuts Not Bankruptcy.]

NEW YORK — A turnaround team tasked with reviving Atlantic City says New Jersey's struggling gambling hub must consider cost cuts, layoffs and longer bond maturities, but bankruptcy is not in the cards – yet.

"Bankruptcy is not something that we are contemplating," said emergency manager Kevin Lavin on a conference call on Tuesday. "We think that this process can be done without that necessity."

Atlantic City's tax base has been gutted, to just $7.35 billion in 2015 from $20.5 billion in 2010, as its casinos suffered from competition in neighboring states.

Lavin's report, which comes about 60 days after his appointment by Governor Chris Christie, describes a city in acute distress.

"It's actually a lot more severe than we thought when we first started," Lavin said.

Many had feared his team, which has ties to the professionals that oversaw Detroit's municipal bankruptcy, would prioritize bondholder losses and bankruptcy.

Instead, Lavin's report proposes a mediator to negotiate with stakeholders, including labor unions and casinos.

Lavin’s first priority is closing the city’s projected budget deficit of $101 million. Without significant change, the cumulative deficit will be $393 million over five years, the report said.

Stakeholders would have to help staunch the bleeding, he said.

The city may have to cut expenses by $10 million, a combination of operational cuts and a 20 percent to 30 percent reduction of its 1,150 or so full-time employees. Six of the city’s labor contracts have expired and are already in negotiations.

Retirees, including lifeguards, could see pension plan changes or benefit delays.

Even taking adjustments into account – including delaying city contributions into pension funds, operational cuts and the infusion of $77 million of state aid – the city’s cash flow would still dip below zero twice by August, the report showed.

“Absent the continuation of significant state assistance … the city simply cannot stand on its own,” it said.

Matt Fabian, a managing director of Municipal Market Advisors, said the state was responsible for the city’s dependency on casinos.

“The state created Atlantic City,” he said. “The state should have some culpability.”

New Jersey Senate President Steve Sweeney, a Democrat who is spearheading legislation to help Atlantic City, said the Christie administration has held summits and issued reports, but “taken no real action.”

Mayor Don Guardian said he had been working with Lavin’s team, which will consider long-term solutions in a second phase of work.

By REUTERS

MARCH 24, 2015, 6:40 P.M. E.D.T.

(Reporting by Hilary Russ and Megan Davies; Editing by David Gregorio and Andre Grenon)

Bankrupt San Bernardino Reveals Details of Deal With Calpers.

LOS ANGELES — The bankrupt California city of San Bernardino revealed on Thursday details of its deal with the state’s public pension system Calpers, in which the retirement fund will be paid in full under the city’s bankruptcy exit plan.

San Bernardino announced last year it intended to pay the powerful California Public Employees’ Retirement System in full under its bankruptcy plan, while cutting its bondholder debt. But it had not before revealed details of the deal with Calpers, America’s largest public pension fund with assets of $300 billion.

San Bernardino, a city of 205,000 located 65 miles east of Los Angeles, declared bankruptcy in August 2012 with a $45 million deficit. It is one of a handful of municipal bankruptcies, along with Detroit, Michigan and Stockton, California, that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders, public employees and state and local governments want to understand how financially distressed cities handle their debts to Wall Street, compared with other creditors such as large pension funds during Chapter 9 protection.

San Bernardino was recently ordered by the federal bankruptcy judge overseeing the case to make public the Calpers deal. The city published details before a court hearing in the case on Thursday.

The Calpers deal has angered other creditors, including holders of $50 million in pension obligation bonds, who face cuts to their debt. They are suing the city over the Calpers deal.

After it declared bankruptcy in 2012, San Bernardino suspended its employer payments to Calpers for one year. It accrued roughly $16 million in arrears, plus millions more in penalties, fines and interest.

Under the deal with Calpers, the city agreed to pay it in full under its bankruptcy plan, which it must issue by May 31, and to “ratify” its relationship with Calpers.

To repay the arrears, the city paid $1.5 million to Calpers in May 2014, and agreed to pay roughly $600,000 a month for two years between July 2014 and June 2016.

The city also agreed to pay five annual payments of $400,000 to settle fines, penalties and interest.

Luxembourg-based EEPK, holders of the pension bonds, and Ambac Assurance Corp, which insures a portion of them, sued San Bernardino in January, claiming the bonds are part of a single pension obligation, so that any payment to Calpers requires equivalent payment to the bondholders.

Initial arguments on that lawsuit will be heard on May 11.

By REUTERS

MARCH 26, 2015, 6:29 P.M. E.D.T.

(Reporting by Tim Reid)

Biloxi Blues Deepen as Fines Loom Over Ballpark Built With Bonds.

(Bloomberg) — Biloxi sold $21 million of bonds to pay for a baseball stadium, lured the Shuckers to town and auditioned singers for the national anthem. It’s now racing to avoid losses because the team has nowhere to play.

The Mississippi city, with a population of 45,000, may decide March 24 whether to spend an extra $1 million to complete work on the ballpark before Aug. 31, when it’s set to be finished. If the stadium isn’t ready when the season starts on April 9, Biloxi may have to pay $10,000 in fines for every game that can’t be played there. It also stands to forgo thousands more in tax revenue anticipated from visiting fans.

“We were worried the taxpayers would be on the hook if this stadium didn’t make money the way the city said it would,” said Roberta Avila, the executive director of the Steps Coalition, a Biloxi community group that opposed public funding for the stadium. “There was no guarantee.”

The costs underscore the risks to cities that borrow to build stadiums, seeking to boost their economies. More than $9 billion of municipal bonds have been issued to finance arenas for professional sports teams, data compiled by Bloomberg show. Hartford, Connecticut, sold about $62 million of bonds last month to make a home for the New Britain Rock Cats, the baseball team that will become the Hartford Yard Goats when they move.

Some Mishaps

Such minor-league stadiums don't always deliver the expected benefits. Newark, New Jersey, is paying $1 million a year on bonds for a facility that's been without a team since the Newark Bears folded because of dwindling attendance.

To finance the stadium, Biloxi sold general-obligation bonds and used $15 million of its share of what BP Plc paid after an oil spill damaged the Gulf Coast in 2010. General-obligation debt is funded by the city budget, instead of earmarked fees or other specific revenue.

Construction was delayed as the team waited for approval from Minor League Baseball to move from Huntsville, Alabama. The city may be required to pay fines to the Shuckers if the venue's not open after the season begins. Early-season games are set to be played in Huntsville and at the fields of its opponents.

The team may be willing to play in an incomplete stadium if the city can certify that it's safe, said Tim Bennett, the Shuckers's vice president. The team is offering to help pay some of the cost to get the stadium open before August.

"We're in negotiations to get in more quickly than planned," said Bennett. "It doesn't look very good for us to be collecting fines of $10,000 per game when the city is building us a $36 million stadium."

Residents Leery

The potential costs have made some residents leery of the agreement Biloxi officials struck.

"I'm very happy to see my dream come true, but I have concerns with how the deal was structured," said Barry Lyons, a Biloxi resident and former New York Mets catcher who pushed for two decades to get a team and stadium in his home town. "I'm concerned the city will be on the hook for the costs if it doesn't work out as a catalyst for development and family entertainment."

Stadium bond deals have also drawn national scrutiny. In his budget this year, President Barack Obama proposed barring the use of tax-exempt debt to finance sports arenas for team owners. Some studies by sports economists have found that the venues do little to boost tax collections and divert funds from other public services.

Other Priorities

Biloxi should address infrastructure and housing issues in areas still recovering from Hurricane Katrina, which hit the Gulf Coast almost a decade ago, said James Crowell, president of the National Association for the Advancement of Colored People there.

"It's going to be a stress on our already strained city budget to complete this thing," he said. "Since Katrina, a lot money hasn't been used to revitalize our residential areas as it should have been. A lot of people haven't been able to move back."

Local officials said the team and stadium will bring new jobs by bolstering tourism near the casinos where it's being built. The new stadium may generate $34 million of spending a year by visitors at restaurants, casinos and stores, according to an August 2013 economic analysis by Chicago-based Johnson Consulting.

“We have hundreds of hotel rooms right by the stadium, which is near our casino district,” said David Nichols, Biloxi’s city manager. “Now we just need to find a way to complete the stadium so we can get it open.”

by Darrell Preston

March 22, 2015

To contact the reporter on this story: Darrell Preston in Dallas at dpreston@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net; William Selway at wselway@bloomberg.net; Jeffrey Taylor at jtaylor48@bloomberg.net William Selway

---

Atlanta City Council Wants Oversight of Infrastructure Bond Projects.

The Atlanta City Council voted unanimously Monday to create an oversight committee for the $250 million infrastructure bond program that city voters will decide on Tuesday.

If the two-part referendum passes, the 13-member committee would hold public meetings at least once per quarter to review the status of projects being financed by the bonds, potentially suggest changes to the project list and report its findings and recommendations periodically to the city council.

The $250 million bond referendum, an initiative spearheaded by Mayor Kasim Reed, is broken down into two separate bond requests. Voters will be asked to approve $187.9 million in bond financing for transportation improvements and a second $64.1 million bond for construction, renovation, maintenance and equipping of buildings, recreation centers and other city-owned facilities.

The bond package also is divided between $179.3 million in citywide projects and $70.7 million in local improvements.

The oversight committee will include four members appointed by members of the city council, Atlanta’s public works commissioner, two engineering faculty members from local universities, a member of the Atlanta Planning Advisory Board, a member of the State Transportation Board, a member of MARTA’s Board of Directors, a member of the local chapter of the Georgia Society of Professional Engineers and two utility representatives.

The ordinance forming the committee gives it five years to do its work. After that, it would have to be reauthorized by the city council.

The council also voted Monday to spend up to $500,000 on independent audits of the bond projects to be conducted throughout the life of the program.

Dave Williams
Staff Writer-
Atlanta Business Chronicle

In Atlantic City, Unease Over Emergency Managers.

Campaigning in New Hampshire recently, New Jersey Gov. Chris Christie told business leaders his move to install emergency managers in Atlantic City demonstrated his bold leadership.

“It was time to go in there, take more of a proactive role, make hard decisions,” said Bill Greiner, a New Hampshire real-estate developer, said of the Republican governor’s message.

Not everyone is so certain. In this struggling seaside city, some residents, business owners and local officials question whether emergency managers appointed in January will make the situation better.

In New Jersey, Atlantic City is an experiment in whether state control is the answer to the resort destination’s long-standing problems. While governors have previously controlled some aspects of troubled cities such as Newark, Trenton and Camden, the state hasn’t previously imposed an emergency manager.

The governor’s move is also being watched outside the state. Kevin Madden, a senior adviser to Mitt Romney’s 2012 campaign, said Atlantic City’s decline and the state’s finances are likely attack targets for Mr. Christie’s opponents as he eyes a 2016 presidential bid.

Mr. Christie’s appointment of emergency managers sent Atlantic City’s already low bond rating further downward and left city leaders scrambling to sell about $12 million in debt in February. The city ended up paying a pricey 5% interest rate on those short-term notes and officials are now unsure how future debt auctions will go.

“It’s had such a negative effect from the business community,” said Mayor Don Guardian, a Republican. “They immediately assume the worst when you bring two guys in that have worked with bankruptcy.”

The city intends to go back out in the market by April for roughly $50 million in financing, said Atlantic City Revenue Director Michael Stinson. The debt will be secured through a state financing program for municipalities, allowing Atlantic City to get better terms on the bonds than if it went into the market using its own lowered credit rating, Mr. Stinson said.

Senate President Steve Sweeney, the Legislature’s ranking Democrat, said that bringing in two individuals with experience in municipal and corporate bankruptcies translated into more difficulties for Atlantic City.

“I think it was a big mistake,” Mr. Sweeney said in a recent interview, noting the ratings downgrades that resulted. “It sent a very bad message to the markets.”

The emergency managers, who in recent weeks have met with casino executives and city officials and studied the city’s finances, and are expected to file their report and recommendations for the governor as soon as next week.

Turning around the city won’t be easy. As casinos opened in neighboring states, the resort city of 40,000 that once bet on a gambling-led revival fell on hard times. Four casinos have closed in the past 18 months. Gambling revenue has dropped by half, from $5.2 billion in 2006 to $2.6 billion in 2014, according to the state’s Department of Gaming and Enforcement.

The decline led casinos to successfully appeal their property taxes, leaving a big hole in the city’s budget.

Mr. Guardian has already trimmed the workforce and cut some municipal services, citing the city's financial woes. Mr. Christie said at a recent town-hall meeting in Moorestown that an emergency manager can "right size the government" and do what government officials have been unable to do.

Mr. Christie's choice of Kevin Lavin, a restructuring expert, and Kevyn Orr, who handled Detroit's bankruptcy, has rattled confidence that the state would prevent a bankruptcy and maintain a safety net through state aid. Mr. Christie also issued an executive order that left open the possibility that the city could default.

The emergency managers declined to comment.

Emergency managers can offer financial expertise and make tough financial decisions without having to face the political pressure that elected officials can face, economists said.

Mr. Stinson, the city's revenue director, said that he has seen Mr. Lavin in the city nearly every day since he assumed the role. "They are working hard," he said of the emergency management team.

Across the city, talk in restaurants and among service workers has turned to whether the city will be the next Detroit, which emerged from bankruptcy in 2014 after officials struck deals with that city's creditors and reorganized city services. Israel Posner, executive director of the gaming institute at Stockton University, called the prospect of bankruptcy a "Damocles sword" hanging over Atlantic City.

Some think following in Detroit's footsteps might not be so bad in the long run. After that city's bankruptcy, some are betting that Detroit will bounce back, with less debt and more development. Real-estate prices have started rising in some parts of Detroit, and businesses are reinvesting in the downtown area.

Many in Atlantic City's casino industry have welcomed the emergency managers. Officials at the Golden Nugget said the city's regulatory costs and taxes had made business challenging and an emergency manager could help provide relief.

Joe Lupo, senior vice president at Borgata Hotel Casino & Spa, said the hotel believed changes needed to be made and the managers seemed qualified.

The appointment of the emergency managers surprised many because Mr. Guardian had also moved to cut the city's budget, staff and some municipal services, with Mr. Christie's approval.

"Don Guardian is there tightening the belt, shaving where he had to shave, trimming where he had to trim," said Tony Catonoso, owner of the city's famous Steel Pier. "Don's not going to sit there and pick fights. He's not going to sit there and dig in his heels just for spite. He's going to do whatever he has to do to move the city forward."

The mayor said he is meeting with the managers and working closely with them, and city officials are trying to assure outsiders that the situation isn't dire.

THE WALL STREET JOURNAL

By JOSH DAWSEY AND HEATHER HADDON

Updated March 20, 2015 2:51 p.m. ET

[Puerto Rico Bonds Seen Cheapening as Record Restructuring Looms.]

(Bloomberg) — Puerto Rico's power utility is moving toward a record restructuring of its $8.6 billion debt load. For high-yield municipal investors, the move may be a trigger to add the junk-rated commonwealth's bonds.

The Electric Power Authority, called Prepa, is poised to reduce its obligations this year through negotiations with creditors. Such an agreement may cheapen Puerto Rico securities, which already trade at distressed levels, while clarifying how the commonwealth and its agencies may tackle $73 billion of debt, said John Miller, co-head of fixed income at Nuveen Asset Management. The company runs the biggest high-yield muni fund.

Signs of interest from mutual funds would be welcome news for the struggling U.S. territory, which has relied on buying by hedge funds. Traditional purchasers stepped back as the risk grew: 54 percent of muni mutual funds hold Puerto Rico bonds this year, down from 77 percent in October 2013, according to Morningstar Inc. Puerto Rico's securities are widely held because they're tax-free nationwide.

"There will be opportunities," said Miller, who helps manage $100 billion of munis in Chicago. "We're not there yet because nothing's been restructured and we don't know who is going to take the hits here."

'Dry Powder'

Nuveen reduced its allocation about two years ago, Miller said. Its $10.8 billion High Yield Municipal Bond Fund, the largest of its kind, didn't hold any Puerto Rico as of Feb. 28, down from a 1.8 percent allocation on June 30, 2011, data compiled by Bloomberg show.

The firm has room to add commonwealth debt in its muni funds, Miller said.

"All of these funds have dry powder in their below-investment-grade buckets," Miller said. "That's another reason why we want to follow it closely and try to identify an opportunity."

Debt of Puerto Rico has earned about 0.1 percent this year, compared with 0.8 percent for the entire municipal market, according to S&P Dow Jones Indices.

Some commonwealth debt has been gaining. Prepa bonds maturing in July 2040 traded Thursday at an average of 52.6 cents on the dollar, up from about 50 cents at the start of 2015.

Borrowing History

The island was cut to junk a year ago because of its history of borrowing to balance budgets. The territory and its localities have more debt than all but two states: California and New York. Its economy has struggled to grow every year since 2006, and its population shrank by 7 percent in the past decade to 3.5 million, according to Census data.

Governor Alejandro Garcia Padilla's administration is trying to avoid defaulting on Puerto Rico's $13 billion of general obligations. Legislators passed a law allowing some public corporations to ask investors to take a loss, which might ease their financial strains and free them from relying on the island's general fund. A federal judge threw the measure out, although the island has appealed.

As a result, there’s no road map for agencies seeking to reduce debt, and Puerto Rico localities can’t file for Chapter 9 bankruptcy protection. That leaves investors guessing how large potential losses may be.

Puerto Rico’s general obligations may be at risk: there’s a high probability that the island will default on the securities in the next two years, Moody’s Investors Service said in a Feb. 19 report.

Commonwealth lawmakers this week filed a bill that would allow Puerto Rico to default on its general obligations.

“The credit-negative discussions, regardless of whether they culminate in enacted legislation, signal the rising likelihood of consolidated debt restructuring that affects not only public corporations, but also the central government’s general obligation and other tax-backed securities,” Ted Hampton, a Moody’s analyst in New York, wrote in a report Thursday.

Zero Sum

“At some point there’s going to be a buying opportunity,” said Peter Hayes, who helps manage $116 billion as head of munis at New York-based BlackRock Inc. “It will probably be an attempt at some type of restructuring, but will it be just in the public corporations or will it be in the general obligations? It remains to be seen.”

BlackRock’s $538 million High Yield Municipal Fund had 0.9 percent of assets in Puerto Rico as of Jan. 31, Bloomberg data show. While that’s up from zero a year ago, the allocation was about 6 percent in July 2012, Bloomberg data show.

Prepa may fail to pay of about $400 million of principal and interest due July 1, Moody’s said in a March 16 report.

The utility in August signed an agreement with creditors to extend bank loans through March 31. In return, the agency promised to file a debt-restructuring plan, which it has failed to do. The utility, bondholders, bond insurers and banks are discussing an extension. Moody’s estimates a recovery rate of 65 percent to 80 percent if Prepa defaults. It would be a historic restructuring for a municipal issuer.

The Government Development Bank, which handles Puerto Rico’s debt sales, declined to comment through David Millar, a New York-based spokesman.

Entry Point

Puerto Rico has proven volatile, so investors may not have to wait for a restructuring to buy.

General obligations sold in March 2014 at 93 cents rose to an average of 96.6 cents that month, then fell to 81.9 cents Feb. 9. The debt traded Thursday at about 84.1 cents.

“You can effectively exit and re-enter at will,” said Jason Diefenthaler, who helps manage Wasmer Schroeder’s $80.5 million High Yield Municipal Fund, which directs about 6 percent to commonwealth debt. “There’s always a way to get involved with Puerto Rico.”

Some investors already added as yields reached 10 percent, equivalent to a taxable 16.6 percent for top earners.

MacKay Shields LLC in New York boosted its holdings to $247 million in its four MainStay muni

mutual funds as of Dec. 31, or about 10 percent of assets, up from 0.2 percent in October 2013, according to Morningstar.
The Puerto Rico bonds are insured, according to MacKay Shields.

Inaugural Year

In the inaugural year for Wasmer Schroeder's High Yield Municipal Fund, Puerto Rico accounted for as much as 9.2 percent of assets in November. That allocation is now about 6 percent, all insured, said Diefenthaler, who helps manage $5.1 billion of munis at the Naples, Florida-based firm.

The fund, which debuted on March 31, can direct as much as 10 percent to Puerto Rico, Diefenthaler said.
"If we can opportunistically add more insured paper, I would be all over that," he said. "The Puerto Rico name itself detracts from the value of that insurance in the secondary market, so there's opportunity to pick up yield."

by Michelle Kaske

March 18, 2015

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, William Selway

---

Muni Bond Yields Fall as Much as 8 Basis Points.

(Reuters) – U.S. municipal bond yield dropped as much as 8 basis points on Thursday as investors took advantage of the cheapness of tax-exempt debt versus taxable U.S. Treasuries, according to a final market read by Municipal Market Data (MMD).

March 19, 2015 3:14pm EDT

(Reporting by Robin Respaut; Editing by Jeffrey Benkoe)

Preston Hollow Capital Hires Municipal Finance Veteran to Build Origination Team.

DALLAS–(BUSINESS WIRE)–Preston Hollow Capital, LLC announced today the addition of a seasoned municipal finance professional to lead its origination efforts. Ramiro Albarran was named Managing Director and Head of Origination for the Dallas-based merchant bank. "Ramiro brings 26+ years of municipal finance experience with unique and on-point capabilities to PHC," says Jim Thompson, the Chairman and CEO of Preston Hollow Capital.

"Ramiro brings 26+ years of municipal finance experience with unique and on-point capabilities to PHC"

"As the Head of Origination, Ramiro will oversee asset origination for PHC and build out a team dedicated to working collaboratively with the broker-dealer and financial advisor communities, borrowers and investors," Thompson added. "We're confident that Ramiro's skills and relationships will help establish Preston Hollow Capital as the premier solutions provider in municipal specialty finance."

Mr. Albarran's entire career has been focused on complex municipal, infrastructure and real estate related asset classes, including unique financings for 7 World Trade Center, the Bank of America Tower in New York, and the Harbor Point project in Stamford, Connecticut, the latter having been one of the largest tax increment financings completed since the recession. Mr. Albarran joins from Guggenheim Securities where served as Head of the Municipal and Infrastructure Finance Group. His prior experience includes various senior roles at Bank of America including heading the public finance department as well as various specialty banking groups including real estate. He also served as a principal at Starwood Infrastructure LLC and as a partner at Stone & Youngberg LLC. Mr. Albarran received a B.A. in Economics and Engineering from Dartmouth College.

About Preston Hollow Capital and Jim Thompson

Preston Hollow Capital is a diversified merchant bank launched in January 2014 by Jim Thompson, the former President and Chief Executive Officer of ORIX USA. The PHC team, comprised of former ORIX USA senior executives and employees, seeks to produce superior risk-adjusted returns across a broad spectrum of investment strategies. Mr. Thompson, along with his wife Angela, supports Dallas-area non-profits through the Jim & Angela Thompson Foundation, and STEM education initiatives through the Blue Sky Educational Foundation. He is a board member of the Dallas Urban Debate Alliance, and is a former board member of Dallas CASA, Angel Flight South Central and the AOPA Foundation.

March 18, 2015 10:00 AM Eastern Daylight Time

Contact Preston Hollow Capital at Admin@PHCLLC.com or 214-389-0800.

Contacts

C. Pharr & Company for PHC
Krystal Morris, 972-931-7576, ext. 355
Krystal@pharrpr.com

U.S. Bancorp Joins ORIX USA with First Renewable Energy Tax-Credit Syndication.

U.S. Bancorp (NYSE:USB) and ORIX USA Corp. announce the closing of U.S. Bancorp's first renewable energy syndication, which is expected to enable SolarCity to install approximately 2,500 solar power systems at homes and businesses in nine states.

U.S. Bancorp led the transaction, introducing of an industry-leading product that will allow both first-time and experienced investors to tap into the renewable-energy tax credit market.

This agreement will help finance the installation of solar arrays in Arizona, California, Colorado, Connecticut, Hawaii, Massachusetts, Maryland, New Jersey and New York, with more to come. The syndication is expected to finance more than $100 million in solar projects.

The 2,500 systems installed by SolarCity are projected to produce enough clean-source electricity in their first year of operation to equal removing 4,250 cars from the roads each year. The fund makes it possible for many home and business owners to install solar panels with no upfront cost, and pay less for solar electricity than they pay for utility power.

“This is a new phase of business development for U.S. Bancorp,” said Zack Boyers, chairman and CEO of U.S. Bancorp Community Development Corporation. “Entering into our first renewable energy syndication agreement allows us to expand SolarCity’s ability to install more energy-saving solar arrays on homes and businesses across the nation that will, as a result, produce more jobs and assist in the country’s economic recovery.”

The syndication is a gain on multiple fronts for U.S. Bancorp: It boosts the capital in the solar market, increases use of clean energy, and diversifies the bank’s ability to serve the needs of a growing market as well as its products and services, Boyers said.

The syndication deal marks ORIX’s entry into the renewable-energy tax credit financing market.

“We welcome the opportunity to help consumers and businesses reduce greenhouse gas emissions by becoming solar energy users,” said Andrew Garvey, managing director and head of ORIX Municipal Finance. “ORIX is a unique platform, and this transaction shows how we can make our capital available in innovative ways to achieve the financing needs of our clients.”

The installations will produce more than 350 construction and installation jobs. They will also generate $76 million in economic impact from salaries, equipment purchases, construction materials and secondary spending by workers on local services and on solar industry vendor supplies and services.

ST. LOUIS (The Associated Press) – Mar 16

About ORIX Municipal Finance ORIX Municipal Finance makes investments of approximately $10 million to $50 million in public, semi-public and private entities. The company’s investment portfolio includes transactions for a wide range of industries, including health care, housing, education, energy and transportation. ORIX Municipal Finance is a subsidiary of ORIX USA, a Dallas-based financial services firm known for providing innovative capital solutions that clients need to propel their business to the next level. ORIX USA and its family of companies have more than 1,400 employees with principal offices in Atlanta; Chicago; Hartford, Conn.; Los Angeles; Minneapolis; New York; San Francisco; Seattle; Washington, D.C.; Frankfurt, Germany; London; and Paris. ORIX USA holds approximately $7 billion of assets and manages an additional $30 billion, approximately. ORIX USA is a wholly owned subsidiary of ORIX Corporation, a Tokyo-based, publicly owned international financial services company with operations in 36 countries and regions worldwide. ORIX Corporation is listed on the Tokyo (8591) and New York Stock Exchanges (IX). For more information on ORIX Municipal Finance, visit www.orix.com.

About U.S. Bancorp Community Development Corporation With nearly $15.8 billion in managed assets as of Dec. 31, 2014, U.S. Bancorp Community Development Corporation, a subsidiary of U.S. Bank, provides innovative financing solutions for community development projects across the country using state and federally sponsored tax credit programs. USBCDC’s commitments provide capital investment to areas that need it the most and have contributed to the creation of new jobs, the rehabilitation of historic buildings, the construction of needed affordable and market-rate homes, the development of renewable energy facilities, and the generation of commercial economic activity in underserved communities. Visit USBCDC on the web at www.usbank.com/cdc.

About U.S. Bank Minneapolis-based U.S. Bancorp (NYSE: USB), with $403 billion in assets as of Dec. 31, 2014, is the parent company of U.S. Bank National Association, the fifth largest commercial bank in the United States. The company operates 3,176 banking offices in 25 states and 5,022 ATMs and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. Visit U.S. Bancorp on the web at www.usbank.com.

CONTACT: U.S. Bank Corporate Communications

Shera Dalin, 314-335-3335

shera.dalin@usbank.com

@usbank_news

San Bernardino has Defaulted on $10 Million in Bond Payments.

(Reuters) – The southern California city of San Bernardino has defaulted on nearly $10 million in payments on its privately placed pension bond debt since it declared bankruptcy in 2012, according to documents seen by Reuters.

In addition, the city has not negotiated with its bondholders since September, according to a person familiar with the stalled negotiations.

The missed payments illustrate the trend among cities in bankruptcy to favor payments to pension funds over bondholder obligations, which has increased the hostility between creditors and municipalities.

San Bernardino declared last year that it intends under its bankruptcy exit plan to fully pay Calpers, its biggest creditor and America's largest public pension fund with assets of $300 billion.

The city continues to pay its monthly dues to Calpers in full, but has paid nothing to its bondholders for nearly three years, according to the interest payment schedule on roughly $50 million of pension obligation bonds issued by San Bernardino in 2005.

The non-payment of the bond debt and the city's lack of interest in talks with its pension bondholders just weeks before it must produce a bankruptcy exit plan should serve as a wake-up call to Wall Street issuers of debt to struggling cities, according to Michael Sweet, a bankruptcy attorney with Fox Rothschild in San Francisco.

In January San Bernardino's city attorney, Gary Saenz, told Reuters the city intended to cut its bondholder debt under its bankruptcy plan.

San Bernardino's bankruptcy is being closely watched by the $3.6 trillion U.S. municipal bond market.

In the recent municipal bankruptcies of Detroit – the biggest-ever U.S. municipal bankruptcy – and Stockton, California, bondholders were forced to accept big cuts to their debt while pensioners emerged relatively unscathed.

"Bondholders should be realizing that in Chapter 9 cases those who will invariably get better treatment by the cities are former and current employers, who are part of the community, and not the faceless bankers holding commercial paper," Sweet said.

But Sweet said San Bernardino's treatment of its bondholders could come back to haunt it. "Down the road, the city may find that the capital market is unavailable to it or that it will be penalized at a very high rate when it seeks to borrow," he said.

San Bernardino, a city of 205,000 located 65 miles east of Los Angeles, declared bankruptcy in July 2012 with a $45 million deficit.

Bondholders and public employees want to understand how distressed cities handle their debts to Wall Street compared with other creditors such as pension funds.

San Bernardino's roughly $50 million pension bond debt was used in 2005 to pay off a portion of the city's obligation to Calpers.

In an unprecedented legal argument for a Chapter 9 municipal bankruptcy, EEPK, the Luxembourg-based bank and holder of the pension bonds, and Ambac Assurance Corp, which insures a portion of the bonds, assert in a January lawsuit against San Bernardino that those bonds are part of a single pension obligation, so that any payment to Calpers by San Bernardino requires equivalent payment to the bondholders.

Next week EEPK attorneys will ask the judge overseeing the bankruptcy to set a schedule to adjudicate the lawsuit. Wells Fargo Bank, the flagship bank of Wells Fargo & Co., is the bond trustee but is not a party to the lawsuit.

On Friday, the city filed court papers to dismiss EEPK and Ambac's lawsuit. The city said the bondholder argument "transcends novelty."

Rosanna Westmoreland, a Calpers spokeswoman, said EEPK's argument was "wrong."

San Bernardino's city attorney was not immediately available for comment.

BY TIM REID

LOS ANGELES Tue Mar 17, 2015 5:34pm EDT

(Reporting by Tim Reid; Editing by Leslie Adler)

Detroit Seeks Statutory Lien on $275M Barclays Deal.

CHICAGO – A bill designed to ease Detroit's first appearance in the public debt markets since its bankruptcy sailed through a Michigan legislative committee this week.

Senate Bill 160 passed the Committee on Banking and Financial Institutions by a 7-0 vote on March 3.

The legislation is now on the Senate floor and could be taken up as early as next week, according to Patrick Tiedt, chief of staff for Sen. Darwin Booher, R-Evart, one of the sponsors.

The bill would give a statutory lien to city income tax revenue backing Detroit's financial recovery bonds.

The measure essentially applies to only one of the city's bond deals: a $275 million deal that Detroit privately placed with Barclays on December 10, 2014, the city's final day in bankruptcy.

The borrowing marks the only time the city has tapped its income tax revenue to secure bonds.

The bonds, now in a variable-rate mode, are to be resold on the public market in a fixed-rate mode within 150 days of the Dec. 10 placement date, unless Barclays grants an extension.

The one-day secondary market sale, coming as soon as April, will be similar to a primary offering. Ratings from at least two agencies will be sought, according to the terms of the deal.

Detroit officials hope that the statutory lien might win an investment-grade rating from at least one rating agency.

Supporters believe SB 160 will boost investor confidence in the bonds with a statutory lien that is expected to make the bond revenue fully protected in the event of another bankruptcy or default by Detroit.

"Even though I am from a small town in northern Michigan, I recognize how important the recovery of Detroit is to the entire state of Michigan," Booher, R-Evart, said in an email to The Bond Buyer. "I sponsored SB 160 because I believe this is common sense legislation and we should be encouraging ways to save the taxpayers money."

Detroit, which filed for Chapter 9 bankruptcy in July 2013, floated $1.28 billion of new debt in December as it exited the bankruptcy, but none of that debt was sold in the public debt markets.

Fiscal analyst Elizabeth Pratt with the Senate Fiscal Agency said in a fiscal note that the city could see debt-service savings of $2 million to $3 million a year with the lien. The estimates come from the city's own figures. The city's documents also note that the Legislature passed a similar bill in 2011 to help the city of Ecorse access the bond market, although in that case the enhancement was an intercept feature, not a statutory lien.

"Bond rating agencies have stated that a statutory lien on the income-tax revenue pledged to repay the bonds would improve the bond rating and result in lower interest costs," Pratt wrote in the fiscal note.

"What it effectively does is make the security a lot more airtight than it would be otherwise because there's a lien on the revenue," said Jeff Mann, a legislative analyst with the Senate Fiscal Agency who is following the bill.

The bill would apply only to Michigan cities with a population of more than 600,000, a category that includes only Detroit.

It would apply only to financial recovery bonds with a pledge of income tax revenue and only with the approval of the state treasurer.

The revenue would enjoy the lien and be held in a trust for the benefit of the bondholders regardless of whether the city directly collects the revenue, a third party collects it, or anyone else, according to the legislation.

"The lien would be superior to all other liens and interests of any kind, and would be perfected without delivery, recording or notice," Mann's analysis says. "The revenue held in trust would be exempt from being levied upon, taken, sequestered, or applied toward paying the debts or liabilities of the city other than those expressly specified in the agreement."

Detroit Mayor Mike Duggan testified in favor of the bill before the banking committee. No one spoke against it.

THE BOND BUYER

BY CAITLIN DEVITT

MAR 5, 2015

Could Obama Budget Kill Arenas in Milwaukee and Seattle?

Planned arenas in Milwaukee and Seattle could face a new hurdle that could potentially prove insurmountable. This coming, of all places, from Washington, D.C. President Obama has his sights on public subsidies for sports stadiums and arenas.

As chief executive of the U.S. federal government, one of the duties of the president is to present an annual operating budget. The feds operate on a fiscal year that starts on October 1st and ends on September 30th, and for the government to function in a given year, an approved budget must be in place. The president typically submits his budget proposal in February to begin the long, rigorous congressional approval process.

Reports came out this weekend about a proposed amendment to federal tax law buried within the 2016 proposed budget that could have significant and lasting impacts on the business of sports in the United States for years to come. That amendment, if approved, could prevent cities, counties, and states from participating financially in arena projects.

For decades, the various sports leagues have relied on public monies to make palaces for their teams a reality. What has frequently been sold as a show of community support of a team has often become outright ransom to keep teams from leaving. According to the Wall Street Journal, in just the past 30 years, about $17 billion have been raised through government bonds for sports facilities.

Milwaukee is currently fielding a proposal by Governor Scott Walker for his state's biennial budget to issue $220 million in bonds toward supporting the arena effort to keep the Bucks. Seattle, of course, has a potential deal that, if approved, could provide $120-$200 million toward an arena in the SoDo district.

Just how could the federal government affect a city, county, or state from borrowing money through the bond process, you ask.

Municipal bonds are issued through these local entities as a means to both support and improve infrastructure. Infrastructure is, of course, publicly owned lands, buildings, and services vital to the proper function of a city. Roads, schools, sewer, utility, and police services all fall under the infrastructure category.

Bonds are technically only supposed to be issued for these purposes.

Long ago, cities began issuing municipal bonds to participate in private stadium and arena projects in the hopes that they would bolster economic development. Arguments have been waged on both sides of the issue for decades, with the sports leagues and politicians generally touting the cultural importance and economists decrying any sort of substantive economic improvement.

Cities don't want to lose their teams, and team owners prefer to make use of municipal bonding capacity because it is federally tax-exempt. This was to make it easier for municipalities to borrow to lessen the cost of infrastructure projects over time.

With no federal tax to worry about, municipal bonds are generally issued with significantly lower interest rates than private borrowers are going to find through channels. Thus, the appeal.

But there's the rub.

The Obama administration's proposal is that, because of that federal tax exemption, the government should enforce the intended use of these bonds. The U.S. Treasury Department estimates that enforcement will save the federal government $542 million over the next ten years.

If passed into law, this wouldn't be the first time the federal government has imposed restrictions against using municipal bonds for sports facilities. According to Stateline from the Pew Charitable Trusts (via USA Today):

> *Over the life of the $17 billion of exempt debt issued to build stadiums since 1986, Bloomberg said, taxpayer subsidies to bondholders will total $4 billion.*
>
> *The tax-free bond provision dates to the 1986 Tax Reform Act. The authors of the bill actually sought to restrict the use of public subsidies for sports teams. The law said that no more than 10% of tax-exempt bonds' debt could be repaid by ticket sales or concession — a provision its authors thought would deter using them to finance stadiums because cities and states wouldn't want to obligate taxpayers to pay off the rest of the financing.*

The intent of the change didn't work because municipalities started to get creative in ways to work around the restriction. This is why increases in hotel, rental car, food, and beverage taxes, as well as securing debt with things like potential parking revenues, have become the common methods for repayment of bonds for sports projects.

Needless to say, this has the potential of drastically altering the sports business landscape as we know it, if passed into law. Could it, in effect, kill potential arena projects in Milwaukee and Seattle?

Not to don the tin foil hat, but there is a strong possibility.

The federal budget will go through its approval process over the next few months. There is a school of thought that any bonds issued prior to the start of Fiscal Year 2016 in October could be grandfathered into tax-exempt status.

If Wisconsin approves some level of municipal bonding through its state budget this year, it's quite possible they wouldn't have to worry about such a restriction.

The earliest Wisconsin's budget can be signed into law is August 6, 2015. If bonding for the Milwaukee arena is approved, however, it's not clear that the bonds could be issued prior to October 1st. That raises some question about grandfathering on the federal tax exemption.

As for Seattle's arena effort, we're likely a year away from the city council and the King County

Council even being able to vote to agree to participate in the SoDo project. That could potentially push bond issuance to mid-to-late 2016, and then only if a team is acquired. If the federal tax amendment goes through, this would be too late.

Before anyone ties weights to their feet and picks out the keen spot on the bridge, President Obama's budget proposal still has to go through committee, has to be voted on by both houses of Congress, and then has to be signed into law by the president.

That's a long process over the next few months, and it's by no means a guarantee that this restriction will make it to the final budget.

Still, it's worth keeping an eye on.

By Matt Tucker @TuckeratSR on Mar 16, 2015, 2:01p 41

Foley: MassDEP — A Voice of Reason in the Stormwater Permitting Debate.

EPA has been working to craft a general permit for small Municipal Separate Storm Sewer Systems for quite some time. The most recent draft permit, published last September, has received significant comment, most recently from the Massachusetts Department of Environmental Protection. While emphasizing cooperation and appreciate for EPA's efforts at collaboration, it is difficult to read MassDEP's comments as anything other than as a sign of significant concern about overreach by EPA.

What's the problem with the draft permit? Nothing that a modicum of attention to cost – and cost-effectiveness – couldn't solve. Indeed it's telling that MassDEP led its comments with concerns about costs, noting that EPA's owns estimates show that, for three small communities in the Charles River watershed, annual compliance costs would range from $865,000 to $1.7M annually.

MassDEP also requested that EPA "harmonize" the permit requirements with the Commonwealth's 2008 stormwater rules, stating that EPA should use:

> the Massachusetts Stormwater Standards as the basis for its successor MS4 permit, rather than requiring a second federal-only layer of permit requirements on top of the existing Massachusetts Stormwater Standards.

Substantively, MassDEP's most significant concern was that the draft MS4 permit reflects:

> a significant shift in approach from the BMP-based program envisioned in the 2003 permit to the current draft which includes additional provision to ensure that the discharges from small MS4s do not cause or contribute to an exceedance of water quality standards.

Hear, hear. There's a reason that stormwater standards have always been focused on attaining reductions to the "maximum extent practicable" based on best management practices. As MassDEP also noted, it is this shift that significantly drives the increase in costs. I would have thought that it went without saying, but stormwater discharges aren't like manufacturing discharges that are far more predictable and easy to control and predict.

There are a number of other important points in the MassDEP comments, including support for pollution credit trading programs, but this is the heart of the issue. If the MS4 general permit is going to succeed in obtaining cost-effective reductions in stormwater pollution, EPA is going to have to be responsive to these concerns.

To view Foley Hoag's Law and the Environment Blog please click [here](#).

Last Updated: March 9 2015

Article by Seth D. Jaffe

Foley Hoag LLP

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

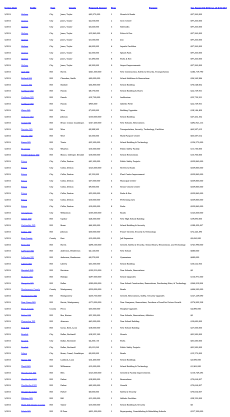
[Texas Upcoming Bond Election Roundup.](#)

Election day is May 9, 2015, and many Texas communities are proposing new debt through local bond elections. Because there is no known centralized public resource of local bond elections, information about these elections and the amount of debt being proposed in taxpayers' names is often difficult to find.

The Upcoming Bond Election Roundup attempts to solve this problem by providing you with easy access to upcoming bond propositions in Texas.

We also provide debt totals and trends for Texas cities, counties, school districts and community college districts, as well as Texas in the Debt at a Glance feature on TexasTransparency.org. If any of the entities listed in the roundup appear in Debt at a Glance, we'll link to that page for additional debt context.

Upcoming Bond Elections Across the State (Alphabetical by Entity) as of March 09, 2015.



[Price Set for Rapid Bridge Replacement Bonds.](#)

Two of the lead partners on the Pennsylvania Rapid Bridge Replacement Project have priced $800 million in private activity bonds (PABs) to help finance the effort.

The bonds, issued by Plenary and Walsh and priced by JP Morgan and Wells Fargo, will complement

$60 million in equity from Plenary and Walsh and $225 million in milestone payments, some of which will pay down the shorter-dated PABs. The bonds carry a rating of BBB from Standard & Poor's, reported IJ Global.

The bonds will mature between 2018 and 2047, have yields of between 1.5 percent and 4.3 percent, and have an all-in interest cost of 4.1 percent.

In January, the Pennsylvania Department of Transportation finalized all terms for the $899 million Rapid Bridge Replacement P3 and signed a contract with the Plenary Walsh Keystone Partners, clearing the way for the replacement of 558 bridges throughout the state. The project is made possible by a state P3 law enacted in 2012 and approved by the state Public-Private Transportation Partnership Board in September 2013.

The project will allow the state to replace structurally deficient bridges throughout the state in a more cost effective manor than traditional procurement. In addition, the Plenary Walsh Keystone Partners will be responsible for maintenance on the bridges for 25 years after they are built.

NCPPP

By Editor March 5, 2015

Plug-and-Play Residential PACE Financing Grows in California.

Property-assessed clean energy (PACE) loan programs for homes rebounded in a big way in 2014, with residential PACE projects eclipsing the commercial PACE market.

California leads the way going into 2015, with more than $500 million in completed residential projects. The majority of that money came through the Home Energy Renovation Opportunity (HERO) program.

PACE programs allow investments in water- and energy-efficiency retrofits and distributed renewable generation to be paid back through property taxes, which lowers the risk for both lenders and owners and can potentially open up a far larger swath of the energy-efficiency market.

Already a leader, the HERO program has expanded substantially in California in the last few months. In December, the HERO program was approved by the city of San Francisco, making it the first large city in California to return to residential PACE financing since it was halted a few years back because of conflicts with federal housing regulators.

Not to be outdone by its neighbors to the north, Los Angeles County voted to adopt HERO PACE programs for the 85 cities that make up the county, including Los Angeles.

"It's good to see the LA County Board of Supervisors helping to conserve energy by approving the Residential PACE program that will help Angelenos conserve water, use less electricity, and harness renewable energy at home," Los Angeles Mayor Eric Garcetti said in a statement. Some of HERO's most popular products in California include water-saving technologies, solar panels, HVAC upgrades, energy-efficient windows and doors and roofing and insulation.

HERO is not the only PACE administrator scooping up partnerships across California. In January, Ygrene Energy Fund made its residential PACE program Ygrene Works available to every California city and county through a partnership with Golden State Finance Authority, formerly known as California Home Finance Authority.

The competition in residential PACE financing means that cities and counties can adopt PACE for homes and businesses quicker and easier than in the past. The major administrators, like HERO and Ygrene, promise no cost to taxpayers and no staff time required. By choosing more than one provider, municipalities can offer an array of financing options. California is also pushing the envelope on residential PACE with a pilot for using the loans for multi-family housing.

Although California is far in the lead on residential PACE, others are trying to ramp up. South Florida was one of the first places to get back into the residential PACE game when Ygrene launched a $230 million bond in 2013 that was available for homes and businesses.

But Ygrene and other administrators, like EcoCity Partners, have largely been on the sideline as PACE programs for homes across Florida are tied up in a court battle.

It's not PACE programs themselves that are being challenged; instead, the Florida Bankers Association is contesting the validations on the bonds that back the PACE loans, according to the Sun Sentinel. The bankers don't want PACE loans to be paid before mortgages if there are outstanding property obligations.

But it's not just the bankers. In late February, the Florida Supreme Court dismissed the appeal of the Florida Green Energy Works bond validation that was filed by a taxpayer. The court dismissed the case because the appellant, James Gowen, "has no interest in this case," the court stated. The court noted in the ruling this was the third PACE bond validation case where an appellant has appeared in the eleventh hour but has no direct interest in the case.

"[Florida Green Energy Works] program was structured as a statewide commercial PACE program initially, but the dismissal of this appeal allows the program to now scale up on the residential side statewide as well," EcoCity Partners declared on social media.

Florida isn't in the clear just yet, but the court's most recent ruling gives PACE advocates confidence that other similar appeals will also be dismissed. Florida's residential PACE market might not rival California's by year's end, but if the legal hurdles continue to fall, it could make a strong start.

greentechmedia.com

Katherine Tweed

March 6, 2015

California Completes $1.9 Billion Bond Sale With $198 Million in Taxpayer Savings.

SACRAMENTO – State Treasurer John Chiang today announced successfully completing the sale of $1.9 billion in State general obligation bonds, which included the refinancing of more than $1 billion in previously-issued bonds.

"Despite investors' concerns over future interest rates, this week's sale showed a healthy appetite for California paper," Chiang said. "Recent credit upgrades have increased the market's confidence in the State's credit worthiness and individual and institutional investors alike eagerly got behind California."

The yield for 30-year 5 percent coupon bonds, 3.27 percent, was the lowest paid by the State since at least 1989. The spread between the yield on the State's 30-year bond and the yield on the most commonly-used market index was 35 basis points. This was the State's lowest credit spread on this index for 30-year bonds since June 2007. The yield on five year bonds was 1.43 percent and the yield on 10-year bonds was 2.38 percent.

The Treasurer's decision to take advantage of the current interest rate environment by re-financing $1 billion in previously-issued, higher interest rate bonds is expected to save taxpayers more than $198 million in debt service costs over the life of the refunded bonds.

This week's sale also included $931 million in new borrowing for critical infrastructure needs, including transportation, education, and children's hospitals.

Here are some key statistics associated with this sale:

- Final size: $1.935 billion
- True interest cost: 3.06 percent
- Final re-offering yields ranged from a low of 0.17 percent for a 2016 maturity to a high of 3.27 percent (5 percent coupon)/3.68 percent (4 percent coupon) for a 30-year maturity.
- Retail orders represented more than 30 percent of bonds sold.

The next State general obligation bond sale is expected to occur in April 2015. A list of other scheduled sales can be found on the Treasurer's website.

The State Treasurer has broad responsibilities and authority in the areas of public investment and finance. In particular, he oversees the issuance of State debt and is responsible for crafting best practices for the sale of debt and the investment of public funds for California's more than 4,000 local bond issuers, including the State, school districts, cities, counties, and special districts.

March 5, 2015

For-Profit Companies Play a Big Role In Texas Water Planning.

Until recently, Texas' state water plan wasn't much to look at.

Essentially a catalog of more than 3,000 water supply projects across the state that some government or another hoped to build, it was seen as nothing more than a wish list, compiled from the work of 16 regional planning groups every five years.

That changed in 2013 when lawmakers — with Texas voters' approval — put $2 billion from the state's savings account toward actually building some of the projects. That also put a spotlight on the Texas Water Development Board, a once-obscure agency charged with state water planning.

But the water plan's new prominence is also highlighting how involved private engineering and consulting firms are in deciding what the state needs. The state water board paid such firms a total of $13.7 million for their work in putting together the most recent state water plan, with close to half of that going to the decades-old company Freese & Nichols.

The private hand has advantages and disadvantages, observers and experts say. Some worry that paying private firms to do water planning creates an inherent conflict.

"Critics would suggest that these folks operate out of 'enlightened self-interest,'" said Ron Kaiser, a professor of water policy at Texas A&M University. "They're going to push projects that have big infrastructure. … They might then have staff that could bid on these projects."

The potential for conflict is bigger now that private consultants are also in charge of scoring the water projects and giving them a ranking in the plan, said Mary Kelly, an Austin-based water lawyer. The Legislature called for the ranking in 2013.

"It's really punting a pretty important decision to a contractor" to let private firms do the ranking, Kelly said. She worries that firms used to working on reservoir projects, for instance, won't give as good of a score to a brackish water desalination plant, or a conservation initiative.

But Jody Puckett, director of Dallas Water Utilities, said the role of private firms is smaller than critics think. "It's kind of like when you make pasta, you have to run it through the mill to make spaghetti. That's their role."

Puckett is chair of the Dallas Fort-Worth region's water planning group, and said it's the group that makes final decisions about what projects end up in the water plan — not the consultants. And there's no guarantee those same consultants will get design contracts or any other work for those same projects, because they have to go through competitive bidding to get that work.

"I can see how someone might want to connect the dots, but I don't think they're necessarily connected at all," Puckett said.

Whether or not they like the system, few involved in Texas water planning think there's a better way to run it. There's not enough staff in state or local governments to do the work private firms perform.

"There's a level of expertise with firms like ours," said Preston Dillard, who is a contractor in Dallas-area water planning with the firm Alan Plummer Associates. "The advantages are, you're involving the professionals that have experience in working with water systems."

And as the drought has reached a new level in Texans' consciousness, firms that used to always recommend new reservoirs, water treatment plants or big pipeline projects are starting to think differently, said Ken Kramer, water resources chairman of the Sierra Club's Lone Star Chapter.

For instance, he said, both firms that do consulting work for the Dallas area — Freese & Nichols and Alan Plummer Associates — now do work on conservation and water reuse projects, something that may have been unthinkable a few decades earlier.

"You're seeing a little bit of an evolution," Kramer said. "But it's definitely a slow evolution. It's not a revolution yet."

Still, concern about the private sector's role exists at the state level, too. After the Legislature slashed the state budget in 2011, the water development board lost most of its funding dedicated to helping model groundwater across the state.

That forced individual groundwater conservation districts to contract out the modeling work to engineering and consulting firms. And the data they collect is important: It often serves as the basis for deciding how much water can be sustainably pumped from an aquifer.

In a recent report, the Legislative Budget Board recommended against such a system. Districts need to use a more “standard approach” in getting their data, the report said. Otherwise, they risk “non-uniform data collection practices and methodologies … compromising the accuracy of this process.”

BY THE TEXAS TRIBUNE | MARCH 13, 2015

By Neena Satija

University of California Sells Into Falling Market: Muni Credit

(Bloomberg) — The biggest risk to the University of California’s sale of $2.8 billion of bonds this week, the most it’s offered at once, isn’t a battle over tuition increases and taxpayer subsidies. It’s the stumbling municipal market.

The 10-campus system, which educates 242,000 students, wants to use $2.3 billion of the proceeds for refunding as rising interest rates threaten the finances behind such deals.

Economic strength and accelerating sales of munis have the $3.5 trillion market on pace for its first back-to-back losses since 2013. Benchmark 10-year munis yield 2.17 percent, the highest since December, after Labor Department data last week showed the U.S. jobless rate fell to an almost seven-year low of 5.5 percent.

“Depending on what rate it takes them to issue the debt, to entice enough buyers to buy the debt, the refunding may not work for them,” said John Bonnell, who oversees about $3.8 billion as assistant vice president of mutual funds at USAA Investment Management Co. in San Antonio. “They may choose not to refund as much if that happens.”

Tuition Clash

Governor Jerry Brown and University President Janet Napolitano, the former U.S. Secretary of Homeland Security, are clashing over Napolitano’s plan to raise tuition as much as 28 percent if Brown won’t boost state funding. The Board of Regents voted in November to raise tuition 5 percent annually for five years. Brown, a board member, opposed the increase and is engaged in talks with Napolitano to end the impasse.

Yields have risen from close to five-decade lows since the start of February. Helping fuel the increase, localities offered a combined $62 billion of debt in January and February, almost double the 2014 pace, data compiled by Bloomberg show. About 68 percent of deals this year have been for refinancing, Bank of America Merrill Lynch data show.

“The Regents’ upcoming revenue-bond transactions are looking to take advantage of historically low interest rates in order to refinance existing debt and lock in low interest rates for new money needs,” Dianne Klein, spokeswoman for the university’s Office of the President, said in a statement.

Tuesday’s Business

The system leads governments issuing at least $5.9 billion of refinancing bonds this week, out of a $12.2 billion long-term sales slate, the most since December.

It’s set to begin offering $1.14 billion of general-revenue bonds Tuesday and $1.66 billion of limited-project revenue debt Wednesday. The combined amount is the most it's sold at one time, according to data from the state treasurer's website dating to 1996. About $1 billion of the refunding is to convert general-revenue bonds into limited-project revenue debt.

When the University of California regents borrowed in April 2014, they priced 10-year bonds to yield 2.74 percent, or about 0.17 percentage point above top-rated debt, Bloomberg data show. Standard & Poor's rates the general-revenue debt AA, the third-highest level.

Those bonds are repaid from student fees and tuition, state subsidies, as well as grants, contracts and income from university-owned enterprises. The limited-project revenue bonds are paid from funds generated by infrastructure they finance, such as parking garages, athletic fields and student and faculty housing.
Nathan Brostrom, the system's chief financial officer, declined to answer questions about the financing.

Funding Need

The university system also operates five medical schools and medical centers and four law schools. It's involved in running nuclear-weapons laboratories and research facilities for the Energy Department. Its faculty and researchers have won 62 Nobel Prizes, more than any other U.S. public university system.

"The tuition controversy is short-term in nature," said Michael Ginestro, director of muni research at Bel Air Investment Advisors, which manages $2.7 billion of munis. "If you look at the revenue, the endowment fund, the number of campuses they have and the product they deliver, it overwhelms any concerns."

Napolitano has said additional funding is needed to stabilize revenue for a system that's an incubator of leaders for government, industry and Silicon Valley in California's economy, the world's seventh-largest.
Brown, 76, who graduated from the flagship campus in Berkeley, says the system needs to rely less on taxpayer subsidies.

Tax Increases

In 2012, the Democrat won voter approval for higher sales-and income-taxes. He pledged to use the increased revenue to add more than $500 million to university funding over four years if the regents froze tuition. Lawmakers paid the first $125 million installment last fiscal year.

The tax increases he championed have spurred demand for the tax-exempt debt of California issuers. The state's own borrowing costs have shrunk to the lowest since 2007.

"Any time the Regents issues debt it's well-received," Bonnell said. "I don't think this one will be any different."

Beginning in 2013, the state shifted some debt service for bonds it issued for the university from its books onto the system's accounts.

Brown's budget for the fiscal year beginning in July would boost spending for the system by 4 percent to $3.05 billion, including $200 million for debt service. The move is intended to force the university system to factor debt costs into its fiscal outlook.

Napolitano said March 3 that unless Brown boosts aid, she'd freeze enrollment of California students while admitting more out-of-state students because they pay higher tuition and fees.

Even after climbing for weeks, yields are hovering above generational lows, so issuers can still reap savings from refinancing. A Bond Buyer index of 20-year general obligations yields about 3.7 percent, compared with the 5.8 percent average since 1961.

“Even if rates start to back up a little bit, you as an issuer are still going to get pricing that is at your advantage,” said Ginestro at Bel Air.

by Michael B Marois

March 9, 2015

To contact the reporter on this story: Michael B. Marois in Sacramento at mmarois@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Tannenbaum, Jeffrey Taylor

Pennsylvania Overhaul Plan Boosts Taxes for Schools: Muni Credit

(Bloomberg) — Tom Wolf, the only Democrat to beat an incumbent Republican governor in November, wants to extend his disruptive streak by upending Pennsylvania’s taxes.

Wolf, a businessman in his first elected office, proposed a new tax on natural-gas drilling, the state’s first sales-levy increase in almost a half-century and a boost in the income tax to a record. The plan, released March 3 as part of his budget, would generate $4.7 billion, enough to close a projected deficit, reduce property taxes and fulfill a campaign pledge to raise education funding.

The 66-year-old took the helm as the state deals with mounting pension costs. Pennsylvania had its credit grade cut by each of the three biggest rating companies last year, to two steps below the average for U.S. states. Credit analysts pointed to one-time fixes used to balance this year’s budget.

The latest proposal differs from previous plans that were “piecing things together with duct tape,” said Chris Borick, director of the Muhlenberg College Institute of Public Opinion in Allentown. “His shooting for a big move is pretty important because we haven’t seen it in a while.”

‘More Palatable’

Wolf joins about 10 governors considering tax increases, according to the National Association of State Budget Officers. The levies often are tied to particular needs, such as infrastructure or education, said Norton Francis, senior research associate at the Tax Policy Center in Washington.

“It makes it more palatable when you can say we’re raising taxes for this express purpose,” Francis said.
Wolf beat Tom Corbett, the first Pennsylvania governor to lose re-election since 1968, even as Republican victories gave the party 31 governorships, the most since 1999.

Corbett kept residents’ taxes flat, lowered some business levies and cut funding for education and other programs. He failed to push through changes to public pensions, which are consuming a growing portion of the general fund, and a sale of the state’s wholesale and retail alcohol operations.

Pennsylvania ranked last in job growth from January 2011, when Corbett took office, to December 2014, according to data compiled by Bloomberg. As expenses swelled, lawmakers balanced the $29 billion budget for the year through June with $2 billion of one-time measures.

Buyers' Demand

Investors have taken note, demanding 0.41 percentage point of extra yield to own 10-year Pennsylvania securities instead of benchmark municipal debt, data compiled by Bloomberg show. The difference is the most since at least January 2013 and is greater than the spread on California bonds, which carry a Standard & Poor's grade one step lower, at A+.

S&P, Moody's Investors Service and Fitch Ratings give Pennsylvania their fourth-highest marks. Wolf's use of tax increases is a "clear departure" from his predecessor, said Eric Kim, Fitch's director of U.S. public finance in New York.

Wolf, who was chairman of a family-owned business that supplies kitchen cabinets, told voters he'd boost education funding through a severance tax on natural-gas production, a move that Corbett opposed. Jobs in the industry almost doubled in the four years through June 2014, according to the Department of Labor and Industry.

Wolf's campaign received money from Michael Bloomberg, founder and majority owner of Bloomberg News parent Bloomberg LP.

Wolf's Shift

The governor's $29.9 billion budget would also shift education funding from property taxes to the sales and income levies. He'd increase the sales tax to 6.6 percent from 6 percent, where it's been since 1968, and the income tax to 3.7 percent from 3.07 percent, while reducing a business-income levy. Average homeowners' property-tax bills would drop by half, or $1,000.

"To create jobs that pay, schools that teach and government that works, we have to do things differently," Wolf said in his budget address.

Jeff Sheridan, a Wolf spokesman, said previous Republican bills to reduce property taxes form the basis for the governor's proposal.

The governor also called for raising the minimum wage and creating incentives for manufacturing jobs, highlighting national Democratic goals in a state that will host the party's 2016 presidential convention.

'Bad Plan'

Republicans, who control both legislative chambers, still expressed skepticism.

"It really is a very, very bad plan, put very simply, for all of Pennsylvania," Senate President Pro Tempore Joe Scarnati told reporters after Wolf's speech.

Republicans, and even some Democrats, would find it difficult to vote for tax increases because of the risk of primary challenges, said Ryan Shafik, founder of Rockwood Strategies, a Harrisburg consulting firm that works with Republican candidates.

Yet Wolf's victory by 10 percentage points showed voters consider schools a priority, said Thomas Baldino, who teaches politics at Wilkes University in Wilkes-Barre.

“If Republicans want to demonstrate that they are hearing what the public wants, they need to work with Wolf on things like education funding,” he said.

Bloomberg Muni Credit

by Romy Varghese

March 11, 2015

To contact the reporter on this story: Romy Varghese in Philadelphia at rvarghese8@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Stacie Sherman, Mark Tannenbaum

---

Puerto Rico Agency’s Note Sale Shows Climbing Debt Expenses.

(Bloomberg) — A Puerto Rico agency plans to sell notes maturing in May 2017 with an interest rate of 8.25 percent, underscoring the rising borrowing costs for the junk-rated commonwealth.

The Infrastructure Financing Authority, called Prifa, plans to issue the notes, which would be paid off with proceeds of a later bond sale, according to a filing with the Municipal Securities Rulemaking Board. Prifa also expects to sell as much as $2.9 billion of bonds backed by petroleum-tax revenue.

Proceeds of that deal would repay the two-year notes, according to a person with knowledge of the transactions who requested anonymity because they’re not final.

Puerto Rico and its agencies tend to borrow through the capital markets to balance operating budgets. That practice and the island’s struggling economy prompted the three largest rating companies to drop the commonwealth to speculative grade in 2014.

The borrowing costs reflect the island’s fiscal stress. The interest rate on the notes is about 7.6 percentage points more than the 0.6 percent yield on benchmark debt, data compiled by Bloomberg show.
It would be the first borrowing from the commonwealth since the Government Development Bank in October sold notes maturing in June 2015 at a yield of 7.75 percent.

Repayment Plan

Funds from the fuel-tax bond are intended to repay money the Highways & Transportation Authority owes the GDB. The bank needs the cash. It said it had $1.2 billion of net liquidity as of Feb. 28, down from $2 billion in October.

The funding in Puerto Rico’s budget for the fiscal year that began July 1 is also uncertain. The island’s revenue through February is $121.7 million below budgeted estimates, according to Treasury Department data. That shortfall has grown from $18.8 million at the end of January.

As of Friday afternoon, the development bank hadn’t provided a comment or additional details about the note sale through its New York-based spokesman, David Millar. The bank handles debt transactions for the commonwealth.

Puerto Rico bonds rallied this week after the legislature on March 10 approved changes to the Prifa oil-tax bond sale to attract buyers. Debt from the island is tax-free nationwide, so it's widely held by individuals and mutual funds.

General obligations maturing in July 2035 traded Friday at an average price of 85.4 cents on the dollar, the highest since Jan. 28, data compiled by Bloomberg show. The average yield was about 9.7 percent.

by Michelle Kaske

March 12, 2015

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Alan Goldstein, William Selway

---

Moody's: Detroit Emerges from Bankruptcy Stronger, But Economic Hurdles Persist.

New York, March 11, 2015 — While the City of Detroit (B3 stable) has made important strides in its credit fundamentals as it emerges from Chapter 9 bankruptcy, it continues to face a number of fiscal and economic headwinds that limit its future growth, Moody's Investor Service says in a new report, "Detroit Emerges from Bankruptcy Stronger, but Economic Hurdles Persist."

Revitalizing Detroit's economy and improving its city operations are crucial to its long term success, Moody's says. In addition, Detroit's ability to balance budgets amid the ongoing economic challenges burdens the credit in the intermediate term.

"The city achieved three main successes during its Chapter 9 filing, including substantially reducing long-term debt and retirement liabilities, but it also has a robust plan to reinvest in its tax base and services and a strong new management team that will benefit from ongoing state support," says Moody's Vice President — Senior Analyst Genevieve Nolan, and author of the report.

Positively, Detroit is dedicating resources to revitalize and strengthen its tax base through a proposed $1.4 billion reinvestment plan focusing on Detroit Police, Detroit Fire, Finance Department, General Services and blight removal. The projects will be funded with proceeds from a $120 million quality of life note issued during bankruptcy, and as well as some funds from the city's $275 million post-petition financing issued as it exited bankruptcy.

Detroit was also able to significantly reduce its long-term liabilities in bankruptcy, with its net direct debt outstanding dropping to $1.8 billion from $2.5 billion. The city's new management team will also benefit from ongoing state oversight and support.

However, Detroit's economy and tax base continues to suffer amid valuation declines, weak demographic statistics, and a dwindling population. Unemployment is still high 13.0% as of November 2014, and its decline from a peak of 25% in 2009 is partly attributable to a persistently shrinking labor force.

The city also expects assessed valuation declines to persist through 2020 as the State of Michigan and city management reviews its assessment process. While income tax receipts are estimated to rise 2.1% annually, key revenues from property taxes are projected to drop by 1.3% annually through the same period. By the end of 2023, expenses and revenue projections estimate an ending cash balance of $65.8 million, a positive yet still narrow liquidity position. Negative variations from these projections could jeopardize the city's financial plans.

While fixed costs, including annual debt service and retiree benefit contributions, were reduced during bankruptcy, they will grow after 2023 when the city is required to begin making pension contributions again.

"The city's challenges are largely ones that bankruptcy could not immediately fix and may still result in weaker credit quality over the near to medium term," said Nolan.

Moody's research subscribers can access the report here.

***

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376, London +44-20-7772-5456, Tokyo +813-540--4110, Hong Kong +852-3758-1350, Sydney +61-2-9270-8141, Mexico City 001-888-779-5833, São Paulo 0800-891-2518, or Buenos Aires 0800-666-3506. You can also email us at mediarelations@moodys.com or visit our web site at www.moodys.com.

Genevieve Nolan
Vice President – Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
100 N Riverside Plaza
Suite 2220
Chicago, IL 60606
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

John Dorer
MD – Public Finance
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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

Moody's: Colorado's Pension Costs and Funding Gaps Keep Growing Despite Benefit Reforms.

New York, March 12, 2015 — Even after substantial pension reform that was upheld by the state’s highest court, pension contributions by the State of Colorado and its local governments continue to trail actuarial recommendations, driving up future costs and increasing unfunded liabilities, says Moody’s Investors Service. Moody’s places Colorado’s FY 2013 adjusted net pension liabilities at $17.3 billion, equal to 93% of state revenues and 16th highest among US states.

Overall, Moody’s assesses fiscal pressures from Colorado’s state and local pension funds as moderate, with funding challenges caused by prior contribution shortfalls somewhat offset by the state’s established flexibility to enact substantial reform. Moody’s explores this assessment in detail in the latest report in its Public Pension Landscape series, called “Colorado’s Pension Costs and Funding Gaps Still Growing Despite Reforms.”

In Colorado, where pension liabilities are concentrated in plans administered by the Public Employees’ Retirement Association (PERA), the law requires participating governments to increase their contributions through 2018. Even with these additional contributions, however, costs are continuing to be deferred to later years and unfunded liabilities continue to rise.

There is some clarity and flexibility in terms of controlling costs, however, after the state’s Supreme Court ruled in October 2014 that the pension reform law the state passed in 2010 was legal. The law gave Colorado the authority to change a number of benefit provisions, including cost-of-living adjustments for retirees.

“The reforms substantially reduced PERA’s aggregate unfunded liability, first reflected in the actuarial valuation for fiscal-year ended 2009. But in subsequent years, unfunded liabilities have generally continued to grow,” says Moody’s AVP-Analyst Thomas Aaron.

Legislation signed by the governor in 2014 that calls for studying alternate retirement system options and private sector comparisons, however, signals there could be additional state action.

Moody’s also notes that the ratios of active workers to retirees are near-to-above national norms. Having more active employees currently provides Colorado with time to address funding gaps before liabilities grow considerably larger relative to government budgets In Colorado, however, the ratio of actives to retirees has been decreasing over the past decade.

For more information, Moody’s research subscribers can access this report here.

***

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376, London +44-20-7772-5456, Tokyo +813-540--4110, Hong Kong +852-3758-1350, Sydney +61-2-9270-8141, Mexico City 001-888-779-5833, São Paulo 0800-891-2518, or Buenos Aires 0800-666-3506. You can also email us at mediarelations@moodys.com or visit our web site at www.moodys.com.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Thomas Aaron
Asst Vice President – Analyst
Public Finance Group
Moody's Investors Service, Inc.
100 N Riverside Plaza
Suite 2220
Chicago, IL 60606
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Timothy F Blake
MD – Public Finance
Structured Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

California Pension Reform Measure to Target Calpers.

LOS ANGELES — A ballot measure campaign to cut California's public pensions will be launched in May by a coalition of politicians and business people led by former San Jose Mayor Chuck Reed, with the state's largest retirement system a prime target.

The measure would take aim at California's $300 billion giant Calpers, which has a near-iron grip on the state's pensions. Calpers, America's largest public pension fund and administrator of pensions for more than 3,000 state and local agencies, has long argued that pensions cannot be touched or renegotiated, even in bankruptcy.

"Calpers has dedicated itself to preserving the status quo and making it difficult for anybody to reform pensions," Reed said in an interview. "This is one way to take on Calpers, and yes, Calpers will push back."

Calpers spokeswoman Rosanna Westmoreland said: "Pensions are an integral part of deferred compensation for public employees and a valuable recruitment and retention tool for employers."

The measure will be closely watched by reformers and their union opponents in other states, in an ongoing national battle between those who say public pensions are putting intolerable strains on budgets and those who argue pension cuts unfairly penalize retirees and workers.

For most California cities, their largest debt is pension liability, a significant factor in the recent bankruptcies of Vallejo, Stockton and San Bernardino. Calpers has said it will increase pension contributions for most cities by up to 50 percent in the coming years.

Reed, a Democrat, abandoned a similar statewide ballot initiative in 2014, claiming that Kamala Harris, California's Democratic attorney general, had approved wording of the initiative that was biased and union-friendly.

But he vowed to fight on after leaving office in December, and in an interview with Reuters confirmed for the first time the launch of the initiative and its timing, while noting that a major motive was to challenge Calpers' grip.

Reed says the push will seek to place a simpler, more legally watertight pension reform measure on California's November 2016 ballot, giving mayors and other local government executives the authority to renegotiate contracts.

To win a place on the 2016 ballot, backers of the initiative will have to obtain the signatures of 585,000 registered voters, or 8 percent of the number of voters in California's last gubernatorial election, in this case 2014.

Reed and his allies have been huddling with legal advisers for months to devise a voter initiative that is simpler and less vulnerable to court challenges than last year's effort.

They have also been buoyed by a ruling in the recent municipal bankruptcy of Stockton, whose judge said California's public pensions are not inviolate.

As San Jose mayor, Reed helped pass a pension reform measure for his city, parts of which have been struck down after union lawsuits.

Reed is working with other pension reform advocates, including former San Diego Republican council member Carl DeMaio, the primary backer of a pension reform initiative in San Diego that was approved by voters in 2012; and the Ventura County Taxpayers Association's David Grau.

"We have done a lot of legal work to make sure this initiative is bulletproof," DeMaio said. "Because the unions are going to throw the kitchen sink at us."

The group is talking to potential financial backers, Reed said. Last year Reed took $200,000 from a group funded by Texas hedge fund billionaire John Arnold and they could partner again this time round, he said.

Karol Denniston, a public finance attorney and pension expert at Squire Patton Boggs in San Francisco, said voters should be working for legal change to provide more options than municipal bankruptcy: "Right now Calpers has no program for financially distressed cities," Denniston said.

Dave Low, executive director of the California School Employees Association, said the group would campaign to defeat the measure and was "confident we can defeat it."

By REUTERS

MARCH 11, 2015

(Reporting by Tim Reid; Editing by Megan Davies and Steve Orlofsky)

Chicago Mayor Seeks to Phase in Higher Pension Payments.

CHICAGO — Chicago Mayor Rahm Emanuel on Friday called for phasing in higher, state-mandated payments to city pension funds to avoid a shock to the city's budget and a big property tax hike.

The move, which would require state legislation, was part of a plan released by Emanuel's re-election campaign ahead of an April 7 runoff election against Cook County Commissioner Jesus "Chuy" Garcia, who also released his fiscal plan on Friday.

Under an Illinois law, Chicago's contributions to its police and fire pension funds will increase by about $550 million next year. Another state law allowing cost-saving pension cuts to shore up Chicago's municipal and laborers' retirement funds is at risk of being voided as unconstitutional in state court.

Still, the mayor's plan advocated measures that labor unions and others are challenging in court. These include slowing cost-of-living increases for pensions and gradually increasing workers' contributions to ease costs.

Emanuel also called for closing Illinois tax loopholes to gain money for the third-biggest U.S. city, along with obtaining state approval for a publicly owned casino.

Garcia's plan seeks cost savings through intergovernmental collaboration and creates a committee to examine revenue options. It does not address possible funding sources for Garcia's campaign pledges to hire 1,000 new police officers and to replace traffic ticket revenue generated by red-light cameras he wants removed.

"It is too early to tell residents in the city of Chicago that we're going to give them bad medicine without stepping back and taking a comprehensive look and approach to how city finances will be met," Garcia told reporters.

He also said he opposes reducing pension benefits for current and retired city workers.

Emanuel received about 45 percent of the vote last month, short of the 50 percent level needed to avoid a runoff. He leads Garcia by 51-37 percent according to a Chicago Tribune voter poll released on Friday.

Mounting pension pressures led Moody's Investors Service to lower Chicago's credit rating by five notches since July 2013, with the last downgrade to Baa2 occurring on Feb. 27.

Garcia said Chicago could save as much as $350 million by consolidating purchasing and some services with other governmental bodies under the mayor's control, including the Chicago Public Schools. He also said Chicago's budget could receive a $150 million boost from reforming tax increment financing districts meant to spur economic development within certain geographic boundaries.

By REUTERS

MARCH 13, 2015

(Reporting by Karen Pierog; editing by Matthew Lewis)

U.S. Municipal Bond Market Grows to $3.652 trln in 4th Quarter.

(Reuters) – The U.S. municipal bond market grew to $3.652 trillion during the fourth quarter, Federal Reserve data released Thursday showed.

The fourth-quarter increase followed a decline to $3.631 trillion in the third quarter, according to the central bank's quarterly report.

Retail buyers shed a total of $31.9 billion of municipal bonds, marking the 16th consecutive quarter of declines in bonds held by households, the biggest buyers in the municipal bond market.

The size of the municipal bond market peaked in the fourth quarter of 2010 at $3.77 trillion, as municipalities rushed to sell Build America Bonds, which carried special tax credits. Low interest rates have kept cities, counties and states hungry to borrow and refinance, and the market has held steady at around $3.7 trillion.

Institutional investors ramped up their buying, as banks picked up $41.1 billion municipal bonds in the fourth quarter, up from the prior quarter's $34.5 billion.

Mutual funds gained $60.8 billion in the fourth quarter, compared with $51.1 billion in the third quarter, the Federal Reserve said. Property casualty-insurance companies shed $200 million and life-insurance companies picked up $5.1 billion in municipal bonds.

By Elvina Nawaguna

Thu Mar 12, 2015

(Reporting by Elvina Nawaguna; Editing by Andrea Ricci)

OppenheimerFunds Sticks With Struggling Puerto Rico: Muni Credit.

(Bloomberg) — OppenheimerFunds Inc. is maintaining its bets on Puerto Rico as other municipal-bond investors flee, banking on the strategy that's made it a top performer over the past five years.

Bonds from Puerto Rico accounted for about $5.6 billion of the $26.2 billion invested across the money manager's 20 muni funds as of Jan. 1, according to data compiled by research firm Municipal Market Analytics. The 21.4 percent allocation compares with about 19 percent a year earlier, before Puerto Rico was cut to junk in February 2014, data compiled by Bloomberg show.

OppenheimerFunds has outperformed many of its peers since 2010 thanks partly to debt of Puerto Rico, which has been a core holding because it's tax-free nationwide and offers attractive yields. At stake is whether the gains can last as the island's electric agency moves toward restructuring and as officials struggle to revive an economy with a 13.7 percent jobless rate, more than double the U.S. average.

"The circumstances have changed, but their holdings are static," said Bob Donahue, a managing director at Concord, Massachusetts-based MMA who testified to a congressional panel last month about the island's finances. "Shareholders have seen the volatility — they've benefited during the good times and suffered during the bad."

Junk Limit

Kimberly Weinrick, an OppenheimerFunds spokeswoman in New York, declined to comment beyond the company's published statements on Puerto Rico.

OppenheimerFunds said in February 2014 that it couldn't add more junk bonds to some funds because Puerto Rico's rating cuts pushed it over its speculative-grade limit. The company has nine of the 10 highest-yielding muni funds focused on specific states, including those for Maryland and Virginia residents, Bloomberg data show. Those funds had 48 percent and 38 percent stakes in Puerto Rico as of Jan. 31, respectively.

Their managers wrote about the benefits of state funds in November, saying that "because each fund emphasizes in-state securities, your investments also help support projects close to home." Three paragraphs later, they mention holding Puerto Rico, Guam and the U.S. Virgin Islands.

Last year's downgrades "did not change Oppenheimer Rochester's opinion about the credit risk of Puerto Rico and its public authorities," the company said in its annual overview, released in January. OppenheimerFunds money managers "saw opportunities to ride out the volatility and clip highly favorable coupons."

Strategy's Reward

The managers have said they focus on tax-free bonds offering higher yields, such as debt from U.S. territories and securities backed by cigarette shipments. Over the years, higher coupon payments can boost returns.

The strategy has paid off in terms of five-year annualized performance, Bloomberg data show. Excluding dedicated high-yield muni funds, the $2 billion Oppenheimer Rochester AMT-Free Municipal Fund is the best-performing national fund, while the $1.36 billion Oppenheimer Rochester California Municipal Fund tops open-end funds focused on the Golden State.

Among single-state funds outside of California and New York, which are marketed to residents for income excluded from state taxes, the Oppenheimer Rochester Minnesota Municipal Fund and the Oppenheimer Rochester Pennsylvania Municipal Fund have two of the three biggest five-year gains, Bloomberg data show.

The question for OppenheimerFunds is whether Puerto Rico bonds can keep generating outsize returns, said Beth Foos, a senior analyst at Morningstar Inc. in Chicago.

Beware Volatility

"These state-specific funds are achieving that tax-exemption while reaching for yield, which has been rewarded over the last several years," Foos said. "That comes with additional risk going forward with this particular issue in Puerto Rico. They've got very challenging budget issues that aren't going away."

Unlike the broad $3.5 trillion municipal market, Puerto Rico bonds haven't recouped losses suffered in 2013, when state and local debt fell the most in five years, S&P Dow Jones Indices data show. After falling a record 20.5 percent in 2013, commonwealth bonds gained 10.3 percent last year amid demand for high-yield munis.

The $3.5 billion of general obligations Puerto Rico issued a year ago have lost value. The debt priced at 93 cents on the dollar to yield 8.73 percent on March 11, 2014, Bloomberg data show. It traded

Friday at about 83 cents, for a 9.93 percent yield.

Holding Rationale

For the Oppenheimer Rochester Maryland Municipal Fund, the company's most heavily concentrated in Puerto Rico, the island is depressing returns. It fell 13.7 percent in 2013, compared with a 1.4 percent slide for the S&P Maryland index. The fund has trailed 98 percent of peers in the past three years.

Even as the fund's net assets shrank to $63.5 million as of Dec. 31 from $67 million a year earlier, Puerto Rico holdings appreciated 1.8 percent to $30.3 million. That means 48 percent of the fund was dedicated to the island, up from about 44 percent.

The fund can invest as much as 25 percent in junk debt, according to its prospectus. It can exceed that limit if managers bought the debt while it was investment grade.

Dan Loughran, who leads the OppenheimerFunds muni group, explained the reasoning for the holdings in a September 2013 article in InvestmentNews: The commonwealth's constitution puts bondholders first in line and the island can't file for bankruptcy.

Investor Defense

Yet there's a growing chance that those rationales may crumble amid attempts by lawmakers to let some island authorities either restructure debt or seek Chapter 9 bankruptcy protection, MMA's Donahue said.

OppenheimerFunds is moving to defend bondholders. Along with investment funds of Franklin Resources Inc., it convinced a federal judge in San Juan to throw out the island's Recovery Act, which would've allowed some agencies to restructure.

Some of the largest muni investors trimmed Puerto Rico holdings since the territory lost its investment grades. Nuveen Asset Management, which oversees about $100 billion in munis, holds almost no commonwealth debt, while Vanguard Group Inc., which manages $140 billion of munis, cut its stake by about half, to $257 million.

Sam Katzman, who advises high-net-worth individuals as chief investment officer at Constellation Wealth Advisors in New York, said Puerto Rico hasn't been worth holding for 15 years.

Yet with interest rates close to generational lows and the top income-tax bracket the highest since 2000, the state funds' yields may lure buyers who haven't kept up with the island's financial struggles, he said.
OppenheimerFunds' holdings are in plain sight: Online fund summaries detail allocations to each state and territory.

"I always worry about what happens to the everyday investor," said Katzman, whose firm oversees $6 billion. "If the yield looks too high, figure out why. There's no free ride – – there's always risk associated with the reward you're getting. You have to pay attention. The information is there."

Bloomberg Muni Credit

by Brian Chappatta and Kate Smith

March 8, 2015

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Kate Smith in New York at ksmith304@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Alan Goldstein

---

Vanguard to Make It Easier to Invest in Munis.

The municipal-bond market isn't always the easiest to navigate. But the simple, cheap choice of investing in muni bonds through ETFs is about to get a boost.

Already, exchange-traded funds that focus on tax-exempt municipals make it possible to get a diversified holding of such bonds with a single trade, at low cost. That is a lot less labor-intensive than creating a portfolio with individual securities.

Still, until now, few people seem to have noticed. Muni ETFs hold only about $15 billion, remaining a niche in the $2 trillion ETF universe.

One possible reason: Unlike stock investments, it doesn't cost that much more to own an active muni bond fund, whose manager can monitor the creditworthiness of issuers, says wealth adviser Vern Sumnicht, in Appleton, Wis.

That may change soon.

A first for Vanguard

This spring, index-fund giant Vanguard Group aims to launch its first tax-exempt muni index fund with an ETF share class. Vanguard says it will charge annual expenses as low as 0.12 percentage point of assets for the funds. That compares with 0.20 to 0.35 point for existing muni ETFs and around 0.50 to 0.90 point for actively managed muni funds.

With yields still near historic lows, a bond ETF with significantly lower expenses could be a strong draw, says Thomas Boccellari, a passive-strategies analyst at Morningstar Inc. "It would put more money in investors' pockets," he says.

Bonds of state and local governments have some attractive features, although their greatest appeal is to investors in higher tax brackets. The interest such bonds pay generally is exempt from federal taxation, and sometimes also from state and local taxes.

And despite some high-profile fiscal meltdowns, such as Detroit's 2013 bankruptcy filing, defaults are significantly lower for munis than for debt of corporations.

Design challenge

Designing muni ETFs was more of a challenge than creating ETFs in other markets, though.

Unlike stocks, many munis don't trade very often. The dilemma for fund companies was how to accurately value a basket of munis underlying an ETF throughout each trading day, says James Colby, senior municipal strategist for Van Eck Global's Market Vectors ETFs unit.

Eventually, ETF sponsors, regulators and firms that track muni prices agreed that the baskets would be valued with the help of algorithms—rules-based mathematical analyses based on historic data and the prices of bonds that have traded. The resulting ETFs deliver tax-exempt income at “a very reasonable price with transparency and liquidity that investors don’t get in the underlying muni market,” says Mr. Colby.

For people who already own individual munis, an index-based, passively managed approach might provide further diversification, says David Mazza, head of research for SPDR ETFs at State Street Global Advisors.

Experts caution that anyone considering a muni ETF should understand the risks inherent in bond investing generally, as well as the differences between passive and active muni funds.

One ever-present concern is that inflation fears could push up yields. Bond prices move in the opposite direction of yields, so both index and active bond funds can lose value when yields rise.

Moreover, although credit risk is low in municipal bonds, a credit-ratings downgrade or a default can cause individual bonds to lose value—or in the worst case, cause the whole market to sell off.

Spreading the risk

ETF managers don’t do credit analysis or sell in anticipation of downgrades, says Matt Tucker, head of Americas Fixed Income Strategy for BlackRock Inc. ’s iShares unit.

The trade-off, he says, is that ETF holders get wide diversification, so problems affecting one bond likely would have modest impact. The iShares National AMT-Free Muni Bond (MUB) fund, the largest muni ETF, with more than $4.4 billion in assets, holds around 2,400 individual bonds.

Owning a larger muni ETF could have other benefits, too, says Michael Iachini, managing director of Mutual Fund & ETF Research at Charles Schwab Investment Advisory Inc. The bigger ones trade at significantly narrower bid-ask spreads, or the margins between the price at which market makers are willing to buy and sell. When spreads are wider, that raises costs if an investor periodically trades an ETF, he says.

Vanguard says its new muni funds will invest in investment-grade securities in various maturities. A Vanguard spokesman declined to comment beyond the firm’s announcement of the funds, citing restrictions while they are under review by regulators.

Executives at other fund firms wouldn’t speculate on the impact of Vanguard’s entrance to the sector. But some said it wouldn’t hurt if more investors notice that ETFs offer another route to owning munis.

THE WALL STREET JOURNAL

By MICHAEL A. POLLOCK

Updated March 9, 2015 12:03 a.m. ET

Q&A on California's Enhanced Infrastructure Financing Districts.

Earlier this year, Meeting of the Minds hosted a webinar discussion on a new set of infrastructure financing tools that had just become available in the state of California. The audience submitted over

100 questions to our panelists, many of which had to be collected and addressed by the panelists after the webinar. Questions have been consolidated and grouped into categories.

View the Q&A.

PANELISTS

Fred Silva
Senior Fiscal Policy Advisor
California Forward

Mark Pisano
Professor of the Practice of Public Administration
USC Sol Price School of Public Policy

Larry J. Kosmont, CRE®
President and CEO
Kosmont Companies

March 2, 2015

Some Cities May Soon Make Contractors Hire Local for Transportation Projects.

Cities and states will be able to require contractors on federally funded transportation projects to hire local workers for those projects, U.S. Transportation Secretary Anthony Foxx announced Tuesday.

The move, hailed by many mayors as a way to help create jobs, would also allow the localities to require the construction companies to hire veterans or low-income workers.

Federal law currently requires that bids be awarded to the lowest bidder, in most cases.

"We are developing a pilot that will help us learn about how having a more robust hire provision at the federal level would actually work and what some of the challenges actually are. It's been 40 years since this has been tested," Foxx said.

The changes would give the cities and states that participate in the program "maximum flexibility" to determine who would qualify as local residents, or whether to also include low-income residents or veterans, Foxx said.

But the one-year pilot program only applies to money received from the Federal Highway Administration and the Federal Transit Administration. Federal transportation officials will determine whether the extra requirements "unduly limit competition." If they find the restrictions do not substantially affect competition for bids, they could further loosen restrictions in the future.

Los Angeles Mayor Eric Garcetti praised the move.

"Out here in L.A., if we had no money in, we could get creative and talk about local hires. But as soon as we had a dollar of federal money in, we could not put in there, 'You're going to hire locals,'" he said. “That was taking one of our most important tools away in exchange for a dollar or more from the feds.”

Garcetti’s predecessor, Antonio Villaraigosa, pushed the federal government four years ago to allow municipalities to include workforce requirements when they asked for bids. Villaraigosa had been looking for a way to rekindle the local economy at a period of high unemployment, and he wanted to make sure local residents got a larger share of the estimated 166,000 transportation jobs in the region. Villaraigosa raised the issue when he headed the U.S. Conference of Mayors, and the group later endorsed the concept.

William Bell, the mayor of Birmingham, Ala., said his city launched apprenticeship programs to train new construction workers after the recession.

“It would all be for naught if we did not have the jobs to support those young men and women who go through this training process,” he said. “The changes that have been made in the rules today would allow us to help create those job opportunities for our citizens and to put us on a stronger footing for growth in the future.”

Atlanta Mayor Kasim Reed said the new pilot project would help his city be “more bold” in its efforts to employ local residents, especially as the city leads a $6 billion effort to upgrade Hartsfield-Jackson Atlanta International Airport.

“To the extent that we can focus on local residents, low-income individuals and, of course, our veterans, cities are going to thrive and our country is going to do better,” Reed said.

GOVERNING.COM

BY DANIEL C. VOCK | MARCH 4, 2015

[California’s Shrinking Bond Costs Dissuade Buyers: Muni Credit.]

(Bloomberg) — California’s standing on Wall Street is the strongest since the recession, with revenue surging and cash tucked away for a rainy day. For some investors, the fiscal gains have only diminished the appeal of its debt.

Since Governor Jerry Brown took office in 2011, California has swung to a $5 billion budget surplus from a $25 billion shortfall. The Democrat won approval of higher taxes and a new reserve fund. Fitch Ratings’ upgrade last week gave the most-populous state its highest marks from the three biggest rating companies since at least 2009.

As the state begins selling $1.9 billion of general-obligation bonds Tuesday, a rally in its securities has shrunk their extra yield relative to top-rated municipal debt close to the skimpiest since 2007, according to data compiled by Bloomberg.

“I wouldn’t expect the yields to be high enough for us, but we will certainly take a look,” said Michael Johnson, managing partner at Gurtin Fixed Income Management, which oversees $9.5 billion in Solana Beach, California.

Day One

California's offering will include $1.1 billion for refinancing and $790 million for projects such as water and school improvements, according to offering documents. Individual investors bid the first day and institutional buyers such as mutual funds submit orders Wednesday.

In initial marketing Tuesday, the state offered a preliminary yield of 2.35 percent on 10-year maturities, according to a person with knowledge of the sale who requested anonymity before pricing is complete. That would be about 0.25 percentage point above Bloomberg's index for tax-free benchmark debt.

Investors demanded as little as 0.17 percentage point of extra yield on 10-year California obligations last month, data compiled by Bloomberg show. That's down from a peak of about 1.7 percentage points in 2009, when the state resorted to IOUs to pay bills. In 2006 and 2007, before deficits soared amid the recession, the gap was as little as about 0.1 percentage point.

California munis earned almost 11 percent last year, compared with 9.3 percent for the entire municipal market, S&P Dow Jones Indices show.

The gains have left the debt with spreads resembling those of higher-rated states, such as Massachusetts and Ohio. Connecticut and Pennsylvania, with the same Aa3 Moody's Investors Service grade as California, trade at spreads of 0.3 percentage point or steeper. Given California's position as the largest debtor in the U.S. municipal market, some investors say they need to buy it no matter what.

Index Link

"If you want to have a portfolio that is somewhat linked to the indexes, you have to have it," said Paul Mansour, head of muni research at Conning, which oversees about $11 billion in local-government debt in Hartford. "The question is do you go crazy on it or do you go with a more moderate level, and I think a more moderate level is our view."

Brown, 76, in January proposed a record $113 billion spending plan for the year beginning July 1 that devotes most of a $5 billion surplus to schools, reserves and paying down debt.

In November, after voters agreed to bolster a rainy-day fund for fiscal emergencies, Standard & Poor's boosted California to A+, its fifth-highest mark and the state's best since 2009 from the company. Fitch on Feb. 25 raised California to the same level, also the strongest since 2009, citing a "disciplined approach to achieving and maintaining structural balance in recent budgets."

Moody's Aa3 assessment is the fourth-highest level and the best mark since 2001.

California Treasurer John Chiang, who took office in January, said the Fitch upgrade "is both a validation of California's recently displayed fiscal discipline, as well as a stern warning against returning to business-as-usual."

California's rating sank to the lowest among states in 2009 as lawmakers were locked in a stalemate over how to eliminate a $42 billion shortfall. The state dealt with more than $100 billion of cumulative deficits from 2000 through 2010.

"California has had a dramatic change" in areas such as revenue growth and cost reductions, Mansour said. "You are still getting a decent spread in California."

Bloomberg Muni Credit

by Michael B Marois

March 2, 2015

To contact the reporter on this story: Michael B. Marois in Sacramento at mmarois@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, William Selway

---

Texas Cities Are Worried Republicans Pushed Tax Cuts Too Far.

(Bloomberg) — Texas's Williamson County hired hundreds of workers and ran up debt as it became home to two of the 10 fastest-growing U.S. cities. Now, state tax cuts threaten to crimp the revenue it needs to pay for the expansion.

"It scares the fool out of me," said Dan Gattis, a judge who helps oversee the budget for the county, an area north of Austin where farms gave way to congested roads as the population almost doubled since 2000.

"It takes so much money to run county government. We've got to have some way to pay the bills."

Energized by an expanded majority in the Texas legislature, Republicans want to slash billions from homeowners' taxes. That may squeeze funding for local governments that have borrowed $205 billion for roads, schools and infrastructure as Texas added more residents than any other state.

Lieutenant Governor Dan Patrick, who helps to set the legislative agenda, on Feb. 24 unveiled a plan to shave $2.4 billion over two years from homeowners' levies that pay for schools. One Senate bill would require local elections on whether to roll back property-tax increases if they exceed 4 percent a year. Another would keep officials from marking up assessed values by more than 5 percent.

Money's Flowing

"As values go up, tax rates never come down," said Senator Paul Bettencourt, a Houston Republican who introduced the bill with the 4 percent limit. "The money's flowing too fast into government coffers."
The conflict is the latest between states and local governments over whether to buffer residents from the effects of rising home values. New Jersey Governor Chris Christie, a Republican, and New York's Andrew Cuomo, a Democrat, both enacted property-tax limits following complaints about escalating bills. On Tuesday, Pennsylvania Governor Tom Wolf, a Democrat, proposed reducing property taxes that finance schools.

While Texans pay no individual income tax, real-estate taxes were $1,557 per capita in 2011, according to the Washington-based Tax Foundation. That was the 15th highest in the nation, ahead of California.

"At the state level there's really been a lot of receptivity to the conservative message, and lawmakers to a large degree have embraced the model of low taxes and less government," said James Quintero, director of the Center for Local Governance at the Texas Public Policy Foundation, an Austin nonprofit that favors smaller government. "At the local level there's been an absence of conservative ideas."

Ranked 48th

City and county officials said the revenue is needed to make up for lack of money from the state, which ranks 48th in spending per resident, according to the Henry J. Kaiser Family Foundation.

Localities have borrowed to fill the gap. Of the 10 most-populous states, only New York has more local debt per resident, according to figures from the Texas Bond Review Board. The debt of Texas local governments swelled by 75 percent over the past decade, according to the state’s figures, as officials poured more money into public works.

Williamson County is among them. An influx increased its population by almost 90 percent since 2000 to 471,000. Two of its cities — Cedar Park and Georgetown — were among the 10 fastest growing in 2013, according to the Census Bureau.

Government Grows

Its payroll has swelled 40 percent since 2003 to about 1,500 employees. Jail bookings are up 50 percent. Even the county’s miniature train has seen its ridership increase by more than one third since 2007. In 2013, Williamson County voters approved a $315 million bond for roads and parks.

“The state is not appropriating the money,” said Gattis, the county judge.

Standard & Poor’s and Fitch Ratings both rank the county’s bonds AAA, the highest level. Before an April 2014 bond sale, Fitch cited the county’s property-tax growth in support of its rating. It said the county’s $3.4 billion in debt was elevated compared with the value of assessed property.

“Our debt is high here, I don’t try to hide from that at all,” Gattis said. “There was no way we could have built the infrastructure we needed to build without going out and leveraging money.”

Taxman Tied

While Williamson County’s property-tax increases last year wouldn’t have exceeded the 4 percent limit lawmakers may impose, its officials are wary of how the proposal would tie their hands in the future.

“It’s extremely difficult to keep up with the growth in the demand for services when we have a capped rollback rate,” said Larry Gaddes, the county’s chief deputy tax assessor.

The property taxes of about one-third of 1,000 Texas cities would have exceeded that limit in 2013, according to the Texas Municipal League in Austin, which lobbies on behalf of local governments. If the cap were in place, it would cost McKinney, a Dallas suburb, $1.4 million, enough to pay salaries and benefits for 11 police officers and firefighters, according to the league. Midland, in the western oil fields, would lose $300,000.

Dallas Mayor Mike Rawlings said the tax-cut plans circulating in Austin would limit cities’ growth.

About 61 percent of the city’s budget is for public safety, so efforts to limit revenue growth would “be on the backs of our police and firefighters,” he said. “But it would also affect quality-of-life issues like parks and libraries.”

Local Control

Local governments were anticipating the intrusion from Texas officials. Governor Greg Abbott, a 57-

year-old Republican who took office in January, has said cities have gone too far in passing local measures, including bans on plastic bags and cutting trees on private property. He said such developments were threatening to "California-ize" the state with unneeded regulations.

Bennett Sandlin, executive director of the Texas Municipal League, said cities should be left to manage their own money.

"Mayors rub elbows with citizens in grocery stores and churches every day," he said. "They're closer to the pulse of constituents than any other form of government. That's the epitome of conservative government right there."

by Lauren Etter

March 3, 2015

To contact the reporter on this story: Lauren Etter in Austin at letter1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net William Selway, Mark Tannenbaum

---

Chicago Agreement Avoids $20 Million Backfiring Swap Payment.

(Bloomberg) — Chicago arranged with a bank to avoid paying $20 million to end an interest-rate swap and is working to avert a separate $40 million fee, according to Mayor Rahm Emanuel's office.

The city faced the potential payments after Moody's Investors Service cut its rating last week to Baa2, two levels above junk, because of mounting pension liabilities. The company said the deteriorating grade may trigger the payments to unwind the swaps, which Chicago entered into as a hedge. The city also is closer to ratings that may force an additional $133 million of payments. Fitch Ratings and Standard & Poor's affirmed their grades for the city.

Chicago agreed with BMO Harris Bank N.A. to avoid the $20 million payment and is negotiating the $40 million sum with San Francisco-based Wells Fargo & Co., according to a statement from Emanuel's office. Reuters reported the negotiations earlier.

"While we agree with Moody's that the city continues to face serious fiscal challenges, under Mayor Emanuel's leadership, we will continue to make the right – though difficult – choices and work toward a continued strengthening of the city's finances and securing our city's future," the mayor's office said in a statement.

Trigger Levels

In the case of Chicago, a downgrade below specified rating levels can trigger the swap termination payments. Chicago's grade from Moody's has fallen six levels since August 2010, and the company joins other credit raters in saying more cuts are possible.

Chicago has been addressing its debt since Emanuel took office, according to the city's statement. The efforts include terminating seven swaps and renegotiating 11.

The city has swaps with termination payments of $133 million at lower ratings, according to Moody's. It also is grappling with short-term borrowings of $1.2 billion, including commercial paper and credit lines, that it may need to repay should ratings fall below Baa3.

Municipalities nationwide have entered into swaps contracts, which are agreements to exchange fixed payments for floating ones, to cut borrowing costs. Most were structured to lower expenses when interest rates rose. Yet with the Federal Reserve keeping its benchmark rate at historic lows, some of the agreements backfired, putting borrowers in a position of owing banks money.

Elise Wilkinson, a spokeswoman for Wells Fargo, declined to comment. Jim Kappel at Chicago-based BMO didn't respond to phone calls and e-mails seeking comment.

by Darrell Preston and Tim Jones

March 4, 2015

To contact the reporters on this story: Darrell Preston in Dallas at dpreston@bloomberg.net; Tim Jones in Chicago at tjones58@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Alan Goldstein

---

Barclays Said to Hire Citigroup's Foux as Head of Muni Strategy.

(Bloomberg) — Barclays Plc has hired Mikhail Foux from Citigroup Inc. to head municipal strategy, according to two people with knowledge of the move.

Foux worked at Citigroup for eight years, including as a member the muni strategy group with George Friedlander and Vikram Rai. He previously worked at Credit Suisse Group AG and Banco Santander SA, according to his LinkedIn profile.

He will fill the role formerly occupied by Tom Weyl, who left Barclays last year to head new business development at MBIA Inc.'s municipal-bond insurance unit, National Public Finance Guarantee Corp. Foux will start this month and be based in New York, according to one of the people, who requested anonymity because the hiring hasn't been announced.

Barclays was lead manager on about $19 billion in muni sales last year, sixth among underwriters in the $3.5 trillion market, according to data compiled by Bloomberg. That included a $3.5 billion general-obligation offer from Puerto Rico, the largest long-term muni issue of 2014.

Marc Hazelton, a spokesman at Barclays in New York, declined to comment.

by Brian Chappatta

March 5, 2015

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

S&P: California's $2 Billion GO Bonds Assigned 'A+' Rating.

We have assigned our 'A+' long-term rating, and stable outlook, to California's estimated $2 billion of general obligation (GO) bonds, consisting of $790 million tax-exempt various purpose GO bonds and $1.11 billion tax-exempt various purpose GO refunding bonds. At the same time, Standard & Poor's affirmed its 'A+' long-term ratings and underlying ratings on California's $76.4 billion of GO debt outstanding, as of Feb. 1, 2015, not including double barreled GO bonds rated higher based on additional pledged revenue. The outlook on all ratings is stable.

Gov. Chris Christie Panel Proposes Overhaul of New Jersey's Pension System.

Gov. Chris Christie's committee to study New Jersey's troubled pension system wants to overhaul the retirement program for public employees, freezing the current setup and replacing it with a "cash balance" plan.

The plan would spread out the current pension system's unfunded liability over many years, and would more closely reflect benefits in the private sector, according to members of the commission. Mr. Christie endorsed the report conclusions Tuesday in a speech to the Legislature.

The commission is also calling for a state constitutional amendment to require governors to make payments to the new plan.

"Although the proposed plans are likely to be less generous to long-tenured employees as compared with the current plans, a less generous plan that is funded is preferable to a more-generous plan that isn't," the report says.

Benefits in the new plan could swing based on fluctuations in the stock and bond markets, introducing an element of risk.

Workers in the system would have their current plan frozen, according to Tom Healey, the commission chairman, and new workers would be entered into the new plan. Employees would have individual accounts, he said.

"You can do lots of different things with a total mess," Mr. Healey said in an interview. "You can either say, let's try to fix it or you can move to Wisconsin. We're at the edge of the cliff here."

The proposal received pushback from some unions and Democrats. Mr. Healey said he had met with the state's main teachers union, and said its leaders were cooperative. Other meetings are scheduled in coming weeks.

Wendell Steinhauer, president of the New Jersey Education Association, said the union supports the proposal's recommendations to freeze benefits of the current pension system, create a newly managed one and adopt a guarantee of state funding in the state constitution.

But Mr. Steinhauer said that some of the pension proposal "unfairly burdens" workers and wouldn't be feasible.

"There will be many things that NJEA disagrees with, some of them very strongly," Mr. Steinhauer said in a statement. "This is a report. It is not a law, and it is not the final word on what will or must happen.”

Other states such as Kentucky and Louisiana have recently introduced cash benefit plans, though Louisiana’s plan was ruled unconstitutional.

Joshua Franzel, a vice president for research at the Center for State and Local Government Excellence, said cash benefit plans are a way for states to provide more predictability in their pension systems.

The plans tend to guarantee a certain rate of investment return, but unlike a defined benefit pension system the hybrid ones don’t lock in a fixed allowance based just on the worker’s salary. It shifts some of the risk of market fluctuations to the employee without fully doing so, Mr. Franzel said.

“It’s a middle approach for managing risk and trying to control costs and control liabilities,” said Mr. Franzel, whose center studies pensions. “We are seeing a trend to more states beginning to consider and implement hybrid plans.”

New Jersey’s pension system is underfunded by about $37 billion.

The commission’s report said parts of its approach are likely to be unpopular at first but that “in time they will be viewed as the best way to move forward.”

THE WALL STREET JOURNAL

By JOSH DAWSEY

Updated Feb. 24, 2015 8:37 p.m. ET

S&P: Runoff Election Could Delay Chicago's $600 Mil. Pension Funding.

CHICAGO (Standard & Poor’s) Feb. 25, 2015–The surprise runoff election for mayor of Chicago could delay a crucial $600 million pension contribution plan for the police and fire departments in the city’s upcoming 2016 budget. This temporary speed bump puts into question a plan the city has been working on for the past four years and will mean the next administration will need to determine how to fit this cost into its budget in less than a year, in the opinion of Standard & Poor’s Ratings Services.

We will be monitoring how this short-term pension obligation will affect the city’s A+/Negative general obligation rating as well as how the next administration will address long-term pension issues that have been weighing on the city’s credit standing.

In the short term, whichever candidate is elected will need to devise a method to fund the additional annual contributions required for the city’s police and fire plans in time for budget year 2016, and future budgets thereafter. The city will have less than a year to determine how to fit this cost into its budget, even if the amount is lowered to some extent through statutory amendments or identifying a revenue stream and implementing it. The uncertainty of how this issue will be addressed prevents the city’s credit outlook from being stable at this point.

Under the current administration, the city has tried to address its longer term pension liabilities by restructuring two of its four existing pension plans for non-police and fire employees. These reforms are being challenged by some of the affected employee unions in court. Whether these challenges are successful or not, at this point the amount of increase that could occur from the municipal employees and laborers' plans has a place in the city's budgets, with an identified revenue stream. These costs will increase gradually over time and a credit factor will be whether the identified revenue stream can keep up with the costs.

In terms of magnitude, the city currently only contributes 26% of its annual required pension contribution (ARC) for its four plans. Not paying the full ARC leads to increases in the unfunded liability. The current payment represents 7% of its total governmental funds expenditures. If the city were paying down these liabilities with the full ARC payment today, the contributions would represent 27% of total governmental funds expenditures.

The four defined benefit plans had an overall unfunded liability of $20.1 billion as of 2013, and the plans altogether are 34% funded. Funding levels for each of the plans are as follows:

- The municipal employees plan: 37% funded, with an $8.7 billion unfunded liability;
- The laborers' plan: 57% funded, with a $1.03 billion unfunded liability;
- The police officers' plan: 30% funded, with a $7.2 billion unfunded liability; and
- The fire fighters' plan: 24% funded, with a $3.14 billion unfunded liability.

While pensions cloud the city's financial and debt profiles, the city offers a strong base from which revenues can be supported. It has a vibrant economy which supports the city's credit quality.

As the city awaits voters' final say on who will be the mayor, the city's credit awaits a longer term resolution to its pension troubles. One answer will be found in six weeks, the latter may take some more time.

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 23 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information and independent benchmarks that help to support the growth of transparent, liquid debt markets worldwide.

Primary Credit Analyst: Helen Samuelson, Chicago (1) 312-233-7011;
helen.samuelson@standardandpoors.com

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

Jane H Ridley, Chicago (1) 312-233-7012;
jane.ridley@standardandpoors.com

Horacio G Aldrete-Sanchez, Dallas (1) 214-871-1426;
horacio.aldrete@standardandpoors.com

Why Cities Hit the Brakes on Red Light Cameras.

Cities have been hitting the brakes on red light cameras, and no wonder. Outrage over the devices is no longer limited to angry motorists facing hefty fines. Judges have now tossed tens of thousands of tickets. Newspapers and government inspectors have exposed deep flaws in many cities' equipment and enforcement methods. And the former CEO of one of the two major camera manufacturers was indicted on bribery and other charges related to Chicago's red light cameras.

The backlash began in 2013. After peaking at an all-time high in 2012, when 540 U.S. jurisdictions used red light cameras, the number dropped to 503, according to the nonprofit Insurance Institute for Highway Safety. Last year the numbers dropped even further. In December, New Jersey ended a five-year pilot program that had allowed 25 municipalities to use red light cameras. The same month, Ohio Gov. John Kasich signed a law that essentially blocks the use of traffic cameras in the state.

On the legal front, a California appeals court threw out a $500 ticket in January because drivers weren't reliably given a 3.6-second yellow light as required by law. The decision sets a legal precedent for challenging red light camera violations, but it came after the city of Riverside — which had issued the ticket in question — scrapped its cameras last summer. Meanwhile, lawyers are working on a settlement in a class-action lawsuit against 20 Missouri cities and a camera manufacturer that could lead to refunds across the state.

What's behind the red light reversals? For one thing, there's growing skepticism that the cameras lead to a decrease in automobile accidents. The Chicago Tribune, for example, recently commissioned a study that showed Chicago's red light camera program did not lead to an overall reduction in crashes. Many citizens, meanwhile, see the cameras as nothing more than a way for cities to make easy money by slapping fines on drivers. Now state lawmakers, city council members and citizen activists around the country are pushing measures to curb or outright ban the cameras.

But ditching the cameras can play havoc with city budgets. When New Jersey ended its pilot program, Moody's, the credit rating agency, warned of the impact the development could have on the two dozen municipalities that had the devices. "These developments are credit-negative," Moody's analysts wrote, "because they further constrain governments' ability to implement new revenue streams at a time when these governments are facing property tax limits, uneven sales tax growth and anti-tax sentiment."

Proponents of red light cameras insist there's also a cost in terms of public safety. "There's no question that lives will be lost because some communities have ended their programs," says Russ Rader of the Insurance Institute for Highway Safety, which backs red light cameras.

One of the problems he sees is that some cities implemented red light cameras not as a safety measure, but as a revenue source. If red light cameras are set up properly, Rader argues, they may not bring in much money because motorists stop rather than run a red light. "Some communities have shot themselves in the foot. If the public believes that red light cameras are more about revenue than safety, then communities have a problem."

Backers of red light cameras say they can be used effectively, if the cities using them base their decisions on safety and explain the benefits to their residents. Cities should place the cameras at dangerous intersections, and then monitor safety data to make sure an improvement occurs, says Michael Green of AAA, the motorists group. He says cities should post signs alerting drivers to where red light cameras are in operation. “This shouldn’t be a surprise: The goal is not to ticket a motorist,” Green says. “The goal should be to get them to stop at the red light.”

GOVERNING.COM

BY DANIEL C. VOCK | MARCH 2015

Philadelphia Schools Find Charters Costly to Budget: Muni Credit

(Bloomberg) — Philadelphia’s school district, the nation’s eighth-largest, wants to get more children into high-achieving schools. Doing so threatens its finances.

The panel that runs the district accepted five of 39 applications on Feb. 18 for new charter schools, which are publicly funded and privately run. The vote agitated both sides of the debate — parents and unions who say charters divert funds from the traditional system, and an opposing group of parents and advocates who wanted more approvals to help students stranded in failing schools.

The debate in Philadelphia echoes those in other urban districts, such as in New Jersey, Ohio and Michigan, that also face fiscal stress from charters. Philadelphia school officials next month plan to sell debt for the first time since 2011 that isn’t deficit financing. The rejection of most of the charter candidates boosts the junk-rated district because adding the schools would strain its budget, Moody’s Investors Service said this week.

“From an educational point of view, from a social point of view, they are a positive, especially for really dedicated students,” said Ted Molin, a senior credit analyst at Wilmington Trust Co. in Delaware. “But from a pure fiscal or credit point of view, I would have to say, unfortunately, they’re a negative.”

Budget Gap

While Philadelphia’s rating and finances have strengthened over the past several years, the district, run by a board of mostly state appointees, has deteriorated. Officials closed schools and sold about $300 million of debt to fill a budget gap in 2012. They’ve lobbied state and local lawmakers for more funds, including a $2-a-pack cigarette tax in Philadelphia and a portion of city sales-tax receipts.

Costs still outstrip revenue, as the district faces an $80 million deficit for the year beginning in July. In the next five years, 86 percent of the $282 million increase in expenses results from higher charter-school and retirement costs and debt service, according to the district’s plan.

Officials are requesting more state aid to educate students, 81 percent of whom qualify for free or subsidized meals. They’re also appealing a court decision that stopped them from implementing labor changes, such as health-care contributions from teachers, that would have saved $200 million over four years.

Charter Costs

About 30 percent of the system’s 204,000 students attend charters, up from about 14 percent a decade ago. The district estimates each charter student adds a net $7,000 of expenses. Charter costs next year may tally $769 million in a $2.7 billion district budget, the five-year plan shows.

The district in March plans to sell about $46 million of bonds for capital projects and $270 million to refinance older securities, said Fernando Gallard, a spokesman. The refunding may save $23.4 million, or 8.1 percent of par, according to a Moody's estimate. The schools, which have $3.2 billion in debt, sell securities under a program that diverts state aid to bond payments, boosting security for investors.

Moody's ranks the school system Ba3, three levels below investment grade, while it grades the bonds A1, eight levels higher, because of the state program.

Molin at Wilmington Trust, which handles $4 billion of munis, said the company probably wouldn't add to its district holdings with the new deal because "underlying credit characteristics seem to be deteriorating."

Negative Loop

Philadelphia's district is the only one in Pennsylvania, and one of few in the U.S., without authority to levy taxes, said Dan Seymour, assistant vice president at Moody's.

Efforts to balance the books with cuts to staff and services "have hurt the educational product," he said from New York. That in turn has led more students to leave traditional schools, creating stranded costs. "It's a negative feedback loop."

The addition of five charter schools would cost the district $6.8 million by 2019, Gallard said. The rejected schools can appeal.

Gallard said even when the system was stronger financially, students didn't perform as well as officials would have liked.

"There is a fiscal impact, but overall our goal is to improve the access to high-achieving schools for our students," he said.

Plowing more money into the same system won't improve outcomes, said Mark Gleason, executive director of the Philadelphia School Partnership, a nonprofit that provides grants to city schools and wanted more charters approved.

Less than half of students in traditional public schools showed proficiency in reading and math in last year's state tests, according to Gleason's group. For charter students, the rates rise to 55 percent for math and 52 percent for reading, it says.

"The district is in a precarious financial situation, but the disadvantaged kids in Philadelphia are in a more precarious situation," Gleason said. "These are kids who are not getting a fair shot at life."

by Romy Varghese

February 26, 2015

To contact the reporter on this story: Romy Varghese in Philadelphia at rvarghese8@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Stacie Sherman, Mark Tannenbaum

[Christie's Downsized Pension Payment Cuts Gap by 2%: Muni Credit]

(Bloomberg) — Governor Chris Christie's proposal for a record contribution to New Jersey's pensions would erase less than 2 percent of an $83 billion funding deficit.

In his 2016 budget address Tuesday, Christie said the $1.3 billion infusion would stabilize benefits for 402,000 teachers, firefighters and other public employees and retirees. Yet the 52-year-old Republican, a potential White House aspirant, has a history of breaking promises on the contributions.

His decision in 2014 to shortchange the system for two fiscal years precipitated the eighth credit downgrade under his tenure, a record for a New Jersey governor. His latest pledge would cover less than half the $3.1 billion he was scheduled to pay, raising the specter of further rating cuts.

"That is essentially a deferral, and one of the chief causes of the rating pressure has been the growing pension liability," said Paul Brennan, a money manager in Chicago at Nuveen Asset Management, which oversees about $100 billion of municipal debt. "Continuing to defer that is probably not going to be well received" by rating companies and investors, he said.

The governor joins municipal leaders nationwide balancing the rising expense of retirement and health-care costs with spending on infrastructure and other government services. Kansas and Kentucky are considering selling debt to replenish their pensions, even after a group of state and local-government finance officials advised against the practice.

Freeze Plan

Because of new accounting standards, New Jersey's unfunded pension obligation grew from $37 billion in 2013, according to a report released Tuesday by a panel that Christie appointed to recommend ways to bolster the system.

Christie praised the report, released during the budget address, and said he had an agreement on one of its recommendations: to freeze the 245,000-member teachers pension fund, cede control to a trust and retire debt over 40 years.

Yet Wendell Steinhauer, president of the New Jersey Education Association, the state's largest teachers union, said no final deal had been reached. Democrats, who control the legislature, said after the budget address that they won't accept pension changes on top of those made during Christie's first term until the governor makes full payments.

'Big Negative'

Forgoing a full payment "is a big negative for New Jersey," said Tom Metzold, co-director of munis in Boston at Eaton Vance Management, which oversees about $25 billion of state and local debt. "I appreciate the fact that Christie is trying to make more changes to the pension plan, but that doesn't solve the problem of what the state needs to pay today."

Investors have been demanding extra yield to buy New Jersey debt rather than benchmark munis. Yields on 10-year New Jersey bonds last week reached 0.64 percentage point above top-rated munis, the biggest gap since at least January 2013, according to data compiled by Bloomberg.

Moody's Investors Service grades New Jersey A1, four steps below top-rated debt. Standard &

Poor's and Fitch Ratings score it one level lower at A. Illinois is the only state with lower ratings.

Christie faces the added burden this fiscal year of a state Superior Court decision, issued Feb. 23, to make good on a $1.6 billion pension payment he skipped as revenue missed targets. The $2.25 billion that Christie had promised was to be a state record; instead, he committed to just the actuarially required $681 million.

While crediting New Jersey for releasing the larger pension-funding deficit under the new accounting standards, Alan Schankel at Janney Capital Markets said insufficient pension payments are a concern.

"The historic amount is not necessarily relevant if the gap widens," said Schankel, a managing director of fixed-income strategy in Philadelphia. "Any amount that makes the state fall further behind in their pension funding is unfortunate."

by Elise Young & Michelle Kaske

February 24, 2015

To contact the reporters on this story: Elise Young in Trenton at eyoung30@bloomberg.net; Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Rauner's Tax-Free Illinois Budget Fix Has Skeptics.

(Bloomberg) — Illinois Governor Bruce Rauner has a recipe for plugging the state's $6.2 billion deficit that relies on cuts and avoids new taxes. The approach is breeding skepticism at debtholders BlackRock Inc. and U.S. Bank Wealth Management.

The first Republican elected to lead the state in 16 years, Rauner inherited $111 billion of unfunded pension liabilities and a budget that is set to run out of money by June 30 after lawmakers let a higher levy on income expire.

Illinois's debt investors, whom Rauner may wind up tapping to finance roads or other capital projects, say the lowest-rated U.S. state doesn't have the flexibility to lean so heavily on spending reductions.

"I'm very skeptical that his budget will be able to achieve balance by doing what he's doing," said Jim Schwartz, head of the municipal credit research team at New York-based BlackRock, which oversees $116 billion in munis. "The best way from his view is let's cut spending, and I just look at it as very aggressive."

Governors in about 10 states, including some led by Republicans, are proposing tax increases, according to the National Association of State Budget Officers in Washington. Illinois faces greater fiscal challenges than most: It has $6.4 billion in unpaid bills and the worst-funded state pension system.

Tax Rollback

A temporary tax increase, which raised personal and corporate income-tax levies by as much as two-thirds, expired Jan. 1. Its rollback will cost the state an estimated $1.8 billion this fiscal year and $4 billion in the year that starts July 1, according to the University of Illinois.

“I don’t think they’re going to be able to get to the level that they need to with budget cuts alone,” said Dan Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $126 billion.

“There’s going to have to be some balance between revenue enhancements and cutbacks on spending,” said Heckman, whose firm holds less Illinois debt than indicated in its benchmark.

Neighbors’ Levies

Residents of the fifth-most-populous state will pay a 3.75 percent income tax in 2015, down from 5 percent last year, according to a report this month from the Federation of Tax Administrators. By comparison, the top rates in Iowa, Kentucky, Missouri and Wisconsin range from 6 percent to 8.98 percent. Indiana’s rate is 3.3 percent for all residents.

Rauner, 59, a former venture capitalist, wants to cut $2.9 billion in employee benefits, $1.3 billion in subsidies to localities and $1.2 billion in health-care reimbursements.

“Asking for more of the taxpayers’ hard-earned money without fundamentally reforming the structure of state government would further erode public confidence and accelerate our decline,” Rauner said in his Feb. 18 budget address in Springfield.

“Illinois taxpayers are currently not getting value for their tax dollars,” Catherine Kelly, a Rauner spokeswoman, said via e-mail Feb. 24.

House Speaker Michael Madigan, a Chicago Democrat who controls much of the legislative agenda, has said he wants revenue to be part of the deficit fix. Even Senate Republican leader Christine Radogno called the budget address “the opening shot” in negotiations. Lawmakers have until the end of May to approve the budget with a simple majority. After that, a three-fifths vote is required.

Campaign Talk

Moody’s Investors Service said in a Feb. 24 report that the state’s political landscape will make it tough to enact the governor’s proposals without raising revenue.

During his campaign, Rauner promoted an expanded sales tax. He also called for tax changes during his budget speech, without providing specifics, and blamed the state’s woes on years of poor decisions and budgeting gimmicks, rather than the expiration of the higher taxes.

Restructuring pensions is part of his plan. His budget includes anticipated savings of $2.2 billion in fiscal 2016 by giving some public employees less generous retirement benefits.

The state Supreme Court is set to hear arguments next month on the legality of a 2013 law overhauling the pension system. Illinois’s attorney general appealed after a judge in November said the legislation violated the state constitution’s protection of public-worker retirement benefits.

Negative Outlooks

Illinois is paying for its financial struggles. Standard & Poor’s, Moody’s and Fitch have negative outlooks on its debt, signaling they could lower its credit standing. The companies already rank the state four levels above junk.

Its borrowing costs are the highest among the 20 states tracked by Bloomberg. Investors demand 1.3 percentage points of extra yield to own 10-year Illinois bonds instead of benchmark municipal debt, according to data compiled by Bloomberg.

Illinois plans to sell about $1.5 billion of bonds, mostly in the year that starts July 1, as part of existing capital programs, according to Kelly, Rauner's spokeswoman.

As bondholders assess the state, they're waiting to see the fiscal solution its leaders produce. "The feeling out there is that they have a lot of room to raise taxes, and theoretically they could," said Peter Hayes, head of munis at BlackRock. "Eventually there will be some moment, some day of reckoning which makes everybody wake up and say we really need to pass something."

by Elizabeth Campbell & Brian Chappatta

February 25, 2015

To contact the reporters on this story: Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net; Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Stacie Sherman

---

Super Bowl Host Glendale Digs Out From Debt Load for Pro Sports.

(Bloomberg) — Glendale, Arizona, which hosted the Super Bowl this month, is trying to reel in debt-service costs after selling almost $600 million of bonds to build facilities for professional sports teams.
The Phoenix suburb of 235,000 refinanced four bond deals this year, shaving $47 million off debt expenses and reducing long-term obligations by 5 percent to $915.6 million, said Tom Duensing, the city's finance and technology director.

The former farming community has attempted to define itself as a sports hub, borrowing more than $580 million to finance projects, including a spring training facility for Major League Baseball's Los Angeles Dodgers and Chicago White Sox. Savings from the bond deals will bolster the municipality's finances as it deals with deficits triggered in part by the burden of keeping up with debt payments.

"It only bought us time; we're not going to be able to add a bunch of new services or anything like that," Duensing said in an interview. "It took the pressure off for the next few years when a majority of the savings are realized."

Glendale is home to the University of Phoenix Stadium, the venue for the Feb. 1 Super Bowl. The National Football League's Arizona Cardinals have played at the site since 2006.

The city sold tax-exempt debt in 2007 for a parking facility for the Cardinals; in 2008 for the shared spring training facility; and in 2013 for an arena for the National Hockey League's Arizona Coyotes, according to financial statements. The securities were backed by revenue such as excise taxes.

Refunding Moves

With interest rates close to five-decade lows in January and this month, Glendale refinanced the deals from 2007 and 2008, as well as water-system debt and general-obligation borrowings, and is considering more refunding, according to Duensing.

Glendale has struggled to balance its budget and service its debt, depleting reserves, according to data compiled by Bloomberg.

City leaders are considering a plan to sell one of Glendale's three library branches, including some books and DVDs, for an estimated $4.7 million, the Arizona Republic reported this month. City Council members have discussed putting proceeds toward reserves, Duensing said.

'Big If'

"If that happens, and it's a big if, it will be up to the City Council's discretion as to where it's allocated," Duensing said. "There aren't any restrictions on it."

City council members didn't respond to requests for comment through Joe Hengemuehler, a Glendale spokesman.
Moody's Investors Service and Standard & Poor's have recognized Glendale's attempts to trim debt. Since September, both removed negative outlooks on the general-obligation rating. Moody's has Glendale at A3, four steps above speculative grade, while S&P rates it BBB+, one step lower.

Moody's cited "improved financial management despite ongoing challenges stemming from high fixed costs driven largely by a high debt burden and net operating costs associated with professional sports facilities" as reason for the improved outlook.

"That was a big step for us and we can come back to them with these new policies and have more positive improvement," Duensing said.

by Kate Smith

February 26, 2015

To contact the reporter on this story: Kate Smith in New York at ksmith304@bloomberg.net

To contact the editors responsible for this story: Joseph Mysak Jr. at jmysakjr@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Chicago Credit Rating Cut by Moody's to Two Steps Above Junk.

(Bloomberg) — Chicago had its credit rating cut to within two steps of junk by Moody's Investors Service because of mounting pension liabilities, underscoring the city's fiscal stress as Mayor Rahm Emanuel faces an unprecedented runoff election.

The one-step reduction to Baa2 affects $8.3 billion of general-obligation bonds, which were already the lowest-rated among the 90 biggest U.S. cities, excluding Detroit. The outlook remains negative, signaling more cuts are possible, New York-based Moody's said Friday in a report.

"The city's credit quality could weaken as unfunded pension liabilities grow and exert increased pressure on the city's operating budget," Moody's analysts Matthew Butler and Rachel Cortez wrote. "We expect substantial growth in unfunded pension liabilities even if the city's recent pension reforms survive an ongoing legal challenge."

Chicago is obligated to pay $600 million into four pension funds in next year's budget, though Standard & Poor's said the contribution may be delayed after Feb. 24 elections led to an unexpected runoff vote between Emanuel and Jesus "Chuy" Garcia. The former White House chief of staff failed to capture more than 50 percent of the vote.

"Moody's has been consistently and substantially out of step with the other rating agencies, ignoring the progress that has been achieved," Kelley Quinn, an Emanuel spokeswoman, said in an e-mailed statement.

Difficulties Ahead

Quinn noted that two other major credit raters affirmed the city's grade this week, recognizing the progress made under Emanuel.

"What we can agree with Moody's about is that the city continues to face serious fiscal challenges and that difficult work remains to continue strengthening the city's finances and securing our city's future," Quinn said.

While Illinois is the lowest-rated state, credit raters differ on Chicago's standing. S&P affirmed its A+ rating on the city today, citing its broad and diverse economy. That's the fifth-highest rank and four levels above Moody's. S&P may cut its rating if Chicago doesn't implement a plan by the end of 2015 to sustainably fund its pensions, analyst Helen Samuelson said in a report. Fitch Ratings ranks Chicago two steps higher than Moody's.

State Action

The third-most-populous U.S. city has $20 billion in unfunded pension obligations that it can't address without the approval of the state legislature. Lawmakers in June restructured two city pension plans with about $9.4 billion in underfunded liabilities for about 60,000 municipal workers and retirees by making them pay more and reducing benefits. The changes didn't apply to the police and fire systems.

Labor unions in Chicago sued to block the law in December, and the litigation was put on hold pending the outcome of an Illinois Supreme Court ruling on a state pension overhaul.

The April 7 runoff is the first for the city of 2.7 million since it went to nonpartisan elections in 1999. Garcia's campaign called the downgrade another sign that the city needs new leadership.

"The downgrade is an objective verdict on Emanuel's lack of fiscal stewardship," Andrew Sharp, Garcia's campaign manager, said in an e-mailed statement.

by Brian Chappatta and Elizabeth Campbell

February 27, 2015

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Stacie Sherman, Mark Tannenbaum

[Pipeline Safety Grant Opportunity and New Resources for Counties.]

The U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration (PHMSA) is now accepting applications for the 2015 Technical Assistance Grants (TAG) for communities or impacted stakeholders seeking engineering, or other scientific analysis of issues relating to pipeline infrastructure. Governmental entities or non-profit groups may qualify for a grant of up to $100,000 per year. Applicants must be local communities or groups of individuals relating to the safety of pipeline facilities in local communities. 'Communities' are defined as cities, towns, villages, counties, parishes, townships, and similar governmental subdivisions or consortia of such subdivisions. For-profit entities are not eligible.

The announcement can be found by using the "SEARCH GRANTS" tab at Grants.gov.

Search by Funding Opportunity Number DTPH5615SN0002.

The closing date for applications is April 22, 2015.

For more information, or to apply for a grant, please contact Karen Lynch at karen.lynch@dot.gov.

[WSJ: Stockton, Calif., to Exit Bankruptcy Protection on Wednesday.]

The city of Stockton, Calif., will leave bankruptcy protection on Wednesday, bringing to close years of cost-cutting efforts that affected bondholders, taxpayers and its retired employees.

Stockton leaders said the 300,000-resident city will leave so-called Chapter 9 protection—the type of bankruptcy procedure used by struggling municipalities—on sturdier financial ground.

City manager Kurt Wilson said the milestone will enable the city, which was hit hard by the housing crash, to move forward toward recovery. "We emerge from bankruptcy a renewed city, perhaps better prepared for our future than any other city in the state, with a new value system, a thorough understanding of our operations and finances and the tools to maintain solvency and adjust to economic conditions for decades into the future."

The city, located about 80 miles inland from San Francisco, is getting out of bankruptcy after more than two years. During the case, voters approved a new 3/4-cent sales tax increase to pay for more police officers, while more than 1,000 workers and retirees who had $538 million in claims against the city agreed to accept one-time payments worth $5.1 million instead.

U.S. Bankruptcy Judge Christopher Klein approved the city's reorganization plan in October.

Stockton filed for bankruptcy protection in June 2012, with more than $700 million of debt, making it the largest city to seek bankruptcy protection under Chapter 9 until Detroit's filing about a year later. Aside from the housing downturn, Judge Klein also blamed the city's financial woes on former leaders who offered overly generous pay to city workers and took on debt for new projects that the city couldn't afford.

One place where Stockton leaders didn't try to cut costs was with its pension fund contributions. The city promised to continue making full payments into a pension plan administered by the California Public Employees' Retirement System, the largest public pension in the U.S., even though Judge

Klein decided that a California city's pensions could indeed be cut using bankruptcy's power.

A judge overseeing Detroit's bankruptcy case has also ruled payments into pension funds could be reduced while a city is insolvent.

Stockton is emerging from bankruptcy proceedings despite the protests of one bondholder group. Mutual-fund giant Franklin Templeton Investments is appealing Judge Klein's approval of the city's reorganization plan, which proposed to pay Franklin-managed funds about $4 million on a roughly $37 million debt. Lawyers for the fund have argued that the city can afford to pay more than that amount.

Judge Klein said that the Franklin-managed funds aren't likely to win the appeal. He agreed to let the city leave bankruptcy, despite the appeal, in part to give certainty about Stockton to the roughly $3.6 trillion bond market that extends money to municipalities.

The Franklin-managed funds are the only creditors to continue to challenge the city's bankruptcy-exit plan.

THE WALL STREET JOURNAL

By KATY STECH

Feb. 24, 2015 4:58 p.m. ET

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

F.C.C. Moves to Free Up Community Broadband Services.

At the Federal Communications Commission Thursday, the Klieg light of public attention beamed on the net neutrality vote. But there was an earlier vote on another matter, and that was the one that held Harold DePriest's attention.

Mr. DePriest is the chief executive of the Electric Power Board, a community supplier of ultrahigh-speed Internet service in Chattanooga, Tenn. E.P.B. and the city of Wilson, N.C., another municipal broadband provider, last year petitioned the F.C.C. to preempt state laws that limit the build-out of community broadband services. The commission voted 3-2, along political party lines, in favor of using its federal power to override the restrictive laws in those two states.

In the Tennessee case, the result of the restriction, Mr. DePriest said, is that "a tenth of a mile from where my fiber system ends are people who have no Internet service." He wants to extend his fiber-optic cable network to those nearby rural neighborhoods, but the state legal restraints had prevented him.

The law, Mr. DePriest explained, essentially prohibits the power board from offering its broadband service beyond the area the utility traditionally served with electric service. But that often doesn't sync with government jurisdictions or logic. Because of the law, he said, there are two schools in the county without its high-speed broadband service. And E.P.B.'s fiber-optic cable into homes, businesses and schools offers the gold standard of broadband speed — 1 gigabit a second data transfer speeds. That is 40 times faster than the new standard, established by the F.C.C., for high-speed broadband of 25 megabits per second downloads.

The commission action is expected to be challenged in court. And comments from the two Republican commissioners Thursday were a preview of the legal argument. Ajit Pai said he did not believe the agency has the legal right to preempt state laws. Michael O'Rielly, the other Republican commissioner, agreed, saying the F.C.C. move showed "arrogance."

To Mr. DePriest, the goal of the states' rights ideology is to champion local control. "Why is it states' rights to tell local communities what to do?" he asked, and added, "these laws prohibit communities from controlling their own destiny."

Definitions vary, but the F.C.C. says that about 20 states have laws or rules that place restrictions on the freedom of community broadband providers to expand and offer competition to private Internet service providers, mainly cable and telecommunications companies. So while the preemption order only applies to two states, the ruling has wider implications.

Tom Wheeler, chairman of the F.C.C., said the state laws were anti-competitive because they "raise barriers to the deployment of and investment in new broadband networks and infrastructure."

The F.C.C. asserts that it has the power to override the state laws under Section 706 of the Telecommunications Act of 1996, which directs the commission to remove barriers to broadband investment and competition.

There are cities across the country pursuing ultrahigh-speed networks either by building them on their own or in collaboration with companies. So far, the experience has been mixed in terms of offering a high-speed service that is economically viable.

Chattanooga was an early entrant, starting to lay fiber for its gigabit-speed network in 2009. The rationale, Mr. DePriest said, was that cutting-edge broadband service was a crucial tool of economic development. Good intentions, however, hardly guarantee success.

There were struggles, Mr. DePriest said, both with the technology and with generating sufficient demand to support a sustainable business. At the outset, he said, the EPB crews strained to wire one or two houses a day. Recently, they have wired up to 200 new customers in a day. Today, the .E.P.B. broadband network has 9,000 miles of fiber and serves just under 71,000 homes and businesses. The gigabit Internet service costs $70 a month, and $57 a month if it is part of a bundle of Internet, video and phone service.

"We've gone from nothing to a $100 million a year enterprise that pays for itself," Mr. DePriest said.

Asked about the net neutrality rules the F.C.C. adopted Thursday, Mr. DePriest said he was a regulatory minimalist by instinct. But regulation, he added, has a role to play and that the key will be whether the new rules will as light-touch as Mr. Wheeler insists they will be. Still, Mr. DePriest has no trouble with utility-style regulation of Internet service.

"I've spent the last 10 years," he said, "arguing that high-speed Internet service is a utility in the modern world."

THE NEW YORK TIMES

By STEVE LOHR FEBRUARY 27, 2015

[WSJ Opinion: Tom Wheeler's Other Web Takeover.]

This week Federal Communications Commission chairman Tom Wheeler plans to seize regulatory control over the Internet by declaring private broadband carriers to be public utilities. Less well known is that he also wants to usurp state authority to regulate municipal broadband networks.

Local governments are forever seeking opportunities to diversify their, er, investments in sports stadiums, convention centers and such. Many lately have been getting into broadband. Municipalities have built some 180 fiber-optic networks in addition to about 75 cable services. Most operate as de facto public utilities with an implicit, if not explicit, taxpayer backstop.

President Obama last month hailed the municipal gigabit fiber optic network in Cedar Falls, Iowa, as an exemplar of public broadband's potential to increase connectivity, spur competition and drive economic growth. Yet his laments of market failure are overwrought, and his anecdote of government success comes with caveats.

According to a report last year by New York Law School, the number of high-speed broadband lines more than doubled between June 2009 and December 2012, while the percentage of Census districts with one or fewer fixed broadband providers fell to 1.2% from 3.5%. Broadband cable prices plunged to $1.10 per megabit per second in 2013 from $19 in 1998.

Google 's gigabit fiber-optic network is already available in Kansas City, Austin, and Provo, Utah, and is expanding into Atlanta, Nashville, Raleigh-Durham and Charlotte. With gigabit speed, a user can download a song in less than a tenth of a second. Most Internet users don't require more than 10 megabits for downloads, and consumers don't want to pay more for speeds they don't need.

Rather than driving competition, municipal broadband can undercut the private market. Because they benefit from public financing and right-of-way, munis can price services below private carriers. Like other cities, Cedar Falls financed its broadband via tax-exempt municipal bonds, loans from the public electric utility and federal grants.

This puts taxpayers and in some cases electric-utility ratepayers on the hook if the ventures go belly up. Taxpayers in Monticello, Minnesota, had to bail out their government-run FiberNet after it defaulted on municipal bonds. The publicly financed network in Groton, Connecticut, was sold to private investors at a $30 million loss. Google paid $1 for the failed municipal broadband enterprise in Provo, which cost taxpayers $60 million. Largely because of these risks, 21 states impose restrictions on municipal broadband, which range from requiring public hearings to outright bans.

Enter the FCC's Mr. Wheeler. Last summer, Wilson, North Carolina, and Chattanooga, Tennessee, petitioned the FCC to override state limits on expanding their networks to outlying communities under Section 706 of the 1996 Telecommunications Act.

Section 706's boilerplate text instructs the FCC and states to "encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans . . . by utilizing, in a manner consistent with the public interest, convenience and necessity . . . measures that promote competition in the local telecommunications market, or other regulating methods that remove barriers to infrastructure investment."

Mr. Wheeler has interpreted this vague language as a federal mandate to pre-empt state laws restricting government broadband. He asserts that public broadband is necessary and in the public interest because "commercial broadband providers can pick and choose who to serve based on whether there is an economic case for it."

Yet under the federalist system and the Constitution's Tenth Amendment, states have sovereign authority to regulate their municipalities. The Supreme Court has affirmed that "if Congress intends to alter the 'usual constitutional balance between the States and the Federal Government,' it must make its intention to do so 'unmistakably clear in the language of the statute.'"

Yet nowhere in Section 706 is the FCC explicitly authorized to pre-empt state laws regulating municipal broadband. In Nixon v. Missouri Municipal League (2004), the Supreme Court rejected federal pre-emption of a state ban on municipal telecom services.

Mr. Wheeler is trying to end-run this ruling by appealing to the FCC's mandate to "promote competition" and "remove barriers to infrastructure investment." But if the Labor Department construed its mandate to "foster, promote, and develop the welfare" of workers as broadly, the feds could nullify state laws that forbid cities from raising their minimum wage or restrict collective bargaining for local government workers.

Mr. Wheeler may figure that liberal ends justify illiberal means, but he is threatening serious damage to the federal system and local self-government.

THE WALL STREET JOURNAL

Feb. 24, 2015 6:50 p.m. ET

R. Ray Kljajic, a Citi Fixture in Chicago, Moves On.

CHICAGO — Public finance banker R. Ray Kljajic, a staple of Chicago's municipal bond community, is leaving Citi after a 25-year career there.

Kljajic said he was "very pleased yet saddened" to announce his impending departure, according to an email obtained by The Bond Buyer.

The firm announced Kljajic's resignation internally on Tuesday in a memorandum distributed by Howard "Ward" Marsh, head of the broker-dealer's municipal securities division.

The email said Kljajic was leaving to pursue other areas of interest involving U.S. infrastructure investment and tax policy. That includes work with investment funds, sources said.

"There is no doubt Ray will pursue these activities with the same passion, hard work, creativity and professional dedication that he brought to his work for so long as a leading senior banker here at Citi," Marsh wrote. "Ray not only led the Midwest Region with distinction for many years, he has played key roles in several of Citi's more prominent convention center, hotel, P3 and urban Infrastructure partnership initiatives."

Marsh called Kljajic a "trusted confidant" for many of the firm's long-time clients and noted his contributions to the national dialogue on public-private partnerships, infrastructure investment and related tax policies.

Kljajic and Marsh did not return calls to further comment. The firm declined to comment.

Sources said it was Kljajic's choice to leave and he would be wrapping up work by the end of the month.

Citi finished off 2014 in the third slot among senior managers in the Midwest, credited by Thomson Reuters with leading $1.3 billion of deals.

Kljajic started at Citi, then Smith Barney, in 1989.

He was a general government banker who built a specialty in transportation and then in asset privatization and public-private partnerships.

The firm worked on the financing for the winning bidder on the groundbreaking lease of the Chicago Skyway toll bridge in 2005 and served in the same role in the subsequent lease of the Indiana toll road.

In past conversations, Kljajic said highlights of his career included project financings at O'Hare International Airport including the International Terminal, McCormick Place Convention Center financings, including the groundbreaking convention center hotel financing.

Citi currently is working on a short-term loan financing for a new hotel at the convention center that would eventually be rolled into long-term debt.

Kljajic, a Chicago native who grew up in nearby Gary, Indiana, previously worked at the former Drexel Burnham Lambert from 1988 to 1989.

He started his career at the former Continental Illinois National Bank and Trust as an analyst in 1978 and worked his way up to banking until his departure in 1987.

It was in 1984 while Kljajic was at Continental that he brought a short-term financing idea to Walter Knorr, then comptroller for the administration of Chicago Mayor Harold Washington.

Knorr, who went on to serve as chief financial officer to former Mayor Richard Daley, remembered calling Kljajic a "fine prospect" when asked by the Smith Barney team before the firm hired him.

Knorr, now chief financial officer for the University of Illinois, said he came to rely on Kljajic and the Citi team on transportation financing while at the city.

"You could tell Ray knew his stuff" from the beginning, Knorr said.

"Ray has just the right balance of understanding the financing needs of an issuer and the salesmanship of a banker. Some bankers come in with the product du jour. Ray brought in what an issuer needs," Knorr said.

Kljajic recruited Knorr as he eyed a private sector job. Knorr joined the Citi team in 2002 to serve as a co-head of the Midwest group with Kljajic.

Illinois' former debt manager John Sinsheimer, who recently resigned, praised Kljajic as a client's banker.

"He always had the client's interests foremost in mind and worked hard to get the best deal for the client," Sinsheimer said.

During periods of his tenure at Citi, Kljajic led the firm's Midwest group or served as a co-head.

More recently he had shifted his focus to the firm's infrastructure finance and P3 group.

Thomas Coomes had been leading the Midwest public finance banking region until the summer of

2014 when Samantha Costanzo, previously of Jefferies, was hired. Coomes and Costanzo serve as co-heads of the region.

Sources said Kljajic had butted heads with Costanzo, who had previously worked for the firm and was cut during a round of layoffs in 2008.

Sources also said Kljajic had long been eyeing other opportunities more focused in the infrastructure field and felt with some recent top-level public finance changes it was good time to make the leap.

THE BOND BUYER

BY YVETTE SHIELDS

FEB 19, 2015 3:51pm ET

Raising $1.7 Billion for Carson Stadium is no Small Task, Experts Say.

At $1.7 billion, the stadium being proposed in Carson by the San Diego Chargers and Oakland Raiders would be the costliest ever built in the National Football League.

And, the teams pledge, no new taxes or money from the city budget will be used to finance it.

So how do they plan to pay for the thing?

Look north, to Santa Clara, said Tim Romer, a managing director for municipal finance at Goldman Sachs and advisor to the Chargers on the deal.

That's where the San Francisco 49ers and city officials created a new public agency that owns the $1.2-billion stadium that opened last year. The Santa Clara Stadium Authority, which is made up of City Council members, took out $621 million in construction loans — to be paid back with tax revenue generated by the stadium and naming rights — and raised $312 million selling personal seat licenses to season ticket holders. Other funds came from the team and NFL, Santa Clara's redevelopment agency and a new hotel tax.

Goldman Sachs worked on that deal and led an investment group on the loans, and at Friday's press conference Romer said a similar structure could work here.

"We've concluded that financing of a stadium here in Carson is very viable and doable," he said. "Taxpayers and the general fund will be isolated and protected. It'll be financed soley by revenues generated by the stadium."

But observers have their doubts.

Neil deMause, editor of Field of Schemes, a website that tracks stadium subsidies, said that while he's skeptical of St. Louis Rams owner Stan Kroenke's ability to finance a stadium in Inglewood, he's even more skeptical that the Chargers and Raiders will be able to find $1.7 billion for one in Carson.

"This seems extremely dubious," he said. "That's a crazy amount of money."

He estimated the two teams could raise $400 million to $500 million selling personal seat licenses, and that while two teams might get more than one on naming rights and other in-stadium revenue, they wouldn't get double. And league bylaws say teams can't tap the NFL's G4 stadium loan program – which could provide $200 million – if they're relocating. That could change, but a majority of owners would have to agree.

"It makes way more sense that this is a bluff," he said.

And while the NFL says it wants an L.A. stadium capable of hosting two teams, putting two teams in the same market – let alone the same building – doesn't necessarily make economic sense, said John Vrooman, a Vanderbilt University economist who studies the league.

"The two teams may split the stadium cost 50/50 but their mutual competition will shrink the total [Southern California] revenue pie regardless of their relative market share," he wrote. "The Raiders and Bolts are worth more as separate monopolies in separate markets than combined in L.A."

And, deMause notes, no one's saying what happens to the shared stadium plan if one of the teams decides to stay put. Neither franchise, he said, could finance this on their own.

"The whole thing is completely screwy," he said.

THE L.A. TIMES

By TIM LOGAN

FEB 20, 2015

Former Municipal Finance Director in CT Admits Stealing $800,000 from Town.

In a case with similarities to that of Sharon Scanlon in Shelton, the finance director of Plymouth has pleaded guilty to stealing more than $800,000 from that Litchfield County town.

David J. Bertnagel, 41, of Thomaston, waived his right to indictment on Feb. 20 in Bridgeport federal court and admitted to theft and tax charges stemming from his embezzlement scheme.

Bertnagel pleaded guilty to one count of theft from a local government receiving federal funds, which carries a maximum term of imprisonment of 10 years, and one count making and subscribing a false tax return, which carries a maximum term of imprisonment of three years.

He is scheduled to be sentenced on May 15. He was arrested on Jan. 20.
Sharon Scanlon, Shelton's former assistant finance director, is now in prison after being charged with stealing $914,000 from the city. She was prosecuted at the state — not the federal — level, and also pleaded guilty.

Three years as finance director

According to the criminal complaint, Bertnagel was employed as the finance director for the town of Plymouth from October 2011 to October 2014. He previously worked as a part-time employee in the town's Finance Department.

Plymouth is a town of about 12,000 people in northwestern Connecticut, slightly north of Waterbury and off Route 8.

Feds: Issued checks to himself

From about October 2011 through October 2014, it is alleged that Bertnagel issued 207 checks totaling approximately $808,030 from the town's payroll account to himself.

Prosecutors said Bertnagel used the embezzled funds to make mortgage payments, pay credit card bills, fund home improvement projects and purchase more than $100,000 in coins, stamps and other collectibles.

He also converted more than $182,000 of the stolen funds by way of cashed checks, ATM withdrawals and money orders, according to prosecutors.

Tax returns, federal funding

Bertnagel's federal tax returns for the 2012 and 2013 tax years failed to report any of his embezzled income, resulting in a tax loss to the government of $145,564 for those two years. He also did not file a tax return with the IRS for the 2011 tax year.

Since 2011, the town of Plymouth has received approximately $450,000 in grant awards from the U.S. Department of Health and Human Services.

Will pay restitution

As part of his plea agreement, Bertnagel agreed to make restitution in the amount of $808,030 to the town of Plymouth, and he must cooperate with the IRS to pay all outstanding taxes, penalties and interest.

He also has agreed to forfeit more than $45,000 that he held in bank accounts, and assorted jewelry, stamps, coins and other collectibles that were seized on the date of his arrest.

FBI and IRS involved

This matter is being investigated by the Connecticut Public Corruption Task Force, which includes the Federal Bureau of Investigation, Internal Revenue Service's Criminal Investigation Division, U.S. Postal Inspection Service, and inspector generals from the U.S. Department of Housing and Urban Development, and U.S. Department of Health and Human Services. The case is being prosecuted by Asst. U.S. Attorney Christopher M. Mattei.

The U.S. Attorney's Office for Connecticut is reminding citizens they can report corrupt activity to the Connecticut Public Corruption Task Force by calling 800-CALL-FBI (800-225-5324).

The Scanlon case in Shelton

Sharon Scanlon was the assistant finance director for the city of Shelton. She left her position in 2012 after an investigation began into her possible embezzlement of city funds. She had worked for the city for 17 years.

Scanlon was arrested on state charges in January 2013 and accused of stealing $914,000 in city money over the course of a decade, ending in July 2012.

The indictment charged her with 56 counts of first-degree forgery and one count of first-degree larceny.

She eventually pleaded guilty to one count each of first-degree forgery and first-degree larceny, and was sentenced to four-and-a-half years in state prison in January 2014.

“This is a serious case — a violation of the trust of the taxpayers of the city of Shelton,” State’s Attorney Kevin Lawlor told the court when Scanlon was being sentenced.

Issuing city checks to herself

Based on court evidence, Scanlon was writing municipal checks to herself and then listing them in city ledgers as either voided or payable to other people.

Her scheme began to unravel in June 2012 when co-workers noticed a city check for $7,825, made out to no one, on Scanlon’s desk that had been voided.

The workers wrote down the check number and later saw in bank records it had been made out to “Sharon Scanlon” but was listed as voided in the city’s check ledger.

When being sentenced, Scanlon told the court, “I’ll spend the rest of my life trying to make amends for this crime, both financially and emotionally.”

By Shelton Herald on February 20, 2015

— as edited by Brad Durrell for the Shelton Herald

[U.S. Muni Bond Sales Total $8.8 bln Next Week.]

Feb 20 (Reuters) – Debt sales by U.S. states, cities, schools and other municipal bond issuers next week will total about $8.8 billion, the largest weekly supply so far in 2015, according to Thomson Reuters estimates on Friday.

The week’s biggest debt sale comes from Atlanta, Georgia, which plans to refund $1.25 billion of water and wastewater bonds. Loop Capital Markets plans on pricing the deal on Tuesday.

The New York City Transitional Finance Authority will sell $700 million of future tax secured subordinate bonds through Wells Fargo Securities, which set a retail presale period for Monday and Tuesday, followed by formal pricing on Wednesday.

Deals from Nevada issuers top next week’s competitive calendar. The Clark County School District will offer $398.4 million of limited-tax general obligation refunding bonds in a two-part sale on Tuesday. The state of Nevada has set a three-part, $291.4 million sale of new and refunding limited-tax GO bonds for Wednesday.

Yields on Municipal Market Data’s benchmark triple-A scale have been ratcheting higher after falling in January.

The yield on 10-year bonds, which started 2015 at 2.01 percent, ended Thursday at 2.08 percent. The 30-year bond yield, which stood at 2.83 percent on Jan. 2, ended at 2.88 percent.

Weekly net flows into U.S. municipal bond funds dropped to just $59 million in the week ended Feb. 18 from $460 million in the previous week, according to Lipper. High-yield muni funds had a second-straight week of net outflows, totaling nearly $220 million in the latest week.

(Reporting By Karen Pierog; Editing by Andrea Ricci)

[S&P FAQ: Wayne Charter County, Michigan's Mounting Structural and Financial Pressures Might Affect Credit Quality, but Bankruptcy Fears are Premature.]

In early February, the newly elected Wayne Charter County, Mich., executive, Warren C. Evans raised concerns about the county's ongoing financial problems, highlighting liquidity concerns and the need for major structural fixes, without which a state takeover and bankruptcy could be considerations. Standard & Poor's Ratings Services views bankruptcy and a state takeover of the county as premature. To clarify our views, we are addressing some frequently asked questions regarding our Feb. 13, 2015, downgrade on Wayne County and our opinion of steps the county might take to remedy its financial problems.

Frequently Asked Questions

What was Standard & Poor's recent rating action on the county?
On Feb. 13, Standard & Poor's lowered its rating on Wayne County's limited-tax general obligation (GO) bonds to 'BB+' from 'BBB-', a change to speculative-grade from investment-grade. We based the downgrade on a differentiation between the limited- and unlimited-tax ratings and the county's weakened financial position and ongoing budgetary challenges. The county has no Standard & Poor's-rated unlimited-tax GO debt outstanding.

Standard & Poor's rates the county's limited tax GO bonds 'BB+' with a negative outlook. The rating reflects the county's chronic structural imbalance, brought on in part by cost overages in some of the county's major operating areas, such as the sheriff's department. Of course, falling revenues have also played a part in the imbalance. In addition, chronic management problems, including political gridlock and an inability to create meaningful structural reforms, constrain the rating. These conditions have led to Wayne County's inability to make sufficient changes to operations to eliminate the structural imbalance. (For further details, please see the summary published Feb. 13, 2015, on RatingsDirect.)

What does the negative outlook reflect?
Wayne County has significant, long-standing problems creating a balanced budget. With a new administration that faces such a chronic imbalance, we believed it was the appropriate time to signal that either management must address the imbalance in a relatively short time frame, or further negative rating action could be warranted. As such, the negative outlook reflects the magnitude of closing the county's structural budget gap and concerns that the time frame for making the changes could be drawn out beyond the county's current expectations.

What is Standard & Poor's view on the comments from the new county executive?
In our view, to start treating the county as if it is about to file for bankruptcy is a bit premature, given the process required in Michigan to file. As we recently saw in Detroit, bankruptcy is a significant issue, with serious potential repercussions for bondholders. We take very seriously any possibility of bankruptcy, but we don't want to rush to judgment before letting the process take its course.

What steps are necessary to file for bankruptcy?
Michigan's Act 436 addresses the circumstances under which local governments can file for

bankruptcy, and it outlines numerous steps before a local government can reach that point.

First, the state financial authority must conduct a preliminary review, after which the governor can decide to appoint a formal review team. That team then prepares a report on the local government's financial condition and submits it to the governor's office so the governor can determine if a financial emergency exists. If the governor determines it does, two paths allow a local government to file for bankruptcy. One is that the local government can pursue the appointment of an emergency manager, who has the authority to file for Chapter 9 bankruptcy–but only with the governor's approval. The other path is to bypass the emergency manager and head directly to a Chapter 9 bankruptcy filing, but before this can occur, the governor must approve the action. Again, given this process, a rush to bankruptcy would be difficult for the county.

While many consider it a positive step to bring in a third party who has powers to make changes, such as the Emergency Manger option, given Detroit's recent experience and very rapid move to bankruptcy, our view on the county's trajectory could well change with the appointment of an emergency manager.

In addition to the pressure of the structural imbalance, what other pressures does the county face?
Although Wayne County does not have a lot of debt compared with many peers ($408.2 million in direct GO-only backed debt as of Sept. 30, 2013), it does have a significant other postemployment benefits (OPEB) liability ($1.6 billion at as of Oct. 1, 2012, the most recent actuarial report) and, perhaps most significantly, a pension funding issue. As the Wayne County Employees Retirement System is only 45% funded and carries an unfunded accrued actuarial liability of $878.3 million as of Sept. 30, 2012, (the most recent actuarial report) the pension funding level is clearly a rating factor, and the county definitely needs to address it to regain structural balance and solid financial footing. However, in the context of Detroit's bankruptcy, it is important to remember that although Detroit's pensioners did lose OPEB, the cuts that came out of bankruptcy were borne largely by bondholders, with relatively small—comparatively speaking—changes to pensions.

What issues could lead to a further negative rating action?
Outside of any actions taken toward filing for bankruptcy, an inability to make meaningful changes to the departments with chronic cost overruns is also a credit factor. The county has made progress in some areas, but these departmental overages are still adding to the structural imbalance. Wayne County's management score (Very Weak) is also a credit weakness, given the county's past political gridlock. A meaningful change to this is also important to prevent a further downgrade. Ultimately, we expect the county to show it can make meaningful spending cuts that allow it to regain–and maintain–ongoing structural balance. Without that, we could lower the rating further.

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.

19-Feb-2015

Primary Credit Analyst: Jane H Ridley, Chicago (1) 312-233-7012;
jane.ridley@standardandpoors.com

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

Boston’s Public-Transit Snow Job.

The region’s transit system is crippled by more than terrible weather. It’s suffering from decades of irresponsible financial decisions.

Boston has endured over seven feet of snow in less than a month, and the most visible casualty has been the region’s decrepit transit system. A closer look at the woes bedeviling the Massachusetts Bay Transportation Authority (MBTA) reveals a more-than-20-year guide to how not to run a transit system, and the lessons don’t only apply to systems that have to contend with mountains of snow and extreme cold.

The MBTA’s struggle with this winter’s weather has become national news. Massachusetts Gov. Charlie Baker’s frustration grew as the system was unable to restore service after each storm, causing MBTA General Manager Beverly Scott to announce her resignation. She then said it would be 30 days before full commuter-rail and subway service could be restored — if there were no more snow in the interim.

Meanwhile, the economic cost to the region of the system’s inability to move its 1.3 million daily riders mounts.

It’s a mess that could easily have been avoided. The problems trace back to 1991, when state officials signed a consent decree with a local environmental advocacy group that had sued to stop construction of Boston’s now infamous “Big Dig” unless the state agreed to build new transit projects as environmental mitigation for the additional cars that the transportation megaproject would accommodate.

The consent decree bound the state to complete 14 new projects, including subway extensions and new commuter-rail lines. It set the MBTA on a path to being the fastest-growing major transit agency in the country even though it serves a relatively slow-growing metropolitan area. No funding source was identified for any of the expansions.

Almost a decade later, in 2000, a law was enacted to “forward fund” the MBTA. Believe it or not, the previous funding system consisted of the authority informing the legislature what it had spent during the previous year and the legislature cutting a check to cover it.

Under forward funding, the MBTA would get the revenue from one penny of the state sales tax and assessments from the municipalities it serves in addition to the revenue it could raise from such sources as fares, parking, advertising and rent on its extensive property holdings. The bonds sold to build the mandated new transit lines also became the MBTA’s responsibility.

But before the ink was dry on the forward-funding legislation, the phenomenon of tax-exempt Internet sales began to eat away at sales-tax receipts. It also quickly became clear that parts of the MBTA finance plan were unrealistically optimistic.

By 2002, the MBTA’s financial problems were obvious. Reports published in 2007 and 2009 detailed the problems. But state leaders did little, limiting themselves to raising the sales tax in 2009 and modestly increasing the gas tax four years later. By then it was too little too late.

Today the MBTA owes nearly $9 billion in debt and interest, which translates into more than one-quarter of its operating revenue going to debt service. And since money that should have funded maintenance had to be diverted to the legally mandated expansions, the system faces an estimated

$5 billion maintenance backlog. Trains, buses and signal systems that should have been retired decades ago have been no match for this winter's cold and snow.

The MBTA debacle holds two major lessons for other transit agencies. First, don't undertake expansions without knowing how they'll be paid for. And see that paying for them includes operations, maintenance and debt service, not just construction costs.

Second, elected officials must have the courage to ensure that transit systems have sufficient funding to meet their critical maintenance and other needs. By kicking the can down the road and waiting years to address the MBTA's looming crisis, state leaders turned a multimillion-dollar problem into a multibillion-dollar disaster — and that's before accounting for the staggering toll the system's meltdown is taking on the local economy.

The long-term silver lining here may turn out to be Beverly Scott's announcement that it will take at least 30 days to restore full service. With every day that customers can't access trains and buses and motorists must contend with the resulting congestion, it becomes less likely that voters will allow their elected representatives to forget about the MBTA's problems once the snow finally melts.

GOVERNING.COM

BY CHARLES CHIEPPO | FEBRUARY 20, 2015

Charlie_Chieppo@hks.harvard.edu

San Bernardino Creditors Cry Foul at City's Plan to Hire PR Firm.

LOS ANGELES — A move by bankrupt San Bernardino to spend up to $200,000 on a public relations firm has angered some of the cash-strapped California city's creditors, who face deep cuts under an imminent exit plan.

Negotiations between San Bernardino and most of its creditors have stalled, three months before it must produce a court-ordered bankruptcy exit plan. The city, 65 miles east of Los Angeles, is in year three of a bankruptcy process beset by delay and dysfunction.

City officials have made clear their intention to significantly cut their debt to the holders of $50 million in pension obligation bonds. The city has imposed deep cuts to its police and fire departments and wants to enshrine those cuts in a bankruptcy plan.

On March 2 the city council is set to discuss invited bids from eight public relations firms to improve the city's communications strategy.

Bids have ranged from $72,000 to $201,000 annually. The city already has a $600,000 contract for fiscal year 2014/15 with a financial consultancy to help with the bankruptcy. In November it hired a management consultancy in a $300,000 deal.

"The city's problem is not public relations. It's a lack of leadership," said Corey Glave, the attorney representing the city's fire union.

Ron Oliner, representing the police union, said: "The city is bringing in new experts and advisors, but we cannot yet discern real progress toward its exit from bankruptcy."

Calls to the city manager's office were not immediately returned.

San Bernardino declared bankruptcy in August 2012 with a $45 million deficit, one of a handful of municipal bankruptcies closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders, public employees and state and local governments want to understand how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds during Chapter 9 protection.

Last year it agreed under any bankruptcy plan to pay in full its biggest creditor Calpers, the state public pension system.

In January, Luxembourg-based Erste Europäische Pfandbrief-und Kommunalkreditbank AG (EEPK), which holds $50 million in pension obligation bonds, sued the city over the Calpers deal.

EEPK argues that its debt should be treated the same as the city's obligation to Calpers. EEPK was joined in suing the city by Ambac Assurance Corp, which insures a portion of the pension bond debt, and Wells Fargo Bank, the bond trustee and flagship bank of Wells Fargo & Co.

By REUTERS

FEB. 19, 2015, 5:39 P.M. E.S.T.

(Reporting by Tim Reid; Editing by Chris Reese)

Illinois Governor Makes Case to Rating Agencies on Fiscal Fix.

CHICAGO — Governor Bruce Rauner is seeking to persuade credit rating agencies from further downgrading Illinois' weak ratings, shortly after presenting his turnaround budget to the state General Assembly.

The Republican governor spoke with the three major credit rating agencies about his spending plan and agenda, his office said late on Thursday. Further downgrades would potentially boost the state's already-high borrowing costs.

"He stressed he is intent on solving the years of financial recklessness that put us in this fiscal crisis," the governor's office said.

Rauner, who took office in January, delivered his first Illinois budget address on Wednesday.

Illinois' credit ratings at A3 and A-minus are the lowest among the 50 states and due to negative outlooks are tipping toward triple-B, a low investment-grade rating level rarely assigned to states.

A chronic structural budget deficit, huge unfunded pension liability and big revenue loss from the recent partial rollback of temporary higher income tax rates are major credit factors for the fifth-biggest U.S. state.

Rauner's $32 billion general funds budget for the fiscal year that begins July 1 aims to chop $6.6 billion from healthcare, local government revenue sharing, mass transit and other areas. Controversial pension changes account for a third of the savings.

“Obviously, Illinois is in a difficult position and these proposals are just proposals,” said Ted Hampton, an analyst at Moody’s Investors Service, noting the rating agency would be guided by the enacted budget and would weigh the risk that included reforms may not be implemented.

“The governor is certainly aware of the magnitude of the budget challenges Illinois faces and that’s important,” Hampton added.

Standard & Poor’s analyst John Sugden said the major focus is how Illinois will achieve structural balance in its budget regardless of whether that is accomplished with spending cuts or revenue. He added however that the state has had some challenges in the past in terms of delivering on expenditure reduction initiatives.

Illinois is paying a higher price to pay off its debt in the U.S. municipal bond market than many other governments. The state’s bonds are yielding 140 basis points over the market’s benchmark yield scale for AAA-rated bonds, according to Municipal Market Data. By contrast California, which has addressed many of its fiscal woes, has a so-called credit spread that tops out at only 30 basis points.

The governor’s budget was met with howls of protest from Democratic state lawmakers, labor unions, hospitals, and the city of Chicago, which estimates it would lose about $210 million of revenue sharing through the end of 2016.

By REUTERS

FEB. 20, 2015, 11:42 A.M. E.S.T.

Muni Bond Fans in the Heartland.

What do people in the land of no debt think of today’s debt markets?

I wondered about that during a visit last week to Nebraska, my home state. After all, the forces whipping through markets—sharply falling oil prices, volatile stocks, 10-year Treasury yields stuck stubbornly below 2%, a Federal Reserve seemingly intent on raising rates, and a European Central Bank that just committed to buying a boatload of euro-zone debt—ultimately trickle down to the humble, workaday U.S. municipal bond. And the Cornhusker State, which has a state income tax, has its fair share of buyers and issuers of munis.

Over the past 12 months, munis have handed investors a return of about 7.5%, according to a Barclays index. In comparison, Treasury bonds have logged a 4.76% return across all maturities.

“PEOPLE STILL VIEW the muni market as a safe place to be,” says Craig Jones, managing director for public finance at First National Capital Markets in Omaha, Neb. “It’s kind of a safe harbor in the winds of the other markets,” he tells Barron’s. “I don’t think that’s changed.”

In Nebraska, there’s no such thing as debt, at least of the state general-obligation variety. The state’s constitution essentially prohibits it. A Barron’s analysis in 2013 found Nebraska’s debt profile to be the best among all the states and Puerto Rico.

Still, the state’s municipalities and state-backed organizations—its university and public-power systems among them—must fund capital projects and other big-ticket expenses, and use the bond market to do so.

So far, even with the uncertainty that has gripped markets in 2015, issuers are steady-on, says Jones, who deals mostly with clients in the Midwest and whose organization is part of First National of Nebraska, which manages $17 billion in assets.

Clients are "very aware" of the uncertainty, he says, "but we haven't necessarily seen push back" in terms of putting a sale on hold or scrapping plans to issue debt altogether. Besides, he says, in his part of the nation, "We view debt as something that you only use when you need it."

But Tom Carney, who manages Omaha-based Weitz Investments' Nebraska Tax-Free Income fund (ticker WNTFX), says he's positioning it "defensively" in anticipation of a Fed that could allow inflation to exceed its 2% target—potentially eating into fixed-income investors' real returns.

Nebraska Tax-Free is part of the fund family of Wally Weitz, perhaps Omaha's second-best-known investor. (You know who's No. 1.) "We have been beating the drum about the challenging investment landscape in fixed income for some time now," Carney observes. "Low Treasury rates have a gravitational effect on all other fixed-income assets, municipal bonds included." The 10-year note traded around 1.985% late last week, compared with 2.173% at the end of 2014. (It began last year near 3%.)

SOME DANGERS CERTAINLY DO LURK: With oil prices having plummeted about 50% since June, New York advisory NewOak is warning clients to be wary of muni issuers exposed to energy.

The muni market appears to have taken oil's fall "in stride, at least for the time being," writes Triet Nguyen, a NewOak managing director. Yet, pressure from falling petro prices could end up being felt at the local level, Nguyen warns. "As you may recall, the last oil bust created one of the first large-scale municipal credit debacles in the country" he says, referring to the 1980s collapse that ravaged the Southwest's oil patch. "It might be time to go over your muni loan portfolio more closely and figure out exactly where your risk is."

Back in Omaha, Jones is keeping an eye on market volatility and oil prices. But, he says, "We're pretty steady—I don't want to say completely insulated from those things, but we don't see the ups and downs that other parts of the country do."

BARRON'S

By BRADLEY DAVIS

Feb. 13, 2015

Will Chris Christie bail out Atlantic City?

It took six decades for Detroit to reach the brink of bankruptcy. Atlantic City, New Jersey, got there in less than one. With casino revenues falling by half between 2006 and 2014 and the local economy imploding, the beleaguered gambling mecca resorted to fiscal gimmicks to shield its budget from severe cuts. But the day of reckoning has come. The 5 percent loan that the city secured from Bank of America represents a near tripling of its borrowing costs in only one year. As unwise as it was for Detroit to have relied so heavily on the auto industry, a city economy based on gambling makes even less sense.

Atlantic City suffers from many of the same problems that have led other American cities to ruin.

The city's annual pension bill has risen over 200 percent since 2006, from $6.5 million to $20.2 million. City employees receive defined-benefit pensions administered through two massively underfunded statewide systems. In November, Governor Chris Christie's administration released a report recommending that Atlantic City take a pass on the annual, actuarially recommended payments, a "reform" the city had already tried. So far, the city has not sought to reduce pension benefits, though it is trying to negotiate cheaper labor contracts.

Fiscal gimmicks have only exacerbated Atlantic City's problems. As casino revenues tumbled, so did real estate values. The city reacted by raising tax rates and overvaluing its casino properties. Casino owners appealed these inflated assessments, and they won big on the overcharges. They're not finished yet. Four out of the city's top ten taxpayers now have outstanding tax appeals with the New Jersey Tax Court. Because the awards are too large to pay out in cash, Atlantic City issued general-obligation bonds to reimburse the casinos. Last month, Moody's downgraded those bonds to junk status. Already, $125 million of the city's $340 million debt burden consists of "Tax Appeal Bonds," a total that may soon more than double. Simply put, the city has been borrowing to pay for current operating expenses—the big no-no of municipal finance. Atlantic City taxpayers face years of paying off debt used to finance past services. That means less money for future services.

Atlantic City officials are trying to revamp the local economy, but their plans will take many years to succeed, if they ever do. In the near-term, officials' main concern is the debt. Bankruptcy is not out of the question. Harrisburg, Pennsylvania, Springfield, Massachusetts, and several other nearly broke cities have managed to restore solvency without going to federal court. (Springfield appears determined to jeopardize its fragile revival by opening a casino.)

The state government hasn't decided whether to let Atlantic City go bankrupt. State senate president Steve Sweeney has staked out a strong anti-bankruptcy position, but Christie signaled his openness to bankruptcy by appointing Kevyn Orr, who oversaw Detroit's bankruptcy, as a "special consultant" to emergency manager Kevin Lavin, a former financial consultant to Philadelphia. Though Christie's November report called for an emergency manager with "ultimate power on hiring, firing and budget expenditures," Lavin and Orr have no real authority. Their charge is to lay out a plan by mid-March that shows how to "place the finances of Atlantic City in stable condition on a long-term basis by any and all lawful means." The plan will be welcome if only because it will shed some light on exactly what is going on. Atlantic City's financial disclosure practices leave much to be desired.

Christie may have the legal authority to go ahead with bankruptcy over the objections of state and local officials. But before he does, he should define the problem that bankruptcy would solve. Is it incompetence? Corruption? Intractable creditors? Atlantic City is a fiscal and economic disaster, and Christie can't turn it around on his own. The governor, who is considered a potential presidential candidate in 2016, should think carefully about how much political capital he wants to invest.

Politics aside, New Jersey has a responsibility to Atlantic City. Municipalities are creatures of their state governments. A failing city is prima facie evidence of failed state policymaking. Atlantic City's casino-focused economic development policy is a state policy: state voters authorized casinos during the mid-seventies, and about $200 million in casino tax revenues still flow into Trenton's treasury each year. Atlantic City's future, whatever it might be, should not obscure the fact that, if not for casinos, the city wouldn't be facing insolvency. More pain is certain for residents and businesses, who must now serve as martyrs for the cause of better fiscal management.

CITY JOURNAL

STEPHEN EIDE

12 February 2015

Stephen Eide is a Manhattan Institute senior fellow.

Three Things to Watch for as Lawmakers Implement California Water Bond.

Only a few months after voters overwhelmingly approved the $7.5 billion water bond known as Proposition 1, the California Economic Summit is urging state lawmakers to give water agencies more precise direction for allocating these funds—and to provide systematic oversight so voters can see how this money is being spent.

Summit leaders offered these recommendations in testimony submitted today to the Assembly Committee on Water, Parks, and Wildlife, which last year earned plaudits for drafting clearly-defined "principles" for the bond—from prohibiting earmarks to increasing accountability—that many credit with contributing to the measure's success.

With California's drought lingering, the Summit remains focused on ensuring bond funds allow regions to take "the right next steps" toward sustainability. Echoing a set of Summit drought-response proposals released last year, the testimony emphasizes the need not just for more investment to the state's aging water infrastructure, but for smarter investment that encourages more comprehensive governance of the fragmented water system—and more comprehensive solutions to the state's water challenges.

Three ideas for implementing Prop 1

Today's Summit testimony highlights three ways state leaders charged with implementing Prop 1 can accomplish these goals—all drawn from the Summit's Roadmap to Shared Prosperity, a long-term plan for putting all of the state's regions on a path to sustainable growth.

1. Refine the state role. The Summit has encouraged state leaders to use the water bond to advance state goals for water resiliency—with state government providing financial incentives and gap financing for projects that meet the priorities outlined in the California Water Action Plan. The Summit notes an immediate opportunity in the bond's $100 million allocation for enhancements to "an urban creek"—a funding stream that could support a range of urban restoration projects, including the Los Angeles River. The Summit has already begun working with the City of Los Angeles on how the new authority of Enhanced Infrastructure Financing Districts could leverage bond funds to support river restoration.

2. Support integrated, multi-benefit projects across watersheds. Summit leaders have also urged the state to ensure Prop 1 advances the new paradigm where the state sets goals and regions compete to craft strategies that deliver the most benefit. This approach can be found in two different sections of the measure, which together add up to $2.3 billion:

Watersheds: The $1.495 billion watershed chapter is made up entirely of "competitive grants for multi-benefit ecosystem and watershed protection and restoration projects in accordance with statewide priorities." The legislation provides a detailed list of ways these dollars can be used, giving highest priority to "multi-benefit" projects that could reduce fire danger, for example, while also increasing water supply, improving water quality, reducing flood impacts, and replenishing aquifers. The Summit notes that Prop 1 only allocates $38 million to the Sierra-Cascade region—meaning 0.5 percent of the bond's total funds will go directly to the upper mountain watersheds that provide two-thirds of the state's runoff. Still, the Summit letters outlines a variety of ways mountain regions can compete for more funds, connect these projects with their beneficiaries in the more populous valleys below, and ensure beneficial uses of water throughout the watershed—all keys to water sustainability.

Integrated water management: Prop 1 also allocates $810 million to "regional water management"—a decade-long effort to connect projects in upper and lower watersheds—with the measure directing funds first to projects "that cover a greater portion of the watershed." The Summit letter calls out several opportunities for increasing these efforts—urging lawmakers to use bond funds to encourage local water agencies to accelerate development of their newly-required groundwater management plans, for example. The Summit also calls attention to its ongoing work with cities and local water agencies to identify ways to bring multiple local governments together to develop projects that capture and store stormwater.

3. Maximize return on investment: Before Prop 1 passed, many stakeholders expressed concern over how the state will spend $2.7 billion allocated to storage projects—a looming choice between funding new dams or investing in alternative means of storage. While the bond's storage funds won't be allocated for years, the Summit letter notes that Prop 1 outlines a set of laudable goals for distributing these dollars—with the measure requiring the California Water Commission to create a competitive process "that ranks potential projects based on the expected return for public investment as measured by the magnitude of the public benefits provided." The Summit letter notes several ideas for how the state can ensure these new funds help water agencies more effectively coordinate surface and groundwater storage, conveyance, and habitat restoration.

Since the debate over Prop 1 began, the Summit has made the case that implementing the bond would be as important as the passage of the measure itself. The Summit letter makes the case that the bond's language sets the bar high—and gives the Summit's civic leaders an opportunity to work with lawmakers to ensure these funds help California begin the long journey to water sustainability.

FEBRUARY 09, 2015

BY JUSTIN EWERS

S&P: Kansas' Proposed Midyear Budget Adjustments and Recent Court Ruling on Education Could Hamper Structural Budget Balance.

NEW YORK (Standard & Poor's) Jan. 9, 2015—Standard & Poor's Ratings Services believes two recent credit developments for the State of Kansas — a lower court ruling that could require substantially higher education funding if upheld on appeal, and the state's projection of a substantial fiscal 2015 shortfall — raise additional obstacles for Kansas to achieve structural budget balance in fiscal 2016 and potentially beyond. In this respect, the extent of the state's movement toward structural budget alignment in fiscal

2016 will be an important component in our view of Kansas' future credit quality.

The lower court ruling on education could require the state to spend more than $500 million extra per year, beyond the $129 million of increased education funding the Kansas Supreme Court required the state to spend in fiscal 2015. We do not see an immediate impact from the new court ruling, as it will likely be appealed to the state supreme court. In our opinion, however, the ruling adds uncertainty to future years' budgets.

Kansas also released a new forecast that projects a negative $280 million general fund budget balance at the end of fiscal 2015, or a negative 4% of budgeted expenditures, absent corrective action. This is in contrast to the adopted 2015 budget, which forecasts a positive 6% ending balance and also assumed that fiscal 2014 would end with a large 11.6% balance; instead the state's preliminary estimate is that fiscal 2014 ended with a lower balance equal to 6% of 2014 expenditures, or $380 million.

The projected negative ending balance for fiscal 2015 has prompted Governor Sam Brownback to propose an offsetting $280 million of midyear corrective actions that would eliminate the projected general fund deficit position, although still leave the state with essentially no general fund balance at the end of the year. The bulk of the governor's proposed midyear adjustments, involving fund transfers and other measures, will require legislative approval when the legislature reconvenes Jan. 12.

In our view, the proposed budget adjustments, if enacted, would result in a state general fund balance position broadly consistent with our expectation in August 2014, when we lowered our rating on Kansas to 'AA' from 'AA+' and assigned a negative outlook, although it would appear that the state's structural imbalance has grown. We had earlier expected a marginal fiscal year-end 2015 balance due to large shortfalls in the April 2014 income tax collections that were not reflected in the adopted fiscal 2015 state budget.
Kansas' current revenue forecast now incorporates the earlier April shortfall, resulting in a lowerbeginning balance that carries forward into a lower year-end balance. However, the state's structural imbalance appears to have grown further due to increased education and Medicaid spending. Although the proposed midyear corrective actions could eliminate a year-end deficit position, they do not appear to significantly address the mismatch between recurring revenues and expenditures.

The governor's $280 million proposed midyear adjustments include: $201 million of one-time transfers from other funds, the delay of a scheduled increase in pension funding ($41 million), savings from a bond refinancing ($3 million), delays in a hospital expansion ($5 million), reduced transfers out for capital
construction ($5 million), and 4% spending reductions for many state agencies.

Although Kansas will likely make adjustments to bring its general fund balance back to a marginally positive level at fiscal year-end 2015, we remain concerned about the one-time nature of most of the budget fixes, and the large fund balance drawdown on a budgetary accounting basis. (On a generally accepted accounting principles [GAAP] basis the fund balance is lower — the recent release of the state's fiscal 2014 GAAP financial statement shows a fiscal year-end 2014 general fund balance of only $2.5 million.) We believe
the state will have enough working cash to operate using its other internally borrowable funds. However, the large reduction of the fund balance in the past two years during a period of economic recovery indicates credit stress, in our opinion, and contributes to our negative rating outlook. Kansas reduced its top individual income tax rate to 4.6% from 4.8% in fiscal 2015, and has another reduction in the top rate scheduled in fiscal 2018 to 3.9%. State credit quality could be affected to the extent tax reductions are not paired with ongoing spending cuts, absent significant economic growth.

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

Secondary Contact: Henry W Henderson, Boston (1) 617-530-8314; henry.henderson@standardandpoors.com

---

Senator: TIF Bill Stemmed from Madison Co. 'Debacle.'

State Sen. Joey Fillingane said as the result of a recent "debacle" concerning an economic development project in Madison County, Trustmark Bank has pulled its participation from similar projects in the state.

Fillingane, R-Sumrall, said that's what prompted him to author Senate Bill 2550, which allows (but does not mandate) cities and counties to use general fund or other taxpayer money to make tax increment financing bond payments when in danger of defaulting.

TIF bonds are a financing option that allows counties and municipalities to borrow money to fund an economic development project based on the taxes the project would generate in the future. The payments are made off taxes from the property itself and adjacent lands, not regular taxpayer money.

In October, Madison County was unable to pay its November bond payment of $90,000 for its Galleria/Parkway South TIF bond. The county made the decision to restructure the payments in order to avoid default.

"Because of that debacle, the bank is protecting itself and saying, 'We don't want to get ourselves or our stockholders back into that situation again,' " Fillingane said.

Trustmark did not directly answer whether it has made any such decision or whether the Madison County project affected any others in the state.

"Trustmark has a long history of participating in the Tax Increment Financing market in Mississippi. The method of financing is not the issue; it's the underlying, individual project that determines if Trustmark has an interest," Barry Harvey, Trustmark's executive vice president and chief credit officer, said in an emailed statement. "We will continue to look at each Tax Increment Financing transaction on its own merit and participate in the projects we feel are viable."

Madison County Board of Supervisors attorney Mike Espy said in October the biggest revenue loss came from a single building owner who lowered his property tax liability, thus decreasing his payments. The county also made an error putting tax-forfeited properties in the TIF area.

This week, however, Espy said the building owner who had his tax liability lowered recently paid money from back taxes to Trustmark. County Administrator Mark Houston also said the county is getting a "little bit better collections" than expected since making the decision to restructure.

Commercial real estate attorney Ron Farris said Trustmark's reported decision not to participate in TIF bonds in the state has hurt two major projects in Hattiesburg.

“It has impaired and hurt people in two major projects in Hattiesburg in terms of delay, cost and unmet expectations,” Farris said. “It’s a big threat to the commercial real estate industry in Mississippi.”

Farris was involved in the proposed plan for the Galleria TIF in its early stages.

Fillingane’s bill would also mandate county and city officials be provided separate tax rolls that identify any changes in valuations for properties associated with bonds so as to prevent a property’s valuation and thus its tax revenue from being decreased.

The bill has passed out of the Senate Finance Committee and will be voted on by the Senate.

Kate Royals

The Clarion-Ledger February 6, 2015

To contact Kate Royals, call (601) 360-4619 or email kroyals@jackson.gannett.com. Follow @KRRoyals on Twitter.

Removing Blight, One Block at a Time.

A nonprofit founded by mayors is helping seven cities finance and organize community service projects to revitalize low-income urban neighborhoods.

Mayors in seven cities have won a competition to receive a full-time AmeriCorps VISTA member, a $30,000 grant and on-going technical assistance for three years of neighborhood revitalization work.

Cities of Service, a national nonprofit organization, awarded the grants as part of its ongoing “Love Your Block” program, which focuses on urban neighborhoods and uses volunteers from the community to try to improve the local quality of life. Cities involved in the program organize volunteers to pick up litter, plant trees, clean vacant lots, create community gardens and remove graffiti.

Cities of Service is supporting a specific method of government-organized community service for eliminating neighborhood blight, which it explains in an online how-to guide. Part of the initial $30,000 will go toward planning. Cities may raise additional money from local foundations and then offer small grants to volunteers with proposals to improve a single block. Cities also look for ways to supplement the volunteer efforts by training a host of municipal services on the area to fix signs, repair potholes and replace damaged trash bins.

The winning cities announced Feb. 11 were Birmingham, Ala.; Boston; Lansing, Mich.; Las Vegas, Phoenix, Richmond, Calif., and Seattle. The awardees all plan to focus on improving low-income neighborhoods, though they outlined slightly different strategies. Volunteers in Las Vegas will work near low-performing schools; in Richmond, Calif., they’ll target only areas surrounding public housing.

To receive the grant, cities had to demonstrate that their mayor would spend time and attention on the project, said Myung Lee, the executive director of Cities of Service. “We’re not here to be just a funding source and then just walk away,” she said. “We are looking for partners.”

The grants are an extension of work that began in New York City under former Mayor Michael Bloomberg. His administration created an office in 2009 (NYC Service) that organized volunteers to address social problems. The office focused on data collection and measured the impact of volunteerism in several issue areas, such as health, education and the environment. Bloomberg's initiative was itself inspired by a 2009 federal law aimed at expanding community service.

The year after NYC Service launched, the Rockefeller Foundation awarded $100,000 grants to 10 cities for a paid staff position in the mayor's office to create and oversee their own version of NYC Service.* Bloomberg Philanthropies has since offered additional grants to expand the program and in January 2014, it helped fund the creation of an independent nonprofit, which is overseen by Lee, a former deputy commissioner of children's services in New York City.

By now, the service model has a record of tangible results in participating cities. In New York City, volunteers have coated at least 618 rooftops with a reflective surface that reduces a building's heating costs. In Flint, Mich., volunteers scrubbed at least 17,000 square feet of graffiti. Cumulatively, Cities of Service have recorded the removal of at least 1.9 million pounds of litter and the creation of at least 520 community gardens or other types of green space.

The biggest benefit from the latest round of grants isn't the money; it's access to technical expertise. Both the AmeriCorps employee and the supervisor who runs the service programs have to participate in monthly phone check-ins and webinars with Cities of Service. Staff from Cities of Service also conduct site visits to all their grantees.

Each city will report back on the immediate accomplishments of service projects, such as the number of volunteers who participated or pounds of litter collected. But Lee said the long-term goal is that as residents invest their time and energy in these blocks, the city will see measurable impact on crime and people's perception of safety. The newest round of grants encourage cities to track those deeper indicators that might change as the aesthetics of the neighborhood improve.

"We're trying to change how the world deals with volunteers," she said. "Don't think about how many volunteers are coming out. Think about what the volunteers are trying to address."

*CORRECTION: A previous version of the story said the first Cities of Service grants were awarded in 2009. They were announced in 2009 and awarded in 2010.

GOVERNING.COM

BY J.B. WOGAN | FEBRUARY 12, 2015

jwogan@governing.com | @jbwogan

Puerto Rico Set for Tougher Debt Struggle After Court Ruling.

NEW YORK — Hopes of an orderly resolution to Puerto Rico's debt crisis suffered a heavy blow after a court voided the island's restructuring law, raising fears it may be heading for a longer, messier debt overhaul.

Late on Friday a U.S. federal judge ruled that the U.S. commonwealth's so-called Recovery Act, which made some of Puerto Rico's agencies eligible for court-supervised debt restructuring, violated the U.S. constitution by allowing a state government to modify municipal debt.

“This decision will ultimately result in a resolution being dragged out over a longer period of time, having the administrative costs incurred eat into the ultimate recovery for the bondholders,” said Tom Metzold, a senior portfolio advisor at Eaton Vance, which holds various insured Puerto Rico bonds.

Puerto Rico is expected to appeal the ruling, kicking off lengthy litigation with a hard to predict outcome and possibly delaying for months the matter’s final resolution.

Bondholders are, however, likely to interpret Friday’s ruling as a sign that the Puerto Rico authorities are on shaky legal ground. That could lift bonds of public corporations such as the Puerto Rico Electric Power Authority (PREPA) covered by the voided law, by strengthening bondholders’ negotiating position, investors said.

In contrast, holders of General Obligation (GO) bonds issued by the island could take a hit. The Recovery Act meant to isolate the government from potential liabilities incurred by agencies such as PREPA and that protection may now be in doubt.

“If you are a holder of a power bond, you could say: ‘I have a better negotiating position’,” said John Miller, co-head of fixed income for Nuveen Asset Management, which holds various insured Puerto Rico bonds. “But at the GO level and politically, it’s negative.”

Puerto Rico, struggling with debts of more than $70 billion, passed the law in June, to give public corporations a framework to restructure debt and ring-fence the government from a potential bankruptcy.

U.S. law forbids Puerto Rico’s government and its entities from restructuring debt under Chapter 9 of the U.S. bankruptcy code, which was used for Detroit last year, so the Puerto Rico government passed its own restructuring law in June based loosely on U.S. bankruptcy rules.

U.S. mutual funds OppenheimerFunds, a unit of insurer MassMutual Financial Group, and Franklin Templeton, which owned $1.7 billion of PREPA bonds, quickly sued Puerto Rico, saying the commonwealth had no right to pass its own law that ran counter to federal bankruptcy law.

Puerto Rico’s representative in Congress, Pedro Pierluisi, introduced a bill to include Puerto Rico in Chapter 9 of the U.S. Bankruptcy Code.

Metzold said that the picture could change if Congress passes this bill, avoiding a situation where bondholders with competing interests fight it out in a free-for-all battle with no framework to negotiate.

NEGOTIATING POWER

Friday’s ruling has implications for around $20 billion of debt potentially affected under the act, including $9 billion of debt outstanding at the power utility, which is in restructuring talks with bondholders.

Continue reading the main storyContinue reading the main storyContinue reading the main story
The move gives more negotiating power to holders of PREPA bonds and less power to the utility, as the Recovery Act had essentially allowed Puerto Rico to dictate terms, investors said. It could also have implications for Puerto Rico’s other highly indebted utilities: Aqueduct and Sewer Authority and Highways and Transportation Authority.

“This is a positive development for bondholders and insurers of the so-called public corporations,” said Miller.

How bondholders use their leverage remains to be seen. Without the specter of a bankruptcy process, creditors could cause restructuring talks to drag on.

On the other hand, some creditors may feel empowered to take initiative. PREPA's problems must be resolved one way or the other, and one person close to Puerto Rico's creditor community said the onus is now on them to propose a restructuring framework.

Law firm Kramer Levin, representing OppenheimerFunds and Franklin Templeton, said in a statement that the decision was "a major victory for municipal bondholders."

A potential setback for holders of Puerto Rico's general debt, Friday's ruling could also make it tougher for upcoming new debt issues, some investors said.

"I think bringing new issues to enhance liquidity looks very difficult right now," Miller said, adding that it would be hard to price a large new deal while effectively in a legal limbo.

By REUTERS

FEB. 9, 2015

(Additional reporting by Tom Hals and Ed Krudy; Editing by Tomasz Janowski)

Puerto Rico Lawmakers Remove Interest Cap from $2 bln Bond Deal.

Feb 10 (Reuters) – Puerto Rico's lawmakers have scrapped a statutory cap on the interest the island would pay on a roughly $2 billion bond deal in a bid to make it more appealing to hedge fund investors.

The move comes after a federal judge voided a local law that was key to Puerto Rico's efforts to carry out an orderly restructuring of its public corporations while securing funds for the central government.

The judge's ruling late on Friday that the Recovery Act contravenes federal law, raised questions about the strength of government-backed debt, sending benchmark Puerto Rico's bonds to record lows on Monday.

Eliminating the interest rate cap was "necessary to make viable a successful transaction in the capital markets because of current market conditions and the current value of Puerto Rico general obligation bonds," according to the legislation approved by the Senate.

The amendment eliminated a restriction on how large a discount Puerto Rico could offer buyers that would have established a floor of 93 cents on the dollar, but they kept a provision that limits the average coupon rate to 8.5 percent.

The elimination of the discount restriction removes what would have been a roughly 9.2 percent cap on the yield even though the debt is trading with yields at over 10 percent.

Puerto Rico's House approved the measure on Tuesday after the Senate backed it late the previous day.

Puerto Rico was planning to issue the bonds last year but delayed the sale due to disputes about raising a tax on oil needed to back them. Puerto Rico issued $3.5 billion of debt last March that was largely bought by hedge funds as risk-averse municipal bond investors stayed away.

The island's Government Development Bank (GDB) wanted to work around the interest rate cap by insuring $500 million of the deal, which would have helped lower the average coupon rate. But given the slow pace of negotiations with bond insurers, officials are looking at alternatives.

"We are studying other options, but the best option is to amend the legislation. It's a completely different market from last year," said Melba Acosta, president of the GDB, which acts as Puerto Rico's financing arm.

The GDB also wants lawmakers to index a hike in the petroleum tax to inflation, allowing them to increase the size of the deal to $2.95 billion. The petroleum tax is being used to back the debt.

"Without the (inflation) escalator this is just a patch for the GDB," said one New York based hedge fund investor who may participate in the deal and had been at the legislature all day meeting with lawmakers.

Feb 10, 2015 7:35pm EST

(Reporting by a Contributor in San Juan; Writing by Edward Krudy; Editing by Ken Wills, Bernard Orr)

Puerto Rico Power Bonds Rise After Judge Throws Out Debt Law.

(Bloomberg) — Puerto Rico power bonds rallied after a judge threw out the island's debt-restructuring law, giving investors more power in negotiations with the electric utility.

Electric Power Authority securities maturing in July 2040 traded Monday at an average of about 58 cents on the dollar, the highest since May 28 and up from about 48 cents Friday, data compiled by Bloomberg show.

U.S. District Judge Francisco A. Besosa ruled Feb. 6 that the law that lawmakers passed last year would take away protections provided under the federal bankruptcy code, presenting an "irreconcilable conflict." The decision means the junk-rated power authority, called Prepa, can't dictate terms to investors, said Dan Toboja, senior vice president of municipal-bond trading at Ziegler, a broker-dealer.

"It gives Prepa bondholders a more powerful seat at the table if a restructuring becomes necessary," Toboja said from Chicago. "So perceived returns should be higher after the news."

The law that Puerto Rico lawmakers approved in June would have allowed some island agencies to negotiate with investors to lower their bond load. The commonwealth and its agencies owe $73 billion of debt, most of which is tax-exempt nationwide and held by investors around the country.

Creditor Agreement

Prepa and a majority of its creditors signed an agreement in August that puts off payment of bank loans. That contract ends March 31. The agency has asked for a new June 30 deadline, according to two people with knowledge of the request.

Prepa, which has $8.6 billion of debt, owes bondholders $400 million in principal and interest on July 1, according to Janney Montgomery Scott LLC. A debt restructuring of the agency would be the largest ever in the $3.6 trillion municipal market.

Puerto Rico plans to appeal the ruling, Secretary of Justice Cesar Miranda said in a statement Monday.
As Prepa bonds gained, commonwealth general-obligation bonds lost value, pushing yields to record highs.
General obligations maturing in July 2035 traded with average yields above 10 percent, the highest since they were first sold in March 2014. The debt changed hands for as low as 81 cents on the dollar.

The bonds have traded at distressed levels for more than a year as investors speculated that the island will fail to make timely debt payments as officials struggle to revive its economy. Puerto Rico's jobless rate, at 13.7 percent in December, was higher than in any U.S. state and more than double the national average.

If Prepa were to restructure, the commonwealth might direct money to the power agency to resolve investor negotiations, which could mean less cash would be available for general-obligation holders, Toboja said. Investors may also see a resolution of the power-utility debt before they know the fate of the general obligations, he said.

"We'll have a better sense of what's going on with Prepa before we know exactly how the general obligations all shake out," Toboja said. "That could take years."

by Michelle Kaske

February 9, 2015

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Tannenbaum, Mark Schoifet

Virginia House Passes P3 Safeguards.

Virginia's House of Delegates on Tuesday overwhelmingly approved a bill aiming to reduce risk associated with public-private partnerships.

House Bill 1886 Public-Private Transportation Act, introduced by House Appropriations Chairman Chris Jones (R) at the request of Gov. Terry McAuliffe (D), would require a newly formed P3 steering committee, which will include the staff directors of the House Appropriations and Senate Finance committees to declare a project is in the public interest before it can go ahead.

Once the committee has issued the finding, state transportation officials would be required to certify the risks, liabilities and other aspects of the deal have not changed since the committee gave its approval, reported the Richmond Times-Dispatch.

The legislation was prompted by concerns over several P3s:

- The U.S. 460 project which Virginia spent more than $300 million on the project before applying for the federal permits needed to begin construction. The project has yet to receive approval.
- A 58-year concession agreement with Elizabeth River Crossings to renovate the Downtown Tunnel and build the Midtown Tunnel connecting Norfolk and Portsmith. The state paid the private sector operator $200 million to prevent tolls from rising sharply and should the state build a new crossing, it would need to pay “alternative facilities charges.”
- A 20-year lease for a private marine terminal in Portsmouth with a firm that sought to operate the entire Port of Virginia. The McAuliffe administration is seeking a lease extension or guarantee the state will own the asset after paying $50 million annually in rent.

The bill passed the House by a vote of 98-0.

NCPPP

By Editor February 5, 2015

Cuomo Ethics Vow Threatens Streak of Timely Budgets: Muni Credit.

(Bloomberg) — The streak of on-time New York budgets that bolstered the state’s standing on Wall Street may be at risk as Governor Andrew Cuomo pushes lawmakers to disclose outside income amid an ethics fight.

Cuomo said during a speech in Manhattan Monday that he won’t sign a spending plan and will shut down the government if the budget doesn’t include a slate of ethics proposals. He said he expects the demands will meet resistance from lawmakers, after he delivered four timely budgets, the first time that’s happened since 1977.

The budget he proposed Jan. 21 would spend a surplus from legal settlements with financial firms, lower New York’s debt load for the third consecutive year, set a record for the rainy-day fund and put aside money for a disputed Medicaid bill. The state’s fiscal gains have won it breathing room from investors, even if the spending plan misses an April 1 deadline, said Howard Cure, head of municipal research at Evercore Wealth Management, which oversees $5.7 billion.

“It wouldn’t be late because of real economic issues or problems balancing the budget,” said Cure, who’s based in New York. “It’s leverage to achieve something.”

Ratings Climb

In his first four years, Cuomo, a 57-year-old Democrat, closed more than $12 billion in budget gaps. The budget he’s proposing now would be the first of his second term, which started Jan. 1. The combination of timeliness and balanced spending helped New York win its highest rating from Standard & Poor’s since 1972.

Cuomo’s threat comes at a critical juncture for the governor. On Jan. 22, Sheldon Silver, who ruled the Assembly for 21 years as speaker, was arrested on federal corruption charges. He resigned from the post Monday.

Manhattan U.S. Attorney Preet Bharara said the arrest is evidence that Albany’s culture of secrecy and lack of accountability inspires a “caldron of corruption.” Newspaper editorial boards, including the New York Times, said Cuomo must do more to lead the state out of its ethical morass.

As Cuomo pointed out in his State of the State address, the timely budgets were achieved with the same triumvirate — Cuomo, Republican Senate Majority Leader Dean Skelos and Silver — negotiating the deals.
“We still believe we can pass the enacted budget on time,” Skelos said in a statement e-mailed Monday.

Cost Cut

The fiscal gains under the three leaders helped reduce borrowing costs. The extra yield that investors demand to own New York obligations instead of benchmark munis has dropped below 0.1 percentage point on 10-year maturities, from about 0.4 percentage point in January 2013, data compiled by Bloomberg show.

Silver is accused of running two separate kickback schemes for 15 years, netting as much as $6 million. He says he’ll be exonerated. Bronx Assemblyman Carl Heastie was elected on Tuesday to replace him.

The case shows why lawmakers need to provide the public more information on salaries from outside jobs, Cuomo said Monday. His proposal would require them to go beyond the existing disclosure of how much they earn to include how they make it, even if they’re lawyers whose clients would otherwise be protected.

Amendment Plan

He’s also recommending a constitutional amendment to require state officials convicted of public corruption to forfeit pensions, public financing of election campaigns and stronger rules on donor disclosure.

“It’s more important to me to prove that we have corrected the problem, that we have restored the trust, than just check a box that we got a budget done on-time,” Cuomo said. “I will not sign a budget that does not have an ethics plan as outlined in my proposal.”

The budget would spend $5 billion from legal settlements on infrastructure and upstate economic development, and set aside $850 million to pay a Medicaid bill that Cuomo is fighting. The federal government says New York overcharged the health-care program for the poor before Cuomo was in office.

It also splits a $525 million operating surplus, with $315 million directed to a rainy-day fund, raising it to a record $1.8 billion by the end of the fiscal year on March 31, according to budget documents.

Bond Load

The remaining $210 million would go toward paying debt service due next fiscal year, helping lower the state’s bond load for three consecutive years, the first time that’s happened in at least 70 years, according to budget documents and Morris Peters, a spokesman for the budget division.

In July, S&P raised the state to AA+, the second-highest level, citing strengthening finances and timely budgets. The company is reviewing Cuomo’s budget proposal and will look to see how it spends one-time revenue, such as the settlement funds, Robin Prunty, an S&P analyst in New York, said Jan. 30.

"A big driver in the upgrade was structural budget alignment, aligning recurring revenues to recurring expenditures," Prunty said. "We'll be watching to see if that continues."

by Freeman Klopott

February 2, 2015

To contact the reporter on this story: Freeman Klopott in Albany at fklopott@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Atlantic City Sells $12 Million of Notes to Bank of America.

(Bloomberg) — Atlantic City, the struggling New Jersey casino center, sold $12 million of notes to Bank of America Corp., part of a plan to repay $12.8 million of securities coming due this week.

The city will pay the remainder through cash, according to a plan the City Council passed Tuesday. While officials intended to issue new notes last week to raise the funds, Mayor Don Guardian said Monday that the city had been unable to sell the debt until receiving three offers Jan. 30, including one on which the proposed interest rate — 12 percent — was too steep.

Guardian said the buyer of the new securities was the Charlotte, North Carolina-based bank. The securities mature in August and pay a 5 percent interest rate, according to the city's finance director, Michael Stinson. In comparison, top-rated municipal borrowers pay about 2.55 percent for three decades, data compiled by Bloomberg show.

"It says we're in bad shape," Council President Frank Gilliam said in an interview, referring to the interest rate.

The city, which would pay $300,000 in interest on the borrowing, has pledged as much as $12 million in anticipated state and federal grants to repay the loan, Stinson said. A separate state loan of $40 million comes due March 31.

Orr's Role

Governor Chris Christie, a second-term Republican, has struggled to revive the community of almost 40,000 people, about one-third of whom live in poverty. Casino revenue dropped to $2.9 billion last year from $5.2 billion in 2006 as neighboring states expanded gambling. Four of the city's 12 casinos closed last year.

Moody's Investors Service dropped the city to junk in July because of the dependence on casinos. The company last month lowered its grade on $344 million of Atlantic City debt to Caa1, seven levels below investment grade, citing the governor's move to install an emergency-management team that includes Kevyn Orr. Orr guided Detroit through its record $18 billion municipal bankruptcy in part by asking bondholders to accept less than they were owed.

"The whole perspective for investors changed once Orr got involved, just based on how he approached Detroit," said Daniel Solender, who helps manage $17 billion as director of munis at Lord Abbett & Co. in Jersey City.

Michael Drewniak and Kevin Roberts, spokesmen for Christie, didn't immediately return a phone call or e-mails seeking comment from the administration or Orr's office. Zia Ahmed, a spokesman for Bank of America, declined to comment.

"Everyone is nervous," Mayor Guardian told reporters in his City Hall office. "The term emergency manager, I think, scares people away, even though the governor has indicated these are more counselors and tools or experts to help us get through that and doesn't indicate bankruptcy."

by Terrence Dopp

February 3, 2015

To contact the reporter on this story: Terrence Dopp in Trenton at tdopp@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Stacie Sherman

---

Detroit Pension Cuts From Bankruptcy Prompt Cries of Betrayal.

(Bloomberg) — Pension checks will shrink 6.7 percent for 12,000 Detroit retirees beginning in March. Making matters worse, many also must pay back thousands of dollars of excess interest they received.

It's a bitter outcome of Detroit's record $18 billion municipal bankruptcy for David Espie, 58, who will repay the city $75,000 in a lump sum while his $3,226 monthly pension is cut by $216.

As retirement costs swallow larger portions of U.S. city budgets, Detroit's bankruptcy plan resolved a pension crisis with creative strokes, though at a cost to retirees who thought their benefits were untouchable.

"I feel betrayed," said Espie, who may abandon plans to move to Alabama. He recounted family get-togethers he missed during the 30 years he spent in the Department of Public Works picking up trash and plowing snow. He also pays $500 a month more for health insurance than a year ago.

"It's devastating to me; it's affecting my health," Espie said.

In addition to absorbing pension cuts, almost 11,000 retirees and current employees must repay an estimated $212 million in excess interest they accrued in a city-run savings plan, which is separate from the pension fund. The annuity plan guaranteed a 7.9 percent annual return even when the pension lost money, and employees also received bonus interest in some years.

Not Unprecedented

They can either pay the money back in a lump sum or have it deducted gradually from their monthly pension check with 6.75 percent interest.

The savings plan drained $756.2 million from the pension fund from 1985 through 2007 to pay for what former Detroit emergency manager Kevyn Orr said was excess interest. The savings fund produced six-figure nest eggs for some — on top of their pensions — including at least two $1 million accounts. Pensions for general employees, or workers other than police and firefighters, averaged about $19,000 a year.

The clawback is unusual but not unprecedented. About 28,000 Oregon public retirees have had to pay back a combined $156 million after the state Supreme Court ruled in 2011 that the retirement system overpaid them in 1999 with a 20 percent return, instead of 11.3 percent, said David Crosley, a spokesman for the Oregon Public Employees Retirement System.

More Soup

To make do, Detroit retiree Elaine Williams, 63, said she'll buy more soup and eat cheaper food when her $1,200 monthly pension check is cut by $158. That includes $78 to pay back almost $10,000, a monthly debt she'll face for 17 years.

Williams, who was a customer-service representative in the water department, said she retired in 2012 to a $950-a-month apartment in Phoenix near her children. She worries about medical costs, having endured several surgeries.

"It's wrong that they would mess with our pensions," she said in a phone interview.

Henry Gaffney, 61, a retired bus driver, said he'll pay back $56,000 of the $300,000 he saved by deducting $428 from his monthly $3,100 pension check for 19 years. He said he pays $375 more for health insurance each month.

"I may have to find a part-time job," said Gaffney, former president of Detroit's bus-driver union. "I guess the city wants us to work until we're dead."

Detroit's bankruptcy erased $7.2 billion of debt, of which $1.7 billion was pension liabilities. The city will pay $100 million toward pensions until 2023, while $900 million comes from the Water Department, foundations, the state of Michigan and the Detroit Institute of Arts.

Art Collection

The deal, dubbed the grand bargain, reduced cuts in pension checks and shielded the city's valuable art collection from a forced sale to pay creditors.

The result is a 4.5 percent pension cut for general employees and rollback of a 2.25 percent annual cost-of-living increase that took effect last year while the bankruptcy was pending. Police and fire retirees get no pension cut, though they'll lose half of their cost-of-living benefit.

Detroit is an extreme situation that's unlikely to establish a precedent, said Jean-Pierre Aubry, assistant director of state and local research at the Center for Retirement Research at Boston College.

"The benefit cuts in Detroit are being made in the context of municipal bankruptcy, a very different legal and fiscal environment than that of most cities or towns making pension reforms," Aubry said in an e-mail.

Court Challenge

A group of Detroit employees and retirees is challenging the cuts in federal court.
"It's a clear violation of the state constitution," said William Davis, head of the Detroit Active and Retired Employee Association, which filed the appeal.

U.S. Bankruptcy Judge Steven Rhodes ruled that Detroit's pensions could be cut, even thouth the state constitution prohibits reducing retirement benefits.

The bankruptcy plan created new investment committees for Detroit's pension funds, appointed by the pension boards and the state. The funds now assume a 6.75 percent annual rate of return on investments, instead of the 7.9 percent and 8 percent rates that were used, respectively, by the general and police and fire funds.
While the pension funds are now more secure, the cost to retirees stirs resentment.

Louis Ali, 64, said his monthly $1,775 pension check will be reduced by $345, mostly to pay back $38,200 he owes in excess interest. Ali, who was a water department technician, said the city should have sold some of its art rather than cut pensions.

"If it comes down to my check being cut or that painting staying on the wall, give me my money," he said.

by Chris Christoff

February 4, 2015

To contact the reporter on this story: Chris Christoff in Lansing at cchristoff@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Schoifet, Mark Tannenbaum

---

Philadelphia Pays Retirees Bonus Amid Pension Gap.

(Bloomberg) — Philadelphia has less than half the money it needs to keep its promises to retiring workers. Yet instead of socking away investment earnings, the city must spend the cash.

When the pension fund of the fifth-most-populous U.S. city performs better than its target, some retirees get a bonus — which will occur this year for the first time since 2008. As Philadelphia, like municipalities nationwide, struggles to meet mounting retirement obligations, it can't earn its way out of the hole, underscoring the challenge of honoring politicians' past pledges.

The pension system as soon as next quarter will give an extra $62.4 million to retirees, enough to heat and light schools or pay the starting salaries of almost 1,400 teachers. The payouts exacerbate the distress of the pension, which is 47 percent funded, said Lawrence Tabas, chairman of the Pennsylvania Intergovernmental Cooperation Authority, the state-appointed overseer of the city's finances.

"We're in a crisis situation," Tabas said by telephone. "If we continue to do nothing and have white papers and task forces and discussions, there will come a time when we won't be able to meet the obligations."

Unique Case

Philadelphia's is the only system in Pennsylvania that ties payment of the extra cash to investment returns, said James McAneny, executive director of the state's Public Employee Retirement Commission, which monitors local plans.

About two-thirds of plans around the country provide stipends pegged to inflation or predetermined rates, rather than investment performance, according to a survey by the National Association of

State Retirement Administrators.

Tabas's oversight agency said last month that the city should restore the original requirement from the 1999 bill creating the bonus that the pension be at least 76 percent funded before providing the benefit. The city may distribute more than $200 million in stipends even as the plan remains distressed under some scenarios, the agency said.

There are cases elsewhere in the country where retirees had to give up perks. As part of Detroit's bankruptcy resolution, pensioners there have to repay $212 million of excess interest from a city-run savings plan.

$2 Trillion

States and cities are grappling with pension deficits after suffering investment losses during the financial crisis. From 2004 to 2012, the unfunded liabilities of the 25 largest U.S. public pensions tripled to almost $2 trillion, according to a Moody's Investors Service study.

"Asset performance has been very, very volatile," Al Medioli, a senior credit officer at Moody's, said in an interview. "It can take a long time to recover from the volatility."

In Philadelphia, where almost 30 percent of people live in poverty, seniors shouldn't have to wait for the pension to strengthen before receiving the bonus, said James Kenney, a former councilman. In 2007, he pushed through a bill removing the 76 percent requirement and likened retirees to "combat veterans" who earned the perk. Kenney resigned last week to run for mayor in the May primary.

"There are certainly large structural problems with the pension fund that need to be addressed," Lauren Hitt, a spokeswoman for Kenney, a Democrat, said in an e-mail. "But we shouldn't be trying to fix the fund on the backs of our retirees who are scraping by on pension payments that aren't adjusted for inflation."

Stock Up

Siphoning investment earnings to pay stipends makes it harder for pensions to sustain themselves through market swings, said Jean-Pierre Aubry, assistant director of state and local research at the Center for Retirement Research at Boston College.

"You're cutting off the gains that should be stocked in order to bolster you from the periods of low returns," he said.

Philadelphia's system logged an 11.5 percent return for the year through June 2014, according to the city controller. The stipends kick in when the pension earns 8.85 percent — one percentage point above the target rate of return.

As soon as April, beneficiaries in the system for a decade may see a bonus, said Francis Bielli, executive director of the board of pensions and retirement. Officials haven't determined how many people are eligible and may spread payments over two checks, he said. The payouts amount to half the extra investment earnings.

2008 Payout

The city last paid the bonus in 2008, distributing $40.5 million, Bielli said. He declined to comment on the effect of the stipends or the oversight board's recommendations.

The fund has about $4.8 billion of assets to pay $10.1 billion of obligations. It is in weaker shape than 17 of the 21 plans of the 10 most populous U.S. cities, according to the state oversight agency.

Pension costs are consuming more of Philadelphia's resources: The expense has grown to 39 percent of payroll this fiscal year from 17 percent in 1991, according to the agency.

Investment losses and inadequate contributions fueled the fund's decline, the authority said. Philadelphia supports more retirees and beneficiaries — about 35,000 — than current workers in the system, who number about 27,000.

Credit-rating companies cite the pension burden as a concern. Moody's Investors Service ranks Philadelphia A2, its sixth-highest level and two below its median local-government grade.

Mayors' Efforts

City mayors have tried to limit the stipend.

In 2007, the City Council sided with Kenney to authorize the perk regardless of the funded status, overriding a veto by Mayor John Street. In 2009, Mayor Michael Nutter presented a bill to restore the minimum funding level, yet the council didn't take it up.

Last year, Nutter proposed selling the Philadelphia Gas Works for $1.86 billion to bolster the pension. The council rejected holding hearings on the plan, saying it didn't benefit constituents.

Jane Roh, a spokeswoman for Council President Darrell Clarke, said staff members are reviewing the oversight authority's recommendations. Nutter, a term-limited Democrat in his final year of office, doesn't plan to submit another bill, said a spokesman, Mark McDonald.

"Everything will end up getting cut as larger and larger portions of every dollar go to the pensions," said Tabas of the intergovernmental authority.

BLOOMBERG

by Romy Varghese

February 5, 2015

To contact the reporter on this story: Romy Varghese in Philadelphia at rvarghese8@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Tannenbaum, Stacie Sherman

F.C.C. Chief Wants to Override State Laws Curbing Community Net Services.

Tom Wheeler, chairman of the Federal Communications Commission, will propose an order to pre-empt state laws that limit the build-out of municipal broadband Internet services, senior F.C.C. officials said on Monday.

The proposal focuses on laws in two states, North Carolina and Tennessee, but it would create a policy framework for other states. About 21 states, by the F.C.C.'s count, have laws that restrict the activities of community broadband services. The initiative by Mr. Wheeler, if endorsed by the full commission, would be the first time the F.C.C. has tried to override such state laws.

Mr. Wheeler is expected to circulate his plan to the other commissioners on Thursday, and the full commission is scheduled to vote on Feb. 26.

His community broadband proposal is separate from the larger Internet policy issue Mr. Wheeler is to address this week — rules to ensure an open Internet, or net neutrality. In that proposal, Mr. Wheeler is expected to propose regulating Internet service as a public utility, but without getting involved in pricing and other corporate decisions.

Mr. Wheeler's community broadband proposal is in step with the recent recommendations of the White House, as his net neutrality plan is likely to be.

The chairman's plan to invalidate the two state laws comes in response to petitions from two municipal Internet service providers: the Electric Power Board in Chattanooga, Tenn., and Greenlight, a community-owned broadband service in Wilson, N.C. In both cases, state laws prohibit the community Internet services from expanding into neighboring areas and counties. Their broadband services, they say, are far faster than those offered by nearby private-sector Internet service providers.

Proponents of the state laws, which are typically supported by cable television and telecommunications companies, say the municipal Internet service providers often enjoy tax and low-cost financing advantages not available to private companies. They also say states have the legal right to regulate local markets as they see fit.

The senior F.C.C. officials counter that the state laws deter broadband investment and competition, undermining consumer welfare. The municipal Internet providers, the F.C.C. officials said, are not competing unfairly but investing for the public good, providing high-speed service where the private sector does not.

Overriding the restrictive state laws, they added, conforms to the F.C.C.'s legal mandate to "remove barriers to infrastructure investment" and to "promote competition in telecommunications markets."

If approved by the full commission, the F.C.C. order to invalidate the two state laws would almost certainly be challenged in court.

THE NEW YORK TIMES

By STEVE LOHR

FEBRUARY 2, 2015

Chicago Sees Fiscal Doomsday if Court Suspends Pension Changes.

CHICAGO — A temporary suspension of cost-saving changes to two of Chicago public pensions funds risks credit rating downgrades that could cost millions of dollars, the city's chief financial officer said on Thursday.

Chief Financial Officer Lois Scott testified in Cook County Circuit Court that all three major credit ratings agencies have negative outlooks on Chicago's ratings, largely due to a big unfunded pension liability that a 2014 Illinois law aims to ease for the city's municipal and laborers' funds.

Labor unions and retirees who are challenging the law, which took effect Jan. 1, have asked Associate Judge Rita Novak to temporarily stop it.

"I think that anything that arrests progress significantly increases our risk of downgrades," Scott testified.

Scott said Chicago's ratings are already lower than most big U.S. cities and that further downgrades would pump up interest rates on new fixed-rate bonds and thin the ranks of potential bond buyers and credit providers. She added the termination of interest-rate hedges and letters of credit on existing variable-rate bonds could be triggered, costing Chicago hundreds of millions of dollars.

However, the city has successfully eliminated hundreds of millions of dollars in risk by terminating or renegotiating 18 interest rate swap or swaption contracts, according to a city spokeswoman, who added such efforts were continuing. Also, the city could refund existing fixed-rate bonds should its ratings improve in the future.

The contested law requires higher pension contributions from both the city and workers and eliminates an annual 3 percent cost-of-living bump, instead tying increases in retiree payments to inflation and skipping those hikes in certain years.

As for finding revenue to make higher pension payments to the two funds without the law's cost-savings, Scott testified Chicago is already financially stretched with a $300 million structural budget deficit and a looming $550 million jump in contributions to the city's police and fire pension funds.

The unions' lawyers have contended pausing the law would allow time for the Illinois Supreme Court to rule this spring on a separate 2013 law that cut pension benefits for state workers. Plaintiffs in both cases contend the laws violate an Illinois constitutional provision prohibiting the diminishment of public worker retirement benefits.

Chicago's attorney has argued the city's law does not violate the constitution because it will save the two pension funds from insolvency.

By REUTERS
FEB. 5, 2015, 9:43 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by Lisa Shumaker)

Will Obama Tax Plan Sack Chargers stadium?

A new Chargers stadium could cost more if a proposal buried in President Barack Obama's new budget becomes law.

That's because professional sports facilities would no longer be able finance projects with lower-cost, tax-exempt municipal bonds starting Jan. 1. The fiscal 2016 budget projects that the Treasury could reap a $542 million windfall from the proposal over the next 10 years.

For decades cities have issued tax-free bonds for sports facilities. The new proposal would tighten tax law and effectively bar use of these bonds to finance arenas, stadiums and other professional sports venues.

“The current structuring of government bonds to finance sports facilities has shifted more of the costs and risks from private owners to local residents and taxpayers in general,” the U.S. Treasury said in an analysis of the new budget.

Obama’s proposal seems to have found favor with economists who have long believed that stadiums do little to benefit cities financially and therefore are not worth the large public subsidies that have historically been invested in such projects.

“This is a pretty modest proposal, but it could have big implications for sports stadiums in the sense that it would make it a lot harder for cities to justify the kinds of subsidies they provide to sports teams,” said Samuel Staley, an economics and urban planning professor at Florida State University. “This is one of those areas where there’s consensus among economics professors that these are not good projects for the use of public dollars.”

By removing access to less costly financing, Obama could potentially force team owners to shoulder more of the risk for their stadium projects, Staley speculated.

The Chargers said Wednesday that it was studying the tax proposal and did not want to comment.

San Diego County Treasurer-Tax Collector Dan McAllister, who may figure into stadium financing if the county joins the city in building a new stadium, said the local impact would mean higher financing costs for the project, projected at $1 billion.

“It’s a variable that didn’t exist a week ago,” McAllister said.

Mayor Kevin Faulconer’s newly appointed stadium task force is looking at financing options, as well as where to locate the stadium, and municipal bonds represent one of several possible ingredients in the mix. Others include Chargers and NFL contributions, naming rights, city land and higher taxes requiring voter approval.

Jim Steeg, former NFL executive and a member of the task force, declined to comment on the Obama proposal until the group starts meeting.

Tax-exempt bonds have long been the go-to tool to finance sports facilities, including Qualcomm in the 1960s, its expansion in the 1990s and the construction of Petco Park in the 2000s. More recently, tax-exempt debt was used to build the new Yankee Stadium and the Dallas Cowboys’ $1.3 billion stadium.

“Obama’s proposal clearly makes the cost more expensive, which arguably makes (the stadium) more difficult to get done,” said San Diego State accounting professor Steven Gill. “But is it a killer? I don’t think so, not in this low interest rate environment.”

Taxable municipal bonds would still be a financing option for a stadium, but the interest rate needed to attract investors would have to be higher — roughly 3.3 percent compared with 2.4 percent in today’s bond market, said Lynn Reaser, chief economist at Point Loma Nazarene University.

While that doesn’t sound like much, but it could translate into millions of dollars in extra bond payments over 20 or 30 years. And if overall rates rise substantially, the payout could be even more. Those extra dollars would have to come from some place — ticket holders, concessions and perhaps taxpayers.

A decade ago, even higher interest rates didn't stymie the development of Petco Park. Steve Peace, former state finance director, state senator and currently adviser to former Padres owner John Moores, pointed out that poor city finances at the time required the issuance of above-market, 8 percent bonds to build the downtown ballpark.

Faulconer spokesman Craig Gustafson did not address the potential consequences for the current stadium effort but underscored the longstanding importance of tax exempt financing in San Diego.

"The city has issued tax-exempt bonds for Petco Park — currently $129 million through 2032, $11.3 million annually — and Qualcomm Stadium — currently $56 million through 2026, $4.8 million annually," Gustafson said.

Councilman David Alvarez, who has been critical of Faulconer's task force effort, said Obama's proposal is an example of why the city needs to move more quickly in resolving the stadium question. He was unwilling, however, to say whether he supports eliminating the use of tax-exempt debt for financing stadium projects.

But the political landscape for financing stadiums has changed since Petco, acknowledged Charles Black, a former Padres president.

"I think there is a much more limited appetite among municipalities around the country — and that's certainly true in San Diego — to do large financing to support sports team owners," Black said.

Clearly, others will likely have to step forward to foot the bill, especially so if tax-free debt is no longer available, said Andrew Reschovsky, a fellow at the Lincoln Institute of Land Policy in Massachusetts and a former University of Wisconsin finance professor.

"People want nice stadiums, and owners probably could put up a lot more money," Reschovsky said.

The muni bond proposal was one of many tax changes in Obama's budget and it is uncertain how many of them will be approved — if any — by the Republican-controlled Congress.

U-T San Diego

By Roger Showley and Lori Weisberg

FEB. 4, 2015

Among Metro-North Victims, a Wall Street Muni-Bond Expert.

Six people died when a Metro-North commuter train struck a sports-utility vehicle at a rail crossing in Westchester County Tuesday. One of the victims, Eric Vandercar, had built a long career on Wall Street, and was well-known in the municipal-bond market as a leader in financing muni investors' trades.

Mr. Vandercar, 53 years old, had most recently served as head of municipal funding at Mesirow Financial. But he had only joined the Chicago-based financial firm in March, after spending 27 years at Morgan Stanley .

Former colleagues remembered the drive and attention to detail he brought work, along with a deep passion for his family and music.

After a successful stint as a fixed-income analyst, where he won accolades for his research, Mr. Vandercar switched roles at Morgan Stanley. He would go on to help build the firm's profitable business funding money managers' investments in muni bonds and other securities.

Andrew Garvey, Mr. Vandercar's boss at Morgan Stanley from 1999 to 2007, remembered his former colleague as a perfectionist.

Mr. Vandercar's portfolio of financings held up even during the financial crisis, people familiar with the matter said. Even as other corners of the firm's fixed-income business struggled in 2008, none of Mr. Vandercar's deals lost money, the people said, a testament to his attention to detail and risk. He was aiming to build a similar business at Mesirow, the people said.

"He was proud of his profession," Mr. Garvey said. "But he was driven at work so he could go home and have a good time with his family and his kids.

"It was about him working hard for his family."

Mr. Garvey said Mr. Vandercar was a huge music fan, with an "unmatched Grateful Dead bootleg" collection. He would regularly attend annual jazz festivals in New Orleans with his wife, Jill. Mr. Garvey, now chief executive of Orix Municipal Finance, said he kept in touch with Mr. Vandercar after their careers took them on different paths. He said he last saw Mr. Vandercar last month in New York. "He made sure I knew he had landed at Mesirow, and was ready to talk," Mr. Garvey said.

Stratford Shields, who also worked at Morgan Stanley, said Mr. Vandercar was a well-known and respected figure in the municipal-finance business. "He was a guy known for his integrity," Mr. Shields said.

William O'Keefe, another former Morgan Stanley colleague, recalled telling Mr. Vandercar about a Grateful Dead show he'd attended in college, in the late 1970s. The next day, Mr. O'Keefe said, Mr. Vandercar came in with a bootleg tape from the very show. "It wasn't just all work and Wall Street for him," Mr. O'Keefe said.

THE WALL STREET JOURNAL

By JUSTIN BAER

Feb 5, 2015

Municipal Bonds: What Comes After Perfect?

As records go, you can't beat 12 for 12. Perfection is good … and bad.

Muni investors enjoyed a perfect run in 2014 as the market notched a positive return each and every month, leading the S&P Municipal Bond Index to an annual return of 9.26%.

What could be bad about that? It sets some pretty lofty expectations for 2015. I'd like to provide some context and perspective for investors.

The Stars Aligned in 2014

The stars aligned in spectacular fashion for the municipal bond market in 2014: Low supply amid solid demand, improving fiscal conditions among state and local issuers, and a broad drop in interest rates (and rise in bond prices) helped make munis one of the top-performing fixed income asset classes of the year.

Many of the favorable dynamics remain firmly intact at the start of 2015. But we don't expect 2015 to be a 2014 repeat, if only for the simple fact that munis aren't built to provide 9% returns. They are intended to be a high-quality, relatively low-volatility source of income. Also consider the fact that the Federal Reserve is likely going to start raising interest rates this year, and that will create volatility and some measure of uncertainty for all fixed income assets.

What Is in the Stars for 2015?

In setting expectations for 2015, a look at long-term patterns is informative. Historically, returns in the year following a bounce back year (and yes, 2014 was a big bounce from a dismal 2013) have been two-thirds lower than the bounce. Given a return of 9.26% in 2014, that would equate to a return of roughly 3%-3.5% in 2015.

After the bounce

More importantly though, municipal bonds' income proposition remains very compelling. Long-term muni yields are attractive relative to Treasuries before tax, and especially after tax. At January 30, we had a 30-year muni yield of 2.50% vs. 2.22% on a 30-year Treasury. Pretty good. But factor in munis' tax exemption, and that's a 4.42% taxable equivalent yield on a 30-year municipal bond.* Really good. It's little surprise municipal bonds are attracting the attention of crossover buyers (i.e., taxable investors). We expect that crossover interest to continue, bolstering demand and supporting muni prices in 2015.

Tips for Investors

Against this backdrop, we'd offer a few key recommendations for investors:

Observe the curve. Yield curve positioning will be very important in 2015. The short end will be harder hit as the Fed raises rates. Greater value and lower volatility can be achieved further out. We like the 12- to 17-year area.

Hold onto high yield. High yield munis did even better than the broader muni market in 2014, but I still have a hard time poking holes in the investment case. Investor thirst for income is high, which suggests continued demand for high yield munis. There's also limited supply. Taken together, that makes for a favorable equation.

Avoid the extremes. Don't take on more risk than you can stomach, either by extending too far out on the curve and/or by taking excessive credit risk. At the same time, don't get too defensive. There's no value to be gained in exiting the market and holding cash today.

Use flexible fixed income. BlackRock is urging investors to rethink their bonds in 2015, and part of that means using flexible fixed income strategies to guard against interest rate risk and credit events, while also enhancing the diversification of your fixed income portfolio. In the tax-exempt space, we recently supplemented our Strategic Municipal Opportunities Fund with a new state-specific option in California .

In closing, I'd like to offer one final thought on this idea of perfection: It's overrated … and it's subjective. I enjoyed what munis had to offer in 2014, but I expect continued good things from the asset class in 2015. (But if you're still counting, one month down and "perfect" so far.) I invite you to read my fuller 2015 outlook and to check out our monthly municipal market updates to keep up on market performance and events throughout the year. Happy 2015!

Peter Hayes, Managing Director, is head of BlackRock's Municipal Bonds Group and a regular contributor to The Blog. You can find more of his posts here.

* Assumes highest marginal tax rate of 39.6%, plus the 3.8% tax on investment income under the Affordable Care Act.

By BlackRock, February 04, 2015

The opinions expressed are those of Peter Hayes as of 2/3/2015 and are subject to change at any time due to changes in market or economic conditions. The comments should not be construed as a recommendation of any individual holdings or market sectors.

Investing involves risk including possible loss of principal. Bonds and bond funds will decrease in value as interest rates rise and are subject to credit risk, which refers to the possibility that the debt issuers may not be able to make principal and interest payments or may have their debt downgraded by ratings agencies. A portion of a municipal bond fund's income may be subject to federal or state income taxes or the alternative minimum tax. Capital gains, if any, are subject to capital gains tax.

You should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. The prospectus and, if available, the summary prospectus contain this and other information about the fund and are available, along with information on other BlackRock funds, by calling 800-882-0052 or from your financial professional. The prospectus should be read carefully before investing .

Refundings Push January U.S. Muni Bond Sales to $28.2 Billion.

Feb 2 (Reuters) – U.S. municipal bond sales totaled $28.2 billion in January, up 55 percent from a year earlier, according to Thomson Reuters data released on Monday.

States, cities, schools and other issuers in the municipal bond market refunded outstanding debt, taking advantage of falling interest rates last month. Refundings accounted for 67 percent of issuance.

The yield on top-rated 10-year bonds fell 32 basis points over the month to 1.72 percent as of Friday's close, while the yield on AAA-rated 30-year munis dropped 36 basis points to 2.50 percent on Municipal Market Data's benchmark scale. (Reporting by Karen Pierog; Editing by Lisa Von

---

Public Financial Management, Inc. Retains Top National Ranking for 2014.

PHILADELPHIA, Pa., Jan. 29, 2015 (GLOBE NEWSWIRE) — via PRWEB – Public Financial Management, Inc. (PFM) has again been ranked first overall by a sizable margin as the nation's most active municipal advisor for municipalities and non-profit organizations. This ranking is for both the number of transactions as well as the dollar value of those transactions for the full year of 2014. According to Thomson Reuters, which tracks and assembles the rankings, PFM advised on a total of 783 transactions with an aggregate principal amount of $48.6 billion. These results far outpaced all the other advisory firms, which include independent firms like PFM and other advisors. PFM garnered an 18.9 percent market share compared with only 10.8 percent for the nearest competitor.

PFM's CEO John Bonow noted that while a number one ranking is always rewarding, delivering excellent client service is what drives PFM, and the firm views its continuing success as a result of its many trusted client relationships.

"Of course, it's gratifying to retain the leadership position PFM has held for the past seventeen years. We certainly believe that our ongoing dedication to developing solutions to our client's needs as our primary goal has helped us maintain this ranking," he noted. "Governments and non-profits are increasingly looking for an independent advisor they can trust when navigating the capital markets, and they find that at PFM."

"PFM is vigilant in analyzing our clients' debt portfolios and capital plans to help them quantify what the market may offer them and access cost-effective capital. While we work on more transactions than just about every other public finance company or group, we are focused on finding the optimal funding solution for the client, including those that may not involve debt. PFM's fiercely independent character provides clients with the assurance that we are working in their best interests," he explained.

Thomson Reuters also ranked PFM first in a number of market sectors, including Combined Utilities, Primary & Secondary Education, Higher Education, Industrial Development, Transportation, Public Power, Water, Sewer & Gas, and Economic Development. Further, PFM ranked first in most geographic regions, including the Midwest, Northeast, Southeast, Mideast, and West.

Looking to the future, Mr. Bonow noted that PFM will continue looking for additional ways to be of service to clients and to deliver innovative ideas that help clients overcome their most difficult challenges. "We are heartened that so many clients recognize the value of PFM's advice and we will continue to provide unbiased advice in the years to come as well," he added. "We have been here for our clients in a variety of different market environments," Mr. Bonow noted, "and our record of service speaks for itself. The rankings are simply evidence of the faith that our clients have in our ability to be valuable partners who will always render solid advice on their behalf," he added.

For nearly four decades, PFM has built a solid presence in the municipal and non-profit marketplace and has provided independent financial advisory services to local, state, and regional government and non-profit clients throughout the United States in their dealings with the capital markets. The PFM Group has built a solid presence in the municipal and not-for-profit marketplace. The PFM Group of companies includes Public Financial Management, Inc., (PFM) the top-ranked municipal advisory firm in the nation for the past 17 years according to Thomson Reuters. PFM is a registered municipal advisor with the SEC and the MSRB under the Dodd-Frank Act of 2010.

PFM Asset Management LLC (PFMAM), also part of the PFM Group of companies, is registered with the SEC under the Investment Advisers Act of 1940 and manages money market, fixed income, and multi asset class portfolios. For almost 34 years, PFMAM has specialized in providing fixed income portfolio management for separate accounts, emphasizing a conservative, low-risk, and disciplined approach to research and portfolio construction. PFMAM provides independent and objective advice to institutional and government clients on investment consulting and asset management services, as well as strategic consulting and plan benefits for Public and ERISA Pensions, OPEB Trusts, Endowments and Foundations, Insurance Trusts.

The PFM Group currently employs more than 500 individuals serving a broad base of clients from offices in every region of the country.

#######

PFM Group
Sandra Sosinski

+1 215-557-1405

S&P's Public Finance Podcast: Oil Price Implications for Texas Municipalities and the University of Texas Permanent University Fund.

In this week's Extra Credit, we review the implications of oil price declines on municipalities in Texas with credit analyst Oscar Padilla and on the University of Texas Permanent University Fund with Director Bianca Gaytan-Burrell.

Listen here.

Jan 29, 2015

Los Angeles Looks at New 'Infrastructure District' to Fund River Plans.

Los Angeles leaders are hoping to use a new tax-sharing law to help finance ambitious plans to transform the city's namesake river into a ribbon of recreational areas and vibrant new developments.

As of Jan. 1, local officials have the authority to direct a greater share of future property taxes to revitalization efforts, public works projects and environmental cleanup. The law is intended to replace some of the billions of dollars cities lost when Gov. Jerry Brown and the Legislature shut down more than 400 redevelopment agencies during the recession-driven budget crisis.

L.A. officials wasted no time, taking initial steps last week toward creating what is believed to be the state's first Enhanced Infrastructure Financing District. At a City Hall hearing, council members voiced eagerness to explore the steps needed to form a district and ordered a detailed report, due back in 45 days.

Councilman Mitch O'Farrell, who asked for the analysis, said the city's first infrastructure district would be focused on projects to restore and improve a 31-mile portion of the Los Angeles River.

Revitalizing the river is one of Mayor Eric Garcetti's top initiatives, and the city got a boost last year when the Army Corps of Engineers agreed to a $1-billion restoration plan. But the city has been trying to come up with its share of funding. Retaining more property taxes within the city is one possibility, O'Farrell said this week.

"I've been chomping at the bit for the better part of a decade to identify a permanent source of revenue for improvements along the river," he said. "And tax-increment financing can be a very good vehicle for that."

The L.A. River is an example of what municipal analysts say could be a wave of new and stalled economic development projects that could gain momentum as a result of the state's tax-sharing law.

In addition to public works projects, the infrastructure districts can be used to remake former military bases, rehabilitate private industrial buildings and leverage transit-oriented development, said Jon E. Goetz, a San Luis Obispo attorney who specializes in municipal law. Unlike those of the now-defunct redevelopment agencies, qualifying projects and districts don't have to be in blighted areas, he said.

"Redevelopment was a power tool, and this is more like a hand tool," he said. "It's not as powerful, but with creativity it can be used for economic development, for infrastructure and for affordable housing."

Taxpayer groups opposed the infrastructure district legislation because it permits local jurisdictions to create the zones without a vote of affected property owners. They also objected to a 55% voter-approval requirement to issue bonds and raise money for the districts. Many other tax-related measures require a two-thirds majority of voters to become law.

Diverting more property tax dollars to capital projects would shrink money available for ongoing services, such as public safety and paving roads, which in turn would "drive the demand for higher local taxes," the California Taxpayers Assn. said in a letter outlining its concerns.

There are key differences between the new law and legislation that created redevelopment agencies more than 60 years ago. Those entities, mostly run by cities, were empowered to capture virtually all property tax growth in designated, blighted areas. That cost counties, schools and special districts billions.

Critics and warring local officials accused the agencies of stretching the definition of "blighted" to siphon away needed property tax dollars.

Under the new law, property taxes going to schools can't be diverted to the infrastructure districts. And dollars allotted for counties or special districts would be redirected to the new districts only if all the affected agencies agree.

Los Angeles County Supervisor Hilda Solis, who represents areas northeast of downtown where the initial river projects are envisioned, said she strongly backs the revitalization effort. But city leaders will have to convince the county to part with a portion of its future property tax collections, she said.

"There will have to be a good case for that," she said.

Before their 2012 dissolution, California redevelopment agencies received more than $5 billion in property tax revenue annually. In Los Angeles County, cities shared about one-third of that through their redevelopment agencies.

The new funding zones are expected to raise a fraction of that. On average in Los Angeles County, the infrastructure districts could collect close to 60% of what redevelopment agencies were able to capture in designated areas, said Tom Sakai, a local government consultant. But the share would be significantly less if counties and special districts declined to participate, analysts say.

Goetz and others say local governments may look favorably on the potential of infrastructure districts, despite the limitations.

“It does force more cooperation between layers of government, particularly between the city and county,” he said. “And it forces local governments and developers to put their heads together and come up with plans to benefit everyone.”

O’Farrell’s staff said his office hasn’t yet done a revenue projection or identified what L.A. River projects would be included. But an estimated $1 billion worth of improvements have been listed in the city’s master revitalization plan, including widening bridges, restoring wetlands, cleaning up industrial waste and acquiring privately held parcels.

Lawmaker support in the council’s Arts, Parks, Health, Aging and River Committee, where creation of a infrastructure district was discussed, was generally strong.

But there could be fights ahead over how to use any windfall of tax money. As rents climb, Councilman Gil Cedillo signaled he would like some of the money earmarked for affordable housing.

“It’s great to talk about how great the river can be,” he said. “I’ve got four of the six major projects in my district. But I’m concerned that we would be doing river work in lieu of housing.”

BY CATHERINE SAILLANT – LOS ANGELES TIMES / JANUARY 19, 2015

catherine.saillant@latimes.com

___

Michigan Sends Road Funding Proposal to Voters.

After several years, Gov. Rick Snyder has finally convinced lawmakers to spend more money on roads. There’s one hitch: The state’s voters have to approve the deal in May.

Like most governors, Michigan’s Rick Snyder spends a lot of time trying to burnish the image of his state. Among its highlights, Snyder touts a 48 percent increase in automobile manufacturing in the last four years, a turnaround in state finances and Detroit’s quick exit from bankruptcy.

But there is one thing about Michigan that the Republican governor is downright negative about: the roads. They are “rotten,” Snyder told legislators during his State of the State speech last week, citing plywood under overpasses to catch falling concrete and the growing number of potholes on Michigan streets. On average, he said, Michiganders pay $132 more per year in car repairs than their neighbors in Indiana. “No one in Michigan,” he added, “likes our roads and bridges.”

It is a message Snyder has been repeating for years, but now, after a brutal winter tore up the state’s already ravaged roads last year, he’s finally making headway on the issue. A broad coalition of Republicans and Democrats approved a last-minute deal in December to raise spending on roads by $1.2 billion, as long as voters approve a 1-cent sales tax hike — from 6 percent to 7 percent — in

May.

Snyder used his annual State of the State address to lawmakers to lobby for the ballot measure. The package passed by the legislature is a complex one, but the governor focused primarily on its potential to increase safety. “Vote yes so we can have safer roads,” he said. “Vote yes so we can get rid of those crumbling bridges and crumbling roads. Vote yes so we can have stronger schools and local governments. Vote yes so we can have tax relief for low-income people. There are only good reasons to vote yes.”

Not everyone, of course, supports the measure. The campaign over the initiative has barely begun, but already the Michigan chapter of Americans for Prosperity, a conservative antitax group, is fighting it. Annie Patnaude, the group’s deputy state director, said Michigan roads need to be improved, but legislators ought to use existing state revenues to do it rather than using a “massive tax hike.” “Politicians and special interests are coming back to citizens and asking for more,” she said, “when they need to do a better job with the money they already have.”

But a lot more is riding on the outcome of the ballot measure than simply road funding. If voters give it a green light, it will trigger other provisions, including an increase in motor vehicle registration fees and a change in how the state spends taxes collected on the sale of gasoline and diesel fuel. The package requires online retailers to collect sales taxes. And it eliminates the sales tax on gasoline but increase fuel taxes. In other words, rather than requiring customers to pay taxes by the gallon at the pump, the measure would tax fuel on a percentage basis at the wholesale level.

These changes are meant to achieve a more straightforward allocation of tax money overall. The taxes customers pay when buying fuel, for example, will help transportation. The money they pay in sales taxes would help schools, social programs and other spending paid out of the state’s general fund.

Other changes were included in the package to attract support in the legislature, where a supermajority was needed to put the sales tax hike on the ballot. For example, it would also provide an additional $300 million for schools; an extra $100 million for transit and local governments; and a restoration of cuts to the state earned income tax credit made in 2011.

Patnaude, from Americans for Prosperity, said her group plans to highlight all of the ways the proposal would hit Michigan residents in the pocketbook. “This is not just a sales tax hike,” she said. “It’s a gas tax hike. It’s an increase in registration fees. A huge chunk of this tax hike does not go to roads.”

While turnout for the spring election is expected to be small, the Michigan Infrastructure and Transportation Association, a construction trade organization, has already told its members it has raised $2 million for the campaign and is shooting for $5 million. “Michigan citizens,” the group said, “will have a once in a lifetime opportunity to really make a difference in the way our state funds roads, schools and local governments.”

Gilda Jacobs, the president and CEO of the Michigan League for Public Policy, which advocates on behalf of poor residents, is pushing for passage of the sales tax hike as well. The restoration of the state’s earned income tax credit, she said, could help offset those costs for low-income residents. The ballot measure also helps low-income residents with their transportation needs, she said, because it would increase money for public transportation and would improve the condition of the state’s roads. “It impacts everybody,” she said. “But for a low-income person to have their tire blow out means more of their personal income has to be used to replace their tire than my personal income.”

GOVERNING.COM

BY DANIEL C. VOCK | JANUARY 28, 2015

Rams Prod Missouri to Borrow by Flirting With L.A.: Muni Credit.

(Bloomberg) — Billionaire Stan Kroenke's push to move the National Football League's St. Louis Rams to Los Angeles is paying off: Missouri may pony up for a new stadium, even though taxpayers owe $130 million for the old one.

Governor Jay Nixon's advisers proposed using public funds, including bonds, to finance about half of an almost $1 billion, 64,000-seat arena in downtown St. Louis after Kroenke said he may build a venue in Southern California. Missouri and its local governments already pay a combined $20 million a year on debt for the 19-year-old Edward Jones Dome, which the Rams consider out of date.

"We need to find a plan to keep the team in town," said Frank Viverito, president of the St. Louis Sports Commission, which promotes the city. "It's important for any city that wants to be considered a major league city."

States and cities have sold $9 billion of bonds for stadiums, sometimes to keep teams from leaving behind vacant coliseums and wounded civic pride, according to data compiled by Bloomberg. Indianapolis, Minnesota and Louisiana are among those that have subsidized new or renovated facilities over the past decade after owners considered moving away.

Bargaining Chip

Los Angeles, the second-most-populous U.S. city, has become a bargaining chip for owners. The NFL's Oakland Raiders and San Diego Chargers have drawn officials in their cities into negotiations following speculation that they would move to Los Angeles. The metropolis hasn't had an NFL team since the Rams and the Raiders left after the 1994 season.

"Going to L.A. is a ploy to get a bigger subsidy," said Victor Matheson, a sports economist at College of the Holy Cross in Worcester, Massachusetts. "You see this happening again and again and again." Tax breaks, land giveaways and public funding have persisted even as research casts doubt on the benefits. The venues typically don't expand a city's tax base or generate revenue, Matheson said. In Florida, he found the opposite: new stadiums, arenas and sports franchises reduced taxable sales at nearby businesses.

Wal-Mart Heir

Kroenke, 67, the founder and owner of St. Louis-based THF Realty, can leave the St. Louis stadium because the agency that runs it hasn't kept it up to date with other NFL venues, as its contract requires. The husband of Wal-Mart Stores Inc. heir Ann Walton Kroenke, he has investments in six professional sports teams, including the National Hockey League's Colorado Avalanche and the National Basketball Association's Denver Nuggets, as well as cable television channels.

On Jan. 5, Kroenke, with a net worth of $4.8 billion on the Bloomberg Billionaires Index, proposed an 80,000-seat stadium on land he owns in Inglewood, California. Back in St. Louis, the Rams had the second-worst home attendance in the league in 2014, with an average of about 57,000 per game, according to ESPN.com.

Tomago Collins, a spokesman for Kroenke, and Artis Twyman at the Rams didn't respond to requests for comment.

The site in the suburb of 112,000 is one of three potential locations for an NFL team in the Los Angeles area, according to a Dec. 21 article on NFL.com, the league's official website. Philip Anschutz, owner of the NHL's Los Angeles Kings, has proposed a stadium downtown. A local developer is pushing a third option in Carson, about 17 miles (27 kilometers) south, according to the Daily Breeze newspaper in Torrance, California.

Welcome Mat

An NFL team "would be great for the city," Los Angeles Mayor Eric Garcetti said during a Jan. 13 interview.
The scale of Kroenke's plans heightened speculation the Rams will move, a step the NFL would have to approve.

"If this is just a pretext to get the public to build a new stadium for the Rams, he's gone pretty far out on a limb," said Fred Lindecke, spokesman for the Coalition Against Public Funding for Stadiums, an activist group in St. Louis.

The Inglewood site wouldn't need taxpayer funding, Mayor James Butts said in a telephone interview.
"Not one single dollar of public money is going to be spent on the stadium," said Butts. "Nor will there be any bonds."

Missouri is more game. On Jan. 9, a panel formed by Governor Nixon, a Democrat, proposed a stadium on the banks of the Mississippi. It may cost $985 million, with the public paying as much as $535 million through bonds and other sources, according to the proposal, which didn't offer details.

Goldman Sachs

Greg Carey, a banker at New York-based Goldman Sachs Group Inc. who is advising the task force, said his job is to craft a deal that works for the city and the team.

"If St. Louis did not have the Rams, it's like a company leaving the market," he said.

The NFL wants all of its teams to stay in their current markets, Commissioner Roger Goodell said at a Friday press conference in Phoenix ahead of Sunday's Super Bowl.

"We want to work with the business community and the public sector" to keep the Rams in St. Louis, he said.
Missouri officials are balancing the desire to keep the team against their obligations to the public purse.

Nixon said his panel's plan would help St. Louis without adding to the state's taxes. St. Louis Mayor Francis Slay doesn't support raising levies to pay for a facility, said Maggie Crane, his spokeswoman. The plan may involve refinancing stadium debt to avoid adding to the city's bond bills.

"Some of this is a little bit fluid and not yet finalized," she said.

Rams Review

Jim Woodcock, a senior vice president in St. Louis with FleishmanHillard, which represents the task force, said representatives weren't available. The Rams said in a statement Jan. 9 that the team is reviewing the proposal.

Missouri, the city of St. Louis and St. Louis County are still paying off bonds for the Edward Jones Dome, with about $30 million of interest due through 2021, according to financial statements. The vacated dome would still be used as a convention center, according to the proposal.

The St. Louis Regional Convention and Sports Complex Authority issued about $259 million of bonds in 1991 backed by the city, county and state to build the venue. Tax-exempt debt sold as part of a 2013 refinancing and maturing in August 2021 priced to yield about 2.8 percent.

The Missouri plan may have a hard time winning approval from city and county voters for public financing, said Lindecke, the spokesman for the group opposing it.

A poll sponsored by the Missouri Alliance for Freedom, which is against subsidies, found that 18 percent of residents support the task force's recommendation. The poll by Kansas City-based Remington Research Group, which surveyed 776 likely voters and was released Jan. 27, had an error margin of 3.4 percent.

"People aren't going to approve paying money for a new stadium when the old one is only 20 years old and hasn't been paid off," said Lindecke. "This isn't going to happen."

Bloomberg Muni Credit

by Darrell Preston

January 29, 2015

To contact the reporter on this story: Darrell Preston in Dallas at dpreston@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net William Selway, Mark Tannenbaum

---

N.Y. Pension Pays $708 Million to Florida Retirees: Muni Credit

(Bloomberg) — Florida is luring more than just New York's residents. It's also absorbing a growing pile of cash from the state's largest pension.

The New York State and Local Retirement System, the third-largest U.S. public plan, paid $708 million to Floridians in fiscal 2014, or about 7 percent of the total, its financial report shows. That's up about 50 percent in the past decade and was the biggest share of its $1.9 billion of payments out of state.

The obligations weaken the argument that defined-benefit systems prop up local economies as workers retire. The payments to 34,374 Sunshine State residents mirror a migration south to Florida, which last year overtook New York as the third-most-populous state.

"The one group of people who absolutely are taking money from New York with them are government retirees," said E.J. McMahon, president of the Empire Center for Public Policy, a research group that advocates less government spending. "That check from the state goes wherever they are."

Swelling Obligation

New York's pension commitments have swelled about 80 percent in the past decade and are set to keep increasing, McMahon said. Moody's Investors Service estimates that mounting retiree costs have left the 25 largest U.S. public pensions with about $2 trillion in unfunded liabilities.

For states struggling to catch up after shortchanging pensions during the recession, failing to retain retirees is a missed opportunity. That includes Illinois, which faces a $2 billion budget gap and $111 billion in unfunded pension liabilities.

The retirement system for Illinois state employees, which has about 34 percent of assets needed to cover projected liabilities, pays 1,258 former workers living in Florida, according to financial documents. That's out of about 5,900 retirees living outside Illinois.

Only seven states were better off than New York in funding their pensions as of 2013. New York had an 87.3 percent funded ratio, down from 105.9 percent in 2008, data compiled by Bloomberg show. The median was about 69 percent in 2013.

401(k) Debate

Comptroller Thomas DiNapoli, sole trustee for New York's pension, has used the cash retirees receive — and spend — as justification for maintaining a defined-benefit plan, even as companies adopt 401(k)-style approaches in which employees shoulder investment risk.

"Defined-benefit pensions help to stabilize our state's economy," DiNapoli wrote in a February 2012 op-ed in the New York Daily News. "The more than 1 million members, retirees and beneficiaries of the state and local retirement system are taxpayers, too."

The following month, the legislature passed pension changes, raising the retirement age for most new workers and offering a 401(k)-type option to some nonunion employees.

Almost all states have enacted tweaks to their plans since 2009 to cut costs and ensure adequate contributions, according to the National Conference of State Legislatures.

DiNapoli's stance hasn't changed since 2012, said Nikki Jones, a spokeswoman. The comptroller's office declined to comment further, Jones said.

Southern Comfort

In fiscal 2014, one in five recipients of New York pension payments lived elsewhere, financial documents show. About 38 percent of out-of-state benefits went to Florida.

Florida's population grew by 293,000 in the year ended July 1, 2014, to 19.9 million, while New York added 51,000 to 19.7 million, Census data show.

Florida receives the biggest share of people leaving New York, with about 55,400 residents migrating to the Sunshine State in 2013, Census data show.

"It's emblematic of the Snowbelt-to-Sunbelt movement," said William Frey, a demographer at the Brookings Institution in Washington. "In some respects, Florida is not a southern state. It's almost a New York appendage."

The same trend holds for the flow of retirees: New York has 1,143 beneficiaries of the Florida Retirement System, less than Alabama and Tennessee, financial documents show.

Tax Appeal

Florida’s appeal goes beyond warmer winters. While New York ranked highest in terms of its residents’ state and local tax burden as of fiscal 2011, Florida, with no income tax on individuals, placed 31st, according to the Tax Foundation in Washington.

Union leaders say the departures wouldn’t justify overhauling pensions.

“There will always be some percentage of retirees from all walks of life who will be lured by the weather and leisure life of the Sunbelt,” Stephen Madarasz, a spokesman for the Civil Service Employees Association, New York’s largest public-worker union, said by e-mail.

The cash influx is a windfall for Florida and its localities, which are rebounding from a housing-market collapse that left the state with the highest foreclosure rate in the nation and a default rate of more than 80 percent on bonds sold to finance new development.

Recruiting Trail

Governor Rick Scott, a 62-year-old Republican re-elected to a second term in November, touted the population gains during his inauguration Jan. 6.

“When people move here, they spend their money here, they bring their businesses here, they support our charities and they create more jobs and opportunities for others,” Scott said in his speech.

“Over the next four years, I will be traveling to your states personally to recruit you here,” he said, addressing residents of New York, Illinois, California and Pennsylvania.

Florida has competition in attracting New Yorkers. Georgia, South Carolina and Texas have seen pension payments to New York transplants more than double since 2005.

The payments from New York’s largest pension to Floridians approaches the $723 million earned by 9,780 financial analysts employed in Florida, according to Labor Department data from 2013.
Deb Peterson, 64, lives in Melbourne on the Atlantic Coast and spends her pension from the New York teachers’ fund traveling and volunteering. She retired to Florida with her husband in 2005 after 33 years as a music instructor in the Hudson Valley.

“We’ve explored a lot of areas, and we found our niche right here,” Peterson said, highlighting the weather, health-care options and relatively low cost of living.
As more of her peers born between 1946 and 1964 move to warmer climes, their new home states will benefit, said Frey at Brookings.

“A lot of Baby Boomers are going to retire over the next 15 years, and if they follow these same patterns it’s going to be a win for Florida and a loss for New York,” Frey said.

Bloomberg Muni Credit

by Brian Chappatta

January 26, 2015

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Super Bowl Host City Still Reeling Over Sports Deals.

GLENDALE, Ariz. — The entire world will be watching Glendale on Sunday as it hosts the Super Bowl and the legions of fans who are shelling out big bucks to see the big game.

What may be not visible amid all the hoopla is a sobering reality about the Super Bowl host city: Glendale is suffering deep financial issues over its troubled effort to become a sports destination.

Glendale bet big on professional sports in the last 15 years, spending millions of dollars on a hockey arena for the Arizona Coyotes and investing heavily in a spring training ballpark for the Chicago White Sox and Los Angeles Dodgers. Then the economy tanked, and the hockey team went through bankruptcy, with several different owners in recent years.

The city has found stronger financial footing since then and its bond rating has improved markedly, but not without having to raise taxes, trim 25 percent of the municipal workforce, cut back on paving projects, and reduce hours at municipal swimming pools and libraries. The 9.2 percent sales tax that shoppers and diners pay in Glendale is among the highest in the state.

To fiscal conservatives, Glendale serves as a cautionary tale for suburban cities across the United States that want to throw public money at professional sports projects.

“Overall, it’s a bad move for cities,” said Kurt Altman, general counsel for the Arizona-based Goldwater Institute, which fought Glendale over its enticements to the hockey team. “As much as they say it’s going to make the city a destination, it just doesn’t.”

Glendale is a city of about 250,000 people in the northwest part of the Phoenix metro area. The location where the Arizona Cardinals’ stadium and the Arizona Coyotes’ arena were built had been a dusty farm area. The agricultural influence is visible to people driving to games when they pass tractors and farm equipment in nearby fields.

As the Coyotes and Cardinals sought new facilities in the early 2000s and efforts failed to build them in other parts of the Phoenix area, Glendale stepped in. The city helped pay for the Coyotes’ arena with $167 million in bonds in 2003, and as the hockey team’s finances began to fade during the recession, Glendale went all-in to keep the team in Arizona. The city dished out $50 million earlier this decade to keep the team and continues to make annual payments toward the arena, but the money it is getting in return has not met expectations.

The football stadium was built in 2006, but Glendale was not on the hook for the costs of the $450 million retractable-roof facility. It was funded primarily with new taxes on car rentals and hotels in the Phoenix area, but that financing hit a snag last year when a judge ruled that the car rental tax was unconstitutional, leaving a major funding source for the Super Bowl venue in jeopardy. The issue is still being argued in the courts.

Glendale is far from alone. Cities and states nationwide have long struggled with how much public money to spend on stadium projects. The effort to build a new stadium for the Minnesota Vikings became embroiled in controversy over a financial commitment by the state that opponents said was excessive. The St. Louis Rams are at the center of a debate over whether to spend public money on a new stadium. Topeka, Kansas, is immersed in a fight over a motorsports track that has drawn comparisons to hockey in Glendale.

Continue reading the main storyContinue reading the main storyContinue reading the main story
As he navigates the financial situation, Glendale Mayor Jerry Weiers returns to a maxim he has repeated many times in his life: “I’m not living in the past. I’m just paying for it.”

In the case of the Super Bowl, he believes the city is paying dearly. He said Glendale will actually lose a “couple million dollars” by hosting the event. It’s spending huge amounts of money on overtime and police and public safety costs for the Super Bowl but not getting much back.

Super Bowl visitors are mostly staying in Phoenix and Scottsdale and only showing up in Glendale on game day, meaning the city won’t see much of a boost in tax revenue. And the city was hoping the state would reimburse Glendale for its police overtime costs, but lawmakers have scoffed at the idea.

Weiers said it pains him that the city had to cut services and lay off workers, but the moves were necessary to ensure financial solvency. He said the outlook has improved in the last year, a far cry from a couple years ago when Glendale was in jeopardy of joining the likes of Detroit in the category of municipal bankruptcies.

“I have to believe that if ‘1’ is perfect as things could be and ’10’ was bankruptcy, I’d say we were a strong ‘8,’” Weiers said. “We never had to go there, and I strongly believe we won’t have to go there.”

By THE ASSOCIATED PRESS

JAN. 26, 2015, 3:03 A.M. E.S.T.

Lockport Made Interest-Saving Deal on Deficit Financing.

LOCKPORT – The city borrowed more than $4.2 million on Dec. 30 to pay off accumulated deficits, but it will have to pay interest on only $3.9 million of the borrowing, Mayor Anne E. McCaffrey said Friday.

The deal involved the payment of a $103,000 premium by Oppenheimer & Co., the underwriter of the city’s bond issue, which boosted interest paid to investors while giving the city a bit of a break in interest costs for the 10-year borrowing.

The state Comptroller’s Office, which recommended the borrowing in the first place, is allowing Lockport to make an interest-only payment on the bonds in October of this year. That figure will be $156,156, City Treasurer Michael E. White said.

However, in the ensuing nine years, the city will have to pay back principal as well as interest, White said. That will mean an annual expense of more than $550,000 a year that can’t be avoided unless the city finds some way to pay off the debt early.

“It’s an obligation we’re going to have to pay,” McCaffrey said.

White said the 10-year total interest cost on the bond issue will be $1,207,406. The total repayment of principal plus interest over the coming decade will be $5,152,406.

A state law allowing Lockport to borrow its way out of the red authorized bonding of as much as $5.35 million, but auditing by the state and the Bonadio Group, an Amherst accounting firm hired by the city, showed the city didn't need that much.

"The actual deficit confirmed by the state Comptroller's Office was $4,216,771," McCaffrey said. But interest is due only on $3,945,000 of the borrowing, she said.

The city's costs of issuing the bonds were tied into the premium paid by Oppenheimer, which specializes in high-risk municipal bonds. White said investors who subsequently buy the bonds from Oppenheimer are buying a "coupon rate" of 5 percent, but because of the premium upfront, the investors will pocket 2.5 percent to 3.7 percent, depending on which year their bonds mature.

After this year's interest-only payment, the city will owe $552,250 in 2016, including $197,250 in interest.

The remaining years' debt service costs are $554,500 in 2017; $555,750 in 2018; $556,000 in 2019; $555,250 in 2020; $553,500 in 2021; $555,750 in 2022; $556,750 in 2023, and $556,500 in 2024.

McCaffrey said it hasn't been determined yet how the repayment costs will be distributed among the city's budgetary funds. The cost in the general fund would affect property taxes, while allocations to the water, sewer and refuse funds would affect user fees in those areas.

White said the amount of interest in those payments falls steadily, while the amount of principal repaid increases through the 10 years.

In October, the city borrowed $4.57 million on a 90-day note to get through the rest of last year, and that money, plus 3.375 percent interest, was to be repaid this month from the cash proceeds of the Dec. 30 bond issue.

By Thomas Prohaska | News Niagara Reporter | @ThomasProhaska |

January 24, 2015 – 10:35 PM

Another Friend of Court Sides with Town over Prism Bonds.

WEST ORANGE, NJ — The second amicus curiae brief submitted in the New Jersey Supreme Court case against West Orange sided with the township just as the first did, with the New Jersey State League of Municipalities and the New Jersey Institute of Local Government Attorneys jointly arguing that the administration had followed proper procedure in issuing $6.3 million in municipal bonds to real-estate operator Prism Capital Partners.

The brief, which was filed by the organizations' attorney, Edward Purcell, on Jan. 8, made the case that not only was the township free to pledge the bonds without receiving approval from the Local Finance Board, but that the plaintiffs had acted after the deadline for filing a complaint on the matter in the first place.

For the latter argument, the brief pointed out that local bond law stipulates that no one can take any action denying or questioning the validity of a bond ordinance after 20 days have passed since its publication. Because the five residents did not file suit until May 14, 2012 — 53 days after the ordinance was advertised on March 22, 2012 — the brief argued that they did not meet that statute of limitations. As such, the brief urged the court to dismiss the plaintiffs' case, or else risk losing the credibility of state municipal bonds.

The brief argued that "Every bond issued by a New Jersey municipality would be less marketable," if the plaintiffs were victorious. "And, as a consequence, New Jersey municipal bonds would have to be issued at a higher interest rate, increasing costs to taxpayers and making certain projects unfeasible."

In arguing that the township did not need the LFB's approval in issuing the bonds, the brief presented two cases. The first was that local bond law dictates a municipality only has to seek LFB review if exceeding its debt limit or choosing to deduct debt from its debt limit in granting a bond. The brief argued West Orange did neither in pledging the $6.3 million to Prism, therefore there was no need for it to obtain permission from the LFB.

The brief's second case, also a point made in the amicus brief submitted by acting Attorney General John Hoffman, dealt with the interpretation of an unclear passage of the law. Specifically, the section's language leaves room for debate as to whether bonds can only be pledged after receiving approval from the LFB. It begins with the statement that bonds may be issued and sold in a number of ways, which it then lists, and ends with the phrase "upon application to and prior approval of the Local Finance Board in the Department of Community Affairs."

Like the acting Attorney General's Office, the League of Municipalities and the Institute of Local Government Attorneys cited grammatical legal precedent to argue that the wording did not refer to all of the ways listed, which would have meant that every bond would require permission from the LFB. Instead, the brief made the case that only the third way listed — selling bonds at a public sale at less than par and at a private sale at par or less than par — mandates LFB approval.

In fact, the brief took it a step further, arguing that requiring LFB approval for bond sales above par is just not necessary from a policy perspective.

"LFB oversight is only needed where bondholders appear to be receiving benefit to the detriment of taxpayers," the brief said. "It simply doesn't make policy sense to require LFB approval for the sale of bonds above par."

The brief went on to argue against the plaintiffs' assertion that West Orange "intentionally attempted to masquerade the issuance of ordinary General Obligation Bonds as Redevelopment Bonds" in order to avoid being subject to a referendum. The fact that the township issued GO bonds is really "immaterial," according to the brief, since what legally determines whether it should be subject to referendum is the law under which the bonds were enacted. And, since the administration enacted the bonds under the Local opment and Housing Law, voters did not have the ability to disapprove the ordinance by referendum.

With both amicus briefs coming down in its favor, the township has confidence in its chances going forward in the suit. Indeed, Mayor Robert Parisi previously told the West Orange Chronicle that he is optimistic.

"The court is being diligent in its review of this matter, but the township remains confident that the court will ultimately rule in our favor," Parisi said. "We are anxious to have this matter resolved."

But the five plaintiffs in the case are far from giving up hope. Windale Simpson, a plaintiff and the spokesman for the group, previously told the Chronicle that he still did not expect to lose the lawsuit even after reading the attorney's general's brief. And he feels the same way about the second amicus brief.

"We were not surprised by the League of Municipalities brief," Simpson said in a Jan. 20 email. "At the onset we expected that it would be up to the high court to clarify the dangerous confusion that exists around the ambiguous redevelopment law."

According to the Supreme Court Clerk's Office, a new date for oral arguments has not yet been set. The original Nov. 10 date was postponed after the court requested the amicus briefs.

Essex News Daily

By: Sean Quinn – Staff Writer

January 26, 2015

Pennsylvania Tops Next Week's U.S. Municipal Bond Sales.

Jan 23 (Reuters) – A $1 billion general obligation deal from Pennsylvania tops next week's $6.7 billion calendar of U.S. municipal bond and note sales, a total that is down slightly from roughly $8 billion this week.

Pennsylvania's $1 billion competitive offering, on Tuesday, is the first big debt sale since the state's new Democratic governor, Tom Wolf, took office this week.

Some question whether Wolf, a Democrat, and the Republican-led legislature will be able to work together to address the state's problems. These include an underfunded public pension system, revenue strain and a stressed education system.

Next week's biggest negotiated deal is from the Utah Transit Authority, which plans to sell $831.6 million of sales tax revenue refunding bonds through lead manager Morgan Stanley.

(Reporting by Hilary Russ; Editing by David Gregorio)

NABL: Donations Accepted for Ballard Scholarship Fund.

The National Association of Bond Lawyers has renamed its existing Fundamentals of Municipal Bond Law Seminar scholarship program to honor longtime NABL member Frederic L. "Rick" Ballard, Jr. who passed away in 2014. NABL's decision to bestow this honor on Mr. Ballard stemmed from his longstanding commitment to educating young bond attorneys. As Mr. Ballard's contributions to NABL touched so many of its members, NABL is confident that the Frederic L. Ballard, Jr. Memorial Scholarship Program will become part of his enduring legacy.

In recognition of the newly named program, the law firm of Ballard Spahr LLP made a generous donation in his memory to the Scholarship fund. That donation was followed by another generous donation from the American College of Bond Counsel. NABL invites all of its members to support the continued funding of the Frederick L. Ballard, Jr. Memorial Scholarship Program. Contributions should be made to NABL's affiliated 501(c)(3) nonprofit corporation, the Robert H. Hilderbrand, Jr. Fund, which will oversee and administer the scholarships with assistance from NABL's Education and Member Services Committee. NABL encourages each of its members to consider enhancing NABL's educational outreach with a gift to the Hilderbrand Fund to be dedicated to the Frederic L. Ballard Jr. Memorial Scholarship Program.

Current NABL President Tony Martini remarked, "Rick Ballard was a giant in the municipal bond world. He was known in the industry as a highly skilled attorney who generously shared his time and knowledge of municipal bond law with all, especially new associates. The NABL Board of Directors felt that renaming our annual Fundamentals scholarship program in his honor would be a fitting and lasting tribute to his legacy, recognizing not only his many contributions to NABL, but to the industry as a whole."

The scholarship program began with the 2012 Fundamentals Seminar, for which NABL's Education and Member Services Committee selected five law students from a pool of nearly twenty applicants to attend the Fundamentals Seminar at no cost. In three years, the scholarship program has given fifteen law students/clerks early exposure to public finance not available in most law schools. Several of the scholarship recipients have started their legal careers practicing bond law, and some of the earliest recipients have already returned to the Fundamentals Seminar as NABL members.

NABL Board member Teri Guarnaccia, a partner at Ballard Spahr LLP and the Chair of the 2014 Fundamentals Seminar, said, "The scholarship program gives a unique opportunity for an early exposure to our field in one of the best ways to experience it. Many of us remember Fundamentals as not only the time when we began to solidify our burgeoning knowledge of public finance concepts – but forged friendships that have lasted throughout our careers. Rick was certainly one of the most patient and wonderful teachers in the business – support of this program to allow law students to attend Fundamentals is a perfect way to honor him!"

Those interested in contributing to the Scholarship Fund can [download this form] and submit it along with the donation to [Linda Wyman], NABL's Chief Operating Officer. NABL will recognize those members who contribute to the Hilderbrand Fund for the benefit of the Frederic L. Ballard, Jr. Memorial Scholarship Program in various publications throughout the year.

The Hilderbrand Fund was established in 1981 and renamed in 1986 in honor of Robert H. Hilderbrand, Jr., a partner in the Philadelphia firm of Saul, Ewing, Remick & Saul, who perished in an airplane accident on November 11, 1985. The members of the NABL Executive Committee also serve as the members of the Board of Directors of the Fund. Donations to the Fund are tax deductible to the extent provided by law.

Bankrupt San Bernardino to Impair Bondholders, not Calpers, in Exit Plan - City Attorney.

(Reuters) – Bankrupt San Bernardino will significantly impair its bondholder creditors while paying pension fund Calpers in full in a plan to be presented in May, City Attorney Gary Saenz said on Thursday.

San Bernardino has also not held any talks with its capital market creditors since September and has no immediate plans to do so before it presents its bankruptcy exit plan by a court-ordered date of

May 30th, Saenz said.

Major creditors are viewed as less important creditors than Calpers, California's public pension fund, he said.

Capital market creditors in the San Bernardino bankruptcy include Luxembourg-based Europäische Pfandbrief-und Kommunalkreditbank AG (EEPK), holder of about $50 million in pension obligation bonds; Ambac Assurance Corp, which insures a portion of those bonds; and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co.

Saenz said the city definitely intends to cut its debt to EEPK, Ambac and Wells Fargo under its bankruptcy plan, but in a way the judge will view as reasonable.

"Our bankruptcy plan will include an amount that is fair and reasonable to impair those creditors," Saenz said, referring to EEPK, Ambac and Wells Fargo. Until now, no representative has publicly said that the city intends to impair its bondholders.

San Bernardino, a city of 205,000, 65 miles east of Los Angeles, declared bankruptcy in July 2012 with a $45 million deficit. It is one of a handful of municipal bankruptcies that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders and public employees want to understand how distressed cities handle their debts to Wall Street, compared with other creditors such as Calpers.

The future health of San Bernardino after it emerges from bankruptcy will depend on a workforce that has reliable pensions, Saenz told Reuters.

While impairing bondholders might impact the city's ability to borrow money at a later date, that is less of a concern to city officials than having a healthy pension plan, Saenz said.

San Bernardino struck a deal last year with the California Public Employees' Retirement System (Calpers), America's biggest public pension fund with assets of $300 billion, to pay it in full under any bankruptcy plan.

EEPK and Ambac sued San Bernardino this month, arguing that they should be treated as equal creditors to Calpers. Representatives were not immediately available for comment.

Saenz said the city will present its bankruptcy plan in May to give creditors a clear idea of how much the city can afford to pay them. The city was preparing for months of challenges and possible litigation from unhappy creditors after the plan is presented, he said.

"From their perspective, they see some impairment of Calpers as reasonable if they are going to receive a significant impairment," Saenz said, referring to EEPK, Ambac and Wells Fargo. "But we need to compare that argument to our ability to provide services for our city. And that needs a workforce. And you can't have a workforce without pensions."

Under the city's bankruptcy plan that is being drafted, cutting its debt to its pension obligation bondholders "will not have the same impact on the city post-banktruptcy if we impaired pensions," Saenz said.

Mediated talks between San Bernardino officials and its capital market creditors ended in September without agreement, Saenz, and a bondholder source familiar with discussions, told Reuters. Specific sums were discussed in mediation as to the extent to which the city wanted to cut that debt, but the parties ended the talks far from agreement, they said.

No conversations between the city and its capital market creditors have been held since and no further negotiations are scheduled, they said. The city has been ordered to produce a bankruptcy exit plan by May 30th.

Saenz said the city had been keeping a close eye on the bankruptcies of Detroit, Michigan, and Stockton, California. Both cities have had bankruptcy plans approved. In Stockton, Calpers was left untouched, and in Detroit pensioners emerged relatively unscathed, compared to Wall Street creditors.

BY TIM REID

Thu Jan 22, 2015

Texas Supreme Court to Hear Public School Finance Case.

AUSTIN, Texas (AP) – The Texas Supreme Court agreed Friday to hear the state's gargantuan, multiyear school finance case – and set a timetable that ensures there won't be a decision until after the legislative session ends in June.

Austin-based District Judge John Dietz had ruled last year and in 2013 that the way the state pays for public schools was unconstitutional, saying funding levels were inadequate and unfairly distributed around the state. The attorney general's office has appealed to Texas' highest civil court of appeals.

No date was set for oral arguments. But that paperwork schedule means the case will continue for more than six months at least. The legislative session that began last week ends June 1.

If the Supreme Court eventually upholds the previous rulings and strikes down the school finance system, new Gov. Greg Abbott will likely have to call lawmakers into a special session to devise a new one.

Abbott was Texas' attorney general before being sworn in as governor on Tuesday. He did not argue the case personally, but his office has maintained that, while far from perfect, Texas' school finance system is constitutional.

New Attorney General Ken Paxton will now continue the appeal.

In the meantime, it's unlikely that lawmakers will attempt to overhaul the school finance system during the current session since any changes they make may have to be redone based on the Supreme Court decision. That may doom an ambitious bill filled by Rep. Jimmie Don Aycock, a Killeen Republican who chairs the House Public Education Committee.

Texas doesn't have a state income tax, meaning public education funding relies heavily on property taxes levied in different areas. Though he knew the ongoing case could hurt his bill's chances, Aycock proposed consolidating for tax purposes the state's 1,200 school districts – thus making it easier for districts to share property tax collections.

The case grew out of the Legislature cutting $5.4 billion from classrooms in 2011, prompting the school districts responsible for educating three-quarters of Texas' 5 million-plus public school students to sue, claiming they could no longer afford to properly educate students.

The districts also argued that the current “Robin Hood” system, which mandates that schools in wealthy areas share portions of their income tax revenue with schools in poorer areas, was unfair to both.

In 2013, state lawmakers restored about $3.4 billion in school funding. That prompted Dietz to briefly reopen the case to hear new evidence, but he affirmed his original 2013 ruling with a lengthy, written decision last August.

By WILL WEISSERT

Associated Press – Friday, January 23, 2015

Stadium Solution Requires Pros, Not Task Force.

I was a member of the Chargers task force in 2003. I have taught sports law at USD law school for 10 years, and I have business and legal experience in the sports world, so when the mayor announced that he was going to create another task force, several people asked if I was interested. Initially, I said “sure,” but as I think about, I’ve decided that a task force — a group of citizens working for free in their spare time — is not what we need now.

San Diego needs to hire a first-class team of paid professionals working eight, 10 or 12 hours a day to analyze the issues, look for solutions, discuss the matter with city officials, the Chargers and whomever else they choose, and recommend the very best solution in a few months.

The team of professionals should probably include a real estate expert, an investment banker (preferably with some sports facilities experience) and a municipal finance expert, but one could debate the exact makeup. My point is that we need paid professionals, working full time, to find the best solution, not a group of well-meaning and intelligent citizens meeting at 7 p.m. every few weeks.

A task force is useful at the beginning of a project when you need to survey widely about the issues, gathering data and listening to every point of view. But that has been done. We know the options, but not likely to identify the most viable solution without professional guidance. This is not quite as challenging as astrophysics, but finding a solution which is affordable to the city, acceptable to the Chargers and can win at the ballot box is very difficult.

A real estate expert could analyze the various locations, and some of the more creative options suggested over the years, such as selling the Qualcomm site (and possibly the Sports Arena) and using the money to acquire land and/or build a stadium elsewhere. The investment banking expert could look for creative financing schemes. The municipal finance professional could ensure that the method chosen complies with California law. This cannot be done at meetings held every other Wednesday by a task force of people who whose expertise lies elsewhere

There are many important issues that a task force is simply unsuited to answer.

• Could the Q be modernized as was done in Green Bay and Chicago, providing a cheaper solution than a new stadium?

• Is it more or less viable to propose that a stadium be built in close coordination with a Convention Center expansion?

• Could a stadium be built on cheaper land elsewhere, as earlier discussed in connection with Chula Vista or Oceanside?

• What is the proper role of the county in this regional enterprise? Why is this exclusively a city problem?

• How large a contribution is reasonable from the city or county given the precedents in other cities?

• How likely is it that the city or county will recoup that contribution through additional tax revenues or otherwise over the next two decades or so?

• Will a new stadium get us Super Bowls or other big events, how often, and with what financial gain for the city?

• What would the city do about the Q if the Chargers left? The deferred maintenance on the Q — necessary fixes that have been put off for years — is a huge expense, but knocking the place down puts Aztec football out of business. We are between a rock and a hard place with our aging stadium, and "just say no" may not be a satisfactory answer.

Undoubtedly, there are more questions to be addressed, but this gives you the idea. A task force can discuss these questions, but it really cannot answer them definitively, and certainly not by September

So let's not do a task force, let's hire a few of the best and brightest. Yes, it will cost some money, but it's worth it. Also, it would be a prestige retention for the experts, so maybe we can get them at a public service discount, with a "success bonus" to be paid out of stadium funds if a deal gets done. There is nothing like financial incentives to get things done right. And any reasonable cost for experts would be a small price to pay for addressing the Chargers, the Aztecs and our aging stadium.

U-T San Diego

By Len Simon JAN. 21, 2015

Simon is an attorney and law professor in San Diego.

Nantucket Sells Refunding Debt After Winning Record Moody's Mark.

Nantucket, the Massachusetts island that's a tourist destination and summer getaway, is issuing $3.4 million of debt after earning its highest Moody's Investors Service grade.

The general-obligation bonds, to be sold Thursday in a competitive offer, will refinance higher-cost borrowings, according to Brian Turbitt, the director of municipal finance. Moody's raised Nantucket's $83 million in general obligations Jan. 16 to Aa1, one step below the top and a high for the municipality from the company.

The island, about 30 miles (48 kilometers) south of Cape Cod, has a year-round population of about

11,000 that can soar to about 50,000 during the summer. Buoying its finances, the municipally owned airport hasn't received subsidies from the general fund for two years, according to Turbitt.

"We believe the airport itself has stabilized," he said in an interview. Under a new manager, there has been better review of the facility's revenue and spending, according to Turbitt.

With benchmark municipal interest rates the lowest since May 2013, Nantucket stands to save about $340,000 by refinancing, Turbitt said.

"We certainly could've played the waiting game to see if it got better," he said. "But it just made sense to do it based on that projection."

The median home value on the island is about $930,000, compared with about $330,000 across Massachusetts, according to U.S. Census data. Its primary revenue comes from property taxes. The median family income of about $93,000 exceeds the statewide level of about $85,000.

Bloomberg

By Meenal Vamburkar Jan 21, 2015

To contact the reporter on this story: Meenal Vamburkar in New York at mvamburkar@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Stacie Sherman

---

Abbott Takes Reins in Texas as Crude Stalks Economy: Muni Credit.

(Bloomberg) -– Greg Abbott, Texas's first new governor in 14 years, takes over as an oil boom that helped stoke the economy and tax collections shows signs of fading.

Abbott, a 57-year-old Republican who was sworn in Tuesday, faces the challenge of extending the "Texas Miracle" that added 1.5 million jobs since the end of the recession and left the government with a $7.5 billion budget surplus. He confronts pressure to cut taxes and bolster the second-mos--populous state's infrastructure even after crude prices sank more than 50 percent since June.

"The major price correction represents a significant change in Texas," said Robert Dye, chief economist at Comerica Inc., a Dallas-based bank. "It will result in slower economic growth, and will result in lower revenues to the state as well."

Abbott, Texas's former attorney general, follows Republican Rick Perry, the longest-serving governor in state history and a former presidential contender who may try again in 2016.

Perry Era

The economy, equivalent to the world's 13th-largest as of 2013, expanded under Perry as the population swelled, businesses moved in and energy discoveries revived oil and natural gas production.

The state has added 2.2 million jobs since Perry took office in December 2000, accounting for more than a quarter of the growth in the U.S.

The crude-price slide — to about $47 a barrel from above $100 in June — casts a pall over the biggest oil-producing state. The energy industry has benefited from new drilling technologies, including fracking, that are unlocking shale reserves. The discoveries reversed a decades-long decline in production, creating high-paying jobs and lifting tax collections.

The Federal Reserve Bank of Dallas said in a report this month that job growth may slow to as little as 2 percent this year from 3.6 percent in 2014. Comptroller Glenn Hegar forecasts that economic growth will slow to about 3 percent this year, from 3.7 percent in 2014.

Tax Trickle

That may trickle through to tax collections, said Douglas Benton, senior municipal credit manager for Cavanal Hill Investment Management, a Tulsa, Oklahoma-based company that handles about $6 billion, including Texas municipal bonds.

“We’ll look closely at those holdings that will be impacted,” said Benton, who works from the firm’s Richardson, Texas, office. “It will have a ripple effect that will be felt in other parts of the state’s economy.”

The biggest and third-largest oil-field service providers, Schlumberger Ltd. (SLB) and Baker Hughes Inc. (BHI), are cutting about 16,000 workers. The second-largest, Halliburton Co. (HAL), said on Tuesday it expects to make reductions in line with its competitors. Though the companies are mainly based in Texas, the cuts will come worldwide.

Abbott said last month that there would still be money for schools and infrastructure.

Spending Money

Texas may have $113 billion for general-purpose spending through 2017, an increase of about 10 percent from the previous two years, according to the comptroller. It has top ratings from Standard & Poor’s and Moody’s Investors Service.

The state faces rising costs for pensions to make up for underfunding the plans, according to Moody’s. The Employee Retirement System, the main plan for state workers, requested a 59 percent funding boost for the next two-year budget cycle, according to Moody’s.

The governor didn’t mention oil prices during his inaugural address.

“I will ensure that we build the roads needed to keep Texas growing,” he said in a speech on the steps of the Capitol in Austin. “Taxes raised for roads will be spent on roads. I will speed up our needed water projects, and I will secure our border.”

Texas has struggled to build roads and infrastructure fast enough to accommodate new residents.

While the population has grown by 125 percent over the past four decades, to 27 million, capacity on the state’s roads and highways has increased by only 19 percent, said Scott Haywood, president of Move Texas Forward, a group that advocates more spending on transportation projects.

Wall Street hasn’t punished the state yet. In August, Texas sold $5.4 billion of one-year notes at a record low 0.13 percent yield to cover the cost of schools and other expenses before tax money flows in. It was the state’s smallest short-term note sale since 2007, underscoring how its finances have strengthened since the recession that ended in 2009.

1980s Shadow

Comptroller Hegar said in a press conference this month that he didn't expect Texas to repeat the 1980s oil-induced recession, when plunging crude prices led to a crash in housing prices and bank failures.

"I — in no shape, form or fashion — am saying that Texas is going into a recession," he told reporters earlier this month.

The Texas economy is more diverse than three decades ago, cushioning against plummeting oil. The industry comprises 2.7 percent of employment, compared with 4.5 percent in the early 1980s, according to the Dallas Fed.

JPMorgan Chase & Co. Chief U.S. Economist Michael Feroli foresaw a broader impact in a December report. He warned that a prolonged slump in crude prices may push Texas into recession.

"The challenge for the state is going to be in meeting all of its spending expectations amid slower revenue growth," said Nick Samuels, a Moody's senior credit officer. "This is going to a very different story for Texas."

Bloomberg Muni Credit

By Lauren Etter and Darrell Preston

Jan 21, 2015

To contact the reporters on this story: Lauren Etter in Austin at letter1@bloomberg.net; Darrell Preston in Dallas at dpreston@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net William Selway, Mark Tannenbaum

---

Texas Bill Would Take Away Eminent Domaine Power for Private Road Builder.

A bill introduced in the Texas legislature would strip the Texas Turnpike Corp. of its eminent domain authority, preventing it from building a private toll road northeast of Dallas.

The company was founded one day before the legislature's 1991 repeal of a law allowing private toll road companies to use eminent domain to build private highways went into effect.

"They're the only private company that is currently able to do this kind of turnpike because they fall under grandfathered rights," state Rep. Cindy Burkett (R), who filed House Bill 565, told the Texas Tribune. No other company that would be impacted by her bill, her staff discovered.

The state has used P3s to build many new highways in recent years, allowing companies to build, operate and maintain the projects, but in those P3s, the state maintains ownership of the property.

The Texas Turnpike Corp.'s bid to build the Northeast Gateway on the northern outskirts of Dallas faced strong opposition from the public.

"There was no justifiable transportation need … and it was a private company trying to take private land," said Christopher Kurinec, a resident who opposed the plan. "I think those things combined really undid it."

The North Central Texas Council of Governments reversed an earlier recommendation to approve the toll road and the firm is no longer moving ahead with the project.

NCPPP

By Editor January 22, 2015

[North Carolina Toll Project Faces Citizen Lawsuit.]

A citizen advocacy group on Tuesday filed a lawsuit against the state of North Carolina and its private sector partner to block the construction of toll lanes on I-77 in Charlotte, N.C., arguing the project is not in the best interest of the public.

Widen I-77, an anti-toll community group, claims the $655 million project includes illegal contracts, violates public policy and benefits the private company more than drivers.

"The state has unconditionally delegated taxing authority and failed to provide appropriate limitations on taxing powers it has delegated," Widen I-77 attorney Matt Arnold, told WSOC TV.

The group expects the lawsuit to permanently stop the toll road, but hopes to have a hearing on their preliminary injunction request in the next few weeks. A trial would likely take more than a year.

The lawsuit comes two days before Mobility Partners, the private sector team formed by Spanish-owned Cintra, was supposed to have secured financing. The North Carolina Department of Transportation, however, granted Mobility Partners an extension as two move toward completing all contractual requirements.

I-77 currently has one high-occupancy-vehicle (HOV) lane in each direction. The 26-mile project stretching from Charlotte to Mooresville will convert those HOV lanes to express lanes. The company also will build a second express lane alongside the converted HOV lane on I-77 North and South.

NCPPP

By Editor

January 20, 2015

[Atlantic City Rating Cut by Moody's on Emergency Manager Plan.]

Atlantic City, New Jersey's struggling gambling hub, had its rating cut six levels deeper into junk by Moody's Investors Service after Governor Chris Christie appointed an emergency-management team.

The reduction to Caa1 from Ba1 on on the city's $344 million in general-obligation debt follows the governor's decision Thursday to install a management team that includes Kevyn Orr, who shepherded Detroit through its record $18 billion municipal bankruptcy last year. Orr will serve as a consultant, with Kevin Lavin taking the role of emergency manager.

"The downgrade to Caa1 reflects the appointment of an emergency management team of two bankruptcy specialists mandated to consider debt restructuring, which could involve a loss to bondholders," analysts Josellyn Gonzalez Yousef and Naomi Richman said in a statement.

Adding to the increased risk of default is the city's plan to sell about $12 million of bond-anticipation notes next week to refund debt maturing Feb. 3, the analysts said. The one-year notes, to be sold Jan. 27, will refund an equivalent amount of securities issued a year ago, according to data compiled by Bloomberg.

Speaking in Atlantic City Thursday, Orr and Lavin both dismissed questions of a possible bankruptcy as premature. Orr declined to answer questions about the appointment and the note sale. Kevin Roberts, a spokesman for Christie, declined to comment.

Revenue Down

Christie, a 52-year-old Republican in his second term, has struggled with a five-year plan to turn around Atlantic City. Casino revenue dropped to $2.9 billion last year, from a peak of $5.2 billion in 2006, as Pennsylvania, Delaware, Maryland and New York expanded gambling. Moody's dropped the city's rating to junk in July because of dependence on casinos.

The city has borrowed $345 million since 2010 to cover tax appeals and municipal deficits, and debt service now makes up about 15 percent of its budget, according to the executive order Christie signed authorizing Orr and Lavin. The city is relying on "unsustainable bond issuances" in part to fund pension payments of $23 million this year and $25 million next year, the order said.

Investors are demanding more additional yield to buy Atlantic City general obligations. Debt sold December 2013 and maturing December 2021 traded Friday at an average yield of 5 percent, the highest since August, data compiled by Bloomberg show.

Michael Stinson, the city's revenue director, said he didn't think Moody's "has a clue'" about a bills pending in Trenton that would help the city. The legislation would have the state-administered Casino Reinvestment Development Authority cover as much as $30 million in debt payments and have the casinos enter into payment-in-lieu-of-taxes agreements to guarantee debt service.

"I'm speechless; I'm in shock,," Stinson said. "These guys came in with the governor's blessing. Up to this point, any additional state involvement has been met positively by the market."

Bloomberg

By Terrence Dopp Jan 23, 2015 9:16 AM PT

To contact the reporter on this story: Terrence Dopp in Trenton at tdopp@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Schoifet, Mark Tannenbaum

[Moody's: Texas Pension Costs Rising for State and Its Local Governments.]

New York, January 21, 2015 — The State of Texas (Aaa stable) and some of its local governments face rising pensions costs due to a history of contributions below actuarial requirements, Moody's Investors Service says in a new report, "Cost Deferrals Drive Rising Pension Challenges for Texas and Some Locals."

While the state has a broad ability to tackle pension funding challenges, many local government pension plans are subject to state constitutional protection.

"Most Texas local governments face greater legal constraints and procedural hurdles to pension reform, while the state has substantially more legal flexibility to change and adjust benefits to its plans," said the report's author and Moody's Assistant Vice President — Analyst, Thomas Aaron.

Texas participates in four single-employer plans, with the majority of costs associated with the Employee Retirement System (ERS), and the Teachers Retirement System (TRS). In order to address an ongoing funding challenge, the ERS requested a 59% increase in the state's contribution rate for the fiscal 2016-17 biennium for that system alone, a cost increase of nearly $540 million across all of the state's funds.

Local governments can have one or more single-employer plans, and may also participate in either the Texas Municipal Retirement System (TMRS), or the Texas County and District Retirement System (TCDRS). The state's largest cities — Houston, Dallas, San Antonio, and Austin – face varying levels of projected pension cost and liability growth, driven in part by divergent historical contributions compared to plan funding requirements.

While state statute governs TRS, TMS and TCDRS, the control of benefits and contributions for local single-employer plans varies. Some local single-employer plans are solely governed solely by state statute, while in other cases state law delegates authority to local control. However, local control does not necessarily translate to unilateral authority to enact benefit changes for local governments, because many share authority over their pension systems with the plan boards of trustees.

In August 2015, the City of Fort Worth (Aa1 stable) will head to federal court to settle a disagreement regarding whether its reduction to the future pension benefits of current employees violates state constitutional protections.

The report can accessed at:
https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1002263

[Stockton, Calif., Can Leave Bankruptcy During Appeal, Judge Rules.]

Forcing Stockton, Calif., to remain in bankruptcy while an unhappy bondholder group protests the city's plan to cut millions of dollars would unfairly delay payments to the city's retirees, a federal judge said Tuesday.

From his Sacramento courtroom, U.S. Bankruptcy Judge Christopher Klein ruled that mutual-fund giant Franklin Templeton Investments shouldn't be allowed to hold up the city's departure from bankruptcy protection.

Franklin Templeton's lawyers wanted the city to remain in bankruptcy while they appeal Judge Klein's Oct. 30 decision approving a plan that pays Franklin-managed funds about $4 million for their roughly $37 million claim. The fund manager says the 300,000-resident city can afford more than that.

On Tuesday, Judge Klein ruled that the Franklin-managed funds aren't likely to win that battle and that a delay during the appeals process would unfairly tie up payments to retired city workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

"Since we're dealing with retirees who presumably are in the later stages of their lives, longer term delays are very obviously and poignantly to their detriment," Judge Klein said. He added that cities and counties that borrow money in the roughly $3.6 trillion municipal bond market "are served by some definitive resolution of cases."

Earlier Stockton's leaders said that delaying implementation of the plan also would make it hard for the city's police department to recruit new officers and prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem.

The Franklin-managed funds are the only creditors to continue to challenge the city's bankruptcy-exit plan.

The city spent some of the municipal-bond money extended by the Franklin funds on fire stations and parks. The municipality made four interest payments before it missed a payment on March 1, 2012.

Stockton filed for bankruptcy protection in June 2012, with more than $700 million worth of debit, making it the largest city to seek bankruptcy protection under Chapter 9 until Detroit's filing about a year later.

Stockton, which is some 80 miles inland from San Francisco, was hit hard by the housing crash.

Judge Klein blamed the city's financial woes on former leaders who offered overly generous pay to municipal workers and took on debt for new projects that Stockton couldn't afford.

Throughout the bankruptcy, the city cut costs. Voters also approved a new 3/4-cent sales tax to pay for more police officers.

Stockton leaders didn't try to reduce costs by paying less money into a pension plan administered by the California Public Employees' Retirement System, even though Judge Klein decided that a California city's pensions could indeed be cut using bankruptcy's power.

THE WALL STREET JOURNAL

By KATY STECH

Jan. 20, 2015 3:29 p.m. ET

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

Atlantic City Bankruptcy Talk 'Premature': Turnaround Team.

ATLANTIC CITY NJ/NEW YORK — It’s “premature” to talk about bankruptcy for troubled gaming resort Atlantic City, Detroit’s former turnaround expert said Thursday as he signed on with the latest bid to revive a city some see as bound to follow the path taken by the Motor City.

Atlantic City’s lifeblood, gaming revenue, has been decimated as newer casinos in nearby states such as New York and Massachusetts lured gamblers away from the storied but downtrodden New Jersey shore locale.

New Jersey Governor Chris Christie on Thursday appointed a turnaround team, including former Detroit emergency manager Kevyn Orr – a step the struggling casino town has resisted.

“There’s only one reason to hire Kevyn Orr after Detroit and that’s if you’re going into bankruptcy, said Tamara Lowin, Municipal Analyst at Belle Haven Investments.

Christie, a potential 2016 presidential candidate, acknowledged multiple bipartisan attempts to get the city on firm financial footing, but said they had failed. All of those plans required significant state resources.

“We are digging out of an enormous hole,” Christie said. “We have problems we have to fix… none of them are unfixable if in fact we have the political will to be able to get them done.”

The team will be led by Emergency Manager Kevin Lavin, who previously worked for turnaround specialist FTI Consulting. Lavin is an expert in “delicate discussions with constituencies with different interests,” said John Rapisardi, a bankruptcy lawyer at O’Melveny & Myers, who has worked with him.

Orr will support Lavin as special counsel. A former corporate bankruptcy lawyer at the firm Jones Day, Orr most recently guided Detroit through the biggest-ever U.S. municipal bankruptcy.

Orr said it was “premature” to talk about bankruptcy for the city, which must repay a $40 million bridge loan from the state by March 31. It would take about 90 days to implement a plan and another 90 days to see results, he said.

Still, observers said that the appointment was a clear indication of direction.

“(New Jersey) does have a path to municipal bankruptcy in its statutes – given that, the appearance of Mr. Orr is surely making a impression on the municipal finance community,” said Melissa Jacoby, a law professor at the University of North Carolina.

In New Jersey, a city must win permission from the Local Finance Board to file for Chapter 9 municipal bankruptcy.

“If Chris Christie is moving this forward then presumably that access wouldn’t be denied,” said bankruptcy lawyer Michael Sweet.

The appointment of an emergency manager was rejected by Atlantic City lawmakers earlier this month as they endorsed steep budget cuts.

“I’m not in support of it, but if we do get an emergency manager, I’ll work with him,” said State Assemblyman Vince Mazzeo, who represents Atlantic City, ahead of the announcement.

There were, however, doubts that Orr can work magic on a city that saw four of its 12 casinos close in 2014. A fifth, Trump Entertainment's Taj Mahal, narrowly averted closing but remains in bankruptcy. The operating unit of Caesars Entertainment, the owner of Bally's Atlantic City and Caesars Atlantic City, filed for bankruptcy earlier in January.

"No one should expect that the appointment of a very competent fiscal manager is the solution for Atlantic City," said Peter Reinhart, professor and director of the Kislak Real Estate Institute at Monmouth University, as it would not solve the underlying problems of a stagnant tourism and casino industry.

Atlantic City has some parallels with Detroit in the importance of casino revenues – Detroit's reliance on casino cash to help fund a recovery was criticized during its restructuring process.

Still, Detroit turned to its art collection to ease cuts to pensions as it climbed out of bankruptcy.

When asked about comparisons to Detroit, Orr said each place was different and "had to be taken on its own."

By REUTERS

JAN. 22, 2015, 6:02 P.M. E.S.T.

(Additional reporting by Tom Hals, Lisa Lambert, Curtis Skinner, Megan Davies, writing by Megan Davies; Editing by Diane Craft and Christian Plumb)

Christie Uses Executive Order to Appoint an Emergency Manager in Atlantic City.

Moving to take greater control over Atlantic City, which is struggling financially as its casino industry shrinks, Gov. Chris Christie on Thursday appointed a corporate finance lawyer to be the city's emergency manager.

Along with the lawyer, Kevin Lavin, Mr. Christie brought in Kevyn Orr — the lawyer who led Detroit through the bankruptcy it emerged from last month — as a consultant. Mr. Christie said the appointments were not intended to "marginalize or minimize" the roles of the city's elected government, led by Mayor Don Guardian.

But the governor's move, made through an executive order, came just two weeks after Mr. Guardian flatly rejected the proposal of an emergency manager, saying that it would simply add another layer of bureaucracy. The appointments drew immediate fire from the president of the state Policemen's Benevolent Association, Patrick Colligan, who called the managers "hatchet men."

Three casinos are the latest victims of Atlantic City's troubled gambling industry. Showboat is scheduled to shut down Aug. 31.Like a Domino, Another Atlantic City Casino FallsJUNE 27, 2014 Police and Fire Department officials are wary because a report issued in November by a commission appointed by the governor recommended reducing the size of Atlantic City's police and firefighting forces as one way of saving money. That report, which also suggested installing an emergency manager, said that the city's property tax revenue would fall to $8 billion in the 2016 fiscal year, less than half of what it was three years ago.

Atlantic City has never fulfilled the hopes that led lawmakers to legalize gambling there almost four decades ago. But its financial problems turned into a crisis after neighboring states, most notably Pennsylvania, created their own casinos and siphoned off many of the gamblers who had streamed to the Jersey Shore.

Four of Atlantic City's 12 casinos closed last year, and a fifth, Trump Taj Mahal, barely averted a shutdown last month. The closings left about 9,000 casino workers unemployed.

The steady deterioration led Mr. Christie to declare on Thursday that he could not "wait any longer." He said that "more aggressive action" was needed, and that "it's time to confront the dire circumstances."

Mr. Christie said his appointees would provide the city's elected officials with tools to help them resolve the city's financial problems. His executive order calls for Mr. Lavin to report back within 60 days with "a plan to place the finances of Atlantic City in stable condition on a long-term basis by any and all lawful means."

Despite such strong language, some close observers of the situation expressed relief that the governor's action was not more autocratic.

"I was loaded for bear this morning," said Bill Dressel, the executive director of the New Jersey State League of Municipalities. "I was ready to roll the cannon out of the closet and aim it at the golden dome."

He said he had been prepared to criticize the governor for usurping the authority of the city's elected officials. But after reading the order and talking with Mr. Guardian, Mr. Dressel said he was pleasantly surprised by the tone of the first-day discussions.

Continue reading the main storyContinue reading the main storyContinue reading the main story
In a statement, Mr. Guardian said that "although no timetable was given, they communicated to us that they wanted to get in, help us fix the city's finances, and get out."

Assemblyman Vince Mazzeo, who has proposed legislation aimed at stabilizing Atlantic City's tax base, issued a statement backing Mr. Guardian and opposing Mr. Christie's action.

"The appointment of an emergency manager is not something that I support, but I will work with him and his team in a cooperative manner to fix and reform Atlantic City's dire property tax situation," Mr. Mazzeo said. He added that "even with the appointment of an emergency manager — and some questions about his powers and what he's going to be able to accomplish — the need to reform and stabilize the Atlantic City tax structure is still the most pressing fiscal issue facing our region."

The appointment of Mr. Orr, who was the emergency manager of Detroit for about 20 months, is not an indication that Atlantic City is likely to file for bankruptcy, Mr. Dressel said. He said that New Jersey laws effectively ruled out a municipal bankruptcy, and that there had not been one in the state since the Great Depression.

But now that he will be working closely with Mr. Orr, Mr. Guardian may regret a line or two he uttered last week in his State of the City speech. "At least we're not Detroit," the mayor said, as he ran through a series of quips.

Then he gave his reaction to the idea of appointing an emergency manager. "Yeah, of course," he said then. "It's a great idea to have the state monitor monitor the state monitor who's already monitoring me."

THE NEW YORK TIMES

By PATRICK McGEEHAN

JAN. 22, 2015

New Illinois Governor Orders Spending Freeze.

CHICAGO — Illinois' new governor, Bruce Rauner, took his first shot Monday at addressing the state's crippling financial crisis, ordering all state agencies to freeze non-essential spending.

State workers were also instructed to turn down office thermostats and turn off lights to save money when their offices are not in use, according to a wide-ranging executive order from the Republican first-time officeholder and former private equity investor.

In his inaugural address, Rauner said Illinois' history of bad fiscal management was hurting the state's ability to compete.

"Our government has spent more than we could afford; borrowed money and called it revenue," he said. "Rather than responsibly budgeting the money we had, we implemented programs we couldn't afford."

The Land of Lincoln is buckling under a chronic structural budget deficit and the lowest credit ratings and worst-funded pension system among the 50 states. The fiscal crisis is the worst the state has seen for decades and could be the nation's biggest. The crisis is also weighing on its largest city Chicago, which is struggling with a big pension funding burden of its own.

Rauner ordered agencies to produce lists of contracts that could be terminated and to put a hold on new state contracts and grants until July 1 with certain exceptions. He also ordered a halt on planning for highway projects pending reviews, put limits on state worker travel and said the state should sell equipment it does not need.

On Friday, his transition team said an effective plan would include spending cuts and tax reform.

Rauner also said the fifth-largest state is facing moral and ethical crises and that he will sign an order on Tuesday to improve ethics and accountability in the executive branch of state government.

To make progress, Rauner will need to find a way to work with a legislature dominated by longtime Democrat power broker Mike Madigan, speaker of the Illinois House."You have a Democratic legislature and a Republican governor, so they're going to have to figure out some way to work together," said David Merriman, an Illinois budget expert at the University of Illinois.

Rauner pledged "to work on a bipartisan basis to drive results and get things done." A Madigan spokesman said the speaker will "work with the governor in a professional and cooperative manner."

Pension payments are projected to jump to nearly $7.6 billion in fiscal 2016 from $6.8 billion this fiscal year as the state defends cost-saving reforms in court. Outgoing Democratic Governor Pat Quinn's budget office recently estimated Illinois' unpaid bills will climb to $9.8 billion at the end of fiscal 2016, from $4 billion this year. The state's projected general fund deficit is expected to balloon to nearly $5.8 billion, from $180 million this fiscal year.

“In the modern era… the state has never been in this poor of a financial condition,” said Laurence Msall, president of Chicago-based government finance watchdog group Civic Federation.

Continue reading the main storyContinue reading the main storyContinue reading the main story
In a pre-inaugural tour on Saturday, Rauner told local media outlets that his team discovered unpaid bills stashed in drawers. Rauner’s spokespeople did not respond to requests to confirm the reports.

Robert Amodeo, a portfolio manager at asset manager Western Asset, put Illinois in the same class with the most troubled municipal bond issuers in the nation. “We will continue to monitor developments in Puerto Rico, New Jersey and especially Illinois, all of which face challenging fiscal conditions,” Amodeo said.

To sell its debt, Illinois has had to offer hefty yields. Illinois bonds due in 10 years yield about 140 basis points more than stellar AAA-rated debt, according to Municipal Market Data. California, which is bouncing back from its fiscal morass, has a so-called credit spread of only 24 basis points.

Illinois’ credit ratings, at A-minus and A3, are the lowest among the states, and rating agencies have warned of further downgrades. An immediate concern is the Jan. 1 partial expiration of 2011 temporary tax hikes that dropped the personal income tax rate to 3.75 percent from 5 percent, and the corporate rate to 5.25 percent from 7 percent.

Rauner said the tax hike hurt Illinois’ economy and put more stress on the state’s social safety net. “As a result, today Illinois is not as competitive as we need to be and cannot be as compassionate as we want to be,” he said.

By REUTERS

JAN. 12, 2015, 9:09 P.M. E.S.T.

(Reporting by Karen Pierog; Editing by David Greising, Eric Walsh, Megan Davies, Dan Grebler and Ken Wills)

Obama Announces Moves to Encourage Expansion of Public Broadband Networks.

CEDAR FALLS, Iowa — President Obama announced executive actions on Wednesday to expand high-speed Internet access and make it more affordable, including an effort to spur the creation of municipal broadband networks that could challenge the nation’s large telecommunications companies.

“In too many places across America, some big companies are doing everything they can to keep out competitors,” Mr. Obama said at Cedar Falls Utilities, a municipal service that provides one-gigabit broadband — 100 times the national average speed — to a city of 40,000. “We’ve got to change that — enough’s enough.”

Pointing to Cedar Falls as the “guinea pig” for unfettered expansion of broadband service, Mr. Obama called on the Federal Communications Commission to override state laws that keep communities from providing high-speed Internet.

The telecommunications industry reacted angrily to the president’s move, saying that it was circumventing Congress and state legislatures. The industry is also opposed to Mr. Obama’s proposal that the F.C.C. regulate the Internet as a public utility, which he announced in November.

“The private sector is much better at deploying capital efficiently than the government,” said John E. Sununu, a former Republican senator from New Hampshire who is now co-chairman of Broadband for America, an industry coalition.

“Standing up in public and saying you’re taking on the big guy always inspires some populist sentiment,” said Mr. Sununu, who is also on Time Warner Cable’s board of directors. “But I think what the president is doing here is giving up on Congress, undercutting state laws and pushing rhetoric that doesn’t match the facts.”

It is not clear how far Mr. Obama can go in clearing the obstacles to broadband competition. Nineteen states restrict cities’ ability to provide high-speed data service.

Still, his advisers said, the president hoped the F.C.C. could “level the playing field.” Two other cities that offer high-speed Internet service — Chattanooga, Tenn., and Wilson, N.C. — have petitioned the agency to override state laws that prohibit them from expanding their service.

Michael K. Powell, who served as F.C.C. chairman under President George W. Bush, said Mr. Obama was chasing “false solutions.”

“While government-run networks may be appropriate in rare cases, many such enterprises have ended up in failure, saddling taxpayers with significant long-term financial liabilities and diverting scarce resources from other pressing local needs,” said Mr. Powell, the president and chief executive of the National Cable & Telecommunications Association, an industry group.

In his speech on Wednesday, the president criticized large Internet providers that he said had a near monopoly in many markets around the country and often provided subpar service.

“You’re stuck on hold, you’re watching the loading icon spin, you’re waiting and waiting and waiting,” Mr. Obama told an audience of about 200 in a utility warehouse as he stood in front of a pegboard full of tools and shelves of router boxes and cable. “Meanwhile, you’re wondering why your rates keep getting jacked up when your service doesn’t seem to improve.”

Mr. Obama’s initiative includes an effort by the Commerce Department to help communities build broadband infrastructure. It would also provide Agriculture Department loans and grants to Internet providers in rural areas, and it would create an interagency council to speed up broadband deployment, White House officials said.

The president will also convene a meeting of mayors and local officials at the White House in June to discuss broadband expansion efforts.

The moves are in line with Mr. Obama’s efforts to improve American competitiveness and spur innovation and with his recent emphasis on policies meant to ensure that the economic recovery is felt more broadly throughout the country.

“I’m going to focus on how we can build on the progress we’ve already made and help more Americans feel that resurgence in their lives,” Mr. Obama said.

THE NEW YORK TIMES

By JULIE HIRSCHFELD DAVIS

JAN. 14, 2015

Kansas Follows Red-Ink Road With Brownback Tax Cuts: Muni Credit.

Kansas Governor Sam Brownback is touting tax cuts enacted in 2012 as the way to achieve the economic strength of oil-rich Texas. The question is whether his government will go broke first.

The reductions that the second-term Republican championed are producing hundreds of millions of dollars of deficits and placing the state of 2.9 million in a tightening fiscal vise. Brownback stayed the course in his 2016 budget Friday, while acknowledging the stress and altering his approach.

“We will continue our march to zero income taxes,” Brownback told lawmakers Thursday night in Topeka, the capital.

Yet the march is about to slow. Responding to the fiscal crisis, Brownback, 58, proposed making the reductions more gradual and recommended raising taxes on tobacco and liquor.

His plan would lift the cigarette tax to $2.29 per pack from 79 cents, while the alcoholic beverage levy would rise to 12 percent from 8 percent. The moves would raise an additional $394 million over two years, helping close a gap of more than $710 million for that period, according to the budget document.

Payoff Wait

As Kansas awaits the payoff from Brownback’s Tea Party-inspired tax-cutting wager, the governor and legislature are racing time as the treasury runs out of money. Moody’s Investors Service cut Kansas’s credit rating in April and Standard & Poor’s lowered it in August, potentially increasing borrowing costs for agencies and municipalities.

“The challenge for the state is in the interim — how do you make up for the shortfall?” said Dan Heckman, a senior fixed-income strategist in Kansas City at U.S. Bank Wealth Management, which oversees $126 billion.

Because the tax cuts produced greater revenue losses than anticipated, the state faces a $280 million shortfall for the remainder of this fiscal year, which ends June 30.

“We must acknowledge that the most recent data regarding state government revenue and expenditures present a clear challenge that must be addressed,” Brownback said Thursday night.

While he repeated his conviction that states without income taxes grow faster than those with high levies, the slower pace of cuts and recommendations for higher consumption levies are a nod to the stress Kansas faces.

November Victory

The response will be instructive to states such as Oklahoma and Missouri that have followed suit with tax cuts aimed at stimulating their economies.

While Republican governors as a group have advocated reductions, Brownback stands out for leading his state to the precipice, triggering the credit downgrades and the elimination of a $700 million surplus.

Brownback won re-election in November in a race that was a referendum on the cuts. He offered oil-rich Texas, which has no income tax, as the model for Kansas.

“If lawmakers look at the situation and say they will try to cut their way out of it, then it is a dramatic turning point for the state because you’re talking about significant downsizing of services,” said Duane Goossen, a former budget director under Republican and Democratic Kansas governors.

Court Decision

There are more complications looming after a state court ruled that Kansas was unconstitutionally underfunding schools. While the decision is expected to be appealed, S&P said this month that the case “could require substantially higher education funding.”

The company said next fiscal year’s budget “will be an important component” of Kansas’s credit quality.

Part of Brownback’s solution to balance this year’s spending plan is to cut the state’s contribution to its retirement system by $40 million. Kansas has the fifth-weakest pension among U.S. states, according to data compiled by Bloomberg.

“We’d like to see some sort of balance,” David Hitchcock, an analyst at S&P in New York, said in an interview. One-time fixes won’t address the longer-term structural deficit, he said.

In 2012, the legislature cut the top income-tax rates 26 percent, eliminated levies on about 191,000 small-business owners and increased standard deductions for married and single head-of-household filers. While revenue declines were anticipated, the degree was greater than state budget analysts forecast.

‘In Trouble’

Brownback, a former U.S. senator and 2008 presidential candidate, has insisted the reductions will eventually spur growth.

Goossen, a senior fellow at the Kansas Center for Economic Growth, a nonprofit in Topeka that researches budget and tax policy, said Kansas can’t wait.

“The state’s in trouble right now,” he said.

While Kansas doesn’t issue general-obligation debt, the Moody’s downgrade to Aa2, two steps below the top, affected $2.8 billion of securities, including bonds for highway improvements. S&P dropped it to an equivalent AA.

“Governor Brownback does believe that eventually this will lead to greater economic activity and will bring additional revenue sources to the state,” said Heckman at U.S. Bank. “But his time frame has to meet up with the revenue, and I think that’s a bit of a mismatch.”

Bloomberg Muni Credit

By Tim Jones

Jan 16, 2015 9:04 AM PT

To contact the reporter on this story: Tim Jones in Chicago at tjones58@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum

---

California Zooms Past Russia, Italy and Soon Brazil in Economic Might.

California is overtaking Brazil as the world's seventh-largest economy, bolstered by rising employment, home values and personal and corporate income, a year after the most-populous state surpassed Russia and Italy.

The Golden State, with an equivalent gross domestic product of $2.20 trillion in 2013, expanded last year by almost every measure, according to data compiled by Bloomberg. Brazil's gross domestic product, in contrast, declined 1 percent from $2.25 trillion in the first three quarters of 2014 as its export of raw materials fell.

Governor Jerry Brown, 76, sworn in this month to an unprecedented fourth term, is presiding over the turnaround as he steers away from persistent deficits and fiscal turmoil that prompted Republican presidential candidate Mitt Romney in 2012 to compare California to Greece, which has about a 10th of its GDP. California-based companies from Apple Inc. to Walt Disney Co. handed investors a total return of 119 percent since January 2011, when Brown returned to the governor's office, compared with 96 percent for the Standard & Poor's 500.

"It's the diversity of the California business environment, from movies to the Internet to agriculture — the incredible array of businesses that make up the state," Brown said yesterday in an interview at his office in Oakland, where he was mayor from 1999 to 2007. "Certainly getting our finances in line as a state is also helpful: the new investments in our schools; solid universities; investments in water and energy. All this gives security and keeps California very much in the forefront of investment, change, cultural adaptation and leadership."

Sustained Momentum

Brown's economy has sustained its momentum since 2013, when the value of goods and services produced in the state topped that of Russia and Italy to vault California to No. 8 in the world. California grew an average of 4.1 percent annually during the first three years of Brown's most recent term.

Economists in Brazil, with a population five times bigger than California's 38.3 million, cut their growth estimate and raised their inflation forecast for this year on Jan. 12, as the central bank raises rates in the world's second-biggest emerging market. Its economy grew 0.1 percent in the third quarter over the three previous months, after contracting 0.6 percent in the second quarter.

"Resource-rich nations are traditionally subject to boom and bust," Brown said. "We're not just dependent on one particular industry or resource."

Renewable Energy

Brown, in his inaugural speech on Jan. 5, said the California economy can expand even as the state grows more aggressive in requiring the use of renewable energy sources and reducing the use of gasoline.

“We have to prove to the world that you can move forward with progressive and forward-thinking climate change policies while growing the economy simultaneously,” Kevin De Leon, a Democrat and state senate president pro tem, said yesterday in an interview in Sacramento. “They’re mutually compatible and inclusive as opposed to exclusive.”

Brown’s policies, for the most part, are proving beneficial to the long-term economic health of California, said Chris Thornberg, principal at Beacon Economics LLC, a Los Angeles-based research company. Thornberg credited larger forces, though, from Federal Reserve policy to the purging of bad loans from the real-estate market for the state’s recovery.

‘Better Job’

“From an investor standpoint, I don’t think anybody could have done a better job,” said Michael E. Johnson, managing partner at Gurtin Fixed Income Management in Solana Beach, California.

California’s ascendance comes as the World Bank cut its forecast for global growth this year, with the improving U.S. economy and lower fuel prices failing to offset disappointment elsewhere in the world.

“The global economy today is much larger than what it used to be, so it’s a case of a larger train being pulled by a single engine, the American one,” World Bank Chief Economist Kaushik Basu told reporters on a Jan. 13 conference call. “This does not make for a rosy outlook for the world.”

California leads U.S. states in agriculture, technology and manufacturing revenue growth, Bloomberg data show. It’s home to more companies on the S&P 500 than any other state. The state’s job growth outpaced the nation’s in the first nine months of last year. California’s non-farm employment of 15.7 million people is at an all-time high.

Poverty Rate

Challenges remain. While employment rebounded last June to levels from before the 18-month recession that ended in 2009, its jobless rate of 7.2 percent as of November was tied with Mississippi for the second-highest among U.S. states.

Almost a quarter of Californians live in poverty, the highest rate in the nation, according to the U.S. Census Bureau. Spending on welfare remains lower than before the recession began.

“We’ve brought our unemployment rate down rather quickly and we’ve recovered the jobs deficit that we incurred during the recession, which in percentage terms was bigger than the nation’s,” said Robert Kleinhenz, the chief economist for the Los Angeles County Economic Development Corp. “It dug itself into a deeper hole but it did manage, through faster growth, to recover almost as quickly.”

California has rebounded from when Romney, the former governor of Massachusetts, dismissed the state as a failed economy as it grappled with the prospects of tax increases and budget cuts.

‘Like Greece’

“Entrepreneurs and business people around the world and here at home think that at some point America is going to become like Greece or like Spain or Italy, or like California — just kidding about that one, in some ways,” Romney said, to laughter from his audience.

Like California, the city of Oakland, of which Brown was mayor for two terms, has experienced an economic revival.

“The proximity of San Francisco and being located in the Bay area” are the pivotal factors behind Oakland’s resurgence, Brown said. “There is a dynamic interplay. Oakland is closer to San Francisco than San Francisco is to itself. West Oakland is closer to the financial district and even south of Market than most of San Francisco. I did push condo development and responsible policing to keep the crime down.”

The new Oakland mayor, Libby Schaaf, was a former Brown aide and City Council member who emerged as frontrunner after winning the governor’s endorsement in October.

More Bullish

Analysts are more bullish on California-based businesses than on U.S. companies, as measured by the Russell 3000 index, Bloomberg data show. Companies based in the state will provide a 15 percent return to investors in the coming year, compared with 12 percent for the index.

To those who assert that California’s tax and regulatory structure make it a hostile place to do business, Brown offers an anecdote: He tells a story about a Silicon Valley investor he met at a cocktail party who started and sold three technology-related businesses.

The man told the governor he’s in California because the state has “more smart people with money and more people who know how to spend that money by way of tech companies and ventures that are constantly sprouting up.”

The cost of protecting bonds of California from default tumbled the most among all the states in the four years ended Dec. 31. Credit-default swaps, which investors use to hedge against losses or to speculate on creditworthiness, declined 201 basis points to 104 basis points, Bloomberg data show.

Investor Confidence

Credit swaps, which typically decline as investor confidence improves and rise as it deteriorates, pay the buyer face value if a borrower fails to meets its obligations, less the value of the defaulted debt. A basis point equals $1,000 annually on a contract protecting $10 million of debt.

“That huge deficit was a shock to the political sensibility,” Brown said. “I was able, in that context, to win substantial cuts on the part of government spending. I was also able to win approval of Proposition 30 to inject more revenue into the economy. All of that together brought us a place of more stability.”

While final figures for 2014 for the California economy won’t be available until June, projections in Brown’s proposed state budget show the gains.

Per-capita annual income in California was estimated to have increased by $1,700 to $50,338 in 2014, according to state data. California home prices climbed an average of 12 percent last year through Sept. 30.

‘Growing Faster’

“California is growing faster than the U.S. economy, which is a bright spot in the global economic situation,” said Sung Won Sohn, a professor at California State University-Channel Islands in Camarillo who was chief economist at Wells Fargo & Co. “California is always more volatile than the U.S. We tend to go down more rapidly and we tend to rise more rapidly.”

Brown’s Jan. 9 budget proposes spending a record $165 billion. Temporary sales and income tax increases that he championed in 2012, combined with surging capital gains revenue tied to stock market gains, have left the state with a $5 billion surplus in the fiscal year that begins in July. The governor is seeking to store much of that surplus in reserves to cushion against economic downturns.

California-based technology companies brought in $692 billion in revenue in the past 12 months, about half the industry's sales across the U.S. The value of manufacturing in California climbed 8 percent to $204 billion in 2012, compared with a 7.4 percent increase in Texas to $176 billion.

California Agriculture

Agriculture in California produced $21.4 billion in revenue in 2012, three times more than the $6.8 billion in second-ranked Iowa. The number of companies in California that rank in the top 500 in the world in terms of market capitalization rose almost 48 percent since 2009.

High-technology jobs in the business and professional services sector in California were forecast to grow to 15.7 percent of the economy in 2014, up from 15.4 percent a year earlier.

"I've found that people get very stuck in what is," Brown said. "I very much like tradition, but you have to be able to change and disrupt while balancing tradition. The continuity and the change blending together is your creative task."

Bloomberg

By Michael B. Marois and Shin Pei

Jan 15, 2015 9:00 PM PT

To contact the reporters on this story: Michael B. Marois in Sacramento at mmarois@bloomberg.net; Shin Pei in New York at spei@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Alan Goldstein, Jeffrey Taylor

---

Munis Still Cheap as Best Rally in a Year Can't Match Treasuries.

The $3.6 trillion municipal market is rallying the most in 12 months. It still looks cheap compared with Treasuries.

Benchmark 10-year muni yields have fallen 0.28 percentage point in January to a 20-month low of 1.83 percent, data compiled by Bloomberg show. If that decline holds, it would be the steepest monthly drop since January 2014.

While muni interest rates are the lowest since May 2013, the debt is close to the cheapest since December 2013 relative to federal debt. The ratio of interest rates on state and local bonds relative to Treasuries touched 106 percent on Thursday in New York. That signals tax-free bonds have weakened relative to their federal counterparts, which are on pace for the strongest month since August 2011.

"Despite the performance in munis over the last 10 days, it's lagged Treasuries," said Adam Buchanan, vice president of sales and trading at Ziegler, a broker-dealer in Chicago. "There's still room to run here."

The municipal market rallied in 2014 by the most in three years. Analysts including Michael Zezas at Morgan Stanley predicted smaller gains in 2015 amid rising interest rates on Treasuries. Instead, yields plunged anew this week after Switzerland's unexpected decision to abandon its currency cap drove investors to the safest assets.

Resurgent Rally

At 1.75 percent, 10-year Treasury yields are close to the lowest since May 2013. The Treasury market has gained 2.28 percent this month, compared with 1.45 percent for munis, Bank of America Merrill Lynch data show. The local-government market hasn't earned that much since rallying 2.27 percent in January 2014.

Individuals poured $1.34 billion into muni mutual funds in the week through Jan. 7, the most in two years, Lipper US Fund Flows data show. They added $689 million in the week through Jan. 14.

The muni-Treasury ratio has historically been below 100 percent because interest on state and local debt is tax-exempt. The 1.83 percent yield on AAA munis is equivalent to 3.03 percent taxable for top earners.

Investors looking to capitalize on the relative cheapness have the chance next week. States and cities plan $8.8 billion of bond sales next week, the most in about a month. U.S. bond markets are closed Jan. 19 for Martin Luther King Jr. Day.

Bloomberg

By Brian Chappatta and Elizabeth Campbell

Jan 16, 2015

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Elizabeth Campbell in Chicago at ecampbell14@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Michigan Budget Facing Shortfall as Businesses Use Tax Credits.

Michigan faces a $324.6 million shortfall in its $9.5 billion budget, mostly because businesses are cashing in more tax credits aimed at stirring economic growth, according to state economists.

A separate $12.3 billion fund that pays for public schools is running a $35.8 million surplus because it relies more on sales-tax revenue that reflects a healthier economy, according to an agreement on the numbers announced Friday by the treasury, House and Senate. The figures will shape the current budget and the fiscal 2016 spending plan Governor Rick Snyder will propose to lawmakers on Feb. 11.

The projected net shortfall will rise to $526.5 million in fiscal 2016, which begins Oct. 1. The deficits are based on revenue predictions from May.

“We will be making reductions in real services,” said Budget Director John Roberts, following a semi-annual meeting at the Capitol to forecast revenue. Roberts said he didn’t know if those cuts would result in layoffs.

Although total revenue is increasing, money for programs is being reduced by higher-than-expected use of business tax credits. The credits were granted before 2012 to businesses on the condition that they invest in facilities and hire specified numbers of people.

As the economy improved, hiring increased and more businesses qualified for the credits, said Mary Ann Cleary, director of the House Fiscal Agency. In some cases, rules for tax credits were eased after they were granted to make them easier to cash in, Cleary said.

The state next month will pay $195 million to Detroit’s pension funds as part of the city’s bankruptcy settlement. The money will come out of payments received from tobacco companies in a multistate lawsuit settlement.

Bloomberg

By Chris Christoff Jan 16, 2015

To contact the reporter on this story: Chris Christoff in Lansing at cchristoff@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Schoifet, Stacie Sherman

---

PennDOT Signs Contract for P3 Rapid Bridge Replacement.

The Pennsylvania Department of Transportation finalized all terms for the $899 million Rapid Bridge Replacement P3 and signed a contract with the Plenary Walsh Keystone Partners on Monday, clearing the way for the replacement of 558 bridges throughout the state.

PennDOT selected Plenary Walsh Keystone Partners and its team of 11 Pennsylvania-based subcontractors in October.

“The Plenary Walsh Keystone Partners team has already begun preparing for construction of these bridges,” Barry Schoch, PennDOT Secretary, said in a release. “This is an important milestone in the state’s most ambitious public-private partnership initiative to date.”

PennDOT expects to realize considerable savings and will expedite the project’s completion under the P3. The average cost per bridge for design, construction and maintenance will be $1.6 million and will include 25 years of maintenance following construction. Under PennDOT’s normal procurement process, the cost for each bridge would average more than $2 million.

Twenty-three percent of all the bridges in the state are structurally deficient, and many need to be replaced, the highest percentage in the nation. In their 2014 report card for state infrastructure, the American Society of Civil Engineers gave the bridges in Pennsylvania a grade of D+, noting the current state of its infrastructure was constraining economic growth in the state.

January 12, 2015

S&P: Kansas' Proposed Midyear Budget Adjustments and Recent Court Ruling on Education Could Hamper Structural Budget Balance.

NEW YORK (Standard & Poor's) Jan. 9, 2015—Standard & Poor's Ratings Services believes two recent credit developments for the State of Kansas — a lower court ruling that could require substantially higher education funding if upheld on appeal, and the state's projection of a substantial fiscal 2015 shortfall — raise additional obstacles for Kansas to achieve structural budget balance in fiscal 2016 and potentially beyond. In this respect, the extent of the state's movement toward structural budget alignment in fiscal 2016 will be an important component in our view of Kansas' future credit quality.

The lower court ruling on education could require the state to spend more than $500 million extra per year, beyond the $129 million of increased education funding the Kansas Supreme Court required the state to spend in fiscal 2015. We do not see an immediate impact from the new court ruling, as it will likely be appealed to the state supreme court. In our opinion, however, the ruling adds uncertainty to future years' budgets.

Kansas also released a new forecast that projects a negative $280 million general fund budget balance at the end of fiscal 2015, or a negative 4% of budgeted expenditures, absent corrective action. This is in contrast to the adopted 2015 budget, which forecasts a positive 6% ending balance and also assumed that fiscal 2014 would end with a large 11.6% balance; instead the state's preliminary estimate is that fiscal 2014 ended with a lower balance equal to 6% of 2014 expenditures, or $380 million.

The projected negative ending balance for fiscal 2015 has prompted Governor Sam Brownback to propose an offsetting $280 million of midyear corrective actions that would eliminate the projected general fund deficit position, although still leave the state with essentially no general fund balance at the end of the year. The bulk of the governor's proposed midyear adjustments, involving fund transfers and other measures, will require legislative approval when the legislature reconvenes Jan. 12.

In our view, the proposed budget adjustments, if enacted, would result in a state general fund balance position broadly consistent with our expectation in August 2014, when we lowered our rating on Kansas to 'AA' from 'AA+' and assigned a negative outlook, although it would appear that the state's structural imbalance has grown. We had earlier expected a marginal fiscal year-end 2015 balance due to large shortfalls in the April 2014 income tax collections that were not reflected in the adopted fiscal 2015 state budget. Kansas' current revenue forecast now incorporates the earlier April shortfall, resulting in a lower beginning balance that carries forward into a lower year-end balance. However, the state's structural imbalance appears to have grown further due to increased education and Medicaid spending. Although the proposed midyear corrective actions could eliminate a year-end deficit position, they do not appear to significantly address the mismatch between recurring revenues and expenditures.

The governor's $280 million proposed midyear adjustments include: $201 million of one-time transfers from other funds, the delay of a scheduled increase in pension funding ($41 million), savings from a bond refinancing ($3 million), delays in a hospital expansion ($5 million), reduced transfers out for capital construction ($5 million), and 4% spending reductions for many state agencies.

Although Kansas will likely make adjustments to bring its general fund balance back to a marginally positive level at fiscal year-end 2015, we remain concerned about the one-time nature of most of the budget fixes, and the large fund balance drawdown on a budgetary accounting basis. (On a generally accepted accounting principles [GAAP] basis the fund balance is lower — the recent release of the state's fiscal 2014 GAAP financial statement shows a fiscal year-end 2014 general fund balance of only $2.5 million.) We believe the state will have enough working cash to operate using its other internally borrowable funds. However, the large reduction of the fund balance in the past two years during a period of economic recovery indicates credit stress, in our opinion, and contributes to our negative rating outlook. Kansas reduced its top individual income tax rate to 4.6% from 4.8% in fiscal 2015, and has another reduction in the top rate scheduled in fiscal 2018 to 3.9%. State credit quality could be affected to the extent tax reductions are not paired with ongoing spending cuts, absent significant economic growth.

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

Secondary Contact: Henry W Henderson, Boston (1) 617-530-8314; henry.henderson@standardandpoors.com

---

St. Louis Stadium Plan Likely Requires Public Approval.

ST. LOUIS — A proposed open-air football stadium that backers hope will persuade St. Louis Rams owner Stan Kroenke to keep the team from returning to Los Angeles will likely require voter approval of its public financing component.

A St. Louis municipal ordinance and a St. Louis County charter amendment each prohibit the use of taxpayer dollars on pro sports stadiums without the consent of voters, the St. Louis Post-Dispatch reported.

A two-man team appointed by Gov. Jay Nixon last week unveiled details of a 64,000-seat stadium along the Mississippi River downtown that would cost as much as $985 million. Up to $350 million could come from extending bond debt used to pay off the Edward Jones Dome, the Rams' current home.

Additional details about the financing plan have not yet been released. And while both former Anheuser-Busch President David Peacock and current Jones Dome attorney Robert Blitz emphasized that the plan would not involve new taxes, it does depend on the infusion of an additional $12 million from the state, $6 million from the city and $6 million from the county each year, the same amount now provided from bond payments set to expire in 2021.

"It's going to be tough to argue that a vote is not required," said Peter Salsich Jr., a retired St. Louis University law professor.

Peacock and Blitz's plan calls for as much as $250 million from Kroenke, $200 million in National Football League loans to the team, $55 million in state support and tax credits and $130 million in the sale of personal seat licenses, which allow fans to buy season tickets.

By: The Associated Press

January 14, 2015 5:07 pm

[562 Pa. Municipalities Categorized as Having 'Distressed' Pension Funds.]

Pittsburgh Finance Director Paul Leger can draw a line from the problems of the city's underfunded pension to its recent property tax increase: Pension payments went up by $11 million and the millage rate increased 0.5 mills.

"That's $11 million you can't spend somewhere else, so you either have to move $11 million out of other expenditures for services or you have to increase revenues," Leger said. "What we did was increase revenues, a large portion of which went to that pension payment."

Pittsburgh is one of 562 Pennsylvania municipalities with distressed pension funds, according to figures Auditor General Eugene DePasquale released Wednesday.

About 1,200 municipalities in Pennsylvania administer their own pension plans. Collectively, they were $7.7 billion underfunded through 2012, up from $6.7 billion the year before.

"It's gone up by $1 billion with no sight of action yet by the Legislature," DePasquale said. "There's no way around it; we need a statewide solution."

Most of the shortfall was in Philadelphia, where the city's unfunded liabilities surpass $5.3 billion, according to July 2013 figures. Pittsburgh was the second-highest as of January 2013 at about $484 million.

Western Pennsylvania governments with plans among the 25 largest unfunded liabilities in dollars included Penn Hills, Monroeville, New Castle and Erie. Of the top 25 worst-funded plans by percentage, Braddock Hills made the list at 46 percent funded.

DePasquale recommends some short-term fixes. Governments should prohibit employees from "spiking" their pensions by working extra overtime, increase age and service requirements in accordance with increased life expectancies, and ensure all plans require members to contribute.

Long term, DePasquale wants local plans consolidated into a state system with job-specific classes: police officers, firefighters and non-uniformed employees.

"If you live in any of these municipalities, if it's not addressed, you're going to be dealing with tax hikes or cuts to public safety or a combination of it," DePasquale said.

DePasquale plans to release an audit on Pittsburgh's pension plan next month.

The city has taken steps to shore up its fund, including lowering its assumed rate of return on investments and paying more than its minimum required payments. But ever-increasing costs to meet obligations continue to put pressure on the budget, Leger said.

"We have to remember the promise to current employees that pension income will be available to them, but we also have to assure the taxpayers that all of their tax dollars will not eventually be going to pay pensions instead of providing services," he said. "It is a difficult tightrope to walk."

According to city data, the unfunded liability was $511 million in November; the plan is 57 percent funded.

Pension plans funded at 90 percent or higher are considered healthy, according to state criteria. Anywhere below that is under "minimal," "moderate" or "severe" distress.

Brian Jensen, senior vice president at the Allegheny Conference for Community and Economic Development, said unfunded liabilities can result from a decrease in employees, which means fewer pay into the system, or a decrease in government payments into the fund. This causes fewer dollars to go into the plan, although the payments still must be made. Other budget problems, such as employee costs, tax-exempt properties and shifting tax bases, exacerbate the problem, Jensen said.

Eileen Norcross, a senior research fellow with the Mercatus Center at George Mason University who studies public finance, said pensions are "the Pac-Man of budgets," eating into other areas with increasing costs to cover. In the extreme case of one Rhode Island municipality with a weak tax base, pensions were cut for retirees when Central Falls could not make payments.

"You're going to see the possibility of service cuts and other changes to these local budgets in order to make good on these pension benefits," Norcross said.

By Melissa Daniels

Wednesday, Jan. 14, 2015, 11:18 p.m.

Melissa Daniels is a staff writer for Trib Total Media. She can be reached at 412-380-8511 or mdaniels@tribweb.com.

[De Blasio: Overhaul N.Y. City Corporate Tax Structure.]

Mayor Bill de Blasio on Monday proposed a major overhaul of New York City's corporate tax structure that would conform important parts of the city's business tax system with state tax law.

De Blasio said the move would modernize an outdated system and provide relief to small businesses and local manufacturers while streamlining city and state corporate tax codes.

The changes would be retroactive to Jan. 1. Gov. Andrew Cuomo is expected to release his state budget proposal later this month. The governor and state legislature must approve the city's proposal.

New York State overhauled its business taxes last year.

According to city finance Commissioner Jacques Jiha, the overhaul would ensure that firms need not maintain separate records for city and tax purposes and create consistency in tax computing that is essential for joint audits.

De Blasio said the changes would be revenue neutral. The mayor said the moves would prevent major administrative burdens for both taxpayers and the city. "These are common-sense reforms that will modernize and streamline a corporate tax code that hasn't seen real changes since the 1940s," he said.

Carol Kellermann, president of the Citizens Budget Commission, said her watchdog organization has backed the concept, but wants to study it further. “We’ve supported it as a way to simplify and create a uniform basis of taxation, but whether it is truly revenue neutral is what I’d concerned about,” she said in an interview. “We’d need to see more information.”

Kellermann considered vague a statement by officials that said broadening the tax base “by eliminating certain special deductions and exemptions” would offset a revenue loss estimated at up to $300 million.

The overhaul would exclude the first $10,000 of capital tax base; reduce the tax rate for small non-manufacturers with less than $1 million in allocated net income from 8.85% to 6.5%, and reduce the tax rate for small manufacturers with less than $10 million in allocated net income from 8.85% to 4.425%. The city would also provide a smaller rate reduction to manufacturers with incomes between $10 million and $20 million.

The city would retain the alternative tax base on capital, merge the bank tax into the corporate franchise tax for large corporations, change the method for computing net income that broadens the tax base by treating most income as business income, and redetermine how corporations attribute net income based on the location of a firm’s markets rather than the location of its business operations.

“The state made these changes a year ago and the city pretty much had to conform, at least in broad strokes,” said George Sweeting, deputy director of the Independent Budget Office. “It would be nice to have more information about the number of firms and the kinds of firms affected, and how much revenue is lost or gained through each.”

According to de Blasio, the latter would eliminate a tax penalty for increasing operations and employment while incentivizing business to locate employees and jobs within the five boroughs. The proposal also called for adopting unitary combined reporting rules, to prevent shifting of income and expenses among related entities to inappropriately reduce taxes.

“This long-overdue reform represents another initiative that moves the city forward while protecting our long-term fiscal health,” said budget Director Dean Fuleihan.

THE BOND BUYER

BY PAUL BURTON

JAN 12, 2015 3:04pm ET

Goldman Sachs Joins BlackRock in New Flexible Funds: Muni Credit.

An investor may argue that if a fund beats 96 percent of peers in a five-year run, it doesn’t need fixing.

That’s not the philosophy of the municipal-bond chiefs at Goldman Sachs Asset Management and BlackRock Inc. (BLK)

The Goldman Sachs arm, which oversees $37 billion in munis, changed its core tax-free mutual fund this month to give it flexibility to extend or shorten maturities and buy junk debt. The fund, ranked in the top 5 percent of its class in the past five years, follows BlackRock's Strategic Municipal Opportunities Fund (MAMTX), which altered its mandate a year ago and saw assets more than triple.

"This is a market that provides a lot more opportunity if you can be more flexible than just having a specific duration band that you have to stay in, or only investment grade," said Ben Barber, head of munis in New York at the Goldman Sachs unit. "There's more volatility — that leads to more opportunity."

The moves jettison labels in the $3.6 trillion municipal market that restrict purchases to certain maturities or credit ratings, and take a page from unconstrained bond funds in the taxable universe. While those were the best-selling part of fixed-income in 2014, they underperformed intermediate-term funds, traditionally the most popular bond investment, according to Morningstar Inc.

Swing State

The Goldman Sachs fund aims to buy bonds that others sell amid swings in fund flows resulting from shifts by individual investors, who own the majority of the market either directly or through mutual funds.

Local debt rallied 9.8 percent last year, the most since 2011, as individuals added $21 billion to muni funds, Lipper US Fund Flows data show. In 2013, they pulled a record $63 billion amid a 2.9 percent loss, the worst since 2008.

Barber said he envisions Goldman Sachs's Dynamic Municipal Income Fund as an investment for all market circumstances. He and co-manager Scott Diamond plan to adjust average maturity and credit quality based on market moves.

Under its former name, the Goldman Sachs Municipal Income Fund (GSMTX), it had a duration of within one year of its benchmark, according to July documents filed with the U.S. Securities and Exchange Commission. It invested in securities rated at least BBB, two levels above junk.

Duration Stretch

Now, average duration can range from two to eight years, and speculative-grade debt may represent 30 percent of the fund.

That's still a stricter mandate than some peers. The Eaton Vance Municipal Opportunities Fund (EMOAX), which began in 2011, isn't constrained by duration and can invest 50 percent in junk. It delivered better returns than 99 percent of peers in the past three years.

Under the new mandate, the Goldman Sachs fund could have added high-yield and long-maturity debt when those areas cheapened in 2013, Barber said. Individuals that year yanked $9.9 billion and $27.5 billion, respectively, from funds focused on those segments.

"Each year over the last five or six years is different in terms of where flows go into or come out of," Barber said. "It creates pressure on one portion or another of the curve."

BlackRock's $2.7 billion strategic muni fund could serve as a guide. The world's largest money manager altered it in January 2014 to allow for an average duration of zero to 10 years, said Peter Hayes, who oversees about $114 billion as head of munis.

Duration reflects bonds' price sensitivity to movements in interest rates. The longer the duration, the more the security’s price will rise as interest rates fall.

Junk View

The fund, formerly known as the BlackRock Intermediate Municipal Fund, previously had at least 80 percent in investment grade, according to documents from November 2013 detailing the strategy change. The average maturity was from three to 10 years.

The fund can now invest as much as 50 percent in junk-rated bonds and 20 percent in securities other than tax-free munis, and may use derivatives, according to the prospectus.

The BlackRock strategic fund attracted about $1.9 billion of cash in 2014, after starting the year with $680 million, Bloomberg data show. That was the second-highest growth rate among muni mutual funds.

The fund outperformed 88 percent of peers in the past year, and 96 percent for the last five. The new mandate is tailored to outperform as interest rates rise, said Hayes, who began managing it last year. It’s betting on declines in Treasury futures, according to data from the company as of Nov. 30.

Unconstrained Risk

“People don’t expect a negative return in their muni portfolio, so the way we’re managing this is to try to give them some positive return when rates rise,” Hayes said in a telephone interview.

“The risks are clearly asymmetric: Rates are more likely to go up than go down, so this is the type of vehicle that should succeed in that environment,” he said.

It’s fitting that BlackRock and Goldman Sachs are among the first adopters of more flexible muni funds, since they were among early entrants into unconstrained taxable funds, said Jason Kephart, an alternative-strategy analyst at Morningstar in Chicago.

Those taxable funds also highlight the risks in betting on movements in interest rates, he said. The $25.4 billion Goldman Sachs Strategic Income Fund (GSZIX), which began in 2010, trailed 98 percent of peers for the past 12 months as it fell 2.6 percent while the broad bond market gained almost 7 percent, Bloomberg data show.

The BlackRock Strategic Income Opportunities Portfolio (BSIIX) trailed about 60 percent of peers, according to Bloomberg data that categorizes it among aggregate bond funds. That’s the same group against which the Goldman Sachs Strategic Income fund is measured, according to Bloomberg classifications.

‘Manager Risk’

“Beyond interest-rate risk and credit risk, you’re taking on 100 percent manager risk because they have so much freedom,” Kephart said in an interview. “You have to be right about interest rates for these funds to really work.”

Analysts failed to predict the muni rally in 2014 as the consensus forecast was that interest rates would rise. Projections are mixed for this year: Forecasts range from gains of 5 percent to losses.

The Goldman Sachs fund’s biggest stakes as of Sept. 30, before its transition, were bonds due in 2034 for Houston’s airport system and convertible capital-appreciation debt backed by Puerto Rico sales taxes, Bloomberg data show. Tax-exempt general obligations from California and Illinois were also in the top 10.

The entry of Goldman Sachs shows the segment will keep growing, said Lyle Fitterer, who helps run the $1.6 billion Wells Fargo Advantage Strategic Municipal Bond Fund. (VMPAX)

“People are really worried about what’s going to happen to their bond portfolios once interest rates start to rise,” said Morningstar’s Kephart. Increased flexibility “has been popular in taxable income, so I don’t see why it wouldn’t become as popular in tax frees.”

Bloomberg Muni Credit

By Brian Chappatta Jan 20, 2015 9:36 AM PT

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, William Selway

---

Vanguard to Introduce its First Municipal Bond Index Fund and ETF.

Vanguard today filed a registration statement with the U.S. Securities and Exchange Commission to offer a national municipal bond index fundwith an exchange-traded fund (ETF) share class. Vanguard Tax-Exempt Bond Index Fund will be the firm’s first tax-exempt index fund and ETF. Vanguard is one of the largest managers of municipal bond funds in the industry—with about $140 billion in tax-exempt bond and money market funds—and one of the largest ETF providers, with $422.6 billion in assets.

Vanguard Tax-Exempt Bond Index Fund’s target benchmark is the S&P® National AMT-Free Municipal Bond Index. The fund will offer investors exposure to investment-grade municipal bonds across the entire yield curve. The fund is intended to provide a sustainable level of current income that is exempt from federal personal income taxes.

“For investors in high tax brackets, a high-quality, broadly diversified municipal bond fund or ETF can provide tax advantages as well as diversification from the risks of the equity market,” said Vanguard CEO Bill McNabb. “Vanguard is pleased to bring a low-cost index option to the municipal category as a complement to our lineup of low-cost actively managed tax-exempt bond funds.”

The fund, which is expected to be available in the second quarter of 2015, will offer three share classes: Investor Shares, Admiral Shares, and ETF Shares (with estimated expenses ratio of 0.20%, 0.12%, and 0.12%, respectively). The municipal bond funds in Lipper’s General and Insured Municipal Debt Funds category have an average expense ratio of 0.97%; comparable ETFs in the category have an average expense ratio of 0.49% (source: Lipper, a Thomson Reuters Company, December 31, 2013).

Investor Shares will require a minimum initial investment of $3,000 and Admiral Shares will require a minimum initial investment of $10,000. These share classes will also include a 0.50% purchase fee to defray portfolio transaction costs and enable the fund to more closely track its benchmark.

A municipal bond funds pioneer

Vanguard Fixed Income Group is one of the world's largest fixed income managers, overseeing more than $800 billion, of which $140 billion is invested in tax-exempt bond and money marketfunds. Vanguard offers 12 actively managed municipal bond funds (five national, seven state-specific) and six tax-exempt money market funds (one national, five state-specific).

Vanguard offered its first three tax-exempt bond funds (short-, intermediate-, and long-term) in 1977. It was the first mutual fund company to offer shareholders a choice among municipal bond funds of differing durations.

Adam Ferguson, a portfolio manager in Vanguard Fixed Income Group, will manage the new fund. Mr. Ferguson joined Vanguard in 2004 and currently manages multiple municipal bond funds.

Vanguard has an experienced municipal team of approximately 40 professionals, including portfolio managers, senior credit research analysts, research associates, and traders. The team's approach, whether managing money market funds, bond index funds, or actively managed bond funds, is to invest shareholders' money in a disciplined, risk-controlled manner.

A leader in ETFs

Vanguard offers 67 low-cost ETFs in the U.S., including 15 bond ETFs. Cash flow continues to be strong, with investors entrusting $63.5 billion to our ETFs year-to-date through November 2014 (and $55 billion in calendar year 2013).

About Vanguard

Headquartered in Valley Forge, Pennsylvania, Vanguard is one of the world's largest investment management companies. It manages more than $2.85 trillion in U.S. mutual fund assets, including more than $422.6 billion in ETF assets. The firm offers more than 160 funds to U.S. investors and more than 120 additional funds in non-U.S. markets. For more information, visit vanguard.com.

January 6th, 2015

---

5 Top-Ranked Municipal Bond Mutual Funds for High Yield.

Debt securities will always be the natural choice of the risk-averse investor because this category of instruments provides regular income flow at low levels of risk. Income from regular dividends helps to ease the pain caused by plunging stock prices. When considering safety of capital invested, municipal bond mutual funds are second only to those investing in government securities. In addition, the interest income earned form these securities are exempt from federal taxes and in many cases from state taxes as well.

Below we will share with you 5 top rated municipal bond mutual funds. Each has earned a Zacks #1 Rank (Strong Buy) as we expect these mutual funds to outperform their peers in the future.

Nuveen CA High Yield Municipal Bond A (NCHAX – MF report) invests a lion's share of its assets in tax-exempted interest paying municipal bonds. The investment includes obligations approved by the State of California or by its affiliates, or issued by other sates of the US. The fund seeks high level of current income. The municipal bond mutual fund returned 21.3% over the last one year period.

The fund has an expense ratio of 0.87% as compared to category average of 0.91%.

Eaton Vance High-Yield Municipal Income A (ETHYX – MF report) seeks tax free high current income in form of interest payment. The fund invests the majority of its assets in municipal obligations affiliated by the District of Columbia and by other US states and territories. The obligations also include notes and commercial papers that are exempted from taxes. It focuses on acquiring high yielding municipal bonds. The municipal bond mutual fund returned 18.1% over the last one year period.

As of October 2014, this fund held 277 issues with 1.93% of its assets invested in New York Liberty Dev Corp Liberty Rev Bd 5%.

BlackRock High Yield Municipal Investor A (MDYHX – MF report) invests a large portion of its assets in municipal bonds that provide tax exempted return. The fund may invest a minimum of 65% of its assets in medium to low rated bonds. It may also invest a maximum of 10% of its assets in bonds that are considered to be distressed derivatives. The municipal bond mutual fund returned 17.6% over the last one year period.

Theodore Jaeckel Jr. is the fund manager and has managed this fund since 2006.

Invesco High Yield Municipal A (ACTHX – MF report) seeks tax free current income and taxable capital growth. The fund invests heavily in municipal bonds. It invests a minimum of 75% of its assets in medium and low rate municipal bonds that are expected to provide high yield. The fund also invests a maximum of 25% of its assets in bonds that derive revenues from industrial development. The municipal bond mutual fund returned 16.8% over the last one year period.

The fund has an expense ratio of 0.87% as compared to category average of 0.98%.

Lord Abbett High Yield Municipal Bond A (HYMAX – MF report) invests a major portion of its assets in tax free interest paying municipal bonds. The fund invests a significant portion of its assets lower rated bonds or junk bonds. Its dollar-weighted average maturity varies from 10 to 25 years depending on the market condition. The non-diversified municipal bond mutual fund returned 14.5% over the last one year period.

As of September 2014, this fund held 538 issues with 1.52% of its assets invested in Buckeye Ohio Tob Settlement Fi To 5.125%.

To view the Zacks Rank and past performance of all municipal bond mutual funds, investors can click here to see the complete list of funds.

About Zacks Mutual Fund Rank

By applying the Zacks Rank to mutual funds, investors can find funds that not only outpaced the market in the past but are also expected to outperform going forward. Learn more about the Zacks Mutual Fund Rank in our Mutual Fund Center.

Published on January 06, 2015

Mercedes-Benz USA Seeks Bonds for New Georgia Home: Muni Credit.

Mercedes-Benz USA is applying to borrow $93 million through a sale of municipal debt to build its new Atlanta-area headquarters, part of a package of incentives the carmaker may get for leaving New Jersey.

The development agency for Fulton County, home to Atlanta, voted Jan. 6 to proceed with negotiations on incentives for the unit of Daimler AG (DAI) as part of its relocation, the authority's executive director, Al Nash, said in a phone interview.

If the plan is approved by the county economic-development authority, the agency would issue taxable revenue-backed bonds for the project, Nash said. The deal may find stronger demand in the $3.6 trillion municipal-bond market, which has been shrinking since 2011, than in the $6.1 trillion market for company securities, said Burt Mulford at Eagle Asset Management.

"A $100 million corporate bond deal is relatively small, whereas the average deal for the municipal market is significantly less," said Mulford, who helps oversee about $2 billion of munis in St. Petersburg, Florida. If Mercedes offered the debt itself, "it might not be as well-received."

Land Lease

The Fulton County authority would take ownership of the headquarters' land and lease it to Mercedes-Benz for 10 years, in a deal that would reduce the the Germany luxury automaker's property taxes for the same period.

"It's very preliminary," Nash said. "They would have to decide what they want to do, there would be a public hearing and then we would approve it or deny it."

The Daimler unit announced its headquarters move from Montvale, New Jersey, this week. The Georgia Department of Economic Development will unveil the state's contribution to the incentive package on Jan. 12, according to an e-mail from a spokeswoman, Stefanie Paupeck Harper.

Mercedes would join Spelman College in Atlanta, charter school Amana Academy and the Georgia Tech Athletic Association in borrowing through the county development authority, data compiled by Bloomberg show.

The carmaker's move is a blow to New Jersey and Governor Chris Christie, who has said high property taxes are driving out business. It's also the latest signal that the U.S. auto industry is centered in the South, instead of the Midwest and Canada. BMW AG, Mercedes, Nissan Motor Co. (7201) and Volkswagen AG have plants in the region. Porsche and Nissan have also located headquarters there.

800 Jobs

The carmaker's U.S. manufacturing plant is in a town outside Tuscaloosa, Alabama, and it ships out of a port in Brunswick on Georgia's coast.

"First they moved in the manufacturing, then they bring in the white-collar jobs," said John Boyd, a principal in Princeton, New Jersey, with The Boyd Company, which advises companies on relocation.

Mercedes expects to bring 800 employees to the new site, according to documents filed with the county agency that also specified the size and tax status of the proposed borrowing. There are several locations under consideration for the headquarters, according to the company.

Industrial-development bonds, issued by local agencies on behalf of private companies, are the riskiest corner of the municipal market. While most muni debt is backed by state and city tax revenue or public-utility fees, the project securities often depend on the success of a single site.

Examples of projects funded with such debt include a power plant serving the shuttered Revel Casino in Atlantic City, New Jersey, a central Florida facility that converts sewage into fertilizer and a Noah's Ark theme park that's fighting with Kentucky to keep promised tax incentives.

Mariella Kapsaskis, a Mercedes-Benz spokeswoman in New Jersey, said she'd forward questions about the bond issue to the carmaker's legal department, because the company hasn't chosen a specific location for the new headquarters.

Bloomberg Muni Credit

By Margaret Newkirk and Brian Chappatta

Jan 8, 2015 11:06 AM PT

To contact the reporters on this story: Margaret Newkirk in Atlanta at mnewkirk@bloomberg.net; Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, William Selway

---

Kansas Education Ruling Adds to Budget Stress, Says S&P.

A Kansas court decision on money for schools and a projected $280 million deficit have raised "additional obstacles" to balancing the state's budget in this year and beyond, according to Standard & Poor's.

A court ruled last week that public schools were unconstitutionally underfunded. While the ruling is expected to be appealed to the Kansas Supreme Court, S&P said today the impact "could require substantially higher education funding" if upheld. The ratings company said next year's budget, beginning July 1, "will be an important component" of Kansas's future credit quality.

Under Republican Governor Sam Brownback, the state has cut income taxes, contributing to shortfalls and, in August, a credit downgrade from S&P, to AA from AA+. The company also assigned a negative outlook to the state. Moody's Investors Service also cut the grade.

Brownback, a 58-year-old who was re-elected in November, said last month he must take "corrective action" to close a $280 million budget hole created by the tax cuts, saying he would reduce spending on pensions and highways.

"We remain concerned about the one-time nature of most of the budget fixes," the S&P report said.

Eileen Hawley, Brownback's spokeswoman, said in an e-mail that the governor will present "structurally balanced budget proposals" for the 2016 and 2017 fiscal years next week.

Brownback has said he plans to continue the tax-cutting strategy as part of a plan to increase economic activity and attract new residents.

Kansas has the fifth-weakest pension system among the U.S. states, according to data compiled by

Bloomberg.

Bloomberg

By Tim Jones

Jan 9, 2015 11:04 AM PT

To contact the reporter on this story: Tim Jones in Chicago at tjones58@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
William Selway

Teachers Hired Across U.S. as Local Government Funding Picks Up.

State and local governments last year filled more jobs in education and other areas than they have since 2008, which helped offset deep cuts to schools during the recession.

States added 21,000 jobs, including 13,700 in education, while local governments increased payrolls by 87,000, with 43,900 in schools, according to a report today from the U.S. Bureau of Labor Statistics.

Governments have been increasing spending since the 18-month recession that ended in 2009, according to a report last month by the National Association of State Budget Officers. While not all jobs lost have been replaced and budgets remain tight, an improving fiscal picture is allowing hiring, said Brian Sigritz, director of state fiscal studies for the Washington group.

“We’re not necessarily seeing states get back to the job levels where they were before the downturn, but the total situation for states definitely has improved,” Sigritz said.

More than half the 108,000 state and local government jobs added during 2014 were in education, according to federal data.

Spending has risen especially in elementary and secondary education, which suffered deeper cuts during the recession than in previous economic downturns because politicians traditionally had been reluctant to cut school funding, Sigritz said.

Government Gigs

The cuts to education were deep. More than 60 percent of the 47 states analyzed by the Center on Budget and Policy Priorities are still providing less per-student general aid in the current school year than they did in 2007-08, the Washington-based group said in an October report.

Thirty-nine states boosted funding for elementary and secondary education by a net $11.1 billion during fiscal 2015, according to the group’s report. Forty also increased spending for higher education by a net $4.4 billion, the group said.

By the end of fiscal 2015, state general-fund spending is expected to be 9.4 percent above the prerecession peak without adjusting for inflation, according to the report.

At the municipal level, more U.S. cities are increasing rather than decreasing their workforces for the first time since 2008, according to an annual survey by the National League of Cities released in October.

The hiring has been driven by increased property taxes as well as sales- and income-tax collections, the group said.

Thirty percent of cities and towns expanded their workforces in 2014, compared with 18 percent that reduced them, the report said. In 2013, only 20 percent of municipalities added workers as 32 percent cut jobs, the group said.

Eighty percent of city finance officers said their municipalities were better able to meet fiscal needs, the highest percentage in the 29 years the survey has been conducted, the league said.

Cities have not reached full recovery, and revenue projections for 2015 show slow growth as well as increases in service costs, long-term infrastructure needs and pension obligations, the league said.

Bloomberg

By Mark Niquette

Jan 9, 2015 10:10 AM PT

To contact the reporter on this story: Mark Niquette in Columbus at mniquette@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net William Selway

---

Indiana Fertilizer Planning Bond Deal by April as Plant Advances.

A $1.3 billion municipal-bond sale for a fertilizer plant in Indiana may come to market by April, two years after the state expressed concern that the product from the Pakistani company backing the project was linked to explosives.

Midwest Fertilizer Co. plans to build and run a fertilizer manufacturing facility in Posey County, in southwest Indiana. The company, majority-owned by Lahore, Pakistan-based Fatima Group, said it plans to break ground this quarter and start operating in 2018.

By April, Midwest Fertilizer also plans to offer bonds for the $2.6 billion project, said its president, Mike Chorlton. The county's economic development agency has about $1.3 billion of notes out for the project that must be redeemed by April 2.

"We're definitely planning to move forward on a long-term deal," Chorlton said in a telephone interview yesterday. "We're trying to get it done before April 2."

He declined to disclose other details about the borrowing plan.

If the securities are rated speculative grade, it would be the second-largest junk deal ever in the $3.6 trillion municipal market, data compiled by Bloomberg show. It would eclipse a $1.2 billion offering for a fertilizer facility in Iowa, ranked three steps below investment grade.

Yield Appeal

High-yield muni funds logged the market's biggest returns in 2014 as investors sought riskier debt with interest rates approaching generational lows. Junk-rated Puerto Rico issued $3.5 billion in general obligations last year, a record speculative-grade muni deal.

Posey County stepped in to help finance the fertilizer plant after Governor Mike Pence pulled his support for the project in May 2013. The Pentagon had raised concern that the Fatima Group's products were ingredients in bombs known as improvised explosive devices that were used against U.S. soldiers in Afghanistan.

The state reopened discussions about incentives last year after getting assurances from the U.S. Defense Department that a formula being developed by Fatima Group was "more inert and less-detonable to limit its usefulness to extremists and terrorists," Pence said in an April statement.

Because of the support offered by Posey County, Midwest Fertilizer withdrew its request for about $4 million in state incentives, Chorlton said.

Bloomberg

By Brian Chappatta and Mark Niquette

Jan 9, 2015 6:53 AM PT

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Mark Niquette in Columbus at mniquette@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Cities Urge Senate to Pass Terrorism Risk Insurance Extension.

Washington, D.C. – Following today's vote by the U.S. House of Representatives to extend the Terrorism Risk Insurance program for an additional six years, National League of Cities CEO & Executive Director Clarence E. Anthony issued the following statement:

"We applaud the House for passing a six-year extension to the Terrorism Risk Insurance Act (TRIA) with broad, bipartisan support. Terrorism risk insurance enables city governments to continue to provide critical services to residents in the event of an attack by protecting against loss or liability that could affect a municipality's personnel, property and finances. TRIA's public-private risk sharing mechanism ensures that risk insurance coverage remains available and affordable to local governments. Since TRIA expired at the end of December, it is crucial that the Senate pass TRIA as soon as possible to ensure America's cities have affordable access to risk insurance."

The National League of Cities (NLC) is dedicated to helping city leaders build better communities. NLC is a resource and advocate for 19,000 cities, towns and villages, representing more than 218 million Americans.

JANUARY 7, 2015

Judge Approves $26 Million Revel Tax Settlement.

A bankruptcy judge on Tuesday approved a $26 million tax settlement between Atlantic City, N.J., and the closed Revel Casino Hotel.

The settlement, which saves the boardwalk resort more than $7 million on unpaid property taxes and penalties that exceed $33 million, comes after the city failed to attract any bids for a tax lien against Revel at a sale earlier this month.

Following a hearing Tuesday morning, Judge Gloria M. Burns of the U.S. Bankruptcy Court in Camden, N.J., said she would also sign an order increasing an interim bankruptcy financing package allowing Revel to fund the settlement, which calls for payment no later than Wednesday.

The financing package will include an additional $21 million from Wells Fargo NA, $19 million of which will be combined with $7 million in cash on hand to fund the $26 million settlement. The remaining $2 million in financing is intended to provide enough cash to allow Revel to pay its operating expenses until Jan. 8, according to court papers.

No objections to the settlement or the increased financing were filed, though some creditors have made it clear they intend to challenge a final order on the financing package at a hearing expected to be held in early January.

At Tuesday’s hearing, John Cunningham, a lawyer for Revel, said he hoped negotiations would produce more settlements on a number of key sticking points Revel faces, including a dispute with the bondholders behind its custom-built power plant. “This is the first settlement in what we hope will be many settlements coming down the road,” Mr. Cunningham said. “We still have a long way to go, but we needed to start somewhere.”

ACR Energy Partners, which operates the power plant, has warned that it, too, may be forced to file for bankruptcy protection as a result of Revel’s troubles. ACR, which issued $120 million of municipal bonds in 2011 to cover 75% of the power plant’s construction cost, missed a $6.9 million bond payment earlier this month, according to a notice filed by trustees for the debt. A lawyer for ACR wasn’t immediately available for comment Tuesday.

Atlantic City relies heavily on its casinos for tax revenue, with the industry providing over 60% of the city’s total property tax revenue, according to court papers.

Four Atlantic City casinos, including the $2.4 billion Revel, have shut down this year, throwing thousands out of work and weakening the city’s tax base.

Revel, which filed its second Chapter 11 case in as many years in June, shut down in September after it was initially unable to find a buyer. After a $110 million deal with Canadian private-equity firm Brookfield Capital Partners LP fell through, Revel is hoping to sell to Florida real-estate developer Glenn Straub. However, Mr. Straub is requesting a price reduction to $87 million from $95.4 million.

THE WALL STREET JOURNAL

By TOM CORRIGAN

Updated Dec. 30, 2014 4:00 p.m. ET

—Stephanie Gleason contributed to this article.

Illinois Faces Big Revenue Hit in 2015.

Expiration of Tax Increase Comes as State Grapples With Budget Crunch, Unpaid Bills and Pension Woes

As fiscal prospects rebound for most states, Illinois has continued to struggle—and things are about to get worse.

Thanks to the expiration of a four-year tax increase put in place because of fallout from the 2007-09 recession, the state with the nation's most dire fiscal outlook will see income-tax rates fall by 25% in coming days even as it faces a budget shortfall, a deeply underfunded retirement system and billions of dollars in unpaid bills.

Blurring the picture is how Illinois will respond following November's elections. Before losing his re-election bid, Gov. Pat Quinn failed to get fellow Democrats in the legislature to make the higher taxes permanent, saying the money was needed to address the financial challenges that have left Illinois with the lowest credit rating among U.S. states.

Now, Republican Gov.-elect Bruce Rauner must work with Democrats, who kept control of the state House and Senate, to address the state's fiscal problems. "I'm the dog who caught the car," said Mr. Rauner in a recent speech.

State forecasters have projected that tax revenues will decline because of the falling rates by $2.1 billion in the current fiscal year and an additional $2.7 billion in the new fiscal year starting July 1. The state spends around $36 billion annually on services such as schools and health care, pension costs, and other operating expenses.

Illinois's budget challenges come as other states see their fiscal positions continue to stabilize and reserves build after weathering the deep recession at the end of last decade that fueled sizable drops in tax revenue. Illinois will need a projected $760 million to make through the fiscal year ending June 30 and, along with states like New Jersey and Connecticut, has one of the most deeply underfunded employee pension systems in the nation.

"Illinois is an outlier obviously in many respects," said Nick Samuels, a vice president at Moody's Investors Service, which has a negative outlook assigned to the state. The negative outlook corresponds with the significant fiscal challenge Illinois faces, and Moody's analysts said they will be watching closely to see what steps Mr. Rauner takes in the coming months.

In the bond market, Illinois has been helped by a strong demand for state government debt. Still, Matt Fabian, managing director at Municipal Market Advisors in Concord, Mass., expects investors will watch closely as Illinois's tax rate drops and state officials respond.

"There are a lot of institutional investors who expect Illinois will be downgraded immediately if the tax cuts expire and the budget deficit isn't accounted for," he said.

The governor-elect, who takes office Jan. 12, has talked broadly about stimulating economic growth by holding down taxes and curbing government spending but has provided few details. During his campaign, Mr. Rauner talked about having the income tax at 3% for individuals by the end of his first term, but he hasn't spelled out what rates he favors over the next four years to get there.

The individual income tax rate in Illinois is currently 5% and will fall to 3.75% on Jan. 1. It was at 3% before Mr. Quinn and lawmakers approved the temporary increase. Illinois doesn't have tax brackets; residents pay the same rate on all of their income.

Mr. Rauner also has discussed broadening the state's sales tax. Illinois's sales tax is largely applied to just goods and not services. A spokesman for Mr. Rauner said he will provide more details on his budget plans after being sworn into office.

Illinois Senate President John Cullerton said if Mr. Quinn had been reelected, the state likely would have stuck with the higher rate. At 5%, he sees Illinois as competitive with its Midwest neighbors, noting nearby states such Iowa and Wisconsin have top rates that are higher. But Mr. Cullerton added voters made a choice in November and now it's up to Mr. Rauner to propose a new plan.

"The guy said 'I'm going to lower your taxes and spend more money on education.' So he got elected and gets to tell us his budget," Mr. Cullerton said.

THE WALL STREET JOURNAL

By MARK PETERS

Dec. 30, 2014 2:28 p.m. ET

— Aaron Kuriloff contributed to this article.

New Jersey to Bail Out Atlantic City With Short-Term Loan.

(Reuters) – Atlantic City, New Jersey's struggling gambling hub, will get a short-term $40 million loan from the state rather than try to borrow the money in the capital markets this year, a city official said on Tuesday.

Even the city's originally planned $40 million note sale, now squashed, was itself a scaled back version of a larger bond issuance that was delayed amid uncertainty over the city's next financial steps.

The city must repay the loan by March 31 at a 0.75 percent interest rate, according to the loan agreement, signed on Dec. 18 by Mayor Don Guardian and the state.

Atlantic City still hopes to issue at least $140 million of bonds in the first quarter of 2015, revenue director Michael Stinson told Reuters. That will help pay down property tax appeals won by casinos.

The delayed bond sale and other financial uncertainties prompted Moody's Investors Service to warn this month that it could downgrade the city's Ba1 credit rating further into junk territory.

By next spring, officials hope that more pieces of Atlantic City's financial puzzle will be solved, which would make borrowing from investors at lower rates more feasible.

By then, lawmakers could have finalized a package of legislation that aims to prop up Atlantic City and stabilize its revenue stream from casinos.

Early next year, Governor Chris Christie will also present his proposed state budget, which itself could be strained by rising public pension costs and revenue growth that has lagged the nation.

Atlantic City is also due to receive money from a settlement with Wells Fargo, the bankruptcy lender to Revel Casino Hotel, regarding nearly $32 million in unpaid taxes owed by Revel.

Stinson would say only that the agreement covers a "significant" portion of the total bill. The Philadelphia Inquirer, citing the mayor, reported on Tuesday that Wells Fargo would pay $26 million. The city council and Revel's bankruptcy judge must approve the deal.

Tax collectors in the city had hoped to auction off Revel's tax lien earlier this month, but they got no bidders. They did sell about $22 million of tax debt associated with the bankrupt Trump Taj Mahal and Trump Plaza casinos.

New Jersey's "constructive" approach to its distressed municipalities could be sending positive signals to investors, Municipal Market Advisors said in a commentary on Tuesday.

By REUTERS
DEC. 23, 2014, 4:34 P.M. E.S.T.

(Reporting by Hilary Russ; editing by Gunna Dickson)

The 2015 Frederic L. Ballard, Jr. Memorial Scholarship Program - Now Accepting Applications.

NABL is pleased to announce that it is once again offering up to five scholarships to law school students to attend the 2015 Fundamentals of Municipal Bond Law Seminar. Now in its fourth year, the scholarship program was renamed in honor of Frederic L. "Rick" Ballard, Jr. by the NABL Board of Directors in September 2014. This year's seminar is being held April 22-24, 2015 at the Hyatt Grand Cypress in Orlando, Florida.

Qualified candidates must be currently enrolled in the Doctor of Jurisprudence Program or a Masters of Law (LL.M.) Program at an accredited law school located within the United States of America. Each scholarship will include a waiver of the enrollment fee and travel expenses to the 2015 Fundamentals of Municipal Law Seminar. Click here for more details and the application. Completed applications are due no later than March 6, 2015. If you have any specific questions about this scholarship, please contact Linda Wyman at (202) 503-3300.

Puerto Rico May Allow Higher Yields on Bond Sale to Lure Buyers.

Puerto Rico lawmakers plan to alter a bill so the Government Development Bank can offer higher interest rates on a $2.9 billion petroleum-tax-backed bond sale to increase demand for the debt.

Governor Alejandro Garcia Padilla is set by mid-January to sign legislation authorizing the sale, Assembly Representative Rafael "Tatito" Hernandez said today in a phone interview. Immediately afterward, the legislature will ease limits on the bonds' coupon and a provision that links a petroleum-tax increase to broader tax-law changes, Hernandez said.

“The language of the bill has some ties between the tax reform and the date when the revenue starts and that isn’t supposed to be that way,” said Hernandez, who chairs the House Treasury Committee. “So we’re going to change that.”

The $2.9 billion borrowing, which will have the additional security of the commonwealth’s general-obligation pledge, would be the first bond sale for the junk-rated commonwealth since it sold $3.5 billion of general obligations in March, the largest speculative-grade offering ever in the $3.6 trillion municipal-bond market. Proceeds will repay $2.2 billion the Highways & Transportation Authority owes to the GDB. That amount accounts for about 21 percent of the bank’s loan portfolio.

Petroleum Tax

The measure increases the island’s petroleum tax to $15.50 per barrel, from $9.25, with the new revenue backing the planned $2.9 billion sale. The higher petroleum fee is set to begin March 15. The plan is to remove language that makes that start date dependent on lawmakers approving broader changes to Puerto Rico’s tax system, Hernandez said.

The bill also limits the average coupon on the new securities to 8.5 percent and sets a floor on the price of 93 cents on the dollar, according to Hernandez. Lawmakers are discussing how to relax those guidelines and give the GDB more flexibility in structuring the deal to ensure there are enough buyers, Hernandez said. He declined to give more details on potential changes to the deal’s structure.

“Our goal is to fix it to get about $2.9 billion,” Hernandez said. “So if we want to do that, we need to have the language that can help us get to that number.”

An 8.5 percent coupon and 7-cent discount would generate a yield of about 9.19 percent for debt maturing in January 2045, according to data compiled by Bloomberg.

General obligations sold in March, with an 8 percent coupon and maturing in July 2035, traded today at an average yield of about 9.4 percent, or about 87 cents on the dollar, Bloomberg data show.

Luring Buyers

Lawmakers want the GDB, which works on the island’s debt sales, to offer the securities to all types of buyers, not just hedge funds and alternative investors that bought most of the bonds sold in March, Hernandez said.

“There’s going to be an obligation that the GDB has to go to all markets to make the sale, not just one group,” Hernandez said.

Puerto Rico’s next legislative session begins Jan. 12. Hernandez said he is already in discussions with House and Senate leaders regarding the changes.

Bloomberg

By Michelle Kaske

Jan 8, 2015 12:51 PM PT

To contact the reporter on this story: Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net

William Selway, Mark Schoifet

Kentucky to Build State-of-the-Art Broadband Under a P3.

Kentucky will leverage private sector financing to develop a fiber backbone to bring high-speed Internet service to residents across the commonwealth.

The state will partner with Macquarie Capital to build a 3,000-mile network of major fiber lines throughout the state, Gov. Steve Beshear (D) and Rep. Hal Rogers (R) announced Tuesday. The project is estimated to cost between $250 million to $350 million and will be supported by $30 million in state bonds and $15 to $20 million in federal grants.

“We are on an aggressive timeline and believe that the Macquarie team’s technical capabilities and history of innovative solutions are the best fit for this important project,” said Beshear. “This partnership puts us on the path to propel the commonwealth forward in education, economic development, health care, public safety and much more.”

When complete, the network will connect all 120 counties in the state. The push for reliable, accessible high-speed broadband is one recommendation that emerged from SOAR, the “Shaping Our Appalachian Region” initiative.

“This new Super I-Way is the cornerstone of SOAR’s mission to diversify the economy in eastern Kentucky with improvements in business recruitment, fast-tracking telemedicine in the mountains, and adding high tech advancements in education,” Rogers told the Harland Daily.

Under the P3, the fiber Internet will be built by Macquarie, but the state will oversee the main broadband lines. Internet and cell phone providers will lease the lines to complete the connection to homes and cell phone networks. Cost to consumers will be lowered by eliminating the need for service providers to build duplicate infrastructure.

Macquarie will begin work immediately on phase one to design the overall statewide system and determine the project’s scale. The design and cost estimates are due by the end of February 2015 with construction of the first segments expected to begin in the summer and completed by April 2016.

“We believe that this project will be the centerpiece of Kentucky’s long-term economic infrastructure, demonstrating the core principles of value for money and risk transfer to the private sector that will translate into a successful long-term partnership with the commonwealth,” said Nick Hann, senior managing director at Macquarie Capital.

NCPPP

By Editor

January 6, 2015

Municipal Market Advisors Alters Name to Highlight Independence.

The research firm Municipal Market Advisors Inc. changed its name to Municipal Market Analytics Inc., in an effort to highlight its independence, according to a memo from president and founder Tom Doe.

Leadership, staff and contact information will remain the same at the Concord, Massachusetts-based firm, Doe said in the memo dated today. The company prepares market outlook pieces for bond buyers and municipal officials, and tallies first-time defaulters in the $3.6 trillion market.

"We wanted to establish that there was no confusion regarding our role as an independent research firm, where there had been, especially with the new regulations concerning municipal advisers" from the U.S. Securities and Exchange Commission, Doe said today in an interview.

With the 2010 Dodd-Frank law, Congress ushered in the first rules for municipal advisers, which took full effect last year. The main effect is firms that render advice need to act in client's best interests.

MMA doesn't advise issuers on specific transactions, Doe's memo said. Its consulting and bank-credit services won't change, he said.

Bloomberg News

By Brian Chappatta and Michelle Kaske

Jan 2, 2015 7:54 AM PT

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Michelle Kaske in New York at mkaske@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Stacie Sherman

---

Costs of Detroit's Bankruptcy Reach About $178 Million.

Legions of lawyers, consultants and other advisers have been paid nearly $178 million for their work on Detroit's historic bankruptcy, a number that comes in under budget but still makes it the most expensive municipal restructuring in U.S. history.

The city of Detroit detailed the fees and expenses paid to dozens of advisers in a filing made Tuesday in U.S. Bankruptcy Court in Detroit. The city recently exited bankruptcy protection after cutting about $7 billion of $18 billion in long-term obligations and promising to reinvest more than $1.4 billion in essential city services.

As the bankruptcy advisers and a court-appointed emergency financial manager leave the city, a new set of overseers will soon enter the scene. As part of its restructuring, a financial oversight commission will have direct control over the city's budget for at least three years and indirect oversight for at least 10 years after that.

The law firm Jones Day led the way in the fees disclosed Tuesday with a $57.9 million bill. Detroit hired the firm in the months leading up to its July 2013 bankruptcy filing and chose one of its former partners, Kevyn Orr, to be emergency manager. Mr. Orr resigned in mid-December after almost 21 months in office.

Jones Day is among 10 firms advising Detroit that must have their fees scrutinized by a court-appointed fee examiner. That group includes restructuring firm Conway MacKenzie, with a $17.3 million bill, investment bank Miller Buckfire & Co. at $22.8 million, and financial adviser Ernst & Young at $20.2 million.

A total of $164.9 million in fees have been paid out of Detroit's general fund, the filing shows, to advisers of the city, others that advised a committee of Detroit retirees, counsel to the fee examiner, and experts hired by U.S. Bankruptcy Court Judge Steven Rhodes. Mediators that helped negotiate key deals in the Chapter 9 case billed $980,000, which doesn't include the work of U.S. District Judge Gerald Rosen, who worked on the mediations for free.

The general fund tally comes in under a $177 million budget allotted as part of the bankruptcy-exit plan, according to the filing, and was decreased by a $5.3 million contribution made by the state of Michigan.

Other advisers were paid from an enterprise fund, the filing shows, and two city unions paid a total of about $12 million directly to law firm Clark Hill and investment bank Greenhill & Co.

Judge Rhodes still has the final say on whether the fees will stand. In a Dec. 15 court order, the judge said that once he reviews the city's disclosures, he will "determine what further process is appropriate to determine the reasonableness of fees."

THE WALL STREET JOURNAL

By SARA RANDAZZO

Dec. 31, 2014 2:52 p.m. ET

Write to Sara Randazzo at sara.randazzo@wsj.com

NJ Supreme Court Seeks Input for Prism Bonds Appeal.

WEST ORANGE — The "outstanding briefs" that caused the New Jersey Supreme Court to indefinitely postpone oral arguments last month in the lawsuit filed by five residents against West Orange have been discovered to be amicus curiae briefs, which the court requested from acting New Jersey Attorney General John Hoffman and invited from the New Jersey State Bar Association, the New Jersey League of Municipalities and the National Association of Bond Lawyers.

An amicus curiae, or a "friend of the court," is someone who advises the court on legal matters pertaining to a case without advocating for either the plaintiff or the defendant.

State Supreme Court Clerk Mark Neary sent a letter to Hoffman on Oct. 31 requesting that he submit a brief on the case and speak as amicus curiae on behalf of the Local Finance Board in the Department of Community Services.

According to the letter, a copy of which was provided to the West Orange Chronicle, Hoffman was given until Dec. 22 to submit a brief, with all parties involved allowed to submit briefs responding to it by Jan. 20.

Neary likewise sent a letter to the NJ State Bar Association, the League of Municipalities and the National Association of Bond Lawyers on the same day inviting them to provide briefs and appear before the court as amicus curiae. According to the letter, which was provided to the Chronicle, they were also asked to submit their briefs by Dec. 22, with all parties involved able to submit response briefs through Jan. 20.

Mayor Robert Parisi declined to comment on the matter at this time. Windale Simpson, one of the plaintiffs and spokesman for the group, was not able to be reached before press time Dec. 22.

Though the fact that the Supreme Court is willing to examine the case in depth should be encouraging to both sides hoping to be proven right in court, the delay is undoubtedly frustrating. The Supreme Court had originally agreed to take the case Jan. 24. After months with no word on a hearing date, in October the clerk's office told the Chronicle a date had been tentatively set for Nov. 10. That date was later scrapped due to what the clerk's office told the Chronicle were "outstanding briefs," now known to be the amicus curiae briefs.

Once it is eventually heard, the case will decide whether the township's ordinance granting $6.3 million in municipal bonds to Bloomfield real estate operator Prism Capital Partners is valid. It is being questioned because the town did not apply for approval to the Local Finance Board.

The matter was first brought before the municipal court by residents Rosary Morelli, Mark Meyerowitz, Althia Tweiten, Michael Scharfstein and Simpson on May 14, 2012, after they had twice failed to get a petition certified for a referendum on the project's bond issuance. They objected both to the bond and the township's granting a 30-year property tax abatement to Prism, which had been contracted by West Orange to construct the Edison Village mixed-use complex in the downtown redevelopment area.

The five plaintiffs lost that case, and their appeal as well, before successfully appealing to the state Supreme Court.

The bonds were issued to Prism as part of its 2006 redevelopment agreement with the township to build Edison Village, the 21-acre mixed-use project that will offer apartments, retail space and townhouses in the downtown district when completed.

Of course, the question of when the project will get off the ground has been a subject of controversy during the past six years without construction even beginning. The township maintains that the current lawsuit is causing the delays since the bonds are tied up in the litigation; however, critics argue that Prism's financial situation might be the real issue. Currently the real estate operator is approximately $1 million behind in property taxes owned to the township of West Orange. Jack Sayers, the West Orange business administrator, previously told the Chronicle that West Orange is utilizing "every legal remedy available" to get Prism to pay what it owes.

Essex News Daily

By: Sean Quinn – Staff Writer

Fitch: Chicago Pension Litigation Threatens Progress.

Fitch Ratings-New York-19 December 2014: Tuesday's legal challenge to Chicago's recent pension reform plan was expected and underscores the difficulty the city faces in its efforts to put its pension plans on firmer footing. Illinois affords particularly strong legal protection to pension benefits.

If the litigation succeeds and changes to the cost of living adjustments (COLAs) and employee contributions are struck down (and no replacement legislation is passed), the city would likely revert back to the lower, statutorily based payments, as annual payments on an actuarially sound basis would rise dramatically. These increases would occur in the context of a statutorily required $538 million increase in contributions for the city’s other two pension systems (police and fire) in 2016. The city has not yet said how the increased pension costs will be accommodated, but Fitch Ratings believes they threaten to crowd out other governmental priorities and remain a formidable challenge to the city’s financial equilibrium.

The city benefits from a strong local economy and enjoys broad home rule authority to raise revenues. However, increasing pension costs are a common problem among Chicago-area governments and funding these increases will likely place a considerable stacked burden on the area’s resource base.

All four of Chicago’s (A-/Outlook Negative) pension plans are poorly funded, at a combined 35%, according to Fitch. Annual payments historically were calculated and made based upon a statutory formula, rather than on actuarial projections. The Illinois legislature passed changes to two of Chicago’s four pension plans in April 2013, trimming future growth of the liability with changes to the COLA while providing increased contributions from employer and employees.

If the new plan is upheld, it would require significant payment increases from the city, approximately half of which are expected to be funded by increased property taxes and half by budgetary savings. The city plans to gradually increase its revenues for pension payments, which may include property taxes, by $50 million (approximately 6%) annually for five years before reaching the target increment of $250 million in the fifth year.

Contact:

Arlene Bohner
Senior Director
U.S. Public Finance
+1 212 908-0554
33 Whitehall Street
New York, NY

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.

Chattanooga Touts Transformation Into Gig City.

CHATTANOOGA, Tenn. — A city once infamous for the smoke-belching foundries that blanketed its buildings and streets with a heavy layer of soot is turning to lightning-fast Internet speeds to try to transform itself into a vibrant tech hub.

Through a combination of political will and federal stimulus money, 175-year-old Chattanooga became the first U.S. city to broadly offer a gigabit per second internet speeds — nearly 50 times the national broadband average.

Whether that's enough to turn a modest southern city into a mini Silicon Valley remains to be seen, but local leaders are betting they've positioned themselves well for what lies ahead in the global economy.

"This is an old town with a new vision," said Aaron Welch, who became a hero of the emerging tech scene when he sold his app that reserves specific tables at restaurants to a rival for $11.5 million.

Other startups migrating to the "Gig City" to tap into the government-owned broadband network include 3D Ops, which converts MRI or CT scans into anatomical replicas to help doctors prepare for surgeries; shoemaker Feetz, which makes custom footwear using 3D printing technology; and moving service Bellhops, which coordinates the logistics of managing 8,000 college student contractors nationwide.

The nascent tech scene is the latest development in Chattanooga's decades-long effort to reinvent itself after a 1969 federal study called it the most polluted U.S. city.

A downtown revival over the last two decades was anchored by the Tennessee Aquarium and a $120 million redevelopment of the Tennessee River waterfront. German automaker Volkswagen in 2008 cited the city's turnaround in its decision to build a $1 billion assembly plant on the site of a former TNT plant.

The city inaugurated its fiber optic network — with a $111 million boost from the 2009 federal stimulus package — even as larger cities like Atlanta and Nashville wait for private providers like AT&T and Google to roll out comparable service.

"We're at a pivotal time in the relationship between cities and communications networks," said Susan Crawford, a professor at Harvard Law School who has written extensively about the power of Internet providers. "And there are mayors all over the country who are watching Chattanooga with envy and wishing and planning for fiber optic networks of their own."

While commercial providers pick and choose which neighborhoods to serve, Chattanooga's network covers the city.

"The whole point is that you want everyone to have this capacity, and not to leave anyone behind," said Crawford.

Chattanooga's fiber network grew out of efforts to install a smart electric grid in a city where tornados and ice storms have caused serious power outages. During the upgrade, the Electric Power Board, or EPB, also issued $226 million in bonds to help fund a fiber optic network, hoping the super fast phone and Internet service would attract new business.

According to the Federal Communications Commission, the average broadband speed in 2013 was 21.2 megabits per second. A gigabit equals 1,000 megabits.

"Our competitors have said things like, 'Oh nobody needs a gig,'" EPB's president and CEO Harold DePriest said at a recent tech forum in a converted downtown church. "That's absolutely true. But how many of us need color TV? We have color TV because we want color TVs.

"And in America we have this unique way of making wants into needs," he said.

The fiber network has upload speeds matching downloads, bringing near real-time transfer of information between high-bandwidth users. It let musicians T Bone Burnett in Los Angeles and Chuck Mead in Chattanooga play a live concert together while thousands of miles apart in December 2013.

Jonathan Taplin, director of the Annenberg Innovation Lab at the University of Southern California, which helped organize the concert, said entertainment executives might be intrigued.

James Cameron, director of the movies "Avatar" and "Titanic," wants to make films at double the current ultra-high definition 4K standard, Taplin said. The 500 megabits per second needed would be out of reach for most, but Chattanooga's fiber customers "could handle that today."

The municipal network has been criticized for unfairly crowding out private providers.

"EPB's entire network is propped up on the backs of ratepayers and taxpayers," said Justin Owen, head of the Beacon Center of Tennessee, a conservative think tank.

Mayor Andy Berke counters that the city had no other option.

"No one was begging to come to Chattanooga to put up a fiber optic network," he said.

EPB initially charged $350 a month for the gigabyte speed, but has slashed that to $70, driving subscriptions from fewer than 100 to more than 4,700. Another 55,000 residential customers get the cheaper 100-megabyte service.

Tech startup guru Sheldon Grizzle founded The Company Lab to hold tech competitions and mentorship programs that take advantage of the city's internet capacity — and to connect entrepreneurs with investors. They included Welch, who first hashed out his reservation app idea in one of the lab's 48-hour startup competitions.

Grizzle in 2011 persuaded Welch to quit his day job by helping land a $65,000 investment in his company, Quickcue, which was sold to reservation giant Open Table in 2013. Welch went on to found Iron Gaming, which hosts competitions for gamers, and is working on creating a television network for computer geeks.

But Welch said developers still struggle to lure financial backers in a city long associated with heavy industry, the Chattanooga Choo-Choo and the country's first Coca-Cola bottling plant — though there are signs that venture capitalists in cities like San Francisco and Los Angeles might finally be paying attention.

"Now, it's like 'Oh, yeah, they have that really forward-looking, advanced infrastructure,'" Grizzle said.

Other cities, including Austin, Texas; Santa Monica, California; and Kansas City, are coming online with their own fiber networks, while several others have plans to build them. Berke sees that as a good thing for his city.

"If nobody else has it, there's nothing for us to develop that will work elsewhere," he said. "So it's essential that more cities get this."

By THE ASSOCIATED PRESS

DEC. 27, 2014, 10:45 A.M. E.S.T.

Creditor to Oppose San Bernardino Bankruptcy Plan Favoring Calpers.

LOS ANGELES (Reuters) – A major capital markets creditor of bankrupt San Bernardino, California, will oppose any exit plan that is more favorable to Calpers, California's public pension fund, a source familiar with the creditor's strategy said on Thursday.

The creditor intends to pursue a new approach when hearings resume next year, in light of a deal the city reached with Calpers in November that will see the pension fund paid in full under a bankruptcy plan. The city has been ordered to produce a plan by May.

"We will strongly resist a plan that treats its pension claims substantially better than our claim," the source involved in the creditor's San Bernardino strategy said, who spoke on the condition of anonymity because negotiations with San Bernardino are subject to a judicial gag order.

The move is significant because all the capital market creditors have so far supported the bankruptcy and it signals a change in course, speaking to the wider fight between Wall Street and pension funds over how they are treated in municipal bankruptcies.

San Bernardino declared bankruptcy in July 2012 with a $45 million deficit. Along with Calpers, other major creditors include Ambac Assurance Corp, the insurer of $50 million of pension obligation bonds issued to the city in 2005; Erste Europäische Pfandbrief-und Kommunalkreditbank AG, the holder of the bonds; and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co.

The deal with Calpers has alarmed many of the city's other creditors, who fear they will be forced to bear the brunt of the city's debt restructuring if the pension fund is left unharmed.

San Bernardino, a city of 205,000, 65 miles east of Los Angeles, is one of a handful of municipal bankruptcies that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders, public employees and state and local governments want to understand how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds such as Calpers, during Chapter 9 protection.

Two other U.S. cities – Detroit, Michigan and Stockton, California – produced bankruptcy plans this year where pensioners emerged relatively unscathed but where Wall Street bondholders and insurers took significantly greater losses.

Gary Saenz, San Bernardino's city attorney, said Stockton chose to pay Calpers in full in its bankruptcy plan. "The city has to have a life after bankruptcy," Saenz said. "To achieve that there needs to be a stable workforce. Without stable pensions it's difficult to maintain a stable workforce."

Calpers said: "The city (San Bernardino) has made the right decision to fulfill the retirement security promises made to its employees."

Reuters News | Dec 18, 2014

By Tim Reid

(Reporting by Tim Reid; Editing by Bernard Orr)

Contesting Traffic Fines, Missouri Sues 13 Suburbs of St. Louis.

ST. LOUIS — Missouri's attorney general announced lawsuits against 13 of this city's suburbs on Thursday, accusing them of ignoring a law that sets limits on revenue derived from traffic fines. The move comes after widespread allegations of harassment and profiteering by small municipal governments against the poor and minorities.

The attorney general, Chris Koster, a Democrat, spoke in downtown St. Louis and suggested that more sweeping changes could be needed to bring municipalities into line.

Since the racially charged protests over the death of Michael Brown at the hands of a police officer in nearby Ferguson in August, demonstrators have frequently complained about a perceived hypervigilance to minor traffic violations in St. Louis County's patchwork of 90 municipalities. Many of those cities have their own courts and police departments, but some are only a few square blocks in size and have populations smaller than some high schools.

"When traffic ticketing is used to promote public safety, that's appropriate," Mr. Koster said. "When traffic tickets are used to promote revenue, that's inappropriate." Such practices, he said, are "predatory."

Ferguson, with roughly 20,000 residents, was not among the suburbs sued by Mr. Koster, and is large compared with many nearby cities in the northern part of the county, where many of the suburbs sued by Mr. Koster are situated.

State law requires towns to report the percentage of general operating revenue that comes from fines for traffic violations, and limits their potential to profit by requiring that proceeds beyond 30 percent be turned over to the state.

In Normandy, a city near Ferguson, 38 percent of the revenue came from fines and court costs. Mr.

Koster sued five St. Louis municipalities that he said failed to file any report, four that filed a report without calculating a percentage, and four, including Normandy, that had revenue over the limit.

At its meeting here this week, the state-appointed Ferguson Commission discussed possible changes to municipal courts. The 16-member commission was asked by Gov. Jay Nixon to listen to residents and propose ideas for lasting social and political changes around St. Louis. The commission's leaders appeared with Mr. Koster at Thursday's announcement.

Many say young black men, who are pulled over at a higher rate than whites in some St. Louis County towns, are particularly affected by police officers' enforcement of traffic laws and municipal judges who impose fines. If defendants do not pay their fines, they are sometimes jailed.

"We have heard across the board, there's broad agreement, that the municipal courts create challenges for us," said the Rev. Starsky Wilson, a Ferguson Commission chairman. "Municipal courts are a focal point between policing on the streets and community relations there and municipal fragmentation."

Mr. Koster said he had not reviewed Ferguson's records on traffic ticket revenue because the suburb's report for the last fiscal year is not yet due.

Mayor Francis G. Slay of St. Louis, in a separate news conference Thursday, said that his city's municipal judges could now take into account someone's financial means when setting up payment schedules. Mr. Slay suggested that the region's other courts, where some defendants also struggle to pay, could look into similar changes. But he cautioned that widespread implementation outside St. Louis city limits might be a challenge.

"If you want to get something done in the city, you know where to go," Mr. Slay said. "In the suburbs, there's a lot of municipalities."

Though protests have continued on an almost daily basis, there are signs that St. Louis is returning to some level of normality. Governor Nixon allowed a monthlong state of emergency to expire on Wednesday, resulting in the withdrawal of the Missouri National Guard.

But even with the Guard gone, conversation continues about perceived racial inequities around St. Louis. On Thursday, the American Civil Liberties Union filed a federal lawsuit against the Ferguson-Florissant School District, arguing that the district's method of electing school board members dilutes the influence of African-American voters. Only one of seven board members is black, though African-Americans constitute a majority of the student body.

THE NEW YORK TIMES

By ELI YOKLEY and MITCH SMITH

DEC. 18, 2014

Eli Yokley reported from St. Louis, and Mitch Smith from Chicago.

NYT: Foes of Unions Try Their Luck in County Laws.

BOWLING GREEN, Ky. — Conservative groups are opening a new front in their effort to reshape

American law, arguing that local governments have the power to write their own rules on a key labor issue that has, up to now, been the prerogative of states.

Beginning here in the hometown of Senator Rand Paul and the Chevy Corvette, groups including the American Legislative Exchange Council, the Heritage Foundation and a newly formed nonprofit called Protect My Check are working together to influence local governments the same way they have influenced state legislatures, and anti-union ordinances are just the first step in the coordinated effort they envision.

A carefully devised plan began to unfold last week, when the Warren County Fiscal Court met here and preliminarily approved, in a 6 to 1 vote, a "right to work" ordinance that would allow employees represented by a union to opt out of paying union fees. This week two more Kentucky counties, Fulton and Simpson, followed suit, and a dozen more are expected to do the same in the next six weeks.

Supporters of the effort say that if they are successful in Kentucky, they will try to pass similar local laws in Ohio, Wisconsin, Pennsylvania and other places that do not have a statewide right-to-work law. Protect My Check is promising to pay for the legal battles of any local government that tries it.

"There are literally thousands of targets for the initiative," said Brent Yessin, an anti-union consultant and lawyer who is on the board of advisers for Protect My Check, said at a recent meeting in Washington. "Doing this county by county, city by city is more time consuming, but it's also more time consuming and draining for the unions to fight."

Mr. Yessin was speaking at a conference held by the exchange council, also known as ALEC, an influential organization whose supporters include the oil and pharmaceutical industries and the Koch brothers. The group has coordinated efforts to get Republican-controlled legislatures to enact a template of business-friendly legislation including privatizing education, water systems and roads and stopping the expansion of Medicaid under the Affordable Care Act. This year the group introduced a program, the American City County Exchange, to do the same for local governments.

The session on local right-to-work ordinances was open to journalists; a session on combating local minimum wage increases was not. The panelists mapped out a strategy that included raising money from local businesses, persuading lawyers to work pro bono and convincing local politicians that supporting right-to-work ordinances would not be political suicide.

Bill Londrigan, the president of the Kentucky State A.F.L.-C.I.O., objected: "This is being promoted here in Kentucky by outside interests who have nothing else in mind but to damage unions, weaken unions and lower wages."

Under federal labor law, a union that bargains a contract for all employees can require employees who choose not be union members to pay fees to cover the cost of being represented, unless "prohibited by state or territorial law." About half of the states have enacted such prohibitions, becoming right-to-work states.

Kentucky provides a perfect laboratory, said Jason M. Nemes, a Louisville lawyer involved in the initiative, because it is the lone Southern state that does not have a right-to-work law, and its neighbor West Virginia, where Republicans captured control of the Legislature last month, may soon pass one. Other states where Republicans expanded their control in the midterms, like New Mexico and Wisconsin, are also considering statewide bills.

A right-to-work law became a major issue in Kentucky's midterm elections when Republicans, who control the State Senate, promised to pass one if they gained control of the House. They fell short of that goal, priming local officials like Judge-Executive Mike Buchanon, the elected head of Warren County, to act.

“We’ve always been interested in promoting right to work, and as all of our states around us became right to work, it has become a competitive issue,” Mr. Buchanon said, asserting that many businesses would not even consider locating in areas without right-to-work laws. He added that he was put in touch with Protect My Check by Senator Paul or one of his aides and was promised that the county’s legal bills would be covered.

Mr. Yessin, based in Tampa, Fla., said his group’s donors were not public but, other than his own contribution, all of the money raised so far had been from local businesses and employers in the targeted counties.

Nearly 1,000 union members make Corvettes at a Chevrolet plant in Bowling Green, Ky. Credit Bryan Lemon for The New York Times
Last week’s vote in Bowling Green took local union members by surprise. It was advertised in advance as “an ordinance relating to the promotion of economic development and commerce,” and there was little public comment, though there were presentations by the Chamber of Commerce and the Bluegrass Institute, a policy group with close ties to ALEC.

“It was sprung on everybody,” said Connie Warren, the financial secretary of the United Automobile Workers Local 2164. “The other side had all their ducks in a row; we didn’t have even the opportunity to say how we felt about it.”

Officials acknowledged that the county was doing relatively well without a right-to-work law. “The Warren County economy is very strong; it’s very diversified,” said Ron Bunch, the president of the local Chamber of Commerce. “We have the lowest unemployment rate in Kentucky.”

But they said they lost out on many prospects, pointing to Beretta, the gun manufacturer, which chose Gallatin, Tenn., 45 miles south, over Bowling Green as its new home. “What we’re passing is putting an ‘Open for Business’ sign on our front door,” Mr. Buchanon said.

It is difficult to measure the effects of right-to-work laws on wages and jobs, but experts say they do weaken unions, discouraging organizing efforts and creating “free riders,” employees who benefit from collective bargaining but decline to pay fees. Unions and some economists argue that if right-to-work laws succeed in attracting businesses, it is because they drive down worker pay.

The ordinance will certainly be challenged in court. A recent paper by the Heritage Foundation argues that because cities and counties are not specifically prohibited from passing such laws, they can do so. Supporters say that despite earlier federal and state rulings that cities cannot pass right-to-work laws, counties are political subdivisions of the state and are thus imbued with its powers. The Supreme Court has never ruled on the issue, but conservatives are hoping to find a sympathetic ear on the federal bench.

Lynn Rhinehart, a lawyer with the A.F.L.-C.I.O., asserted that federal law unambiguously pre-empted local ordinances and that trying to prove otherwise was a waste of taxpayer money. “Nice try — state means state,” she said. As for “territorial,” she added, “It’s fair to say it means Guam, and it doesn’t mean county.”

Conservatives, though, point to a 2002 circuit court ruling allowing right-to-work laws on tribal lands as evidence that there is wiggle room.

Mr. Buchanon said he believed that Kentuckians overwhelmingly favored the right to work and that union members had quietly told him that they did, too.

Chad Poynor, a United Auto Workers committeeman at the Corvette plant, conceded as much, saying that concessions made by the union in recent years had angered rank-and-file members, even though the recession was largely to blame.

“We haven’t had a raise in eight years, so those things are hard to swallow. You hear people all the time say, ‘If I were in a right-to-work state, I’d withdraw’ ” from the union, he said. “But you have to look at the big picture over the last 30 years, what we’ve kept. We went through a bankruptcy and kept our pension. A lot of people can’t say that.”

THE NEW YORK TIMES

By SHAILA DEWAN

DEC. 18, 2014

Judge Nixes $110 Million Deal to Sell Atlantic City’s Revel Casino.

A bankruptcy judge on Friday scrapped a $110 million deal to sell Atlantic City, N.J.’s closed Revel Casino Hotel to a Canadian private-equity firm.

During a hearing at the U.S. Bankruptcy Court in Camden, N.J., Judge Gloria Burns approved a request from the boardwalk resort to terminate the sale, placing a Florida-based real-estate developer in line to purchase the property.

Revel had asked Judge Burns in an emergency filing earlier this week to cancel the sale agreement with the firm, Brookfield Capital Partners LP, and instead declare Florida developer Glenn Straub the winning bidder.

Mr. Straub, whose final $95.4 million bid for Revel was ultimately topped by Brookfield, was named the backup bidder at the end of an auction for the property in early October.

A hearing to approve the sale to Mr. Straub, who didn’t attend the hearing Friday, has been scheduled for Jan. 5.

“We have to get the sale process moving,” Judge Burns said during the hearing.

Last month, Brookfield informed Revel that it planned to pull out of the deal over costly payments related to the property’s custom-built power plant. Brookfield later missed a Nov. 28 deadline to close the sale.

“They failed to close as they were required to do,” John Cunningham, a lawyer for Revel, said at the hearing Friday. “We believe we absolutely have the right to terminate this agreement.”

According to Mr. Cunningham, Brookfield didn’t respond to Revel’s request to terminate the sale and wasn’t present in the courtroom Friday.

A spokeswoman for Brookfield declined to comment.

A showdown with the bondholders backing Revel's power plant, which Mr. Cunningham called a "game of chicken," remains a major obstacle for Revel.

The plant, operated by ACR Energy Partners LLC, is located next to the resort and is Revel's only source of both electricity and hot water, court records show. Revel, in turn, is ACR's only customer.

ACR issued $120 million worth of municipal bonds in 2011 to cover 75% of the power plant's construction cost, according to court filings. In return, Revel agreed to purchase power, hot and chilled water exclusively from ACR for 20 years. Revel also agreed to pay the plant's operating costs and guaranteed at least a 15% return on ACR's $40 million equity investment.

The monthly payments to ACR total more than $3 million, according to estimates in court papers.

Mr. Cunningham said Friday that if Mr. Straub wins approval to buy Revel, he will ask for court permission to revoke the contract with ACR.

Mr. Straub, who has expressed interested in purchasing other Atlantic City properties, is continuing to appeal Judge Burns' decision to approve the sale to Brookfield. The developer accused Revel of failing to disclose information about competing bids and conducting much of the auction behind closed doors.

The $2.4 billion Revel emerged from its first bankruptcy in May 2013 under the control of its lenders after having slashed more than $1 billion in debt from the balance sheet.

The beachfront resort filed its second Chapter 11 case in June.

THE WALL STREET JOURNAL

By TOM CORRIGAN

Dec. 12, 2014 12:15 p.m. ET

Write to Tom Corrigan at tom.corrigan@wsj.com

---

300 Hedge Funds Not Enough as Tax Fails Connecticut: Muni Credit.

Four months after becoming Connecticut's first Democratic governor in two decades, Dannel Malloy signed a budget that raised taxes by a record amount. He vowed the revenue would stabilize a reeling economy.

"It's a tough vote — it's also the right vote," Malloy said in May 2011. "The budget is balanced, honest and contains none of the gimmicks that helped get us into this mess."

More than three years later, the wealthiest U.S. state, home to as many as 300 hedge funds, is still struggling to rebound from the recession that ended in 2009. While tax revenue has risen faster than any other state, growth in jobs, personal income and home prices ranks in the bottom 10 and trails neighboring New York and Massachusetts, according to data compiled by Bloomberg.

Malloy, 59, won re-election last month, enduring a rematch with Republican Tom Foley, who campaigned on a narrative of Connecticut trailing the U.S. recovery. The Democrat painted his challenger, who founded a private-equity firm, as out-of-touch with voters.

A week after his victory, Malloy ordered hiring limits and spending cuts to close a projected deficit. He also faces the third-most underfunded state pension system and the most debt per resident.

'Much Weaker'

"Connecticut's financial position is much weaker than people realize," said Tom McLoughlin, head of muni fixed-income in New York at UBS Wealth Management Americas, which oversees $1 trillion. "The pension-funding ratio is going to be a persistent problem for Malloy and his successors. The state is really going to have to address its issues in the near future."

Connecticut's economy contracted in 2011 by more than all but three states, prompting a credit downgrade in 2012. Its unemployment rate has exceeded the U.S. figure each month since May 2012 as jobs shrink in the finance industry, the biggest contributor to the state economy.

Malloy's plight shows how a struggling economy saddled with debt and pension costs can strangle even the wealthiest governments. Connecticut ranked first with per-capita personal income of about $61,000 last year, Bureau of Economic Analysis data show.

Digging Out

Samaia Hernandez, a spokeswoman for Malloy, referred questions for the governor to the budget office.

"We're competitive on taxes and doing the responsible thing to control the long-range costs of government," Benjamin Barnes, head of the budget office in Hartford, said in a telephone interview. "It did take us a long time to get into this mess, and it's taking us a little while to dig out. But we're doing it in the right way."

The budget shortfalls and underfunded retirement plan mirror nearby New Jersey, which ranks fourth in per-capita income and has had its credit rating cut a record eight times under Governor Chris Christie. Malloy has described himself as the antithesis of the Republican.

While Christie has refused to raise taxes, Malloy signed a two-year budget in 2011 that increased them by $2.6 billion to tackle deficits, boosting levies on incomes of more than $50,000 a year and on sales of previously exempt goods and services. Republicans who opposed the plan said lawmakers would use the revenue to boost spending.

More Cuts

Instead, the tepid recovery has spurred more cuts. Malloy's administration curtailed hiring and told agencies to reduce spending in a Nov. 12 memo, which outlined a projected $59 million deficit for the fiscal year through June, out of $17.5 billion in expected general-fund revenue.

"Connecticut is still in a struggle to get on sustainable footing while other states are not having these problems," said Paul Mansour, head of municipal research at Conning in Hartford. "They're still dealing with budget deficits when they should be having surpluses."

Conning, which oversees $11 billion in munis for insurers, ranks Connecticut's economic health 45th among states. The standing makes Conning less likely to invest there, Mansour said.

With the $3.6 trillion municipal market rallying the most in three years, investors haven't demanded higher yields.

Connecticut sold 10-year bonds Nov. 21 to yield 2.51 percent, data compiled by Bloomberg show. That compared with 2.26 percent for benchmark munis. The 0.25 percentage-point spread matched the average on its five deals since March.

Extended Rally

The bonds extended their rally today. Debt from last month's sale due in November 2033 traded at an average yield of 2.82 percent, down from 3.09 percent when it last changed hands Nov. 25.

Malloy won last month with 50.7 percent of the vote, to 48.2 percent for Foley, outpolling his rival by about 27,000 ballots — after a margin of almost 7,800 votes in 2010, Associated Press data show.

"My first year in office was really hard," Malloy said in a Nov. 7 interview on MSNBC. "I had to raise revenue. I had to renegotiate contracts. I had to trim some services."

"It continues to be a tough environment," he said a day earlier on the news channel. "Election Night showed that. But here in Connecticut, a race that Republicans had been claiming they were going to win for the better part of two years, I was re-elected."

Malloy has also signed into law bills that repeal the death penalty and raise the minimum wage, and oversaw a measure that tightened gun laws in April 2013, four months after the Newtown shootings.

Debt Constraint

He enters his second term with a lower rating from Moody's Investors Service than when he began in 2011. Connecticut's Aa3 grade, fourth-highest, is below all states but Illinois and New Jersey.

The rank is partly a result of its $5,457 of tax-supported debt per resident, the most nationwide and five times the median, according to the New York-based credit rater.

That number is inflated because the state assumes debt for school construction, while localities pay that tab elsewhere in the U.S., Barnes said.

The money still comes from state coffers, limiting efforts to revitalize the economy, said Douglas Offerman, an analyst at New York-based Fitch Ratings, which gives Connecticut a negative outlook.

Pension Pinch

"The state has not had an easy time of it in this recovery because the economy has not come back as strongly," he said in a telephone interview. "That's not unusual, but the difficulty for Connecticut is it is carrying high fixed costs for labor and retirees, and there's a lot of debt outstanding."

Connecticut is falling behind on retirement promises. The state has 49.1 percent of assets to cover obligations, Bloomberg data show. Only Illinois and Kentucky have lower ratios among U.S. states.

Malloy announced a plan to boost contributions above the annually required amount in January 2012 so the systems would be fully funded by 2032. The approach would save $5.8 billion over 20 years, the state's actuary projects.

"We are working to pay down the debts we owe for past sins," Barnes said. "We've done all the things we need to do to control pension funding. It's going to take a while for it to show in our funded ratio, but we're pretty sure we're on the right track."

Greenwich Appeal

Connecticut’s wealth is concentrated in Greenwich. The city and surrounding Fairfield County have more than 95 percent of the state’s 250 to 300 hedge funds, according to Bruce McGuire, president of the Connecticut Hedge Fund Association.

“You talk to people in New York about Connecticut, and they think Greenwich,” said Tom Metzold, co-director of munis in Boston at Eaton Vance Management, which oversees about $27 billion in local debt. That doesn’t mean the rest of the state is doing so well, he said.

Greenwich has lost some appeal, said Julia Chiappetta, who grew up there and runs a consulting business in the town. She returned to Connecticut after a five-year consulting job in Florida through 2006. Her friends are going in the opposite direction.

Connecticut’s population grew 0.1 percent from 2011 to 2012, among the 10 slowest rates nationwide, while Florida’s increased 1.2 percent, Census data show.

“I see a lot of friends leaving Connecticut because they can no longer afford to live here,” she said by phone. “It makes me sad because it used to be a thriving economic community.”

‘Insurance Capital’

Bond documents refer to Connecticut as the “insurance capital of the world,” citing companies such as Aetna Inc. (AET), Cigna Corp. (CI) and Hartford Financial Services Group Inc. (HIG)

Hartford Financial ranked eighth among nongovernmental employers in 2013, with 7,700 workers in Connecticut, according to the state’s annual financial report. That’s down from 12,000 in 2004, when it ranked third.

United Technologies Corp. (UTX) is the top employer, with 27,000 workers in the state, the same as in 2004. Yale University is second-biggest.

United Technologies’ count includes the headquarters of divisions Pratt & Whitney, which designs and produces aircraft engines, and Sikorsky Aircraft Corp., which makes helicopters. The units will stay in the state as part of the Connecticut Aerospace Reinvestment Act that Malloy signed in September, which provides tax incentives.

UBS Incentive

The governor has also acted to retain finance jobs.

In October, the state extended through 2021 an agreement with UBS AG that gave the bank a $20 million loan that doesn’t have to be repaid if it keeps at least 2,000 employees in Connecticut.

UBS in 1997 merged with Swiss Bank Corp., which built a trading floor in Stamford that’s the size of two football fields. Zurich-based UBS still has people working in the space, said Marsha Askins, a spokeswoman in New York.

While finance — which includes insurance and real estate – – accounted for almost 31 percent of gross state product in 2012, those jobs are becoming scarcer. Financial-services employment fell in 79 of the past 87 months, according to state data.

Last year, finance and insurance exerted the biggest drag on the economy, which expanded 0.9 percent, or half the nation’s pace, according to June data from the Bureau of Economic Analysis. The 6.4 percent October jobless rate compared with 5.8 percent (USURTOT) nationally.

Tax Challenge

"We're a high-income, high-value-added state, with an educated workforce — our jobs are more difficult to create," Barnes said.

Higher taxes make Connecticut less attractive to fund managers, said Stephen McMenamin, executive director of Greenwich Roundtable, a nonprofit that educates alternative investors and hedge funds.

Tax collections surged 58.6 percent in Connecticut in the three years through June, the most nationwide, according to the Bloomberg Economic Evaluation of States.

Connecticut's 2014 business-tax climate is ninth-worst in the U.S., according to the Tax Foundation in Washington. The rank is based on levies on individual income, sales, corporations, property and unemployment insurance.

"When a manager calls me and says I'm looking to come up to Connecticut, I say keep going," McMenamin said in a telephone interview. "It's just a horrible tax situation here."

Bloomberg Muni Credit

By Brian Chappatta Dec 12, 2014 8:42 AM PT

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Alan Goldstein

---

Atlantic City Tax Liens Draw Less Than Half Expected $53 Million.

Atlantic City, the junk-rated onetime U.S. East Coast gambling center on New Jersey's coast, drew bids for less than half of the $53 million of casino tax liens it tried to sell yesterday at auction.

Michael Sklar, an Atlantic City attorney, was the sole bidder for $22 million of debt owed by the Trump Taj Mahal, according to Michael Stinson, the city's revenue director. No bids were received for the $31 million in debt linked to Revel, the boardwalk high-rise that was among four casinos to close this year, battered by out-of-state competition.

"The city's obviously disappointed," Stinson, speaking by telephone today, said of the outstanding Revel debt.

Atlantic City was counting on the sale of the tax liens to help close a $70 million revenue shortfall, 27.6 percent of the budget that ends in less than 30 days, according to Moody's Investors Service. The company, which in July cut the city's credit rating two steps to the non-investment grade Ba1, put it on review yesterday for a possible downgrade.

Smaller Plans

Mayor Don Guardian, a Republican, canceled a planned November bond sale for as much as $140 million that would have helped cover some casinos' successful tax appeals. Instead, the city plans a $40 million note sale by year end, Stinson said.

“Atlantic City’s recently postponed bond sale of $140 million poses significant budgetary, cash flow and balance sheet risk,” Moody’s said in its report.

Moody’s said its review, which affects about $244 million of general-obligation debt, should be finished by mid-January.

Sklar, the Trump bidder, didn’t immediately return a phone call to his law office.

No Talks

Yesterday’s auction drew another $2 million to $3 million for debt owed by non-casino properties, Stinson said. City officials are taking steps to resolve the financial stress, and “have tried to keep the rating agencies informed of what we’re doing,” he said.

“I’m just a little bit surprised,” Stinson said of the possibility of another downgrade. “They already had us on negative watch and adjusted our rating in September, and there have been no conversations with the city since then.”

The city, which began the year with 12 gambling resorts, had counted on casinos for about 70 percent of income. Casino revenue dropped to $2.9 billion last year, from a peak of $5.2 billion in 2006, as Pennsylvania, Delaware, Maryland and New York expanded gambling.

Pennsylvania replaced Atlantic City as the second-largest U.S. gambling market, behind Las Vegas, in 2012.

Relief Measures

Taj Mahal will be the fifth Atlantic City casino to close this year unless more than 1,100 unionized employees decide by Dec. 15 to accept cuts in health care and pensions.

Governor Chris Christie, a 52-year-old Republican in his second term, is advocating for non-gambling attractions, including dining and entertainment.

The Moody’s report said bills before the legislature “may provide some level of relief.” Its report also called a state-appointed fiscal monitor a positive. Christie, after a second summit meeting on Atlantic City’s future last month, said he is considering an emergency manager.

Bloomberg News

By Elise Young Dec 12, 2014 8:50 AM PT

To contact the reporter on this story: Elise Young in Trenton at eyoung30@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Stacie Sherman, Mark Schoifet

---

Utilities Worry Water's Becoming Unaffordable.

Water utilities — many of them government agencies — increasingly are worried that their services will become unaffordable to low-income customers.

“In addition to the need for infrastructure replacement and big investments required there, we are now coming face to face with a social problem of big dimensions, namely the hardship that these investments are going to impose on customers at the bottom of the income spectrum,” said Tom Curtis, the head of governmental affairs for the American Water Works Association, which represents water utilities.

Water and sewer bills are increasing faster than bills for natural gas, electricity or phone service. They have been far outpacing inflation for 30 years, and there is no sign the rate hikes will slow down anytime soon.

Between 2001 and 2011, water bills grew the fastest as a percentage of income for the poorest customers. Water expenses grew faster than all other utility bills for low-income Americans except electricity. At the same time, though, the take-home pay for low-income Americans has fallen, when adjusting for inflation, Curtis noted.

The affordability of water became a major point of contention in recent months, as Detroit’s water utility disconnected some 50,000 customers who were behind in their bills. The cut-offs drew criticism from sources as diverse as the United Nations and The Daily Show. As part of Detroit’s bankruptcy proceedings, the city reached a deal with counties in the region to restructure the utility, which included a new $4.5 million fund to help customers struggling with their water bills.

The reasons for Detroit’s shut-offs were unique, but the underlying concern about water cost is not.

“The era of cheap water is really coming to an end,” Curtis said.

Customers usually pay only one water bill, but it covers many systems. The drinking water system delivers water to sinks, sprinklers and washing machines. The waste water system whisks water from customers’ drains to the water treatment plant. And the storm water system prevents floods after rains.

The costs of all of those systems are going up.

In older cities, pipes installed as much as a century ago need to be replaced. Booming Sun Belt regions not only need to expand their reach to cover new developments, but they are trying to find new sources of water in often-parched areas.

It could cost more than $2 trillion over the next 25 years to replace and expand drinking water and waste water systems nationally, according to a rough estimate by the AWWA.

Many sewer systems must also make major upgrades as a result of federal environmental enforcement actions. Local governments are considering upgrades to the same water infrastructure to reduce flooding from heavier storms and higher sea levels brought on by climate change.

Meanwhile, drinking water utilities are coping with a drop in water usage, which makes it more difficult for them to cover the fixed costs of maintaining their infrastructure with per-gallon rates.

For utilities and regulators, though, there is often no easy way to shield low-income customers from the higher costs.

The Northern Kentucky Sanitation District, which operates waste water and storm water systems in the Cincinnati suburbs, convinced federal and state regulators in 2009 that a plan to keep local rivers clean would be unaffordable for rate payers. But the district and the regulators still have not agreed on an alternative.

Sewer bills in the district have shot up by 500 percent since 2000, said David Rager, the agency's executive director.

The utility has built two new treatment plants to handle sewage in response to a 2007 federal court order. The agency, known as SD1, had to install new pipes and pumping stations to change how the waste water flows, so it would get to the new treatment plants. It is about 70 percent done with that work.

But there is still more work to be done to get the agency to comply with the federal Clean Water Act.

Existing pipes in the many areas of the agency's three-county territory are too small, so sewage overflows out of manholes and into basements in 160 different places after heavy rains. The U.S. Environmental Protection Agency also wants the district to cut back the amount of untreated water it releases into area creeks and rivers after storms.

The price of fixing those problems while paying off debt for the earlier improvements would reach $1.3 billion — or more than $4,600 for every person served by the utility. To make those improvements by 2025, as the EPA originally wanted, would require 20 percent rate hikes for each of the next 10 years, Rager said.

That would hit low-income customers especially hard, because the water bill is a bigger share of their expenses. Kentucky law prohibits subsidized rates, so the agency cannot charge different rates for customers with different incomes.

The northern Kentucky district is one of a small, but growing, number of utilities working to convince federal regulators that plans to improve water quality are too expensive.

Two years ago, for example, federal regulators agreed to give Atlanta 13 more years to comply with a 1999 consent decree because of the financial difficulties it would have placed on the city to meet the target by 2014.

Atlanta residents have some of the highest water bills in the country, with a typical family of four paying $150 a month (compared to about $50 a month for a typical family nationally). The high bills came after the city's water department raised rates by 250 percent over a decade. Separately, residents also approved a 1 percent sales tax to help fund the improvements to its sewer system. Without the sales tax, Atlanta officials estimate, residents' bills would have increased another 25-30 percent annually.

In a shift welcomed by local governments, the EPA indicated last week that it may take into account more factors — including the impact on low-income customers — when determining whether future projects are affordable for cities. Mayors, other city officials and utilities had criticized how the agency decided which projects were affordable.

For example, the EPA considers the potential impact of increased costs for customers earning the area's median household income, not for poor customers. The EPA said last week it would consider other information on how rate increases could disproportionately affect customers in certain income brackets or geographic areas.

As welcome as the news is for water utilities, it only addresses one of the many financial pressures affecting rates.

Janice Beecher, director of the Institute of Public Utilities at Michigan State University, said utilities may have to look beyond the rates they set to help low-income customers. After all, she said, rates still need to give customers incentives to be efficient and, of course, they need to cover the cost of providing the water infrastructure.

“It’s very difficult to solve our poverty and equity issues all within rate design,” she said.

Many utilities use non-profit groups to provide financial assistance to customers. The public sector can also help them by ensuring there is enough funding for the federal Low Income Home Energy Assistance Program (LIHEAP) and its state counterparts, which help low-income residents pay their energy bills.

“In many cases, we’re talking about the same families who are struggling,” she said. “Rather than reinvent the wheel, maybe we should have some coordinated effort to make sure they’re able to pay their energy bills. That will make it easier to afford their water bill.”

GOVERNING.COM

BY DANIEL C. VOCK | DECEMBER 4, 2014

Hedge Funds Ready to Back Puerto Rico Bond Sale Despite Rate Cap.

Dec 9 (Reuters) – Puerto Rico imposed an 8.5 percent interest rate cap on a proposed bond sale of up to $2.9 billion late on Monday, but hedge funds that hold the U.S. commonwealth’s debt still appeared likely to back the deal.

Lawmakers added the rate cap to a bill with a 68 percent oil tax hike needed to raise funds to back the bond sale. They also included other conditions such as tying the hike to comprehensive tax reform and delinking it from inflation.

While the conditions are unlikely to endear Puerto Rico to traditional municipal bond investors, they also seemed unlikely to deter hedge funds that have been major buyers of the U.S. commonwealth’s general obligation debt.

“The rate limit does not change the broad view on Puerto Rico or the bond sale itself,” said a source close to the hedge funds, who declined to be named as details of the transaction were not public.

The bill provides protection for investors such as pledging general tax revenues and allowing investors to sue under a New York jurisdiction in case of legal disputes.

House Finance Committee Chairman Rafael “Tatito” Hernandez Montanez called the approval of the measure a “gigantic achievement” but expressed concerns that the conditions could dampen investors’ enthusiasm.

“Last night was a political transaction, not a financial transaction. This is an extremely positive development for Puerto Rico,” said Hernandez.

The tax hike, which raises the tax on a barrel of oil to $15.50 from $9.25, is unpopular during an austerity drive that has cut government spending by $1.4 billion this year. Officials said the tax increase will raise $178 million annually.

The amendments were an attempt by lawmakers to deflect the political blow of the tax. Puerto Rico will hold elections in 2016.

The $2.9 billion bond issue would be used to repay a $2.2 billion loan the Highways and Transportation Authority (HTA) has with Government Development Bank (GDB). The funds would shore up the HTA and the GDB, the U.S. commonwealth's financing arm.

A institutional investor who holds Puerto Rico's general obligation debt said a pledge to back the bonds from the general fund would be enough to get hedge funds to buy.

"Having a dedicated tax stream is good but also having the additional protection of the GO guarantee, which gives you access to all available revenues, should make bondholders feel pretty protected," the investor said.

(Reporting by Edward Krudy in New York and Reuters in San Juan; Editing by James Dalgleish and Richard Chang)

Iowa Fertilizer Bonds Drop as Junk Deal Needs Extra $100 Million.

Speculative-grade bonds issued for a fertilizer plant in Iowa sank after the company building the facility said it needs an additional $100 million to finish the project.

The Iowa Finance Authority sold $1.2 billion of debt in April 2013 to fund the building of a 320-acre nitrogen fertilizer plant in southeastern Iowa by Cairo-based Orascom Construction Industries. At the time, it was a record amount for a junk muni offering. The company said in a filing posted Dec. 8 that it may issue more equity or debt because costs are exceeding projections.

Iowa fertilizer bonds maturing in December 2025 traded yesterday with the highest volume since July, data compiled by Bloomberg show. They changed hands at an average yield of 4.19 percent, the highest since Nov. 17. That's 2.17 percentage points above benchmark munis, the widest spread since the same date.

Orascom has used all but $100,000 of the project's $68 million construction reserve fund, initially funded by bond proceeds, and has spent $13.5 million of the equity-funded reserves, according to a Dec. 8 call on which attorneys for the trustee and the company briefed investors. The draws on the reserves didn't require bondholder consent.

Junk Risk

The cost overruns show the risk in investing in high-yield munis for stand-alone projects. Standard & Poor's rates the bonds BB-, three steps below investment grade. The credit rater said last month the higher costs wouldn't immediately lower the rank because the facility is set to begin operating in November 2015, as planned. Construction is about 55 percent complete.

Orascom could sell $58.7 million of tax-exempt debt that has the same protections as outstanding obligations, according to bond documents, which stipulate a debt-to-equity funding ratio. Any additional securities would have to be subordinate.

Junk-rated Puerto Rico's $3.5 billion general obligation deal in March eclipsed the Iowa deal. While some of the largest municipal-bond managers have trimmed holdings of commonwealth debt, they're among the biggest holders of the fertilizer securities. They include Legg Mason Inc. (LM:US), Nuveen Asset Management, Vanguard Group, Invesco Ltd. and BlackRock Inc. (BLK:US), Bloomberg data show.

Sarah Rackoff, a New York-based attorney representing Orascom at Orrick, Herrington & Sutcliffe; and Shawn Rana, a representative for Iowa Fertilizer, didn't respond to e-mails seeking comment on the filing. Laura Roberson of UMB Bank Corporate Trust in St. Louis, the bond trustee, didn't return a call seeking comment.

Bloomberg

By Brian Chappatta and Kate Smith

December 10, 2014

To contact the reporters on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net; Kate Smith in New York at ksmith304@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

ACA Statement Regarding Loan Default by the City of Buena Vista.

Following the recent decision by the City of Buena Vista to renege on forbearance terms negotiated in 2011, the bond trustee for the city's approximately $9 million in Golf Course Project Bonds has issued an Event of Default Notice.

"I'm disappointed that the City Council decided to act precipitously rather than first enter into good faith discussions with ACA," said Maria Cheng, head of remediation at ACA Financial Guaranty Corporation. "We worked in good faith with the City several years ago to accommodate the City's needs, and the City was making progress in following the terms of that deal until this abrupt policy change."

As the insurer of the Golf Course Bonds, ACA provided credit enhancement that allowed the issuer to obtain a lower interest rate on the Bonds and reduce financing costs for the project. Such insurance does not permit the City to absolve itself of this debt nor does it allow ACA or any other third party to absorb the City's liabilities or commitments.

"The prior City Council acted more responsibly," said Ms. Cheng, referring to their 2011 action to approve a Forbearance and Reimbursement Agreement negotiated with ACA after the City failed to appropriate funds for debt service payments due December 1, 2010 and July 1, 2011. "Once the City Council heard the reactions of various advisors and state officials they understood that their actions would affect the City's future access to financing, so they came to ACA and asked for leeway while the City figured out a long-term solution for the golf course. ACA agreed to make 50% of the debt service payments for five years and allow the City to repay those payments after the original debt is paid. Now, part way through this forbearance period and even though funds for the required payments were included in the budget the City approved earlier this year, they've simply thrown up their hands and have refused to pay the reduced debt service that was agreed to by the City."

The City's initial refusal to pay full debt service on the Golf Course Bonds cost it the ability to finance needed infrastructure improvements with public funding, as evidenced by the decision of the Virginia Resources Authority (VRA) to deny the City's request for a loan for its water treatment facility.

“While the VRA encouraged the City to return and discuss ways it could improve its borrowing profile, this recent decision to dis-appropriate funds can only hurt its credit profile and further limit access to the infrastructure funding it needs,” stated Ms. Cheng.

The remedies available to ACA include foreclosure on the real estate the City pledged to secure the Golf Course Bonds, including the town hall (other than the court facilities), the building that houses the police department as well as the golf course. ACA will continue to be owed any money ACA pays to the bondholders to cover the debt service.

“We have always been willing to work with the City to come up with a comprehensive solution. In 2011, we gave them breathing room to work through their problems by agreeing to five years of partial payments and deferring repayment of the shortfalls we have been advancing to bondholders until 2035, interest free,” said Ms. Cheng. “The unilateral act by the current City Council demonstrates an unwillingness to act in good faith to negotiate a solution. It is also highly disingenuous to characterize ACA’s insurance as giving the City the ability to try to walk away from its decision in 2005 to finance the golf course. We provided credit enhancement that allowed the city to save money on interest – our insurance protects bondholders, not the City.”
As a result of the City’s recent actions, ACA has reached out to the various constituents that helped in the negotiation of the Forbearance Agreement in 2011. “Despite the City Council’s recent act, I hope that cooler heads will prevail so that we can find a solution that is workable for all parties,” said Ms. Cheng.

About ACA Financial Guaranty Corporation: Founded in 1997, ACA Financial Guaranty Corporation is a monoline bond insurance company licensed in 50 states and 5 territories and regulated by the Maryland Insurance Administration. On August 8, 2008, the Company and counterparties to its structured finance products reached an agreement on a restructuring plan for ACA. The plan, approved by the Maryland Insurance Administration, provided for settlement of the structured finance obligations and protection for ACA’s municipal policyholders. ACA operates as a runoff insurance company and focuses on actively managing its remaining insured municipal obligations. ACA’s portfolio consists of less than 200 obligors guarantying timely payment of principal and interest on approximately $2.9 billion of generally high yield municipal bonds.

U.S. Municipal Bond Market Shrinks to Smallest in Five Years: Fed.

(Reuters) – The U.S. municipal bond market contracted to $3.63 trillion in the third quarter, the smallest amount of outstanding debt in five years, according to Federal Reserve data released on Thursday.

The total was only slightly less than the second quarter, when all outstanding bonds equaled $3.66 trillion, the Fed’s quarterly report showed.

A year earlier, the market size was $3.68 trillion and in the third quarter of 2012, it was $3.72 trillion.

The size of the municipal bond market peaked in the fourth quarter of 2010, when a rush to sell Build America Bonds helped push the amount of outstanding debt to $3.77 trillion. Falling interest rates at the time kept cities, counties and states hungry to borrow and refinance, and the market held steady at around $3.7 trillion.

But when interest rates began falling more than a year ago, a borrowing binge ended. Since then, the market has steadily diminished, shrinking 2.6 percent from the first quarter of 2013.

Demand from retail buyers appeared to fall alongside supply in the third quarter, with households dropping $155.5 billion of municipal bonds. The Federal Reserve adjusts data on the flows of municipal holdings for seasonal variations.

This marked the 15th quarter in a row that households, the biggest investors in the municipal market, shed their holdings, according to the central bank. In the second quarter, retail buyers dropped $34.7 billion of bonds.

Buying from institutional investors, though, picked up. Banks acquired $34.4 billion municipal bonds in the third quarter, after buying $17.4 billion in the second quarter. Mutual funds acquired $60 billion, compared to $48.7 billion in the previous quarter. Property-casualty insurance companies acquired $2.6 billion and life-insurance companies $4.8 billion.

The contraction in outstanding debt could pause in the near future, as interest rates on municipal bonds have begun falling again.

According to Municipal Market Data, a unit of Thomson Reuters, the yield on a top-rated 10-year bond is currently 78 basis points below where it began 2014. The yield on a highly rated 30-year bond has dramatically plunged, and is now 130 basis points lower than on the first trading day of 2014.

Last week, an industry group forecast total issuance to rise to $357.5 billion in 2015 from $348.1 billion estimated for this year.

BY LISA LAMBERT

WASHINGTON Thu Dec 11, 2014 11:45pm

(Editing by Bernadette Baum)

Detroit Seen as Model in Ohio City Facing Collapse: Muni Credit.

The council president in East Cleveland said if she had her way, the city would follow Detroit’s path and become Ohio’s first municipality to file for bankruptcy to help solve its fiscal woes.

State Auditor Dave Yost said the suburb of 17,500, where oil baron John D. Rockefeller once had a summer estate, is insolvent. The community lacks a working ladder truck in its fire department, had its mobile phones shut off and faces $1.7 million in unpaid bills.

City officials say the options include asking voters to raise taxes, deeper spending cuts, merging with Cleveland or filing for bankruptcy. Council President Barbara Thomas favors the latter, following the Motor City’s record $18 billion bankruptcy in July 2013. Detroit was able to reduce its liabilities by $7 billion and exited Chapter 9 as of today.

“We might come out a little bit better, just like Detroit,” Thomas said in a telephone interview. “Isn’t it better to clear away your debt in a proven process than to keep trying to rob Peter to pay Paul?”

Second Stint

Ohio has rebounded from the recession that ended in 2009, recovering all but a quarter of the 375,000 jobs it lost. Yet it has designated 23 local governments as being in a state of fiscal emergency. While Yost's office said those municipalities aren't dealing with the same distress as East Cleveland, they meet certain criteria, such as failing to make payroll for more than 30 days because funds are lacking.

This is East Cleveland's second stint in the fiscal-emergency program, which triggers the appointment of a state commission to supervise the municipality's finances. The city spent 17 years under state oversight through February 2006 and returned to that designation in October 2012, according to the auditor's office. Unlike in Michigan, where the state can take over a community's finances, Ohio maintains local control during fiscal emergencies, said Carrie Bartunek, a Yost spokeswoman.

East Cleveland, a city of three square miles (7.8 square kilometers), has struggled with its finances for decades, said Finance Director Jack Johnson. About 43 percent of residents live in poverty, almost triple the state level, while median household income, at about $20,600, is less than half the Ohio average, U.S. Census data show.

'Devastating' Challenges

It encountered "the perfect storm" after the recession, with the 2011 closing of a Cleveland Clinic hospital that generated about $1.5 million a year in income taxes and the loss of about half its annual $3 million in state aid since 2010, he said.

"There have always been challenges here, but those two things just sort of made it devastating," he said.

The city, with about 170 full- and part-time employees and a general-fund budget of $11 million, had deficits totaling $4.9 million as of Oct. 31 — even after eliminating about a quarter of its workforce this year, Johnson said.

East Cleveland has no municipal debt, with its most-recent revenue bonds maturing in 1997, data compiled by Bloomberg show.

Yost sent a Nov. 21 letter to the commission overseeing its finances saying East Cleveland is insolvent, and that its recovery plan "is inadequate to return it to fiscal health in this current environment."

Borrowing Plan

"It is fair to say the City is on the verge of collapse," Yost wrote.

The city had anticipated borrowing as much as $6.9 million to reduce cash-flow pressures and buy time to restructure, said Johnson, the finance director. Yost has said he can't support that without a plan to eliminate the structural deficit.

East Cleveland must pass at least a temporary 2015 budget by year-end. The mayor and city council will decide on long-term options of asking voters for an income- or property-tax increase, more restructuring, merging with Cleveland or bankruptcy in coming months, according to Johnson.

Thomas, the council president, said she doesn't see a viable alternative to bankruptcy. There's no support in council for a merger, voters won't pass a tax increase and it isn't feasible to find revenue quickly enough through spending cuts, she said.

Mayor Gary Norton Jr. declined to comment.

Bartunek, the spokeswoman for Yost, said East Cleveland's situation doesn't reflect the performance of localities across Ohio.

The experience of Detroit shows bankruptcy can freeze the market for new debt in an entire state. Bond sales in Michigan plunged to the lowest in a decade in August 2013.

Not Stirred

Ohio issuers have sold $8.6 billion of debt this year through Dec. 5, compared with $10 billion in the same period of 2013.

Detroit's Chapter 9 also shows how local distress can affect state finances. Standard & Poor's revised its outlook on Michigan's AA- rating to stable from positive in June, in part because of the possibility of future payments to strained municipalities.

S&P rates Ohio two steps above Michigan at AA+, the second-highest grade.

An East Cleveland bankruptcy would probably cause less of a stir among bondholders than those in Detroit and Central Falls, Rhode Island, said Howard Cure, head of muni research in New York at Evercore Wealth Management LLC, which oversees $5.5 billion.

"Detroit is different because it's the biggest city in Michigan, and Central Falls is different because Rhode Island is such a small state," Cure said in a telephone interview. "Here, you have a small city in a big state, and I don't think it would garner the same concerns."

Bloomberg

By Mark Niquette and Brian Chappatta

Dec 11, 2014 8:26 AM PT

To contact the reporters on this story: Mark Niquette in Columbus at mniquette@bloomberg.net; Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Pete Young

---

Massachusetts Bonds? There's an App for That.

Massachusetts is boosting its efforts at transparency by offering investors financial information and disclosures via a smart phone app.

The app comes on the heels of this year's launch of MassDirect Notes, which Massachusetts billed as the first online state marketplace selling bonds directly to mom-and-pop investors. It includes quarterly economic data, budgeted operating funds, annual financial reports, monthly revenue and expenditure reports and ratings information, some updated in real time.

Massachusetts Treasurer Steven Grossman said the app was part of the state's effort, which also includes a revamped website and investor calls, to reach out to individual investors.

“We think providing this kind of disclosure will ultimately reduce the state’s borrowing costs,” he said.

Those unable attend the state’s 2014 Investor Conference last week in Boston, for example, could use the app to access the agenda, presentations, speaker biographies, the state’s 2015 finance calendar and even photographs of relevant public works, such as a new building for Hingham Middle School.

The app follows other efforts by Massachusetts to reach out to the retail investors who make up the bulk of the $3.6 trillion U.S. municipal bond market, including the MassDirect Notes offering program. Modeled on the U.S. Treasury’s TreasuryDirect service, it allows investors to buy bonds when they need them, two weeks a month, instead of waiting for typically infrequent sales. Officials also took inspiration from companies including Duke Energy Corp.DUK -0.64% and General Electric Co.GE -0.41%, which allow investors to buy corporate debt directly from the firms, also on a rolling basis.

The moves come amid efforts by federal regulators to increase price transparency and protect individual investors in a market that a 2012 Securities and Exchange Commission report described as “illiquid and opaque.” Individual investors own almost three-quarters of the debt issued by cities, states and other municipalities, either directly or through mutual funds, with many buying the bonds for tax-free income as a way to fund their retirements.

Tom Metzold, senior portfolio advisor at Boston-based Eaton Vance EV +0.43%, said he’s a “big fan” of the program, noting increased transparency would help retail investors better understand the market for all Massachusetts bonds.

“That’s how we’re going to create true equality between institutional and retail investors,” he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

California’s Most Financially Stressed Cities and Counties.

A recently released study of California’s cities and counties ranks the various jurisdictions based on the financial stresses they face and the possibility of default, with local governments among those rated.

In its report, the California Policy Center completed 492 assessments of the state’s cities and counties, using municipal finance data to look at bankruptcy risk.

Specifically, the center – working with the firm Civic Partner, which collects and analyzes municipal finance data – used four metrics to reach its conclusions: general fund balance/general fund expenditures, general fund surplus or deficit/general fund revenues, change in annual revenues (total government funds), and interest and pension expenses/total governmental fund revenues.

Those metrics were used to calculate a default probability score to reflect how likely a local government is to “either declare bankruptcy or default on its general obligation bond issues within one year.”

Read the full report.

by Marc Joffe, Julie Lark, and Ed Ring on November 5, 2014

California County Hires Financial Advisor for P3 Highway Project.

Transportation officials from Monterey County, Calif., on Wednesday approved the hiring of a financial adviser to review a draft P3 deal for the Highway 156 toll road.

The Transportation Agency for Monterey County's (TAMC) approved the hiring over the objection of longtime Supervisor Lou Calcagno, who encouraged the board to address constituents concerns raised in the comment period before moving forward, reported the Monterey Herald.

TAMC is in the process of exploring the $268 million construction of a toll road in partnership with Caltrans and a private developer. The four-lane road would link Highway 1 and Highway 101 fifty miles south of San Francisco.

The financial advisory firm of Ernst & Young Infrastructure Advisors will be in charge of reviewing partnership documents from Caltrans, including the project proposal and business plan, and will offer financial advice on the project.

Under the current proposal, a private developer would finance, design, build and operate the toll road.

TAMC's board will take up the draft agreement in a February workshop and will make a final decision in March. The project would then move to the state Transportation Commission and eventual review by the state legislature.

The request for proposals for a private partner is expected to be released by summer 2015.

The National Council for Public-Private Partnerships

By Editor

December 4, 2014

San Diego Pension Moves to Replace Investment Adviser.

Board members of San Diego County's pension fund discussed plans yesterday to hire a chief financial officer to manage their $10.1 billion portfolio, potentially replacing a Texas consultant.

If the San Diego County Employees Retirement Association goes ahead with the proposal, it would mean the end of the fund's five-year relationship with Houston-based Salient Partners LP, said board member Dianne Jacob, a San Diego County supervisor.

Just two months ago, the board voted 5-4 against firing Salient after some officials criticized the chief investment officer, Lee Partridge, as needlessly risking retiree income through use of futures contracts tied to securities and commodities.

“It sounds like we are going to terminate the contract,” Jacob said yesterday in a board meeting in San Diego. “It’s just a matter of timing and the transition.”

The company remains committed to its work in San Diego, said Chris Moon Ashraf, a spokeswoman for Salient at Jennifer Connelly Public Relations.

“Should the board determine that a change in provider is in the best interest of its members, Salient will work to ensure a smooth and expeditious transition,” she said in a statement.

The pension board directed its staff to set the timing for terminating the contract with Salient. The board didn’t schedule a vote on ending the contract, or take action on hiring an internal investment chief.

Leverage Portfolio

Partridge, whose firm is paid $8 million a year, invested as much as five times the value of the portfolio in stock, bond and commodities markets. The board voted in October to reduce the maximum leverage to twice the value of the portfolio.

In November, the board voted to hire an internal investment chief to work alongside Partridge. Under its contract with Salient, the pension fund can sever relations with 30 days notice.

The San Diego fund, which provides retirement benefits to more than 39,000 current and former employees, embraced risk even as the California Public Employees’ Retirement System and the California State Teachers’ Retirement System turned more conservative.

San Diego’s gain in the year ended June 30 was 13.3 percent, compared with Calpers’ 18.4 percent and Calstrs’ 18.7 percent.

Bloomberg News

By James Nash

Dec 4, 2014 9:01 PM PT

To contact the reporter on this story: James Nash in Los Angeles at jnash24@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Pete Young, Alan Goldstein

---

California Town Seeks Financial Salvation in Imprisonment.

Adelanto, California, a Mojave Desert community with more prisons than supermarkets, is poised to authorize two more detention facilities as city leaders try to stave off insolvency.

The city of about 31,300 residents 85 miles (135 kilometers) northeast of Los Angeles has faced boom-and-bust property markets. The residential foreclosure rate is four times the California average and five times the U.S. level, according to RealtyTrac.

Officials face a $2.6 million deficit on a $13.3 million spending plan for the year through June 2015 after the defeat of a ballot measure last month to raise rates at its utility. Adelanto leaders are set to consider proposals for a 1,000-bed, privately run prison and a city-owned facility to house as many as 3,264 overflow inmates from Los Angeles County. The City Council is scheduled to vote Dec. 10 on the larger facility, and take up the smaller one Jan. 28.

"Should Adelanto be known as a prison town? No, but I'd rather have it known as a prison town than a crime or gang or a 12 percent-unemployment town," Mayor Cari Thomas, who leaves office this month after losing in November's election, said by telephone. "We have no other way."

Jail Revenue

With the nation's cities and towns still finding ways to mend their finances five years after the recession, Adelanto isn't alone in looking to jails to raise revenue. Littlefield, Texas, was trying to fill its empty 382-bed prison earlier this year with undocumented migrants, and officials in Oregon's Multnomah County want to sell an unused jail. Adelanto bailed out its budget in 2010 by selling a city-owned jail to a Florida operator for $28 million.

Adelanto stands to gain from the prisons because of fees it will receive from developers as well as business related to the jails. The facilities aren't a sure bet. In November, California voters approved a measure to reduce sentences for some non-violent offenses, which the state's legislative analyst estimated could apply to 40,000 prisoners. Los Angeles County, the source of most of Adelanto's expected new inmates, is pushing offenders into treatment programs rather than jails.

Baseball Too

Adelanto, home to the High Desert Mavericks, an affiliate of Major League Baseball's Texas Rangers, was founded in 1915 by E. H. Richardson, inventor of what became the Hotpoint Electric Iron. It has one full-service supermarket. It also boasts a private detention facility for immigrants awaiting deportation, a county jail and a federal correctional site on the border with neighboring Victorville.

Boca Raton, Florida-based GEO Group Inc. (GEO) is expanding the Adelanto detention facility it bought from the city four years ago by 640 slots to accommodate 1,940 people by next year. San Bernardino County houses about 700 inmates in Adelanto. More than 4,700 federal prisoners occupy the Victorville correctional complex.

City Manager James Hart said prisons bring hundreds of jobs. Adelanto's median household income of about $41,100 compares with $61,400 statewide, according to U.S. Census data. Its poverty rate of 32 percent is more than double the state level. The city government gets about $230,000 directly in prison-related fees a year, he said.

'Stay Solvent'

GEO is offering about $300,000 in mitigation fees to compensate for costs related to its proposed 1,000-bed facility, while LCS Holdings, the developer proposing the 3,264-bed prison, would pay about $1.2 million, according to a staff report to the city council. Both fees are recurring and will vary depending on how many prisoners are housed.

"While these funds will greatly assist the city with its deficit, the city will still have to focus on other businesses to make up the difference," Hart said via e-mail.

After the school district, the city's biggest employer is General Atomics, with 250 workers, according to Adelanto's website.

The California Municipal Finance Authority would issue $327 million of tax-free debt on the city's behalf, provided that Los Angeles County agrees to send overflow inmates to Adelanto and pay the city to house them, said Doctor R. Crants, a principal in LCS Holdings and a founder of Corrections Corp. of America. Adelanto would use the proceeds to pay the developer of the 3,264-bed prison. Payments from the county would go toward repaying the debt.

'Prison Community'

City documents describe LCS as the developer, while Crants said in a telephone interview that the company is a consultant.

Councilman Jermaine Wright said the mitigation fees aren't worth the cost to Adelanto's reputation and quality of life.

"We're building this into a prison community and not a place where you'd want to bring a family and work in good-paying jobs," said Wright, who runs an armored-car business in nearby Apple Valley. "We've turned into a community of no opportunity, unless you're an inmate."

GEO Chief Executive Officer George Zoley and the company's media department didn't return calls and e-mails seeking comment on the plan. Crants said the city-owned prison would create dozens of high-paying jobs and boost the municipal budget.

The town has struggled for years: It dissolved its police department in 2001 and declared a fiscal emergency last year, even as its population grew from about 18,000 in 2000.

Bankruptcy Precursor

Ambac Assurance Corp. sued Adelanto's Public Utility Authority in 2009 after it missed a termination payment on an interest-rate swap. Hart at the time said the water authority faced financial strains after Ambac lost its top credit rating, which inflated interest rates on authority debt. A federal court awarded Ambac the $4.5 million termination payment plus interest and fees, according to authority bond disclosures.

Since the fiscal emergency, a precursor to municipal bankruptcy under California law, Adelanto has cut spending by about $2.5 million by closing a fire station, letting go almost a quarter of employees and eliminating its building and safety department, according to a report by Hart. The city is still projected to run out of cash by the end of next year, Hart's report said.

Adelanto has no general-obligation bonds. The utility authority, which provides water and sewer service and is separate from the city general fund, has $73.5 million in debt, according to its annual fiscal report.

Authority bonds maturing in July 2020 traded as recently as Nov. 21 at an average yield of about 2.1 percent, or about 0.9 percentage point above benchmark municipal debt, data compiled by Bloomberg show. The tax-exempt bonds are unrated.

City officials have considered bankruptcy or disincorporation, although Hart said there's still hope of avoiding those outcomes by trying another utility-tax measure or counting on fees for new prisons.

Terry Delgado, who has lived in Adelanto for 10 years, looks up at a prison from his house. He said he's skeptical that new jails will do much for the city.

"Adelanto has not worked for anybody for a long time," Delgado said. "Every other house is a drug house. They need to clean up what they have before they keep going.”

Bloomberg

By James Nash

Dec 5, 2014 8:36 AM PT

To contact the reporter on this story: James Nash in Los Angeles at jnash24@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Mark Tannenbaum, Mark Schoifet

---

Study Shows California Cities Face Growing Costs From Federal Water Regulations That Unfairly Burden Lower and Now Middle Income Households.

Washington D.C. – In a report released today, The U.S. Conference of Mayors found that the current cost per
household for public water services in California is unfairly burdening lower income households. Municipalities
already coping with tight budgets and their water customers who have not seen real income growth since the 2007
economic recession face looming high bills to comply with new federal water regulations.

The number of households whose water and sewer costs exceeded 4.5% of their income, ranged as high as 39.4%
of Paramount households to 35.3% in La Verne to 34.4% in Escondido.

The report, titled “Public Water Cost Per Household: Assessing Financial Impacts of EPA Affordability Criteria in
California Cities,” will be released as part of the 2014 Water Council Summit of the Mayors’ organization in
Washington, DC.

Mayors hope the report’s findings will convince the U.S. Environmental Protection Agency to use a more accurate
affordability measure to justify greater flexibility around regulations, especially in cities with high percentages of
poverty, low and moderate income and fixed income households, and local economies that are stagnant or failing.
The Mayors’ report looked at 35 California communities, clustered in Los Angeles County, who provided 2014
information on public water (water, sewer, and flood control) average annual cost per household. Los Angeles
County was chosen, as it is one of the first areas in the nation to be regulated under a federal TMDL (total maximum
daily loadings) Consent Decree for storm water. Early estimates suggest that substantial rate increases will be
necessary to comply with long term obligations.

“This report details the economic burdens that a growing percentage of city residents are experiencing in water and
wastewater services,” said Tom Cochran, CEO and Executive Director of The U.S. Conference of Mayors. “We want
and need clean water, but cities need greater flexibility, especially in low-income areas. Local governments face
serious challenges to sustain an enormous physical infrastructure necessary to deliver public water services and the
persistent growth in federal water mandate costs. A more rational model will be needed to be successful over the
next decades.”

MSRB Chair Receives Public Finance Award.

Alexandria, VA – MSRB Chair Kym Arnone has received the Freda Johnson Award for Trailblazing Women in Public Finance from the Northeast Women in Public Finance. The award is given annually in recognition of the recipient’s contributions to public finance as well as her volunteerism and role as a mentor. Arnone is the first recipient working in the private sector to receive the award, which also went to public-sector recipient Lois Scott, the chief financial officer of Chicago.

Arnone, who is serving her third year on the MSRB Board of Directors, is Managing Director and Head of Municipal Securitization Initiatives at Barclays. As Chair of the MSRB, Arnone is leading the organization through multiple initiatives. Watch a video message here.

Arnone pioneered the structuring of $43 billion in tobacco securitization bonds for states that were part of a civil settlement major tobacco companies in 1998. She has led Barclays’ underwriting work for New York City for 20 years helping to create its Transitional Finance Authority personal income tax credits, and has led transactions of virtually every type and product for municipal entities throughout the Midwest.

In presenting the eponymous award, Freda Johnson said of Arnone, “I have never known a more consummate professional,” she said. “There is no one more dedicated, hard-working, energetic or innovative when it comes to public finance.” Kimberly Lyons and Vivian Altman, co-heads of the Northeast Women in Public Finance, said, “Along with Lois Scott, Kym Arnone epitomizes the contributions women have made to public finance and both women serve as role models to all the women in this industry.”

Prior to her role with Barclays, Arnone was a senior banker at Bear Stearns. Arnone is a trustee for the Citizens Budget Commission, and a board member of the Municipal Forum of New York. Arnone graduated magna cum laude from St. John’s University with a bachelor’s degree in finance.

Past winners of the Freda Johnson award are 2013 recipient Philadelphia Treasurer Nancy Winkler, Connecticut State Treasurer Denise Nappier and Rhode Island State Treasurer Gina Raimondo. The award was created in honor of Freda Johnson, a Founding Board Member of New England Women in Public Finance whose trailblazing four-decade career in public finance helped inspire many women in the industry. Johnson began her career at The Dun & Bradstreet Corporation and its subsidiary, Moody’s Investors Service, and later served as president of Government Finance Associates, Inc.

Date: December 5, 2014

Contact: Jennifer A. Galloway, Chief Communications Officer
(703) 797-6600
jgalloway@msrb.org

Munis Extend Record Rally to 11th Month With Gains Seen in 2015.

The $3.7 trillion municipal market extended a record win streak in November, rallying to end the month as state and local debt reached the cheapest relative to Treasuries since December.

Munis earned 0.14 percent in November, Bank of America Merrill Lynch data show. The 11th-straight month of gains in 2014 marked an unprecedented stretch to start a year since the data began in 1989. The market has advanced 9.1 percent this year, the most since 2011. It may generate a 0.68 percent return in 2015, according to the most likely scenario presented in a report today by Michael Zezas at Morgan Stanley.

Benchmark 10-year munis yield 2.21 percent, compared with 2.17 percent on similar-maturity Treasuries, data compiled by Bloomberg show. The ratio of the yields, about 102 percent, is close to an 11-month high, signaling that state and city bonds are relatively cheap compared with their federal counterparts heading into year-end.

“People can balk at the absolute yields because they’re so low, but when you look at that relative basis, there’s still some attractive value in munis,” said Dan Toboja, senior vice president of muni trading at Ziegler, a Chicago broker-dealer.

Money managers have bought state and local debt amid signs of demand. Individuals added $1.8 billion to muni mutual funds in the three weeks through Nov. 26, the most since May, Lipper US Fund Flows data show.

In a challenge to the performance streak, issuers have already scheduled $20.4 billion of bond sales for the next 30 days, the most since 2010, Bloomberg data show. That includes $15.5 billion of sales planned for this week.

Zezas, chief muni strategist at Morgan Stanley in New York, projects $354 billion of supply in 2015, up about 15 percent from this year. The bigger risk to another year of gains is if individuals switch to pulling money from mutual funds, he said.

Bloomberg

By Brian Chappatta

Dec 1, 2014 7:32 AM PT

To contact the reporter on this story: Brian Chappatta in New York at bchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Mark Tannenbaum

Muni Market Set to Shrink as Texas Leads Rising Sales.

The U.S. municipal bond market is poised to contract in the next month as redemptions and maturing debt exceed the accelerating pace of new securities sales.

The gap between redemptions and new debt, a signal of supply and demand in the $3.5 trillion municipal market, will total $6.77 billion over the next 30 days, according to data compiled by Bloomberg. A week ago, the estimated contraction was $27.2 billion for the coming month. In October, the market diminished by $4.71 billion.

States and localities have scheduled $20.8 billion of sales in the next 30 days, the data show. On the previous trading day, the calendar showed $18.9 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.

Municipalities have announced $10.7 billion of redemptions and an additional $16.9 billion of debt matures in the next month.

In the coming weeks, Texas Transportation Commission plans to sell $1.23 billion of bonds, New York State Thruway Authority has scheduled $750 million, Pennsylvania will offer $750 million and Phoenix Civic Improvement Corp. will bring $610 million to market.

Issuers from Illinois have the most debt coming due in the next 30 days with $1.84 billion, followed by New Jersey at $1.57 billion and Ohio with $1.56 billion.

New Jersey Transportation Trust Fund Authority has the biggest amount of securities maturing, with $465 million.

Bloomberg

By Ken Kohn Dec 1, 2014 4:24 AM PT

To contact the reporter on this story: Ken Kohn in New York at kkohn@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net Stacie Sherman, Alan Goldstein

---

Reed Smith: Pa. Gas Utility May Use Eminent Domain to Supply Private Power Plant.

A Lycoming County, Pennsylvania, judge recently authorized a natural gas public utility to use its eminent domain power in condemning easements for the construction and maintenance of a pipeline to supply gas to a private power plant. The owners of the property subject to the easements had protested the condemnation, arguing that the taking was for private instead of public use. The court considered the extent of the public and private contacts with the project, as well as the potential public benefit, and ultimately determined that the condemnation sufficiently fell within the public utility exemption to Pennsylvania's Property Rights Protection Act (PRPA).

After a court order approving the condemnation requested by UGI Penn Natural Gas, Inc. (UGI) in late August, the property owners filed an Answer and Action in Equity, challenging the condemnation on the grounds of (1) inadequate bond, (2) taking more than is required for the purpose intended, and (3) condemning for a private enterprise as opposed to a public use. In addressing the property owners' objections, the court focused primarily on the issue of whether condemnation is appropriate where the pipeline at issue will be constructed to service a private business. The court acknowledged that the PRPA prohibits the use of eminent domain power to take private property for use in private enterprise, but found that as a regulated public utility, UGI falls within a limited class of condemners "permitted to use the eminent domain power to provide public services in tandem with benefits to a private enterprise."

The court emphasized the limited private contacts with the project, pointing out that UGI was the "sole owner of the easements and the operator of the pipeline," and stating the private power plant will not "own, operate or control the condemned property in any way." The court also characterized the condemnation as incidental to the services the gas utility is authorized to provide, indicating UGI is the chosen supplier of natural gas to customers at the location of the power plant. Finally, the court acknowledged the public benefit of the proposed pipeline, noting the power plant will use the natural gas it receives "to generate enough energy to power approximately 1 million homes."

Judge Richard Gray issued the decision on November 7, 2014. The case is In re Condemnation of Temporary Construction Easement Across Lands of Curtis R. Lauchle and Terri L. Lauchle, case numbers 14-02219, 14-01790, and 14-01791, in the Lycoming County Court of Common Pleas.

Last Updated: November 22 2014

Article by Lucas Liben and Tom Galligan

Reed Smith

This article is presented for informational purposes only and is not intended to constitute legal advice.

S&P: Illinois Ratings Unaffected By Pension Reform Law Judgment.

NEW YORK (Standard & Poor's) Nov. 21, 2014–Standard & Poor's Ratings Services today said that its rating and outlook on Illinois (A-/Negative) are unaffected following the declaratory judgment issued today by the Sangamon County Circuit Court on Illinois' pension reform law (Public Act 98-0599), declaring the same unconstitutional and void and making permanent the restraining order and injunction on enforcing or implementing any provision of the law. The state's attorney general issued a statement following the decision that indicated the state would appeal the decision to the Illinois Supreme Court.

Key elements of the reform were to take effect June 1, 2014, and apply to all state pension plans except the Judges' Retirement System. We cited the legal challenges to the pension reform legislation and the associated implementation risk as part of our credit review on July 23, 2014, when we revised the outlook on the state to negative from developing, and we will continue to monitor the legal process relating to the pension legislation. More importantly, from a credit perspective, savings from the pension reform are not included in the fiscal 2015 budget.

The Illinois general assembly adopted comprehensive pension reform legislation (Public Act 98-0599) on Dec. 3, 2013, and Governor Quinn signed the law on Dec. 5. This followed years of inaction and a lack of consensus on how to proceed with the large and increasing pension liabilities. From a credit standpoint, Standard & Poor's views the pension reform as a significant accomplishment that could lead to improved funding levels, greater plan sustainability, and improved prospects for budget stability. However, if the reforms don't move forward as planned, we believe the significant fixed-cost pressure associated with postretirement benefits will escalate.

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

Stockton: Bankruptcy Exit Should Move Ahead.

City leaders in Stockton, Calif., are urging a federal judge to let the city exit bankruptcy with a court-approved reorganization plan, despite an appeal of that proposal filed by mutual-fund giant Franklin Templeton Investments.

In court papers, Stockton officials said the appeal from Franklin Templeton, which is arguing that the 300,000- resident city can afford to repay more money on the municipal bonds it issued, could take years to litigate.

During the appellate process, Franklin Templeton's lawyers asked that Stockton remain in bankruptcy, which city leaders argued would unfairly delay payments to retired municipal workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

That includes a payment to a longtime city mechanic Wayne Klemin, who told Judge Christopher Klein in court papers that he is counting on the money to pay for treatments for his diabetes and hypertension.

Delaying the plan also would prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem, Gordon MacKay, director of the Public Works Department, said in court papers.

"The drinking water is suspect due to lead pipe joints," Mr. MacKay wrote. "The building is not anywhere near modern expectations for an acceptable office environment."

Eric Jones, the city's police chief, said in a separate court document that the city's bankruptcy has made it difficult to recruit new officers.

“There is no way to quantify the uncertainty of a city retiree waiting for funds to pay for health care, the unease of a police force long stretched too thin, the loss of new business that might have moved to the city had it emerged from bankruptcy, or delay’s harm to a municipal administration whose roof is literally crumbling over its head,” the city’s lawyers said in their request to put the bankruptcy exit plan into action.

On Oct. 30, Judge Klein confirmed a plan from the city that proposed to pay Franklin-managed funds about $4 million for their roughly $37 million claim. Franklin’s lawyers said the city can afford to repay more, and they argued that Judge Klein made “several fundamental errors of law” with his decision.

The Franklin Templeton Investments-managed funds are the only creditors to continue to challenge the plan.

The city spent some of the municipal-bond money extended by the Franklin funds on fire stations and parks. The municipality made four interest payments before it missed a payment on March 1, 2012.

Stockton filed for bankruptcy protection in June 2012, with more than $700 million worth of debit, making it the largest city to file for Chapter 9 protection until Detroit’s case about a year later.

Stockton, which is about 80 miles inland from San Francisco, was hit hard by the housing crash.

Judge Klein blamed the city’s financial woes on former leaders who offered overly generous pay to municipal workers and took on debt for new projects that Stockton couldn’t afford.

Throughout the bankruptcy, the city cut costs. Voters also approved a new 3/4 -cent sales tax to pay for more police officers last year.

Stockton leaders didn’t try to reduce costs by paying less money into a pension plan administered by the California Public Employees’ Retirement System, even though Judge Klein decided that a California city’s pensions could indeed be cut using bankruptcy’s power.

By Dow Jones Business News

November 28, 2014,

By Katy Stech
