

Mall Owner Explores Debt Restructuring for New York's Largest Shopping Center.

The owner of the Destiny USA shopping complex in Syracuse has engaged restructuring advisers amid continued pressure from the pandemic

The owner of Destiny USA, the largest shopping center in New York, is exploring a possible restructuring of the struggling property's municipal and mortgage-backed debt obligations, people familiar with the matter said.

Pyramid Management Group has hired financial adviser Houlihan Lokey Inc. and law firm Orrick Herrington & Sutcliffe LLP to look into restructuring options for Destiny USA as pandemic regulations continue to affect the mall's bottom line, according to people familiar with the matter.

A six-story structure in Syracuse, N.Y., by Onondaga Lake, Destiny USA owes roughly \$286 million in municipal bond debt and about \$430 million in commercial mortgage-backed securities. Bond insurer Syncora Holdings Ltd. guarantees more than a quarter of the tax-exempt debt and is being advised by investment bank Moelis & Co. and law firm White & Case LLP on the mall's financial troubles, the people said.

Discussions, which are in early stages, are expected to focus on how much debt the mall can support and on the timetable for repayment, the people said.

Pyramid, which is privately held, borrowed heavily to expand and to build entertainment extravaganzas at Destiny USA and another mall, Palisades Center in West Nyack, N.Y., hoping to draw foot traffic and reverse the yearslong struggles of mall operators battling online shopping

Pyramid declined to comment. Destiny USA was roughly 70% occupied as of February, down from as high as 97% in 2013, after a tough stretch for in-person shopping, owing to pandemic restrictions and shoppers' fear of contagion.

J.C. Penney Co. used to be an anchor tenant for the mall, but shut down a department store location there last year after filing for bankruptcy. Lord & Taylor and Best Buy Co. are among other major retailers to have closed their outlets at Destiny.

Pyramid, which owns 14 malls, struggled to repay its mortgages last year as tenants withheld rent following government-mandated closures due to the pandemic. Entities that operate 11 of those malls, including Destiny USA and Palisades Center, two of Pyramid's largest properties, missed repayments starting in April on \$1.2 billion of their \$1.6 billion in commercial mortgage-backed debt, according to real-estate data provider Trepp LLC. Destiny USA missed payments on the \$430 million and later negotiated a maturity extension to mid-2022.

Pyramid made major bets in entertainment, investing hundreds of millions in entertainment

attractions such as ropes courses to draw more people. During the pandemic, the strategy turned into a burden as government restrictions prevented many operators from opening their arcades and attractions. Customers also stayed away from these attractions out of concerns about getting Covid-19.

Many tenants, including retailers and entertainment operators, paid less rent as a result.

The Wall Street Journal

By Andrew Scurria and Alexander Gladstone

April 7, 2021

—*Esther Fung contributed to this article.*

S&P Pension Spotlight: Illinois

Key Takeaways

- Weak funding discipline and weak pension funded ratios are common across Illinois pension plans, adding to budgetary pressures for the state and local government entities.
- The statutory funding requirements include various forms of cost deferrals that trade near-term budgetary relief for steeper cost escalation in the future.
- Contributions have been insufficient to make funding progress. Even with contributions scheduled to escalate, funding progress will likely erode due to aggressive assumptions and methods that do not align with weak demographic trends.
- There is a high likelihood rising pension contributions will compete with other priorities, leading officials to consider shifting more pension costs to schools, colleges, and universities.

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30 Mar, 2021

New York MTA Ridership to See Permanent 20% Drop, Moody's Says.

- **That level of decline would cut revenue by 8%: Moody's**
- **Debt and pension costs take up 30% of MTA operating expenses**

Ridership on New York's Metropolitan Transportation Authority, the largest public transit system in the U.S., is expected to decline permanently by 20% as people will continue to work remotely, according to Moody's Investors Service.

Demand for subways, buses and commuter rails will fail to rebound to pre-pandemic levels as commuting into New York City for work is expected to decrease over the long term, Moody's analysts wrote in a report released Thursday. That could reduce revenue by 8%, according to the report, which also addressed the finances of the transit systems in London, Paris and Vancouver.

"The sharp increase in remote working during the pandemic is likely to result in a permanent shift in

the labor force to more flexible working patterns, with fewer days spent in offices,” the Moody’s analysis said. “A relocation of some residents away from large cities and towards smaller cities and suburban areas” is also likely.

MTA’s subway ridership in recent days has hovered at around 35% of pre-outbreak levels, up from as low as 7% in April last year. The agency will receive a combined \$14.5 billion of federal aid to help close budget gaps through 2024, but it has high fixed costs.

The agency had \$48.2 billion of outstanding debt as of March 2, according to its website. Debt-service payments and pension contributions account for 30% of operating expenditures, compared with 20% for London’s system and less than 5% for Paris’s, according to Moody’s.

Investors have been demanding less compensation to hold MTA debt as the authority has received unprecedented federal aid and as more people get vaccinated against the coronavirus, raising the prospect that ridership could continue to recover.

An MTA revenue bond with a 4% coupon and maturing in 2045 traded Thursday at an average yield of 2.6%, or around 90 basis points more than top-rated municipal debt, according to data compiled by Bloomberg. That yield spread is down from above 200 basis points when the MTA sold the debt in October.

Bloomberg Markets

By Michelle Kaske

April 1, 2021, 1:24 PM MDT

[Georgia Bets \\$440 Million That Conventions Won’t Be Gone Forever.](#)

- **Virtual conventions could crimp the industry even after Covid**
- **Bond yields of as much as 4.22% show buyers see some risk**

Atlanta’s convention center sold \$440 million of municipal bonds to build a 975-room hotel next to its sprawling exhibit hall, wagering on a comeback for a business that’s been effectively shut down by the pandemic.

Investors demanded a steep premium to compensate for the risk. The securities were sold Thursday for yields of as much as 4.22% on those due 2054, more than twice the rate for the most risk-free municipal bonds, according to data compiled by Bloomberg.

The convention industry has been among the hardest hit by the pandemic, which shut down mass gatherings and caused work-related travel to grind to a halt. That forced at about a dozen government agencies that sold bonds for convention centers or hotels to draw on reserve funds or take other steps signaling financial distress, according to data compiled by Municipal Market Analytics.

Yet all of them continued to cover interest payments, in part because of large reserve funds or backing of local tax revenue.

“On the surface convention centers sound like a negative story — because who’s going to a convention anytime soon?” said Cooper Howard, director of fixed-income strategy at the Schwab

Center for Financial Research. "But many of them have some other type of support."

The rollout of the vaccine and the prospect that American life may soon return to normal has helped some convention center bonds rebound. A Las Vegas convention center bond due in 2043, for example, traded for about 101 cents on the dollar in April for a yield of 4.9%. It's now trading for about 118 cents, cutting the yield to 2.3%.

The Georgia World Congress Center is the nation's fourth largest convention center. Since the pandemic struck, it has lost 104 events, with 57 re-scheduled through the next three years, the authority that oversees the center said in bond documents.

The new Hilton-brand hotel is expected to open in January 2024, when the lodging industry is slated to return to normal, according to a study contained in bond documents.

Part of bond funds were set aside to cover debt payments until after the hotel opens, reducing the near-term risk to bondholders. "Investors love capitalized interest," said Lisa Washburn, a managing director at Municipal Market Analytics. "It gives you some buffer space. You have years before you have to worry whether or not the hotel industry is going to be back to normal."

About \$227 million of the debt with a first claim on the project's revenue was rated BBB- by S&P Global Ratings, one step above junk. The rest were unrated.

Frank Poe, the executive director of the Georgia World Congress Center Authority, said that while it's too early to speculate on when the center will return to normal operations, he is "seeing positive signs" and that the center's "book of business for the next 10 years is strong."

Yet it remains an open question about whether the convention business will fully bounce back.

Attendance at major convention center events was already on the decline before the pandemic, said Heywood Sanders, a professor of public administration at the University of Texas at San Antonio. Based on his research, attendance at events at the U.S.'s four largest exhibit centers totaled 3.84 million in 2019, down from a pre-recession peak of 4.74 million in 2006.

He's skeptical attendance can rebound in a post-pandemic world after would-be attendees adjusted to a year of virtual sessions.

"Many of those virtual meetings will continue, either fully virtual or in parallel with in person events," he said. "Those will have the effect of reducing attendance at regular annual events. It's inevitable."

Bloomberg Markets

By Danielle Moran

March 26, 2021, 10:30 AM PDT

[Texas Freeze Forces Corpus Christi Bond Sale After Huge Gas Bill.](#)

- **City's bill was \$40.7 million compared with usual \$1.5 million**
- **CFO Sanchez says others likely fared worse after deep freeze**

The city of Corpus Christi in South Texas usually spends about \$18 million on gas annually, but its bill for February alone is more than double that after a deep freeze gripped the state, forcing the municipality into a bond sale.

February's bill hit \$40.7 million, or roughly 27 times higher than the average winter cost of \$1.5 million a month, Constance Sanchez, Corpus Christi's chief financial officer, said in an interview. The cost is also equal to more than 4% of the city's entire annual expenditures budget.

As a result, the city plans to issue a \$35 million bond by private placement. Corpus Christi acts as the gas utility for its residents, and is mandated to pass costs on. The money raised by the bond will allow residential and industrial consumers over the next decade to avoid spikes in their monthly bills.

"We're calling it a short-term utility note, it's going to be repaid by our gas utility customers over a 7-to-10-year time period," Sanchez said. "That's the most palatable avenue the city management presented to the city council in order to get over this crisis situation."

While the aftermath of the Texas power crisis has already pushed some electricity providers into bankruptcy, the Corpus Christi bill is one of the first indications of what the surge in natural gas prices during the cold snap will mean for municipalities, utilities and ultimately residents. The fuel was in short supply after pipelines and equipment froze and power outages forced production slowdowns.

Even More Texans Are Set to Face Thousand-Dollar Power Bills

Corpus Christi's gas costs began the month at about the average rate of \$4.25 per thousand cubic feet. As the cold weather set in, they began rising quickly, first to \$11, then to \$20, Sanchez said. For two days mid-month during the worst of the crisis, the cost surged to \$400, nearly 100 times the norm. By the end of the month, the average price was around \$100.

"That would have created bills in the thousands of dollars for our customers because there was high usage for people trying to stay warm," Sanchez said.

Bids for the Corpus Christi bond are due March 25, and the city expects to pay an annual interest rate of between 2% and 2.5%.

With bills for February only just being finalized, many other cities across Texas could be facing a similar, or worse, situation.

"From what I understand, the city of Corpus Christi did not see as negative an impact as other cities in Texas did," Sanchez said. "We feel we're very fortunate that we're in a position to do this and get this behind us," she said, referring to the bond sale.

Bloomberg Markets

By Kevin Crowley and Rachel Adams-Heard

March 22, 2021, 4:00 AM PDT

California Draws Wall Street Bond Pitches for Clean Car Goals.

- **Governor wants to sell new debt for charging, fueling stations**
- **Banks outline how they can structure the novel deal for state**

JPMorgan Chase & Co. and Loop Capital Markets are angling for a piece of underwriting business that would help California put more electric vehicles on the road, as the most populous U.S. state tries to meet aggressive targets for the new cars.

Both banks submitted pitches to state Treasurer Fiona Ma suggesting ways to structure \$1 billion of bonds that Governor Gavin Newsom proposed to build vehicle charging stations, public records obtained by Bloomberg News show.

In fact, JPMorgan bankers said the bonds could carry ratings higher than those on the state's general-obligation debt, according to their presentation. That would further boost the appeal to prospective buyers.

The underwriters' pitches illustrate how banks are eager to capitalize on the growing interest among investors in projects addressing climate change, even in the late-adopting state and local bond market. And California could tap into its solid base of municipal-bond buyers to finance its nation-leading environmental initiatives.

"Banks, as well as investors, are increasingly interested in getting involved with green proposals," said Howard Cure, head of municipal research at Evercore Wealth Management. "Investors in California paper, a specialty state given the high state income tax, are always looking for newly secured debt issues, so demand would be great."

JPMorgan spokesperson Jessica Francisco declined to comment. An email and a telephone call to Loop Capital's media office weren't returned. The Newsom administration anticipates selling the first round of the bonds in late 2021, said spokesperson H.D. Palmer. Ma said her office has yet to select an underwriter for the transactions.

Last year, Newsom signed an executive order mandating that California phase out sales of new, gasoline-powered cars by 2035, the first state to do so. His securitization idea, included in his January budget, would help make that target happen by building more electric-vehicle-charging and hydrogen-fueling stations for alternatives to gas guzzlers.

The JPMorgan presentation cited a McKinsey & Co. report saying that lack of access to such stations posed the third-most serious barrier for people to purchase the cleaner vehicles, after price and driving range.

Newsom proposed securitizing future revenue from existing vehicle registration fees that had been set to end in 2024, instead of just pledging the cash flow for revenue bonds. That kind of structure entails more protections for bond holders, said JPMorgan bankers, who sketched out the potential of "high AA ratings" for the debt. California is rated Aa2 by Moody's Investors Service, AA- by S&P Global Ratings and AA by Fitch Ratings.

Loop also said it anticipates the bonds could earn credit ratings in the AA category. The bankers noted in their pitch that they have done a "deep dive" on the governor's proposal and that they "stand ready to assist" the various state agencies "to develop the concept into a viable plan of finance."

Bloomberg Markets

By Romy Varghese

March 23, 2021, 6:00 AM PDT

S&P: Winter Storm In Texas Will Continue To Be Felt In Utilities' Credit Profiles

Key Takeaways

- February's disruptions of the Texas electricity and gas markets have had varied credit impacts on rated entities.
- Electric cooperatives and public power utilities have had the most credit exposure.
- Unpaid bills for wholesale purchases of electricity and gas are the most significant financial exposures.
- Our negative rating actions have been concentrated among entities that were short electricity or natural gas.
- The ERCOT market's operational shortcomings and expectations that ERCOT will socialize defaulted payments among non-defaulting market participants presents ongoing negative credit risks.

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Illinois Lowers Yields, Accelerates \$1.26 Billion Bond Sale.

- **3-year yield less than one-third rate on December Fed loan**
- **Deal comes one week after S&P revised outlook to stable**

Illinois moved up its \$1.26 billion bond sale by one day and cut the yields being offered to investors, a sign of strong demand as President Joe Biden's economic relief package promises to ease the fiscal strain on the lowest-rated U.S. state.

The tax-exempt sale had been expected to price Wednesday but was closed ahead of schedule by Morgan Stanley, the lead underwriter. The yields on an \$850 million portion of the securities ranged from 0.69% for those due in 2022 to 2.81% on 2041 bonds, down from the 0.81% to 3% initially offered, according to data compiled by Bloomberg.

The yields on bonds due in 2024 were 1.09%, about one-third of the 3.42% Illinois paid when it borrowed \$2 billion from the Federal Reserve's emergency lending facility in December.

The drop in yields shows how much investors expect Illinois to benefit from the aid package signed into law by President Joe Biden last week. S&P Global Ratings lifted the state's credit outlook to stable from negative, indicating little near-term risk that it could be cut to junk, in part because of the \$7.5 billion in relief funding Illinois stands to receive.

The high demand for the debt also reflects the strong inflows into high-yield muni mutual funds and a relative dearth of new bond issues from states and cities, said Dan Solender, director of tax free fixed income at Lord, Abnett & Co., which holds the state's debt as part of \$33 billion of municipal securities.

"There is a lot of interest," Solender said. "They still have long-term issues but are definitely doing better than expected a year ago."

The bond sale was accelerated given "strong demand," Paul Chatalas, the state's director of capital markets, said in an emailed statement. Illinois received more than 700 orders from more than 130 different investors, including names that have not invested in the state for a decade, which led spreads to contract to the lowest in several years for the longest maturing debt, he said.

"Investors recognize the state is emerging from a period of unprecedented turbulence due to a global pandemic," Chatalas said.

Illinois still faces significant fiscal challenges that started even before the Covid-19 pandemic. The state's unfunded pension liabilities have grown to \$141 billion. S&P rates the state BBB-, one step above junk. Moody's Investors Service and Fitch Ratings also rank Illinois at the lowest-level of investment grade but still have a negative outlook.

But like other states, Illinois has seen its tax collections fare better than initially feared when the pandemic struck last year. Illinois's general fund revenue for fiscal 2021 through February rose 18.1% to \$29.8 billion from the same period a year earlier, according to a report by the state's Commission on Government Forecasting and Accountability.

"I expect the deal came earlier because of generally favorable technical factors combined with the beneficial effects of a strong stimulus plan, and better than expected revenues," said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Illinois debt as part of about \$40 billion in muni assets.

Bloomberg Markets

By Shruti Singh

March 16, 2021, 1:39 PM PDT Updated on March 16, 2021, 3:55 PM PDT

[New York Mall Owner Tries to Hang On With Debt Storm Swirling.](#)

- **Pyramid malls are upside down on mortgages after reappraisals**
- **CEO upbeat on vaccines, finding new tenants, reworking loans**

The pandemic has hit few mall operators harder than Pyramid Management Group, a family-run owner of 14 U.S. shopping centers worth \$4 billion before lockdowns hammered property values.

Reappraisals — triggered last year amid the firm's mounting mortgage delinquencies — slashed valuations on eight of Pyramid's malls by 59% on average, leaving those centers worth less than their debt.

Even with that burden, Chief Executive Officer Stephen J. Congel is optimistic his company can withstand the crisis that has pushed other mall owners to file for bankruptcy.

[Continue reading.](#)

Bloomberg Markets

By John Gittelsohn

March 18, 2021, 8:00 AM PDT

S&P Medians And Credit Factors: Wisconsin Municipalities And Counties

Overview

Overall, municipal credit ratings in Wisconsin remain resilient with strong overall credit fundamentals, as exemplified by stable tax bases, favorable income and wealth levels, and maintenance of typically very strong reserves.

S&P Global Ratings maintains 130 ratings on municipalities and counties in Wisconsin. Currently, about 71% of Wisconsin municipalities and counties are highly rated ('AA-' or above), and 29% are rated 'A+' or below. Additionally, most of the portfolio's ratings have stable outlooks; only five entities have non-stable outlooks, and all are negative.

We anticipate continued overall stability in the Wisconsin municipal portfolio for the coming year. Most Wisconsin municipalities and counties continue to see stable and growing tax bases. We are monitoring the effects of the COVID-19 pandemic on local economies across the state. However, up to this point, the underlying economic metrics have not been materially affected by the COVID-19 pandemic or its related recessionary pressures as there was not any significant business interruption over the past year. This benefits their financial operations, given that property taxes play an important role in the revenue stream. Health and human service funds can put some pressure on county budgets, but we typically observe ample cash in the general fund to offset some of the unpredictability in those services. Intergovernmental revenue, mainly from state funding, comprises a large share of most municipalities' budgets, typically over 40%.

Wisconsin municipalities and counties contribute to Wisconsin Retirement System, a cost-sharing, multiple-employer, defined-benefit plan for retiree pension benefits. As of fiscal 2020, the system is 103% funded on a statewide basis, and it continues to be among the top funded state pension systems. Issuers typically fund their other postemployment benefits (OPEBs) on a pay-as-you-go basis. As a result, we believe Wisconsin municipalities and counties continue to have manageable fixed pension & OPEB costs.

[Continue reading.](#)

16 Mar, 2021

S&P Tennessee Valley Authority In Review: How The TVA's Relationship With Local Power Companies Is Evolving

Key Takeaways

- Tennessee Valley Authority (TVA) provides power to 153 local power companies (LPCs), 17 of which are rated by S&P Global Ratings. In evaluating LPC credit fundamentals, we consider the profile of TVA's generating assets, fuel mix, wholesale rates, and fixed cost of power; key LPC

enterprise attributes include residential bases, below-average income levels, and competitive retail rates.

- TVA's service area is delimited by the TVA Act, and the anti-cherry-picking provision provides a barrier to entry for other suppliers by preventing the use of the TVA transmission system to serve LPC load. Nevertheless, TVA's largest LPC, Memphis Light, Gas and Water (MLGW), which is located on the periphery of the authority's service area, is considering power supply options other than TVA. If MLGW were to leave TVA, this could lead to higher fixed costs for the remaining LPCs.
- We view TVA as a credit-supportive wholesale power provider to its LPCs, as evidenced by its offer of longer-term contracts at a discount, its goal of stabilizing wholesale rates, its efforts to provide financial and operational flexibility to the LPCs, and its provision of temporary power bill credits during the COVID-19 pandemic.

[Continue reading.](#)

18 Mar, 202

Near-Junk Illinois Set to Sell Bonds With Stimulus as 'Tailwind.'

- **\$1.26 billion tax-exempt bond deal expected on March 17**
- **S&P Tuesday revised Illinois outlook to stable from negative**

Illinois plans to tap the municipal-bond market next week, just days after passage of President Joe Biden's \$1.9 trillion stimulus plan promises to help the lowest-rated state with some near-term financial stress.

The state is expected to sell \$1.26 billion tax-exempt bonds on March 17. That follows S&P Global Ratings's decision to pull Illinois back from the brink of a junk rating by lifting the outlook on the state's BBB- rating to stable from negative on Tuesday, citing more federal aid and the start of an economic recovery. The proceeds from the sale will be for capital projects, accelerated pension payments and refunding.

The outlook change and revenue improvement should bolster Illinois's position when it comes to market, said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Illinois debt as part of about \$40 billion in muni assets.

"I expect they would do well given that they will have a substantial tailwind from the recent stimulus," Derby said.

Illinois is expected to get about \$7.5 billion from the more than \$350 billion in state and local government aid earmarked in Biden's American Rescue Plan, according to bond documents. The aid "could provide an immediate boost to the state's fiscal resilience," Fitch Ratings said in a report.

Illinois still faces significant self-inflicted fiscal challenges it had before the pandemic as the state tries to recover from the covid recession. Its unfunded pension liability, which has weighed on its credit rating, has grown to \$141 billion.

"Federal aid is clearly providing a substantial buffer to help absorb the pandemic's fiscal effects, but the longterm pension funding challenges will remain in place," Moody's Investors Service said in a report on Monday.

Illinois also owes vendors \$5.5 billion in unpaid bills, according to state data. Plus, it was the only state to tap the Federal Reserve's Municipal Liquidity Facility last year, taking out short-term loans in June and December totaling \$3.2 billion.

When the pandemic first hit, yields on Illinois's 10-year bonds surged to above 6% in March 2020, more than twice as high as New York, another large borrower. On Wednesday, the rate was 2.4% for Illinois compared with 1.2% for New York.

"Federal government support is mitigating direct fiscal burdens, but the state also has relied on short-term deficit financing that increases its liabilities and near-term fixed costs," according to Moody's, which Monday affirmed Illinois's Baa3 rating and negative outlook.

Bloomberg Markets

By Shruti Singh

March 10, 2021, 11:40 AM PST

Mairs & Power Launches an ETF Tied to the Bonds of Minnesota's Towns.

Mairs and Power says the new fund is designed to be low-cost and low-risk.

Mairs and Power, the St. Paul firm known for developing Minnesota- and Midwest-focused investment funds, is launching an exchange-traded fund tied to Minnesota municipal bonds.

The Minnesota Municipal Bond ETF will have the ticker symbol MINN and trade on the Chicago Board of Options Exchange (CBOE) starting Friday. The fund will be priced at \$25 per share and, as an ETF, investors can buy as little as one share.

"We believe this ETF presents a distinct opportunity for investors, particularly Minnesota residents, who are looking to add fixed income to their portfolios," Mark Henneman, CEO of Mairs and Power, said in statement. "Unlike most ETFs, our fund is actively managed. This means we are constantly evaluating and making decisions about the securities in the portfolio."

The lead portfolio manager of the new fund will be Brent Miller, a Minnesota native who is also president of the Minnesota Society of Municipal Analysts. Miller helped create the fund with Robert Thompson, head of fixed income at Mairs & Power, who will be a co-manager of the fund. Heidi Lynch, a fixed-income trader, will be active in daily operations of the fund.

"As a firm we decided together that there is need out there for a lower-cost, high-quality product. We made it as something we want to invest in, too," Miller said. "That's how we design all of our products: 'Is it something you yourself would want to invest in?'"

Municipal bonds are issued by city, county, state and other government entities to pay for public projects. There are other Minnesota bond mutual funds out there, some locally managed, but many are managed from outside the state.

By Patrick Kennedy Star Tribune MARCH 11, 2021

St. Paul Investment Firm Unveils MINN: Municipal Bond Funds Day-Traded Like Stocks.

Want to own a share of a local road or government building in Minnesota? There's a day trade for that.

Mairs and Power, an employee-owned investment advisory firm that has been based in downtown St. Paul since 1931, is marketing a new way for everyday investors to capitalize on public projects in Minnesota. For the first time, investors can buy into tax-exempt, Minnesota-based municipal bonds through its Minnesota Municipal Bond ETF (or "exchange traded fund"); the bonds are pooled like securities in a mutual funds but shares are traded throughout the day like stocks.

Mairs and Power says it is the first exchange-traded fund in the country invested primarily in Minnesota-based municipal bonds. It carries the ticker MINN and will be traded on the Chicago Board Options Exchange. MINN, which goes on the market Friday, can be purchased through an online broker or financial adviser.

The starting price for the ETF — which operates like stock — is \$25. "You'll have to buy at least one share, so theoretically the minimum will be \$25," said Brent Miller, MINN portfolio manager for Mairs and Power. "It democratizes the space a little bit more by bringing the expense ratio down. We'll be the cheapest widely-available fund in this space, and we'll have a low minimum entry point. If you look at most of the municipal mutual funds, the minimum entry can be in the thousands of dollars."

MINN dividends, which are to be paid monthly, will be exempt from both federal and state taxes.

"We believe this ETF presents a distinct opportunity for investors, particularly Minnesota residents, who are looking to add fixed income to their portfolios," said Mairs and Power CEO Mark Henneman, in a written statement. "Unlike most ETFs, our fund is actively managed. This means we are constantly evaluating and making decisions about the securities in the portfolio."

Municipal bonds — whether general obligation bonds or revenue bonds backed by fees-for-service — are issued by state, city, county and other government entities to finance capital projects, from new roads and bridges to parking ramps, utilities and school buildings. Experts call municipal bonds historically among the lowest-risk securities, though lower risk sometimes means lower gain. The nation's 39 major municipal bond ETFs have under-performed the stock market for the past year.

"It's a steadier product," Miller said. "It's designed to produce income for people who want a more stable portion of their portfolio."

By FREDERICK MELO | fmelo@pioneerpress.com | Pioneer Press

March 12, 2021 at 5:00 a.m.

San Antonio Says Texas Storm Left It With \$1 Billion Power Bill.

San Antonio's municipal-owned utility said it racked up an estimated \$1 billion in energy costs in the winter storm that sacked Texas in February, a tally that could take residents a decade to pay.

CPS Energy Chief Executive Officer Paula Gold-Williams saying during a board meeting Monday that it likely incurred \$200 million in charges from the state's grid operator and \$800 million for fuel.

The utility has said that it will look to spread the cost of the storm over at least 10 years. Gold-Williams said that CPS Energy is continuing to negotiate to bring those costs down. She said that despite the unprecedented winter bill, it's better equipped to weather the financial hit from the storm than some other Texas towns.

"We do have great credit. We do have good tools," Gold-Williams said. "We have the ability to manage through this process."

Brazos Electric Power Cooperative, the largest power generation and transmission co-op in the state, filed for bankruptcy Sunday after racking up an estimated \$2.1 billion in charges over seven days of the freeze. Denton, a city of 140,000 northwest of Dallas, racked up at least \$207 million in power purchases over the span of a few days, more than triple its entire electrical power costs for fiscal year 2020.

To shore up its finances, CPS Energy asked trustees for approval for financing from a bank or a consortium of banks for as much as \$500 million.

Bloomberg Green

By Kriston Capps

March 1, 2021, 2:22 PM PST

University of Chicago to Refinance Debt as Yields Edge Up.

- **\$828 million sale scheduled to start as soon as Wednesday**
- **Joins boom in college debt sales in wake of pandemic**

The University of Chicago is set to issue \$828 million of debt, joining colleges that have rushed to the bond market to refinance before an acceleration in economic growth threatens to drive interest rates higher.

The school is set to sell about \$610 million of taxable bonds — which don't carry the restrictions of traditional municipal securities — and \$218 million of tax-exempt debt through the Illinois Finance Authority, according to data compiled by Bloomberg. The sale may be priced as soon as Wednesday.

The size of the issuance has not been finalized, according to an emailed statement from the university last week.

"It will depend in part on interest rates, which have risen in recent weeks," according to the statement. The university expects savings on a net present value basis of more than 20% of the refunded bonds.

Colleges and universities sold more than \$40 billion of bonds in the municipal- and corporate-securities markets last year, seizing on the lowest interest rates in decades to soften the financial toll of the pandemic that shut down campuses last year and left many holding only online classes. While benchmark interest rates have jumped higher over the past several weeks, yields in both the corporate and municipal markets remain not far from the more than four-decade lows hit in recent

months, according to Bloomberg Barclays indexes.

The University of Chicago, one of the nation's most prestigious and selective schools, has seen enrollment rise to 17,857 this school year from 17,599 despite the coronavirus, according to bond documents. Its endowment has also swelled to \$8.6 billion, thanks to surging stock prices, data compiled by Bloomberg shows. S&P Global Ratings grades its bonds AA-, the fourth-highest investment grade, with Moody's Investors Service rating it one step higher.

Bloomberg Markets

By Shruti Singh

March 2, 2021, 8:04 AM PST Updated on March 2, 2021, 8:53 AM PST

New York City Bonds Belie Pandemic Toll With Investors Unfazed.

- **Yields lower than before Covid; credit spreads little changed**
- **CreditSights says bondholders not paid enough for the risk**

New York City is still reeling from the impacts of the pandemic, but there's little sign of that in the price of its bonds.

Interest rates have tumbled so steeply that the city's 10-year debt is yielding just 1.41%, less than it was at the start of 2020 even after the market's selloff last month, according to Bloomberg BVAL indexes. That's about 30 basis points more than what the highest-rated states and cities pay, a jump of just 20 basis points from before the pandemic shut down New York City, eliminated hundreds of thousands of jobs and triggered the first drop in property-tax collections in a quarter century.

To the analysts at CreditSights, that's not enough to compensate investors for the risks.

"The city has suffered economic dislocation that may be somewhat obscured by federal stimulus pulsing through the economy," John Ceffalio and Patrick Luby wrote in a report, placing a "market underperform" rating on New York City's debt ahead of its \$1.45 billion debt sale Wednesday. "There are myriad uncertainties to the recovery, notably two Manhattan staples: tourists and commuters. We expect both to return, but how soon and how many of each are open to questions."

New York is still staggering from the loss of more than 570,000 jobs last year, the steepest in the city's history, and employment isn't forecast to return to pre-pandemic levels until 2023. Office buildings are struggling with record vacancy rates with only a small fraction so far returning to the office. Some residents appear to have left for good and property tax revenue is forecast to decline by \$2.5 billion, the first drop in 25 years.

The city's recovery is closely tied to the success of public health efforts to slow the spread of Covid-19 and new, more contagious variants. New York remains below the national average for the percentage of the population vaccinated, suggesting recovery will be "slow and fragile," until the vaccination rate increases, wrote the city's Independent Budget Office on Monday. New York City has administered more than 2 million doses of the vaccine, including 76,000 on Friday, Mayor Bill de Blasio said Tuesday.

Before last month's bond market selloff, strong demand for municipal bonds, coupled with scant new

issues and an improving economic picture, had driven spreads on riskier municipal bonds close to pre-pandemic levels. Despite economic uncertainty, investors are confident that New York City will navigate through the pandemic storm as it has in the past, said Ben Pease, head of municipal trading at Breckinridge Capital Advisors, Inc.

New York City stands to receive \$5.6 billion as part of the Biden administration's proposed \$350 billion additional aid to states and cities.

When New York sold general obligation bonds in October, 10-year debt was priced to yield 0.8 percentage point more than AAA rated bonds. The city priced 10-year debt in a retail order period at a spread of 0.5 percentage point, according to a person who received pricing information on this week's sale.

"Despite recent volatility, there remains an appetite for bonds with spread inside fifteen years," Pease said.

Bloomberg Markets

By Martin Z Braun

March 2, 2021, 10:57 AM PST

[S&P Wisconsin Schools Means And Medians.](#)

Overview

Wisconsin school districts have demonstrated stable credit quality in recent years and S&P Global Ratings expects credit quality for this portfolio to remain stable in the near term. This stability is supported by a recently steady state revenue climate, expected economic growth, and districts with traditionally very strong financial flexibility.

S&P Global Ratings maintains ratings on approximately 205 Wisconsin school districts. Overall, ratings were stable, with only 3% experiencing movement since January of 2020. Wisconsin school districts have had one positive rating action and four negative rating actions on their general obligation debt. Additionally, 99.5%, the ratings have a stable outlook, while none have positive and only 0.5% a negative outlook.

[Continue reading.](#)

5 Mar, 2021

[S&P: Is Fiscal Stabilization On The Horizon For Illinois?](#)

Key Takeaways

- Although Illinois' proposed fiscal 2022 general fund operating budget is slightly smaller than the previous year's proposal, and balanced in terms of current-year obligations, we do not view it as structurally balanced due to the treatment of pension obligations.

- Pension contributions are budgeted to fully meet increasing statutorily set amounts but are still less than actuarially determined amounts.
- The state expects to close fiscal 2021 with a small surplus, after prepaying the next fiscal year's municipal liquidity fund's debt service.
- Illinois has a bill backlog, limiting flexibility, but this is markedly reduced from this time last year.
- The COVID-19 pandemic continues to affect state economic activity with unemployment through December 2020 above the national average, with 2021 activity improving employment conditions.

[Continue reading.](#)

25 Feb, 2021

S&P: Massachusetts' Proposed Fiscal 2022 Executive Budget Projects Surprisingly Stable Revenues

Key Takeaways

- Massachusetts' fiscal picture has been relatively robust, with mid-fiscal 2021 tax revenues ahead of the same period in 2020, and well ahead of the 2021 budget.
- Growth is projected to continue into fiscal 2022.
- Should tax revenues decline as projected in fiscal 2021, overall operating revenue would still remain stable thanks to increased federal aid.
- The governor's proposed draw from the budget stabilization fund would still leave it at what we would consider adequate levels.
- Due in part to lower Medicaid caseloads, on the expectation that the COVID-19 pandemic will recede, the budget proposal anticipates overall spending will decline in fiscal 2022.

[Continue reading.](#)

22 Feb, 2021

University of Chicago to Refinance Debt as Yields Edge Up.

The school is set to issue \$828 million of debt, joining colleges that have rushed to the bond market to refinance before an acceleration in economic growth threatens to drive interest rates higher.

(Bloomberg)—The University of Chicago is set to issue \$828 million of debt, joining colleges that have rushed to the bond market to refinance before an acceleration in economic growth threatens to drive interest rates higher.

The school is set to sell about \$610 million of taxable bonds—which don't carry the restrictions of traditional municipal securities—and \$218 million of tax-exempt debt through the Illinois Finance Authority, according to data compiled by Bloomberg. The sale may be priced as soon as Wednesday.

"It will depend in part on interest rates, which have risen in recent weeks," according to the statement. The university expects savings on a net present value basis of more than 20% of the

refunded bonds.

Colleges and universities sold more than \$40 billion of bonds in the municipal- and corporate-securities markets last year, seizing on the lowest interest rates in decades to soften the financial toll of the pandemic that shut down campuses last year and left many holding only online classes. While benchmark interest rates have jumped higher over the past several weeks, yields in both the corporate and municipal markets remain not far from the more than four-decade lows hit in recent months, according to Bloomberg Barclays indexes.

The University of Chicago, one of the nation's most prestigious and selective schools, has seen enrollment rise to 17,857 this school year from 17,599 despite the coronavirus, according to bond documents. Its endowment has also swelled to \$8.6 billion, thanks to surging stock prices, data compiled by Bloomberg shows. S&P Global Ratings grades its bonds AA-, the fourth-highest investment grade, with Moody's Investors Service rating it one step higher.

Crain's Chicago Business

March 02, 2021 05:31 PM

[Pennsylvania Public Utility Commission Rules Two Municipal Permitting Fees Are Preempted by State Law.](#)

The Pennsylvania Public Utility Code (Code) gives the Pennsylvania Public Utility Commission (PUC) extensive authority to regulate public utilities in Pennsylvania. The Supreme Court of Pennsylvania has held that the General Assembly intended that the Code would create a uniform, statewide regulatory scheme.¹ To avoid overlaying this statewide scheme with a crazy quilt of local regulations, municipalities are generally preempted from regulating public utilities.

Nevertheless, disputes frequently arise between public utilities and municipalities over the authority of municipalities to regulate public utility facilities in public rights-of-way (ROWs). This is partly because the Pennsylvania Business Corporations Law of 1988 states that public utilities have the right to enter into and occupy ROWs, but "[b]efore entering upon any street, highway, or other public way, the public utility corporation shall obtain such permits as may be required by law and shall comply with the lawful and reasonable regulations of the governmental authority having responsibility for the maintenance thereof."²

A recent PUC proceeding involved a dispute over a municipality's authority to charge permitting fees for placing public utility facilities in a municipal ROW.³ Armstrong Telecommunications Inc. (Armstrong), a certificated telecommunications utility, asked the PUC to issue a declaratory order that Armstrong did not need to pay certain permitting fees levied on it by Waterford Township, Erie County (Waterford).⁴ A divided PUC⁵ resolved only some of the issues in the case. Additional litigation (possibly in a civil court) will be needed to answer the remaining issues.

FACTS

When deciding a petition for declaratory order, the PUC accepts the facts as described by the parties.⁶ Armstrong explained that it was installing fiber optic cable in public ROWs inside and outside the municipal boundaries of Waterford. That cable will be used to provide telecommunications services subject to the PUC's jurisdiction.

Waterford imposed the following permitting fees on Armstrong: (1) inspection fees (including a “location site inspection fee,” a “utility pole inspection fee” and an “outside of shoulder and pavement inspection fee”), (2) application fees, and (3) refundable and non-refundable bonding fees. Waterford noted that it had amended its ordinance, at Armstrong’s request, to eliminate a fee per linear foot, reducing the nonrefundable permit fees to be charged.

POSITIONS OF THE PARTIES

Armstrong requested a broad ruling that a municipality cannot charge a public utility any fees for placing public utility facilities in a municipal ROW. According to Armstrong, Waterford’s imposition of multiple permitting fees was burdensome,⁷ effectively denying the utility its right to occupy the municipal ROW. If every municipality would charge similar fees, it argued, fiber optic projects would not be undertaken, to the detriment of the commonwealth. Armstrong also argued that the fees charged were unreasonably high.

Waterford argued that 15 Pa. C.S. § 1511(e) gives it the right to charge fees for a public utility to enter into a municipal ROW. It distinguished its permitting fees from the continuing maintenance fees that were struck down in City of Lancaster. Waterford argued that the fees charged are reasonable because they are consistent with similar fees charged by the Pennsylvania Department of Transportation and because the fees defray the municipality’s costs to inspect the site of the facilities.

DISPOSITION

The PUC analyzed each municipal permitting fee separately. With respect to the “location site inspection fee” and the “pole inspection fee,” based on City of Lancaster, the PUC found that the inspection of public utilities is subject to the PUC’s exclusive jurisdiction. The PUC reasoned that fees related to the inspection of such facilities are also within the PUC’s exclusive jurisdiction.⁸ The PUC wanted to avoid a patchwork of municipal inspection fees for public utilities, which would run contrary to the goal of providing a uniform statewide regulatory framework for public utilities. Consequently, the PUC ruled that municipal inspection fees relating to the inspection of public utility facilities are preempted by the Code.

The PUC explicitly distinguished municipal inspections related to roadway disturbances (e.g., inspections to determine compliance with municipal backfill and road re-surfacing requirements) from municipal inspections relating to public utility facilities (e.g., inspections to determine the safety of public utility facilities). The PUC did not address whether the PUC has jurisdiction over inspections or fees related to roadway disturbances.

Similarly, the PUC did not address the reasonableness of the amounts that Waterford charged for municipal inspections. According to the PUC, jurisdiction over the reasonableness of fees lies with a court of competent jurisdiction.

For the same reason, the PUC refused to address Waterford’s “application fee.” The PUC determined that Armstrong solely challenged this fee based on the amount of the fee, not the imposition of the fee itself. The PUC concluded that it does not have jurisdiction to determine the reasonableness of a municipal permitting fee.

The PUC concluded that it did not have sufficient facts to determine whether the “outside of shoulder and pavement inspection fee” involves an inspection of a public utility facility, so it did not rule on whether that fee is preempted. Similarly, the PUC concluded that it did not have sufficient information regarding the purpose of the bonding fee and the conditions under which it is

refundable. Consequently, it refused to determine whether the refundable bonding fees are preempted by the Code. Finally, the PUC did not discuss the non-refundable bonding fees charged by Waterford. Apparently, the PUC concluded that Armstrong was not contesting these fees.

FUTURE LITIGATION

The PUC's decision was entered on February 19, 2021. Consequently, the 15-day period for Waterford to file a petition for reconsideration⁹ has not yet expired. Similarly, the period for filing an appeal with the Commonwealth Court of Pennsylvania has not yet expired. Consequently, it is too soon to determine if additional proceedings will be necessary in this case. Even if the PUC's February 19, 2021, declaratory order is the final order in this proceeding, it is clear that additional litigation will be needed to resolve some of the issues raised in this case. As the chairman recognized in her concurring and dissenting statement, "this matter is complex and will have long-ranging impacts."¹⁰

1 See, PPL Elect. Util. Corp. v. City of Lancaster, 214 A.3d 639 (Pa. 2019) (City of Lancaster) and cases cited therein.

2 15 Pa. C.S. § 1511(e).

3 Armstrong Telecommunications Inc. Petition for Declaratory Order, Docket No. P-2019-3014239 (Order entered Feb. 19, 2021).

4 The PUC has authority to issue declaratory orders to terminate controversies or remove uncertainty. 66 Pa. C.S. § 331(f) and 52 Pa. Code § 5.42.

5 The PUC is composed of five commissioners. Three commissioners voted in favor of the ruling. The chairman of the PUC voted to concur in part and dissent in part, indicating that she would have denied the petition and remanded the matter for an investigation to get additional input from multiple affected stakeholders. One seat on the PUC is currently vacant.

6 The PUC has discretion to issue a declaratory order. It may exercise its discretion not to issue a declaratory order if there are material issues of fact in the case. In this case, the parties disputed some facts, but they were not material to the PUC's ultimate decision. For example, Waterford characterized its fees as "ordinary permitting fees" allowed by Section 1511(e), whereas Armstrong claimed this was the first time that these fees were imposed on a telecommunications utility.

7 Armstrong alleged that Waterford had advised it that the fees imposed would exceed \$200,000, but later provided Armstrong with permitting forms that appeared to charge a total of \$12,190. Armstrong averred that it was not certain of the amount of the disputed fees, but argued that even \$12,190 was excessive.

8 The PUC charges utilities an annual assessment for the costs of operating the PUC, including the cost of inspections.

9 52 Pa. Code § 5.572(c).

10 Armstrong Telecommunications Inc. Petition for Declaratory Order, Docket No. P-2019-3014239 (concurring and dissenting statement of Chairman Gladys Brown Dutrieuille) p. 1.

Cozen O'Connor - Jonathan Nase

February 24 2021

Sixth Circuit Concludes That the Kentucky Billboard Act Violates the First Amendment: Squire Patton Boggs

The Kentucky Billboard Act requires a permit for billboards that advertise off-site activities—but no permit is required for on-site billboard advertising. Lion’s Den, an “adult superstore” that sought to advertise to interstate drivers with a billboard on a neighbor’s property, challenged the law as a violation of its rights under the First and Fourteenth Amendments. The district court agreed with Lion’s Den and enjoined enforcement of the Act. Recently, the [Sixth Circuit affirmed](#).

Judge Sutton’s opinion for the court proceeded from the proposition that government regulation of speech based on its content is constitutional only if the regulation satisfies strict scrutiny. The on-site/off-site distinction is content-based: to know which rules apply to a billboard, one has to know the message on the billboard.

And the Act could not satisfy strict scrutiny. Under circuit precedent, Kentucky’s proffered interests in safety and aesthetics did not qualify as compelling, but “even if these interests sufficed in the abstract, the Act leaves untouched other billboards with similar qualities,” and underinclusive laws are not narrowly tailored.

The court rejected Kentucky’s argument that only intermediate scrutiny for commercial speech was appropriate. Although Lion’s Den’s billboard did contain commercial speech, the Act treated commercial and non-commercial speech alike. Finally, the court noted that in a 2020 decision, the Fifth Circuit had reached essentially the same conclusions “that a billboard law like this one must satisfy strict scrutiny” and that “this kind of law fails the test.”

For whatever reason, on-site/off-site distinctions are somewhat common in state and municipal laws regulating billboards. The Sixth Circuit’s decision will be helpful to those bringing First Amendment challenges to such laws.

Squire Patton Boggs - Benjamin Glassman

March 1 2021

Texas Power Market Is Short \$2.1 Billion in Payments After Freeze.

Electric retailers failed to make payments for power purchased when prices skyrocketed during the freeze, state grid operator says

The financial consequences of the Texas blackouts are beginning to emerge in the state’s electricity market, with some players failing to pay for power they purchased last week and others disclosing sizable losses.

The Electric Reliability Council of Texas, which operates the state’s power grid, said Friday electric retailers had failed to make \$2.12 billion in required payments, about 17% of the total amount owed for a stretch of last week.

Ercot, which collects that money and uses it to pay operators of power plants, said it would use \$800 million in a revenue account to pay them for some of what they are owed but would be \$1.32 billion

short.

[Continue reading.](#)

The Wall Street Journal

By Russell Gold

Feb. 26, 2021 7:49 pm ET

[Amid Blackouts, Texas Scrapped Its Power Market and Raised Prices. It Didn't Work.](#)

The Texas Public Utility Commission hoped its move would spur generation. Retail providers say all it did was generate billions in added bills.

The heads of two of Texas' largest power generation companies, Vistra Corp. and NRG Energy Inc., told members of the Texas House of Representatives on Thursday that the promise of high prices couldn't help resurrect power plants that had difficulty operating in extreme cold or securing gas supplies.

Vistra Chief Executive Curt Morgan said gas supply constraints were one of the company's biggest challenges, forcing it to take plants offline or run them at lower capacity levels.

"We had power plants ready to produce power that could not produce any," he said. "The gas system, in my opinion, did not work in tandem with the electric system."

As a result of the PUC's decision, power prices remained at elevated levels until Friday morning, when the PUC rescinded its order, after Ercot said the grid was again stable. Typically, the Ercot grid hits peak prices for a few hours, at most.

Many residential, commercial and industrial customers as well as retail providers and municipal power companies had to pay extraordinary prices for several days, and some have complained to the PUC that its action had raised prices without improving the supply situation, with devastating financial consequences.

Griddy Energy LLC, a small retailer that gives customers access to wholesale power prices in exchange for a flat monthly charge, has faced the most criticism of any retailer as its customers face enormous bills.

Griddy CEO Michael Fallquist said in an interview that the company lost roughly two-thirds of 30,000 customers last week, giving it a fraction of 1% of the Ercot market. Those who remain collectively owe millions of dollars. Mr. Fallquist said believes the total would have been substantially less if the PUC hadn't moved to elevate prices. "The material impact on our customers would have been so different," he said.

Others said the high prices did little to encourage generators to quickly come back online.

"Generation could not magically appear, and the price signals did not stabilize the situation," wrote Patrick Woodson, chief executive of Green Energy Exchange, a retail electricity provider in Texas.

“Quite the opposite, the imposition of price caps during these extraordinary times is creating instability in the markets.”

In an interview, Mr. Woodson added that retail providers were hurt by the PUC’s decision to keep prices high all week, which essentially transferred money from consumers to power generators and gas providers.

“You want to penalize people? Great. But don’t penalize the people who didn’t cause the crisis,” he said.

NRG Chief Executive Mauricio Gutierrez told lawmakers that his company, which offers fixed-price retail contracts, would have to eat the higher wholesale costs. He advocated for eliminating contracts tied to wholesale prices because it may be difficult for customers to understand the risk of extreme market swings.

“We don’t offer any of those products,” he said. “We believe they shouldn’t be available to customers in our market.”

The Texas governor promised in a statewide address on Wednesday to find answers to what went wrong and ensure state lawmakers enact fixes. “You deserve answers. You will get those answers,” said Mr. Abbott, a Republican.

Rob Cantrell, the chief executive of retail electricity provider Pulse Power LLC, said that while generators unable to deliver were the cause of the crisis, it is retailers and customers who are set to pay the price. He estimates Pulse will lose up to \$2,000 for each of its 100,000 customers, even though many of them were without power.

In a filing to the PUC, Mr. Cantrell suggested replacing the \$9,000 pricing with fines “for generators that a postmortem reveals...were not following the minimum reliability protocols.” Those fines could be used to help cover exorbitant power bills, he added.

Power generators “should not benefit as an industry from their failure, to the detriment of Texas retail choice and consumers alike,” he wrote.

The Wall Street Journal

By Russell Gold and Katherine Blunt

Updated Feb. 25, 2021 7:19 pm ET

[Texas Cities Fret as Power Bills Mount in Wake of Blackouts.](#)

- **Denton bought \$207 million of power in the span of a few days**
- **Outsize bills could pull down credit ratings without aid**

The power supply shortages that slammed Texas last week drove spot electricity prices sky-high for some locally owned utilities, with one town on the hook for more than \$200 million and other municipalities anxiously awaiting their bills.

Denton, northwest of Dallas, racked up at least \$207 million in power purchases over the span of a few days, more than triple its entire electrical power costs for fiscal year 2020. It left the city of

140,000 without enough cash to keep buying power at market rates and said in regulatory filing it may need to borrow more money to cover the costs.

Across the state, local utilities that were forced to buy power at prices as high as \$9,000 a megawatt-hour when a deep freeze hobbled the state's power grid are potentially facing outsize debts that could wreck their credit rating and linger on their balance sheets for years.

"I continue to wait for other shoes to drop," said Kit Konolige, a senior utilities analyst at Bloomberg Intelligence.

CPS Energy, a municipally owned utility in San Antonio, said it expects its costs from the winter storm to be "substantial" and is considering ways to limit the impact on its 840,750 electric customers.

"While fuel charges are normally passed on to customers, our team will pursue every financing tool within our ability to spread the financial impact over years," the utility said in a statement. "Spreading out the costs, if approved, will minimize the impact to customer affordability, which is important since the community has already been through a very difficult time."

Fitch Ratings on Wednesday placed all retail and wholesale electric utilities operating within the Electric Reliability Council of Texas, the grid operator known as Ercot, on rating watch negative. It cited concerns regarding funding requirements and liquidity in the near term, and cost recovery and the potential for increased financial leverage over the medium term.

The Kerrville Public Utility Board, a community-owned, not-for-profit electric company that serves 23,000 customers northwest of San Antonio, also said it is facing "significant and unexpected" energy costs.

"KPUB is working to fully calculate the financial impact we are facing due to these events," the utility said in a statement. "However, the exposure is very significant even though our utility has reasonable hedges in place to mitigate such cost spikes."

S&P Global Ratings placed Rayburn Country Electric Cooperative Inc. on watch for downgrade after it fully drew its \$250 million syndicated line of credit, and entered into a \$300 million bilateral line of credit with National Rural Utilities Cooperative Finance Corp.

Some utilities, however, managed to dodge unexpected costs. San Angelo, a West Texas town on the outskirts of the Chihuahuan Desert saw a record-shattering 10.1 inches of snow on Feb. 1. But it had fixed price contracts before the storm hit. "The good news is, we were a city who did have a guaranteed contract," San Angelo Mayor Brenda Gunter said.

Still, many other local utilities remain unsure what the disaster cost them. Officials in Bridgeport northwest of Dallas said they have yet to received a power bill. The city owns its utility but has no generating capacity, so it buys its power from a unit of Exelon Corp.

"Right now, I guess we're in the dark," said Chester Nolen, the city manager. "I don't know if that's good or bad."

Bloomberg Green

By Nic Querolo and Kriston Capps

February 25, 2021, 11:43 AM PST

Texas's Power Market Is \$1.3 Billion Short After Energy Crisis.

- **Grid operator Ercot must find way to pay power generators**
- **Several power retailers have defaulted after prices soared**

Texas's grid operator needs to come up with \$1.3 billion to pay power plants for energy they supplied during last week's historic blackouts, raising the prospect it may require a state bailout.

The Electric Reliability Council of Texas, which manages most of the state's grid, said it's still waiting on more than \$2 billion in payments from retail power providers and others after a deep winter freeze caused energy prices to skyrocket. The grid operator, known as Ercot, managed to cover part of that debt by transferring \$800 million in revenues from another market but remains \$1.3 billion short, according to a notice.

If Ercot can't come up with the rest, the debt could end being shared by everyone in the market — even consumers. That may prompt lawmakers to step in and make up the difference, said Evan Caron, chief strategy officer of energy technology firm ClearTrace and a former Ercot trader.

"Someone is going to need to pay," Caron said in an interview. "I've never seen anything like this before."

Ercot did not immediately respond to an inquiry into whether it plans to ask for a state bailout.

The shortfall comes after this month's Arctic blast knocked nearly half of the state's power generating capacity offline, causing electricity prices to jump to \$9,000 a megawatt-hour and leaving some buyers unable to pay. The crisis plunged more than 4 million homes and businesses into darkness for days. Dozens died in the cold.

The \$1.3 billion shortfall that Ercot now faces is unprecedented, said Adam Sinn, power trader and owner of Aspire Commodities LLC.

"In the past I have only seen a million-dollar shortfall — so a billion dollar one is not even in the ballpark," Sinn said.

In addition to managing the grid, Ercot is a middleman for transactions between power plant owners and retail energy providers that buy their electricity. Under typical conditions, those transactions are settled every day. But the organization warned Wednesday that several retailers were in "payment breach" and that more could default. As a result, some generators haven't been paid in full.

"If there are massive bankruptcies among utilities, then there might be a need for a state intervention of some sort, like a bailout," said Michael Webber, a professor at the University of Texas at Austin who serves as chief science and technology officer at French utility Engie SA. "The total tally will certainly be higher than \$2 billion, and no one knows what the ultimate consequences will be because this is new territory for us."

Two public utilities told Texas lawmakers during hearings Friday that Ercot owed them money for power they produced during the crisis.

"We are concerned that because of potential bankruptcy of retail providers we will not be paid," said Terry Naulty, assistant general manager of Denton Municipal Electric.

Several retail electricity providers, including Young Energy LLC and Spark Energy Inc., are disputing Ercot charges they incurred for so-called ancillary services, which help the grid operator maintain reliability on the system.

Because the real-time price of electricity was set at \$9,000-a-megawatt-hour for several days during the grid emergency, the cost of ancillary services skyrocketed, costing some companies tens of millions of dollars. Some retailers have asked the Public Utility Commission of Texas to waive their obligation to pay those charges while their challenges are ongoing.

Freepoint Commodities LLC has also appealed to the commission, saying they intend to challenge Ercot's ancillary service charges and are concerned the grid operator lacks the liquidity to return any successfully disputed payments.

On Friday, the grid operator announced it would cover part of the shortfall with \$800 million in congestion revenues, money generated from trading bottlenecks on the grid that is supposed to be returned to consumers. Using congestion revenues will likely hit retailer margins, according to Caron.

"They are going to have to figure out how to recoup those margins and if they are still alive and standing after this, anticipate the fixed-rate price contracts to go up for customers," he said.

Bloomberg Markets

By Naureen S Malik, Catherine Traywick, David R Baker, and Mark Chediak

February 26, 2021, 4:45 PM PST Updated on February 27, 2021, 4:00 AM PST

— *With assistance by Joe Carroll*

[Ercot Still Short \\$1.3 Billion in Energy Payments: Texas Update.](#)

A second day of marathon hearings on Texas's unprecedented energy crisis raised concerns about the liquidity of the state's power market, and who will ultimately pay for the disaster as some companies face bankruptcy.

Several utilities told Texas lawmakers Friday that they were still awaiting payment from the grid operator, known as Ercot, for power they provided during the grid emergency, with at least one worrying whether they would be paid at all. As the hearings continued into the evening, Ercot issued a notice saying they remain \$1.3 billion short of what they need to pay generators, due to nonpayment from other market participants.

The historic outage left more than four million homes and businesses without heat, light and water during a deep winter freeze, causing as much as \$129 billion in economic losses. Dozens of people died. The impact to individual companies is only starting to emerge, with some wracking up huge losses while oil and gas producers saw their output halted. Seven members of Ercot's board have resigned in the aftermath.

[Continue reading.](#)

Bloomberg Green

By Mark Chediak, David Wethe, Joe Carroll, and Naureen S Malik

February 26, 2021, 6:41 AM PST Updated on February 26, 2021, 2:54 PM PST

Texans Will Pay for Decades as Crisis Tacks Billions Onto Bills.

- **Power sales totaled \$50.6 billion vs. \$4.2 billion week prior**
- **Utilities will look to pass costs onto consumers, taxpayers**

Now that the lights are back on in Texas, the state has to figure out who's going to pay for the energy crisis that plunged millions into darkness last week. It will likely be ordinary Texans.

The price tag so far: \$50.6 billion, the cost of electricity sold from early Monday, when the blackouts began, to Friday morning, according to BloombergNEF estimates. That compares with \$4.2 billion for the prior week.

Some of those costs have already fallen onto consumers as electricity customers exposed to wholesale prices wracked up power bills as high as \$8,000 last week. Other customers won't know what they're in for until they receive their gas and power bills at the end of the month. Ultimately, the financial pain will probably be shared by ratepayers and taxpayers alike, said Michael Webber, a professor at the University of Texas at Austin and chief science officer for French power company Engie SA.

If prior U.S. power market failures are any guide, Texans could be on the hook for decades. Californians, for example, have spent about 20 years paying for the 2000-2001 Enron-era power crisis, via surcharges on utility bills.

CPS Energy, which is owned and run by the city of San Antonio, said on Twitter it was looking into ways to spread costs for the last week over the next 10 years. That didn't sit well with its customers, who railed against the company's proposal during a board meeting on Monday.

"Spreading the cost of this event over a decade is unacceptable," said Aaron Arguello, an organizer with Move Texas. "Customers are already in debt with student loans, mortgages and other payments."

But companies that ran up huge losses as the cost of electricity skyrocketed last week will inevitably try to recoup those through their customers, taxpayers or bonds. How quickly Texans pay depends on who their provider is.

Gas utilities usually pass the costs onto customers at the end of the monthly billing cycle, said Toby Shea, a senior credit officer at Moody's Investors Service. Municipal utilities, co-ops and regulated power providers have the ability to spread out costs over a longer time-frame. "It's very easy for a government to spread this out for many years and even a few months," he said.

CPS Chief Executive Officer Paula Gold-Williams said last week the company may also issue bonds to help pay for the natural gas it bought at inflated prices.

Some utilities are looking to secure hundreds of millions of dollars in liquidity to spread out costs for 10 to 20 years, said Scott Sagen, an associate director in U.S. public finance at S&P Global Ratings. Rayburn Country Electric Cooperative Inc., for example, has fully drawn its \$250 million syndicated

line of credit and has recently entered into a \$300 million bilateral line of credit with National Rural Utilities Cooperative Finance Corp. for one year, according to an S&P report published Monday.

A number of utilities are in talks with their banks to get liquidity to pay off their current debts so they can then take out a bridge loan that they'll convert to long-term bonds. "They're trying to smooth out these costs as much as possible and provide cover for their customers," Sagen said.

But small retailers who tend to be more thinly capitalized and less robustly hedged have limited options. One such company, Griddy, said last week it would challenge the prices set by the grid operator during the crisis, in an apparent bid to recoup losses for itself and its customers. Another company, Octopus Energy, said Monday it would forgive any energy bill in excess of the average price of electricity for the week, and eat the resulting losses which could be millions of dollars.

The state's utility regulator on Sunday blocked power sellers from disconnecting customers for non-payment, saying the governor and lawmakers need time to come up with a plan to address sky-high bills, first. Texas lawmakers will likely take up the discussion of consumer relief as part of their committee hearings on the crisis which will begin this week, a spokesman for the Public Utility Commission of Texas said.

In theory, the legislature could pass an emergency bill that could cover the excessive costs charged by generators during the crisis, said Julie Cohn, an energy historian with affiliations at Rice University's Center for Energy Studies and the University of Houston's Center for Public History. "Another piece would be to say you can have a competitive power market that we have, but prohibit the provider from linking the price directly to the wholesale price, as Griddy does."

That would be easier to do in a state that takes a more heavy-handed regulatory approach to its electricity market, according to Webber. But Texas decided to take a more hands off approach with its deregulated system, he said.

"The question is where is the money going to come from?" Shea said. "Will Texas go and bail out certain customers? That's not their attitude toward how they manage their market or manage their economy."

Bloomberg Green

By Mark Chediak, Naureen S Malik, and Josh Saul

February 22, 2021, 2:38 PM PST Updated on February 23, 2021, 4:00 AM PST

— *With assistance by Rachel Adams-Heard, and Sergio Chapa*

[Fitch: Texas Public Power Utilities Ratings Pressured Amid Cost Surge](#)

Fitch Ratings-New York-25 February 2021: Operating challenges and significantly higher prices for power and natural gas triggered by severe winter weather has led to a surge in costs for public power utilities in Texas. Early indications are that cost increases for utilities forced to rely on market purchases could be in the hundreds of millions of dollars, potentially straining liquidity and margins, Fitch Ratings says. Fitch has placed all Electric Reliability Council of Texas (ERCOT)-based municipal and cooperative utility ratings on Rating Watch Negative.

Texas's municipal and cooperative utilities are usually able to maintain sufficient resources to meet customer demand and are generally exempt from the state's competitive supply market. However, the unprecedented winter weather that swept through Texas earlier this month led to electricity demand well beyond what the state's utilities and grid operator, ERCOT, anticipated.

Extreme cold weather conditions froze generating equipment and limited gas supplies, rendering some units inoperable. Public utilities were then forced to purchase power and gas on the market at an exorbitant cost, as energy prices reached ERCOT's market price cap of \$9,000/MWh and spot gas at the Houston Ship Channel pricing point averaging more than \$200 per million British Thermal Units (MMBTU). Prices for those commodities hovered around \$20/MWh and \$3/MMBTU, respectively, earlier this year and have since returned to similar levels.

Public power issuers typically maintain robust cash balances and enjoy local rate autonomy. However, the unprecedented costs threaten liquidity and timely cost recovery. Utilities may need to increase borrowings over the medium term to support operations, increasing leverage and weakening credit quality. If funds are borrowed from local governments, other municipal utility systems or affiliated cooperatives, credit pressures could also mount for these related entities.

It remains to be seen if the state legislature will reform the Texas power grid and marketplace, and therefore the effect of any potential changes on public power and cooperative utilities is uncertain. Changes requiring infrastructure to store energy in reserve, reserves/excess capacity, and greater interconnectivity with other parts of the national grid to provide support in an emergency are all possible, but could prove challenging given the complexity and disaggregated nature of the Texas marketplace.

Fitch previously noted the risks associated with declining reserve margins in ERCOT and a reliance on purchased power. ERCOT targets a system-wide planning reserve margin of 13.75%, although utilities are not required to provide capacity or reserve margins on an individual basis, as is the case in other organized US electric markets.

Public power systems in the states surrounding Texas, including Oklahoma and Missouri, are also reporting higher costs, but the amounts are lower and appear more manageable. In cases where the cost burden strains financial performance and liquidity, and timely recovery is unlikely, credit metrics and ratings for public utilities in these surrounding states could also be pressured.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

[Puerto Rico Bonds, MBIA Stock Jump on Restructuring Settlement.](#)

Yield on 30-year U.S. Treasury bond hits pre-pandemic level

A settlement between creditors in Puerto Rico's bankruptcy case lifted prices of the commonwealth's municipal bonds and shares of insurance companies that guaranteed payments on the bonds.

Traders have driven up prices of the island's benchmark \$3.5 billion general obligation bond due 2035 by 3.3% to around 78 cents on the dollar after the Tuesday deal removed one of the last logjams in Puerto Rico's nearly four-year journey through bankruptcy court. Roughly \$400 million face amount of the bond changed hands Tuesday and Wednesday, making it one of the most actively traded securities in the municipal-bond market, according to data from Electronic Municipal Market Access.

Shares of the insurers that guaranteed payments on billions of dollars of Puerto Rico's defaulted bonds also rose as the settlement removed some uncertainty about the amount of claims they would need to pay. MBIA Inc.'s stock has jumped around 13% this week, while Ambac Financial Group Inc.'s shares have gained about 7.2%.

[Continue reading.](#)

The Wall Street Journal

By Matt Wirz

Feb. 24, 2021 10:12 am ET

[Puerto Rico Rides Muni-Bond Rally to Bankruptcy Deal.](#)

Creditors owed roughly \$11.7 billion agreed to settle with Puerto Rico, expecting that its court-supervised bankruptcy is nearing an end

Puerto Rico moved closer to resolving the largest municipal-debt default in U.S. history as creditors owed \$11.7 billion coalesced around a settlement, the most Wall Street support yet amassed for a restructuring of the territory's core public debts.

Creditors agreed to cut \$18.8 billion in general obligation debt by around three-fifths to \$7.4 billion, wagering that booming market demand for risky municipal debt will help generate profits for them while easing Puerto Rico's exit from bankruptcy.

The proposed settlement released Tuesday would lower Puerto Rico's interest payments to bondholders to levels that its financial supervisors believe it can support after years of population loss and economic decline.

“We achieved a fair, sustainable, and consensual agreement that puts Puerto Rico on a path to recovery and is an important tool to lift the weight of bankruptcy from the people and businesses of Puerto Rico,” said David Skeel, chairman of the financial oversight board that steered negotiations.

Some bonds covered by the deal have gained value in recent months, buoyed by fixed-income investors’ appetite for high-yielding municipal debt and expectations that Puerto Rico’s court-supervised bankruptcy is nearing its end. The agreement marks the culmination of months of private talks between finance officials and creditors to assess the long-term damage to key economic sectors like tourism and hospitality stemming from Covid-19.

Emerging from bankruptcy will remove the uncertainty hanging over Puerto Rico about how much legacy debt will need to be repaid and on what terms, Mr. Skeel said.

Investment firms that participate would exchange their claims for a mix of \$7 billion in cash, \$7.4 billion in restructured bonds and tradable securities known as contingent value instruments that only pay out if sales-tax collections exceed certain projections. Large bondholders including GoldenTree Asset Management LP and Autonomy Capital are backing the settlement, along with bond guarantors Assured Guaranty Ltd. and MBIA Inc.

A sustained rally in high-yield municipal bonds, including Puerto Rico’s, helped to ease the deal, according to bondholders and advisers involved in negotiations. Yield-hungry investors have been drawn to risky municipal bonds in part due to the U.S. Federal Reserve’s commitment to ultralow rates, which make fixed-income returns hard to find.

Expectations that federal support for Puerto Rico will increase with the White House and both houses of Congress under Democratic control are also fueling the rally in debt from the territory, according to analysts and investors. The S&P Municipal Bond Puerto Rico Index has returned 5.65% over the past year even after a post-pandemic selloff, outperforming other baskets of risky municipals maintained by S&P Dow Jones Indices.

The stronger the market demand for Puerto Rico bonds, the more the restructured debt will be worth, the less of it that needs to be issued to compensate bondholders, and the stronger the incentive for them to sign on to a settlement.

“It’s been a seller’s market, so any municipal bond that’s out there is gobbled up, much less a municipal bond that’s going to have a little bit of extra yield,” said Tom Kozlik, head of municipal strategy and credit at HilltopSecurities Inc. “It’s going to be very well accepted.”

While Puerto Rico debt was largely held before its bankruptcy by traditional municipal holders and individual investors, many bonds migrated over time into the hands of hedge funds that bought at depressed prices in hopes of profiting from a deal.

Any restructuring requires approval from the federal judge overseeing Puerto Rico’s bankruptcy case and still faces obstacles, including objections by Gov. Pedro Pierluisi and other elected leaders to reducing pension benefits of public employees.

The agreement was finalized under the oversight board that has been supervising Puerto Rico’s finances since the territory defaulted. Former President Donald Trump in his final months in office overhauled the board’s membership, installing several of his own selections at a critical juncture in the restructuring.

Justin Peterson, a Trump appointee and former bondholder adviser who joined the board in October, called the settlement a “significant milestone in ending bankruptcy for the people of Puerto Rico”

that “would not have been possible without the flexibility of creditors in reaching a deal.”

Not all bonds covered by the settlement are being treated equally, with fixed recoveries ranging from as high as 80.3 cents on the dollar to 67.7 cents for Puerto Rico’s last sale of debt before its default, a \$3.5 billion issuance in 2014.

The lower recoveries on some bonds reflect arguments by the board that Puerto Rico breached constitutional ceilings on debt in 2012, rendering subsequent bonds invalid and worthless, which bondholders denied.

The settlement, if approved, would end the legal battles that have raged since Puerto Rico filed for bankruptcy in 2017, costing taxpayers in the territory more than \$858 million in fees and expenses for lawyers, bankers and other professionals as of last month. Some rulings stemming from that litigation have undermined longtime assumptions among investors about the safety of some types of municipal bonds, although Puerto Rico’s struggles have been viewed in some quarters as an isolated incident within the typically staid tax-exempt market.

The bankruptcy came after years of heavy borrowing and service cutbacks in Puerto Rico that affected everything from schools to electricity service and pushed many residents, who are U.S. citizens, to depart for the mainland, sapping the tax base and squeezing budgets. The territory’s financial troubles have strained its relationship with Washington and slowed the release of federal aid following the devastating 2017 hurricane season.

Efforts toward an economic revival in Puerto Rico have also been complicated by corruption allegations against public officials and political turmoil stemming from a former governor’s forced resignation in 2019 as well as more recent earthquakes and the continued fallout from the coronavirus pandemic.

Bond recoveries under the settlement are somewhat lower than what some creditors agreed to receive before the pandemic, reflecting the resulting financial hit to Puerto Rico, ratings firm Moody’s Investors Service said.

The board said it expects to file a debt-adjustment plan incorporating the deal in federal court next month. Creditors will have the chance to vote before it can be approved.

The Wall Street Journal

By Andrew Scurria

Updated Feb. 23, 2021 6:40 pm ET

[Puerto Rico Bondholders Cheer Deal Paving Way to End Bankruptcy.](#)

- **Restructuring plan would slash outstanding debt by 61%**
- **Puerto Rico bonds jump in price on details of debt plan**

Puerto Rico’s nearly four-year bankruptcy took a step forward as it reached a tentative deal with creditors to reduce the \$18.8 billion of debt backed by the central government, giving hope the island could exit its insolvency in 2021 after natural disasters, political turmoil and the coronavirus stalled the process.

While the pact would lower Puerto Rico's debt to \$7.4 billion and brings together competing bondholder groups and bond insurers holding more than 60% of its debt, it will need court approval. Governor Pedro Pierluisi doesn't support the plan as he and the island's legislature oppose any cuts to public employee pensions, which a federally-appointed oversight board is seeking.

Still, the agreement moves forward the largest municipal bankruptcy in history and drove up the price of the island's bonds. The oversight board aims to receive court approval of the plan in the fall and conclude Puerto Rico's bankruptcy by the end of 2021. That would help enable the commonwealth to grow its economy and increase jobs on the island.

"There was a lot of concern about if they could get a deal with so much uncertainty and the economic outlook, so it definitely gives much more optimism," Daniel Solender, head of municipal securities at Lord Abnett & Co., said about the debt deal. "No one is going to be happy here, but there has to be a compromise to get this done after so many years."

The deal gives bondholders a \$7 billion cash payment and \$7.4 billion of new general-obligation bonds through a debt exchange. Investors would also receive a so-called contingent-value instrument that would pay off if sales taxes surpass projections.

The oversight board plans to file a debt restructuring plan to the court by March 8. That will include the board's proposal to cut pensions by as much as 8.5%, with those receiving less than \$1,500 a month exempt from such reductions. The changes would help fix a broke pension system that must pay retirees solely from the commonwealth's operating budget as the system is unfunded and owes an estimated \$55 billion to future and current retirees.

Still, Pierluisi and other lawmakers object to any benefit reductions. Their support will be needed as the debt plan advances because the island's legislature would need to approve the sale of the new general-obligation bonds to restructure the existing debt.

"This is part bondholder negotiation and part politics, you have to mesh both of them into the final plan," said Dora Lee, director of research at Belle Haven Investments.

Even with the risk of the court rejecting the debt deal or island lawmakers holding up a plan, prices on Puerto Rico securities jumped after the oversight board released details of the accord Tuesday.

General obligations with an 8% coupon traded Tuesday at an average 77.5 cents on the dollar, up from 74.7 cents on Monday, according to data compiled by Bloomberg. That's higher than the 67.7 cents on the dollar that bondholders would receive for that security in the debt plan.

Since the bondholder payouts include different components of cash, new bonds and potential future sales-tax revenue, investors may be calculating each part of the compensation package differently, which may be boosting prices, Solender said.

They're also looking at how Puerto Rico's restructured sales-tax bonds, called Cofinas, have jumped in price since the commonwealth issued the debt in February 2019 as part of its bankruptcy. A sales-tax bond maturing in 2058 traded at 110.7 cents on the dollar Tuesday, up from 97.4 cents when the securities were first issued in February 2019, Bloomberg data show.

"It's hard not to factor in that experience of Cofina to the outlook for these bonds too," Solender said about the prospect for Puerto Rico's restructured general obligations. "So it's definitely part of the equation in terms of determining what the existing bonds are worth."

By Michelle Kaske

February 24, 2021, 6:38 AM PST

Puerto Rico Reaches Deal to Restructure \$18.8 billion of Debt.

Puerto Rico reached a proposed settlement with bondholders to restructure \$18.8 billion in debt as part of an effort to emerge from bankruptcy, its federal oversight board announced Tuesday.

The proposed agreement with the Financial Oversight and Management Board calls for a 27% average reduction for general obligation bondholders and a 21% average reduction for Public Buildings Authority bondholders, and reduces their claims on some interest payments. If finalized, bondholder debt would be cut to \$7.4 billion.

Holders of more than \$11.7 billion of bonds support the agreement, including traditional municipal investors and monoline bond insurers Assured Guaranty, Syncora Guarantee and National Public Finance Guarantee, while mediation continues with holders of Puerto Rico Government Employees Retirement System bonds, general unsecured claims, monoline bond insurers with clawback claims, and creditors holding other claims against the government of Puerto Rico.

Oversight board Chairman David A. Skeel said in a statement that the agreement puts Puerto Rico on a path to recovery. "I firmly believe this is the best outcome we could achieve in today's economic uncertainty, not only for the people of Puerto Rico but also for creditors who have an interest in Puerto Rico's long-term viability and creditworthiness."

The oversight board will present a restructuring plan next month based partly on the agreement with creditors and other agreements already achieved with a retirees' group and some unions, as well as the outcome of the ongoing mediation with other creditor groups.

Natalie Jaresko, executive director of the oversight board, said in the statement that reducing annual debt service payments combined with a new debt policy enacted last year that restricts incremental debt issuance "to avoid the mistakes of the past" will establish sustainable debt levels and allow Puerto Rico to focus on structural reforms and growth.

"All of this puts Puerto Rico on a path to renewed market access," Ms. Jaresko said.

In a separate statement, several creditor groups with a collective \$8.2 billion in general obligation and PBA bond claims endorsed the proposal agreement, which includes several creditor concessions.

"This widely supported compromise will help Puerto Rico avert years of costly, distracting litigation and finally expedite the island's long-awaited exit from bankruptcy in 2021," they said.

"Creditors have agreed to assume more risk and further align themselves with Puerto Rico's revitalization by taking a portion of their recovery in a contingent value instrument that only pays out if the Commonwealth's economy outperforms the May 2020 Certified Fiscal Plan," they said.

"We firmly believe the new PSA (Puerto Rico Support Agreement) will help Puerto Rico continue to support its 3 million citizens during these difficult times while also laying the groundwork for a much brighter economic future," they added.

by HAZEL BRADFORD

February 23, 2021

Sacramento Sells New Housing Bonds to Profit Off San Francisco Exodus.

- **City is selling \$43 million of debt for new home development**
- **San Franciscans working remotely have migrated inland**

Municipal-bond buyers have a chance this week to profit from San Francisco workers fleeing to lower-cost Sacramento.

The state's capital on Wednesday is selling more than \$43 million of unrated special-tax bonds to help finance infrastructure improvements for an area that may encompass as many as 2,175 single-family homes, 331 multi-family units, 189 senior affordable apartments and commercial and retail space. It's the first such sale for a community known as Northlake that's being developed by a joint venture of Lennar Homes and Integral Communities 9 miles (14 kilometers) from downtown.

Development of the massive housing project near the Sacramento International Airport comes as people flee the pricey Bay Area in search of bigger and cheaper homes and companies such as Salesforce.com Inc., San Francisco's largest private employer, embrace remote work policies even after the pandemic ends.

"If you don't need to be in San Francisco or very near it, it's appealing for some homeowners or potential buyers to move out of an apartment or an expensive condo to a place like this, where you get a single-family home and maybe just more open space," said Terry Goode, a senior portfolio manager at Wells Capital Management. "That's clearly a factor that you want to look at when you're assessing the ultimate success of the development, and whether there'll be demand ultimately for the home."

The sale is the biggest unrated special-tax deal in the municipal market since September, according to data compiled by Bloomberg. Bond buyers are scrounging for returns as Federal Reserve policies help keep yields near record lows. Municipal-bond funds that invest in the riskiest securities — such as unrated debt — pulled in the second-highest amount of weekly cash on record last week.

Most Searched

A 4% coupon bond maturing in 2050 was being offered at 2.83% Tuesday, or 150 basis points more than benchmark, according to a pricing wire seen by Bloomberg News. A bond maturing in 10 years with a 4% coupon was being offered at 2.33% yield, or 155 basis points more than benchmark.

Sacramento's sale Wednesday is for the first phase of the development, which entails 1,137 market-rate single-family homes to be built by the first quarter of 2026, according to bond offering documents. Lennar in January opened model homes ranging from 1,774 square feet (165 square meters) to 3,940 square feet.

The city will start collecting the special tax paid by the landowners this fiscal year at rates depending on the progress of development and the kind of residence, with enough revenue to cover

110% of the debt service every year, according to the document. The city isn't obligated to cover any shortfalls in bond payments.

Sacramento's allure to people chafing under the higher costs in the San Francisco region has intensified during the pandemic, as employees such as those in technology companies are allowed to work remotely instead of in downtown offices. It is California's sixth-biggest city, compared with No. 4 San Francisco.

Sacramento was the most popular search destination for San Francisco residents looking to leave in the fourth quarter, according to online real estate brokerage Redfin. Sacramento's median home price was \$457,000 in January, a 12% increase from the previous year but still about 60% less than the median price in San Francisco, Redfin figures show.

"It could be seen as a win-win from constituents that desire to relocate to our city, but also helps obviously from an economic point of view down the road for the city and the city's finances," said Brian Wong, Sacramento's debt manager.

Bloomberg Markets

By Romy Varghese

February 16, 2021, 10:30 AM PST

— *With assistance by Natalia Lenkiewicz*

American Dream Mall Bonds Gain More Than 20% as Traffic Picks Up.

- **Mega-mall reported \$39 million of sales in fourth quarter**
- **Triple Five Group borrowed \$1 billion to finance mall in 2017**

Municipal bond buyers are wagering on a big recovery for the American Dream.

Bonds issued for the mall and entertainment complex in New Jersey's Meadowlands have returned more than 20% so far this year as consumers come back and investors snap up the riskiest securities.

The mall, which reopened on Oct. 1, last week reported sales of \$54 million in 2020, with \$39 million collected in the fourth quarter. Sales at U.S. department stores grew for the first time in a year last month as consumers spent their \$600 stimulus checks, according to Mastercard SpendingPulse.

"As more stores opened and the vaccine is rolled out, we think that traffic at enclosed malls should rebound, with levels at American Dream continuing to rise relative to comparable malls," Barclays Plc muni strategists led by Mikhail Foux, wrote in a research note Thursday.

Yields on investment grade municipal bonds have plunged to record lows against Treasuries as investors keep pouring billions into mutual funds, spurred by optimism about the economic recovery and the prospect that Congress will extend some \$350 billion of aid to states and local governments. That money has been chasing fewer bonds as the pace of new sales slows down, driving up prices and leading some fund managers to shift into riskier securities to get higher yields.

The bonds issue for the American Dream in 2017 was one of the biggest issues of unrated securities

ever in the municipal market, reflecting the risk associated with the retail industry even before the pandemic struck.

The longest maturity American Dream bonds have delivered 25.8% this year, almost 10 times the return for junk and non-rated municipal bonds, according to data compiled by Bloomberg. On Thursday, \$5 million American Dream bonds with a 7% coupon maturing in 2050 traded at 111.7 cents on the dollar to yield 4.94%. In September the same securities traded at 87 cents to yield 8.2%.

“It’s further evidence that strong cash flows into open-end mutual funds and limited supply is driving investors to buy bonds down the credit spectrum in an effort to pick up yield,” said Robert Amodeo, head of municipals at Western Asset Management Company.

American Dream owners Triple Five Group issued about \$1.1 billion municipal bonds to help finance the complex, which includes an amusement park, water park, ice rink and indoor ski slope. The deal consists of \$800 million bonds backed by payments in lieu of taxes and about \$300 million that are secured by New Jersey grants it will receive if the project meets sales-tax revenue targets

Barclays estimated the mall received about \$2.6 million of 2020 grant revenue to cover expenses and debt service on bonds backed by those payments. While this is lower than \$44 million base case in the bond prospectus, it is above the downside scenario that estimated no revenue in 2020.

The grant revenue bonds, which traded Thursday at a 4.6% yield, are attractive relative to the high-yield muni index, which yields 3.4%, Barclays said.

Barclays has “proprietary” data from cell phones, electronic devices and cars showing traffic going into American Dream picking up, said Mayur Patel, a Barclays muni analyst.

“If mall traffic and sales continue to increase, grant revenues might continue to grow, although they are likely to track the downside scenario for the next few years,” according to Barclays analysts.

Bloomberg Markets

By Martin Z Braun

February 18, 2021, 10:46 AM PST

— *With assistance by Anne Riley Moffat*

[Philly is Facing a \\$450 million Budget Gap and the Pain Won't Stop There.](#)

It could take years for the city to recover from the fiscal impact of the pandemic, and there will soon only be enough money in reserves to run the city for about three days.

Philadelphia officials offered a grim outlook for the city’s finances Tuesday as they warned that the budget Mayor Jim Kenney presents this spring could come with painful cuts to fill a \$450 million deficit.

The pain won’t end there: It could take years for the city to recover from the fiscal impact of the coronavirus pandemic, officials said, and there will soon only be enough money in reserves to run the city for about three days.

The warning came as local and state governments across the country are hoping for relief from a new federal coronavirus relief package. Philadelphia officials expressed optimism about the desperately needed lifeline from Washington but said it won't solve the city's dire financial situation by itself.

[Continue reading.](#)

The Philadelphia Inquirer

by Laura McCrystal

Updated Feb 17, 2021

To Bridge the Digital Divide, Cities Tap Their Own Infrastructure.

The challenges of virtual school have pushed some cities to try new ideas for expanding internet access.

When the pandemic shut down schools in March, it created a new urgency to narrow the digital gap in the U.S. as millions of students struggled to participate in remote learning because they didn't have internet access at home. It also reinforced the reality that the divide doesn't just exist between rural and urban communities, but also within America's largest cities. Some 500,000 households lack reliable connection in New York City, for example; in Chicago, 1 in 5 students don't have broadband, according to data published at the start of the pandemic.

As many local governments have scrambled to secure internet access for children in virtual school, some policies could last past the pandemic. One popular approach in cities like Washington, D.C., and Chicago has been providing low-cost or free service to families who can't afford a broadband subscription, and the tech devices to go with them. Some measures are currently set up to last only a year, while others, like Chicago's, will continue for several years. Recognizing that the digital divide will persist after the pandemic, digital inclusion advocates say there is a need for more permanent solutions.

One approach that's gained traction is for local communities to play a direct role in providing internet service — in many cases by building their own or relying on their own infrastructure.

[Continue reading.](#)

Bloomberg CityLab

By Linda Poon

February 8, 2021, 3:30 AM PST

Minnesota Supreme Court Holds General Contract Disclaimer in Employee Handbook May Not Prevent Creating Contractual Obligations to Pay Out PTO.

Fourteen years ago, in *Lee v. Fresenius Med. Care*, 741 N.W.2d 117 (Minn. 2007), the Minnesota

Supreme Court held that an employer's obligation to pay out unused paid time off ("PTO") to an employee at termination depends on what the employer's PTO policy dictates. The holding was consistent with Minnesota law as it did not require employers to offer any PTO to employees. The issue of whether PTO is owed at time of termination is a question of contract, and employers can set the terms with a carefully drafted policy.

Last week, in [*Hall v. City of Plainview*](#), Case No. A19-0606 (Minn. Feb. 3, 2021), a divided Minnesota Supreme Court held that the employer's PTO policy contained in an employee handbook ("Handbook") could still be an enforceable contract with respect to the PTO policy specifically, although the Handbook repeatedly stated it was not a contract.

The Handbook in question contained several contract disclaimers at the outset, including: "The purpose of these policies is to establish a uniform and equitable system of personnel administration for employees of the City of Plainview. They should not be construed as contract terms." And: "[t]he Personnel Policies and Procedures Manual is not intended to create an express or implied contract of employment between the City of Plainview and an employee."

With the disclaimers, the Handbook also contained the PTO policy which read, in part: "When an employee ends their employment with the City, for any reason, 100% of the accrued unused personal leave time will be paid up to 500 hours, unless the employee did not give sufficient notice as required by the policy." Another section of the Handbook provided that if an employee does not provide 14 days' notice of resignation, the employee is not considered "in good standing" and "may be considered cause for ... denying leave benefits."

In *Hall*, the City terminated an employee who had managed its municipal liquor store for 30 years after the employee refused to "voluntarily resign" in lieu of termination. The City's letter offering the opportunity to resign instructed the employee that if he resigned "with sufficient notice," the City would pay him up to 500 hours of his unused PTO. At that time, the employee had accrued 1,778.73 hours of unused PTO. Because the City ultimately terminated the employee as he refused to resign, the City refused to pay out any of his PTO. The City reasoned that, "due to [the employee]'s failure to provide sufficient notice as set forth in the Handbook," he was not entitled to the PTO payout. The employee sued the City for breach of contract, alleging that the City owed him a PTO payout.

Ultimately, a jury will decide if the employee will get paid for his unused PTO. The Court held that the City's detailed PTO policy may be definite enough to create a unilateral contract, the employee accepted the contract by performing work, and concluded "that this broad and general contract disclaimer language in the Handbook's introduction, in the context of the entire Handbook and the relationship between the City and its employees, is ambiguous as to its applicability to the PTO policy.... If the City truly wanted to preserve the right to withhold accrued PTO compensation from an employee after the employee had performed work for the City while the provision governing payment for accrued PTO was in place, it should have been more precise and clear about that intent." Because the Court found that the disclaimer language within the Handbook was ambiguous with respect to the PTO policy, the case was sent back to the district court for a fact finder to decide the merits of the case ("the question of the impact of the Handbook's general disclaimer on [the employee]'s claim is for a fact-finder to determine").

The Chief Justice dissented, explaining: "I disagree with the majority that the employer's intent to form a binding contract is ambiguous and must be determined by a jury.... In its quest for fairness, the majority has created uncertainty and confusion, which will benefit neither employees nor employers." Justice Anderson joined in the dissent.

Based on the *Hall* decision, employers should review their PTO policies and handbooks to evaluate

what (if any) contractual obligations employers may face, intentional or unintentional. Please reach out to the Jackson Lewis attorney with whom you regularly work with any questions related to your employment or workplace law policies.

Jackson Lewis PC – Gina K. Janeiro and Jessica M. Marsh

February 12 2021

San Francisco-Area Cities Face Precarious Budgets Amid Pandemic.

- **Some cities see revenue fall below estimates for fiscal year**
- **Region vulnerable to losses as companies permit remote work**

San Francisco and several neighboring cities are watching revenue slip more than expected, leaving local leaders grappling with whether the pandemic has permanently transformed their finances.

The effects vary. Oakland must make cuts to close a \$62 million shortfall this year, while San Jose may cover its \$10 million decline in general-fund revenue with reserves. San Francisco faces a \$411 million deficit next year after having largely exhausted one-time measures.

Collectively, the results show that the region, a hub for the technology industry that drove California's economic boom, is struggling with the multiple rounds of state and local orders imposing and relaxing business restrictions to combat the spread of the coronavirus.

The loss of revenue from canceled conventions to fewer lunching downtown workers also underscores the area's vulnerability to the rise of remote work. San Francisco's fiscal analysts last month warned real estate markets like theirs "face an uncertain future" should workers fail to return to their offices as they did before the pandemic. On Tuesday, Salesforce.com Inc., San Francisco's largest private employer and occupant of its tallest tower, said it would permanently embrace more flexible work policies even after the pandemic ends.

That compounds the difficulty facing municipal leaders, who can't predict virus surges and further mandates restricting activities, as they craft budgets. At the same time, companies are still mulling their policies on what kind of workforce and space they should have after the pandemic eases, said Greer Cowan, a research analyst at the Bay Area Council Economic Institute, which focuses on the nine-county region.

"There's so much uncertainty surrounding when it's safe to return to the office and, additionally, both business and employee preference around when they want to return and if they want to return to the office that it makes sense that cities are having a hard time getting a grasp on it," she said.

Municipal-bond analysts are closely watching if anecdotal evidence of workers leaving expensive cities such as New York translates into permanent hits to their economies. Credit rating companies S&P Global Ratings and Fitch Ratings cut their outlooks on San Francisco's ratings to negative from stable, reflecting uncertainty about its recovery given changing work habits and pressure on commercial real estate and tourism.

Here's a snapshot of fiscal conditions by city:

San Francisco:

- \$411 million general-fund deficit in the fiscal year starting July 1
- In the second quarter of fiscal year 2020, sales-tax collections fell 43% compared with the same period a year earlier, hotel taxes plunged 93%, and parking taxes dropped 66%
- “If it is no longer necessary to physically bring workers into downtown offices -- or for those workers to live in the Bay Area -- then the consequences for the regional economy could be severe”: city’s 5-year report

San Jose:

- Collections of transient occupancy taxes from July through December are 74% below the amount collected in the same period of the previous year
- City plans to lower its projected revenue from this tax, which include levies on hotel rooms, to \$5.5 million from \$9 million
- Sales-tax receipts expected to exceed forecast by \$20 million to \$262.5 million
- Online purchases and construction-related activity driving outperformance while other categories are declining compared to same period previous year
- “Due to uncertainty regarding the timing of when a vaccine will be widely distributed, a steep rise in COVID-19 cases during the fall and winter months, and ongoing social distancing requirements, economic conditions are anticipated to continue to be suppressed during the remainder of 2020-2021”: budget update report

Oakland:

- \$62 million general-fund deficit this fiscal year, which ends June 30, driven by police overtime and revenue drops
- Business taxes now forecast for this fiscal year at \$83.25 million, 5% less than expected in budget and 15% below the previous year’s collections
- Transient occupancy taxes now budgeted for this fiscal year at \$10.5 million, 34% drop from forecast and 46% down from previous year
- “We’ve seen, obviously, some of the big tech companies say they’re never going to require their employees to come back. I don’t think that will hold for every industry, but I think we would not be assuming that everybody’s fully back in their seats on July 1”: City Administrator Edward Reiskin in an interview

Mountain View:

- Sales-tax receipts now estimated for this fiscal year at \$18.9 million, 3.5% less than budgeted and 3% less than last year: mid-year report
- Other local levies, including transient occupancy taxes, now estimated this fiscal year 23% less than budgeted and 17% from last year
- “This estimate assumes the earliest recovery period will start this summer for certain categories, such as sales tax and other local taxes, but other revenue categories are not expected to recover until well into the following fiscal year:” report

Bloomberg Politics

By Romy Varghese

February 10, 2021, 10:30 AM PST

Texas Airport Facility Borrows for First Time Since Covid.

- **Austin refinancing will help ease debt burden through 2023**
- **The \$147.4 million taxable offering priced on Tuesday**

For investors betting on air travel's comeback, the municipal-bond-market is ready for you.

A rental car facility at the airport in one of America's biggest boomtowns is selling bonds, the first such debt offering of its kind since the pandemic began.

The Austin, Texas facility refinanced about \$147 million of bonds to help ease debt service payments — giving it more than enough breathing room to stay afloat until the pandemic is over. The deal comes as the U.S. is vaccinating nearly 1.5 million Americans a day, and coronavirus cases across the nation are on the decline.

"Now there's more of a consensus that this part of the economy has made it through a challenging time," said Daniel Solender, director of tax-free fixed income for Lord, Abbett & Co., which is looking at the Austin deal. "Now there's an end in sight. Definitely optimism."

Final pricing for the Austin deal came in with yields between 50 basis points and 160 basis points above Treasuries, reflecting stronger demand for the earlier-maturity debt and weaker demand for securities with the longest due dates, according to data compiled by Bloomberg. That's compared with preliminary pricing wires reflecting spreads between 55 basis points and 130 basis points.

The investment-grade-rated facility is joining dozens of cities, hotels, museums, airports and toll roads that have been using the steep drop in borrowing costs to push off debt payments or cut them by refinancing. That's helped keep distress relatively rare in the \$3.9 trillion market, despite the myriad stresses issuers have faced.

Doug Benton, a senior municipal credit manager at Cavanal Hill, said the strong market conditions are a "silver lining" for borrowers who can ease the financial burden of the pandemic by refinancing. It also shows how far the state and local debt market has come. Less than a year ago, munis were on the precipice of a deep selloff that sent interest rates skyrocketing and scuttled billions in bond deals.

"Now we're one-hundred and eighty degrees from that," he said.

The offering comes amid strong demand for state and local debt. Investors are pouring money into muni mutual funds. Inflows reached \$2.79 billion during one week in January, the second biggest influx ever, and these funds have seen inflows for 13 straight weeks.

The Austin facility is rated A3, four levels above junk, by Moody's Investors Service and an equivalent A- by Fitch Ratings with a negative outlook by Fitch because of the uncertainty around air travel.

U.S. Transportation Security Administration traveler checkpoints have recovered from a low of 87,534 passengers in April, averaging more than 706,000 passengers per day in the first week of February, but the numbers are still far below this period last year, where an average of 2 million passengers passed through airport security.

The lack of travel has had a major impact on the finances of airports and the facilities they run. This

includes rental car facilities, which were already facing pre-pandemic challenges from the rise of ride-sharing services operated by Uber Technologies Inc. and Lyft Inc., according to Bloomberg Intelligence analyst Eric Kazatsky.

Over the past year, credit rating companies have downgraded rental car facility bonds for similar projects located at Charlotte Douglas International Airport, the Hartsfield-Jackson Atlanta International Airport and the Phoenix Sky Harbor International Airport. S&P Global Ratings rates 14 consolidated rental car facilities borrowers with about \$2.8 billion in outstanding debt, according to analyst Todd Spence. The ratings company downgraded the credit rating on all but one of those borrowers in 2020.

“Despite some of the challenges, or issues people are well aware of, I’d be surprised if there wasn’t extreme demand,” Jeff Timlin, a managing director at Sage Advisory Services, said of the Austin deal. “There’s so much money out there that needs to be put to work.”

Bloomberg Markets

By Fola Akinnibi and Amanda Albright

February 9, 2021, 12:06 PM PST Updated on February 9, 2021, 1:53 PM PST

— *With assistance by Natalia Lenkiewicz*

[Miami Pushes Crypto With Proposal to Pay Workers in Bitcoin.](#)

- **Mayor also wants to allow residents to pay taxes with crypto**
- **Miami is exploring investing funds in leading cryptocurrency**

Miami Mayor Francis Suarez proposed paying municipal workers and collecting taxes in Bitcoin, expanding a campaign to promote cryptocurrencies.

The mayor wants to allow the City of Miami’s workers to choose to receive all or a portion of their pay in Bitcoin, according to a resolution passed by the city’s governing commission. In addition, the mayor proposed allowing people to pay all or part of property taxes or city fees in crypto.

Although the commission approved the resolution 4-1, it significantly dialed back its original wording. It only agreed to study the practicality of such steps, rather than taking action, as the original proposal had suggested.

Suarez has been courting Silicon Valley investors and technology companies for months, and adopting Bitcoin is a critical part of that plan. “I think we’re on the cusp of seeing a major titanic shift on this,” Suarez told the city commission. “It’s an industry that’s boisterous, vociferous and growing, and this would send the right signal.”

Suarez also wants the city to analyze the feasibility to invest some government funds in Bitcoin, the resolution said. It’s not clear how much of that is actually possible: Florida statutes have strict limitations on how local governments can invest surplus funds, generally restricting investments to low-volatility instruments such as those issued by the U.S. government. In the past year alone, Bitcoin has shown it can double in price — or lose half its value — in a month’s time.

Suarez doesn’t seem fazed by volatility: Miami, the mayor’s original resolution said, “is committed

to promoting the emergence of Bitcoin as it continues to gain mainstream acceptance.”

Some city commissioners cautioned against embracing Bitcoin without a close study of the risks. “Let’s analyze this before we jump in,” said Manolo Reyes, a commissioner. “Maybe you’re ahead of your time, maybe you’re right, but let’s analyze it.”

New Ideas

Suarez, who is up for re-election this year, has portrayed himself as someone who is willing to consider and promote new ideas. Late in 2020, he started engaging with Silicon Valley technology investors on Twitter, and his efforts to lure them to Miami have become a viral sensation.

While Suarez’s Twitter campaign may have given him new influence, the mayor of the City of Miami doesn’t control the budget or municipal workforce or get a vote on the commission. He asked voters to give him more managerial power, but the initiative failed.

The proposal comes in a week when Tesla Inc. disclosed it had made a \$1.5 billion investment in Bitcoin, a big vote of confidence from the world’s leading electric-car maker. Mike Novogratz, the billionaire founder of cryptocurrency investment firm Galaxy Digital, said in an interview Monday that “it’s the messaging that matters,” even if the investments themselves are relatively small.

In the resolution, the mayor described Bitcoin as an increasingly popular asset for people, corporations and major investors. The plan is part of a campaign to make Miami a city that “embraces new technologies,” the resolution said.

Ken Russell, vice-chairman of the city commission, said he’s “certainly not opposed” to the idea of integrating Bitcoin into the city’s business, but it’s important to ensure “we all know what we’re getting into.”

“What needs to be done is diligence, and not just from the legal perspective,” he said in an interview Wednesday. “It’s not just a currency, it’s a concept.”

Bloomberg

By Jonathan Levin and Michael Smith

February 11, 2021, 2:38 PM PST Updated on February 11, 2021, 7:48 PM PST

[California Statewide Financing Authority -- Moody's upgrades Tobacco Asset-Backed Bonds issued by California Statewide Financing Authority](#)

Rating Action: Moody’s upgrades Tobacco Asset-Backed Bonds issued by California Statewide Financing Authority - Approximately \$61 million securities affected

New York, February 11, 2021 — Moody’s Investors Service has upgraded the ratings of four tranches in the tobacco settlement revenue securitization issued by California Statewide Financing Authority. The complete rating actions are as follows: Issuer: California Statewide Financing Authority (Pooled Tobacco Securitization Program) , Series 2002Ser. 2002A Term Bonds 1, Upgraded to A3 (sf); previously on Aug 1, 2018 Upgraded to Baa1 (sf) Ser. 2002A Term Bonds 2, Upgraded to Ba1 (sf); previously on Jul 26, 2016 Upgraded to Ba2 (sf) Ser. 2002B Term Bonds 1,

Upgraded to A3 (sf); previously on Aug 1, 2018 Upgraded to Baa1 (sf) Ser. 2002B Term Bonds 2, Upgraded to Ba1 (sf); previously on Jul 26, 2016 Upgraded to Ba2 (sf) RATINGS RATIONALE The upgrade actions are primarily driven by further deleveraging and the availability of cash reserves. In addition to the factors discussed above, the rating actions are generally driven by future projections of cigarette shipment volume declines, which is estimated to be 3-5% in the next five years. There is a risk of continued shifts in attitudes towards smoking, as well as further regulation. Tobacco settlement ABS are exposed to social risks that reduce cigarette consumption, lowering the revenue available to repay tobacco bonds. Factors that could accelerate such declines are further changes in demographics and shifts in social attitudes towards smoking. Such trends could also result in further regulation that restricts tobacco use. Furthermore, the marketing of new products that are currently less regulated could expose tobacco companies, who are the obligors in the transactions, to litigation risk. However, because regulation takes several years to come into effect, we view this as a moderate risk at this stage. Exposure to these identified social risks is broadly manageable, or could be material to the credit quality of the bonds in the medium to long term (five or more years). However, it may be less certain that the identified risks will develop in a way that is material to bond ratings. These identified risks have been taken into account in the analysis of the ABS. The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. Our analysis has considered the effect on the performance of corporate assets from the current weak U.S. economic activity and a gradual recovery for the coming months. Although an economic recovery is underway, it is tenuous and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around our forecasts is unusually high. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. PRINCIPAL METHODOLOGY The principal methodology used in these ratings was "Tobacco Settlement Revenue Securitizations Methodology" published in May 2020 and available at https://www.moodys.com/viewresearchdoc.aspx?docid=PBS_1221864. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology. Factors that would lead to an upgrade or downgrade of the ratings: Up Moody's could upgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments decreases, if future arbitration proceedings and subsequent recoveries for settling states become more expeditious than they currently are, or if additional settlements are entered into which benefit the bonds. Down Moody's could downgrade the ratings if the annual rate of decline in the volume of domestic cigarette shipments increases, if subsequent recoveries from future arbitration proceedings for settling states take longer than Moody's assumption of 15-20 years, if an arbitration panel finds that a settling state was not diligent in enforcing a certain statute which could lead to a significant decline in cash flow to that state, or if additional settlements are entered into which reduce the cash flow to the bonds.

February 11, 2021

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at:

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004. The analysis relies on a Monte Carlo simulation that generates a large number of collateral loss or cash flow scenarios, which on average meet key metrics Moody's determines based on its assessment of the collateral characteristics. Moody's then evaluates each simulated scenario using a model that replicates the relevant structural features and payment allocation rules of the transaction, to derive losses or payments for each rated instrument. The average loss a rated instrument incurs in all of the

simulated collateral loss or cash flow scenarios, which Moody's weights based on its assumptions about the likelihood of events in such scenarios actually occurring, results in the expected loss of the rated instrument. Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com. For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity. The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure. These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com. Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at

https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406. At least one ESG consideration was material to the credit rating action(s) announced and described above. The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com. The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com. Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating. Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating

Will Some OC Cities' Proposed Pension Gamble Save Public Money or Risk Greater Losses?

Officials in Santa Ana and Orange think they've found a solution to their skyrocketing employee pension debt crisis.

Much of the crisis is fueled by the expansion of salaries and benefits for police and firefighters, some of the most politically active groups at Orange County city halls.

Though some wonder whether the solution proposed — to issue bonds, pay off the existing unfunded pension liability, and repay the private bondholders at lower interest rates — could open the door to a host of more problems.

They're called "pension obligation bonds." Santa Ana put the idea forward last week and Orange could make a decision on Tuesday. Other cities who have looked or are looking into the issue include Huntington Beach, Anaheim, Placentia, and La Habra.

It's a controversial idea, seen as a money-saving engine by advocates but a risky gamble by critics like former state Senator and OC Supervisor candidate John Moorlach, who warns the bonds are speculative and vulnerable to fluctuating economic conditions:

"City officials think it's a solution, but it could blow up."

Local labor leaders like Monica Suter, president of the Service Employees International Union (SEIU)'s Santa Ana chapter, say it's a necessary measure to ensure those serving in the public sector get the retirement benefits they deserve:

"From the beginning, SEIU 721 members in the City of Santa Ana have been on the frontlines of the pandemic, keeping vital city services running throughout this public health crisis."

Suter added: "Members like these spend a lifetime working for and earning their pensions, a deferred benefit. And, just as it can make sense to refinance a home when interest rates are low, it can be fiscally responsible to address other long-term obligations, similarly."

Orange and Santa Ana are required to meet the pension and benefits commitments they make to their retirees by doling out periodical payments to the California Public Employee Retirement System (CalPERS), which administers the pension plans.

CalPERS calculates how much debt a city owes through a formula weighing factors like the number of a city's retirees and rate of return (net gain or loss) CalPERS sees on the investments the agency makes with some of its money.

Unfunded liabilities for cities occur when the total amount of obligations to future retirees exceed the funds that a city has set aside for those payments over the next few decades.

This liability can also grow if CalPERS falls short on its investments, and if retirees live longer than expected.

Both Orange and Santa Ana, like many Orange County cities, have massive unfunded pension liabilities which increased by hundreds of millions of dollars over the last decade due to factors like, in Santa Ana specifically, pay raises for police officers.

Santa Ana's combined unfunded liability for all employees is around \$707 million, according to a presentation at the council's Feb. 2 meeting by Finance Director Kathryn Downs.

Around \$404 million of that amount comes from the city's pension liability to "sworn safety employees," which includes police officers.

And the interest builds on that liability.

Orange City Council members on Tuesday will decide whether they want to issue a bond not exceeding \$292 million, to pay off what officials say will be 100% of their unfunded liability.

"The most viable option, and the option that has the greatest potential savings, is the issuance of Pension Obligation Bonds (POBs)," staff said in a report attached to the agenda for the City Council's meeting.

Santa Ana officials largely welcomed the idea when given a report on it by Downs, who estimated the city could cut the interest rate they owe to CalPERS in half by issuing the pension obligation bonds.

Issuing a bond could produce annual savings of up to approximately \$3.8 million to the city, according to staff.

Staff there will come back with an actual ordinance at a later date.

"It's a path to save the organization and the city quite a bit of money, realizing these pension debts are continuing to increase," said Mayor Vicente Sarmiento at the City Council's Tuesday, Feb. 2 meeting.

And in a labor-friendly city like Santa Ana, officials indicated that finding a way to save money and pay off the CalPERS debt could send a positive message to workers who look forward to retiring.

"I really do believe everybody deserves a plan for retirement," said Councilwoman Thai Viet Phan at the meeting. "Especially folks who have dedicated their lives to public service."

All city employees also pay varying percentages of their paychecks into their plans, Downs said.

But the idea is met with criticism by some fiscal conservatives like John Moorlach, who say the strategy amounts to a gamble based on a number of factors and — before the pandemic — even tried to get a state bill passed requiring certain pension bonds to go before voters as ballot measures.

Moorlach pointed to the official stance on pension obligation bonds taken by the Government Finance Officers Association, which argues the bonds "involve considerable investment risk, making this (savings) goal very speculative."

"Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated," the association states.

Moorlach said that if the cities stay with CalPERS, they at least are in a flexible position with their "soft" debt to where they could renegotiate future payments should they find themselves in a fiscal predicament.

Additionally, Downs at the Santa Ana meeting said that if the city issued the bonds but CalPERS outperformed its investment return assumptions, "the debt will not decrease."

Though she pointed to the agency's average investment returns over the past several years, which undershot those assumptions.

Downs at the Santa Ana meeting said the city could mitigate the risks involved with pension bonds by issuing a bond of less than 100% of the unfunded debt. For example, she recommended the city issue a bond that didn't exceed 90% of the city's pension debt.

Other options outside of pension bonds, Down said, involve paying down a bulk of the city's liability over a shorter time span to avoid higher payments due to interest rates.

Both Santa Ana and Orange studied the issue through the same financial consulting firm, Urban Futures.

At the end of the day, officials in Santa Ana agreed something must be done.

Required contributions to CalPERS are growing faster than the city's revenues, Downs said, and are estimated to grow more than 40% over the next seven years.

VOICE OF OC

By BRANDON PHO

Brandon Pho is a Voice of OC reporter and corps member at Report for America, a GroundTruth initiative. Contact him at bpho@voiceofoc.org or on Twitter @photherecord.

[Steve Cohen Saves Mets \\$50 Million in Debt Refinancing.](#)

- **Billionaire gives stadium \$50 Million cash injection**
- **Moody's raised Citi Field bond rating ahead of refinancing**

Steve Cohen has owned the New York Mets for three months and Wall Street bond rating analysts like what they've seen so far.

Cohen, a hedge fund manager who paid \$2.4 billion for the team, has bolstered the balance sheet of the subsidiary that leases and operates Citi Field with a \$50 million capital injection, according to S&P Global Ratings Inc. He's moved quickly to sign all-star shortstop Francisco Lindor and pitcher Carlos Carrasco from the Cleveland Indians in an effort to turn around a club that finished tied for last in the National League East last year.

And next week, the Mets plan to take advantage of surging demand for lower-rated municipal bonds to refinance \$540 million of debt issued to fund the construction of Citi Field more than a decade ago. The deal will reduce debt service payments by about \$50 million over the next three years — giving the ball club breathing room to weather the risks of reduced attendance because of the pandemic.

Holders of the new debt will benefit from an increase in the percentage of ticket revenue available to pay debt service by 40%, equating to about \$43 million annually before 2020.

"In a short period of time we have actionable things you could point to that showed the impact of the change in ownership," John Medina, a Moody's Investors Service analyst said in an interview. Moody's raised the ratings on Citi Field bonds one notch to Baa2, the second-lowest investment grade, on Jan. 28.

Strong demand for municipal bonds, coupled with scant new issues and an improving economic picture have driven prices on AAA rated municipal bonds relative to U.S. government securities to record highs. As a result, investors have poured into lower-yielding municipal bonds, pushing their yields down in turn.

Yields on municipal bonds rated BBB fell to 1.71% on Feb. 3, a record low, according to Bloomberg Barclays Indexes. Triple B rated state and local government debt now yields about 1 percentage point more than AAA bonds, the narrowest spread since March and just 0.3 percentage point more than pre-pandemic lows.

BBB Rated Muni Spreads are Close to Pre-Pandemic Levels

"With the vaccines there's some light at the end of the tunnel," said Dan Solender, head of municipal debt at Lord, Abbett & Co. "The money's coming in and the expectation is that credits can only get better from here."

The pandemic led Major League Baseball to cut last year's season to 60 games from 162 and state and local health mandates barred fans from attending regular-season games. Citi Field's revenue plunged to \$28.2 million for the nine months ending Sept. 2020 from \$148.7 million, according to a bond offering document. The stadium collects revenue from advertising, naming rights, and luxury suite premiums in addition to tickets, concessions and parking. The revenue is used to make payments in lieu of taxes, which back the bonds.

In spite of their poor record on the field, the Mets are the sixth most valuable Major League Baseball team, according to Forbes Magazine, valued at \$2.4 billion, and the team ranked 13th in attendance, with 2.4 million. Last year, the Mets missed the playoffs for the fourth straight year.

Cohen "is willing to invest as needed to build a winning organization with a goal of winning the World Series in 3-5 years," according to an investor presentation by Goldman Sachs Group Inc., the underwriter for next week's bond sale.

New York Governor Andrew Cuomo's decision to allow limited fan attendance at two Buffalo Bills National Football League playoff game bodes well for at least some attendance at Citi Field when the season starts in April, Medina said. The rating company projects 2021 attendance at 35% of 2019 levels, reaching 80% in 2022 and 100% in 2023. S&P forecasts the Mets will play in an empty Citi Field through June, or roughly half the season, and then operate at 40% capacity for the remainder. S&P rated the bonds BBB-, one step lower than Moody's.

The bonds that are being refinanced were sold in 2006 and 2009 and carried interest rates as high as 6.6%, according to the offering documents. Under a prior stadium use agreement, only revenue from 10,600 premium seats was retained by the ballpark. That agreement was amended in December so that revenue generated from 31,000 additional seats is available to pay debt. The refinancing will reduce debt service by about \$150 million, according to S&P.

"As the stadium is able to increase capacity to normal levels, and our expectation that fan demand returns to or at least close to pre-virus levels, the project will reap the full benefit of the expanded retained ticket revenue," S&P said.

Bloomberg Markets

By Martin Z Braun

February 5, 2021, 10:36 AM MST

[**Record Refinancing Buys Nassau County Reprieve From Tax Hit.**](#)

- **County selling \$1.1 billion of bonds backed by sales taxes**
- **Joins wave of governments refinancing as yields hold near lows**

Residents of New York's Nassau County, the stretch of Long Island where property taxes are among the highest in the nation, are getting a reprieve, thanks to a rally in the municipal-bond market.

Seizing on interest rates that are holding near the lowest in more than six decades, the county sold \$1.1 billion of bonds Thursday, the largest refinancing in the county's history. The step will pay off previously issued securities, push out looming debt payments, and provide cash to cover budget shortfalls left by the pandemic.

The bond sale will allow the county to "avoid what otherwise would have been a significant tax increase and/or cut to mission critical services," said Adam Barsky, the chairman of the Nassau Interim Finance Authority, the control board that oversees the county budget.

The county of some 1.4 million people is joining a rash of governments that have been refinancing debt to push out or cut their bills after shutdowns drove the economy into the steepest contraction since World War II. In Nassau County, business closures cut sales-tax collections by 4% last year, according to the New York State Comptroller's office.

The drop, while smaller than initially expected, put pressure on the county's budget nonetheless. "It's still a significant drop — and that's where the relief is really going to be applied, to backfill the loss of sales tax," said Barsky, who projected the bond deal will save the county \$285 million this year and \$150 million in 2022.

The bonds are rated AAA from S&P Global Ratings because they are backed by sales-tax receipts that are sent by the state directly to the trustee for bondholders. They sold for yields ranging from 0.26% on debt due in 2023 to 1.64% for some low coupon bonds that mature in 2030, according to data compiled by Bloomberg.

Craig Brandon, co-director of municipal investments at Eaton Vance Management, said that provides a safeguard for investors.

"Investors would be very comfortable investing in this because you're fairly comfortable that you're going to be repaid," he said.

"You've already probably seen the worst case scenario in sales-tax revenues for Nassau County," he said. "I think the coverage only gets stronger in the future as sales taxes go back to their normal level."

Bloomberg Markets

By Anastasia Bergeron

February 4, 2021, 7:00 AM MST Updated on February 4, 2021, 2:59 PM MST

[Fitch: Job Recovery Stalling for Northeast & Midwest U.S. Metros](#)

Fitch Ratings-New York-28 January 2021: Job recoveries in major Northeastern and Midwestern metropolitan statistical areas (MSAs) lost ground between October and November, according to

Fitch Ratings' latest U.S. Metro Labor Markets Tracker.

Job recoveries in Northeastern MSAs have ranged between 55% and 56% since September. Restrictions imposed on restaurants and other non-essential businesses in many Northeastern states could be at least partially responsible for the flat performance during the fall. New York City, in particular, lags the national and Northeast recoveries in recovering just 50% of the jobs lost early in the pandemic. As for the Midwest, Chicago, the country's third-largest MSA by population, has struggled to build momentum. Chicago's jobs recovery has grown by only 2pps since August and employment declined between October and November. Also notable among the Midwest's stagnation is the dip in Indianapolis' recovery rate.

'Recovery rates are likely to remain little changed or decline in the coming months given softening macroeconomic data and high-frequency data, pointing to continued declines in small business hours worked and less mobility across the regions,' said Fitch Senior Director Olu Sonola.

This stagnation comes as the median jobs recovery rate (the share of employment regained from pandemic losses) among major metropolitan statistical areas (MSAs, or metros) improved between October and November 2020, rising to 58% from 55%. The median Fitch-adjusted monthly unemployment rate for major metros, which reclassifies those who had left the labor force since the onset of the pandemic and have re-entered as unemployed persons, was 8.2% in major MSAs during October — notably higher than the median official unemployment rate of 6.3% for major MSAs.

Fitch's latest "U.S. Metro Labor Markets Tracker" is available at 'www.fitchratings.com'.

[N.C. Supreme Court: Quasi-Municipal Corporations Are Immune from State Antitrust and Section 75-1.1 Liability](#)

We have [previously discussed](#) whether a local-government entity can be sued for money damages based on a federal antitrust violation. Today's post discusses a similar question: are quasi-municipal corporations—a type of local-government entity—exempt from liability under section 75-1.1 and North Carolina's antitrust laws? Last month, the Supreme Court of North Carolina [unanimously](#) answered yes to that question.

The cases against Atrium Health

On three occasions ([here](#), [here](#), and [here](#)), we've discussed a group of high-profile antitrust cases involving Atrium Health, the large public-hospital system in Charlotte formerly known as the Charlotte-Mecklenburg Hospital Authority. These cases target "steering restrictions" in Atrium's contracts with insurance companies. The steering restrictions limit an insurer's ability to direct their insureds to healthcare providers other than Atrium. The plaintiffs—insured patients who have received care at Atrium—allege that Atrium's steering restrictions have anti-competitive effects, including that they give Atrium's competitors less incentive to keep costs low and to be more efficient.

One case against *Atrium*, *DiCesare v. Charlotte-Mecklenburg Hospital Authority*, landed in the North Carolina Business Court. The plaintiffs alleged that Atrium's steering restrictions violate multiple provisions of [chapter 75](#), including section 75-1.1 and North Carolina's antitrust laws.

[Continue reading.](#)

January 26 2021

Los Angeles Airport Sells Bonds to Buyers Betting on Rebound.

- **Passengers dropped by 75% last year over same period in 2019**
- **LAX seen 'clearly as one of the winners' in airport sector**

Los Angeles International Airport increased the size of its bond sale Wednesday to about \$900 million, showing investors' confidence in its ability to weather the turbulence from the pandemic-related shutdowns, as well as their eagerness for yield.

At the airport's last sale in August, some buyers balked, leaving the underwriter Goldman Sachs saddled with unsold bonds. This time, though, the new administration of President Joe Biden is pledging speedier shipments of coronavirus vaccines — which were authorized for emergency use in December — and investors are clamoring to own debt from issuers poised for a rebound in a post-Covid landscape.

Given its strong balance sheet before the outbreak, Los Angeles's airport is positioned well to absorb the drops in passengers and revenue, Terry Goode, a senior portfolio manager at Wells Capital Management, said before the sale. He pointed to the airport's projection that it will have ample resources to cover debt service even if it takes five years for fliers to return to pre-pandemic levels.

"If you're going to be participating in the airport sector, LAX is one of your strongest credits," said Goode, who was evaluating the new deal. "I would put LAX clearly as one of the winners."

The airport offered two series of subordinate tax-exempt bonds and one of subordinate taxable debt. Underscoring investor demand, it increased the size of the tax-exempt portions to \$807 million from \$664 million and was able to lower the yield on a 5% coupon tax-exempt bond due in 2051 to 1.87% from 1.97% in preliminary guidance, according to wires viewed by Bloomberg.

Investors are anticipating more federal aid may come for municipal governments and services such as commercial airports in particular, which had already received \$10 billion from a previous stimulus package. The expectation has helped drive more cash into municipal-bond mutual funds and lower yields.

Airport bonds have paid off for investors in the past, with returns beating the overall market five out of the past seven years, according to ICE Bank of America indexes. Meanwhile, issuance of municipal bonds by U.S. airports plummeted by about 50% in 2020 from the previous year, according to data compiled by Bloomberg.

"In today's market, there's a tremendous amount of money flowing into the market, looking for the tax shelters, looking for a higher yield environment and safety that the municipal bond industry offers," said Ted Galgano, senior municipal strategist at UBS Global Wealth Management. "And there's not a lot of products, not a lot of supply. Our trader was lamenting that she can't find airport deals to buy."

To be sure, the unprecedented decline in airline passengers isn't for the most risk averse. Last year, global air traffic dropped 64%, according to Airports Council International. For the Los Angeles

gateway — the world's third-busiest airport in 2019 — passenger volumes declined by 75% in July to November last year from the same period the previous year, according to a presentation to potential investors.

Still, the airport's size distinguishes itself from others. Unlike some hubs, Los Angeles doesn't depend on the fortunes of one or two airlines. No carrier accounted for more than 20% of revenue-generating passengers last year, the presentation showed.

Moody's Investors Service, which has a negative outlook on U.S. airports this year, has a stable outlook on Los Angeles's ratings because of its diverse revenue base. Unlike other U.S. airports, which typically aren't in the top investment grades because of the risk of travel disruptions and reliance on airlines, Los Angeles's rating for senior securities is the company's fourth-highest, Aa2, said Moody's senior analyst Earl Heffintrayer.

"In fact, LA's rating for the senior lien bond at Aa2 is the highest airport rating we have," he said.

Bloomberg Markets

By Romy Varghese and Anastasia Bergeron

January 27, 2021, 10:06 AM MST Updated on January 27, 2021, 3:38 PM MST

— *With assistance by Danielle Moran*

[S&P: California's Fiscal 2022 Executive Budget Cuts Out-Year Deficit Projections By More Than Half](#)

Key Takeaways

- California expects significant near-term windfall revenues thanks to conservative fiscal 2021 budgeting and strong capital gains taxes.
- The state's projected out-year budget gaps have been reduced by more than half, although remain significant.
- Budget reserves are expected to remain strong through fiscal 2023, before declining.
- The budget prudently proposes to spend much of the windfall on one-time items, including measures to alleviate the effects of the COVID-19 pandemic, reduction of previous school funding deferrals, extra retirement fund contributions, and transfers to reserves.
- The near-term budget picture could look even brighter due to recent new federal aid not included in the budget proposal.

[Continue reading.](#)

28 Jan, 202

[Illinois Tax Revenue Losses Lower than Expected During Pandemic, U. of I. Study Finds.](#)

Illinois' loss of tax revenue because of the pandemic was much lower than experts predicted in the spring when COVID-19 first took hold, but "tremendous uncertainties" persist moving forward, a University of Illinois study released Tuesday found.

The pandemic hit state tax revenues hard last spring when a widely restrictive stay-at-home order was in effect, but much of that early loss was recovered in subsequent months, according to the report from the University of Illinois' Institute of Government and Public Affairs.

The initial federal coronavirus relief package Congress approved in the spring sent billions of dollars streaming into Illinois' economy through stimulus checks to individuals and Paycheck Protection Program loans to businesses, acting as a "catalyst for increased spending," the study found.

Based on an analysis of state tax receipts through November, the study found that people "began to adapt their behavior" to what was allowed during the pandemic and "once retail establishments and restaurants began curbside pickup services, sales started to rise."

"There was a steep fall in spending in most categories in April and May, then a recovery toward pre-COVID-19 levels. Spending has not recovered completely, but it is near what it likely would have been in the absence of COVID-19," the authors wrote.

Despite their upbeat conclusion, the authors of the study warned there remains "more than a fair amount of uncertainty" because of the possibility of future coronavirus surges and the timeline for distributing vaccines.

Much of the state's general fund revenue loss in the budget year that ended June 30 was due to extending the income tax filing deadline into July, and "well over half of that revenue loss has been recouped," said Kenneth Kriz, director of the Institute for Illinois Public Finance at the University of Illinois at Springfield and the study's lead author.

Once that delayed income tax deadline passed in July, "revenue was significantly above the model's forecast, returning in August to near the forecasted level."

The pandemic's hit to the state's budget remains significant. The loss to the state's general funds was \$868 million from major revenue sources, the study concluded based on the analysis of state tax receipts. Across all state funds, the loss was \$1.44 billion.

That still falls short of conservative projections from the spring, when forecasters predicted revenue drops of 15% to 20% and the U. of I. researchers said the pandemic could cost the state "billions of dollars and possibly cost tens of billions of dollars."

The state's budget for the year that began July 1 is \$43 billion.

Following the failure at the ballot box in November of his signature policy proposal, a graduated-rate income tax, Gov. J.B. Pritzker warned of "painful" budget cuts on the horizon.

Deputy Gov. Dan Hynes, Pritzker's top budget adviser, said the governor's office made an upward revision of its own revenue projections in November. "And hopefully that continues, but the improved revenues are not going to be enough to close the gap," Hynes said Tuesday.

A separate Pritzker proposal that sought to block a federal tax code change in a coronavirus relief plan from applying to state tax bills, which the administration said would prevent the loss of up to \$1 billion in revenue, failed in the Illinois House earlier this month during the legislature's lame-duck session.

Pritzker is due to introduce his proposal for the state's next budget year next month.

The administration is still looking to Washington for help filling the hole, a prospect that became a little brighter under President Joe Biden and Democratic majorities in both houses of Congress. Republicans have criticized Pritzker and Democrats for counting on federal aid in the budget they crafted last year.

"We don't regret building that into our plan, and if it does not materialize, we're going to have to make those adjustments," Hynes said. "But we didn't want to have to cut billions of dollars in critical state programs either when there was still a possibility that the federal government would provide us some relief."

By JAMIE MUNKS | CHICAGO TRIBUNE

JAN 26, 2021 AT 5:50 PM

[NJ Legislation Allowing Municipalities to Issue Bonds for Passenger Cars Using Renewable Power Sources Clears Committee.](#)

(TRENTON) – Promoting the State's clean energy goals, Assemblyman John McKeon (D-Essex, Morris) sponsors legislation approved Wednesday in the Assembly Environment and Solid Waste Committee that would allow towns to purchase passenger cars and station wagons driven by municipal employees fueled by renewable energy.

The bill (A-2208) would permit counties and municipalities to issue bonds to acquire passenger cars and station wagons that are fueled by battery or equivalent energy storage devices that can be electrically charged. It would allow local governments to spread out the costs of acquiring new passenger vehicles while simultaneously promoting the State's clean energy goals.

Upon committee approval, McKeon issued the following statement:

"Our state is moving in the positive direction toward using clean energy and more efficient vehicles through renewable power. This bill will allow local governments to acquire new passenger vehicles driven by municipal employees while broadening our aspiration for a cleaner and healthier environment."

insidernj.com

January 27, 2021

[Fitch: Improved Revenue Outlook Supports California's Budget](#)

Fitch Ratings-New York-21 January 2021: California Governor Newsom's executive budget proposal for fiscal 2022 benefits from better than anticipated tax collections, as compared to the deep declines assumed in the enacted fiscal 2021 budget, says Fitch Ratings. The proposed budget also prudently allocates higher available revenue to addressing the pandemic while also rebuilding budgetary resilience.

The state now projects fiscal 2021 revenues will be \$28 billion (22.5%) higher than the June 2020 enacted budget estimate, essentially matching the pre-pandemic forecast. General fund revenues, prior to transfers, are forecast to further increase 5.2% to \$161.6 billion in fiscal 2022, \$39 billion (32%) higher than the June 2020 estimate.

The state attributes the improved revenue performance to the unusual nature of the coronavirus-related downturn, in which higher-wage taxpayers have both been protected from job losses and have benefitted from the strong stock market. This has allowed the state's progressive personal income tax structure and taxing of capital gains to generate the higher than anticipated tax revenue. It also reflects a less severe economic downturn than was assumed in the fiscal 2021 budget. The economic assumptions underlying the governor's budget proposal align with Fitch's economic outlook for the U.S., with the state assuming 3.1% real national GDP growth in 2021. However, California's relatively volatile tax structure leaves it vulnerable to wide swings in economic activity.

FISCAL 2021 SUPPLEMENTAL ACTIONS

The governor is requesting early action on several items intended to provide immediate relief to individuals and small businesses considered to be disproportionately affected by the pandemic. These one-time actions include \$2.4 billion to provide \$600 payments to low-income workers, \$575 million for grants to small businesses and small non-profit cultural institutions, and additional targeted relief for other industries, including restaurants and personal services. However, the budget was developed prior to enactment of the December federal stimulus bill, and legislative action is likely to take recent and expected federal actions into account.

The budget also requests immediate action to provide \$2 billion in incentives to schools to re-open as early as February and accelerates repayment of deferrals that were incorporated into the fiscal 2021 budget. Education funding will automatically significantly increase due to the requirements of Proposition 98 in both the current year and the budget year.

SUSTAINABLE BUDGET ACTIONS

As has been the state's practice, the governor takes a fairly conservative approach to using increased revenue by limiting growth in ongoing spending, rebuilding reserves, and paying down long-term liabilities. The executive budget begins to restore the \$7.8 billion draw on the rainy day fund, known as the Budget Stabilization Account (BSA), that helped balance the fiscal 2021 budget. It also provides \$2 billion to continue programs that otherwise would sunset during the coming fiscal year, applies \$3 billion in supplemental payments to reduce retirement liabilities (required under Proposition 2 and above the actuarial requirement), and provides limited additional funding for various policy initiatives.

The proposed budget adds \$7.2 billion to the BSA across fiscal years 2021 and 2022, bringing the balance to \$15.6 billion, or 9.6% of revenues. In contrast to prior economic downturns when the state's reserves were limited, the BSA helped address the anticipated revenue gap as the pandemic unfolded and continues to provide flexibility to address revenue volatility. The budget also allocates \$6.3 billion to other operating reserves.

Fitch anticipates details of the enacted budget will vary from the governor's plan, which will be updated in May to reflect federal actions and any changes in the economy. But, as in recent years, the general approach of limited recurring spending growth, focus on one-time actions, and restoring resilience will likely carry through.

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California Inequality During Outbreak Drives Its Budget Windfall.

- **State expects \$15 billion surplus as pandemic hits poor harder**
- **Reliance on rich for revenue may backfire as firms leave state**

California's budget is benefiting from the disproportionate impact of the coronavirus outbreak that's thrown lower-income employees out of work and onto the streets while highly paid residents who can work remotely are snapping up new homes to ride out the pandemic.

The state, with a progressive tax system that rakes in more revenue when the income of the highest earners rises, expects to collect a record amount from capital gains as wealthy residents reap the rewards of a booming stock market. California has taken in more in sales-tax receipts year to date than it did over the same period last year as people shop online for everything from groceries to \$275 pajamas.

California's reliance on the fortunes of the rich, which led to multi-billion dollar deficits in the past, is allowing it to now project a \$15 billion surplus after officials had previously girded for a \$54 billion two-year shortfall. As Covid-19 infected more than 3 million people and killed almost 35,000 in California, officials there, as in other states now scaling back their initial dire forecasts, failed to estimate the extent of the success of the top 1% amid the pandemic.

"Everything is pointed up for the state of California right now," said Jennifer Johnston, director of research for Franklin Templeton Fixed Income's municipal bond team. "This recessionary period has not impacted high wealth earners. And the state is highly reliant on them for cash revenue. They're generally still employed, they haven't seen the layoffs like we've seen among low income."

California, which levies a top rate of 13.3% on income, is home to more billionaires than any other U.S. state, according to the Bloomberg Billionaires Index ranking of the world's wealthiest 500 people. Nearly half of the state's personal income tax collections come from the top 1% of earners.

Meanwhile, nearly half a million leisure and hospitality jobs in California have been lost year to date, while the typically higher-paying financial activities sector added 4,300 positions over the same period, another sign of the uneven recovery. A survey released in December from the Public Policy Institute of California showed that about 40% households with annual incomes of under \$40,000

reduced work hours or pay in the last 12 months, with a similar share forced to cut back on food.

The state's finances are likely to be buttressed even more as the new Biden administration pushes a \$1.9 trillion Covid relief package that could send more federal aid to the Golden State. That could allow Governor Gavin Newsom and lawmakers to redirect state tax money toward those most in need.

Newsom has proposed tapping the surplus for \$600 checks to 4 million low-income Californians. He also wants to spend \$1.75 billion on housing and homelessness programs and \$2 billion to help schools open for in-person education more quickly.

But the state's flush treasury obscures a disturbing trend: high-profile companies such as HP Inc. and billionaires such as Elon Musk are leaving the state. While businesses and people have for years departed the Golden State for lower-tax locations, the pandemic and the potential of remote work continuing in the future raises concerns that the exodus could speed up and pose a risk to the vibrancy of the world's fifth-largest economy. Indeed, despite the surplus, the state still sees deficits ahead.

"The fact that the state is still running a budget surplus this year reduces the urgency to solve some of these longer-term problems," said Scott Anderson, Bank of the West's chief economist. "I do think the economic pain could grow, the longer they delay these sorts of adjustments. And there could be a bit of a snowball effect."

When asked during his recent budget briefing what he can do to prevent more companies and billionaires from leaving the state, Newsom noted the success of recent initial public offerings of companies based there. He pointed to his proposed budget allocations to education and business grants when pressed.

"The state is still this remarkable, remarkable home to more dreamers and doers than any other part of the globe," the first-term Democrat and businessman said. "There's no state on planet Earth that I'd rather do business in than the state of California."

But for some Democratic lawmakers, more needs to be done to help those hurt most by the pandemic after years of growing inequality. Several members of the Assembly have introduced a bill that would raise the corporate tax rate on certain companies for a dedicated funding stream for homelessness services.

As the pandemic bears down more heavily on lower-income residents, lawmakers will have to make difficult decisions while balancing the budget with deficits projected in the future, said Howard Cure, head of municipal research at Evercore Wealth Management.

"The long-term negative effects of the pandemic, it's going to last for a while," he said. "How willing are you to put in additional monies above the formulas to help all these schools districts make up for it or provide more Internet access or housing needs to help poor people, even though they're not contributing that much proportionately to the state's budget?"

Bloomberg Business

By Romy Varghese

January 21, 2021, 5:00 AM MST

— *With assistance by Jack Witzig*

California Endowment Taps Bond Market for First Time in 18 Years.

- **Health-care nonprofit will use proceeds to fund grant giving**
- **The endowment is borrowing \$300 million with taxable bonds**

The California Endowment, the largest health foundation in the state, plans to offer its first debt sale in nearly two decades to help alleviate some of the financial pressure charities around have been facing due to Covid-19.

The \$3.9 billion endowment plans to price \$300 million of bonds as early as this week to fund grants to nonprofit groups. This is the first time it has sold so-called “social bonds,” though it previously issued \$80.6 million of debt in 2003. The taxable bonds, which will be sold with a corporate identifier, carry a triple-A rating from Moody’s Investors Service and S&P Global Ratings.

The sale comes as other endowments have sold similar debt in 2020 to advance their charitable contributions amid the pandemic and its economic fallout. The Ford Foundation borrowed a record \$1 billion for grants in June, while the Rockefeller Foundation sold bonds in October and the Bush Foundation in November.

“The Covid pandemic has really unmasked any and all manner of structural inequality and health inequality for vulnerable populations in our nation and in California,” Robert Ross, president and chief executive officer of the endowment, said during a telephone interview. “What these dollars are intended to do is for those organizations who are fighting the battles of systems change and policy change, and structural change — these are dollars intended to support them.”

The endowment said the securities carry a “social bond” label because spending of the proceeds will track with accepted guidelines of the International Capital Market Association. It engaged Sustainalytics, a ESG and corporate governance research and ratings company, to provide an outside opinion that the bonds align to social bond principles.

This outside opinion is beneficial as investors “don’t want to buy a bond, put it into a socially designated fund, and then find out later that the proceeds aren’t being used for socially responsible uses,” said Eric Friedland, director of municipal bond research at Lord, Abbett & Co.

Given the endowment’s purpose of giving grants to health-care entities, Friedland said “it’s pretty easy to see that this would fit nicely into a socially labeled fund.” He said his group’s decision to invest will depend on its pricing.

The triple-A rating, the highest rating possible, is given with confidence that the \$300 million debt “is in line with the mission and given they do have assets to more than amply cover any outstanding obligations,” said Phillip Peña, associate director at S&P.

The endowment says it has awarded more than 22,000 grants totaling \$2.9 billion since it was founded in 1996. The endowment was created as a requirement for the conversion of the nonprofit Blue Cross of California to the for-profit WellPoint Health Networks. The sale is the first from the organization for grant-making, inspired by the success of its peers while also seizing on historically low interest rates, Ross said.

“The rates being at historic lows was the foundational rational for doing this at this time,” he said. “Money has never been cheaper to borrow.”

Bloomberg Markets

By Anastasia Bergeron

January 20, 2021, 5:00 AM MST

— *With assistance by Danielle Moran*

Los Angeles Has Been Hammered by Covid. But Its Muni Bonds Are Holding On. Here's Why.

Los Angeles is suffering what may be the hardest Covid-related health and economic hit of any big city. But the city's \$2.6 billion in municipal bonds outstanding, while hardly thriving, appear in decent shape.

Unemployment in the Los Angeles region, at 9.6% in November, was the highest among the five biggest metropolitan areas and 3.2 percentage points worse than the national average. And that was before the surge of infections and deaths in Southern California accelerated into the new year, straining hospitals and morgues and dashing hopes for a rebound in the city's revenue.

Fitch Ratings analyst Alan Gibson last month revised the outlook to negative on Los Angeles' AA issuer default rating, citing "the extensive budget-balancing actions necessitated by the current economic downturn, which have the potential to reduce the city's financial resilience during the subsequent economic recovery period."

The pandemic threatens to reverse much of the progress the city made in the decade since the Great Recession, as it built its rainy-day reserves to almost \$600 million in 2019. With the revenue shortfall for fiscal 2021 at \$700 million, the city is about to pull a quarter of a billion dollars from reserves. Having already agreed to furloughs and early retirement for some city employees, Los Angeles is poised to start layoffs at its 10,000-member police department, a sign of fiscal distress to municipal bond professionals.

"When you see they're starting to cut into a significant number of employees, they're not just cutting fat in the budget," says Tom Kozlik, head of Municipal Strategy and Credit at Hilltop Securities. "They're cutting into the muscle."

Los Angeles' budget woes mirror those of cities, states, and authorities across the nation, as they struggle to fill a trillion-dollar revenue shortfall over three years caused by the pandemic. An unexpected dip in U.S. jobs in December dashed hopes that the U.S. economy will rebound quickly enough to ease the budget pain.

"The revenue decline that the City of Los Angeles has suffered as a result of Covid is multiples more than the decline during the Great Recession," says City Councilman Paul Krekorian, who chairs the council's budget committee. "We're now experiencing the biggest surge [in Covid] in the county. We have no reason to think our revenue is going to get better in the next months."

At the same time, Democratic victories in the Georgia runoffs for the Senate raised expectations that the new Biden administration will be able to enact direct federal aid to help states and cities like Los Angeles avoid layoffs that could cascade into the private sector and prolong the recession. Democrats last year proposed as much as \$1 trillion in aid, an amount that was whittled down to

nothing as Republicans argued the money would amount to a bailout for cities that had mismanaged pensions and finances.

Moody's Investors Service in the midst of the first Covid surge in April revised its outlook on the Los Angeles' Aa2 rating to stable from positive. The city's \$2.6 billion in debt outstanding includes \$585 million of general obligation bonds. It issued \$1.8 billion of short term tax and revenue anticipation notes to bolster liquidity early in the fiscal year.

Moody's cited the city's large and diverse economy, strong management, and relatively modest debt burden. Los Angeles' \$614 million of debt service is a fraction of the \$5.8 billion New York City pays to investors, according to a separate Moody's report. Debt service plus retirement-benefit costs amount to only 22% of revenue, compared with Chicago's 46% burden, the heaviest in the nation. Moody's is still monitoring the situation, and the \$250 million draw on reserves is in line with expectations, analyst Lori C. Trevino said on Jan. 13.

Investors have stood by the city's debt. Based on analysis by Ice Data Services, the price of a Municipal Corp. of Los Angeles lease revenue bond maturing in 2037 has risen to \$122.427 on Jan. 14, from \$120.51 at the beginning of 2020.

"I don't really see L.A. bonds trading much cheaper than the general market," says John Mousseau, head of fixed income at Cumberland Advisors. "This is why cities have reserves and why bonds have debt-service reserve funds—for those times. No doubt federal aid will help post-inauguration."

Barron's

By Stephen Kleege

Jan. 15, 2021 8:39 am ET

[Developer Says Work on Vegas-to-L.A. Line Could Start This Year.](#)

Developers of the proposed \$8-billion high-speed train between Southern California and Las Vegas—a project that has been on financial hold since last fall—have told Nevada regulators that construction, originally planned to start in 2020, could begin this year.

The president of Brightline West said in a Jan. 4 letter to the Nevada High-Speed Rail Authority that construction heading south from Las Vegas could begin in the second quarter of 2021. Last fall, Brightline's parent company, Fortress Investment Group, put the brakes on the project when it was unable to complete financing.

"We are preparing a revised financing plan for 2021 that is expected to include additional equity and a relaunch of the bond sale," wrote Brightline West President Sarah Watterson. The letter cited Brightline's recent issuance of nearly \$1 billion in tax-free bonds to fund an expansion of its existing Florida line as evidence of "improving market conditions and strong interest in private intercity passenger rail projects."

The letter also announced that the company has contracted with Siemens Mobility to provide its Velaro trains for the SoCal-to-Vegas project. Brightline promises one day to link Las Vegas with Los Angeles, its biggest feeder market, with an initial 170-mile train line that would cut the six-hour driving time in half.

“We continue to make progress on Brightline West and remain focused on expanding our plans to connect further into L.A. County,” says Greta Seidman, Brightline West’s director of public affairs. “We appreciate the tremendous support from Nevada and California and are actively engaging officials in both states on our financing and construction plans.”

In 2020, Brightline secured the rights to issue \$800 million in private activity bonds allocated by California and Nevada. The company let those rights lapse last fall, citing financial market uncertainty caused by the pandemic. A bond industry newsletter said at the time that there were no markets for the securities, which were offered with yields running from 7% to 7.5%, about four times what top-rated municipal bonds pay.

The company says the project would create 40,000 construction jobs and 1,000 permanent jobs. It also says the all-electric train, with speeds of up to 200 mph, will keep 400,000 tons of carbon dioxide out of the air each year and remove three million cars from Interstate 15, which is often clogged with travelers on weekends.

Along with the rail project connecting Southern Nevada and Victorville, the company is also discussing additional links to California cities Rancho Cucamonga and Palmdale, where riders can then connect with the Metrolink railway to downtown Los Angeles.

The company’s letter also mentioned it is recruiting for its executive and project management teams in Las Vegas and offered to provide an in-person briefing for the Nevada High-Speed Rail Authority in the near future.

Ninyo & Moore and Terra Contracting have been conducting geotechnical testing and exploratory boring for Brightline near the planned Las Vegas station south of the Strip.

Brightline West is the latest name for the project. It was introduced in 2019 as Virgin Trains USA and included participation by billionaire investor Richard Branson’s Virgin Group Ltd.

It was renamed Xpress West after Branson left the project last year and is now being reintroduced as Brightline West, to better associate with the Florida Brightline train that, before being suspended during the pandemic, traveled from the Miami area to Orlando.

enr.com

by Doug Puppel

January 14, 2021

[Illinois and MTA Bonds Rally on Bet That Democrats Win Senate.](#)

- **States and borrowers may get more federal help with Democrats**
- **New York MTA is already set to receive \$4 billion of fed funds**

Municipal-bonds investors are buying up debt from New York’s Metropolitan Transportation Authority and Illinois, but they have Georgia on their minds.

Some bonds sold by the MTA, the largest U.S. mass-transit system, and Illinois are trading up in price Wednesday as Democrats’ chances of taking back the U.S. Senate increased after Tuesday’s runoff elections in Georgia. Illinois and the MTA are two well-known, financially-stressed

governments that would benefit if Democrats control both chambers of Congress as they are more likely to aid states and municipalities, said Matt Dalton, chief executive officer of Belle Haven Investments, which oversees \$14 billion of municipal debt.

“MTA is probably the most visible entity out there right now that’s in need of cash,” Dalton said. “A lot of the focus within our industry is ‘OK, MTA is probably going to benefit on the back of the Blue Wave.’ So that’s going to be the real power behind seeing MTA spreads tighten.”

Illinois, the lowest-rated state, and the MTA are the only two borrowers that tapped the Federal Reserve’s emergency lending program, which ended on Dec. 31, as low interest rates in the \$3.9 trillion municipal-bond market kept the Fed program attractive only to the most fiscally-challenged.

MTA debt maturing in 2031 traded Wednesday at an average price of 121.1 cents on the dollar, up from an average 112 cents during the prior three months, according to data compiled by Bloomberg.

An Illinois bond maturing in 2030 traded at an average price of 128.3 cents on the dollar, up from 124.8 cents at the end of 2020, Bloomberg data show.

The MTA’s near-term finances got a boost last month as Congress approved \$4 billion of additional federal aid to help close the agency’s 2021 budget deficit as ridership has plummeted. That infusion of cash allows the MTA to avoid drastic service cuts and laying off thousands of employees.

Even with the federal help, the MTA faces an \$8 billion budget deficit through 2024. The MTA was seeking \$12 billion of federal aid as ridership may not return to pre-pandemic levels until 2024.

While federal stimulus won’t help Illinois’ long underfunded pension systems, it could help with other losses connected to the pandemic that are contributing to back-to-back budget gaps.

Illinois is facing a \$3.9 billion deficit in fiscal 2021 and has only \$1.85 billion in its rainy day fund. It borrowed \$1.2 billion in June from the Federal Reserve Municipal Liquidity Facility to close a gap in fiscal 2020 and then another \$2 billion in December for fiscal 2021.

“Illinois has more to gain from potential stimulus out of Congress and more ground to make up,” said Daniel Solender, director of the municipal bond group for Lord, Abbett & Co., which owns Illinois debt as part of \$31 billion in muni assets under management. “The reason it has more to gain is the state and local funding is potentially a direct source of funding for them.”

Bloomberg Markets

By Michelle Kaske and Shruti Singh

January 6, 2021, 9:33 AM PST

[Fitch: New York Transit System Risk Remains Despite Government Stimulus](#)

Fitch Ratings-New York-05 January 2021: The \$908 billion coronavirus stimulus package includes funding that will tide the New York Metropolitan Transportation Authority (MTA) over in 2021, but financial challenges will remain in future years, absent a strong recovery in ridership, according to Fitch Ratings. The infusion of funding should be sufficient to balance the MTA’s 2021 budget, temporarily staving off substantial service reductions and layoffs, but without ridership improvement

or additional aid some cuts will still likely be needed by next year, as the MTA reports a nearly \$8 billion budget gap for 2022-2024.

The bill, signed into law on Dec. 27, includes \$14 billion for transit systems with more than \$4 billion going to the MTA, according to Senator Charles Schumer of New York. The MTA received a similar amount of funding in the Coronavirus Aid, Relief and Economic Security (CARES) Act, passed in March. Without the new aid, the MTA was projecting the need for 40% service reductions in subway and bus systems and 50% in commuter rail lines, resulting in an estimated 9,400 layoffs.

Fitch believes the service and workforce reductions proposed by the MTA would be difficult to implement, given the need for essential workers and others to travel by mass transit. Other gap closing actions, such as increased deficit borrowing, deferring capital spending or use of any remaining reserves could further weaken the authority's credit profile. Fitch downgraded MTA's Long-Term IDR (A-/Negative) multiple times in 2020. To close its 2020 budget gap the MTA tapped more than \$500 million in reserves and \$424 million in capital lockbox funds, and exhausted its borrowing capacity under the Municipal Liquidity Facility with the issuance of \$2.9 billion in deficit financing notes in December.

The additional federal aid does not address the MTA's fundamental ridership problem. Subway ridership was down a drastic 64% as of Dec. 30, 2020 from last year and bus ridership was down 44%. Ridership growth has flattened after an initial boost coincided with the partial reopening of the economy during the early summer, as restrictions on public gatherings and significant work-from-home levels continue. The MTA is forecasting a return to a 'new normal' ridership level — the equivalent of 90% of the pre-pandemic trend — by 2024 in the best-case scenario. Fitch expects ridership to remain highly sensitive to the effective distribution of coronavirus vaccines and widespread inoculation, and the permanency of the transition to remote work and migration to lower-density suburbs.

The MTA fared better in relative terms under the new bill than in the CARES Act. The agency will receive about 30% of transit aid in this bill, compared with only 16% in the earlier one. Transit ridership among the MTA's constituent agencies, responsible for subways, buses and commuter rail, represented 37% of all transit passenger trips in 2018 in the U.S., according to the American Public Transportation Association's 2020 Public Transportation Fact Book.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

S&P Pension Spotlight: Ohio

Key Takeaways

- Ohio's statewide pension plans are moderately funded and are generally affordable for most governments in the state.
- The plans' statutory contribution framework may mitigate any immediate pension cost pressures associated with market volatility, though the dollar amount of contributions will likely have to increase just to maintain current funding levels.
- The plans' funding framework will result in little progress in improving the net pension liability as none of the plans' contributions meet our minimum funding calculation.
- Other postemployment benefit (OPEB) costs and liabilities are manageable across most plans given recent changes from "self-insured coverage" to "stipends" that have controlled costs across the non-education plans.

[Continue reading.](#)

7 Jan, 2021

Michigan Public-Private Partnership Authorization Nears Passage.

A bill package headed to the Michigan governor's desk would authorize certain municipalities to enter into public-private partnerships to get needed bridge work done.

Options to cover road and bridge repairs in Michigan are a constant pursuit at the statehouse. Since taking office, Gov. Gretchen Whitmer has advocated for a 45-cent fuel tax increase.

In the past year, the governor signed into law a bill to have the Michigan Department of Transportation hire an independent consulting firm to study the feasibility of collecting tolls on interstates. The agency is interested in the viability of tolls on Interstates 75, 94 and 96.

Local public-private partnerships

The bill package headed to Whitmer addresses infrastructure needs.

SB1215-1218 would update the state's Home Rule Act to allow cities with moveable bridges, or bascule bridges, to enter into public-private partnerships to cover repairs and construction.

Sen. Ken Horn, R-Frankenmuth, said the legislation is intended to benefit the entire Great Lakes Bay Region. There is no specific municipality identified, but he said it would benefit municipalities like Bay City.

The locale near the base of the Saginaw Bay on Lake Huron has two bridges described by legislators as “in dire need of repair.”

Horn and Sens. Jeremy Moss, D-Southfield, and Wayne Schmidt, R- Traverse City, say costs to make repairs far outweigh what is feasible from the local level.

“Unfortunately, especially after revenues have been even further affected by COVID-19, the city’s repair needs are beyond available funding at all levels of government,” Horn said in prepared remarks.

According to a legislative analysis, Bay City has partnered with United Bridge Partners to work on the city’s two bascule bridges. The Legislature must act before the work can get underway.

SB1215 also would specify that tolls could not be collected on drivers until a bridge is either renovated or constructed. Additionally, toll agreements could be for up to 75 years.

Other bills in the package cover limits on affected projects, how counties approve projects, and public-private partnership tax collection.

In addition to Bay City, bascule bridges in the region are located in Alpena, Manistee, Menominee, Port Huron, and South Haven.

Tolling study

The 2020 law giving the state DOT authority to move forward with a tolling study requires consideration to be given to the economic impact, providing discounts to in-state drivers, toll amounts, and how to pay for the toll. The impact of tolls on out-of-state operators expected to use Michigan interstates also will be considered.

A written report on the firm’s findings will be provided to state officials. At that time, the governor will be authorized to move forward with a strategic plan to implement tolls.

If the state were to decide to move forward with toll implementation, a federal waiver would be required to collect tolls on highways built with federal funds.

Land Line Media

by Keith Goble

JANUARY 4, 2021

[New Jersey to Sell \\$350 Million in Self-Designated Social Bonds.](#)

- **Proceeds from sale will finance school construction projects**
- **Document says state won’t provide social bond use updates**

New Jersey says it’s getting into the social-bond market.

The Garden State’s Economic Development Authority Thursday is selling \$350 million of what officials have self-designated as social bonds through a negotiated offering managed by Loop Capital Markets. It’s the first social bond for the state, according to data compiled by Bloomberg.

[Continue reading.](#)

Bloomberg Markets

By Danielle Moran

January 7, 2021, 6:54 AM PST

California Treasurer Launches Interactive Public Finance Guide.

California Treasurer Fiona Ma's office has gone virtual with the California Debt Financing Guide, making it easier for public finance professionals to find information they need.

Ma announced the release of a new interactive software version of the guide Wednesday, which up until now had only been available as a static PDF document. It's available at www.debtguide.treasurer.ca.gov.

"The new interactive application responds to the needs of present-day finance officers, many of whom require quick answers to complex questions," Ma said.

California has more than 4,400 units of government that tap the muni market to fund projects and look to the guide for answers to questions on how to issue bonds.

The app was developed by the California Debt and Investment Advisory Commission (CDIAC), which Treasurer Ma chairs. CDIAC provides educational resources to public finance professionals in California.

Robert Berry, CDIAC's executive director, told the Bond Buyer when he was named head of the commission early this year that this project was on his short list of goals.

"This version of the Debt Guide enables users to easily search for public finance terms and concepts and then save their personal notes and bookmarks for future use," Berry said in a statement.

The Debt Guide is the 2020 update to CDIAC's flagship resource, the California Debt Issuance Primer.

As designed, the app enables users to create an account to highlight sections, save notes and bookmark sections for future use. In addition, the application can be accessed and viewed on any personal device. The app also has a legal references appendix.

"One of the most important aspects of the Debt Guide app is that it can be accessed on any device, a shortcut to the application can be saved to the home screen of your phone, tablet, or computer and easily accessed when needed," Berry said.

By Keeley Webster

BY SOURCEMEDIA | MUNICIPAL | 12/24/20 01:43 PM EST

New MI Drain Code Amendments Signed into Law.

On Dec. 29, Governor Whitmer signed two Drain Code amendments into law—House Bills 5126 and 5504, now Public Acts 281 and 291, respectively. Public Act 281 does not go into effect until March 29, 2021, however Public Act 291 is effective immediately. Below are summaries of the more significant revisions to the Drain Code:

Public Act 281 (House Bill 5126, Effective March 29, 2021)

Public Act 281 amends Section 135 to allow a county drainage district or intercounty drain drainage district be extended into a new county by a petition signed by five freeholders or a municipality (previously a petition under Section 135 could only be brought by 50% or more of the landowners affected by the drain or the proposed drain). A petition under Section 135 can now be combined with a petition under Section 192 (maintenance and improvement of an intercounty drain).

Public Act 281 also amends Section 154 to separate the notice of letting (advertisement for bids) and the notice of the day of review of apportionments. The notice of letting must only be posted on the drain commissioner or county's website at least 10 days before the bid letting. The notice for the day of review must now be published only once (instead of twice), mailed to property owners, and served (by personal service or certified mail) on the county clerk, a member of the road commission, township supervisors, and city and village clerks at least 10 days before the day of review. The notice for the day of review must now also include all of the following:

- A statement describing how comments on the apportionment of benefits may be submitted and how they will be considered;
- For notices mailed to property owners, the estimated percentage and dollar amount apportioned to that person's land, the estimated annual dollar amount apportioned to that person's land, and the estimated project assessment duration. A drain commissioner or drainage board may adjust any of these without notice or an additional meeting to review apportionments;
- The name or number of the drain;

The address of the drain commissioner or county's website, as applicable, and that the following information will be available on that site:

- A description of the drainage district or a map depicting the drainage district;
- The number and length of sections, average depth and width of each section, and if the drain will be a closed drain, the amount and specifications of all tile or pipe required;
- The location, number, type, and size of all culverts and bridges;
- The conditions upon which the contract will be awarded.

The full text of Public Act 281 is available [here](#).

Public Act 291 (House Bill 5504, Effective Immediately)

Public Act 291 amends various sections of the Drain Code as summarized below:

- Section 31: Requires a drain commissioner to make a list each year by Nov. 1 of the drainage districts that are assessed for maintenance. The list must include the drain name and the amount assessed annually. The list must be posted on the drain commissioner or county's website.
- Section 196: Adds legal fees into the enumerated costs that are excluded from costs of 'maintenance and repair.'
- Section 196: Clarifies that the costs associated with the inspection, maintenance, and repair of a

drain can be financed and assessed for up to 10 years.

- Section 196: Prohibits a drain commissioner or drainage board from levying an additional maintenance assessment if a previous maintenance assessment is ongoing, unless an emergency is declared by the drain commissioner or drainage board, or if the additional expenditure is approved by each municipality that is affected by more than 20% of the cost.
- Section 221: Requires a drain commissioner or drainage board publicly bid all petitioned projects under Chapters 4, 6, and 8.
- Section 221: Requires a drain commissioner or drainage board publicly bid maintenance projects under Section 196 unless the work is performed by (1) county staff; or (2) a prequalified contractor. A drain commissioner or drainage board must maintain a list of all prequalified contractors. The list and the criteria adopted by the drain commissioner or drainage board must be posted on the drain commissioner or county's website.
- Section 434: Increases the principal threshold of borrowing subject to the Municipal Finance Act. Previously, if a borrowing was greater than \$300,000, it was subject to the Municipal Finance Act. Under Public Act 291 the Municipal Finance Act applies for borrowings greater than \$600,000.

The full text of Public Act 291 is available [here](#).

December 31, 2020

Missouri Supreme Court Won't Hear Appropriation Bond Default Case.

The Missouri Supreme Court's refusal to hear the bond trustee's appeal deals a final blow to litigation over whether Platte County bears legal responsibility to repay \$32 million of defaulted appropriation-backed, development bonds, the county's attorneys said.

UMB Bank NA asked the state's high court to hear its appeal of lower court rulings backing the county's position that it was not on the legal hook to cover a shortfall in revenues generated in a special tax district that repay the bonds.

The case was considered a longshot among market participants based on the appropriation backing that does not legally obligate a sponsoring government to honor the pledge with the incentive instead being a government entity's investment grade rating and market access.

But the trustee had argued that the financing agreement tied to the bonds offered a layer of protection that did require the county to make up pledged revenue shortfalls.

"This puts an end to the unfortunate effort by the trustee to force Platte County into paying taxpayer funds to bondholders that it never agreed to pay at the outset," said attorney Todd Graves, who represented Platte County along with Graves Garrett partner Dane Martin. "This case could potentially impact countless bond financing arrangements for counties and cities throughout Missouri."

Platte County leaders decided in 2018 not to cover a \$765,000 shortage in tax monies generated by the Zona Rosa shopping center in Kansas City. Revenues had been pledged to repay a 2007 Platte County Industrial Development Authority issue. Officials worried that the price tag would eventually total more than \$40 million through 2032, forcing tax hikes or service cuts. The estimated shortfall is currently about \$3.6 million.

The decision cost the county its investment grade bond rating.

The county filed a lawsuit against UMB in November 2018 seeking court affirmation that it was not obligated to cover shortfalls because the trustee had threatened its own action. A Platte County Circuit Court judge agreed with the county in a May, 2019 ruling.

The trustee appealed and an appellate court panel on Aug. 25, 2020 upheld the lower court decision that the county bears no legal obligation. The trustee in September sought a rehearing that was rejected and it then asked the Missouri Supreme Court to take the case. The high court rejected the application on Dec. 22.

"The trustee will provide further information on EMMA as it becomes available, continue to advise the committee formed regarding the bonds, and work with counsel to explore and consider its options, all in the best interests of bondholders," UMB wrote in a Dec. 24 notice filed on the Municipal Securities Rulemaking Board's EMMA website.

Though the county won't cover shortfalls, bondholders continue to see some payments from what revenues the shopping center district does generate that are pledged to repayment.

UMB reported in the Dec. 24 notice that it made the full \$724,750 interest payment due on the bonds Dec. 1 but none of the \$850,000 of principal due was paid. "The payment was made up of funds received from the districts but also a draw of \$392,228.49 from the debt service reserve," UMB said. The reserve fund held \$1.69 million following the payment and other fees.

The district sent \$113,000 in revenue to the trustee last January. That dwindled to a low of \$38,000 in June as the COVID-19 pandemic stung sale tax collections. It fluctuated in subsequent months hitting \$95,000 in September, was \$45,000 in November and \$78,000 for December.

A debt service payment of \$724,750 in interest was paid in full June 1. No principal was due. The bonds traded this month around 45 cents on the dollar. About \$29 million is outstanding.

The bonds are not secured by a deed or mortgage and remedies in the event of a default are heavily influenced by judicial actions should a restructuring or bankruptcy be sought.

Municipal Market Analytics did not believe the legal case had much traction but finds the county's willingness to renege on the pledge despite market consequences as troublesome.

"This was an appropriation security, so its payment was always subject to the county's appropriation. But the county's failure to pay debt service speaks to its lack of willingness to honor its agreement with bondholders. Platte County is no longer a good faith participant in the municipal bond market, and none of its security pledges can be considered investment grade or should be sold to retail bond buyers," said Matt Fabian, a partner at MMA.

Since 2009, MMA has seen nine local appropriation credits in Missouri suffer impairment.

"It's a compelling pattern. Municipal investors need to be skeptical about local Missouri governments honoring their appropriation securities if the underlying project struggles, meaning that local GOs in the state are relatively more vulnerable to getting downgraded to junk if their issuer has appropriation debt outstanding," Fabian said.

Moody's Investors Service cut the county's rating - then at Aa2 - to junk in September 2018. Moody's rates the county Ba3 with a negative outlook.

S&P Global Ratings stripped the Zona Rosa bonds of their investment grade rating in September 2018 after county commissioners discussed at a public meeting their opposition to making up future

shortfalls absent a long-term solution.

By Yvette Shields

BY SOURCEMEDIA | 12/29/20

Fitch: Illinois' MLF Borrowing Reflects Deep Challenges, but Options Remain

Fitch Ratings-New York-22 December 2020: Illinois' \$2 billion borrowing from the Federal Reserve's Municipal Liquidity Facility (MLF) illustrates the depth of its budget challenges, but the state also retains fiscal tools to address them, Fitch Ratings says.

The loan provides a short-term solution for a \$3.9 billion fiscal 2021 gap. The governor also recently announced \$711 million in budget reductions, and the 2021 legislative sessions will include further action to address the gaps in 2021 and future years. Available options include further expenditure cuts, revenue increases and non-structural solutions.

Fitch considers Illinois notably more constrained in its fiscal choices than other U.S. states. Illinois' 'BBB-' Issuer Default Rating (IDR) and GO ratings and Negative Outlook reflect Fitch's anticipation of a fundamental weakening of the state's financial resilience given its already tenuous position entering the pandemic. Illinois will be challenged to maintain its investment-grade IDR.

Before the most recent MLF loan, Illinois faced a sizable budget gap the governor estimated at \$3.9 billion on a roughly \$43 billion general funds budget. Pandemic-driven shortfalls reportedly account for about half of the gap with the remainder reflecting underlying structural issues that are a key factor in the state's relatively weak credit profile.

Revenue performance has been well ahead of expectation in May's enacted budget. Both the Governor's Office of Management and Budget and the legislature's Commission on Government Forecasting and Accountability revised revenue forecasts upwards by more than \$2 billion in November, even while assuming slowing economic growth and additional coronavirus mitigation measures.

The revisions are consistent with trends in many U.S. states as economic activity has rebounded faster than originally anticipated from the spring's coronavirus-driven trough, as noted in our on-demand webinar US States' Path to Economic Recovery. Gains have been slowing in the face of rapid virus spread and resultant mitigation responses. Recently enacted federal stimulus should support near-term stabilization of economic activity, and dependent tax revenues, in Illinois and elsewhere (New Federal Aid to Steady State and Local Budgets, published Dec. 2020 on www.fitchratings.com).

The \$2 billion MLF borrowing follows the state's \$1.2 billion MLF cashflow borrowing in June. The state will use proceeds primarily to pay down Medicaid bills, leveraging over \$1.1 billion in federal matching revenue. To address the remaining \$1.9 billion gap for fiscal 2021, the governor announced \$711 million in budget reductions last week, most of which will be imposed unilaterally. The reductions do not include any change in education funding.

Despite failure of the graduated income tax ballot initiative, Illinois retains legal authority to implement various revenue enhancements, though political willingness is uncertain. In February 2019, the Commercial Club of Chicago Civic Committee outlined up to \$6.4 billion in recurring

revenue options, although these estimates relied on pre-pandemic economic expectations.

While the governor has ruled out one suggestion, \$1.9 billion from taxing retirement income, other options including raising the personal and corporate income taxes by 1 percentage point (\$3.7 billion and \$300 million respectively), and a sales tax expansion to more services (\$500 million) could generate significant recurring revenue. Changes to income tax credits could be paired with a rate increase to mimic a graduated income tax rate structure.

Fitch anticipates the legislature will consider revenue options and further expenditure changes in early 2021, along with non-recurring options such as further bill deferrals, fund sweeps or utilization of remaining Coronavirus Relief Funds. While the state retains broad legal capacity, Illinois also has a history of deferring or avoiding difficult fiscal choices and instead implementing short-term, non-recurring budget measures that add to long-term challenges. This repeated inability to address its structural challenges remains a key negative rating consideration.

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[Providence Pension Could Bankrupt Rhode Island City.](#)

The financial condition of the City of Providence, Rhode Island certainly looks precarious. The municipality may need to seek bankruptcy protection in the near future primarily as a result of its over \$1 billion in unfunded pension obligations.

As indicated below, the Mayor of Providence agrees with this dire analysis.

According to the Comprehensive Annual Financial Report (CAFR) of the City for the fiscal year ended June 30, 2019, the Employee Retirement System of the City (ERS) had a funded ratio of only 25.83%. That is, ERS had approximately \$367 million in assets to cover its total \$1.4 billion pension liability.

[Continue reading.](#)

Forbes

by Edward Siedle

Dec 16, 2020

NYC's Whitney Museum Wins Bond-Market Reprieve From Covid Hit.

- **Refinancing pushes out a \$50 million principal payment**
- **Joins borrowers seizing on low rates to soften pandemic's blow**

The Whitney Museum of American Art got a reprieve in the bond market.

The Manhattan art museum, founded in 1931 by Gertrude Vanderbilt Whitney, completed a debt refinancing this week that will prevent a \$50 million principal payment from coming due next year by pushing it to 2031 with newly issued bonds, according to Fitch Ratings.

The refinanced bonds were initially sold in 2011 to help finance its new \$422 million facility located in the Meatpacking District, which opened in 2015 and features about 50,000 square feet for indoor galleries, outdoor terraces facing The High Line, and a 170-seat theater.

The Whitney, which had to close its doors for about six months in 2020 due to Covid-19, is one of the many borrowers that have rushed to the municipal-bond market to seize on low interest rates to cut debt costs or push payments into the future. Even governments, museums and other agencies hit hard by the pandemic have had little trouble selling debt, with cash flowing into the market on optimism that the rollout of vaccines will set off a recovery next year.

"I think the sale went phenomenally well," said Eric Wild, a managing director at Morgan Stanley who co-leads the bank's nonprofit and higher education team. "The Whitney's credit strength, despite the challenge of the pandemic really came through and resonated with investors."

The \$73.3 million deal priced to yield 1.13% for debt due in 2031, about 42 basis points more than AAA rated municipals, according to data compiled by Bloomberg. In 2011, bonds due in 2021 were priced with a 3.7% yield.

The pandemic has been particularly hard on Manhattan cultural institutions that had to close their doors and face the prospect of a tough winter, with New York City Mayor Bill de Blasio warning this week that there could be another shutdown after Christmas. The Whitney, which reopened in September with capacity limited to 25%, is expecting a cash operating deficit of up to \$4.5 million for fiscal 2021, according to bond documents.

The number of visitors has fallen to about 550,000 in fiscal 2020 from 1.19 million in 2019. The museum has had to postpone events like a retrospective of artist Jasper Johns' career, which would have been a boon for attendance, according to the bond documents. It laid off nearly a fifth of its staff in April and had to implement pay cuts.

But donors have also stepped up, with funding from contributions, grants and bequests totaling \$11.2 million in fiscal 2020, even though that's slightly less than it expected to raise before the pandemic, according to bond documents. Fitch, which rated the bonds AA, the third-highest level of investment grade, pointed to the stability of the donor base in a report this month.

Since reopening in September, locals have kept the galleries relatively busy, with New Yorkers representing about 75% of visitors, compared with about 31.5% over the same period in fiscal 2020.

The bond deal was three times oversubscribed, helping cut yields by three basis points and adding to the museum's bond investor base, including accounts focused on environmental and socially-beneficial investments, said Luke Hale, director of the municipal syndicate desk at Morgan Stanley.

Beyond big issuers like the city itself or New York's Metropolitan Transportation Authority, "investors are also willing to pay special attention for the diversification benefits of adding a security like Whitney Museum to their portfolio," said Gabriel Diederich, a portfolio manager at Robert W. Baird & Co.

"The pricing is indicative of New Yorker's hunger for tax-exempt income," he said.

Bloomberg Markets

By Amanda Albright and Fola Akinnibi

December 16, 2020, 10:43 AM PST

[New York's MTA Forms Underwriting Groups for Debt Sales.](#)

- **Jefferies boosted to senior manager from co-senior manager**
- **Transit agency last updated underwriting pools in 2016**

New York's Metropolitan Transportation Authority implemented a new pool of underwriting firms to work on its bond and note sales as declining revenue and ridership challenge the agency's finances.

The MTA's board approved the new underwriting appointments during its meeting on Wednesday. The agency, the nation's largest mass-transit provider, is a major borrower in the \$3.9 trillion municipal-bond market, with \$44.6 billion of outstanding debt as of Nov. 27.

Bank of America Securities, Goldman Sachs & Co., JP Morgan Securities, Jefferies, Ramirez & Co., and Siebert Cisneros Shank & Co. will serve as senior managers for the MTA, according to board documents posted on its website.

The MTA elevated Jefferies to the senior manager group from its co-senior managing pool. Citigroup Global Markets will serve as a co-manager, after previously working in the senior manager group, according to board documents.

Citi, along with 14 other firms, will form the MTA's co-managing pool. Of the 21 businesses in the senior managing and co-managing groups, nine of them are owned by women, minorities and veterans.

The MTA recommends the groups stay in place for three years, or until the agency completes its next request for proposals. The MTA last updated its underwriting group in September 2016.

Bloomberg Markets

By Michelle Kaske

December 16, 2020, 5:00 AM PST Updated on December 16, 2020, 9:29 AM PST

A Public Utility May Not Qualify as a “Public Utility” - Nossaman California Eminent Domain Report

The Refugio Oil Spill in 2015 resulted in not only impacts to a highly diverse stretch of California’s coast, but also years of associated litigation. In a recent [California Court of Appeal opinion](#), *State Lands Commission v. Plains Pipeline, L.P.*, No. B295632 (Nov. 19, 2020), the court held that the judicial doctrine establishing that public utilities do not owe the public a duty to provide their services continuously and without interruption did not apply to Plains Pipeline, L.P. and its affiliates (collectively, “Plains Pipeline”) on the ground that despite being a public utility, it did not “deliver essential municipal services to members of the general public.”

Background

The burst pipeline that led to the Refugio Oil Spill previously served as a connection between offshore facilities and refineries for a few other oil companies. As a result of the closure of the pipeline, one of the oil companies stopped production, quitclaimed its lease back to the State, and halted its royalty payments to the California State Lands Commission (“Commission”). As a result, the Commission was left with loss of royalties and alleged that upkeep and maintenance costs after the shutdown amounted to recoverable property damage. It therefore brought suit against Plains Pipeline. The trial court agreed with Plains Pipeline’s argument that, as a public utility, it was exempt from liability for interruption of service based on the long-standing rule that public utilities owe no duty to provide uninterrupted service, first recognized in *Niehaus Bros. Co. v. Contra Costa Water Co.* (1911) 159 Cal. 305.

Appellate Court Opinion

The California Second District Court of Appeal reversed and instead held that Plains Pipeline was not exempt from liability because the public utility rule was not applicable. In so holding, the Court construed prior case law applying that doctrine to be limited to situations where the “utility directly serves members of the general public.”

The Court held that Plains Pipeline did not qualify under the public utility doctrine because it concluded that Plains “does not deliver essential municipal services to members of the general public.” This rationale was based upon the Court’s belief that Plains Pipeline “transport[ed] oil to a private entity for commercial purposes.” In reaching this result, the Court declined to follow a recent decision by the Ninth Circuit applying the same doctrine to bar the same tort-law claims by the oil company that had ceased operations and quitclaimed its lease back to the state. (See *Venoco, LLC v. Plains Pipeline, L.P.* (9th Cir. 2020) 814 Fed. Appx. 318.)

In making such a decision, the Court declined to recognize a blanket immunity to all public utilities for service disruptions. Instead, the Court held that merely being a public utility with rates set by a regulatory agency was insufficient for purposes of asserting immunity against liability for service disruptions – such immunity stems from the provision of “essential municipal services” to the general public.

The dissent warned that “the majority casts doubt on more than a century of cases holding public utilities exempt from liability for interruptions to service,” and “gives rise to more questions than it answers.” Thus, while seemingly narrowing the public utilities exemption, this opinion may actually result in increased litigation as parties attempt to decipher this new requirement.

December 18 2020

[Why Chicago Should Start a Public Bank.](#)

Arresting poverty, inequality and the racial wealth gap requires this genuinely transformational tool.

As Chicago contemplates a COVID-19 economic recovery plan, the city cannot afford to think small. For too long, civic and business leaders have relied on corporate philanthropy, tax credits, and market reforms to recover from crises. These tools work only on the margins, which is why they invariably fizzle.

Arresting poverty, inequality and the racial wealth gap requires a genuinely transformational tool: a public bank.

Why do we need a public bank? Banks create money when they lend. This superpower is the cornerstone of economic development. Loans stimulate economic growth, increase property values, and build wealth — and we can harness this power to benefit all communities.

[Continue reading.](#)

The Chicago Sun Times

by Daniel La Spata, Matt Martin, Robert Peters and Ameya Pawar

Dec 7, 2020

[MTA Borrows \\$2.9 Billion From Fed Before Window Closes.](#)

- **Subway operator is one of just two to tap muni credit line**
- **Agency is using short-term borrowing to cope with revenue drop**

New York's Metropolitan Transportation Authority borrowed \$2.9 billion from the Federal Reserve's emergency credit line for states and local governments, marking the second time the transit agency has turned to the central bank as it contends with a steep drop in ridership from Covid-19.

The transit agency sold payroll mobility tax bond-anticipation notes with a 1.33% coupon for those maturing in 2023 to the Fed's Municipal Liquidity Facility, according to data compiled by Bloomberg. Aaron Donovan, a spokesperson for MTA, confirmed the sale in an email on Thursday.

The MTA has turned to short-term borrowings to close the budget gaps created by the pandemic and it seized on the chance to borrow from the Fed before the little-used credit line expires at the end of the month. The agency has warned that it will have to slash subway and bus service by 40% and chop commuter rail service by half if it doesn't receive aid from Washington. Fares and tolls will increase and roughly 9,300 jobs will also be eliminated.

The Fed's \$500 billion municipal lending program was designed to serve as a lender of last resort for cities and states to ensure they could still raise cash if the bond-market froze up, as it did in March amid panic about the fallout of the pandemic. But it has barely been used because it charges high penalties, leaving the public market a better deal for virtually all local governments. Three-year benchmark municipal debt yields just 0.13%, according to Bloomberg BVAL.

The MTA — and the state of Illinois, the only other one to borrow from the Fed, based on central bank data last month — is a rare exception. Investors still demand high yields on the MTA's bonds because of the agency's financial strains. Some MTA debt due in 2023 traded at a nearly 2.2% yield on Thursday, about 2 percentage points higher than AAA rated bonds.

Bloomberg Markets

By Amanda Albright, Michelle Kaske, and Danielle Moran

December 10, 2020, 12:19 PM PST

[New York City Is Selling Bonds. Fitch Ratings Just Downgraded Its Credit.](#)

New York City is planning to sell \$1.5 billion of bonds next week to refinance maturing debt. And two ratings firms have warned about the city's credit ahead of the sale, citing the potential for long-term fallout from the coronavirus pandemic.

The bonds, which will be sold with maturities from one to 16 years, are being issued to refinance existing debt. The sale is happening at a vulnerable time for the city, as Covid-19 cases start to rise and officials weigh closures of schools and businesses.

Declining sales and tax receipts are responsible for a 9.1% decline in the city's revenue forecast for 2021, about \$6.5 billion less than it expected before the pandemic began, according to marketing documents for the Dec. 16 sale. Notably, property taxes are expected to only be about 1% below original projections and real estate taxes made up about 47% of the city's tax revenue in 2020.

"The city has sound independent legal ability to adjust property tax rates and a variety of fees and charges to offset the modest revenue declines expected in a typical economic downturn," Fitch Ratings said in a note downgrading the credit late Tuesday. Still, "rates for other important revenue sources (mainly income and sales taxes and state aid) are not within management's independent control."

Fitch cut the city's credit rating by one notch, to AA- from AA, leaving it with its fourth-best rating, and six tiers above junk. The move reflects the firm's "expectation that the impact of the coronavirus and related containment measures will have a longer-lasting impact on New York's economic growth than most other parts of the country."

That move follows S&P Global Ratings' decision on Tuesday to assign a "Negative" outlook to the city's bonds, though it kept its AA rating on the securities.

New York City is also under pressure because of the potential for mass-transit service reductions, according to S&P. The Metropolitan Transportation Authority has said it might need to cut service and lay off workers if it doesn't receive federal aid, but it isn't clear when such a relief package might be passed. The MTA is tapping the Federal Reserve's municipal liquidity facility—closing at

the end of this year—to help cover a sizable budget deficit this year and next.

The outlook implies a “one-in-three chance” that the rating will be downgraded over roughly the next two years, S&P said in its note.

“The negative outlook reflects our opinion of uncertainties, such as a recent uptick in the virus transmission rate that could negatively affect the city’s financial forecast, the trajectory for global tourism trends and additional federal stimulus funding for state and local governments, service reductions at the [MTA] that could affect the economic recovery within the region, and weakness in property tax values that will not be evident until fiscal 2023,” S&P analyst Nora Wittstruck said in a statement.

Barron’s

By Alexandra Scaggs

Dec. 9, 2020 4:11 pm ET

Illinois’s Bond-Market Penalty Hits Lowest Since Pandemic Crash.

- **10-year yields hover around 2.8%, down from over 6% in March**
- **Lowest-rated state benefits from hunt for higher yield debt**

No state is reaping the bond-market benefits from the promised end of the pandemic more than Illinois.

The state, whose bonds tumbled early this year on speculation it would become the first stripped of its investment-grade credit rating, has since seen its bonds rally back as investors plow into higher-yielding debt on speculation the financial blows of the shutdowns won’t be as bad as once feared. That’s driven down the yield on Illinois’s 10-year bonds from more than 6% in March to about 2.8%, reducing the yield penalty investors are demanding to the smallest in nine months, according to Bloomberg’s BVAL indexes.

The drop reflects the broader optimism among investors and shows how the Federal Reserve’s promise to keep interest rates low has cut the financing costs for governments. Connecticut’s and California’s yields have drawn closer to the benchmark, too, as their tax collections stand to gain from this year’s stock market surge. Even the water utility of the still bankrupt territory of Puerto Rico borrowed \$1.4 billion this week for yields of 3.2% on those due in five years.

“During the spring when the pandemic hit, Illinois got hurt worse than other states because they have less margin for error with their budget,” said Daniel Solender, director of the municipal bond group at Lord, Abbett & Co. LLC, which holds Illinois debt as part of \$31 billion in municipal assets. “Of the states, Illinois is benefiting the most from the recovery of the lower quality part of the municipal bond market.”

The expected rollout soon of vaccines in the U.S. has helped buoy optimism that an economic recovery is on the way even as an impasse in Congress over another stimulus measure threatens to withdraw support that has helped states to weather the slump.

In Illinois, the state increased its revenue estimates for the current fiscal year by about \$2.3 billion

as sales- and income-tax collections outstrip previous expectations, according to a November report by the Commission on Government Forecasting and Accountability.

But Illinois still has a bond rating just one step above junk, partly due to its persistent budget deficits. It has a \$141 billion unfunded pension liability, a \$7.9 billion bill backlog, and is the only state that has turned to the Fed's emergency lending program for governments that are facing high interest rates in the public market.

Gabe Diederich, a portfolio manager at Robert W. Baird & Co., said the drop in Illinois's bond yields shouldn't be interpreted as a sign that investors think the state has addressed its financial challenges.

Investors searching for yields "are forced to cast a wider net" to issuers such as Illinois and New Jersey, said he said.

Recent deals by the Puerto Rico Aqueduct and Sewer Authority and Fortress Investment Group-backed passenger railroad Brightline Holdings LLC bonds also show "demand for spread," he said. It "feels like there is a recovery trade taking place."

Bloomberg Markets

By Shruti Singh

December 11, 2020, 11:13 AM PST

[Fortress Returns to Muni Market, This Time For Florida Train.](#)

- **Firm's \$950 million offering follows \$2.4 billion failed sale**
- **Planned buyback is helping to lift prices of existing bonds**

Less than two months after failing to sell \$2.4 billion of unrated municipal debt for a Las Vegas tourist train, Fortress Investment Group is back in the market — this time with a smaller deal for its inaugural rail in Florida.

Through its company Brightline Holdings LLC, Fortress on Thursday is planning to sell \$950 million of unrated tax-exempt debt, with proceeds financing the train's extension to Orlando from West Palm Beach. Last year, it sold \$1.75 billion for the country's first new privately financed intercity passenger rail in a century, launched in 2018 along Florida's east coast.

The train missed passenger and revenue forecasts even before the coronavirus pandemic forced it to suspend operations in March. But in this offering, the company touts its plans for a new station at Walt Disney World property near Orlando and three more in the works along its initial line from Miami to West Palm Beach. And it says more revenue is likely from fees paid by Miami-Dade County, which wants to use the corridor for a separate commuter service.

It projects 9.9 million passengers and \$792 million in revenue in 2024, its first full year of complete operations, or almost four times the average revenue per passenger seen in 2019.

This sale comes after Fortress in late October pulled the deal for its proposed rail to Las Vegas that failed to attract enough interest following weeks of investor pitches even after it was downsized from \$3.2 billion. The postponement was a "positive" for the Florida train, said John Miller at

Nuveen LLC, which holds 80% of the bonds sold for it. Before Fortress offered the bonds for the Las Vegas venture, Miller had said he had wanted to see the \$950 million deal converting short-term securities sold in 2019 into long-term debt first.

The new bonds maturing in 2049 were being offered with a 7.375% coupon, a 7.75% yield and a price of about 95.73, according to a preliminary pricing wire viewed by Bloomberg Tuesday. That's higher than the 94 cents on the dollar reached by an existing bond on Dec. 4, according to data compiled by Bloomberg.

The Florida train still has potential after the coronavirus pandemic is over and the full line is running, said Miller, head of municipal investments at Nuveen, which holds about \$1.4 billion of the bonds sold for the project under the name of Virgin Trains USA.

"This is essentially a construction project until it's finalized," Miller said. "The long-term popularity of the route, which will be seen in 2023, the long-term popularity of Florida for both a destination and increasingly a place to live, the long-term traffic trend — those are all unchanged."

Fortress has also dangled a sweetener for investors: it's willing to buy back \$250 million of the existing Florida bonds at par, contingent on this week's deal getting completed. It had tried that with the Las Vegas deal without success, but after this buyback offer was made last week, prices of some of the thinly-traded bonds rose to the highest since March.

Heavy Demand

The \$950 million deal, which comes amid heavy demand for high-yield securities, will test how far investors will go for juicier returns. In 2019, buyers of the Fortress bonds weighed more typical risks such as whether passenger estimates would materialize and construction would proceed as planned. Now, investors have those risks, plus uncertainty over whether and when tourism will bounce back after the Covid vaccine, said Terry Goode, a senior portfolio manager at Wells Capital Management.

"In this particular environment, there's probably even more uncertainty around whether that ridership will be there and how soon it will be there," Goode said.

Last year, 1 million passengers rode the Florida railroad, half the number estimated. In addition, the system was supposed to earn \$37 of total revenue per passenger in 2019; instead, it was an average of about \$22. In an online presentation, the company said it had "strong momentum" and was on track to carry 2 million passengers this year before Covid.

The train is expected to reopen for service in the third quarter next year, bond documents show. Construction of the 168-mile extension to Orlando International Airport has continued amid the pandemic, and service is slated to start in 2022. The station at Disney Springs, a retail and entertainment complex a mile from the theme park, is projected to open in 2023.

Second Run

While he's a "bit skeptical" about the train's latest forecasts, Jason Appleson at PT Asset Management said the company "has made some very good improvements." The buyback offer shows Fortress is "willing to stand behind the project," said Appleson, who helps manage about \$2.5 billion in municipal debt, including Fortress bonds.

Success in Florida could facilitate a second run at issuing bonds for the Las Vegas venture. California Treasurer Fiona Ma said she expects Fortress to return in the first quarter next year to request a smaller amount of bonding authority from the state.

"The focus on Vegas was too early," Miller said. "At some point next year, I think they would have a better chance of parlaying that success story in Florida into a new issue."

Bloomberg Markets

By Romy Varghese

December 9, 2020, 4:00 AM PST

— *With assistance by Danielle Moran, Natalia Lenkiewicz, and Bert Louis*

[California City That Sold Pension Debt Now at Fiscal Brink.](#)

- **West Covina plumbed reserves to meet costs, state auditor says**
- **City has no recovery plan and risks bankruptcy, audit says**

West Covina, California, which sold \$204 million of pension bonds in July, is at the fiscal brink because of its ineffective management and raiding of reserves, according to a report Tuesday by State Auditor Elaine Howle.

The southern Californian city of about 105,000 residents helped cover salary and benefit costs for its public safety workers by siphoning from reserves, halving its year-end balance in fiscal 2019 to about \$10 million over four years, the report said.

The city, which has about \$227 million in outstanding municipal debt, has made "questionable" financial decisions, has likely understated the impact of the coronavirus pandemic and doesn't have a fiscal recovery plan, raising the risk of bankruptcy, according to Howle's report.

"West Covina is at high risk of being unable to meet its future financial obligations and provide effective city services," the audit said. "If West Covina is unable to resolve its structural deficit, it risks becoming embroiled in the lengthy and complex process of declaring municipal bankruptcy."

In July, West Covina's financing authority sold \$204 million of taxable lease-revenue debt rated A+ by S&P Global Ratings, with the top yield of 3.89% for a bond maturing in August 2044. A bond due in August 2038 traded Monday at a 3.12% yield, according to data compiled by Bloomberg.

Proceeds of the sale went to paying down the city's unfunded pension liability, which would initially reduce its annual pension obligation to the California Public Employees' Retirement System. But that leaves the city on the hook for required debt payments that gradually increase every year by 2044 and still at the risk of higher pension bills should the retirement system underperform its target and require more from municipal governments to make up the difference, the audit said.

West Covina plans to sell land and use the proceeds to pay down its debt obligations, according to the report. But, such "large one-time revenue sources will be insufficient on their own to reverse the city's negative financial trend and rebuild its reserves," it said.

City Manager David Carmany said in an interview that he and the finance director were brought in recently to address the city's fiscal issues. With public safety expenses accounting for about 80% of West Covina's general fund, Carmany said that officials are negotiating with unions to help defray the burden, and police officers agreed to contribute more toward their pensions. The city may also disband the fire department and instead contract with Los Angeles County for its fire services, a

decision that the council may make early next year, he said.

"We are aggressively exploring all options," Carmany said. "This community is going to be facing some tough choices."

Bloomberg Markets

By Romy Varghese

December 1, 2020, 11:25 AM PST Updated on December 1, 2020, 2:43 PM PS

[Illinois Plans to Borrow Another \\$2 Billion From Federal Reserve.](#)

- **It comes after state already borrowed \$1.2 billion from Fed**
- **Fed's municipal lending program is set to end Dec. 31**

Illinois plans to borrow an additional \$2 billion from the Federal Reserve in an effort to prop up its already-struggling finances as the state's bills rise amid the pandemic

It would be the second time the worst-rated state has borrowed through the central bank's Municipal Liquidity Facility, an emergency lending program for state and local government issuers. Illinois already borrowed \$1.2 billion from the Fed during fiscal year 2020 to cover pandemic-induced losses, and has since repaid \$200 million of that loan, according to the governor's office.

"Short-term borrowing is a short term band-aid to address the urgency of a short-term problem like one caused by a pandemic," Governor J.B. Pritzker said during a virtual press conference on Wednesday.

Illinois is the only state to tap the Fed's borrowing program so far and is at risk of seeing its debt cut to junk. The pandemic worsened Illinois's already strained finances: the state is struggling with \$137 billion of pension debt and \$7 billion of unpaid bills. Illinois is projecting a fiscal 2021 budget gap of about \$3.9 billion and deficits are expected to continue through 2026, according to a Nov. 13 forecast from the Governor's Office of Management and Budget.

Yield Penalty

Investors have long punished Illinois for its fiscal woes, boosting the penalty the state pays to borrow from the bond market. Illinois 10-year general obligation bonds yield about 2.77 percentage points more than benchmark debt, the highest of the 20 states tracked by Bloomberg.

The state still has market access, but it's not a surprise that officials are turning to the Fed, said Daniel Solender, head of municipal securities at Lord Abbett & Co., which manages \$30 billion of state and local debt, including Illinois bonds.

"It makes sense to use it while they can," said Solender. "The reason they're using the facility is because the cost for them in the market, it's higher for them than other states."

Spending Cuts

The decision comes after Illinois voters rejected a ballot measure that would have let the state raise taxes on its wealthiest residents, a key component of Pritzker's plan to balance the budget. Since the

failure of the graduated income tax proposal, Pritzker, a billionaire Democrat, has warned of potential spending cuts for public safety, education and health services.

Pritzker said the new borrowing is less than half of the \$5 billion authorized, and that it would be “irresponsible” to saddle the state with the full amount. He said the state plans to repay the debt “as early as possible.”

“The \$2 billion is necessary given that this targeted borrowing will allow us to stabilize Illinois’ health care system in the middle of a global pandemic and a COVID-19 spike here in Illinois,” Illinois Comptroller Susana Mendoza said in an emailed statement.

Mendoza plans to use the loan to pay medical bills for which the state receives federal matching dollars and also to avoid late-payment interest penalties, she said. The borrowing will be repaid over a three-year period and any new federal stimulus will be earmarked to repay the loan, according to Mendoza.

Dec. 1 is the last day for state and local governments to notify the Fed of their intent to tap the program before it expires on Dec. 31.

Bloomberg Markets

By Nic Querolo and Shruti Singh

November 25, 2020, 2:56 PM PST

Pittsburgh Sports Authority Bond Rating Slashed by S&P.

The municipal authority that owns Pittsburgh’s pro football, baseball and hockey stadiums had its ratings cut down two notches, from A-plus to A-minus, by S&P Ratings to reflect “a steep drop in pledged hotel tax revenue, a direct result of the severe toll of the pandemic,” the agency stated in its [ratings note](#).

The Pittsburgh & Allegheny Sports & Exhibition Authority owns the Steelers’ Heinz Field, the Pirates’ PNC Park and the Penguins’ PPG Paints Arena, as well as the city’s convention center and some infrastructure, such as parking garages and roads near sports facilities. As part of building and maintaining those properties, the sports authority has \$585 million in municipal bond debt outstanding. The A rating is the bottom of three “strong” credit ratings S&P Ratings maintains. The A rating, like most other S&P scores, can be further rated a “plus,” “minus” or standalone. “We anticipate either cash on hand or debt service reserve may need to be tapped to meet debt service due in February 2021, unless there is further revenue growth in the coming months,” the agency wrote.

Pledged revenues supporting the sports authority’s bonds were down 59% year to date through September, to about \$11.3 million, according to S&P. Based on earlier disclosures by the authority, revenue was on par with prior years in the first quarter of the year, then plunged starting in April. The bonds are initially backed by two hotel taxes of 5% and 2% on room transactions. With annual debt service of \$54 million on the sports authority bonds, Pittsburgh will fall well short of what’s needed.

Yet according to a September report from the Allegheny Institute for Public Policy, while the sports

stadiums are technically revenue-backed bonds that would default if tax revenue continues to drop, a series of side agreements with Pennsylvania means the pro teams' home arenas will continue to have their debt paid on time. For PPG Paints Arena, the state signed a 2014 deal to pay the rink's debt service if other revenues fall short. Similarly, any unmet balance in the football and baseball stadium payments gets covered by the state annually through another side deal. The net effect is that while other tax revenue-supported facilities in Pittsburgh have had budget cuts due to lower revenue, the sports facilities haven't. "So, while parks, libraries, the zoo, the aviary and numerous other organizations took cuts, the [sports] debt allocation was unchanged," economist Eric Montarti wrote in the Allegheny Institute analysis.

The bond rating's downgrade doesn't have an immediate effect on the Pittsburgh sports authority itself. A drop in the credit rating means those people owning the existing bonds will experience a drop in value. The sports authority would likely be affected by higher borrowing costs in the future, however. A 2017 study found that every notch of ratings downgrade cost issuers an average of six basis points (100 basis points equals one percentage point). A 12-basis-point shift would mean Pittsburgh paying \$120,000 more in interest on a \$100 million A-minus bond than it would pay on one rated A-plus.

Yahoo Sports

by Brendan Coffey

November 24, 2020

[Supreme Court Ends Puerto Rico Bondholders' Bid for Pension Assets.](#)

The U.S. Supreme Court on Monday declined to review an appeals court ruling against a group of Puerto Rico bondholders seeking pension assets and a share of future revenue.

On Jan. 30, the 1st U.S. Circuit Court of Appeals in Boston upheld a June decision from the federal judge overseeing Puerto Rico's complex bankruptcy case that went in favor of the Employees Retirement System of the Government of Puerto Rico and the federal oversight board. The ruling dismissed arguments by ERS bondholders holding \$3 billion of ERS debt that they were entitled to some assets that existed when they bought the bonds as well as future pension contributions, which are now coming from general revenues.

The Financial Oversight and Management Board for Puerto Rico said at the time of the 1st Circuit ruling that it "clearly denies ERS creditors access to public pension contributions."

Seeking to have that decision overturned, the ERS creditors, including Andalusian Global Designated Activity Co., Glendon Opportunities Fund LP, Mason Capital Master Fund LP and several Oaktree Capital funds, argued in their petition that the 1st Circuit decision conflicted with other circuits, "thereby endangering secured lending and municipal finance."

PENSIONS & INVESTMENTS

by HAZEL BRADFORD

November 16, 2020 03:37 PM

The MTA Is Developing Plans to Cut Costs and Borrow From Fed. Its Bonds Have Rallied.

The Metropolitan Transportation Authority next month will be discussing cutting service by up to 40%, laying off thousands of workers and increasing fares, as it weighs options to offset sliding revenues from the pandemic.

Officials reiterated the need for federal funding at a Wednesday meeting, and said deep cuts to service and jobs will be necessary if Congress doesn't offer aid.

Yet the market seems to be taking a slightly less downbeat perspective than it was before. Yields on some MTA bonds have declined since the U.S. presidential election and news of a vaccine: A two-year bond yield, for example, was trading at 3.5% Tuesday, down from 4.6% on Nov. 6, according to Bloomberg data. Prices and yields move oppositely.

MTA officials have requested \$12 billion in grants from Washington, and forecast deficits of more than \$15 billion in the next three years without any steps to reduce that gap. The deficits will total about \$7 billion if the MTA takes deficit-reduction steps that aren't service or jobs cuts.

The four-year "worst case" budget plan introduced Wednesday reflects no deficit spending, though the state has recently passed a law that allows the MTA to borrow up to \$10 billion to cover pandemic-related costs in coming years.

To be sure, MTA bond yields are still well above their levels from the start of this year, when the two-year bond traded around 1.4%. The coronavirus pandemic prompted the yield to soar as high as 7.9% in March. Last week, subway ridership was down as much as 70% compared to similar days last year.

So the moderate decline in bond yields is likely the result of investor optimism about federal aid. Help from Congress likely won't arrive until at least next year, however, and the possibility of Republican control of the Senate may hamper the amount of aid received.

So to help fill this year's budget gap, MTA officials are working on an application to tap the Federal Reserve's Municipal Liquidity Facility for the maximum \$2.9 billion available. The process is under way, said Robert Foran, the MTA's chief financial officer, in Wednesday's board meeting. That should allow the MTA to access the facility by the end of this year.

The MTA's board will take action on its 2021 budget proposal at next month's meeting.

Barron's

By Alexandra Scaggs

Nov. 18, 2020 1:37 pm ET

Michigan Court of Claims Denies Request for Injunction Against State Over Local Licensing Decisions: Dykema Gossett

On November 11, 2020, Attitude Wellness D/B/A Lume Cannabis Company (Lume), filed suit in the Michigan Court of Claims against the Michigan Marijuana Regulatory Agency (MRA), the Village of Edwardsburg, and two private parties, after the Village denied Lume's application for village marijuana establishment licenses. Lume sought an injunction to prevent the MRA from issuing state licenses to the two businesses that won licenses from the Village. Last week, the Court of Claims denied that request, finding Lume's claims against MRA to be "speculative and inexact."

Under the state's adult-use law, the Michigan Regulation and Taxation of Marihuana Act (MRTMA), if the MRA is faced with more applications from a municipality than the number of establishments that the municipality allows, then the municipality is to select from among competing applications by a competitive process. That process must be intended to select the applicants who are best suited to operate in compliance with MRTMA. As permitted under MRTMA, the Village limited the number of licenses for retail establishments, in this case to two, and chose from among the applicants.

In the Michigan Court of Claims, Lume alleged that the Village inappropriately selected Alvarez Cultivation (Alvarez) and NOBO Michigan (NOBO), in violation of MRTMA. Michigan's Court of Claims is a court of limited jurisdiction, which can only entertain claims against the State and its agencies. Lume argued that the MRA was the proper defendant and that MRA should be enjoined from awarding state licenses to Alvarez and NOBO because the Village failed to follow MRTMA's requirements with respect to competitive selections.

Lume's case illustrates the difficulty of succeeding in such challenges. Although MRTMA requires a municipality to select applicants by virtue of a competitive process aimed at ascertaining which are best suited to comply with the law, by its plain language MRTMA's requirement applies only in cases where MRA receives too many applications. But an MRA application is not complete without a municipal attestation that the applicant is in compliance with local ordinances. And municipalities generally will not provide such an attestation until applicants have been selected at the local level. As such, MRA does not face more applications than a municipality allows, because the municipality has already whittled the number down before the applicants come to MRA.

While the practicalities of the MRA licensing process and specific language of MRTMA has led to substantial debate as to whether and how a competitive process is truly required, Court of Claims Judge Michael J. Kelly issued an opinion in Lume's case last week that did not address this issue. Rather, Judge Kelly simply assumed that the MRTMA requirement was implicated here.

Nevertheless, Judge Kelly denied Lume's motion for an injunction. In doing so, he found that "the crux of plaintiff's allegations is against Edwardsburg and its decision to approve applications by Alvarez and NOBO." The Court further found that the few allegations levied against the MRA were "speculative and inexact" because they assumed that "Alvarez and/or NOBO will receive licensure—first local licensure and then state licensure." And Alvarez and NOBO apparently had not yet even applied for licensure from MRA.

Even though the MRA was the only state-actor named in the complaint, none of the defendants were dismissed. While the Court of Claims has no jurisdiction over non-state actors, Judge Kelly stated in a footnote that "the Court has jurisdiction over the only defendant against whom it has been asked to grant relief—the MRA—at least for purposes of the instant motions." Given that, "while the court questions whether it has jurisdiction over the non-state actors, it will not sua sponte dismiss them at this time, as doing so is unnecessary for resolving the currently pending motions." But this is a fundamental problem for aggrieved applicants who wish to sue the MRA and municipalities over a licensing fight—the Court of Claims lacks jurisdiction over non-state actors, yet the Circuit Court that has jurisdiction over the municipalities lacks jurisdiction over the MRA.

As this case moves forward, there may be further insight to gain.

Dykema Gossett PLLC – R. Lance Boldrey and Soujoud C. Hamade

November 23 2020

[Austin Voters Approve Tax Measure to Help Fund \\$7.1B Project Connect Plan: Nossaman](#)

On November 3rd, Austin voters approved a property tax increase to help fund the \$7.1 billion Project Connect mass transit project. The initial investment, which is a portion of the “Project Connect System Plan,” includes 27 miles of rail service, 31 stations and a transit tunnel. Specific elements of the plan include:

Blue Line: An approximately 15-mile light rail line running from Austin-Bergstrom International Airport (AUS), connecting through the downtown station and running north to Lamar Boulevard at Highway 183

Orange Line: A 21-mile light rail line running from North ...

[Continue reading.](#)

Nossaman LLP

By Patricia de la Peña on 11.19.2020

[Denver Supportive Housing Social Impact Bond Initiative: Housing Stability Payments.](#)

Abstract

In February 2016, the City and County of Denver and eight private investors closed on the city’s first social impact bond, an \$8.6 million investment to fund a supportive housing program for 250 of the city’s most frequent users of the criminal justice system. The city will make outcome payments over five years based on the initiative’s goals of housing stability and a decrease in days spent in jail by participants. This brief details the fourth assessment of housing stability payment outcomes and interim housing stability outcomes for the program.

[Read the study.](#)

The Urban Institute

by Sarah Gillespie, Devlin Hanson, Alyse D. Oneto, Patrick Spauster, Mary K. Cunningham, Mike Pergamit

November 13, 2020

San Francisco Sees \$116 Million Gap as Revenue Falls Short.

- **Higher than expected property taxes helped soften the blow**
- **Voter-approved taxes and changes added \$11 million to budget**

San Francisco's revenue is falling short of forecasts as the economy recovers more slowly from the coronavirus pandemic than the technology hub expected, creating a \$116 million budget shortfall just a few months into its fiscal year.

In a report issued Tuesday by city Controller Ben Rosenfield, revenue is forecast to be \$144 million less than expected in the adopted budget for the year that began in July, largely due to drops in business and hotel taxes. Still, higher than expected property tax collections are softening the blow and boosting reserves by \$21 million.

The city already raided reserves to help plug a \$1.5 billion deficit over the next two years due to the pandemic. Rosenfield's update comes a week after city voters approved new business taxes and changes, which will add a net \$11 million to the budget. Mayor London Breed in October had warned that failure of the measures could lead to service cuts. The budget for the fiscal year was enacted that month, later than usual to deal with the uncertainty amid the pandemic, and the city is already seeing changes to its forecast.

San Francisco's predicament is true for other local governments across the country dealing with the uncertainty of the outbreak and resulting shutdowns. Municipal officials are also hoping for a federal stimulus package, but Congress remains in gridlock. Chicago is planning to raise taxes and lay off workers to plug its record \$1.2 billion gap, and New York City is using \$4 billion in reserves, and warning it may have to lay off as many as 22,000 city workers if it doesn't get federal aid or state approval for borrowing to help close its \$9 billion shortfall.

"The level of uncertainty regarding city revenues and expenditures remains extraordinarily high, driven by the economic and financial impacts of the public health emergency," Rosenfield wrote.

Indeed, the city on Tuesday said it will temporarily roll back the reopening of indoor dining and reduce the capacity of fitness center and theaters after a spike in Covid cases.

By tapping reserves, San Francisco, a city and county of about 880,000 residents, avoided layoffs but the Board of Supervisors approved scheduled raises for city workers against the wishes of the mayor, who called it irresponsible. The two-year general fund budget is about \$6 billion per year.

Rosenfield told the Board of Supervisors Tuesday that another concern is the availability of funds from the Federal Emergency Management Agency, which the city relies on for temporary housing for those at risk of contracting the coronavirus, such as those over age 65 or those who have qualified medical conditions.

The FEMA program, which is dependent upon the executive branch continuing it, can be cut off with 30 days' notice, and is only authorized month to month. "So I don't say that to scare anybody, but only to note that I think there is a significant risk that FEMA will fall away at some point," Rosenfield said.

Rosenfield's report assumes a vaccine will be available in spring 2021, and widespread adoption by December 2021. It expects a slower rebound in travel and tourism than previously forecast, not returning to pre-pandemic levels until the fiscal year that begins in July 2025.

Another key source of uncertainty is telecommuting, because even if offices can return to full capacity — which they currently aren't — it's unknown if managers will continue to allow employees to work from home as much as possible, according to the report. If remote work returned to its pre-pandemic levels, the city would get \$190 million more in business revenue. San Francisco expects to collect \$3.7 billion in total receipts, down from \$4.4 billion the previous year, according to the report.

Bloomberg Economics

By Romy Varghese

November 11, 2020, 6:00 AM PST Updated on November 11, 2020, 10:35 AM PST

— *With assistance by Joyce Cutler, and Henry Goldman*

[New Jersey Joins Hawaii in Pandemic Credit Downgrades, but Their Bonds Have Diverged.](#)

New Jersey just became the second state to get a credit-rating downgrade since the coronavirus pandemic struck, following Hawaii's downgrade earlier this year.

But New Jersey's bond yields have declined since then, even though rating downgrades typically drive bond prices lower and boost yields.

Last week New Jersey's 10-year general obligation bond—debt backed by a state's pledge to use its taxing power to repay, rather than a specific project or revenue stream—yielded 1.82%. At Tuesday's close, the bond yielded 1.77%, even though the state's credit was downgraded Friday to BBB+, three tiers above junk, by S&P Ratings.

In contrast, Hawaii's bond yields have climbed since its downgrade by Moody's in August. Its 10-year benchmark general-obligation bond yielded 1.1% on Tuesday, according to Bloomberg data, compared with 0.8% shortly before its downgrade.

Some of New Jersey's minor bond-price gains could be the result of the downgrade not being as severe as investors feared. But it could also be the result of optimism around the recent U.S. presidential election and a vaccine.

Yet Hawaii's finances—which are tied to the state's tourism industry—could be helped by a vaccine more than New Jersey's. Earlier this year, Hawaii said its tourism revenues aren't expected to get back to normal before 2024, according to Moody's. But it seems reasonable to think that an effective and widely distributed vaccine would move up that date.

New Jersey's problems, on the other hand, are more structural, as S&P Ratings pointed out in its Nov. 6 note downgrading the credit.

“Until the recent recession, New Jersey had been making progress on closing its...deficit,” the analysts wrote. “However, this progress depended on steady revenue growth during the long previous economic expansion. In recent years, most of the state's revenue growth has gone toward increasing New Jersey's annual pension contributions.”

And the possibility of a divided government could constrain the amount of federal aid New Jersey can obtain. That likely won't be determined until early January, when Georgia hosts two runoff elections.

In other words, if New Jersey's credit looks better after the election and vaccine, Hawaii's should look much better.

Barron's

By Alexandra Scaggs

Nov. 11, 2020 9:43 am ET

Illinois Faces Risk of Junk After Voters Reject Tax on Rich.

- **Pritzker warns of 'painful' spending cuts after measure fails**
- **Citadel's Griffin wins in battle of billionaires over tax**

Illinois voters defeated a measure that would have allowed the state to raise taxes on its wealthiest residents, striking down a pillar of Governor J.B. Pritzker's plan for shoring up the state's finances and preventing its debt from being cut to junk.

The failure of the constitutional amendment that would have scrapped the flat income tax by a vote of 55% against sent the prices of Illinois's bonds tumbling, with those due in 2034 down about 7%. The costly campaign ended in a win for Citadel founder Ken Griffin who spent nearly \$54 million to fund the opposition, while Pritzker, the billionaire heir to the Hyatt hotel empire, gave \$58 million in support.

"The citizens of Illinois have delivered a clear message to our political leaders in Springfield," Griffin, the billionaire head of the Chicago-based hedge fund, said in an emailed statement on Wednesday. "Now is the time to enact long overdue reforms to save our state from fiscal ruin."

The loss adds a new challenge to the Democratic governor's effort to steady the finances of Illinois, whose rising pension-fund costs and chronic budget shortfalls left it with the lowest bond rating among U.S. states even before the pandemic struck. Failure of the measure won't automatically trigger a downgrade to junk. The three major rating companies, which all consider Illinois the lowest level of investment grade, said they'll be watching for the state's backup plan.

"There will be cuts and they will be painful," Pritzker said during a press conference on Wednesday. Without the additional revenue from the graduated income tax, the state will look at various options including cuts potentially for public safety, education and health services and may have to rely on its "regressive" tax system for more revenue, he said.

Downgrade Risk

If approved, the state would have been able to proceed with enacted legislation to apply higher rates to incomes over \$250,000, raising levies on the highest earners. Rejection by voters means the "risk of a downgrade would increase" unless the state eventually increases the flat tax, Barclays Plc said in a report Wednesday.

"The amendment's failure makes greater reliance on deficit financing more probable and is

therefore credit negative, but the state's likely pursuit of other recurring fiscal strategies mitigates this impact," Moody's Investors Service analysts led by Ted Hampton, said in a report on Wednesday. The likelihood of "credit-negative strategies" like deferring near-term pension contributions may also rise, Moody's said.

Even with the graduated income tax failure, Illinois has other options available, Carol Spain, S&P's director of U.S. public finance, said in an emailed statement. Illinois will need to look at other budget-balancing steps, Eric Kim, head of state government ratings for Fitch, said in an emailed statement.

Alternatives for Illinois include more borrowing, tapping the Federal Reserve's Municipal Liquidity Facility for a second time, cutting spending or raising revenue with sales taxes and a higher flat income tax rate, Kim said.

'Budget Crisis'

Previously, Pritzker has said budget cuts of 15% over two years or potentially borrowing from the Fed again are possible if the amendment failed and no more federal aid comes through.

"While the fair tax would have helped to address our budget crisis with the least damage to the working families of Illinois, the millionaires and billionaires opposed it to protect their own wallets, deceiving the public about its purpose and they ended up prevailing," Pritzker said Wednesday. "Sometimes politics works against the best solutions."

The business closures due to Covid-19 since March have added to the fiscal challenges and all three major rating companies have a negative outlook on Illinois, signaling that it could be the first state stripped of its investment grade rank. Such a step would likely add to its financial problems by saddling the government with higher interest bills and preventing many mutual funds from owning its debt.

Pritzker said Wednesday he considers the state's investment grade rating "very important" and will continue to work to fix the state's structural financial problems to avoid it going lower.

"In this election, Illinois voters sent a resounding message that with an \$8 billion deficit and two massive tax hikes in the last ten years, we cannot trust Springfield Politicians with another tax hike," the Coalition to Stop the Proposed Tax Hike Amendment, said in an emailed statement late Tuesday.

"We are undoubtedly disappointed with this result but are proud of the millions of Illinoisans who cast their ballots in support of tax fairness in this election," Quentin Fulks, chairman of the Vote Yes For Fairness campaign, which supported the measure, said in an emailed statement on Wednesday.

"Now lawmakers must address a multi-billion dollar budget gap without the ability to ask the wealthy to pay their fair share," Fulks said. "Fair Tax opponents must answer for whatever comes next."

If enacted, the new graduated rates would have brought in \$1.2 billion for fiscal 2021, which began July 1, and \$3.1 billion for a full year, according to state estimates.

Red Ink

It was no panacea. Illinois has about \$8.3 billion of unpaid bills, some \$137 billion of unfunded pension liabilities, and its rainy day fund has just \$68,459. With the bond market demanding high penalties to own its debt, it's one of just two that have borrowed from the emergency lending facility

the Federal Reserve rolled out after the pandemic.

“Illinois — it’s not a stretch to say — it was a net loser in the preliminary aftermath of the election,” said Ty Schoback, senior analyst for Columbia Threadneedle Investments, which owns Illinois debt as part of its \$17 billion in muni assets under management. He cited the lack of expected Blue Wave and the graduated tax failure.

The state has budget flexibility and sufficient liquidity for now, he said, adding that market participants will look for willingness to fix problems with structural changes that may be unpopular rather than only borrowing more or one-time tactics.

“I don’t think the rating agencies have an itchy trigger finger and I think they are going to give the state a little bit of time,” Schoback said. “All that being said, the state is definitely on the clock with rating agencies and investors.”

Bloomberg Markets

By Shruti Singh

November 4, 2020, 8:56 AM PST Updated on November 4, 2020, 2:48 PM PST

[Illinois Isn’t a Junk-Rated Credit. It’s Just Trading That Way After Voters Rejected a Progressive Tax.](#)

Illinois’ bond prices fell after voters rejected a graduated income tax proposal on Tuesday’s ballot. And while its debt hasn’t been downgraded, it is already trading like junk.

Several years after its budget-setting process was frozen by political gridlock, the state has been taking steps to increase revenue and reduce its reliance on bond markets—partly because its bonds are rated BBB-, just one tier above junk.

The state’s constitution mandates a flat tax, and overturning that policy would have required 60% of people voting on the amendment to approve it, or more than 50% of all voters casting ballots, according to Moody’s.

Instead, about 55% of voters rejected the measure, according to the Associated Press. A graduated income tax would have brought in an estimated \$1.3 billion this year, according to Fitch.

It is also looking less likely that states (or other stressed local governments) will receive substantial amounts of aid from Congress this year, as strategists say there is a higher probability of a divided government in Washington.

So Illinois’ bonds have sold off. Yields of bonds maturing in five years have climbed roughly half of a percentage point since last Friday, to 3.5%, according to Bloomberg data.

The selloff has been even sharper over the past seven days, and the yields of six- and seven-year bonds have increased most on the news—the benchmark yields on Illinois’ six-year bonds have climbed to 3.8% from 3% since last week.

S&P, Moody’s, and Fitch all assign Illinois their lowest investment-grade rating, the equivalent of

BBB-. But their current yields are closer to junk-rated municipal bonds, rather than investment-grade debt, according to Bloomberg data.

The Bloomberg Barclays High-Yield GO Index has a yield of 3.8% with a maturity of 5.4 years. The index of BBB-rated municipal bonds yields 2.6%, with roughly the same maturity.

To put it in simpler terms: The fact that Illinois' five- and six-year bond yields are trading around 3.5% and 3.8% shows that investors think the state's credit is closer to junk-rated municipals than its investment-grade peers.

"Now this is where it gets interesting, to see if the rating agencies actually have the chutzpah to pull the trigger on the first ever U.S. state junk rating," wrote Eric Kazatsky, analyst with Bloomberg Intelligence, in a Wednesday note.

To be sure, Illinois still has options to raise revenue that it can pursue during coming legislative sessions, according to a Wednesday note from Moody's.

If the state raises its flat income tax by 0.7 percentage points to roughly 5.7%, it could bring in about \$3 billion of additional revenue, says Moody's, the same amount that it had projected it would raise under a proposed graduated income tax.

Gov. J.B. Pritzker has also asked state agencies to identify potential spending cuts: 5% for the current fiscal year and 10% for the coming fiscal year.

But to free up \$3 billion, "the state would have to impose across-the-board reductions of almost 11%, based on actual 2019 figures," Moody's wrote. "This degree of austerity would have significant implications for delivery of core education, healthcare, corrections and other services."

It can also tap the Federal Reserve's Municipal Liquidity Facility again, says Fitch. If the state does end up getting downgraded by ratings firms, however, it will need to pay higher interest rates to use the facility.

As the state weighs its options, "Illinois' upcoming post-election legislative session could be particularly consequential this fiscal year," wrote Eric Kim, head of state government ratings at Fitch, in a Wednesday note.

Barron's

By Alexandra Scaggs

Nov. 5, 2020 9:15 am ET

[California's Financials Come in So Late They Reflect Bygone Era.](#)

- **Audited statements just filed for year ending June 2019**
- **It's the last state to file, thanks to botched tech rollout**

On Friday, California's bondholders finally got the most up-to-date look at the government's audited financial statements, revealing how things looked when the economy was in the midst of a record-long expansion, nobody had Covid-19 and the state's savings account was rapidly growing.

California's certified annual financial report for the 2019 fiscal year — which ended 16 months ago — is later than any other state's, a dubious distinction in a corner of the bond market known for the slow pace of such disclosures.

California had blamed the delay on the difficulty multiple agencies had with rolling out a new accounting system called the Financial Information System for California (FI\$Cal), a \$1.06 billion modernization project that has ballooned in cost since original estimates. The coronavirus pandemic subsequently complicated the task.

Many other states were far more timely, closing the books on their years within six months. Big companies do it even faster: Securities and Exchange Commission rules require them to file their annual reports within 60 days.

While California does provide regular updates on budgets and debt, the so-called CAFR includes other information such as pension liabilities that are integral to rating-company decisions. The document filed Friday showed the state's sum of liabilities, deferred inflows and net position had grown to \$329 billion from \$310 billion the previous year.

State Controller Betty Yee had pushed back her estimates several times for when the 2019 report would come out because of the difficulties the state's departments had in using the new technology to produce their statements that go into it. Even Illinois, on the brink of being the first U.S. state to fall to junk status, filed its 2019 audit in April, or about 10 months after the end of its fiscal year.

To be sure, investors are more concerned about the state's response to closing the deficits triggered by the pandemic than about a document that lays out its fiscal position before the onset of the worst recession of modern times.

But the outdated statements illustrate a long-running gripe about the loose disclosure rules in the \$3.9 trillion municipal market. They also leave taxpayers unaware of long-term expenses like workers' pensions, said David Crane, an adviser to former Governor Arnold Schwarzenegger and president of Govern For California, which funds state lawmakers' campaigns.

The costs of these obligations aren't necessarily disclosed in annual budgets but get "spread out over time," Crane said before the 2019 filing came out.

"It's all created without voter approval or knowledge. That's what the CAFR discloses," he said. "And that's how you find out the truth about an enterprise."

Bloomberg Economics

By Romy Varghese

October 30, 2020, 12:17 PM PDT

[A Junk Bond Rating for Illinois Is on the Ballot.](#)

The state's standing in the municipal-debt market will depend on voters approving a "fair tax" amendment, but which party holds power in Washington may also play a role.

Illinois doesn't get as much attention as some other Midwestern states around Election Day. It's no

secret why: Unlike Iowa, Michigan, Minnesota, Ohio and Wisconsin, it's not even remotely close to being a toss-up for the presidency.

What it lacks in White House intrigue, however, it more than makes up for in its own drama.

Illinois has long held the unenviable distinction of being the lowest-rated U.S. state. Its retirement systems are so underfunded, and have been for such a long time, that the phrase "Illinois pensions" is practically used as shorthand among Republicans in Washington as a reason the federal government shouldn't send a huge aid package to state and local governments to help them get through the pandemic.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

October 28, 2020, 4:00 AM PDT

[Chicago Mayor Plans Tax Hikes, Layoffs to Fill \\$1.2B Budget Hole.](#)

Mayor Lori Lightfoot's plan includes raising property, gas taxes

Chicago approaches 600 homicides already in 2020; insight from Chicago Alderman Raymond Lopez on what leaders can do to stop the violence.

Chicago Mayor Lori Lightfoot on Wednesday evening unveiled her plan to fill the city's \$1.2 billion budget deficit, the largest in its history.

The \$12.8 billion plan includes a number of tax increases and cost savings to help fill the hole in the city's budget that was exacerbated by the COVID-19 pandemic.

"Chicago's 2021 Budget represents our city's roadmap toward an inclusive and fiscally responsible recovery from the extensive challenges of the unprecedented COVID-19 crisis," Lightfoot said in a statement.

Lightfoot's plan includes raising \$94 million through property tax hikes, in addition to increasing the gas tax by 3 cents per gallon and the cloud-computing tax by 1.75 percentage points. Also included is an annual property tax increase that is tied to the consumer price index.

More than \$537 million in savings are identified, including \$106 million through layoffs, furloughs and the elimination of unfilled jobs. At least 350 workers are expected to lose their jobs beginning in March 2021.

Lightfoot's plan also calls for the city to refinance \$501 million in debt to take advantage of historically low interest rates.

Other revenue sources include \$76 million of tax increment finance surplus funding and \$30 million from the city's rainy day fund.

The budget provides \$18.6 million in new investments, including an additional \$5.25 million for

community-based violence prevention and reduction efforts. Chicago homicides are up 53% so far this year versus last year, according to the Chicago Police Department.

Further community investments include \$1.7 million for youth programming, \$2 million for affordable housing and \$7 million to support workforce training.

Lightfoot's budget proposal comes as Chicago's economy has shrunk 10% as a result of the COVID-19 pandemic.

The sharp drop in economic activity came as the city was just starting to get its fiscal house in order. Lightfoot last year identified more than \$500 million in structural solutions, the most since 2012, to fill the city's then-record \$838 million gap.

By Jonathan Garber | Fox News

October 22

Chicago Turns to Scoop and Toss, Tax Hikes, and Job Cuts to Manage Coronavirus Wounds.

Chicago's fix for a record \$1.2 billion 2021 budget shortfall and remaining 2020 COVID-19 pandemic tax wounds count on \$948 million of relief through a \$1.7 billion refinancing and restructuring of general obligation and Sales Tax Securitization Corporation debt.

Chicago Mayor Lori Lightfoot's proposed 2021 budget totals \$12.76B when counting all funds, including a \$4 billion corporate fund.

Heading into 2021, the city was still working to close an \$800 million revenue hole caused by the pandemic's economic blows while the 2021 gap was estimated at \$1.2 billion due to roughly \$800 million of pandemic-related tax losses and \$400 million of rising structural costs.

The \$1.2 billion shortage is wiped out through a mix of structural measures like tax increases and efficiencies as well as non-recurring, one-shots like debt restructuring and furloughs. The city will take \$501 million of debt savings and relief, bank \$184.9 million of new revenue, and cut \$537.2 million in costs through savings and efficiencies. It mostly leaves the city's healthy reserves alone.

The city attributes 35% of its 2021 hole to structural demands and 65% to COVID-19 blows with 47% of the measures tackling the \$1.2 billion shortfall structural in nature.

"We believe that these structural reforms will set us up well to continue along our path toward structural balance, we which are targeting for 2023. And I hope you will agree and ultimately vote to support this budget," Lightfoot told the City Council in her budget address Wednesday.

Staying on course with the goal to structurally balance the city's books by 2023 will prove more difficult given a post-debt restructuring spike in 2022 of about \$600 million in debt service and a \$300 million price tag to cover an actuarial pension contribution for the municipal and laborers funds. Those factors are likely to weigh heavily in what rating agencies have to say on the proposed plan.

The city's general obligation credit is rated junk-level by Moody's Investors Service, at Ba1, it's

rated BBB-minus by Fitch Ratings, BBB-plus by S&P Global Ratings, and A by Kroll Bond Rating Service. S&P moved the outlook to negative in April over mounting pandemic pressures that make structural balance targets a tougher task. The others assign a stable outlook.

Chicago's GO paper is thinly traded but recent trades put spreads at about 325 basis points to the Municipal Market Data's top benchmark, said Daniel Berger, senior market strategist at MMD-Refinitiv.

"Ratings agencies have demonstrated unusual patience, due to the unusual circumstances" said Brian Battle, director of trading at Chicago-based Performance Trust Capital Partners, who added, at first glance the budget proposal and debt restructuring appears "reasonable as this voluntary quarantine is unprecedented."

Market participants will welcome that spending cuts and tax increases are part of the equation and may be willing to swallow the return to scoop-and-toss debt restructuring. "The mayor's office is being responsible by talking about tax increases and spending cuts," Battle said, adding that on debt restructuring the city "did it way before there were circumstances" like the pandemic.

Bigger questions loom large over the city's post-pandemic fiscal picture. "The more salient question for the city is what is the long-term revenue and spending plan. What is the one, three, and five projections for revenue increases and spending cuts and how does the city attain fiscal stability," he said.

The package now heads to the council with hearings beginning Monday and a vote expected next month. While Lightfoot labeled the tax hikes and layoffs modest, they may prove a hard sell for some council members who prefer other tax proposals, want police spending cut and more spending on human services, and may look skeptically at the debt refinancing.

"I think it is a fair division and reasonable approach to structural change during this pandemic with little federal help," said Alderman Scott Waguespack, Lightfoot's Finance Committee chair, who was a frequent critic of the former mayor's budgets. "They have a balance in here where we cannot do all structural changes at once. We don't want to hit personnel too hard, or raise property taxes too high but I believe rating agencies are looking for a good balance."

The \$537.2 million of savings and efficiencies include \$106.3 million in personnel reductions from measures like five furlough days and the elimination of 1,900 positions, including 350 layoffs. The budget cuts about 600 police department positions, but Lightfoot said she has no plans to cut other police spending, especially given demands associated with reforms under a consent decree.

The city will sweep old accounts, moving \$59 million to the corporate fund and will require Chicago Public Schools to reimburse it for \$40 million of pension contributions for CPS employees who participate in the city's pension funds and \$54 million will come from improved rates in healthcare contracts.

The \$184.9 million of new revenue comes from a \$33.5 million increase in an expected tax-increment financing surplus declaration, a \$30 million draw on city fund balances, new tax revenue, including a \$93.9 million property tax hike, including \$16 million for new property and a \$42.5 million hike due loss of collections. The city lost litigation filed by the pension funds and now must make up the difference between what's levied to cover pension contributions and what's collected. Future annual property tax hikes will be tied to inflation, a shift from existing practices. The city will also raise \$25 million from a hike on cloud computing and motor fuel taxes.

Council members have pressed the administration to dip deeply into reserves. The city's fiscal chief Jennie Huang Bennett has pushed back, warning that preservation of the reserves that total \$900 million between an unassigned fund balance, a cash reserve, and long term reserves are central to maintaining the city's ratings and weathering a prolonged pandemic hit.

"To be clear, folks, we are not experiencing a rainy day. It is truly a rainy season, and we must continue to be prudent and cautious," Lightfoot said.

The city will declare a \$300 million TIF surplus, pocketing \$76 million or \$33.5 million more than previously anticipated. Chicago Public Schools receives half of any surplus and the city's sister agencies and Cook County receive the remainder.

Pension appropriations rise to \$1.815 billion in 2021 from \$1.68 billion. The city is carrying \$31.8 billion of net pension liabilities, and funded ratios for the funds are at 18% for firefighters, 21% for police, 24% for municipal, and 43% for laborers. The contributions shoot up in 2022 to \$2.245 billion due to a roughly \$300 million spike when the laborers and municipal fund payments move to an actuarial level and due to modest growth in contributions to police and firefighters which moved to an ARC this year.

Debt

A cornerstone of the 2021 package that will also cover half of the 2020 hole will come from a \$1.7 billion debt refinancing and restructuring. If approved by the council, the city would issue the first piece of the refinancing in December, according to budget documents.

Lightfoot refinanced GO and other debt with \$1.5 billion of borrowing under the GO and STSC credits in January generating a total of \$300 million in savings that were mostly taken upfront. Bennett has stressed the upfront savings may mark a one-time maneuver but did not constitute scoop-and-toss, as maturities were not extended and savings were achieved in all maturities.

"Unlike the refinancing in 2020, the city will be increasing the debt service on the bonds in future years and extending the debt," reads a city description of the proposed transaction. "Overall, the city will use the refinancing savings to help pay for the cost of the debt restructuring and overall the transaction will still generate positive savings on a net present value basis."

The city says the debt will be layered into STSC debt structure to create a level debt service schedule that meets projected of sales tax collections, which are pledged to payoff the bonds. A chart included in the budget presentation shows a reduction in combined GO and STSC debt service to about \$200 million in both 2020 and 2021 from existing levels of \$600 million in 2020 and \$700 million in 2021.

The expected \$800 million of debt service owed in 2022 is held steady and continues with modest increases through 2029, holds mostly steady through 2032 with higher payments owed through 2047 with new debt piled on in 2048-2050.

The STSC bonds are sold through a bankruptcy-remote entity that garners higher ratings in the double-A to triple-A category, depending on whether they are senior or second lien.

Pushing off 2020 and 2021 debt service and extending debt will mark a return to the past fiscal tactic of scooping and tossing debt first used by former Mayor Richard M. Daley as he sought to hold the line on property taxes while financing infrastructure projects. Mayor Rahm Emanuel inherited the practice when he took office in 2011 and then phased it out in his second term.

Some market participants considered the city's first issues under the STSC, which was established in 2017, as "scoop-and-toss lite" as the maturities of some general obligation bonds being refunded were pushed a few years out and interest was capitalized. The city's last deal also capitalized interest.

By Yvette Shields

BY SOURCEMEDIA | MUNICIPAL | 10/21/20 05:46 PM EDT

New York Subway's Pain Could Bring Riches for Bond Investors.

Riders and revenues are way down at the Metropolitan Transportation Authority. Its bonds look risky, but some investors are tempted.

You can make a lot of money betting on government bailouts.

Swooping in to buy the dirt-cheap stocks and bonds of troubled entities is a time-honored — and profitable — tactic throughout the investing world. When deep-pocketed public saviors come forward, such a wager can pay off handsomely.

Given the vital role it plays in the economy of the nation's largest city, the Metropolitan Transportation Authority, which runs New York's subway, bus and commuter rail system, is a likely candidate for a lifesaving infusion of government cash.

"It's very explicitly too big to fail," said Matt Fabian, a partner at the research firm Municipal Market Analytics who has been pitching M.T.A. debt to his clients.

The agency was dealing with high costs even before the pandemic, and the beating the coronavirus has given its finances has raised the possibility of deep service cuts. That economic pressure is translating into low bond prices and some of highest — and therefore most tantalizing — yields available to investors anywhere in the bond markets.

Investors who buy 10-year M.T.A. bonds right now — the agency was expected to issue around \$258 million more in debt on Thursday — are capturing a yield of about 4 percent. That's roughly three percentage points more in annual interest than they would get buying the safest long-term municipal debt. It also trounces the yields of other major transit systems, which hover around 1 percent.

If it were a for-profit corporation, the M.T.A. would most likely be heading for bankruptcy. Its budget deficit has exploded, and last week Fitch downgraded the agency's bond rating, citing weak ridership and revenue outlook.

But the M.T.A. is a quasi-governmental body — technically a public benefit corporation, formed in 1968 — that's deeply entwined with the economic health of the region. That means its risk of default is almost infinitesimal, investors and analysts say.

There's another reason to like these bonds: federal and state tax exemptions on municipal debt. To match the after-tax return on M.T.A. bonds without taking on a lot more risk, analysts say, investors would need to find relatively safe corporate bonds yielding almost 9 percent — all but nonexistent nowadays.

Len Templeton, president of Templeton Financial Services in Chandler, Ariz., has allocated roughly 5 percent of his client assets to the securities issued by the M.T.A. He said he couldn't imagine the agency's being allowed to default.

"I mean, how could you not think they should have public transportation in a city like New York?" asked Mr. Templeton, who manages some \$425 million in client assets in bond funds. "And how can the city survive and do what it needs to do without it?"

Even Fitch, in downgrading the agency's rating to A- from A+, said the M.T.A. continued to have "the highest strategic and economic importance" and would continue to benefit from government support.

Mark Paris, who manages New York and national municipal bond funds for the asset management firm Invesco, said M.T.A. bonds were "definitely a great place to get some yield." He has been adding them to his holdings, but warned of violent swings in their prices as the agency struggles to stabilize itself over the next few years.

"Is there going to be volatility?" he said. "Yes."

In fact, there already has been quite a bit. Prices for M.T.A. bonds are normally quite stable, but as the virus gripped New York in March and April, they plunged more than 20 percent and sent yields shooting up.

In normal times, the M.T.A.'s massive ridership is a stabilizing force: Subway, commuter train and bus fares, as well as bridge and tunnel tolls, matched 50 percent of the operating costs in 2019.

"It's a strength because it reduces their reliance on statewide and citywide politics," Mr. Fabian said.

That strength disappeared with the arrival of the pandemic. Subway ridership — averaging around 5.5 million on weekdays last year — collapsed more than 90 percent as a result of widespread shutdowns intended to limit the spread of the virus, which was killing more than 500 people a day in the city. Even with infection rates well down from their peak, subway ridership is still 70 percent below last year's level.

And that means the M.T.A. needs money — badly. Before the pandemic, the agency projected an estimated surplus of \$270 million for 2021. Now? It is projecting a deficit of roughly \$5.8 billion. Its annual deficit is expected to add up to about \$16 billion by 2024.

While investors and analysts expect that financial help will materialize, exactly where it will come from and when it will arrive aren't clear.

The agency, which already received \$4 billion under the CARES Act, is asking for some \$12 billion in emergency aid from the federal government to make it through next year. But talks in Washington have been stuck in neutral from months.

If Democrats capture both the White House and the Senate next week, most observers predict the federal government will come through with more help. But even if Republicans retain control in Washington, that won't be the end of the line for the M.T.A. Rather, investors believe that would just force the state to cough up the money the agency needed.

"The expectation is the State of New York can and will support the M.T.A. if additional federal moneys aren't forthcoming," said Howard Cure, director of municipal bond research at Evercore

Wealth Management in New York.

There's a simple reason: New York City is the economic engine of the state, providing nearly half its jobs. By itself, Wall Street — the securities industry centered in Manhattan — accounts for roughly 17 percent of the state's tax revenues. The state simply can't afford not to keep the M.T.A. running and New York City functioning.

Analysts at credit ratings agencies are already beginning to factor in the financial toll that additional support from Albany could take on the state. Moody's analysts downgraded New York State's bond rating this month, noting the "state assistance in various forms" that the M.T.A. will require even though the state has reduced financial resources.

So if a bailout is such a sure thing, why haven't people rushed to buy the M.T.A.'s bonds?

In part, the answer has to do with some of the idiosyncrasies of the market for municipal bonds: how heavily such bonds are traded, and by whom.

At roughly \$4 trillion, the market is relatively small, with most bonds traded irregularly. Its prices might not accurately capture information as quickly as prices in some other markets. And it's dominated by affluent individuals who buy municipal bonds for their safety and tax benefits. Such investors are easily turned off by noisy and negative headlines, advisers said.

That can cause wealth managers to steer clear — despite attractive yields — simply to avoid the risk of aggravating clients.

"Holding an M.T.A. bond now, versus not holding one, means triple or double the number of conversations with an angry dentist from Long Island," Mr. Fabian said. "There's a cost to that."

The New York Times

By Matt Phillips

Oct. 30, 2020

[The MTA Is Selling Green Bonds This Week. Investors Should Prepare for More Borrowing.](#)

New York's Metropolitan Transportation Authority is planning to sell tax-exempt green bonds backed by the agency's transportation revenues. Analysts at Fitch have downgraded that debt, citing the risk that the country's largest transit system could borrow a lot more in the future as the pandemic has sharply reduced ridership.

The MTA said it would sell \$257.5 million of bonds this week to pay down bonds that mature in mid-November. The bonds are backed by a lien on revenues from the commuter and transit system, along with some of the surplus from the city's bridges and tunnels, state-and-local-government operating subsidies, and revenue from other miscellaneous taxes and fees. They will also be green bonds with certification from the Climate Bonds Initiative, thanks to their use financing mass transit.

The offering comes as revenues have slumped for New York's subways, buses, and commuter rail, however, as pandemic-wary commuters avoid public transit. On Oct. 23, for example, subway

ridership was down nearly 70% from last year, bus ridership was down more than 50%, Long Island Railroad ridership was down 71%, and Metro-North ridership was down 76%. Bridge and tunnel use was down 12% from last year.

In a recent investor presentation, the MTA reiterated past estimates that put its budget shortfall at \$3.2 billion for this year and \$5.8 billion for 2021 in the absence of federal funding. MTA Chairman and CEO Patrick Foye has requested \$12 billion in federal grants for the next two years to cover the deficits—but it isn't clear how quickly the MTA will be able to obtain aid from Congress, or how much aid it will end up receiving.

Until the outlook becomes clearer, officials estimate they can reduce this year's deficit by \$1.1 billion by cutting spending and tapping other sources of cash within the agency, such as retirement-benefit reserves.

Beyond those steps, board members have proposed tapping the full \$2.9 billion of cash available from the Federal Reserve's Municipal Liquidity Facility, though the MTA has only a little more than a month to file a Notice of Interest to meet the Fed's current requirements. The MTA has already tapped the Fed facility once, borrowing \$450 million in August.

New York state has given the MTA permission to borrow to cover up to \$10 billion in deficits through 2022. But ratings-firm Fitch says that increases the MTA's reliance on capital markets, along with its "sensitivity to the timing and strength of an eventual revenue recovery that is highly dependent on public health and economic conditions and mass transit ridership behaviors."

For now, the pandemic-related revenue crunch has prompted Fitch to downgrade all of the MTA's outstanding transportation revenue bonds by two notches, to A- from A+.

The firm's analysts estimate that the transit authority is burning \$300 million of cash per week, and have a "Negative Outlook" for the debt, meaning that future downgrades are more likely than upgrades.

On the bright side, the MTA has about \$5.2 billion of liquidity on hand, with about \$2 billion of that in cash, according to Patrick Luby, analyst with CreditSights.

What's more, the market's pricing of the MTA's bonds does seem to reflect the risks created by the pandemic—meaning that while the MTA will likely need to pay high interest rates to borrow, the bond yields may be too high for risk-tolerant investors to resist.

The spread between the MTA's bonds and AAA-rated benchmark muni yields closed around 338 basis points (or about 3.4 percentage points) on Friday, Luby wrote in a recent note. That is up from a spread around one-tenth that size—33 basis points—at the start of this year. In its investor presentation, the transit authority cited "strong legal provisions [enacted] to ensure timely payment" of those interest costs, such as a New York state law that prevents the MTA or its affiliates from voluntarily filing for bankruptcy to reorganize its debt.

The bonds are expected to price on Thursday, according to Fitch.

Barron's

By Alexandra Scaggs

Oct. 28, 2020 6:15 am ET

Fortress Fails to Sell Record Bond Deal for Las Vegas Rail.

- **‘There is not a lot of liquidity,’ California treasurer says**
- **California to take back bond capacity, offer to other projects**

Fortress Investment Group is postponing its plan to build a train to Las Vegas from Southern California after failing to sell a record amount of unrated municipal debt to finance the speculative project, showing the limits of investor appetite amid an economic downturn.

Since the end of September, Fortress, through its company Brightline Holdings, had been marketing \$3.2 billion of debt to be issued through California and Nevada agencies. It subsequently reduced the size to a still-record offering of \$2.4 billion and tried to purchase some of the bonds it sold for a Florida rail as a way to entice investors to commit to the Las Vegas sale before terminating that buyback offer Friday.

“Unfortunately there is not a lot of liquidity in the market and a lot of economic uncertainty at this moment,” California Treasurer Fiona Ma said Saturday by email. “The project is postponed until market liquidity improves.”

Brightline spokesman Ben Porritt confirmed the postponement. “We will continue to move the project forward,” he said Saturday by email.

California and Nevada had given Fortress the ability to sell private activity bonds, which are meant for ventures for the public interest that are capped annually in each state by the federal government. California had provided the bulk, \$600 million, which was leveraged four times to \$2.4 billion in bonds because of federal rules extending that special boost to railroads.

California had given Fortress a Dec. 1 deadline to sell the bonds. Now, Ma said, the state will take back the bond capacity and give it to affordable housing projects and other kinds of qualifying ventures, such as recycling facilities. Before Fortress won its allocation from Ma’s debt committee earlier this year, affordable housing advocates had pressed for all of the state’s low-cost financing resource to go toward easing California’s homelessness crisis.

Ma said she didn’t know when Fortress would return to California to request bonds again.

“That will be part of the discussions with Brightline West over the next several weeks,” she said.

The failure to sell the bonds shows that deal sweeteners and juicy yields weren’t enough to overcome investor concerns about a project that depends on the recovery of the pandemic-ravaged travel and entertainment industries and has few comparisons in the U.S.

While Fortress said the rail would ultimately go to Los Angeles, it would need to do multiple rounds of financing to do so. The venture planned to raise a total of \$6.38 billion in debt for the \$8.4 billion project. The bond issue would have financed construction for a 169-mile (272-kilometer) line connecting Las Vegas to a Southern California desert town called Apple Valley, 90 miles away from downtown.

Lead underwriter Morgan Stanley pitched corporate junk-bond buyers and overseas investors, as well as traditional municipal-bond managers, according to people familiar with the matter who asked not to be named as the talks were private. Prospective yields in October ranged from 7% to 7.5% depending on the call dates, with final maturity in 2050. That yield on a 30-year bond would have

been about four times what the highest rated state and local governments pay, data compiled by Bloomberg show.

Bloomberg Markets

By Romy Varghese

October 31, 2020, 6:44 PM PDT Updated on October 31, 2020, 7:33 PM PDT

SoCal to Vegas High-Speed Rail Project Hits the Brakes as Financing Falters.

Plans to build a high-speed electric train between Los Angeles and Las Vegas have been sidetracked over the investor's inability to finance the project.

Fortress Investment Group announced Oct. 30 it has postponed its planned \$8-billion Brightline West project, which was expected to start construction this quarter.

Fortress and its subsidiary, Brightline Holdings, had been marketing \$3.2 billion in tax-free private activity bonds authorized by officials in California and Nevada. The amount investors sought was reduced to \$2.4 billion in recent weeks but still met a skeptical response in the bond market.

"Unfortunately, there is not a lot of liquidity in the market and a lot of economic uncertainty at this moment," California Treasurer Fiona Ma told Bloomberg News over the weekend. "The project is postponed until market liquidity improves."

California had given Brightline until Dec. 1 to put financing in place and will now shift its bonding authority toward affordable housing or other projects for the public good. Treasurer Ma said she did not know when Fortress would again seek bonding authority.

Private-activity bonds let states give third parties access to lower financing costs by issuing bonds free of federal income tax.

The Bond Buyer reported that lead underwriter Morgan Stanley offered the bonds in October with a yield running from 7% to 7.5%, depending on the call dates, with final maturity in 2050. That yield is about four times what top-rated municipal bonds pay.

A Brightline spokesman said the project would continue but did not offer details.

New Website Launched

The Florida-based company had recently launched a website that includes engineering and construction information for the Brightline West project.

Groundbreaking had been scheduled for late this year on what's being called the High Desert Segment, a 190-mile stretch from Victorville, Calif., to a proposed station south of the Las Vegas Strip.

The planned route follows rights-of-way along Interstate 15, which links Las Vegas with its biggest tourism market, Southern California. The train will run through the I-15 median at some points and alongside the highway in other areas.

Completion of the entire project had been set for 2024. Brightline says that its train, which can

operate at speeds up to 200 mph, will cut in half the normal six-hour drive between Los Angeles and Las Vegas.

The company says the project would create 40,000 construction jobs and 1,000 permanent jobs. It also says the all-electric train will keep 400,000 tons of carbon dioxide out of the air each year and remove three million cars from Interstate 15, which is often clogged with travelers on weekends.

Brightline has been conducting geotechnical testing and exploratory boring near its planned Las Vegas station, according to the Nevada Dept. of Transportation, which issued advisories about possible traffic delays in the area. Ninyo & Moore and Terra Contracting are the contractors.

Brightline West is the third name for the project this year. It was briefly XpressWest, and before that it was branded as part of Virgin Trains until investor Richard Branson pulled out of the deal this summer.

Brightline operates a high-speed train line in Florida linking Fort Lauderdale, Miami and West Palm Beach, with plans underway to extend it to Orlando. Service is currently suspended because of the pandemic.

enr.com

by Doug Puppel

November 2, 2020

[S&P ESG U.S. Public Finance Report Card: Tri-State Region Governments And Not-For-Profit Enterprises](#)

Key Takeaways

- E: A portion of the region is exposed to elevated environmental risks when compared to other regions in the U.S., depending on an entity's proximity to the Atlantic Ocean. Natural conditions, such as severe weather events like Superstorm Sandy, and longer-term issues resulting from sea level rise are more prevalent risks to credit quality for some entities without implementation of adaptation measures.
- S: The Tri-State area was once the epicenter of the COVID-19 pandemic in the U.S. and continues to reel from health and safety social risks related to reducing the virus transmission. However, outside of health and safety social risks, we view declining population and affordability concerns as elevated long-term social risks affecting the region.
- G: For government entities, we view the statutory framework as we define it in our criteria as a governance opportunity for entities in New York, New Jersey, and Connecticut as each provide oversight for distressed issuers, which we believe supports credit quality in the Tri-State.

[Continue reading.](#)

28 Oct, 2020

'City Hall' Review: An Inspiring Display of Municipal Bonds.

Set in Boston, Frederick Wiseman's documentary epic celebrates the ideals of civic governance and the realities of urban life.

There's a puzzlement worth pondering in Frederick Wiseman's "City Hall," the latest in a remarkable string of 43 documentary features that began with his "Titicut Follies" in 1967. (This one is streaming as a Film Forum release in virtual cinema, and will soon share online revenues with other theaters around the country.)

Why would a serious filmmaker, and a lawyer by training, open a film focused on the workings of city government—the city in question being Boston—with a call-center operator taking a report of a stray dog walking on a roadway, and close his leisurely epic 275 minutes later with another operator intoning earnestly over the end credits: "I have down that you're reporting there is something wrong with the hawk's eyes, and that the hawk isn't acting normal, and it is feeding on a pigeon on the street rather than flying away with its food, and there are a lot of people around the hawk, but the hawk didn't seem to be able to fly away"? Is Mr. Wiseman, who can be sly on occasion, trying to tell us that the city is going to the dogs, or that it's for the birds?

Not likely. His film, narration-free as always, constitutes a love letter to civic governance, and the notion of democracy, at a time when public discourse seethes with scorn for urban life. It is also a celebration, simultaneously clear-eyed and optimistic, of what Boston's government, under its mayor, Martin J. Walsh, has been trying to achieve in a city that's endured more than its share of racial turmoil in the recent past. There is slyness, for sure, but also sweetness, in using people's concerns for animals as bookends for a documentary that tracks the city's everyday life in minute and enthralling detail. (Completed before the pandemic, the film also serves as a bittersweet reminder of how vital urban life can be.)

You can imagine all those people standing over the troubled hawk. But you can watch the ubiquitous mayor and scores of officials and workers doing their jobs with visible diligence, while citizens all across the venerable city meet, schmooze, discuss, plan, argue, negotiate, marry, speechify (often eloquently), rejoice (for the Red Sox, of course), plead for relief from parking tickets and demand respect, as well as get it, from their chosen representatives.

"Respectful" is a word heard often in the film. It's part of ritual exhortations from the mayor and his staff, the thing they know they all need to be in this angry moment of American history if they're going to keep, or regain, their constituents' trust. "Diversity" and "inclusiveness" come up a lot too, illustrated by elaborate efforts at outreach. The film renders no judgments on the city's success, yet you can't help but be bedazzled by the polyglot complexity of the place—a poor section of Dorchester that's 42% Cape Verdean, a Chinese-American festival where a woman in a cheongsam plucks a pipa while she sings "Red River Valley." And you marvel that the city holds together as well as it does from day to day. (Unlike local TV news, "City Hall" keeps any and all street violence off-screen. The conflicts here play out peacefully, if often fervently, in conference rooms and community centers.)

When my daughter was little, one of the books I loved reading with her was Richard Scarry's "What Do People Do All Day?" All those workers doing all that work in Busytown! "City Hall" conveys a similar sense of intense industriousness, even if the workers don't have cute animal heads.

A clerk listens, really listens, to a first-time father, as he describes, at great and endearing length, how his car happened to be parked in front of a fire hydrant in the middle of the night. (Does she still make him pay the ticket? Watch the film to find out.) A youngish Black health department inspector understands that he's also being pressed into service as a therapist for an elderly white

resident with a rodent-infestation problem. In addition to the rat that's taken up residence in a greasy stove, the poor man is beset by his own failing health, the sad state of his house, and his brother's effort to evict him. "My spirit is broken," he says, to which the health department guy replies quietly, with feeling, "I hear you."

If I've given the impression that "City Hall" portrays Boston as a shining, happy city on Beacon Hill, that is hardly the case. No city has been exempt from the nation's upheavals, even before the pandemic struck. But Mr. Wiseman's film shows us, without telling us, that American cities continue to be laboratories for rebirth and innovation. The spirit of this one is embodied in its mayor, Marty Walsh. A Democrat and unabashed liberal, he's also a cancer survivor, a recovering alcoholic, and a virtuoso storyteller with a gift, common to great pols of the past, for connecting to everyone who crosses his path. "If you see me on the street," he says at one meeting, "grab me and tell me what the problem is." That's what people do, and it's a pleasure to watch them do it.

The Wall Street Journal

By Joe Morgenstern

Oct. 29, 2020 4:13 pm ET

[Puerto Rico Judge Rejects Request for Probe into Allegedly Improper Bond Trades.](#)

The judge overseeing Puerto Rico's debt restructuring process has rejected a bond insurer's request for an investigation into what it said were potentially improper bond trades based on information obtained during confidential mediation sessions.

During a telephonic hearing on Wednesday, U.S. District Judge Laura Taylor Swain, who sits on both Manhattan and Puerto Rico federal courts, called bond insurer National Public Finance Guarantee Corp's suggestion of wrongdoing by bondholders "sensational and largely speculative." Her ruling comes as the commonwealth and the federally appointed oversight board guiding the restructuring, which has been proceeding in court for more than three years, attempt to continue negotiations with creditors on a plan of debt adjustment.

To read the full story on Westlaw Today, click here: bit.ly/35Lg8x5

REUTERS

By Maria Chutchian

OCTOBER 28, 2020

[Illinois to Sell \\$850 million of Bonds as Investors Brace for Junk Status.](#)

CHICAGO (Reuters) - Illinois is scheduled to sell \$850 million of bonds on Tuesday as investors demand fatter yields for the state's debt due to increased worries over its deep financial woes, which were exacerbated by the coronavirus pandemic.

Ahead of the competitive sale of general obligation bonds due over the next 25 years, the spread for Illinois 10-year bonds over Municipal Market Data's benchmark triple-A yield scale has widened by 10 basis points to 281 basis points since Oct. 1.

Howard Cure, director of municipal bond research at Evercore Wealth Management, pointed to "a legitimate fear that the state could go into junk status – although not default on its debt."

"The state continues to delay tough decisions with a number of speculative revenues as part of its current budget, including additional federal aid, voter approval for a progressive income tax, and more Municipal Liquidity Facility (MLF) debt," he said, referring to the possibility Illinois, which took out a \$1.2 billion cash-flow loan in June from the Federal Reserve's MLF, could borrow more.

Illinois is the lowest-rated state at a notch above junk due to its huge unfunded pension liability and chronic structural budget deficit. All three major credit rating agencies assigned negative outlooks to their ratings in the wake of the pandemic.

Earlier this month, a Citi research report said Illinois is "almost guaranteed" a credit rating downgrade to junk if a constitutional amendment to replace its flat income tax rate with graduated rates fails to pass on Nov. 3. The ability to tax high earners more would increase revenue by an estimated \$3.1 billion annually.

In addition to uncertainty over congressional passage of unrestricted federal virus aid to states, Andrew Richman, senior fixed income strategist at Sterling Capital Management, said Illinois was experiencing a surge in virus cases ahead of its sizeable bond sale. The state reported its highest one-day total of 4,554 cases on Friday.

"Illinois had problems before the pandemic," Richman said. "Things are getting worse not better."

Still, John Mousseau, president and CEO of Cumberland Advisors, said the high yields will attract buyers.

"People will buy it. They are yield-starved," he said.

By Karen Pierog

OCTOBER 19, 2020

Reporting by Karen Pierog in Chicago; Editing by Alden Bentley and Matthew Lewis

Chicago Poised for Painful Choices to Close Record Budget Gap.

- **Junk-rated city's deficit expands to \$1.2 billion in 2021**
- **Mayor Lightfoot to unveil budget proposal on Wednesday**

Mayor Lori Lightfoot on Wednesday will lay out how she plans to close the largest budget gap in Chicago's history as Covid-19's resurgence threatens to hobble the junk-rated city's recovery in the years ahead.

Spending cuts, increases to property taxes, pension obligation bonds and debt refinancings have all been under consideration to close the record \$1.2 billion deficit for fiscal 2021 in the corporate fund, the main vehicle used to pay for services the city provides and other operating expenses. That comes

after a nearly \$800 million gap this year.

“We are facing a stark reality,” said Christopher Mier, a managing director for Loop Capital Markets, whose investment-banking clients include Chicago. “I expect the mayor will confront that reality head on and seek the best solutions in difficult circumstances.”

While cities across the country are confronting revenue declines and deficits, Chicago’s pain is more acute because its finances were strained even before the pandemic exacerbated its budget shortfall. Pension costs have weighed on the city’s credit rating for years, which partly spurred Moody’s Investors Service to downgrade the city to junk in 2015. And those bills are climbing. Chicago’s four retirement funds are short about \$30 billion, and the city’s projected pension contribution climbs to about \$1.8 billion for the coming year.

‘Unprecedented’ Pressure

S&P Global Ratings, which rates Chicago three levels above junk, lowered the city’s outlook in April to negative because of the “unprecedented” pressure from the pandemic and recession. The credit rater is focused on the balance between one-time versus ongoing fixes, funding levels of pensions and any potential use of reserves, said Jane Ridley, an S&P credit analyst.

“What we are looking for is how they set themselves up in 2021 to handle 2022, particularly from a structural standpoint,” Ridley said in an interview. “How many of the budget solutions are one-time versus structural?”

Lightfoot will present the second budget of her administration during a Chicago City Council meeting that starts at 10 a.m. local time. The city has been weighing a variety of options, including earlier this month targeting up to \$200 million in labor cuts, according to a source familiar with the talks who asked not to be named. City officials this week declined to confirm speculation about property tax hikes and other measures.

“During this unprecedented time when we’re facing the largest deficit in the City’s history, we plan to present a fiscally responsible budget that is fair, inclusive and rooted in our values,” according to a statement from the Office of Budget and Management on Monday.

Virus Resurgence

Despite the shortfall, Chicago doesn’t expect to tap the nearly \$900 million in its reserves to close its budget holes this year and next, Chief Financial Officer Jennie Huang Bennett said last month. The city was not looking for additional lines of credit and consideration of pension-obligation bonds would need to include reforms to the liability, according to Bennett.

The city is also seeking help from the cash-strapped state, which is facing its own budget shortfall of more than \$4 billion. Chicago wants Illinois to increase the amount the city receives from the local government distributive fund, which provides a designated portion of state income tax revenues.

Chicago’s budget presentation comes as the city is seeing an increase in coronavirus cases, adding uncertainty to the economic outlook. On Monday, Lightfoot outlined how Chicago is seeing a “second surge” with cases rising more than 50% over the past two weeks to about 500 daily, according to the city’s health department. It’s the highest daily case count since late May.

Given the uncertainties around the pandemic and federal help, the city’s management has taken a “conservative” approach to revenue, said Dennis Derby, a portfolio manager for Wells Fargo Asset Management, which holds Chicago bonds among \$40 billion in municipal assets. It should not rely

too heavily on federal or state aid as it faces various unknowns, Derby said.

“The trajectory of a recovery is fairly unknown at this time,” Derby said in an interview. “It’s up in the air. We don’t know how long this is going to go on for. We don’t know the long-term effects.”

Bloomberg Politics

By Shruti Singh

October 21, 2020, 3:00 AM PDT

[As Chicago Budget Hearings Start, Ratings Agency Sounds Alarm.](#)

As Chicago grapples with a second wave of the coronavirus pandemic, a Wall Street ratings agency fired a shot across the bow as aldermen prepared to start a month of hearings Monday morning on Mayor Lori Lightfoot’s \$12.76 billion spending plan for 2021.

Standard & Poor’s, one of a handful of major ratings agencies, warned in a special report issued Friday that the city could see its credit rating — which the firm already considers negative — drop further.

That rating helps determine how much the city has to pay in interest to borrow money, much like an individual’s credit score.

A year ago, Lightfoot said the city would have a structurally balanced budget by 2022, even as a state law forced the city to spend an additional \$1 billion between 2019 and 2022 to put its four pension funds on firmer financial ground.

But the pandemic, as well the rising cost of the city’s pensions, means the city’s ability to meet that goal is “particularly challenged,” and its credit rating could drop from BBB-plus, which is three notches above junk status, according to the report from lead Chicago analyst Jane Ridley and secondary analysts Carol Spain and Scott Nees.

“If the city’s final budget and management’s plans to address potential pressures beyond 2021 don’t make sufficient progress to return to structural balance, the rating will be pressured further,” according the report. “The city’s ability to absorb the additional pension expenditures and stay on a course to structural balance will be critical to maintaining the rating.”

A structurally balanced budget is one where expenses do not annually outpace revenues, which allows the city to keep its books in the black without using budget maneuvers that generate revenue that the city cannot rely on in future years.

It is of “critical importance” that Chicago make progress toward a structurally balanced budget to maintain its current rating, according to the report.

In 2021 the city will pay its four pension funds \$1.8 billion, approximately \$91 million more than in 2020, from its \$4 billion general operating fund, according to Lightfoot’s proposed budget. That is a 9% drop from 2020, according to the analysis.

Chicago’s four pension funds — police, fire, municipal and laborers — are less than a quarter of the way to being fully funded. In 2022, Chicago will have to pay \$2.25 billion toward those funds to

reach a funding level that could meet 90% of the fund's liabilities during the next 40 years, according to the report.

But given the economic collapse triggered by the coronavirus pandemic, that might not be enough.

"In addition, given the magnitude of the problem and reliance on market returns to stay on track with pension funding, it is possible that even if the city takes all the right steps to align expenditures with revenue, effects from COVID-19 and the recession could still result in fund performance that sets funding levels further back," according to the report.

The pressure from the city's underfunded pensions — deemed "acute" by Standard and Poor's — accounts for 45% of the 2021 property tax hike proposed by Lightfoot.

Chicago finance officials project that 10% of property owners won't pay their tax bills in 2021 — although in a typical year, approximately 3% of property owners do not pay their taxes.

Lightfoot blamed a 2016 state law for forcing the additional increase because it requires the city to use property tax revenue to make the full required payments to its pension funds, regardless of how many property owners fail to pay their bills.

After 2021, the city's property tax levy will be tied to increases in the cost of living, as measured by the federal government's consumer price index. Most government agencies follow a similar procedure, and Lightfoot said it would help avoid huge increases in the future.

The city needs \$51.4 million in new property tax revenue to help fill the \$1.2 billion budget gap, according to Lightfoot. But the rest of the revenue expected to be generated by the proposed increase, equal to 1.3% of a property's value, will be earmarked for pension payments, according to Lightfoot's proposal.

If the City Council approves Lightfoot's plan, it will add \$56 per year to the tax bill for the owner of a home worth \$250,000, city officials said.

The analysis by Standard & Poor's acknowledges that it would be nearly impossible for Chicago officials to close such a large deficit by cutting spending or raising revenues to get to a structurally balanced budget.

Approximately 53% of the budget solutions proposed by Lightfoot come from one-time measures, primarily \$500 million in savings from restructuring outstanding debt, according to the analysis.

Lightfoot's proposal to close an additional deficit of \$799 million for the 2020 fiscal year relies entirely on one-time solutions. Including \$100 million from refinancing approved by aldermen in 2019, \$350 million in federal relief funds approved in March and \$350 million from the new debt restructuring plan.

The report from Standard & Poor's also warns aldermen and the mayor not to dip into the city's reserve funds, which they say has about \$1 billion in cash.

"In our view, a sustained deterioration in liquidity or reserves could also negatively pressure the rating," according to the report.

The report calls Chicago's reserves "strong and stable" and says the agency considers them "a high point."

Chief Financial Officer Jennie Huang Bennett has already made that case to the City Council's Finance Committee, only to face pushback from aldermen reluctant to lay off workers and hike property and gasoline taxes while the city has so much money in the bank.

Instead, Lightfoot's plan proposes to borrow an additional \$1.7 billion to refinance existing city debt to save \$450 million in 2020 and \$501 million in 2021 using scoop and toss, a budget-stretching tactic reviled by fiscal watchdogs as a costly gimmick.

"This approach increases the city's fixed costs and can limit flexibility in the future by elevating the debt burden and extending the final maturity," according to the report. "However, it also allows the city to keep reserves on hand to fill future budget gaps or revenue shortfalls, if needed."

In addition, those funds could be used quickly to respond to another wave of the pandemic, which could cost the city another \$442 million in a worst-case scenario, officials said.

wttw.com

Heather Cherone | October 26, 2020 7:25 am

Fortress Plans to Sell \$2.4 Billion for Vegas Rail, Still Record.

Fortress Investment Group cut the size of its municipal bond sale for a passenger railroad between California and Las Vegas by \$800 million to \$2.4 billion, seeking to draw enough buyers to finance the speculative project.

The size of the offering of unrated securities was included in a preliminary pricing wire viewed by Bloomberg. While it's less than the \$3.2 billion the company had intended to sell, it would still be the largest ever offering of unrated municipal securities. They are expected to price this week.

Yields range from 7% to 7.5% depending on the call dates, with final maturity in 2050, in line with earlier price guidance although the call features differ. That yield on a 30-year bond would be about four times what the highest rated state and local governments pay, data compiled by Bloomberg show.

The update comes as Fortress's Brightline Holdings LLC is offering to buy back as much as \$250 million of bonds from investors sold for its Florida railroad. It will buy them for 100 cents on the dollar, about 17% more than where some of the securities have been trading, on the condition that its sale for the Las Vegas line occurs.

Ben Porritt, a spokesperson for Brightline, declined to comment. Samantha Kreloff, a spokesperson for lead underwriter Morgan Stanley, didn't immediately respond to a request for comment.

Last week, Fortress updated terms to put more equity into the Las Vegas project and lengthened the period that a reserve account could be used for payments to bondholders. The increase in equity brings it to a total of \$3 billion, representing 32% of the capital structure, up from the previous 28%, according to bond documents. The venture plans to use a total of \$6.38 billion of debt for the \$8.4 billion project.

Brightline expects the rail to ultimately extend to Los Angeles. For now, the bond issue will cover a 169-mile (272-kilometer) line connecting Las Vegas to a southern California desert town called Apple

Valley, 90 miles away from downtown Los Angeles. The first high-speed, fully electric rail in the U.S. will run in 2024, according to offering documents.

Bloomberg Markets

By Romy Varghese

October 20, 2020, 10:48 AM PDT

Fortress Eases Nuveen's Concerns With Tweaks to Vegas Deal.

- **Nuveen's Miller now sees debt 'in a more positive light'**
- **Deal scaled back, with more protections for bondholders**

Nuveen's John Miller, the biggest backer of Fortress Investment Group Inc.'s Brightline passenger railroad in Florida, had been skeptical of plans to forge ahead swiftly with a multi-billion dollar venture to build a second line running between Southern California and Las Vegas.

But with the company now offering to buy back some of its Florida bonds and provide added safeguards for investors, Miller said in an interview that he's starting to see the debt offered for the Las Vegas project "in a more positive light."

With this week's changes, Fortress is counting on money managers like Miller, who runs the biggest high-yield mutual fund in the tax-exempt debt market, to complete a record sale of unrated municipal bonds to finance its latest venture just as the coronavirus is roiling the tourism and transit industries.

Deal Changes

Fortress-backed Brightline Holdings cut the size of the debt sale by about \$800 million to \$2.4 billion, according to a preliminary pricing wire viewed by Bloomberg, an indication that some investors were balking at buying the securities.

On Tuesday, Brightline offered to buy as much as \$250 million of bonds sold for its Florida railroad for 100 cents on the dollar, about 17% more than where some of them have been trading, on the condition that its sale for the Las Vegas line occurs. It also said it will lengthen the ability to tap a reserve account for debt payments, a protection for bondholders.

In addition, last week Fortress told prospective buyers that it put more equity into the Las Vegas project and did a similar extension of the period that a reserve account could be used for debt payments. While the bonds being marketed will cover a 169-mile (272-kilometer) line connecting Las Vegas to a Southern California desert town called Apple Valley, 90 miles away from downtown Los Angeles, Fortress plans to ultimately connect to an existing rail station serving the second-most populous U.S. city.

'Positive' Change

The action on the Florida bonds shows Fortress's commitment to that project and "improves the confidence level" in the Las Vegas venture, said Miller, whose firm manages about \$30 billion in high-yield bonds and owns 80% of those issued for the Florida railroad. Also, the proposed connection to Los Angeles is "a really important change from a fundamental standpoint and a

positive,” Miller said.

“These are the sorts of the points of progress that should for our team get us more excited about Los Angeles to Las Vegas,” said Miller, who declined to say whether the firm would buy the debt.

Fortress has until Dec. 1 to turn enthusiasm into orders to meet a deadline for the sale from California, which extended the company the power to sell tax-exempt debt through a state agency. Officials there and in Nevada, which approved similar authority, declined to comment on the decision to cut the size of the debt offering. Brightline spokesperson Ben Porritt declined to comment.

Fortress needs continued support for the Las Vegas venture, with plans to raise a total of \$6.4 billion in debt for the \$8.4 billion project it expects to open for service in 2024.

Borrowing Surge

The Brightline debt sale is coming just as municipal managers are swamped with new offerings as governments race to borrow now in case the November presidential election upsets financial markets.

At \$2.4 billion, the offering is “still a pretty sizable high yield deal that is not without risk,” said Terry Goode, a senior portfolio manager at Wells Capital Management, which holds \$2.3 billion in high-yield securities among its \$41 billion in municipal debt under management. He noted that it also comes amid a busy debt sale calendar and “just before potential volatility from the election.”

Bloomberg Markets

By Romy Varghese

October 21, 2020, 4:00 AM PDT Updated on October 21, 2020, 9:03 AM PDT

— *With assistance by Danielle Moran*

Brightline Offers to Buy \$250 Million of Florida Train Bonds.

The Fortress Investment Group-backed passenger railroad in Florida, Brightline Holdings LLC, is offering to buy back as much as \$250 million of bonds from investors for 100 cents on the dollar, about 17% more than where some of the securities have been trading.

The company is offering to purchase \$100 million of bonds priced with a 6.25% interest rate and a mandatory tender in 2024 and \$150 million of those with a 6.5% coupon and subject to a mandatory tender in 2029, according to a notice filed to the Municipal Securities Rulemaking Board’s online repository on Tuesday.

The 2024 bonds last traded on Sept. 28 at 87.5 cents on the dollar and the 2029 tranche last traded on Oct. 7 at 85.5 cents, according to trade data collected by Bloomberg.

The company is making the tender offers in connection with a bond sale for Brightline West, the planned passenger railroad stretching between Las Vegas and Southern California. The tender offers are conditioned upon the execution of that sale, according to the document.

The sale of \$2.4 billion in unrated municipal securities for the project is scheduled to price this week, according to a pricing wire seen by Bloomberg. Yields range from 7% to 7.5% depending on call date, with final maturity in 2050. The deal was originally marketed as a \$3.2 billion sale and was scheduled for Oct. 14.

Bloomberg Markets

By Danielle Moran

October 20, 2020, 7:37 AM PDT Updated on October 20, 2020, 10:58 AM PDT

— *With assistance by Davide Scigliuzzo, and Romy Varghese*

[CEQA Amended to Expedite Transit and Sustainable Transportation Projects: Nossaman](#)

Governor Newsom recently signed into law Senate Bill 288 (the “Sustainable Transportation COVID-19 Recovery Act”), which will temporarily add new exemptions to the California Environmental Quality Act (CEQA) statute. The purpose of SB 288 is to fast track transit and sustainable transportation projects, provide a boost to public transit agencies affected by COVID-19, aid economic recovery by producing jobs, and reduce driving and GHG emissions.

These statutory exemptions may help expedite environmental review of transportation projects that are specifically ... [Continue](#)

By Tina Kim on 10.19.2020

Nossaman LLP

[New York Faces \\$59 Billion Revenue Shortfall.](#)

Gov. Cuomo says services will be cut and taxes will increase if Congress doesn’t pass another relief package

ALBANY, N.Y.—New York governments and authorities are projecting \$59 billion of revenue shortfalls through 2022 because of the continuing coronavirus crisis, one of the deepest funding holes of any state.

Gov. Andrew Cuomo, a Democrat, said services will be cut and taxes will increase if Congress doesn’t pass another relief package—which Democrats say should include direct aid to states and cities hit by the pandemic. Mr. Cuomo said recently that he will postpone decisions in the hope that Democrats make gains on Election Day Nov. 3.

New York reported more than 32,000 deaths due to the coronavirus, and the pandemic decimated public finances. New York’s state government lost an estimated \$14 billion in the current fiscal year and \$16 billion in the coming fiscal year. Transportation authorities around New York City expect to take in \$15 billion less revenue due to drops in subway, train and air passengers. And New York City and other local governments will be grappling with \$13.5 billion in shortfalls over the next two

years, Mr. Cuomo's office estimates.

[Continue reading.](#)

The Wall Street Journal

By Jimmy Vielkind

Oct. 20, 2020 8:51 am ET

Vermont Bond Bank Accepted to the Nasdaq Sustainable Bond Network.

Winooski, VT (October 19th, 2020) - The Vermont Bond Bank ("Bond Bank") joined the Nasdaq Sustainable Bond Network following an application and a positive review by Nasdaq of the Bond Bank's conformance with their sustainability criteria.

The Nasdaq Sustainable Bond Network is an international network of bond issuers meeting sustainable standards. The platform provides investors with a readily available source to find impactful fixed income investments through proprietary market data feeds.

The Network, launched in late 2019, defines sustainability bonds, "as loans used to finance projects that bring clear environmental and social-economic benefits."

In joining the network, Executive Director Michael Gaughan commented, "We're thrilled to join the Nasdaq Sustainable Bond Network and its international effort highlighting issuers that are committed to social and environmental causes. Vermont's communities also share this commitment and the platform further helps us support local sustainability efforts throughout the state."

The Bond Bank will join other municipal issuers such as the New York Housing Finance Agency and the San Francisco Public Utilities Commission that are also committed to financing impactful public projects.

About the Bond Bank

The Vermont Municipal Bond Bank was created by the Vermont legislature in 1970. The Bond Bank is governed by a five-member Board of Directors with four appointed by the Governor and the State Treasurer serving as an ex-officio member.

The Bond Bank is a state instrumentality with a mandate to "foster and promote by all reasonable means" access to long-term debt financing for governmental units while, to the extent possible, reducing related costs to taxpayers and residents.

The Bond Bank also co-manages the Clean Water and Drinking Water State Revolving Funds with the Department of Environmental Conservation.

Please visit vtbondbank.org for more information on the Bond Bank and its programs.

Contact: Michael Gaughan

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vtdigger.org

Prince George's Co. School Board Approves Public-Private Partnership to Build Schools.

The school board in Prince George's County, Maryland, approved alternative financing to build six schools.

The board voted Wednesday night, 11-1 with one abstention, to approve a public-private partnership to finance, design and build the schools and maintain them for 30 years. In exchange, the school system will pay \$1.2 billion over 30 years.

Prince George's County Public Schools CEO Monica Goldson said when students at Drew-Freeman Middle School in Suitland return to classes Feb. 1, 2021, they will see the same outdated building.

"They will enter a school building that is 60 years of age and nothing has changed," Goldson said. "All we have done is a Band-Aid and patchwork. And unfortunately, Drew-Freeman is not the only school."

Goldson told reporters that the county school system is facing a backlog of \$8.5 billion in school infrastructure replacement and renovation. She also stated that over 40% of the school buildings are over 60 years old.

County Executive Angela Alsobrooks was one of the speakers at a news conference Wednesday, calling for support of the partnership.

"It is well-needed and well-deserved by all of our families who have said to us they did not want delay. They did not want us to be bound up in bureaucracy. They wanted action," Alsobrooks said.

According to the school board, the partnership with Prince George's County Education and Community Partners would allow for faster construction of five new middle schools, including Drew-Freeman, and one K-8 school.

Under traditional public funding, it would take up to 16 years to complete, while the partnership projects are expected to be completed in three.

Under the partnership, private firms would build the six schools and maintain the facilities for 30 years.

The school system would pay off the \$1.24 billion price tag for the project, which would include interest, over that 30-year period.

"If we wait, our student enrollment will only continue to increase and our school buildings will grow older," Alsobrooks said. "And we cannot predict that the state budget will make adequate funding available for school construction."

Opponents argued that work with a private group could cause problems like those seen on the Purple Line project. They were also wary of transparency and the terms of the contract.

But for supporters, such as former teacher Elsie Jacobs, who spent years at Drew-Freeman Middle

School, the time is now.

"The heat didn't work; the air didn't work. It is time that somebody do something for these kids in this community," Jacobs said.

WTOP.com

by Luke Lukert

October 21, 2020, 9:20 PM

Fortress Delays Pricing of \$3.2 Billion Vegas Train Deal.

- **Company has been holding investor calls since late September**
- **No new pricing date has been set yet, according to sources**

Fortress Investment Group delayed the pricing of \$3.2 billion of municipal bonds to build a passenger railroad between southern California and Las Vegas, a sign that investors were hesitant to finance such a speculative project at a time of deep economic uncertainty.

The company boosted the equity contribution to the project by \$500 million, among other changes, according to updated documents released Wednesday.

Lead underwriter Morgan Stanley had planned to price the deal Wednesday, according to a pricing wire viewed by Bloomberg. The offering has now been postponed with no new date set, according to people familiar with the matter who asked not to be identified because the discussions are private. The deal is listed as day-to-day.

Samantha Kreloff, a spokesperson for Morgan Stanley, and Ben Porritt, a spokesperson for Fortress's Brightline Holdings, declined to comment.

Updated Rate

The company has been holding investor calls since at least the last week of September, when offering documents were released. Investors were pitched last week on yields ranging from 7% to 7.5% depending on call date, with final maturity in 2050, for the largest offering of unrated municipal securities. Updated documents Wednesday estimated a 7.25% interest rate.

"If they can open that deal up to crossover buyers then it could get done, but if they can't — I think they will struggle filling that order book," said Jason Appleson, a portfolio manager at PT Asset Management in Chicago. "The muni market just isn't big enough to support a deal like that."

The increase in equity brings it to a total of \$3 billion, representing 32% of the capital structure, up from the previous 28%, according to bond documents. Other changes include boosting a reserve account and reducing future indebtedness. The venture now plans to raise a total of \$6.38 billion in debt, down from \$6.5 billion, for the \$8.4 billion project.

Deadline Looming

Brightline has until Dec. 1 to sell the bonds to meet a deadline from California officials, who had granted the company the ability to sell tax-exempt debt. In September, Brightline sold \$1 billion in

short-term securities to preserve its federal allocation of so-called private activity bonds that it will refinance next year, according to offering documents.

Brightline expects the rail to ultimately extend to Los Angeles. For now, the bond issue will cover a 169-mile (272-kilometer) line connecting Las Vegas to a southern California desert town called Apple Valley, 90 miles away from downtown. The first high-speed, fully electric rail in the U.S. will run in 2024, according to offering documents.

Bloomberg Deals

By Romy Varghese

October 14, 2020, 8:10 AM PDT Updated on October 14, 2020, 11:37 AM PDT

— *With assistance by Danielle Moran*

[California's Boom Collapses as Fires Add \\$1.1 Billion Toll.](#)

- **Climate change threatens state's economic growth and vibrancy**
- **'One-two punch' of blazes, virus seen deepening unemployment**

The wildfires, power outages and extreme weather that have ravaged California are setting the stage for a deepening economic crisis for an engine of U.S. growth.

Blazes that scorched 4.1 million acres, more than the past three years combined, have cost a record \$1.1 billion to battle. S&P Global Ratings is warning that a new fund to help utilities cover liabilities may fall short. California's finances are already battered, with the coronavirus pandemic busting a \$54 billion hole in the budget and hope fading for federal stimulus anytime soon.

Meanwhile, the state's financial needs and strains with the Trump administration came to the fore Friday after the White House denied a request for disaster aid for six blazes in September. That decision was later reversed, Governor Gavin Newsom said.

[Continue reading.](#)

Bloomberg Green

By Romy Varghese

October 16, 2020, 5:00 AM PDT Updated on October 16, 2020, 2:42 PM PDT

[Governor Newsom Signs Major Housing and Transit CEQA Streamlining Bill: Nossaman](#)

On August 29, 2020, Governor Newsom signed into law [AB 2731](#), which is intended to support the potential redevelopment of the 70-acre Navy Old Town Campus in downtown San Diego. The site would include a LEED Gold certified transit hub, a public transit connection to the San Diego International Airport and adjacent transit-oriented development, including up to 10,000 new

residential units. The bill was authored by California State Assemblymember Todd Gloria and Senate President pro Tempore Toni G. Atkins. It authorizes the San Diego Association of Governments (SANDAG) to acquire a portion of the site to house the new transit facility and to expedite judicial review of future California Environmental Quality Act (CEQA) challenges to SANDAG's Environmental Impact Report evaluating the facility.

Public infrastructure projects that are necessary to support local and state transit and climate change goals may be mired in years of litigation, delaying delivery of major projects even when the public agency has prepared a full Environmental Impact Report. Consistent with CEQA, AB 2731 encourages disputes regarding the content of the Environmental Impact Report to be resolved through a robust public engagement process instead of through protracted and costly litigation.

A transit hub and airport connection at the Navy-owned site is one of several concepts being evaluated by SANDAG as part of its ongoing transportation planning efforts. Increasing regional connectivity to the San Diego International Airport is a key planning objective of the agency.

In order to qualify for streamlining, AB 2731 requires that the future transit facility result in no increases in greenhouse gas emissions and support substantial reductions of single-occupancy vehicle use in the San Diego region.

AB 2731 also streamlines environmental review for future transit-oriented development on the site by authorizing the use of an Environmental Impact Statement that is being prepared by the U.S. Navy for purposes of future CEQA compliance required for the development's approval. The U.S. Navy published a Notice of Intent to Prepare an Environmental Impact Statement for the Navy Old Town Campus Revitalization on January 24, 2020. In order to be used for CEQA compliance, AB 2731 requires both that the future transit-oriented development be consistent with the U.S. Navy's development assumptions and that the Environmental Impact Statement satisfy CEQA's procedural and substantive requirements, including the adoption of all feasible mitigation measures to reduce the potentially significant impacts of future development.

AB 2731 passed without opposition in both houses of the California Legislature and is among the most significant CEQA streamlining bills enacted this year.

Nossaman LLP

By Liz Klebaner on 10.08.2020

[Central Arkansas Utility Set to Issue 'Green Bonds'](#)

Funds earmarked for environmentally friendly projects

A clarifier, used to remove particles and solids from water, is shown in this July 2019 file photo. Central Arkansas Water will be the first-ever municipal water utility to issue bonds that meet Climate Bonds Initiative standards, which dictate the funds must be used for conservation and environmentally friendly projects.

Bonds are loans made to large organizations, such as local governments in the case of municipal bonds. Cities and governmental organizations, including Central Arkansas Water, often use debt financing to fund capital projects and ongoing infrastructure needs.

Central Arkansas Water commissioners last week approved the issuance of about \$31 million in “green bonds,” which meet standards set by the Climate Bonds Initiative, an international nonprofit organization that seeks to harness the \$100 trillion global bond market to create solutions to climate change, according to its website.

According to the initiative’s standards, proceeds from “green bonds” are to be specifically directed to pay the costs of design, construction, property acquisition and other related expenses necessary for eligible projects.

Central Arkansas Water estimated that 35% of the proceeds from the bond issue will be allocated to purchase land around the Lake Maumelle watershed. The utility routinely acquires parcels of land in the watershed in an effort to protect drinking water from contaminants.

The other 65% is set to go toward infrastructure that the utility says will help improve its ability to transport and deliver water and prevent water waste, including installing high-efficiency water treatment equipment and replacing and rehabilitating pipelines to prevent leakage and overflow.

Jeff Mascagni, chief financial officer for the utility, said meeting the criteria would expand the group of people who could be interested in buying those bonds, as well as make Central Arkansas Water an industry leader among municipal water utilities.

“It’s an innovative deal. We’re going to be the first one that’s issued this kind of bond under these criteria, so we’re really proud of that,” Mascagni said at last week’s regular board meeting.

The “green bonds” were part of a \$60 million bond package the utility’s board of commissioners approved Thursday.

Central Arkansas Water worked with the World Resources Institute, a Washington-based think tank that works on environmental and economic issues, and Encourage Capital, a financial services firm in New York City, to prepare the issuance of the bonds and certification under the Climate Bonds Initiative’s criteria for water infrastructure.

“This bond is special because it will help secure clean drinking water for the residents of central Arkansas by both financing state-of-the-art infrastructure and also protecting our rich forestland and other natural ecosystems,” Central Arkansas Water Chief Executive Officer Tad Bohannon said in a news release from the World Resources Institute.

Central Arkansas Water received certification from the Climate Bonds Initiative on Tuesday.

The bonds are set to be posted today.

Central Arkansas Water provides water for a population of nearly 500,000 in the seven counties that make up its service area.

arkansasonline.com

by Rachel Herzog | Today at 7:20 a.m

[Bon Secours Mercy Health Refinances \\$322 Million Through JEDA.](#)

Bon Secours Mercy Health, Inc., through its partner HealthSpan, is using \$322 million in bond

funding from the S.C. Jobs-Economic Development Authority (JEDA) for refinancing across its system of six hospitals in Greenville, Charleston, Mount Pleasant and Goose Creek.

The Catholic health care ministry, one of the nation's 20 largest health systems, employs 8,800 people at Roper Hospital, Bon Secours St. Francis Hospital, Roper St. Francis Mount Pleasant Hospital, Roper St. Francis Berkeley Hospital, St. Francis Hospital and St. Francis Hospital (Eastside).

The \$322 million in hospital facilities revenue bonds will be used to refinance prior debt incurred by Roper St. Francis Healthcare, for expansions in Charleston and Berkeley Counties, and by St. Francis Hospital, for expansions in Greenville County.

"We're pleased we could be part of the team to help Bon Secours Mercy Health with these complex financial issues. It is always an honor to help healthcare providers meet their missions and serve the healthcare needs of South Carolinians," said Jeremy Cook, South Carolina Bond Counsel with Haynsworth Sinkler Boyd, P.A., in Charleston.

"JEDA appreciates once again being called upon to help provide these outstanding medical providers with the tax-advantaged financing they need. That's been an important segment of our bond work for decades," said Harry Huntley, CPA, Executive Director of JEDA in Columbia.

scjeda.com

October 13, 2020

Las Vegas High-Speed Rail Bonds Test Wall Street's Risk Appetite.

- **Yield-hungry buyers eye \$3.2 billion in unrated municipal debt**
- **After deadline extended, deal planned for next week: sources**

Fortress Investment Group plans to sell a record \$3.2 billion of unrated municipal securities next week to finance a passenger train to Las Vegas. The pricing will signal how far investors will go for higher returns amid persistently low rates and economic uncertainty.

Morgan Stanley, the lead underwriter, intends to set pricing terms next week, according to people familiar with the matter who asked not to be identified because the discussions are private. The deal is listed as day-to-day. Samantha Kreloff, a spokesperson for Morgan Stanley, declined to comment on the timing.

The company's Brightline Holdings expects the rail to ultimately extend to Los Angeles. For now, the bond issue will cover a 169-mile (272-kilometer) line connecting Las Vegas to a southern California desert town called Apple Valley, 90 miles away from downtown. The venture plans to raise a total of \$6.5 billion in debt for the \$8 billion project. The first high-speed, fully electric rail in the U.S. will run in 2024, according to offering documents.

Success of this deal will show that "there's a lot of people looking for yield in this low-rate environment and people are comfortable with the risks of infrastructure projects," said Dan Solender, head of municipal debt at Lord, Abbett & Co.

In a video to prospective buyers, Brightline predicted profit margins of at least 70%. Its train would

provide a comfortable and environmentally friendly ride to Las Vegas and take about three hours, compared with up to six hours by car, and entail less hassle than flying. Potential pitfalls listed in the offering documents include construction delays and diminished demand because of the coronavirus pandemic and more specific issues like Richard Branson's Virgin Enterprises Ltd. challenging Brightline's termination of their branding agreement.

Brightline had said it planned to sell the debt for the Las Vegas rail by Sept. 30 to meet a California deadline, but it received an extension to Dec. 1. In September, Brightline sold \$1 billion in short-term securities to preserve its federal allocation of so-called private activity bonds that it will refinance next year, according to offering documents.

Last week, Morgan Stanley pitched corporate junk-bond buyers and overseas investors on the offering and suggested yields as high as 7.5%, according to people familiar with the matter who asked not to be named as the talks were private. That yield on a 30-year bond would be about four times what the highest rated state and local governments pay, data compiled by Bloomberg show. Ben Porritt, a Brightline spokesman, declined to comment on the deal.

Fortress, owned by Softbank Group Corp., has invested more than \$30 billion in infrastructure-related assets over the past decade. Officials in California and Nevada, which awarded the company the ability to issue tax-exempt debt, have touted the prospect of jobs and economic development the project could bring. The company is considering adding a commuter station in Hesperia, California along the line. Office workers could use the rail instead of driving, said Jim Colby, senior municipal strategist at Van Eck Associates Corp.

"Long-term, this has some aspects that are positive, and not just driven by tourism," Colby said. "Pandemic aside, this probably can be a profitable enterprise."

Profits haven't materialized for the company's previous venture, the first privately funded intercity passenger train in the U.S. in a century. The luxury rail line in Florida has struggled to meet revenue estimates and has suspended service because of the pandemic. The company is looking to boost future ridership by adding stations.

Fortress last year raised a then-record \$1.75 billion of unrated municipal debt for the project under the name Virgin Trains USA. Those securities were sold at initial yields of as much as 6.5%. The price of its bonds due in 2049 has slid to an average of 87 cents on the dollar.

For the Las Vegas to Los Angeles venture, the company projects \$1.1 billion in annual revenue in 2027, after three years of operations, according to the offering documents. It expects about 11 million one-way trips that year.

The securities are being marketed as green bonds because they're financing clean transportation and environmentally friendly buildings. Besides eliminating tons of carbon emissions annually by replacing car trips, the company will pledge to plant a tree for every ride.

Bloomberg Markets

By Romy Varghese

October 7, 2020, 4:00 AM PDT

— *With assistance by Davide Scigliuzzo*

Illinois Eyes Second Fed Loan If Aid, Income-Tax Vote Fail.

- **Governor needs to fill \$4.1 billion deficit this year**
- **State's voters will cast ballot on graduated income tax Nov. 3**

Illinois, the only U.S. state to borrow from the Federal Reserve, will likely have to tap the central bank again to help close its \$4.1 billion deficit if federal aid doesn't come through and voters reject a ballot measure to raise taxes on the rich, according to Governor J.B. Pritzker.

The cash-strapped state sold \$1.2 billion in short-term debt in June to the Fed to help close its fiscal 2020 budget gap. While Pritzker is optimistic that stimulus will arrive at some point and voters next month will approve his signature agenda item to end Illinois's flat income tax, he's prepared to use the Fed's Municipal Liquidity Facility, a lifeline for state and local governments, for a second time.

"If there is no support from the federal government or there's no fair tax, and so given that situation, we would certainly, for some of that, we would need to go to the MLF borrowing facility, but we would also implement cuts," Pritzker, a billionaire Democrat, said in an interview. He's asked state agencies to submit proposals for 5% spending cuts this year and another 10% for fiscal 2022.

Illinois isn't alone in its woes. States are facing about a \$200 billion revenue shortfall from fiscal 2020 through 2022, according to Moody's Analytics, but Illinois has little cushion. The state has more than \$8 billion of unpaid bills, about \$137 billion of unfunded pension liabilities, and its rainy day fund has \$858,873. Its borrowing penalty is the highest among states tracked by Bloomberg, with its credit rating only one step above junk.

Higher Levies

If approved in November, the graduated income tax would bring in about \$1.2 billion for fiscal 2021, which began July 1. For a full year, it would bring in \$3.1 billion, according to state estimates. Illinois's flat tax of 4.95% would move to a progressive rate in January 2021 and boost levies on those earning more than \$250,000. Rates would range between 4.75% and 7.99% for individuals.

According to a poll released in March by the Paul Simon Public Policy Institute at Southern Illinois University Carbondale, about 65% of voters supported the amendment, and 32% were against it. The survey of 1,000 registered voters, conducted between Feb. 10 to 17, has a margin of error of plus or minus 3.1 percentage points.

Still, opponents of the graduated tax have grown more vocal as Election Day approaches. The Coalition to Stop the Proposed Tax Hike Amendment calls the measure "bad for Illinois," arguing it would give politicians more power to raise taxes, hurt small businesses and not provide "material" relief to middle- and lower-income taxpayers, according to its website.

"The bottom line is we can't trust the politicians in Springfield with a blank check," Lissa Druss, spokesperson for the coalition, said in an email.

Ken Griffin, founder of hedge fund Citadel LLC, has donated \$46.75 million to that group to help fight the measure, while Pritzker has given \$56.5 million to the "Vote Yes for Fairness" committee, which supports the change.

The passage of the measure, "at this point, it seems more uncertain," said John Shaw, director of the Paul Simon Public Policy Institute. The pandemic, racial tensions and other political debates in the

state and around the U.S. have taken up a lot of the attention and “deepened Illinoisan’s cynicism” of government, he said.

‘Draconian Cuts’

In Washington, U.S, Senate Majority Leader Mitch McConnell said the differences are likely too big for an agreement on a new comprehensive stimulus package before the election, despite President Donald Trump’s renewed interest in striking a deal.

Without additional revenue from the higher levies or federal aid, Illinois Comptroller Susana Mendoza is warning that the state could see unpaid bills balloon and will have to look at “draconian cuts.”

The graduated income tax “won’t get us all the way there but a combination of cuts, plus new revenues coming in and ideally we get federal funding,” Mendoza said. “But I think we have to plan on worst case scenario.”

A defeat of the income-tax measure doesn’t mean a downgrade will be automatically triggered, said Eric Kim, an analyst for Fitch Ratings. Fitch lowered the state’s rating in April to just one notch above junk, the same level as S&P and Moody’s Investors Service. All three cut their outlook on the state’s debt to negative in April amid the pandemic.

This week, S&P and Fitch Ratings affirmed their BBB- rating on Illinois and Moody’s affirmed its equivalent Baa3 rating. All three have a negative outlook. Those ratings apply to \$850 million in general obligation bonds the state plans to issue Oct. 20 to pay for capital projects and its early retirement program.

Economic Outlook

The passage of the graduated income tax may help the market’s perception of Illinois but doesn’t completely change the fundamentals, said John Miller, head of municipals for Nuveen, which holds Illinois among its \$188 billion in muni assets under management as of June 30.

“You still need growth in the economy to improve their budgetary situation,” Miller said.

Through September, general fund state sales tax receipts were \$1 billion ahead of forecasts, according to S&P. Sales taxes through the first quarter were 9.9% above forecasts and roughly flat compared to the previous year, the ratings company said in an Oct. 7 report.

“Our revenues have outperformed our projections,” Pritzker said. “That’s a very good thing. It means our economy is recovering at a faster rate than our experts, economists had predicted.”

Still, Pritzker cautioned that he’s concerned about the level of unemployment and the ongoing spread of the pandemic. Illinois’s unemployment rate is still about 11% and its rolling 7-day virus positivity rate is about 3.7%, with the daily case count reaching the highest since May on Thursday, excluding a day in September when the state released backlogged data.

“This pandemic is not over,” he said. “This is going to be a difficult period for the country.”

Bloomberg Economics

By Shruti Singh

'Plenty of Ways for Illinois to Hit Junk Pretty Quickly,' Analyst Says.

(The Center Square) - A public finance watchdog said the latest report on Illinois' finances from Fitch Ratings is evidence the state is on the verge of having a junk credit rating.

Fitch gave \$850 million of borrowing the state issued a BBB- rating. Some of that borrowing is for the state's pension buyout program, the rest is for capital projects.

Wirepoints President Ted Dabrowski said the pension buyout program is a distraction and not providing real savings. He said the Fitch report shows state's politicians are running out of options and are costing taxpayers more by borrowing more money.

"They're even warning 'yes, the tax hikes might help the bondholders,' the bondholders would be happy with tax hikes because that'd be more money for them, but that doesn't help the average Illinoisans," Dabrowski said.

Dabrowski said while neighboring Indiana may be borrowing at 1.5 percent with a good credit rating, Illinois' near junk status has the state paying 5.5 percent for borrowing.

"And the worse it gets the more of that the budget gets eaten up by the costs and the worse the public services go," Dabrowski said. "This is a state in decline in that sense because all of the money is being eaten up by financial costs."

Including pensions and debt service, Dabrowski said as much as 30 percent of the state budget is set aside to cover financial services like paying on growing debt obligations.

Last fiscal year, on \$2.8 billion of borrowing, taxpayers incurred interest costs of \$1.6 billion. The state also spends around a quarter of every tax dollar it takes in on pension debt.

Without real reforms to pensions to lower the obligation, and without real reforms to how much the state spends, Dabrowski expects the state to hit junk status.

"Clearly if the [progressive income] tax hike doesn't pass, that'll happen, and some people will view that as bad," Dabrowski said. "But it's actually, what the government doesn't need is more money. What the government needs is reform."

There's also the \$5 billion of federal funds Illinois Democrats put in the budget that's nowhere in sight.

"If that doesn't happen, Gov. [J.B.] Pritzker has made no plans to figure out how to reduce expenses to do that so I think that could easily trigger a junk bond rating," Dabrowski said. "There's plenty of ways for Illinois to hit junk pretty quickly. It's all a question about how fast that happens and what triggers, but I think there's plenty of triggers there waiting."

Without specifics, Pritzker said earlier this week that agencies under his control are looking at cuts.

"What our agencies are looking at is grant programs, they're looking at their own personnel, and the hiring that they've needed to do," he said.

Flint Residents Sue Investment Banks, Accuse Them of Helping Create Water Crisis.

Flint residents seeking damages from the water crisis are accusing three investment banks of aiding in the exposure of tens of thousands of residents to toxic water when the city switched its water source more than six years ago.

Filed on behalf of 2,600 children in federal court in Detroit on Wednesday, the lawsuit against JPMorgan Chase & Co., Wells Fargo, and Stifel, Nicolaus & Co. claims that by financing the city of Flint's participation in a \$220 million municipal bond sale for the construction of a new water pipeline, the banks knowingly put Flint on a path to rely on the corrosive Flint River as a temporary water source and an ill-equipped water plant to treat the water.

"All three knew 100% that if they participated in the bond sale, children would get hurt, children would be brain damaged and people's lives would forever be changed," said Corey Stern, a lawyer at Levy Konigsberg LLP who filed the lawsuit.

The EPA determined in 2016 that Flint's water distribution system was too large and its treatment plant was inadequately staffed, operated and administered.

"But rather than doing the right thing, the ethical thing, the moral thing, they participated with government defendants in creating that situation for the kids in Flint because of the money that they stood to earn."

The plaintiffs are seeking monetary damages, a potential award that Stern values could be worth at least \$2 billion.

Wednesday's filing comes after Flint residents joined several other water crisis lawsuits that brought pressure and led to a \$600 million settlement two months ago with the state of Michigan for its role in the public health disaster that potentially exposed thousands of children to toxic levels of lead.

According to Stern, the case is centered on children younger than age 19 due to the level of damage he believes children incurred and because of statute of limitations laws in Michigan that allow minors to file claims that accrued when they were children until they reach the age of 19.

JPMorgan Chase declined to comment. Wells Fargo and Stifel, Nicolaus & Co. couldn't be immediately reached for comment Wednesday.

Flint's water crisis began in April 2014 when the city began using the Flint River as a temporary water source in order to cut costs so that it could upgrade its water treatment plant and connect to the new water pipeline once it was built. For decades, the city purchased already treated water from the Detroit Water and Sewerage Department, but it terminated the relationship in April 2013 after deciding to enter into a long-term customer contract with the Karegnondi Water Authority.

The bonds at the center of the lawsuit were issued in spring 2014 by the KWA, backed by Genesee County and Flint, to pay for the construction of a \$300 million pipeline from Lake Huron in Sanilac County that would carry water 70-miles inland to Genesee County and the city of Flint. The water authority was formed by officials in Genesee, Sanilac and Lapeer Counties several years prior with

the intent of providing a new water supply alternative from Detroit's water system.

At the time, the city was at its debt limit, as regulated by the state constitution, and could not afford to participate in the sale of bonds. As a workaround, the bond counsel for Flint and the KWA, an outside environmental lawyer and the Michigan Department of Environmental Quality worked out an environmental consent order to remediate a toxic sludge pit tied to the water treatment plant.

The order allowed the city to access additional funding and also included a stipulation regarding the city's participation in the KWA project as part of the compliance program for the violation. The order allowed Flint to participate in the securities offering and was included in the bond's official statement, which allowed the bond sale to move forward as designed in April 2014. This provided financing for the pipeline project in time for construction season that year, but the money was used to pay for the KWA, not to help Flint pay to remediate the sludge pit.

Flint's total share of the project amounted to roughly \$85 million, and within weeks of the initial bond issuance, the city sought to quickly bring its water treatment plant online to start distributing Flint River water.

But the plant was not ready to dispense drinking water to residents, a Genesee County drain official testified at a criminal preliminary hearing of four Michigan Department of Environmental Quality employees in 2016. David Jansen, the senior assistant director of the Genesee County Drain Commission, said at the time that the water wasn't treated with corrosion control chemicals and resulted in lead leaching from aging pipelines into the city's drinking water.

According to the lawsuit, were it not for JPMorgan Chase, Wells Fargo and Stifel, Nicolaus & Co. underwriting the bond sale, the city would have been forced to continue buying water from Detroit, as it did not have the funds to pay to upgrade the plant once the pipeline was built or to use the Flint River in the interim.

"JP Morgan Chase, Wells Fargo and Stifel locked arms with the city of Flint. They locked arms with the Treasury Department. They locked arms with the DEQ. They locked arms so tight that it was impossible to tell one from the other," Stern said. "And in doing so, they violated every citizen of Flint's right to bodily integrity."

Christine Chung, an Albany Law School professor, said typically in municipal bond or bankruptcy cases, residents do not have standing in proceedings, with elected officials or municipal managers representing those interests.

But she did note the effort of federal Judge Steven Rhodes, a retired federal judge who oversaw Detroit's bankruptcy, to hear from the city's residents during the bankruptcy proceedings.

"That's where this is new," said Chung, who serves as the co-director for the law school's Institute for Financial Market Regulation. "That's just sort of a sad and defining characteristic of these cases, that where is the place for the voice of the residents in legal proceedings involving these matters of public finance and public governance?"

LeeAnne Walters, a Flint resident and mother who is one of the named plaintiffs in the case on behalf of her children, said she was cautiously optimistic about the lawsuit and believes bringing claims against the banks is an important step.

"All the players have been involved, need to be held accountable," said Walters, one of the earliest whistleblowers during the water crisis and now an environmental activist, on Wednesday. "The banks that put profit over safety need to be held to the same standard as everybody else and they

deserve to pay for the lives of lives that they have devastated.

Walters, whose twin children were three at the time of the crisis, says she sees the emotional and physical toll of the water crisis reflected in her kids every day from issues with hand-eye coordination to speech impairments and a continued refusal to drink water from a tap.

"It's taken some time, but good things come to those who wait," she said. "Hopefully as we go forward on this, the good guys keep being the good guys and the bad guys learn that it's not OK to be bad guys."

Arthur Woodson of Flint uses a bullhorn to chant with the crowd outside the Capitol as part of a Flint water crisis protest in 2016.

Upon learning about the lawsuit on Wednesday, Flint community activist Arthur Woodson was taken aback by the news and felt like it would bring a welcome spotlight to the six-year-long saga.

"I'm ecstatic because they're bringing more attention now and show people it was about them making money, not saving money," Woodson said of the lawsuit.

Woodson said the addition of the financial institutions feels like the start of a new phase in the water crisis litigation. "For them to go after the bank, that's for real, you're getting ready to fight," he said.

The Detroit News

by Kayla Ruble

Oct 7, 2020

[Fortress Eyes Junk Market for Record Las Vegas Train Deal.](#)

- **Morgan Stanley pitching buyers on \$3.2 billion of muni bonds**
- **Proceeds will fund passenger rail to Las Vegas from California**

Fortress Investment Group is turning to corporate junk-bond buyers and overseas investors to help finance its planned passenger train from Southern California to Las Vegas through the sale of \$3.2 billion of tax-exempt debt, a deal that's far larger than most issued in the state and local-government securities market.

Morgan Stanley, the lead underwriter, began reaching out to traditional U.S. high-yield money managers on Tuesday to gauge interest, according to people familiar with the matter who asked not to be identified because the discussions are private. The bank has also pitched the securities to European bond buyers familiar with infrastructure projects.

Such buyers are likely needed given the size of the securities offering. It would be the largest ever sale of unrated debt in the municipal market, a haven for risk averse investors where high-yield bonds are largely held by a handful of firms.

In initial conversations with potential buyers, the bank has indicated that the securities will yield as much as 7.5%, the people said. The sale is not expected to price until next week. A 7.5% yield for 30-year debt would be nearly five times what the highest rated state and local governments pay, data compiled by Bloomberg show.

Ben Porritt, a spokesperson for Fortress's Brightline Holdings, the company behind the railroad, said the project is generating a lot of interest. "Brightline West is one of the most ambitious and transformative projects in the country and we are excited to introduce it to investors," he said.

A spokesperson for Morgan Stanley declined to comment.

The offering will test the appetite for risky securities in the municipal market, where investors are desperate for fatter returns amid historically low interest rates. It comes as the pandemic continues to weigh on the economy, including the travel and entertainment industry that the Brightline project depends upon.

The sale is being done through California and Nevada agencies that extended their power to issue tax-exempt debt. The proceeds will finance construction of a rail line from Las Vegas to the California desert town of Apple Valley, about 90 miles (145 kilometers) from Los Angeles. The company intends to issue more debt to finance an extension to Los Angeles that will begin running in 2024, according to offering documents.

Offering tax-exempt bonds to high-yield investors worked out well for Fortress last year, when it raised a then-record \$1.75 billion of unrated municipal debt for a passenger rail project in Florida under the name Virgin Trains USA. Those securities were sold at initial yields of as much as 6.5%.

The unprofitable Florida line, however, has struggled to meet revenue estimates and has suspended service because of the pandemic. The price of its bonds due in 2049 has slid to 87.5 cents on the dollar to yield around 8.6%. The company is looking to boost future ridership by adding stations.

Bloomberg Markets

By Davide Scigliuzzo and Romy Varghese

September 29, 2020, 12:57 PM PDT

— With assistance by Gowri Gurumurthy

[Virgin Islands Suspends Nearly \\$1 Billion Bond Sale.](#)

The U.S. Virgin Islands suspended a nearly \$1 billion debt sale after a group of retirees filed a lawsuit challenging legislation that authorized it, extending the territory's exile from America's bond market.

The cancellation of the deal was necessary because of "the negative impact of ill-intentioned litigation deliberately filed in the Superior Court of the Virgin Islands on the eve of bond pricing and closing," Governor Albert Bryan Jr. said in a statement on Monday.

The deal was intended to refinance outstanding debt through a securitization corporation backed by the nearly \$250 million a year the Virgin Islands receives from the U.S. government, the territory's cut of the excise taxes on rum it ships to the mainland. Last week, the government delayed the deal, which was expected to price Sept. 24. The lawsuit was filed Sept. 22.

The sale had been expected to be a major test of the \$3.9 trillion municipal bond market, where investors have continued to snap up riskier securities as benchmark yields hold near the lowest in

decades. The territory hadn't sold long-term debt publicly in the U.S. for years as it wrestles with the same economic forces that drove its bigger neighbor, Puerto Rico, into financial ruin.

A debt service payment the island owes on Oct. 1 will be made on schedule, according to Bryan's statement.

Bloomberg Markets

By Danielle Moran

September 28, 2020, 12:35 PM PDT

S&P Medians And Credit Factors: Colorado Metropolitan Districts

Overview

Leading up to 2020, Colorado metropolitan districts had demonstrated overall positive credit quality for several years, supported by strong economic growth in the state, continued housing development, and lower debt ratios through good assessed value (AV) growth for several districts. However, the COVID-19 pandemic has introduced some uncertainty to the recently stable property tax collection history for districts created pursuant to the Colorado Special District Act (Title 32, Article 1).

Despite the recessionary impacts as a result of the pandemic, S&P Global Ratings expects the credit quality of Colorado metropolitan districts with tax rate flexibility and additional reserves to remain stable in the near term. For districts with limited-tax structures and little available reserves, a prolonged recession and decline in property tax collections could lead to downward rating pressure in the near term. In addition, should the trend of fluctuating oil prices in 2020 persist, there could be rating implications for districts with concentration in oil and gas.

According to U.S. Census Bureau population estimates, Colorado was the third-fastest-growing state in the nation from 2010 to 2019, with a cumulative population growth rate of 14.1% during that time. Metropolitan districts' responsibilities include both the construction of residential area improvements and the ongoing operation and maintenance of those improvements.

[Continue reading.](#)

28 Sep, 2020

Council Bills Could Pave the Way for a Public Bank in NYC.

The measures would require broader disclosure of where the city stashes its money now.

The City Council is considering measures that would scrutinize the city's relationship with corporate banks and other financial entities—disclosures that could pave the pathway to creating a municipal public bank in the future.

The first bill, Intro 2099, would require the Department of Finance (DOF) to submit a quarterly

report, every March, June, September and December, which would include the average daily balance, interest rate or earning allowance, interest earned, costs and fees reported both net and gross for each account. The DOF would submit the report to the Speaker of the City Council and publish on its website for the public.

The second bill, Intro 2100, would require the Director of Management and Budget to issue quarterly reports on the city's use of non-bank financial institutions such as payroll, lockbox, advisory, management, and bond-underwriting services. The reports would be issued to the Speaker of the Council, and would be posted on the Office of Management and Budget's (OMB) official website for the public.

Both bills were introduced by Manhattan Councilmember Mark Levine and have support from Councilmembers Keith Powers, Kalman Yeger and Robert Cornegy and Public Advocate Jumaane Williams.

"Today we are taking a big step forward by introducing legislation which will give us the critical information we need to move ahead in this project—clear reporting on just where all of our money is sitting right now," said Levine during an online press event last week. "The public should have this information. So we understand where our money is and what it is costing us. This is the first step."

Moves in Albany as well

Levine said the City Council is also working with state elected officials in the Senate and Assembly. The state legislature is considering a bill, introduced in January, which would authorize local municipalities to lend money to public banks and authorize public ownership of stock in them. The bill is currently both in the state Assembly and Senate legislature's banks committees for evaluation. The Senate bill S5565A and the Assembly bill A09665A; they were introduced by state Senator James Sanders and Assemblymember Ron Kim, respectively, both of Queens.

The City Council bills are part of a package of bills, targeting more financial transparency and how to help disparate communities, are now being developed to establish the country's first municipal bank.

A public bank is a bank of which a state, municipality or other public entity is the owner—unlike a private bank, where the owners are usually private shareholders. Current major public banking models include the Bank of North Dakota and the German Public Bank System as well as many nations' postal bank systems. In North Dakota, the public banking system was created to serve its agricultural economy and has existed for more than a century.

Last October, California passed a law that would allow local counties and municipalities to create public banks. The following month, San Francisco launched a task force to create a plan for establishing a public bank for that city. The task force report is due June 30th.

In New York, Public Bank NYC, a coalition of over 30 advocacy groups, has been pushing elected officials for the last two years to create a public bank system for local or state governments. NYPIRG, Chayya Community Development Corporation, New Economy Project, South Bronx Unite, Cooper Square Committee, New York Communities for Change, Brooklyn Cooperative Federal Credit Union are some of the members of the coalition.

According to the coalition, currently the city deposits its cash with 30 "designated banks," including JPMorgan Chase, Bank of America, and among other large corporate banks. Coalition members said the current banking system underscores the central role many corporate banks which deal with the

city's finances and taxpayers monies play in financing industries such as fossil fuel and real estate — “fueling the climate crisis, tenant harassment and displacement, and widening inequality.”

They want a public bank that would instead invest the city's holdings in entities like Community Development Financial Institutions, or CDFIs, which channel investment to distressed communities.

“By partnering with—and investing in—CDFIs, the public bank would increase their capacity to expand to even more communities and provide funding to worker-owned businesses and MWBEs that have been hardest hit by the pandemic,” said Linda Levy of the Lower East Side People's Federal Credit Union, one of the oldest federal credit unions in the city.

“We are fighting for a public bank as part of a broader effort to fundamentally transform our unfair, extractive economy,” said Deyanira Del Rio, co-director of New Economy Project, which coordinates the Public Bank NYC coalition. “Through a public bank, New York City can support permanently-affordable housing, small and worker-owned businesses, green infrastructure, and other equitable development in Black and Brown neighborhoods—and divest from Wall Street banks that are actively harming New Yorkers, our economy, and the planet.”

Seeking flexibility and disclosure

According to the coalition, under current New York law, local governments who are interested in establishing a public bank must apply for a commercial bank charter, which advocates say forces the local government to change the public banking approach to conform to a system designed for private, for-profit banking.

The Sanders bill, the “New York public banking act” updates and authorizes the state Department of Financial Services to allow lending of public credit and public ownership of stocks of special-purpose public bank charters to counties and regions across the city.

The two pieces of City Council legislation would allow the public to further scrutinize the city's relationship with corporate banks, said Andy Morrison, campaign director at the New Economy Project.

“It's really just as simple as, the city has open data goals and city data should be available in ways that are responsive to the public that encourage public engagement,” he said. “Right now the information about [the city's] banking relationships are virtually unknown and the costs incurred by the city. We don't have that information and it should be available as a matter of transparency and public interest. That's the rationale just for the bill(s), irrespective, of the campaign for a public bank”

According to the City Charter, the DOF commissioner is already required to keep a record of the accounts of deposits in, monies drawn from and banks and trust companies in which the deposits shall be made—essentially, the data covered by Intro 2099. Those records are shared with the City Comptroller but the details are not required to be made public, as the new law would mandate.

The quarterly reports covered by Intro 2100 would include balances, fees, and returns on any money market account holding city funds for each city bond and city note, its issuance costs, the amount and cost of any credit default swap payment and any other non-depository city financial services costs.

A complex goal

Some experts say the coalition's vision for a public bank is a long-term process which will require

extensive regulatory review and comes with its own set of challenges.

Andrea Batista Schlesinger, Partner at HR&A Advisors, and Ariel Benjamin, a Director at HR&A Advisors, both have been extensively involved in leading feasibility studies for public banks in major cities such as Seattle and Philadelphia, and say it is important to identify what problem the public bank is attempting to solve, then understand what type of public bank model would be chosen to be implemented.

“It’s really hard to create a municipal bank. It’s hard because it requires legislation and permission. It’s hard because the federal regulatory environment is designed to limit risk. And, it’s not a bad thing, but there is an extra hurdle for a public institution to be both a steward and a repository for funds and investment decisions,” said Batista Schlesinger. “By putting this legislation out there, it is really an important first step because you don’t have to rewind to even understand how the city is currently banking. That in and of itself can be a Herculean task. This campaign has already unfolded and in a smart and strategic way, I think the next critical step for them is to determine all the challenges.”

On the challenges, Benjamin said collateralization policies and insurance requirements are a few important factors to take into consideration. First, collateralization ensures that the city’s money is available and protected from unrecoverable financial loss at all times. Second, public banks seeking to accept retail deposits from the general public must typically meet insurance requirements which have been set up on the federal level by the Federal Deposit Insurance Corporation (FDIC).

A third consideration is the City’s credit rating, should the City seek to use their reserve balance to capitalize a public bank, or make loans that commercial banks deem too risky. “That’s what they’re putting on the line here potentially by engaging in public banking. By setting up a public bank, cities are putting their credit and credit ratings at risk which has deep implications for financing municipal projects and city budgets,” said Benjamin.

Morrison from New Economy Project said the coalition has been working with lawyers to address these challenges as it sets the path for a public bank in New York City.

citylimits.org

by Sadeef Ali Kully

September 29, 2020

[Moody’s Downgrades New York’s Credit Ratings Because of the Pandemic.](#)

New York’s credit ratings are the latest casualties of the coronavirus pandemic.

Moody’s downgraded both the city and state’s general-obligation bonds by one notch to Aa2, the firm’s third-highest rating, from Aa1.

The firm’s analysts kept a negative outlook on New York City’s debt, meaning they could downgrade the city’s debt again in the next year or two. They changed their outlook for New York state’s debt to stable from negative, meaning more downgrades of its debt are unlikely in coming months.

New York City certainly isn’t the only municipal bond issuer coming under pressure because of the

Covid-19 pandemic. But it has been one of the worst affected by the crisis, as Moody's points out, and the state could experience consequences as well because the city is one of its largest economic engines.

[Continue reading.](#)

Barron's

By Alexandra Scaggs

Oct. 1, 2020 5:52 pm ET

Moody's Downgrades New York State, New York City Credit Ratings.

Ratings concern cites mounting toll of coronavirus pandemic on state and local economies, with sales-tax and income-tax revenues cratering

Moody's Investors Service downgraded the credit ratings of both New York City and New York state on Thursday, a consequence of the coronavirus pandemic's mounting toll on the New York economy.

The general obligation bond ratings of both the city and state fell one level, to Aa2 from Aa1, though they remain high investment grade. Moody's kept the city's outlook "negative," saying its rating could drop further if the city relies heavily on borrowing for cash flow.

A spokeswoman for Mayor Bill de Blasio's office expressed disappointment with the downgrade and said his administration has a "track record of strong fiscal management."

The pandemic, which has killed far more people in New York than in any other state, crushed sales and income tax revenues for both the city and state as they implemented sweeping shutdowns to slow the spread of the coronavirus. Both governments face significant revenue shortfalls.

The downgrades could drive down the trading price of hundreds of millions of dollars worth of outstanding general obligation debt issued by the city and state. They could raise interest rates for both governments, increasing the cost of new borrowing to finance capital projects or plug budget holes. Any increase in borrowing costs would likely force the already-cash-strapped governments to raise taxes, to find new revenue streams or to cut spending.

Moody's said New York state has so far used stopgap actions to balance the budget, postponing lasting changes, and that the city has been relying on the federal government to send aid or the state government to grant borrowing authority.

Robert Mujica, budget director for New York Gov. Andrew Cuomo, called the downgrade evidence that the nation's state and local governments need half a trillion dollars in aid from Congress to make up for the hit from the pandemic.

After a cash infusion in the spring, Congress has been unable to agree on a follow-up aid package, with Republicans opposing aid levels sought by Democrats. The spring funding didn't include replacement dollars for revenue lost by state and local governments.

"Today's action by Moody's should be a wake-up call to the federal government," Mr. Mujica said in a statement.

New York state lowered its expected revenues by \$14.5 billion as a result of the pandemic, and to conserve cash has been holding back 20% of scheduled payments to municipalities, social service organizations, and, in some instances, school districts.

State financial documents released in August project an \$8.4 billion deficit for the fiscal year that starts on April 1. Mr. Cuomo, a Democrat, has resisted calls from labor unions and progressive legislators to raise taxes on the wealthy.

At the city level, Mr. de Blasio, a Democrat, has slashed some city services and ordered 5-day furloughs for more than 9,000 municipal employees, including himself, through March.

The ratings firm predicted that the lasting economic impact of Covid-19 on the city will be among the most severe in the country, dragging down the state and state-controlled Metropolitan Transportation Authority. The firm said containing the global spread of Covid-19 and bringing office workers, travelers and families back to the city will be crucial for recovery.

In a letter to Mr. de Blasio last month, more than 160 business leaders expressed concern about public safety, cleanliness and other quality-of-life issues in the city.

The mayor has warned that up to 22,000 city employees could be laid off if the city can't find another way to close the budget gap.

Mr. de Blasio has said the city needs to balance a \$9 billion budget deficit over the next two years, and still hopes for a federal bailout or the authority from the state to borrow up to \$5 billion.

Investors are likely to be patient with public officials using debt to plug budget holes if they commit to an ongoing plan to raise revenue or cut expenses, said Howard Cure, director of municipal-bond research at Evercore Wealth Management, a firm that invests in municipal bonds, including those issued by New York state and city.

"I think the financial community and citizens would be tolerant of some kind of short-term borrowing, but you need a plan to make it viable," said Mr. Cure, a lifelong New York City resident, as he prepared to buy a takeout dinner of beef chow fun—and pay sales tax on it—on 1st Avenue in Manhattan.

The Wall Street Journal

By Heather Gillers, Katie Honan and Jimmy Vielkind

October 1, 2020

[Virgin Islands Eyes End to Bond-Market Exile With Mega Deal.](#)

- **Deal securitizes rum taxes to safeguard against bankruptcy**
- **'If you don't have a better idea, then support this one'**

The U.S. Virgin Islands has been locked out of America's bond market for years as it wrestles with the same economic forces that drove its bigger neighbor, Puerto Rico, into financial ruin.

Now, with a credit rating cut deeply into junk and under pressure to raise cash as a tourism drought stings its economy, the U.S. territory is seeking to sell nearly \$1 billion in debt this month by

extending an unusual promise to investors: the bonds will be repaid even if it goes bankrupt.

The step, pitched to the island by investment bank Ramirez & Co. and a New York advisory firm, is similar to a tactic used by Puerto Rico and Chicago to pledge a big chunk of tax collections directly to public corporations that pay off debt backed by the revenue. That was intended to assure investors that the funds wouldn't be diverted even if their financial strains worsened, reducing the risk to bondholders and driving down their borrowing costs.

In the case of the Virgin Islands, it's pledging the nearly \$250 million a year it receives each year from the U.S. government, the territory's cut of the excise taxes on rum it ships to the mainland.

Governor Albert Bryan Jr., who has spearheaded the plan, said in a local news interview said it represents one of the territory's only options. "If you don't have a better idea, then support this one," he said.

The bond offering was set to be priced as soon as Thursday but has been delayed, according to two people familiar with the matter, who spoke on the condition of anonymity because they weren't authorized to discuss it publicly.

The sale will provide a major test of the \$3.9 trillion municipal bond market, where investors have continued to snap up riskier securities as benchmark yields hold near the lowest in decades. That's allowed some borrowers hard hit by the nation's economic collapse to easily raise cash.

The Virgin Islands' bonds are using a so-called bankruptcy remote structure. That involves steering the money to a newly created corporation and providing a legal pledge that the cash won't be siphoned off even if the government is forced to restructure its debts in federal bankruptcy court.

Bondholders have reason for skepticism. Lisa Washburn, a managing director for Municipal Market Analytics, said such a structure is not necessarily "bankruptcy proof," though it would likely give investors a better negotiating position. Even though Puerto Rico's bonds securitized by its sales taxes weren't walled off from bankruptcy, owners recouped as much as 93 cents on the dollar, more than other creditors stand to receive.

"The Virgin Islands could end up eventually in trouble," Washburn said. "If they end up in trouble, it's my guess that the durability of this transaction is questioned."

Dennis Derby, a portfolio manager at Wells Capital Management, said a restructuring could still affect the bondholders even if the structure itself is bankruptcy remote. After paying debt service, the territory uses matching fund money to pay incentives to the rum producers. In a bankruptcy, those payments could be affected and threaten rum producers' operations within the territory, which could in turn end up affecting the securitized bonds because they rely on rum production for repayment, he said.

"Should there be a disruption in subsidies or incentives, that could cause problems with this particular matching stream," he said. "That's a risk."

Even before the slowdown in tourism caused by Covid-19, the Virgin Islands was struggling under outsize debts and a pension system projected in a 2018 valuation to run out of assets by the fiscal year starting October 2023 or sooner. In 2017, it stopped providing financial information to credit-rating companies after it was dropped far into junk amid speculation about its solvency.

Kroll Bond Rating Agency rates the nearly \$1 billion of bonds being offered by the territory's securitization corporation BBB, the second lowest investment-grade, because of the "strong

protections.”

The government is seeking to sell the debt before a bond payment is due on Oct. 1, a step that will allow it to push off some payments for the next three years.

While that will provide short-term relief, some officials are dubious. Senator Janelle Sarauw compared the bond deal to predatory lending that will just push off problems on future generations.

“Why do we want to tie up our greatest revenue stream for the next ten to 15 years?” she said in an interview.

On Sept. 17, territory lawmakers passed an amendment to the legislation that would cap the interest rate at 3.75%, which Sarauw said they did to make it “impossible” to price the bonds.

Representatives from Ramirez, the underwriter, and Capital Markets Advisors, LLC, the financial adviser, on the bond deal did not respond to inquiries about the 3.75% rate cap.

In testimony on the new bond structure to the legislature, Virgin Islands Finance Commissioner Kirk Callwood said that it was an opportunity to take advantage of low rates and that “naysayers” were promoting bankruptcy.

Such a collapse, he said, would send a “message to the world that the U.S. Virgin Islands is neither capable, nor has the courage, to attempt to solve its challenges.”

Bloomberg Markets

By Amanda Albright

September 23, 2020, 2:54 PM PDT Updated on September 24, 2020, 8:43 AM PDT

— *With assistance by Michelle Kaske*

[S&P Charter School Brief: California](#)

As of Sept. 22, 2020, S&P Global Ratings maintains 35 public ratings on bonds secured by California charter schools. In 1992, California became the second U.S. state to enact a charter school law. Today, California is home to more than 1,200 charter schools that serve about one-tenth of the state’s kindergarten through 12th grade (K-12) students. In California, there are many charter networks and 16 of our 35 ratings are for schools that are part of a charter network with more than five campuses. Overall, 31% of California charter school ratings are investment grade compared with 44% for the sector as a whole. We believe this stems from more charter issues on average due to the prevalence of district-authorized schools, challenges for independent study schools, and other case-by-case factors.

[Continue reading.](#)

[S&P Bulletin: Illinois’ Credit Faces Mounting Pressure As Stimulus Stalls](#)

CHICAGO (S&P Global Ratings) Sept. 21, 2020—S&P Global Ratings today said the odds of Illinois

(BBB-/Negative) balancing its budget without additional borrowing or a sizable increase in the bill backlog are looking slimmer as congressional agreement on further federal assistance remains elusive. Illinois had placed a sizable \$5 billion placeholder in its fiscal 2021 budget for additional federal assistance, and we expect that any future stimulus bill will likely fall short of this assumption. When including \$1.274 billion of projected graduated income tax revenues on the November ballot, speculative revenues account for nearly 15% of Illinois' fiscal 2021 budget. S&P Global Ratings expects that Illinois will likely cut spending if there is no further federal assistance by the end of September.

In a letter to congressional members, Illinois' governor recently suggested as much as 15% across-the-board budget cuts, which may be unpalatable to lawmakers—in particular, cuts to education. In a letter to department heads, the deputy governor and head of the Office of Management and Budget requested a 5% reserve of general fund appropriations in the current fiscal year and 10% to be considered in fiscal 2022 (with deviations allowed for agencies responsible for life, safety, and health in the state's COVID-19 response). All such actions would likely have negative downstream effects on the state's economy and revenues, and could limit its flexibility to make additional cuts in out-years.

In the meantime, Illinois finances are already suffering. As of Sept. 21, 2020, Illinois' general funds payable backlog was \$7.65 billion, higher than it has been since fiscal 2018 and well above the \$5.4 billion to close fiscal 2020. This excludes \$2.25 billion in short-term borrowing that Illinois is required to repay, made up of \$1.2 billion in short-term borrowing through the Federal Reserve's Municipal Liquidity Facility (MLF) and \$1.05 billion under interfund borrowing authorization. As spending continues at budgeted levels without federal funding, the state's cash deficit will continue to grow. While the practical limits of Illinois' bill backlog are unclear, a past federal court ruling compelled the state to pay on deferred Medicaid bills, implying that it cannot return to its backlog peak of \$16.7 billion. As delayed payments mount, we think it is likely that Illinois will issue bonds or again borrow through the MLF to meet cash requirements.

We expect that Illinois will enact some budget cuts in fiscal 2021, but these will not likely be timely enough or sufficient to address the entire budget gap. The next state legislative session is in November, and we expect lawmakers will act based on the outcome of the graduated income tax measure, likelihood of federal assistance, and revised fiscal estimates. Last week, the administration ordered departments to identify budget cuts of at least 5% for the current fiscal year and 10% for fiscal 2022. However, depending on the outcome of the graduated income tax, this still leaves the state with at least a 5%-10% budget gap for fiscal 2021.

The magnitude of the current budget gap and reliance on one-time measures make us question Illinois' ability to achieve structural balance in a reasonable time. Even if Illinois receives federal aid in fiscal 2021, we expect that it will face challenging budget gaps beyond the current fiscal year. Before the pandemic, the state faced large budget gaps as a result of slow economic growth, weak demographics, rising fixed costs, and carried-over deficits. Illinois' pension plans, which are among the lowest-funded in the nation, employ funding methods that have resulted in deferral of costs and chronic underfunding of contributions. The potential for market volatility could contribute to larger pension cost growth. Illinois has already borrowed \$1.8 billion from the federal government related to unemployment claims, and this liability could limit further general fund increases on corporate taxes or cause the state to incur further debt. Revenue recovery to pre-pandemic levels is unlikely in the near term. S&P Global Economics estimates that following the COVID-19 outbreak, it will take about two years for U.S. GDP to regain its year-end 2019 level, with unemployment remaining high, consumer spending depressed, and business demand recovering only slowly (see "The U.S. Faces A Longer And Slower Climb From the Bottom," published June 25, 2020, on RatingsDirect). The lack of

additional federal stimulus increases the likelihood of a worse economic outcome. Furthermore, potential layoffs at state and local government levels could contribute to a lasting drag on Illinois' economy.

With the need for additional borrowing, an elevated bill backlog, and lingering substantial structural imbalance, Illinois could exhibit further characteristics of a non-investment-grade issuer. While borrowing would provide the state with cash flow relief, Illinois is required to repay the debt. Further federal assistance is possible within fiscal 2021, but it is far from certain and could fall short of what's needed to close the gap. We think that Illinois will face difficulty repaying a large borrowing within the three-year MLF timeline from its general fund, and taking out long-term debt to repay the short-term loan would add to fixed costs. Although the debt may lessen the state's cash flow pressures, it would add to the state's structural imbalance. Illinois has had strong market access, supported by the MLF, but if conditions change, its budget would be further stressed.

To date, Illinois' general fund budget has trended in line with expectations. Propped up by the \$1.2 billion short-term borrowing through the MLF, the state expects to close fiscal 2020 with a surplus, on a cash basis, despite a \$2.4 billion revenue shortfall. Through August 2020, general fund state sales tax receipts were down 1.4% compared with fiscal 2020. However, general fund personal and corporate income taxes were inflated, tied to the delayed July 15 filing deadline, up \$1.25 billion and \$276 million, respectively, making it difficult to discern underlying economic trends. Total general fund revenues are up \$1.051 billion year-to-date. Without the support of enhanced unemployment benefits and other federal stimulus, tax receipts may soften, and Illinois' budget outlook will also hinge on the path of the pandemic and response.

Illinois Could Soon Start Looking Like a Junk-Rated Borrower, S&P Says.

Strategists who follow the municipal bond market are starting to warn that federal aid may not arrive soon. That would mean even more trouble for Illinois.

The state has a growing bill backlog, as S&P Ratings highlighted in a bulletin on Monday. Illinois' general funds payable backlog was nearly \$7.7 billion as of Monday, up from \$5.4 billion at the end of its fiscal year on June 30. That is the highest the backlog has been since fiscal 2018, when its deficit was shrinking from record levels reached during a fiscal crisis.

It is looking less likely that federal aid to state and local governments will arrive by the end of September. And S&P says that even if federal funding eventually reaches Illinois, it is unlikely that it will cover the full budget shortfall. Thanks to these pressures, the state "could exhibit further characteristics of a non-investment-grade [or junk-rated] issuer," the ratings firm said in its bulletin.

Illinois is the lowest-rated state in the U.S., with S&P grading it one tier above junk at BBB-. S&P's bulletin isn't an official warning about a downgrade (known as a watch), but the analysts do have a negative outlook assigned to the state's credit rating, indicating they think a downgrade is more likely than an upgrade over the next year or two.

While Illinois has taken some steps to shore up its finances—a graduated income tax will be on the ballot this November—they may not cover the gap of income lost to the coronavirus pandemic. State officials have repeatedly warned about potential cuts to state services and funding, including educational funding.

"Illinois will likely cut spending if there is no further federal assistance by the end of September,"

S&P analysts wrote in their bulletin. "We expect that [the state] will enact some budget cuts in fiscal 2021, but these will not likely be timely enough or sufficient to address the entire budget gap."

Barron's

By Alexandra Scaggs

Sept. 22, 2020 10:55 am ET

Fitch to Downgrade S-T Rating to 'F1' on Austin, TX Combined Utilities System Taxable CP Notes.

Fitch Ratings-New York-25 September 2020: On the effective date of Oct. 1, 2020, Fitch Ratings will downgrade the short-term rating assigned to the City of Austin, Texas combined utility system \$100,000,000 taxable CP notes, to 'F1' from 'F1+'. The rating action is in connection with the substitution of the current Revolving Credit Agreement (RCA) provided by JPMorgan Chase Bank, N.A. (AA/F1+/Negative) with a substitute RCA to be provided by Barclays Bank PLC (Barclays, A+/F1/Rating Watch Negative). Concurrently with the substitution, the authorized amount of taxable CP notes will be increased to \$100,000,000 from \$75,000,000.

KEY RATING DRIVERS

On the effective date, the short-term rating on the CP notes will be downgraded to 'F1' based on the liquidity support to be provided by Barclays in the form of an RCA, which has a stated expiration date of Sept. 30, 2022, unless extended or earlier terminated. The substitute RCA provides coverage for the principal amount of the notes plus 270 days of interest calculated at 10% based on a 365 day year.

U.S. Bank, National Association continues as the Issuing and Paying Agent (IPA) for the notes, and as IPA, is directed to request an advance under the substitute RCA whenever proceeds of the sale of rollover notes are insufficient to pay maturing notes.

All notes will be issued at par. Following the occurrence of an event of default under the substitute RCA, the bank may direct the IPA to immediately stop the issuance of any additional notes. In such event, the substitute RCA will expire after all the notes supported by such RCA mature and have been paid from funds drawn on the substitute RCA. In addition, the substitute RCA may be terminated by the bank upon the occurrence of specified immediate termination events.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- The short-term 'F1' rating assigned to the notes will be adjusted upward in conjunction with the short-term rating of the bank providing the RCA and, in some cases, the long-term rating of issuer.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- The short-term 'F1' rating assigned to the notes will be adjusted downward in conjunction with the short-term rating of the bank providing the RCA and, in some cases, the long-term rating of issuer.

ESG Considerations

The ESG.RS conforms to that of the Austin TX Combined Utility System and Barclays.

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The rating reflects the short-term rating that Fitch maintains on the substitute bank providing liquidity support and will be adjusted upward or downward in conjunction with changes to the short-term rating of the bank and in some cases, the long-term rating of the issuer.

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Fortress Delays Record \$4.2 Billion Vegas-Train Bond Sale.

- **Company will sell short-term notes ahead of long-term debt**
- **Company had said it would sell record muni deal by Sept. 30**

The company that wants to build a high-speed train from California to Las Vegas is delaying its record \$4.2 billion unrated municipal-bond sale that was supposed to happen by the end of this month.

The venture backed by Fortress Investment Group's private-equity funds had said it would sell the debt for its proposed 170-mile (274-kilometer), line to Las Vegas from a southern Californian desert town called Apple Valley by Sept. 30. Instead, it intends to sell \$1 billion in short-term securities, to be refinanced by long-term debt later this year, according to Terry Reynolds, director of Nevada's department of business and industry.

The company's first passenger rail in Florida under the name Virgin Trains USA in 2019 sold such short-term securities, a \$950 million offering it has continued to roll over instead of converting into long-term debt. It's looking to add stations to boost ridership of the unprofitable line, whose service has been suspended due to the pandemic.

"It shows that this is a complex deal and that this might not be the right time to bring it to the market with its Florida line shutdown due to the virus and transportation volumes well below historical levels," Dan Solender, head of municipal debt at Lord, Abbett & Co, said of the Las Vegas sale delay.

California Treasurer Fiona Ma said she had granted an extension for the company to sell its long-term bonds to Dec. 1 as she has done for housing developers who had run into pandemic-related delays.

"We understand that they will be marketing their bonds soon and we are excited for their success!" Ma said by text message.

California and Nevada have given part of their states' limited allotment of private activity bonds to the project, which also had received some capacity directly from the federal government. The short-term financing, which will be AAA-rated because the proceeds will be held in an escrow account invested in securities backed by the U.S. government, will enable the company to maintain its federal allocation, Reynolds said.

"People are excited about the future of high-speed rail in America and the environmental and economic benefits it provides," Ben Porritt, a spokesman for Brightline Trains LLC, said in an email. "Brightline West is one of the most ambitious and transformative projects in the country and we are excited to introduce it to investors."

Bloomberg Business

By Romy Varghese

September 21, 2020, 3:52 PM PDT Updated on September 21, 2020, 4:45 PM PDT

[New York's MTA Wants to Borrow Up to \\$2.9 Billion From Federal Reserve.](#)

Operator of New York City's subway system had hoped for a federal coronavirus bailout, but the relief package has stalled in Congress

New York's Metropolitan Transportation Authority plans to apply to the Federal Reserve to borrow as much as \$2.9 billion from a short-term lending program, as it faces an unprecedented financial crisis.

Lawrence Schwartz, chairman of the MTA's finance committee, told board members at a meeting Wednesday that in the absence of a new federal coronavirus bailout, which has stalled in Congress, the MTA should seek the maximum amount possible from the Fed program.

MTA officials estimate that they are losing \$200 million a week because of a slump in fares, tolls and dedicated taxes caused by the coronavirus pandemic. They have said they might have to slash subway and bus service in New York City by as much as 40% and lay off thousands of workers if they

don't receive federal aid soon.

The state-controlled authority, which received almost \$4 billion in a federal coronavirus bailout earlier this year, projects a deficit of about \$12 billion through the end of 2021.

The MTA and the state of Illinois are the only two borrowers to have tapped the Fed's municipal-lending program so far. In August, the MTA sold \$450 million in bonds to the Fed at a yield of 1.9%, rejecting offers from the private market at yields of about 2.8%.

Based on the Fed program criteria, the MTA could be eligible to borrow a total of almost \$3.4 billion, transit officials said.

Mr. Schwartz told board members that he believes the MTA could borrow \$2.9 billion at a rate of about 1.8%. "That is the cheapest money the MTA will ever be able to get as a loan," he said.

He asked the MTA's chief financial officer, Robert Foran, to begin drawing up an application. If the MTA's application is approved, the authority would have until the end of the year to decide how much, if any, of the money to draw down.

Authority officials say they have enough liquidity to carry the agency through the first quarter of 2021. But the Fed program is scheduled to close on Dec. 31 this year. Mr. Foran said the funds could act as a bridge loan and be repaid as early as next year if federal bailout money comes through by then.

Patrick McCoy, the MTA's director of finance, said at a congressional hearing last week that the Fed should extend the borrowing deadline beyond the end of 2020 and increase the maximum maturity for facility debt beyond three years.

Budget watchdogs and even some MTA board members have raised concerns that the authority, which already owes more than \$45 billion, shouldn't take on more debt.

Rachael Fauss, a senior research analyst at fiscal watchdog group Reinvent Albany, said in an interview that a low-cost federal loan could make sense under certain conditions. But she added that as one of the nation's largest issuers of municipal debt, the MTA should work with the Fed and with Congress to lower interest rates further.

The Wall Street Journal

By Paul Berger

Updated Sept. 23, 2020 4:19 pm ET

[Scottsdale Flexes Financial Strategy to Prepay, Redeem 2010 Bonds.](#)

Scottsdale will be moving forward with a strategic plan to approve a redemption of 2010 municipal property corporation excise tax bonds that financed water and sewer improvements.

The redemption of the Series 2019 MPC bonds that mature in 2029 and 2030, with unrestricted water and sewer revenues, will avoid nearly \$375,000 in annual interest expense, according to a city staff report.

Scottsdale City Council approved the bond redemption on consent at a Sept. 8 meeting.

By redeeming \$8.7 million in outstanding Series 2010 MPC Bonds that mature in 2029 and 2030 with unrestricted water and sewer revenues, the water and sewer funds can avoid more than \$3.3 million in interest expense.

The city of Scottsdale Municipal Property Corporation is a nonprofit corporation created by the city in 1967 to finance the construction or acquisition of certain capital improvements.

The Municipal Property Corporation issues its own bonds, which are repaid from amounts paid by Scottsdale to the MPC. Arizona law precludes the use of property tax to repay these bonds, according to a city staff report.

The city's financial adviser — Minneapolis-based Piper Sandler & Co. — has been monitoring market trends and suggests this may be an optimal time to redeem a portion of the outstanding MPC bonds in order to lower debt financing costs to the city.

"Based on current market conditions (municipal borrowing and investing rates) and the call features of previously issued MPC bonds, portions of Series 2010 MPC bonds are candidates for redemption with unrestricted water and sewer revenues," according to a city staff report penned by Enterprise and Finance Director Gina Kirklin.

The Series 2010 MPC Bonds were issued for various water and sewer projects.

"Our financial strategy to proceed requires that market conditions upon a redemption of the bonds must produce minimum overall debt service savings to the taxpayer with a present value, net of all costs, of at least 3.00% of the principal amount of the bonds or \$1 million," Ms. Kirklin said. "It is estimated that the bond redemption will exceed minimum requirements."

According to the city staff report, Scottsdale's city treasurer's division reviewed the above redemption with its financial adviser, bond counsel — Denver-based Sherman & Howard — and the MPC board. All parties concur with the recommendation to proceed at this time, Ms. Kirklin said.

Scottsdale Independent

By Melissa Rosequist

September 23, 2020

[MarketAxess to Acquire Municipal Bond Operator MuniBrokers.](#)

NEW YORK, Sept. 16, 2020 (GLOBE NEWSWIRE) — MarketAxess Holdings Inc. (Nasdaq: MKTX), the operator of a leading electronic trading platform for fixed-income securities, and the provider of market data and post-trade services for the global fixed-income markets, has entered into an agreement to acquire MuniBrokers, a central electronic venue serving municipal bond inter-dealer brokers and dealers.

MuniBrokers connects 14 leading Municipal Securities Broker's Brokers and hundreds of institutional traders and Broker Dealers through a central electronic marketplace to trade over \$400 million of taxable and tax-exempt municipal bonds per day. MuniBrokers is the leading aggregator of

content distribution, trade processing, client connectivity and liquidity provision for the municipal inter-dealer broker market.

This acquisition is designed to expand MarketAxess' existing municipal bond trading solution for global institutional investor and dealer clients. MarketAxess recently announced the expansion of liquidity provision for taxable municipal bond securities beyond the United States through its regulated trading venues in the United Kingdom, the European Union and Singapore, creating a truly global marketplace.

In addition to the acquisition of MuniBrokers, MarketAxess and Hartfield, Titus & Donnelly LLC (HTD), the leading inter-dealer municipal bond brokerage firm and the owner of MuniBrokers, have agreed that HTD will continue to use the MuniBrokers platform to ensure an uninterrupted level of liquidity is provided through the MuniBrokers platform.

Chris Concannon, President and Chief Operating Officer of MarketAxess, commented, "The acquisition of MuniBrokers further bolsters our growing footprint in the municipal bond market. Connecting our leading trading technology with the liquidity of one of the industry's largest electronic inter-dealer marketplace creates a compelling and diverse liquidity solution that will ultimately deliver an improved execution experience."

"This relationship represents a great opportunity in the intermediated Municipal Securities market, leveraging the time-tested strengths of MuniBrokers, the experience of HTD as the leading Broker's Broker and the industry-leading capabilities of MarketAxess," said Ron Purpora, Chairman of parent company Hartfield, Titus & Donnelly. "We are eager to demonstrate the benefits of this relationship to the market and to our customers."

The transaction is expected to close in the fourth quarter of 2020, subject to the satisfaction of customary closing conditions.

Marlin & Associates LLC acted as strategic and financial advisor to Hartfield, Titus & Donnelly.

[New York MTA Bonds Rally While Agency Seeks Federal Funds.](#)

- **MTA debt sold this week rallied and yield spreads narrowed**
- **Transit agency issued \$900 million of debt this week**

Debt sold this week by New York's Metropolitan Transportation Authority has rallied even as the agency warns that it will impose drastic service cuts and layoffs without \$12 billion of additional federal funds.

The MTA, the largest U.S. mass-transit system, sold through competitive bid Tuesday \$900 million of bonds backed by fare box and toll revenue and government subsidies. The bonds have rallied since then while yields in the overall tax-exempt market are relatively unchanged.

MTA's sale is the latest example of investors seeing quick gains on their bets after participating early on when troubled borrowers hit by the coronavirus outbreak sell bonds. Municipal debt backed by Delta Air Lines Inc. and bonds sold by the Chicago Transit Authority, which like the MTA has seen its ridership plunge, rallied this month after their initial sales.

MTA bonds with a 4% coupon and maturing in 2048, the most-actively traded MTA security in the

past week, changed hands Friday at an average yield of 4.11%, down from 4.41% when the debt sold on Tuesday, according to data compiled by Bloomberg. The additional yield that investors demand to hold the bonds rather than top-rated tax-exempts shrunk Friday to an average 256 basis points from 285 basis points at Tuesday's sale.

The MTA borrowed through the capital markets as it's weathered multiple cuts to its credit rating, including a downgrade last week from Moody's Investors Service. It's also seeking \$12 billion of additional federal aid to cover budget gaps this year and next.

Given the size of the deal and the MTA's financial challenges, the bonds at Tuesday's sale needed to price attractively, said Howard Cure, managing director for municipal-bond research at Evercore Wealth Management, which has \$9.1 billion of assets under management.

"\$900 million is a lot of paper to move and they wanted to make sure there was a market for this," Cure said about the financial institutions that won the deal. "So they bid on it accordingly so the banks wouldn't have excess inventory."

Bank of America Corp. won \$600 million of the sale while JPMorgan Chase & Co. was awarded \$300 million.

The MTA, which had \$45.4 billion of debt as of July 8, warned its subway car manufacturers, bus makers and other vendors on Thursday that contracts are in jeopardy absent federal help. The MTA has said it may be forced to cut subway and bus service by 40% and slash commuter-rail service by 50% without federal assistance. Its multi-year \$51.5 billion capital plan is already on hold and major infrastructure projects and upgrades are at risk.

"The MTA is in a tough position," Cure said. "They're trying to sell their bonds as economically as they can while at the same time pleading for money and threatening draconian cuts if they don't get it."

Bloomberg Markets

By Michelle Kaske

September 18, 2020, 7:52 AM PDT Updated on September 18, 2020, 10:10 AM PDT

— *With assistance by Amanda Albright*

[Chicago Is Considering Issuing A Pension Bond - And Taking A Gamble.](#)

How is Chicago going to solve its budget crisis? Two weeks ago, when Mayor Lightfoot gave her budget forecast address, she spoke of dreams for a "world-class" entertainment district surrounding a Chicago casino, the revenues from which are slated to fund the police and fire pension funds. But, it turns out, that may not be the only way in which Chicago attempts to use gambling to resolve its pension woes.

Let's recap:

Chicago, we learned in late August, is facing a serious budget hole as it ends 2020, and an even worse one in 2021, to the tune of \$1.2 billion — or, expressed differently, 25% of the total corporate

budget. Mayor Lightfoot hopes to find some coins in the metaphorical couch cushions by refinancing debt, and is urgently pleading for more federal money. Why, their plight is so serious that they may even go to extremes such as reducing payrolls or cutting pay. (Yes, that's right – unlike elsewhere, neither Illinois nor Chicago has yet made any spending reductions.)

Now we learn, according to Bloomberg (via Yahoo on September 3), that the city is **once again considering a pension obligation bond**.

[Continue reading.](#)

Forbes

by Elizabeth Bauer

Sep 15, 2020, 02:54pm EDT

[Las Vegas Monorail Files for Bankruptcy Again as Coronavirus Shuts Service.](#)

The Covid-19 pandemic has stopped the mass transit system from running for months

Las Vegas Monorail Co., a transit system financed with municipal debt that serves some of the city's marquee hotels, filed for bankruptcy for the second time in just over a decade after the coronavirus pandemic shut down service.

The nonprofit transit system is proposing a quick bankruptcy sale to the Las Vegas Convention and Visitors Authority for about \$24 million, a fraction of the roughly \$650 million cost of construction, according to papers filed Monday in the U.S. Bankruptcy Court in Las Vegas.

The bulk of the purchase price—roughly \$22 million—would cover the monorail's debt, held entirely by municipal-bond investor Preston Hollow Capital LLC.

The monorail, which opened in 2004, filed for bankruptcy for the first time in 2010 after ridership fell short of expectations. The previous bankruptcy wiped out most of the project's debt, over \$600 million in tax-exempt bonds sold in 2000.

Much of the municipal-bond market has been cruising along despite the pandemic, fueled by seemingly endless investor demand for tax-exempt debt and the Federal Reserve's extraordinary efforts to backstop the U.S. economy. But the monorail's latest bankruptcy is a reminder of the [risks lurking in municipal credit](#), especially among more speculative projects that aren't backed by government taxing power. Municipal defaults have reached their highest rate since 2011, the aftermath of the last recession, according to Municipal Market Analytics data.

The monorail's chief executive, Curtis L. Myles III, said it was forced to shut down in March due to the pandemic and hasn't been able to reopen. He said it was in the system's best interest to file for bankruptcy and trigger an asset sale that would "help ensure that the mobility benefits the monorail provides continue during conventions, events and throughout the year."

In a declaration filed in the U.S. Bankruptcy Court in Las Vegas, he said pandemic restrictions forced the monorail to lay off 93% of staff, reduce compensation for the remaining workers by up to 30% and "cut maintenance and operational expenses to the bare minimum." Since April, the system

has been dipping into debt-service reserves to pay bondholders—a signal it didn't have enough operating revenue to cover the bondholder payments.

The monorail is a 3.9-mile system along the Las Vegas Strip, including two parallel elevated tracks, seven elevated stations and an operations and maintenance building. Substantial outlays in coming years are required to run the system smoothly, Mr. Myles said. Topping the list are new trains, needed in 2034 and expected to cost \$190 million.

The Wall Street Journal

By Andrew Scurria

Sept. 8, 2020 2:46 pm ET

[Chicago's Pension-Bond Plan Could Use a FAANG Rout.](#)

The Windy City is again considering a risky strategy to shore up its retirement funds.

Chicago should be cheering on the recent decline in U.S. technology stocks.

The city, like many across America, is staring down huge budget shortfalls in the coming years after shutting down the local economy to slow the coronavirus pandemic. Mayor Lori Lightfoot last week estimated that the fund that accounts for most of its services will have a deficit of almost \$800 million in 2020 and \$1.2 billion in 2021, with Covid-19 related revenue losses accounting for 65% of the gap.

That's bad enough for any U.S. city. For Chicago in particular, it's devastating given its highly precarious financial situation even before the pandemic. Moody's Investors Service downgraded the city's credit rating to junk more than five years ago, sending shockwaves across the \$3.9 trillion municipal-bond market and forcing investors to consider whether it was destined to be "the next Detroit." Instead, former Mayor Rahm Emanuel made some politically tough decisions to help put its four underfunded retirement plans on a path to solvency and veer the city toward so-called structural balance by 2022.

[Continue reading.](#)

Bloomberg Opinion

By Brian Chappatta

September 11, 2020, 3:30 AM PDT

[S&P Bulletin: New Jersey Governor's Budget Proposal Contains Large Structural Deficit](#)

NEW YORK (S&P Global Ratings) Sept. 9, 2020—S&P Global Ratings said today that the recent New Jersey executive budget proposal for the remaining nine months of fiscal 2021 uses reasonable economic assumptions and would leave the state with what we would view as an adequate fund

balance, but also contains what we view as a large structural budget deficit.

Highlights

- The New Jersey governor's budget proposal for fiscal 2021 contains a large structural deficit, which we calculate at about 15% of proposed 12 month appropriations, largely due to \$4 billion of deficit bonds and shortfalls in full actuarial based pension contributions.
- Appropriations in fiscal 2021 would increase over the prior year, which we see as evidence of the state's political and practical difficulty in cutting expenditures, in large part due to rising pension, debt service, and Medicaid costs.
- We will review the final enacted budget when it is adopted by the end of September for its long-term effect on the state's structural deficit, as well as its relation to rising debt and pension liabilities. The state's Office of Legislative Services has forecast significantly higher fiscal 2021 revenue, which may result in a different budget than that proposed by the governor.

[Continue reading.](#)

New Details on NJ Borrowing Plan as Fight Looms Over Tax Estimates.

Gov. Phil Murphy wants to borrow \$4 billion. Lawmakers point to revenue forecasts saying more money may be coming than he expects

Just how much New Jersey will borrow to prop up the next state budget remains uncertain, but some important details about how new debt would be issued — and paid back by taxpayers — are beginning to emerge.

According to budget documents and recent testimony during hearings before lawmakers, Gov. Phil Murphy's administration is planning to use a 10-year repayment schedule for a total of \$4 billion in new debt to help fund a nine-month budget he put forward last month.

Annual interest on the bonds could be around 2%, and repayment would begin almost immediately at a cost of about \$400 million annually in a full budget year, Department of Treasury officials told lawmakers last week.

[Continue reading.](#)

NJSPOTLIGHT.COM

JOHN REITMEYER, REPORTER | SEPTEMBER 14, 2020

Fitch Rtgs to Affirm S-T Ratings on Dept of Airports of the City of Los Angeles, CA Sub Rev CP Notes.

Fitch Ratings-New York-03 September 2020: On the effective date of Sept. 9, 2020, Fitch Ratings will affirm the following short-term ratings assigned to the Department of Airports of the City of Los Angeles, California (the Department) Los Angeles International Airports Subordinate Revenue Commercial Paper Notes (CP notes) subseries A-1, A-2, and A-3 (Governmental-Non-AMT), subseries

B-1, B-2, and B-3 (Private Activity-AMT), subseries C-1, C-2, and C-3 (Federally Taxable), and subseries D-1, D-2, and D-3 (Private Activity - Non-AMT):

- Subseries A-1, B-1, C-1 and D-1 CP notes at 'F1';
- Subseries A-2, B-2, C-2 and D-2 CP notes at 'F1';
- Subseries A-3, B-3, C-3 and D-3 CP notes at 'F1+'.

A maximum of \$500 million in aggregate principal amount of authorized notes may be outstanding at any given time.

The rating actions will be in connection with the Sept. 9, 2020 (i) amendment of the reimbursement agreement between the Department and Sumitomo Mitsui Banking Corporation acting through its New York Branch (SMBC; A/F1/Negative) relating to the SMBC irrevocable direct-pay letter of credit (LOC) supporting the Subseries A-1 to D-1 notes; (ii) amendment and restatement of the reimbursement agreement between the Department and Barclays Bank PLC (Barclays; A+/F1/Rating Watch Negative) relating to the Barclays LOC and the amendment and restatement of the Barclays LOC supporting the Subseries A-2 to D-2 notes and (iii) substitution of the current LOC provided by Wells Fargo Bank, N.A. (AA-/F1+/Negative) supporting the Subseries A-3 to D-3 notes, with a LOC to be provided by Bank of America, N.A. (AA-/F1+/Stable).

KEY RATING DRIVERS

On the effective date, the 'F1' rating on the subseries A-1, B-1, C-1 and D-1 notes will be affirmed based on the support of the SMBC LOC, which will have a stated expiration date of Sept. 9, 2022, unless extended or earlier terminated; the 'F1' rating on subseries A-2, B-2, C-2 and D-2 notes will be affirmed based on the support of the Barclays LOC, which will have a stated expiration date of Sept. 8, 2023, unless extended or earlier terminated; and the 'F1+' rating on the subseries A-3, B-3, C-3 and D-3 notes will be affirmed based on the support of the BANA substitute LOC, which will have a stated expiration date of Sept. 9, 2021, unless extended or earlier terminated.

U.S. Bank acting as Trustee will continue as the authenticating and paying agent for the notes, and as Trustee, is directed to request an advance under the related LOC to pay principal and interest on maturing notes. Each LOC provides coverage for the principal amount of notes and interest coverage equal to 270 days of interest coverage at 12% based on a 360 day year. The SMBC LOC provides coverage for \$200,000,000 principal plus \$18,000,000 for interest. The Barclays LOC provides coverage for \$210,000,000 principal plus \$18,900,000 for interest and the BANA LOC provides coverage for \$90,000,000 principal plus \$8,100,000 for interest.

All subseries A, B and D notes are issued at par, with interest due at maturity. Subseries C notes may be issued at par or at a discount. Following the occurrence of an event of default under the reimbursement agreement, the related bank may direct the Trustee to immediately stop the issuance of any additional notes. The respective bank may also notify the Trustee that the stated amount of the LOC shall be permanently reduced to the principal amount of notes then outstanding and interest thereon, and shall be further permanently reduced following the maturity of any such notes. The related bank may also issue a final drawing notice directing the Trustee to draw on its LOC for all notes outstanding plus interest due thereon at maturity. The dealers for the notes are: Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Loop Capital Markets LLC, BofA Securities, Inc., Morgan Stanley & Co. LLC, Samuel A. Ramirez & Company, Inc. and Wells Fargo Bank, National Association

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The short-term rating assigned to the subseries A-1 to D-2 notes and subseries A-2 to D-2 notes will be adjusted upward in conjunction with the short-term rating of the bank providing the respective LOC;

-The short-term rating assigned to the subseries A-3 to D-3 notes is at the highest rating level and cannot be upgraded.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-The short-term rating assigned to the notes will be adjusted downward in conjunction with the short-term rating of the bank providing the respective LOC.

ESG Considerations

The ESG.RS conforms to that of the Department of Airports of the City of Los Angeles and SMBC, Barclays and BANA.

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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[San Luis Obispo Regional Transportation Authority Closes First TIFIA Loan Under Rural Projects Initiative](#)

San Luis Obispo Regional Transportation Authority Closes First TIFIA Loan Under Rural Projects Initiative Proposed San Luis Obispo Regional Transit Facility Project.

On September 3, 2020, San Luis Obispo Regional Transportation Authority (SLO RTA) closed the first TIFIA loan under the U.S. Department of Transportation's (Department's) Transportation Infrastructure Finance and Innovation Act (TIFIA) [Rural Project Initiative](#) (RPI). The SLO RTA manages several local and express fixed-route transit lines, as well as several paratransit and dial--ride services throughout San Luis Obispo County located in the Central Coast region of California. The SLO RTA's current administration, operations, and bus maintenance facility has ...

[Continue](#)

Nossaman LLP

By Barney Allison on 09.10.2020

California's Two Debt Entities: What's the Difference?

Assisting all state and local government units in the planning, preparation, marketing, and sale of debt issues

California has two debt-related entities: California Debt Limit Allocation Committee and California Debt and Investment Advisory Commission. What's the difference?

California Debt Limit Allocation Committee

Government Code Title 2, Division 1, Chapter 11.8 sets forth the California Debt Limit Allocation Committee in Sections 8869.80 to 8869.94. Section 8869.80 makes a number of legislative findings and declarations regarding the volume ceiling on the aggregate amount of private activity bonds that can be issued in each state. The stated purpose of the Committee is "to designate a state agency and create an allocation system to administer the state volume ceiling."

Moreover, there is "a substantial public benefit by promoting housing for lower income families and individuals. A substantial public benefit is served by preserving and rehabilitating existing governmental assisted housing for lower income families and individuals. A substantial public benefit is served by providing federal tax credits or reduced interest rate mortgages to assist teachers, principals, vice principals, assistant principals, and classified employees who are willing to serve in high priority schools to purchase a home. A substantial public benefit is served by constructing educational facilities for the state's children."

As a result, Chapter 11.8 was enacted to implement the state volume limit established by the Federal Tax Reform Act of 1986 and other federal acts and provisions of the Internal Revenue Code. Section 8869.83 establishes in state government the California Debt Limit Allocation Committee which consists of the following six members:

- The Treasurer, or his or her designee.
- The Controller, or his or her designee.
- The Governor, or his or her designee.
- The Director of Housing and Community Development, who is a nonvoting member.
- The Executive Director of the California Housing Finance Agency, who is a nonvoting member.
- A representative from local government who is a nonvoting member, selected by two voting members of the committee.

The Treasurer serves as chairperson of the Committee and the office of the Treasurer must provide an executive director and any administrative assistance and support staff that is needed for the Committee to operate. The Committee members do not receive compensation and two voting members of the Committee constitute a quorum. The affirmative vote of two voting members of the Committee is necessary for any action taken by the committee.

Under Section 8869.85, each state agency must apply to the Committee for allocation of a portion of the state ceiling, supplying any information which the Committee may require. The application may be for a specific project, or it may be for a designated dollar amount, to be utilized for projects or programs at the discretion of the state agency. No private activity bonds issued by any state agency is be deemed to receive the benefit of any portion of the state ceiling unless the Committee has allocated or permitted the transfer of a portion of the state ceiling to the state agency.

Pursuant to Section 8869.90, the Committee may charge fees to the lead underwriter, the bond purchaser, or the bond issuer to cover the Committee's costs in carrying out the duties and responsibilities set forth in the law. Under Section 8869.93, the Treasurer, or his or her designee, is designated as the state official to certify that an issue of private activity bonds meets the requirements of the Internal Revenue Code.

According to the California Debt Limit Allocation Committee (CDLAC), it is a three-member body that was created in 1985 by a gubernatorial proclamation in response to the 1984 Tax Reform Act, which imposed an annual limit on the dollar amount of tax-exempt private activity bonds that may be issued in a state. Private activity bonds included student loan bonds and industrial development bonds (including exempt facility bonds, small-issue industrial development bonds, and bonds for industrial parks).

In 1987, the California Legislature statutorily established CDLAC and the 1998 Omnibus Budget Act raised the volume cap on private activity bonds to \$75 per capita or a minimum of \$225 million. The purpose of CDLAC is to implement Section 1301 of the Federal Tax Reform Act of 1986 and Section 146 of the Internal Revenue Code which impose a limit on the amount of tax-exempt private activity bonds which a state may issue in a calendar year. According to CDLAC, its programs have resulted in the allocation of more than \$65 billion of private activity, tax-exempt bonds to over 220 municipal, state, and joint powers authority issuers.

California Debt and Investment Advisory Commission

Government Code Title 2, Division 1, Chapter 11.5 sets forth the California Debt and Investment Advisory Commission in Sections 8855 to 8859. Section 8855 creates the California Debt and Investment Advisory Commission, which consists of nine members, selected as follows:

- The Treasurer, or his or her designee.
- The Governor or the Director of Finance.
- The Controller, or his or her designee.
- Two local government finance officers appointed by the Treasurer, one each from among persons employed by a county and by a city or a city and county of this state, experienced in the issuance and sale of municipal bonds and nominated by associations affiliated with these agencies.
- Two Members of the Assembly appointed by the Speaker of the Assembly.
- Two Members of the Senate appointed by the Senate Committee on Rules.

The term of office of each appointed member is four years, but appointed members serve at the pleasure of the appointing power. In addition, any legislators appointed to the Commission meet with and participate in the activities of the Commission to the extent that the participation is not

incompatible with their respective positions as Members of the Legislature.

The Treasurer serves as chairperson of the Commission and presides at meetings of the Commission. The Commissioners do not receive a salary but are entitled to receive per diem allowance for attending meetings. The office of the Treasurer furnishes all administrative assistance required by the Commission.

The Commission is charged with numerous duties, including assisting all state and local government units in the planning, preparation, marketing, and sale of debt issues to reduce cost and to assist in protecting the issuer's credit; maintain contact with state and municipal bond issuers, underwriters, credit rating agencies, investors, and others to improve the market for state and local government debt issues; and, publishing a monthly newsletter describing and evaluating the operations of the Commission during the preceding month.

According to the California Debt and Investment Advisory Commission (CDIAC), it improves the practice of public finance in California by providing responsive and reliable information, education, and guidance to state and local public agencies and other public finance professionals. The Commission was created in 1981 as the State's clearinghouse for public debt issuance information and required it to assist state and local agencies with the monitoring, issuance and management of public debt.

californiaglobe.com

By Chris Micheli, September 11, 2020 7:50 am

Fortress Eyes Building Two Phases of Las Vegas Rail Concurrently.

The company backed by Fortress Investment Group's private-equity funds plans to build two phases of a Las Vegas rail project concurrently, although it has yet to secure financing or break ground.

The venture that goes by the name of DesertXpress Enterprises in California and Nevada has proposed building a 170-mile (274-kilometer), high-speed line to Las Vegas from a southern Californian desert town called Apple Valley. It has approval to sell \$4.2 billion in municipal bonds for that initial phase, and has said it intends to market those unrated securities, the largest such high-yield deal ever, by the end of September.

For the second phase, the company that also operates under the name Brightline Trains is looking to extend that yet-to-be-built line from Apple Valley to an existing California commuter rail station in Rancho Cucamonga, some 50 miles from downtown Los Angeles. Its representative Sarah Watterson told members of the San Bernardino County Transportation Authority at a meeting Wednesday that construction of both segments would occur at the same time and the Rancho Cucamonga hub would open for service at the end of 2023, which would be the same as the first phase.

The extension could include a station in Hesperia, located between Apple Valley and Rancho Cucamonga.

"There is strong market demand," Watterson told the board, which oversees various modes of transportation in the region. "We would expect that our system could actually capture thousands of riders daily."

The firm hasn't yet secured regulatory permits or California's approval to sell municipal bonds for the expansion. Its first passenger rail in Florida, financed through tax-free bonds issued under the name Virgin Trains USA, has suspended service because of the pandemic. It's looking to boost ridership of the unprofitable line by adding stations.

Bloomberg Business

By Romy Varghese

September 2, 2020, 12:45 PM PDT

California Hit by Fires and Virus Sells \$2.6 Billion in Debt.

- **Blazes create more stress on pandemic response, resources**
- **Service cuts, ratings downgrade loom if recovery falls short**

Last September, California entered its bi-annual bond sale flush with a ratings upgrade from Fitch Ratings and a \$21 billion budget surplus.

A year later, California kicks off its fall debt sales under dramatically different circumstances. Wildfires scorching thousands of acres are creating another stress on the state's resources and its response to the coronavirus pandemic. S&P Global Ratings is warning that it may lower the Golden State if its finances become unbalanced for a long period. To close a \$54 billion shortfall, California resorted to deferring payments and plumbing reserves, while holding out hope for federal aid that has yet to materialize.

For Franklin Templeton's Jennifer Johnston, the blazes, which came much earlier in the fire season than usual, could exacerbate the state's existing problems with housing affordability and the economic wreckage from pandemic-related shutdowns. They can eventually undermine local tax bases, especially if the disease persists without a vaccine, she said.

"Will wildfires be the last straw? And over time, will we see population decline? It's bringing general climate-related risk more to the forefront," said Johnston, a vice president and research analyst. "You have to factor it into your analysis, if you're going to own a credit where this happens every year, versus communities that don't have this as an issue."

Relative Yields

Such long-term concerns won't impede the state's access to capital. But relative yields on its \$2.6 billion general-obligation sale, which sold Wednesday, show investors receiving more in compensation. Ten-year bonds were priced to yield 1.2% yield, or 40 basis points over benchmark debt, compared with 0.94% yield, or 13 basis points over benchmark debt for California securities, according to data compiled by Bloomberg. Because of demand, the state increased the deal size from \$2.4 billion.

So far, wildfires have burned 1.48 million acres, with three of the 20 largest blazes in California history occurring in August, according to the state's fire service. The agency has already consumed about 80% of the amount budgeted for the year ending in June 2021 to deal with them, finance department figures show.

The blazes, many of them sparked by lightning from extreme weather, forced evacuations, with about 27,000 still unable to return to their homes as of Tuesday and facing the difficulty of relocating safely as the pathogen continues to spread. The far-drifting smoke is pushing air quality to dangerous levels, undermining the ability of restaurants in cities to offer outdoor dining to keep afloat during the pandemic.

Meanwhile, the state's about a month away from cuts that will be triggered absent federal aid, including \$6.6 billion to its schools and community colleges, under the budget lawmakers passed for the current fiscal year.

So far, the three major credit rating companies have held their stable outlooks on the state, meaning a downgrade isn't imminent. And California has sufficient cash on hand so it doesn't need to borrow through revenue anticipation notes, unlike during past crises. But S&P has flashed a warning in a release ahead of the bond sale.

Stressed Liquidity

"Should reserves drop to the point where liquidity is stressed, or the state experiences undue political difficulty in making necessary budget adjustments when addressing its projected sizable budget gaps in fiscal 2022 and beyond, we could potentially lower the rating or revise the outlook," the company said.

For this year's budget, the state deferred \$12.9 billion in payments to schools and community colleges and borrowed \$9.3 billion from other funds — obligations officials must honor, even if the economic recovery lags. They anticipate general fund revenue growing by 2% for the year beginning in July and then by more than double for the year after that, bond documents show.

"If we don't see a rapid recovery in the economy, I think the budget may create greater challenges for them in 2022 and 2023 than we expect," said James Dearborn, director of municipal credit research at DWS.

Bloomberg Markets

By Romy Varghese

September 2, 2020, 8:36 AM PDT Updated on September 2, 2020, 12:50 PM PDT

Chicago Eyes Refinancing, Pension Bonds With Rebound Elusive.

- **City is looking at ways to cut debt service to ease budget gap**
- **Chief financial officer says refinancing may save \$100 million**

Chicago is looking to the \$3.9 trillion municipal-bond market for options to close its ballooning budget deficits, Chief Financial Officer Jennie Huang Bennett said.

Options on the table include selling pension obligation bonds, as well as refinancing general obligation and sales tax-backed bonds, Bennett said in a telephone interview on Wednesday. The refinancing of a yet-to-be-determined amount of debt is targeted for the fourth quarter, she said, adding it could save as much as \$100 million in the 2020 budget.

Mayor Lori Lightfoot on Monday projected that the 2020 deficit in the corporate fund, which

accounts for most services the city offers, would expand to almost \$800 million from a June projection of \$700 million. The gap would reach \$1.2 billion in 2021 with revenue losses connected to the Covid-19 pandemic making up 65% of the hole. A complete budget proposal will be released in October.

The city has mulled pension obligation bonds in past years. Former Mayor Rahm Emanuel had considered issuing \$10 billion of them to cover rising costs of public employee retirement funds. The pension costs have weighed on the city's credit rating for years with Moody's Investors Service giving the city a junk rating in 2015. The city's unfunded retirement liability stands at about \$30 billion.

"Everything is on the table," Bennett said. "We've spent time analyzing a pension obligation bond, what the pros and cons are and have had a number of conversations about what that could mean for the city."

Risky Bet

Pension obligation bonds come with risk, especially for Chicago. Proceeds from the sale would need to be invested in such a way that returns exceed the bonds' fixed interest rate, a tough target given how much the city pays in yield penalty because of its fiscal troubles. Pension bonds contributed to municipal bankruptcies in Detroit as well as Stockton and San Bernardino in California. The Government Finance Officers Association has advised against them.

It's premature to discuss the size of any potential pension bond deal because the city still hasn't decided whether these bonds will be used, Bennett said. Any discussion about pension obligation bonds should be paired with potential reforms for how the city pays for retirement costs and what benefits are provided, she said. Bennett declined to comment on specifics for reforms but said the city plans to have conversations with groups including beneficiaries.

"We ought to work on the solution together as it relates to how we make sure that the pension funds remain healthy financially," Bennett said. "That conversation is really important with the rating agencies in demonstrating that we have a credible path forward" for financial sustainability for pensions, she said.

Hiring slowdowns, changes to procurement and contracts and new revenue sources are also under consideration to fill the budget shortfall, she said. Raising property taxes is toward the end of the list, she added.

Washington Help

Meanwhile, the city doesn't expect revenue to begin recovering to pre-pandemic levels until early 2022, according to its baseline scenario. Before the virus hit, the city had planned on reaching a so-called structural balance in 2022 but now that target appears to be later.

States and municipalities across the country are pushing Congress to come to an agreement that includes aid for governments trying to make up for revenue losses. Illinois is counting on additional federal aid and loans from the Federal Reserve's Municipal Liquidity Facility of up to \$5 billion to balance its budget. The Chicago Board of Education last month approved a budget that assumes \$343 million in additional federal funding.

Chicago has not yet determined how much additional federal aid it will incorporate into its spending plan because the final agreement may or may not pass before the city's budget proposal is released in October, Bennett said. The city is actively looking at contingency plans in case more federal

stimulus doesn't come through, she said.

"Ultimately, we are going to have to make some hard choices," Bennett said. "What's really important is federal stimulus."

Bloomberg Markets

By Shruti Singh

September 3, 2020, 2:00 AM PDT

Florida Seizes on Low Rates for Hurricane Fund as Storms Start.

- **Reinsurance fund selling \$2.25 billion of taxable bonds**
- **'This is an extraordinary opportunity,' state official says**

With hurricane season barreling down on Florida, the state is seizing on low interest rates to borrow \$2.25 billion for its catastrophe insurance fund.

The State Board of Administration Finance Corp. is joining state and local governments that have rushed to sell bonds since yields tumbled this year to the lowest in decades. While rates have edged up over the past three weeks, benchmark 10-year debt is still yielding only about 0.8%, matching the lows seen before the pandemic upended financial markets in March.

"The market has been extraordinarily strong on the demand side and interest rates are very low — those two things don't normally go hand and glove," Ben Watkins, Florida's director of bond finance, said in an interview. "From an historical perspective, this is an extraordinary opportunity."

The pace of debt sales surged as rates tumbled in July, with the volume of new municipal bond offerings jumping 58% from a year earlier to about \$46 billion that month, according to data compiled by Bloomberg. Even with the uptick in rates since then, sales have stayed strong, with another \$41 billion issued this month.

The offering will be the first since 2016 by the Florida Hurricane Catastrophe Fund, which acts as a backstop for the state's insurance market.

Because of the amount of money already in the fund, Watkins said it didn't need to borrow more, but the low level of interest rates was too good to pass up.

"We don't really need to borrow, we want to," he said. "I don't know what interest rates or demand is going to be like in five, seven, ten years from now, so let's put some debt on the balance sheet because we don't know when we'll need it."

The bonds are rated Aa3 by Moody's Investors Service and AA by S&P Global Ratings and Fitch Ratings. They will be federally taxable and marketed to non-traditional municipal buyers, like corporate-debt investors and overseas firms, Watkins said.

The move to shore up the fund comes as scientists anticipate that climate change will cause more damaging hurricanes.

The Florida fund is estimated to incur total losses of about \$8 billion from Hurricanes Irma and

Michael, which hit the state in 2017 and 2018, respectively, according to projections as of June 30.

Watkins said that the state is preparing for the future by selling bonds now. "It's out of an abundance of caution and we are looking at how beneficial it will be and how inexpensive it will be to have that borrowing on the balance sheet," he said.

Bloomberg Finance

By Danielle Moran

August 31, 2020, 10:30 AM PDT

Chicago Projects \$2 Billion Deficit Through 2021 on Pandemic.

- **2021 gap seen at \$1.2 billion and nearly \$800 million in 2020**
- **Mayor Lightfoot warns of layoffs, calls for more federal aid**

Chicago faces a 2021 budget deficit of \$1.2 billion as the coronavirus pandemic decimates the city's revenue with businesses shut down due to social distancing while recent unrest hurt reopening efforts.

Next year's projected gap comes on top of a 2020 deficit of nearly \$800 million for its corporate fund, which accounts for many of the services the city provides, Chicago Mayor Lori Lightfoot said on Monday. That's up from a June forecast of \$700 million because rising virus cases have hampered the city's recovery. Lightfoot called for additional federal stimulus for states and cities and stressed in prepared remarks that Chicago is struggling with "a catastrophic collapse of our local and national economy."

Revenue losses spurred by the pandemic are the biggest factor hobbling city finances in 2020 and 2021, she said. To make up for the gaps this year and next, Lightfoot's administration will likely need to cut headcount, control spending, refinance debt, borrow and ask for more federal aid. The city has not ruled out raising property taxes and is also looking at a personal property levy on computer leases, which may help raise money as telework expands.

"This is the reality of a budget deeply impacted by this horrible virus," Lightfoot said in prepared remarks.

The pandemic is exacerbating the challenges for the city that's seen retirement costs climb and financial stress build up for years, factors which led Moody's Investors Service to give Chicago a junk rating in 2015. The corporate fund contributions to pensions will increase \$91.4 million to \$426.9 million next year. Chicago's total 2021 contributions to its four pension funds will reach \$1.8 billion from \$1.7 billion this year, according to budget documents.

Purely Covid

"Astounding and quite staggering as those numbers are, they are kind of in line with what we've been expecting," said Ty Schoback, senior analyst for Columbia Threadneedle Investments, which owns Chicago debt as part of its \$16 billion in muni assets under management. "As a bondholder what we look for is budget solutions that are longer-term in nature."

The city has identified \$550 million, including up to \$350 million in funding from the CARES Act and

at least \$200 million from debt refinancing, to help close the 2020 shortfall.

Chicago's confirmed virus cases, which have disproportionately hit black and brown communities, are above 71,000 and climbing back to concerning levels. Deaths stand at more than 2,800. Business activity is still limited to curb the spread of the virus, and protests since May have led to looting and violence in key commercial corridors and impoverished neighborhoods.

About 65% of next year's budget gap is "purely" due to Covid-19-related revenue loss, and the city continues to work toward structural balance, according to Chicago Chief Financial Officer Jennie Huang Bennett.

No Bankruptcy

Among the financial solutions to close the gap could be pension obligation bonds, which are a vehicle to spread out and defer payments in future years, along with reforms, Bennett said in response to reporters' questions on Monday. She quashed the notion of Chicago filing for bankruptcy because she said it doesn't solve the city's problems. Bennett also said the city currently isn't looking at the Federal Reserve's Municipal Liquidity Facility because it could access the bond markets at better rates if needed.

"This disease has forced a seismic disruption of our economy, and — as a consequence — our city's finances," Lightfoot said during her remarks. "Also affecting the recovery was looting and damage to our businesses that occurred three months ago and again more recently."

Meanwhile, the costs of Chicago's health and social services are growing as Lightfoot's administration works to curb the spread of Covid-19, reassure businesses that it's safe to operate in Chicago and rejuvenate communities with scant investment for decades.

More than 900,000 Chicago-area residents have filed for unemployment since the pandemic began and the region's unemployment rate has risen to 12.6% from 3.6% in February. Sectors such as hospitality, convention and tourism and personal services are among the hardest hit by shutdowns.

'Exceptionally Large'

"Many are still seeing a fraction of their typical revenues and some businesses have sadly closed with no hope of coming back," Lightfoot said. "While we are fortunate to have a diverse economy, nonetheless, the significant loss of revenues in these areas continues to be felt now and likely deep into 2021," she said referring to tourism, hospitality and transportation.

In early July, the city pegged the economic cost of canceled conventions and similar events at \$900 million, according to Moody's. Lightfoot reiterated her call for more federal stimulus for municipalities like Chicago. Lightfoot said even amid a campaign season leading up the November election she's advocating for a bipartisan solution.

"The fiscal gap that Mayor Lightfoot announced is exceptionally large and absent new federal help there are no easy solutions for Chicago," said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about \$50 billion in municipal securities under management. "The weight of the city's debt and unfunded pension liabilities severely limit the mayor's flexibility to cope with budgetary impact of the pandemic and the recession. The mayor didn't create any of those problems but they are now hers to manage."

By Shruti Singh

August 31, 2020, 12:42 PM PDT Updated on August 31, 2020, 4:17 PM PDT

Michigan Supreme Court Holds City Attorney Records and Communications Subject to FOIA Disclosure.

The Michigan Supreme Court (MSC) recently held in *Bisio v City of Clarkston*, ___NW3d___; 2020 Mich. LEXIS 1237 (July 24, 2020), that non-privileged documents and communications involving a city attorney may be subject to disclosure under the Freedom of Information Act ("FOIA"), MCL 15.231 et seq.

Plaintiff Susan Bisio filed a FOIA request with the City of the Village of Clarkston ("City") seeking correspondence between the City's attorney and a developer of vacant property within the City. The City denied the request on the basis that a public record was not subject to the FOIA under MCL 15.232(i) because it must be created or obtained by a public body and the City Attorney is not a public body.

The Supreme Court reiterated the democratic purpose of the FOIA of providing Michiganders with "full and complete information regarding the affairs of the government and the official acts of those who represent them as public officials and public employees." The Court held that the determination of whether records are public records under the FOIA is a question of "whether the public body prepared, owned, used, possessed, or retained them in the performance of an official function."

To answer this question, the Court looked to the definition of a "public body" under the FOIA and noted that, while the definition includes a collective group, it also includes "[a] state officer [or] employee" and "other body in the executive branch of state government." MCL 15.232(h)(i). The Court also drew on the FOIA's distinction between individual state officers and their offices, which the Court interpreted to mean that individual officers are distinct from their offices.

Further, the governor, lt. governor, and county clerk are expressly excluded from the definition of public body under the FOIA, which lead the Court to conclude that those offices are "presumptively an 'other body' under MCL 15.232(h)(i)" which required their express exclusion if they were not to be subject to FOIA requirements. With the understanding that the category "other body" encompasses an office, the continued definition of public body in MCL 15.232(h)(iv), which includes "[a]ny other body that is created by state or local authority," must also encompass offices. Accordingly, the office of the city attorney, which is typically created by local authority, must be included as an "other body" in the definition of "public body."

Here, because the office of a city attorney is a public body and the documents were indisputably prepared and possessed by the city attorney, the Court held that the documents requested by Bisio were subject to the FOIA.

This decision may have a significant impact for both municipal attorneys and those seeking public records held by municipal attorneys. Under this decision, documentation controlled by a municipality's attorney and not protected by the attorney-client privilege may be subject to the FOIA.

Foster Swift Collins & Smith PC - Alexander J. Thibodeau

Florida Seizes on Low Rates for Hurricane Fund as Storms Start.

(Bloomberg) — With hurricane season barreling down on Florida, the state is seizing on low interest rates to borrow \$2.25 billion for its catastrophe insurance fund.

The State Board of Administration Finance Corp. is joining state and local governments that have rushed to sell bonds since yields tumbled this year to the lowest in decades. While rates have edged up over the past three weeks, benchmark 10-year debt is still yielding only about 0.8%, matching the lows seen before the pandemic upended financial markets in March.

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Bloomberg Markets

by Danielle Moran

August 31, 2020

Fitch: NJ Proposal Aims to Stabilize Finances; Challenges Remain.

Fitch Ratings-New York-01 September 2020: New Jersey's budget proposal for the shortened nine-month fiscal 2021 year marks a further step toward fiscal stabilization since the coronavirus pandemic upended the state's economic and budgetary situation earlier this year, according to Fitch Ratings. Fitch downgraded New Jersey's Issuer Default Rating to 'A-' /Rating Outlook Negative on April 21 given the narrow fiscal resilience the state had available to confront the emerging crisis, relative to most other states. Since then, swift action by the Governor and Legislature and the presence of federal response funds appear to be laying the groundwork for the state to steady its finances. However, multiple uncertainties weighing on New Jersey's credit quality have yet to be clarified, including the ultimate course of the pandemic, its economic and fiscal ramifications and whether additional federal support emerges. Moreover, the significant one-time actions necessary to address the downturn now, including planned deficit borrowing, may temporarily derail the state's progress in recent years in addressing its many fiscal challenges, including its persistent structural imbalance, high liabilities and limited reserves.

The Governor's proposed budget for the shortened, nine-month fiscal 2021 period reflects the state's progress toward stabilizing its finances. It forecasts that fiscal 2020 (12 months through June 2020) will have ended with a revenue gap of only \$1.4 billion relative to the January 2020, pre-pandemic forecast; this compares with the \$2.7 billion gap expected as of the May financial condition report.

Better performance in fiscal 2020 partly reflects economic trends before the pandemic, which have supported recent income tax collections, but withholding has not deteriorated as sharply as expected since the pandemic began and enhanced federal unemployment benefits have shored up sales tax receipts. More than \$1 billion in planned fiscal 2020 appropriations were also held back by the state early in the crisis, which appears to have offset most of the estimated fiscal 2020 revenue gap, enabling the state to end the year with a fund balance now estimated at over \$1.7 billion.

The projected revenue decline in fiscal 2021 remains more of a challenge, despite the improved outlook. Prior to any tax law changes, New Jersey is forecasting a \$5.6 billion revenue gap relative to the pre-pandemic forecast, compared with a \$7.2 billion gap in the May fiscal update. The governor's proposal targets ending fiscal 2021 with a fund balance exceeding \$2.2 billion, a potentially critical cushion against the many uncertainties the state faces through the remainder of the fiscal year.

The revenue gap identified by the state is addressed most notably by \$4 billion in deficit borrowing, either via General Obligation bonds or through the Federal Reserve's Municipal Liquidity Facility, in lieu of deeper spending cuts. Additionally, \$1 billion in revenue actions are in the proposal, the largest of which is raising the top rate on taxable income over \$1 million to 10.75%; the Legislature has rejected this proposed increase several times before. The proposal cuts a range of spending but preserves the state's ramp up schedule to full actuarial contributions (ADC) for pensions with a payment equal to 80% of the ADC, an important signal of the state's commitment to stabilizing its pension funding and addressing a source of credit weakness. The Governor and the Legislature have only a few short weeks to reach consensus on a final budget, but their quick agreement at several critical junctures since the start of the pandemic raises expectations for a smooth process.

Yet, even as state finances appear to be solidifying, significant risks remain for the state beyond the current fiscal year. Economic recovery is likely to be slow, and thus the rebound of tax revenues in fiscal 2022 is unlikely to fully recoup the lost revenues being offset in fiscal 2021 through deficit borrowing and other one-time actions. Moreover, future baseline spending will have to rise both to

cover debt service on the operating debt and the next scheduled increase in pensions contributions.

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Mesirow Arranges Tax-Exempt P3 for University of Illinois.

Mesirow Financial's Public Finance and Credit Tenant Lease and Structured Debt Products teams acted as the senior underwriter for one of the first tax-exempt healthcare public-private partnership financings in the U.S.

Mesirow acted as the financing arm of the winning development team that was assembled by the University of Illinois to outsource the development, design, financing, and maintenance of the university's Outpatient Surgery Center and Specialty Clinics building near the Chicago campus.

The 200,000-square-foot clinical building, to be located across from the University of Illinois Chicago Hospital on the Near West Side, is slated for fall 2022 completion. By incorporating a 501(c)(3) ownership structure, the bonds could be secured on a tax-exempt basis at very competitive borrowing levels.

"This is a terrific transaction for the University of Illinois, as well as for the State of Illinois because of its public-private partnership model," said Dominick Mondì, Mesirow Financial president & CEO.

September 1, 2020

Fitch: California Wildfires, Blackouts Highlight Utility Operating Risk

Fitch Ratings-Austin/New York/Chicago-27 August 2020: California wildfires and rolling power outages earlier this month do not have an immediate effect on the credit profiles of the state's investor-owned utilities (IOUs), public-owned utilities (POUs), community choice aggregators (CCAs) and renewable developers, Fitch Ratings says. The occurrence of these two events simultaneously, although unrelated, underscores the challenging utility operating environment in a state prone to natural disasters, which is incorporated in the ratings.

Due to increasingly destructive wildfires triggered by IOU equipment in 2017 and 2018, the three largest California IOUs initiated public safety power shutoffs (PSPS) designed to prevent catastrophic wildfires in 2019. In Fitch's view these outages, in concert with power interruptions driven by heat-related, supply-demand and other issues, diminish customer satisfaction while increasing political risk. A potential decline in ratepayers in those areas where residents and businesses choose not to rebuild, coupled with increased wildfire-related and green economy costs, could pressure utility cash flows in the longer term, absent robust regulatory constructs or other offsetting factors, such as greening the transportation sector and buildings.

Blackouts and wildfires will encourage residential installation of solar-plus-battery storage as utility customers increasingly look for alternative energy sources, reducing demand for utility-provided energy and eroding revenues. Widespread adoption of residential storage would shift load patterns and may obscure the California Independent System Operator's (CAISO) ability to estimate appropriate reserve margins.

Some renewable projects are at risk of unreimbursed curtailment if CAISO directs them to derate for emergencies, such as wildfires, which has not occurred but could erode credit quality if it were to become a persistent issue. If there are increasing periods where power prices jump by many multiples above average pricing, some renewable projects may be able to capitalize on those opportunities and receive a short-term revenue boost.

A record of almost 1.4 million acres has burned across California since last week, leading to the declaration of a state of emergency. The current fires, which were caused by an unusually large number of lightning strikes related to intense thunderstorms and extreme heat, are not expected to expose utilities to third-party liabilities and financial harm. Under the doctrine of inverse condemnation, California utilities are held strictly liable if their equipment is determined to have sparked a wildfire.

The blackouts earlier this month, which occurred primarily in some IOU service areas, were initiated by CAISO, due to an unprecedented heat wave in the Western US and system challenges related to meeting electricity needs with existing resources. The power outages will be investigated by key regulatory agencies with the goal of delivering more reliable power as California transitions to a clean energy economy. The outages are unlike the service interruptions initiated last year by the three large IOUs to decrease wildfire risk. Fitch expects PSPS to be used by IOUs as a tool to prevent catastrophic wildfires during periods of high weather-related risks. CCAs are affected by CAISO blackouts and PSPS events as their energy supplies are delivered by the IOUs' transmission and distribution systems.

Wholesale electricity prices in California spiked due to the recent energy shortfall. IOUs meet supply needs through a mix of in-house generation and long-term purchase power contracts. When demand is high and IOU supply is insufficient, they may need to purchase higher cost power on the spot market to help meet demand, which could temporarily pressure cash flow until such costs are collected in rates.

Fitch-rated POUs did not experience blackouts earlier this month. The POUs own generation assets and, in some cases, high-voltage transmission lines that permit energy to be imported from other states. Generation assets and transmission capacity provided a physical and financial hedge against the capacity and energy shortages.

POUs had sufficient resources to serve their own loads when energy supply became scarce and market prices spiked. A number of POUs also sold energy into the wholesale market, augmenting revenue when prices rose. Nevertheless, risk exists that any potential solution will impose greater

cost and regulatory requirements on the POUs, but there is no short-term credit impact of the blackouts on POUs.

Fortress Wins California Approval for Vegas Rail Reimbursement.

- **Company still has to sell record amount of muni debt for line**
- **California's finance staff had questions that went unanswered**

A company backed by Fortress Investment Group's private-equity funds got the go-ahead Wednesday from the California Infrastructure and Economic Development Bank to get reimbursed for the cost of a Las Vegas rail project from a future bond sale, even though it failed to answer questions from California's finance department.

The permission is a step forward for the venture that goes by the name of DesertXpress Enterprises in California and Nevada. It doesn't yet have the authorization to sell the estimated \$1.65 billion in debt, although at least one of the required approvals could occur in early 2021, according to a report by the authority that issues municipal debt for private borrowers.

The company that also operates under the name Brightline Trains has proposed building a 170-mile (274-kilometer), high-speed line to Las Vegas from a southern Californian desert town called Apple Valley. It already has approval to sell \$4.2 billion in municipal bonds for that initial phase, and has said it intends to market those unrated securities, the largest such high-yield deal ever, by the end of September.

The company is looking to extend that yet-to-be-built line from Apple Valley to existing commuter rail stations in Rancho Cucamonga and Palmdale, California, which would bring it closer to downtown Los Angeles.

Gayle Miller, a representative for the state's finance department on the board, said that while the first phase is a "priority project," the department's questions about right-of-way considerations received no response from the company. She also noted that the firm hasn't yet sold bonds for the initial track.

"We continue to believe that any financial transaction in this state deserves due diligence and at the very least questions answered in order to move ahead," Miller said before casting the sole vote against the reimbursement resolution.

Board member and California Treasurer Fiona Ma said that agreeing to allow the company to get paid back with bond proceeds doesn't commit the agency to sign off on the sale itself.

"It really just provides the flexibility" for the firm, Ma said before the vote.

"We have a tremendous amount of support in California," Ben Porritt, a spokesman for the firm, said by email after the meeting. "People are excited about the private sector investing in infrastructure and transportation and recognize the economic impact a project of this scope can bring to the region."

The company's first passenger rail in Florida, financed through tax-free bonds issued under the name Virgin Trains USA, has suspended service because of the pandemic. It's looking to boost ridership of the unprofitable line by adding stations.

Bloomberg Markets

By Romy Varghese

August 26, 2020, 3:29 PM PDT

California Considers Bonds to Boost Economy as Buyers Crave Debt.

- **Legislative proposal would sell at least \$5 billion in debt**
- **Demand for California bonds outstrips supply amid low rates**

California could issue billions of dollars in debt under a legislative blueprint designed to jump start its economy ravaged by the coronavirus pandemic.

While the main plank of the stimulus plan is a proposal is to give people and businesses an incentive to pay their income taxes years ahead of time, a securitization portion would have the state sell bonds backed by revenue from a 2017 gasoline tax increase, the state's cap and trade program for emissions of greenhouse gases, and fees the California Public Utilities Commission levies on broadband services.

The plan also calls for speeding up sales of general-obligation bonds that voters have already approved but have yet to occur. No size has been set but gas-revenue debt sales could total \$5 billion. Lawmakers have until Aug. 31 to pass the proposal.

Generally, issuing debt for infrastructure instead of paying cash during a downturn "is a smart idea" for states to free up resources and help the economy at the same time, said Josh Goodman, senior officer with the state fiscal health project at the Pew Charitable Trusts. California bond investors eager to shelter their income from taxes may snap up the new supply, given demand is outstripping bonds for sale. There's about \$1.9 billion less in available California securities than the amount likely to be reinvested from maturing debt, according to data compiled by Bloomberg.

"If the market is right and interest rates are low and there's a need to help stimulate the economy, now's not a bad time to be in the market pricing debt," said Howard Cure, head of municipal research at Evercore Wealth Management.

Unsold Bonds

Democratic leaders in both chambers see the proposal as a way to rejuvenate the economy, protect small businesses and provide services to people hard hit by the downturn, such as the unemployed, undocumented immigrants and working parents, without raising taxes.

The biggest pool to be bonded may be the revenue from gas taxes and vehicle fees that generate about \$5 billion annually. It is unclear yet how much the state could securitize from cap and trade or broadband revenues, California Deputy Treasurer Tim Schaefer said.

The state has the authority to issue about \$31.8 billion unsold bonds, some dating back to 1960, about 20% of the \$158.5 billion approved by voters. California has about \$72.3 billion in general-obligation debt outstanding.

Although Governor Gavin Newsom's office hasn't commented on the legislative proposal, the Democrat said during an unrelated news briefing Aug. 12 that "we have a lot of projects that are

ready to go and permitted. It can happen. All we need is to move that money out a little bit faster.”

Evercore's Cure said that based on the state's wealth and population, California could handle more debt, but he cautioned that officials should ensure there's enough revenue to back it as they grapple with the effect of the public health crisis. The state is banking on federal aid that hasn't materialized yet to help close its two-year shortfall of \$54 billion.

“I think California and every state has to be somewhat careful about adding more fixed costs when they don't know the extent of damage to their budgets,” he said. “So as long as they have specified revenues going to pay the debt and you're comfortable with that, that's fine. But just to make general obligation or appropriation debt in an era when they're running big operating deficits, you have to be careful about that.”

Bloomberg Markets

By Romy Varghese and Laura Mahoney

August 25, 2020, 10:30 AM PDT

[Coronavirus Shutdown Stings New Jersey Mall's Bondholders.](#)

Mutual funds took hundreds of millions of dollars in paper losses this spring on the American Dream project despite market's rally

This summer's markets rally hasn't helped banks and investors who lent about \$2.7 billion to build the country's second-largest mall, near the Meadowlands Sports Complex in New Jersey.

The American Dream Mall has been shut since March, and mutual funds that bought municipal bonds backing its construction have since taken hundreds of millions of dollars in paper losses. The troubles highlight the growing disconnect between ailing segments of the U.S. economy and the surge on Wall Street.

Even with schools in New Jersey preparing to reopen, American Dream remains closed because of a state order aimed at reducing the spread of the new coronavirus. The longer the hybrid mall and amusement park goes without paying customers, the harder it will be for its owner, Triple Five Group, to repay the money it borrowed from banks and mutual funds in 2017.

[Continue reading.](#)

The Wall Street Journal

By Matt Wirz

Aug. 26, 2020 5:30 am ET

[S&P: New York State Fiscal 2021 Revenues Fall Short, Increasing The Likelihood Of Expenditure Cuts](#)

Key Takeaways

- Downward revenue revisions after the first quarter of the fiscal year underscore the challenging economic environment the state is in and the likelihood of a prolonged recovery.
- Lack of additional revenue support will necessitate the need to act on planned expenditure cuts expected during the second half of the fiscal year.
- Future downward revenue revisions or diminishing federal support may upend the state's ability to achieve budgetary balance without significant reserve use.
- We continue to view the state's financial plan as reasonably achievable to maintain structural balance this year, but increasing budgetary action is required the second half of the fiscal year.

[Continue reading.](#)

27 Aug, 2020

Muni-Bond Buyers Side With Seinfeld: NYC Isn't 'Dead Forever'

- **In city's \$1 billion bond sale, 10-year bonds yield 1.45%**
- **Biggest city seen weathering latest crisis like those in past**

Jerry Seinfeld came to New York City's defense after a blogger wrote that the city is "Dead Forever." For now, the bond market agrees with the comedian.

There were plenty of mutual funds, insurance companies and other institutional investors willing to lend to the city when it sold \$1 billion of bonds on Wednesday. The 10-year bonds were priced to yield just 1.45%, far from a signal of imminent default. The yield was slightly higher than general obligation bonds rated A-, four levels below the city's current rating and the same as Philadelphia, according to data compiled by Bloomberg.

The city received about \$1.9 billion of orders, or twice the bonds offered for sale, from institutional investors and another \$212 million from individual investors.

"I have to explain to clients that the city isn't on the verge of bankruptcy," said Howard Cure, who has analyzed municipal bonds for more than 30 years and is head of municipal research at Evercore Wealth Management. "It's not the 1970s."

Which isn't to say New York City, the epicenter of the coronavirus pandemic in March, doesn't have serious problems.

Unemployment has swelled to 20%. Revenue in the city's \$88.2 billion budget is \$7.1 billion lower than projected in January. Evictions loom. Violent crime is on the rise, with murders up 30% in the first seven months of 2020 and shootings up 177%, according to the New York Police Department. More than 420,000 residents left the city between March 1 and May 1, the New York Times estimated, based on an analysis of data from cellular phone towers. The Metropolitan Transportation Authority, which runs the subways, buses, and commuter trains, is warning of draconian service cuts that would upend residents' daily lives.

But the dark headlines haven't affected investors, who are more concerned with how low bond yields have dropped than they are about the demise of the most populous U.S. city, said Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research, the firm's

independent research arm. The Federal Reserve's commitment to keep interest rates near zero and lend to states and local governments if necessary — coupled with a wave of muni debt payments this summer that were reinvested — has depressed yields to the lowest since the 1950s.

Howard, like other municipal analysts, is projecting credit-rating downgrades, but not defaults on state and local government debt. The muni market expects that Congress will likely pass an aid package for states and local governments, he said. And states and cities entered the recession in relatively strong shape, having seen tax collections swell during the long economic expansion.

Mayor Bill de Blasio balanced this year's budget using almost \$3 billion in reserves and \$3 billion of cost-saving measures, including cutting police overtime and cutting July's police officer class. The mayor has threatened to lay off as many as 22,000 employees if the city and public employees unions can't find \$1 billion in savings, like changing work rules or modifying health benefits

New York City is counting on a federal relief package and is pushing for state legislation that would allow it to borrow as much as \$5 billion if relief isn't forthcoming. The biggest risk is the trajectory of the virus itself: Although the percentage of people testing positive for the virus in the city has plummeted to less than 1%, a recurring surge could lead to another round of shutdowns and spur more residents to leave the city.

Still, New York, the financial capital of the world, has a lot going for it. Wall Street's profits soared to \$10.7 billion in the first quarter, the most profitable quarter in more than a decade, as traders capitalized on volatility. Facebook Inc. and Amazon.com Inc. recently announced large leases in midtown Manhattan. The city's cultural institutions and universities won't disappear, neither will its attraction to strivers and tourists, alike.

"Energy, attitude and personality cannot be 'remoted' through even the best fiber optic lines," Seinfeld wrote in a New York Times op-ed. "That's the whole reason many of us moved to New York in the first place."

Bloomberg Markets

By Martin Z Braun

August 27, 2020, 8:00 AM PDT

[Fortress Eyes More Debt for Las Vegas Rail Still to Be Built.](#)

- **Company hasn't yet sold record \$4.2 billion in bonds for line**
- **Second phase to move closer to Los Angeles from desert town**

A company backed by Fortress Investment Group's private-equity funds wants to sell \$1.65 billion in tax-exempt bonds for a second phase of its proposed passenger train to Las Vegas, even though it has yet to break ground or secure financing on the first leg, according to a report from a California bond agency.

The company, which goes by the name of DesertXpress Enterprises in California and Nevada, has proposed building a 170-mile (274-kilometer), high-speed line to Las Vegas from a southern Californian desert town called Apple Valley. It already has approval to sell \$4.2 billion in municipal bonds for that initial phase, and has said it intends to market those unrated securities, the largest

such high-yield deal ever, by the end of September.

Now the company is saying it wants to extend that yet-to-be-built line from Apple Valley to an existing commuter rail station in Rancho Cucamonga, about 40 miles from downtown Los Angeles — and wants the bond authorization to make that happen. At least one of the required approvals could occur in early 2021, according to a report prepared by the staff of the California Infrastructure and Economic Development Bank that issues municipal debt for private borrowers.

At a meeting on Wednesday, the agency's board is scheduled to consider a request from DesertXpress to permit the company to be reimbursed for the second phase costs with the proceeds of a future bond issuance should that be approved. Agreeing to the reimbursement wouldn't commit the board to sign off on the bond authorization.

"The sooner the project is complete, the sooner it will generate revenue. To complete the project as quickly as possible, DesertXpress must begin the design, development, and construction of Phase II in advance of IBank's future tax-exempt conduit revenue bond financing," the staff report said.

Ben Porritt, a spokesman for the company that now goes by the name Brightline Trains LLC, said it doesn't have an application before the U.S. Department of Transportation or the California Debt Limit Allocation Committee, whose approval would be needed as well for the bond authorization.

The company is also looking into connecting its rail to Palmdale, California, which has a commuter rail line too. The board of that rail agency, Metrolink, is scheduled to vote later Friday on an agreement exploring the possibility of linking both Palmdale and Rancho Cucamonga to the private line.

The reimbursement resolution Wednesday "is the first step in a long process as we continue to explore connections to Rancho Cucamonga and Palmdale," Porritt said.

The company's first passenger rail in Florida, financed through tax-free bonds issued under the name Virgin Trains USA, has suspended service because of the pandemic. It's looking to boost ridership of the unprofitable line by adding stations.

Bloomberg Markets

By Romy Varghese

August 21, 2020, 8:19 AM PDT

S&P: California's Cash Position Remains Strong Despite Budgetary Deficit

Key Takeaways

- California's cash position is expected to remain strong in fiscal 2021, despite budgetary balance drawdowns in fiscal years 2020 and 2021.
- The state has projected large and increasing out-year budget gaps, which will deplete reserves by fiscal 2022, absent future budgetary action.
- Besides drawing down reserves, the fiscal 2021 budget includes significant reductions in K-12 school aid and university funding, among other measures. School district aid reductions would be accomplished by deferring cash payments in certain months to the following fiscal year.

[Continue reading.](#)

20 Aug, 2020

Mounting Debt Threatens to Derail New York Transit System.

Subway, bus and rail systems could be starved of funds, budget watchdogs warn

New York's Metropolitan Transportation Authority needs to control its rising debt or it risks a drastic deterioration of service, budget watchdogs say.

The nation's largest transit agency already has a debt load surpassing \$45 billion, mostly to pay for new buses, trains and infrastructure. But it is now considering borrowing billions of dollars just to keep its system—including New York City's subway—running during the new coronavirus pandemic.

"A true red line has to be drawn on how much debt is too much debt for the MTA," said Rachael Fauss, a senior research analyst at watchdog group Reinvent Albany.

[Continue reading.](#)

The Wall Street Journal

By Paul Berger

Updated Aug. 20, 2020 11:49 am ET

New York's MTA Taps The Fed Funding Facility: Kazatsky (Radio)

MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, discusses skinny stimulus, the MTA tapping the Fed facility, and junk munis. Hosted by Paul Sweeney and Vonnice Quinn.

[Play Episode](#)

Bloomberg Radio

August 21, 2020 — 10:11 AM PDT

NY's MTA Rejects Bank Bids for Cash Notes as Fed Loan Likely.

- **Fed created program to backstop some local government loans**
- **Central bank lowered borrowing costs earlier in August**

New York's Metropolitan Transportation Authority rejected all the bids from Wall Street banks to purchase \$465 million of short-term notes Tuesday, setting the stage for the struggling transit agency to borrow the cash from the Federal Reserve's new municipal lending program.

The transit agency, bleeding cash because ridership is down amid the pandemic, rejected all the bids from banks including Citigroup Inc., Jefferies, and Barclays Plc, according to a notice by Grant Street, which runs an auction platform for municipal sales. The Fed had previously agreed to buy the debt that the MTA did not award to other bidders, according to documents released as part of the sale.

Aaron Donovan, spokesman at the MTA, did not have an immediate comment on the sale.

The central bank created the program earlier this year after the economic collapse from the pandemic rocked state and local government budgets and sent the \$3.9 trillion municipal bond market into a tailspin. The Fed's decision to act as lender of last resort arrested the steep sell-off in March by reassuring investors that the market wouldn't be rocked by another liquidity crisis.

Since then, though, it's only been used once, by Illinois, as municipal-bond yields have stayed low and cash continues to flood into the market. The MTA's offering was seen as a test of whether the Fed's decision on Aug. 11 to lower prices on the loans would increase use of the \$500 billion program.

The New York MTA, the largest U.S. transit system and among the agencies hardest hit financially by the coronavirus shutdowns, said it's facing a \$16.2 billion deficit related to the pandemic, according to documents associated with the debt sale.

It was seeking to borrow the \$465 million through cash-flow notes due in three years. Yet the weighted average true interest cost on bids submitted by the banks totaled about 2.79%, according to Grant Street. Investors have signaled nervousness about the MTA's finances. Yields on an MTA bond-anticipation note maturing in 2023 have fallen to 2.24% after increasing as high as 7.5% during the market's sell-off.

The transit agency's transportation revenue bonds are rated A2 by Moody's Investors Service, A+ by Fitch Ratings, BBB+ by S&P Global Ratings, and AA+ by Kroll Bond Rating Agency, according to its website.

The Fed's term sheet for the Municipal Liquidity Facility says it will determine pricing for split ratings by calculating an average rating. Using the pricing laid out in the term sheet, that could put the potential interest-rate spread on the MTA's debt at about 200 basis points above an overnight index swap with a comparable maturity.

Bloomberg Business

By Amanda Albright and Danielle Moran

August 18, 2020, 9:38 AM PDT Updated on August 18, 2020, 10:32 AM PDT

[New York's MTA Is Saved Less by Fed and More by Kroll.](#)

The largest U.S. public transit system locked in much cheaper borrowing costs with the central bank thanks to one credit rating.

New York's Metropolitan Transportation Authority became the second municipal-bond issuer to tap the Federal Reserve's \$500 billion emergency lending facility for state and local governments,

locking in cheaper borrowing costs than if it had stuck with Wall Street.

But before crediting Fed Chair Jerome Powell and his colleagues for providing the MTA with more affordable funding, the state, city and subway riders alike might want to thank Kroll Bond Rating Agency.

Bloomberg News's Amanda Albright and Danielle Moran reported that the Fed's Municipal Liquidity Facility charged a true interest cost of 1.92% to buy the MTA's \$450.7 million of notes, a savings of more than 85 basis points relative to its attempted auction earlier in the public market. Given the pricing scale from the central bank, which was tightened last week by 50 basis points, the MTA's rate implies it was given a composite rating of A+. That grade requires a 190-basis-point yield spread to overnight index swaps, which are near zero.

According to the Fed's term sheet, the facility determines pricing for split ratings by calculating an average among grades from "major nationally recognized statistical rating organizations." And "for purposes of the MLF, 'major NRSRO' means S&P Global Ratings, Moody's Investor Service, Inc., Fitch Ratings, Inc., and Kroll Bond Rating Agency, Inc."

To put it plainly, including Kroll as one of the four accepted credit-rating companies ended up saving the MTA millions of dollars. While the agency's transportation revenue bonds are rated BBB+ by S&P, A2 by Moody's and A+ by Fitch, Kroll assigns them its second-highest grade: AA+. (For context, this is the same rating S&P gives the United States.) Without Kroll's lift, the MTA would most likely have had to pay 10 to 25 basis points more to borrow from the Fed.

Lower Hurdle

The Fed cut muni interest rates by 50 basis points across credit ratings

The MTA is the largest U.S. transit system and has been ravaged by the coronavirus shutdowns. It's now confronting a \$16.2 billion deficit related to the pandemic as New Yorkers largely stay away from public transportation. Even after the successful deal with the Fed, MTA Chief Executive Officer Patrick Foye reiterated the need for \$12 billion of federal funding in an emailed statement to Bloomberg News. One key feature of the agency is it can't legally go bankrupt, as I wrote in June, meaning that one way or another, either the federal, state or city government (or all three) will have to pay up. It's a chief reason Michael Rinaldi, Fitch's lead analyst on the MTA, stood by its comparatively higher rating relative to S&P and Moody's.

Kroll, for its part, has the MTA's AA+ rating on review for downgrade. On the positive side, "management has a strong track record of balancing its operating budget over changing economic cycles and unforeseen events as well as managing complex capital programs designed to improve and expand the system," analysts wrote in July. Still, "the Covid-19 crisis presents unprecedented challenges to the MTA's fiscal operations."

There's no denying that a AA+ rating seems high for the MTA, given its projected budget gap. But I'm not going to say one grade is right and the other is wrong — they're opinions, after all. I just come back to what Jim Nadler, president of Kroll, told me several years ago about "the curse of a new rating agency."

"No one is going to add a fourth rating that is lower," he said in 2014. "You'll never see the ones that we turn away or gave lower ratings to." Years later, it was still struggling to gain widespread traction in the \$3.9 trillion muni market.

For the MTA's sake, it was a good thing Kroll's analysis came up with a higher rating than its rivals. Without a clear indication that federal funding is on the way, the agency could resort to using the Fed's facility again. According to the term sheet, the central bank can buy notes up to "20% of the gross revenue as reported in the audited financial statements" for fiscal year 2019. The MTA's website said it took in about \$16.7 billion last year, implying it could borrow roughly \$3.3 billion from the Municipal Liquidity Facility in total if necessary.

MTA officials will hope federal aid comes through before it needs to borrow again. Meanwhile, the Fed's pricing scale is still probably too steep for any other issuers aside from Illinois, which tapped the facility in June. Still, the MTA has shown the Fed's muni backstop works in cases of extreme stress. In this instance, with an assist from Kroll.

Bloomberg Markets

By Brian Chappatta

August 19, 2020, 3:00 AM PDT

Brian Chappatta is a Bloomberg Opinion columnist covering debt markets. He previously covered bonds for Bloomberg News. He is also a CFA charterholder.

[New York's MTA Becomes Second to Tap Fed as Banks Demand Higher Yields.](#)

- **Move comes after Fed cut premium on loans by 50 basis points**
- **Joins Illinois as only ones to tap \$500 billion facility**

The Federal Reserve bought \$451 million of notes sold by New York's Metropolitan Transportation Authority, making the beleaguered transit agency the second to borrow from the central bank's \$500 billion lending program for states and cities.

The Fed charged a true interest cost of 1.92%, "resulting in savings of over 85 basis points compared to the public market levels," according to an emailed statement from MTA spokesperson Tim Minton.

The transit agency, bleeding cash because ridership is down amid the pandemic, turned to the Fed after rejecting the higher bids from Wall Street banks Tuesday, according to a notice by Grant Street, which runs an auction platform for municipal sales. The Fed had previously agreed to buy the debt that the MTA did not award to other bidders, according to documents released as part of the sale.

Dan Solender, a partner at Lord, Abnett & Co., said the Fed is ensuring that issuers like the MTA hit hardest by the virus-induced recession can have access to "reasonable rates" when they borrow.

"This is a positive for the MTA and for the market," he said. "This shows the benefit of what they're providing, which continues to be a reason why the muni market has performed so well."

The central bank created the program earlier this year after the economic collapse from the pandemic rocked state and local government budgets and sent the \$3.9 trillion municipal bond market into a tailspin. The Fed's decision to act as lender of last resort arrested the steep selloff in March by reassuring investors that the market wouldn't be rocked by another liquidity crisis and

government agencies would still be able to raise funds.

Since then, though, it has only been used one other time, by Illinois, according to central bank data as of last week. That's because the Fed is charging steep penalties at a time when most can borrow at the lowest rates in decades, thanks in part to the confidence created by its move to act as a lender of last resort.

The MTA's offering was seen as a test of whether the Fed's decision on Aug. 11 to lower prices on the loans would increase use of the program.

"This financing underscores again the MTA's need for \$12 billion of Federal funding to offset projected revenue losses through 2021," MTA Chief Executive Officer Patrick Foye said in an emailed statement on Tuesday.

The New York MTA, the largest U.S. transit system and among the agencies most affected by the coronavirus shutdowns, said it's facing a \$16.2 billion deficit related to the pandemic, according to documents associated with the debt sale.

It was seeking to borrow through cash-flow notes due in three years. Yet the weighted average true interest cost on bids submitted by the banks totaled about 2.79%, according to Grant Street. That's far more than the market's 3-year benchmark yield of about 0.12%, showing the level of risk investors are pricing into the securities.

The Fed's pricing was based on an average rating of A1 and A+, MTA spokesman Aaron Donovan said in an email.

The transit agency's transportation revenue bonds are rated A2 by Moody's Investors Service, A+ by Fitch Ratings, BBB+ by S&P Global Ratings, and AA+ by Kroll Bond Rating Agency, according to its website.

Bloomberg Markets

By Amanda Albright and Danielle Moran

August 18, 2020, 11:51 AM PDT Updated on August 18, 2020, 2:24 PM PDT

[New York Transit Agency Turns to Fed for \\$450 Million Borrowing.](#)

(Reuters) - New York's financially beleaguered Metropolitan Transportation Authority (MTA) said it sold \$450.7 million of debt to the New York Federal Reserve's Municipal Liquidity Facility (MLF) on Tuesday in a move that substantially lowered its borrowing costs.

The MTA is only the second muni bond market issuer to tap into the Fed's program, one of around a dozen emergency credit facilities launched by the central bank this year to help ease the blow from the coronavirus pandemic. The deal came a week after the Fed eased some credit terms for the MLF.

The mass transit agency, which has been hit hard by a sharp drop in ridership on its buses, subways and trains amid the pandemic, said it sold the bond anticipation notes at a true interest cost of 1.92%, saving more than 85 basis points.

The MTA said it initially offered the three-year notes in competitive bidding on Tuesday in the U.S. municipal market, receiving 20 bids from 10 banks, with an average clearing true interest cost of 2.79%.

So far, the Fed has reported that only Illinois, the lowest-rated U.S. state, had tapped the MLF for a \$1.2 billion cashflow issue in June.

After complaints that MLF borrowing costs were too high, the Fed announced last week that it would lower the interest rate spread charged on loans issued by the facility by half a percentage point for each credit rating category.

The \$500 billion short-term borrowing program was announced in April as a way for states and local governments to access cash as their revenue fell due to the pandemic. In June, it was expanded to include mass transit agencies.

Reuters

August 18, 2020

(Reporting by Karen Pierog in Chicago and Jonnelle Marte in New York; Editing by Will Dunham)

University of California Receives \$2.65B from State Treasury Sale of Bonds.

The University of California system received \$2.65 billion from a California state sale of revenue bonds which will help finance projects across UC campuses.

Revenue bonds are a type of municipal bond, which function like loans and are sold to fund projects. Revenue from the project is used to repay the investors who bought the bonds.

California State Treasurer Fiona Ma sold revenue bonds to third-party investors to help the UC fund or refinance different projects, according to a press release from the California Treasury. About \$1.15 billion will be spent on campus projects and another \$1.5 billion will be used for “working capital,” according to the press release. Working capital includes funding for the UC regents’ financial assets and capital needs like equipment, according to a UC Office of the President financial policy document.

The UC will use the money from these bonds to fund more than 50 construction projects at all 10 UC campuses and the UC Agriculture and Natural Resources Research and Extension Center, which include maintenance and seismic upgrades for new buildings, UC spokesperson Sarah McBride said in an emailed statement.

Some money from the bond designated for construction projects will go toward earthquake safety improvements for Franz Hall, McBride added. The UC rated Franz Hall as a Level V risk, according to a 2016 document from the UC regents, meaning it posed a “serious” risk to life in the event of an earthquake.

Dana Cuff, a professor of architecture, urban planning and urban design at the School of the Arts and Architecture and Luskin School of Public Affairs, said using the bonds for seismic work on Franz Hall is a wise investment.

“Doing seismic work is always money well spent,” Cuff said. “We just had an earthquake (11) days ago, and there’s no indication that the so-called ‘big one’ is any less likely than before.”

The United States Geological Survey recorded a 4.2 magnitude earthquake originating in the San Fernando Valley on July 30.

The 1971 Sylmar earthquake in the San Fernando Valley was a turning point for many seismic standards, Cuff said. Therefore, buildings constructed before then are sometimes not up to standard, she added.

Cuff said the John Wooden Center may also require seismic upgrades. Since there are three or four pieces of the building that were constructed at different times, they would all need different types of seismic improvements, she said.

Usually, a campus architect is responsible for ensuring the safety of campus buildings but after the previous campus architect, Jeff Averill, passed away in 2017, and UCLA has not filled the role, Cuff said.

Without a campus architect, no one is specifically designated with the responsibility of ensuring that UCLA’s buildings are safe, even if UCLA Capital Programs may be keeping an eye on the campus’ buildings, Cuff said.

There are still a number of on-campus improvements that need to be made, said Sachi Cooper, the Undergraduate Student Association Council Facilities Commissioner, in an emailed statement.

FAC is working to fund a redesign of the UCLA Center for Accessible Education to improve accessibility and increase space for programming, Cooper said. They are also working on establishing safe parking and temporary housing for students experiencing homelessness, she said.

Cooper added FAC also advocates for more lights around campus, increased transportation from the residential buildings and campus to Westwood and greater accessibility on campus as a whole because of infrastructural problems like broken elevators and a lack of ramps.

Since many students and faculty won’t return to campus during the upcoming school year, now is an opportune time to do as many facilities improvements as possible, Cuff said.

“We already have so many hits against us as a campus with COVID-19 and our new attention to antiracist policies,” Cuff said. “We should be doing everything we can to make student, staff and faculty experience not only safer, but better.”

The Daily Bruin

By Alexis Duke and Vivian Xu

Aug. 10, 2020 2:54 p.m.

[Fortress Debt Sale for Vegas Train Sees Bond Market Skeptics.](#)

- **Nuveen’s Miller says focus should be on inaugural line first**
- **Brightline has October deadline to attract municipal investors**

During the municipal-debt market's pre-pandemic boom days, investors poured almost \$2 billion into America's first new privately financed intercity passenger rail in a century, allowing Fortress Investment Group to expand its unprofitable line to Orlando.

Now Fortress is back, seeking \$4.2 billion more to build a new railroad to Las Vegas from a desert town near Victorville, California, about 90 miles (145 kilometers) outside Los Angeles. But even the investor who bought about 80% of the previous deal said the company should focus on improving its inaugural train before trying to market the largest ever offering of unrated muni bonds as Covid-19 sidelines travelers.

"Before we even go down that path, let's get more detail and more accomplishment in Florida," said John Miller, head of municipal investments at Nuveen LLC, which holds about \$1.4 billion of the bonds sold for the project under the name of Virgin Trains USA. "And if that were to occur successfully, I think the whole marketplace would then be a lot more excited about Victorville to Vegas."

The massive offering will test the appetite for risky municipal securities in a market where investors are desperate for fatter returns amid historically low interest rates. And it comes as local governments face great economic uncertainty from the pandemic, as well as challenges for the train company as it navigates a contested breakup with Richard Branson's Virgin brand and tries to boost ridership.

"There's a lot of negatives," said Dan Solender, head of municipal debt at Lord, Abbett & Co., which runs a \$3.2 billion high-yield fund among its total \$29.5 billion in municipals under management. "You don't know if there's really a demand for this type of thing. The history in Florida is not very good right now for how that's going."

Last year, 1 million passengers rode the Florida railroad, half the number estimated. In addition, the system was supposed to earn \$37 of total revenue per passenger in 2019; instead, it was an average of about \$22.

The company, which is now calling itself Brightline Trains LLC, is planning three more stations along the existing line besides building the extension to Orlando's airport. It's in talks with Walt Disney Parks and Resorts to put a stop at the Orlando attraction as well, and with Miami-Dade County for a new commuter rail service, according to regulatory filings. But its service has been suspended indefinitely since March 25 because of the pandemic.

The Las Vegas line, compared with the Florida one, requires much more buy-in from investors — and more of them. For the roughly \$5 billion project, \$3.25 billion in bonds will be issued through a California agency and \$950 million from a Nevada one, according to company statements. Fortress's contribution to the venture is about \$600 million, or about 12% of the capital structure, according to documents presented to Nevada's board of finance. In contrast, its investment in the Florida line was about 36%.

The California and Nevada debt will be sold as private activity bonds, which are meant for ventures for the public interest that are capped annually by the federal government. The decision by officials in California to spend that scarce low-cost financing resource on a train to shuttle tourists to casinos raised the ire of advocates who had pressed for all of the state's allocation to go toward alleviating California's housing crisis.

California set an Oct. 1 deadline for the bond sale. The company intends to market the bonds by the end of September, spokesman Ben Porritt said. He wouldn't say if the company would ask for

permission to put off the sale until next year. He also declined to comment on investor concerns about the project.

With a completed bond sale for the Las Vegas venture, combined with that for the Florida line, Brightline would account for about \$6 billion of high-yield debt in the municipal market. And that doesn't include another \$950 million the company could sell in additional borrowing for the Florida system because it has yet to convert the equivalent in variable-rate financing done in 2019 into long-term securities.

The thinly-traded Florida bonds haven't benefited as much from the rally in high-yield debt after the pandemic-triggered March rout. A 6.5% coupon security due in 2049 traded July 30 at an average price of 86 cents on the dollar, compared with about 104 cents in February, according to data compiled by Bloomberg.

Investors are wondering if holding that much long-term debt will pay off given trends that may diminish ridership, such as self-driving cars and increased online gaming.

"I do think there are some clear changes we're going to have with how people choose to interact with each other," said Terry Goode, a senior portfolio manager at Wells Capital Management, which holds \$2.3 billion in high-yield securities among its \$41 billion in municipal debt under management. "It's all going to boil down to whether people buy into train travel, and whether they feel like train travel from Victorville to Las Vegas, for whatever pricing, whether that makes sense."

Bloomberg Markets

By Romy Varghese

August 13, 2020, 4:00 AM PDT Updated on August 13, 2020, 7:39 AM PDT

[Goldman Sachs Dropped by NYC From Key Muni Underwriting Team.](#)

- **Goldman ranks 8th among U.S. municipal-bond underwriters**
- **Morgan Stanley was also left out of underwriting lineup**

New York City, among the biggest borrowers in the \$3.9 trillion U.S. municipal bond market, cut Goldman Sachs Group Inc. from the ranks of those who underwrite a big chunk of its debt.

The firm will no longer be part of the pool of underwriters that sell its senior general-obligation bonds and debt for the Transitional Finance Authority as a result of its periodic reshuffling of bankers, New York City said on Aug. 7. It wasn't immediately clear why the city made the change from Goldman.

While Goldman Sachs isn't a major banker to states and local governments when it comes to more mundane bond deals, the decision still means the firm will miss out on billions of dollars of bond sales over the next few years.

Such deals aren't a major focus of Goldman Sachs' municipal bond business. Instead, the bank focuses more on specialized deals like a \$1.1 billion issue of unrated bonds to finance American Dream, the long-stalled shopping and entertainment center in New Jersey's Meadowlands, as well as public utilities offerings by issuers like the Long Island Power Authority.

New York City last selected senior underwriters in 2016. The city judges investment banking proposals on criteria including deal execution and the quality of ideas and analysis pitched to city officials.

New York City, which had to close a \$8.3 billion budget deficit in the fiscal year that began July 1 as revenue plummeted and coronavirus related spending increased, plans to issue about \$39 billion of general-obligation bonds and Transitional Finance Authority debt in the next four fiscal years, according to the city's financial plan. The Transitional Finance Authority was created in 1997 to circumvent limits on New York City general-obligation bond sales and its debt is backed by the city's income tax, and if needed, its sales tax.

Goldman ranks 8th among muni bond underwriters this year, just below Piper Sandler & Co., a regional investment bank based in Minneapolis.

The underwriters were selected in a "competitive process" by the city's Office of Management and Budget and the Comptroller's Office, said Hazel Crampton-Hays, a spokesperson for Comptroller Scott Stringer.

"OMB and the Comptroller's Office determined that the interests of the City and its related issuers are best served by the announced underwriting assignments," Hays said.

Nicole Sharp, a spokesperson for Goldman Sachs, declined to comment. Laura Feyer, a spokesperson for New York City Mayor Bill de Blasio, said the city was confident the investment banks selected will help New York achieve its financing goals in support of funding critical infrastructure.

The city's senior GO and TFA bond managers include Bank of America Corp., Citigroup Inc., JPMorgan Chase & Co., Jefferies Financial Group Inc., Loop Capital Markets LLC, Samuel A. Ramirez & Co., Royal Bank of Canada, Siebert Williams Shank & Co., LLC and Wells Fargo & Co.

New York also selected Barclays Plc, Loop, Raymond James Financial Inc. and Siebert to serve as senior managers for bonds issued by the city's Municipal Water Finance Authority. Goldman can compete for a senior manager role on New York Water bond issues following deals managed by the four other firms, the city said in a statement.

One-third of GO and TFA senior bankers and 40% of New York Water's senior managers are minority and women-owned businesses, the city said.

Bloomberg Markets

By Martin Z Braun

August 10, 2020, 12:22 PM PDT Updated on August 10, 2020, 3:35 PM PDT

[LA Metro Prices Its Biggest Bond Deal Ever as Ridership Plunges.](#)

- **Authority is offering 10-year bonds at preliminary 0.79% yield**
- **Muni market favors highly-rated issuers in seeking tax havens**

The Los Angeles County Metropolitan Transportation Authority is seeing half the ridership it had a year ago because of the coronavirus pandemic, but that crisis isn't deterring its biggest bond deal

ever.

The agency known as Metro is selling about \$1.35 billion in tax-free revenue debt Tuesday to take advantage of historically low rates. Intervention by the Federal Reserve to prevent a liquidity crisis among municipalities has built up confidence among buyers, who are also favoring highly-rated issuers especially as they seek to shield income from taxes levied by California and other high-tax states.

"It's a good time to enter the market," said John Ceffalio, municipal credit research analyst at AllianceBernstein, which has about \$50 billion in municipal securities under management. "People are looking for high-quality paper, particularly high-quality California paper."

Debt from California issuers is beating that of the overall market, returning 4.7% year-to-date compared with the market's 4.34%, Bloomberg Barclays indexes show.

The agency is issuing the debt to refinance Transportation Infrastructure Finance and Innovation Act loans covering improvements and extensions to its rail system. Its construction projects continue despite the pandemic. The authority is offering \$1.35 billion of tax-exempt bonds for yields ranging from 0.14% to 1.36% on debt maturing from 2023 to 2037, according to a preliminary pricing wire viewed by Bloomberg.

"Based on what we have seen with other California offerings during the last month, we expect good investor reception," Metro Treasurer Donna Mills said in a statement.

Metro isn't the only transit system that's coming to market during the pandemic. In May, New York's Metropolitan Transportation Authority, the nation's largest mass transit system, sold two bond offerings, and upsized both deals to meet buyer demand. The MTA, like Metro, is also struggling with declining ridership and falling revenue.

Operating buses, subways and rail, Metro spans 1,433 square miles in Los Angeles County, the nation's most populous and also one hit hard by the coronavirus outbreak. Restrictions on economic activity first occurred in March and while some were rolled back, others were reimposed as cases rose.

In June, 14.3 million people rode the system, compared with 29.4 million in June 2019, Metro's figures show. That month, collections of sales taxes used to back its bonds dropped 14% from the previous year, according to documents circulated to investors ahead of the sale. The agency said the sales tax receipts for the year ending in June may decline anywhere between 2% to 8% from the 2019 collections.

Still, even with the revenue drop, there will be more than enough to cover debt service, a factor in why the bonds carry a AA rating from S&P Global Ratings, the third-highest investment grade. The company has the rating on a negative outlook, however, as it does on other transit systems, because of the pandemic.

"Even if you were to have a hit worse than the last recession, bondholders would still be comfortable," said Ceffalio, who said his firm is looking at the deal.

Bloomberg Markets

By Romy Varghese

August 11, 2020, 10:56 AM PDT

N.J. Wins Ruling to Issue Up to \$9.9 Billion Debt for Crisis.

- **Virus is 'emergency' giving governor power to sell the bonds**
- **Court does limit debt to size of budget gap as sale approaches**

Governor Phil Murphy can sell as much as \$9.9 billion in debt to plug a revenue hole from the coronavirus, New Jersey's highest court ruled amid a looming budget deadline and as states across the country grapple with their finances.

The decision by the New Jersey Supreme Court allows one of the most financially strapped U.S. states to increase bonded debt — long-term debt with payments made over decades — by 22%. New Jersey Republicans had challenged the bond sale, saying it violated the state's constitution by bypassing voters, while Murphy said the pandemic was a crisis that gave him the power to act.

"The pandemic has caused a health emergency, a broad-based economic one that has devastated many individuals and families, and a fiscal crisis for the state," Chief Justice Stuart Rabner wrote for the seven judges in Wednesday's unanimous decision. "The present 'emergency caused by disaster' extends to all three areas."

The court did limit the size of the offering to the budget gap, requiring New Jersey to certify its revenue projections and the size of the shortfall before the sale. Should the hole be \$7 billion, the state would be allowed to borrow only that amount. If it goes in the other direction, however, \$9.9 billion — the projected revenue shortfall the state treasurer reported in May — is still the limit.

The ruling comes as states across the U.S. are racing to figure out budget plans rendered useless when the pandemic forced an economic halt. The National Conference of State Legislators was tracking revenue declines due to the virus in at least 34 states as of last month, with some projections exceeding 20%. A fight over whether to send federal aid to states is among the issues that have stymied a broader stimulus bill in Congress.

"Our schools can be funded, our residents and communities can be protected and our state can move forward," Murphy said at a news conference in Trenton. But New Jersey still will "need the federal government to step up and provide direct assistance to us and our fellow states," he said.

New Jersey Republican Chairman Douglas Steinhardt tweeted out a different perspective.

One concern from an investor's perspective is that New Jersey was already on a shaky budget footing before the pandemic upended its finances, said Howard Cure, head of municipal research at Evercore Wealth Management.

"The state doesn't really have reserve funds, their pension is very underfunded, they were slow to get out of the last recession as well," he said. "It's a bad debt practice and budgeting practice to create a long-term liability to take care of a yearly operating expenditure."

Still, Cure said, the debt will probably be well received by investors clamoring for yield.

"Rates are so low, for a little extra yield there could be some pretty strong demand for this," he said.

Murphy, a first-term Democrat and retired Goldman Sachs Group Inc. senior director, has estimated a \$10.1 billion revenue shortfall in New Jersey through June 2021. He said that without the borrowing, state and local governments would have to dismiss at least half of their 400,000 public

employees, including teachers and first responders.

If he can't find enough revenue to pay off the bonds, Murphy said, he would raise sales and property taxes for homeowners, who already shoulder the nation's highest such levies, averaging \$8,953 last year.

Murphy, who took office in January 2018, campaigned on a return to fiscal health for New Jersey, whose credit rating is second-worst among U.S. states, behind Illinois. New Jersey bonded debt was \$44.4 billion as of June 30, 2019, but the state since has added at least \$2.2 billion in borrowing. Non-bonded debt, including what's owed for public pensions, amounts to at least \$200 billion, making the state among the country's most indebted.

The New Jersey Republican State Committee, which brought the lawsuit, argued that under the state constitution, voters must approve such spending, and Murphy's plan bypassed them. The committee cited a 2004 state Supreme Court decision that found then-Governor Jim McGreevey, a Democrat, had violated the constitution's appropriations and debt-limitations clauses when he borrowed \$2 billion to balance a budget without going to voters.

Murphy argued that in this instance, voter approval wasn't needed because the constitution gave him emergency borrowing power. In addition to issuing debt, Murphy has been counting on billions of dollars in far-from-certain federal grants toward budget aid while the state continues to reel from the economic and health effects of the pandemic. Almost 16,000 New Jersey deaths have a lab-confirmed or probable link to Covid-19.

Murphy must present a fiscal 2021 budget to lawmakers by Aug. 25. The state lengthened the current fiscal year by three months, to Sept. 30, and shortened the next by three months to weather budget uncertainty as a result of the pandemic.

The case is New Jersey State Republican Committee et al v. Philip D. Murphy, Supreme Court of New Jersey, Docket M-1291, September Term 2019, 08471.

Bloomberg Politics

By Elise Young and Chris Dolmetsch

August 12, 2020, 9:05 AM PDT Updated on August 12, 2020, 11:41 AM PDT

— *With assistance by Danielle Moran*

[NJ Supreme Court Upholds COVID-19 Emergency Bond Act: Ballard Spahr](#)

The Supreme Court of the State of New Jersey upheld the New Jersey COVID-19 Emergency Bond Act (the Act), authorizing the State to issue up to \$9.9 billion in state borrowing either through general obligation bonds or short-term debt through the federal Municipal Liquidity Facility program to respond to the financial crisis caused by the COVID-19 pandemic. The court made the decision August 12, 2020, in [New Jersey Republican State Committee v. Philip D. Murphy](#).

The Act was signed into law by New Jersey Governor Phil Murphy on July 16, 2020. The New Jersey Republican State Committee filed suit against the Governor, arguing that the Act violated the Appropriations Clause and the Debt Limitation Clause of the Constitution of the State of New Jersey.

The appropriations clause requires the State to maintain a balanced budget each fiscal year and requires that all moneys for the support of State government and other State purposes be made in one general appropriation law each fiscal year. The debt limitation clause prohibits the State from creating debt that exceeds 1 percent of the total amount appropriated in the general appropriations law without voter approval. However, the debt limitation clause does not apply to any debt incurred “to meet an emergency caused by disaster.”

The Decision

Subject to the limits imposed by the court, the Act was upheld and found to be constitutional. In reaching this decision, the court addressed whether the act and any borrowing thereunder meets the emergency exception of the debt limitation clause. It was determined that (1) COVID-19 qualifies as a “disaster;” and (2) subject to certain limitations, the State may borrow money to meet the needs of the emergency (i.e. the State’s fiscal shortfall in revenue caused by the COVID-19 pandemic).

by the Public Finance Group

August 13, 2020

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[Fitch: Calif. Court Decision Maintains Pension Protections](#)

Fitch Ratings-New York-05 August 2020: In a much-anticipated ruling last week, the California Supreme Court upheld a 2012 state pension reform provision that prevents pension “spiking” while simultaneously choosing not opining on, and therefore leaving in place, the “California rule,” a legal doctrine that sets a high bar for rolling back the pension benefit provisions of existing workers. The ruling has no impact on Fitch’s ratings on California state and local governments, as the 2012 reforms and limitations on changing benefits are already assumed in Fitch’s analysis.

Fitch views the court’s affirmation of the anti-spiking provision as a positive step toward eventually achieving the savings envisioned by the state’s comprehensive 2012 reform package. However, most of these savings will be limited and take decades to emerge. In the meantime, retaining the California rule leaves governments in California with little discretion to manage their pensions, and underscores that near-term funding trends will be driven by more immediate factors, including asset performance, actuarial and economic assumptions and the ability of participating governments to continue making rising contributions. Other cases challenging the California rule have been on hold awaiting last week’s decision. Since the court did not opine on the rule itself, the new ruling fails to offer a precedent for these other cases.

In *Alameda County Deputy Sheriff’s Association v. Alameda County Employees’ Retirement Association*, employees had sought to overturn the restriction on spiking, a practice that allowed excess compensation to be earned by employees nearing retirement in order to inflate future benefits. The restriction was adopted in 2012 as part of the Public Employees’ Pension Reform Act (PEPRA), the comprehensive pension reform law that broadly rolled back benefits for workers hired beginning on Jan. 1, 2013.

At the time of passage, PEPRA was anticipated to save \$42 billion to \$55 billion over 30 years just in the plans administered by the California Public Employees Retirement System (CalPERS); additional savings could be expected in the California State Teachers' Retirement System, county systems operating under the County Employees' Retirement Law (CERL) and the University of California Retirement System.

Most benefit changes in PEPRA pertained to new hires, although a handful of provisions affected existing workers, including the anti-spiking provision. Benefits for existing workers are protected under the California Rule, a legal interpretation of contract protections dating to a 1955 state Supreme Court case that limits the ability to modify pension benefit provisions of current workers, unless offset by other benefits of equal value. The impact is that governments subject to it can change benefits only for new hires, and therefore any savings from reform only accrue gradually over decades, as employee turnover shifts the workforce into the newer, lower benefits structure. Many other states have modeled their own contract protection of pensions on the California rule, although other states have adhered to somewhat less restrictive contract protections, including those that permit changes to benefits prior to vesting or changes to noncore benefits, such as cost-of-living adjustments.

PEPRA is undoubtedly improving the sustainability of California's public pensions, as more of the workforce is covered under PEPRA benefit provisions and as the court affirms some of the minor reform provisions applicable to workers hired before 2013. The ruling last week held that closing the spiking loophole among county systems subject to CERL was within the powers of the legislature, without having to grant an offsetting benefit. It marks the top court's second decision in two years affirming specific PEPRA reforms while leaving the California Rule untouched. In March 2019, the ruling in *Cal Fire Local 4881 v. California Public Employees' Retirement System* preserved PEPRA's prohibition on "airtime", a practice whereby employees could buy additional years of retirement service credit.

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[Challenge to \\$14 Billion in Illinois Debt Revived.](#)

The decision is a victory for the head of a conservative think tank who had sued to block further payments on state debt sold in 2003 and 2017

An appeals court in Illinois has reinstated litigation seeking to block payments on \$14.3 billion in municipal debt, saying the attempt to restrain borrowing in the country's worst-rated state isn't frivolous or malicious.

The appellate court said John Tillman, chief executive of the right-leaning Illinois Policy Institute, had put forth a legitimate claim in support of his theory that past bond sales by the state were impermissible. The court stressed that it wasn't deciding the merits of Mr. Tillman's claims but said that the litigation could continue in a lower court.

The complaint accused Illinois of taking on more debt than its constitution allows and breaking a state rule prohibiting deficit financing with bond deals in 2003 and 2017. Some of those bonds raised money to prop up Illinois pension funds, while others funded back payments to stretched government vendors.

Mr. Tillman, a prominent foe of public-sector unions, argues Illinois is barred from taking out long-term debt except for "specific purposes" or to refinance longer-term debt, while the state had instead borrowed to bridge deficits and to speculate on financial markets.

He has asked for a court order declaring the 2003 and 2014 debt sales invalid and unenforceable and prohibiting state officials from making further payments to bondholders.

A state judge dismissed the litigation last year, saying it risked "an unjustified interference with the application of public funds" and it would draw the courts into political questions that should be left to lawmakers.

Mr. Tillman's challenge has drawn fierce responses from state officials, including Gov. J.B. Pritzker, a Democrat who was named as a defendant in the complaint and who has accused Mr. Tillman of a "pathological focus to drive Illinois into bankruptcy."

A spokeswoman for Mr. Pritzker said, "This lawsuit continues to be a tired tactic of the extreme right who continue to push their ideology over sound fiscal policy. This administration will continue to focus on the important work of acting responsibly to keep the state on stable fiscal footing."

Municipal bond-market investors including Nuveen Asset Management and AllianceBernstein LP have defended the state, saying the case had roiled the market for Illinois debt and cost them money.

While state and local governments nationwide are grappling with how to cover revenue gaps stemming from coronavirus restrictions, few are as strained as Illinois, which entered the pandemic with the worst credit rating of any state—just above junk status.

Financial instability at the municipal level has become a national political issue, with both President Trump and Senate Majority Leader Mitch McConnell (R., Ky.) questioning whether states should receive federal assistance during negotiations over stimulus legislation.

Mr. McConnell suggested in April that instead of coming up with a federal bailout for states, Congress should consider allowing them to use bankruptcy protection to cut their debts, an option they don't currently have. Illinois was the first borrower to access the Federal Reserve's municipal lending program earlier this year.

No U.S. state has failed to pay bondholders since Arkansas in 1933, although the island territory of Puerto Rico defaulted in 2016 and was later placed under a court-supervised bankruptcy.

By Andrew Scurria

Updated Aug. 6, 2020 7:21 pm ET

[U.S. Lawmakers Seek Probe of Investment Firms' Dealings in Puerto Rico Debt.](#)

(Reuters) – Five members of U.S. Congress from New York said on Wednesday that several investment firms involved in Puerto Rico’s ongoing bankruptcy may have engaged in insider trading and urged the state attorney general to investigate.

In a letter to New York Attorney General Letitia James, the lawmakers cited allegations arising from the island’s bankruptcy litigation “that some hedge fund groups may have been engaging in insider trading and using the PROMESA restructuring process to artificially manipulate bond markets.”

Using the 2016 PROMESA Act, Puerto Rico’s federally created financial oversight board filed a form of municipal bankruptcy for the U.S. commonwealth in 2017 in an effort to restructure about \$120 billion of debt and obligations.

“Not only is this another example of deep pocketed interests profiteering off Puerto Ricans’ suffering, but these hedge funds may have also violated securities law,” U.S. Representative Nydia Velázquez, a New York Democrat, said in a statement.

The letter, which was also signed by Congress members Alexandria Ocasio-Cortez, Carolyn Maloney, José Serrano, and Adriano Espaillat, pointed out that the federal judge overseeing the bankruptcy ordered detailed disclosures from the Lawful Constitutional Debt Coalition (LCDC), whose members include Aristeia Capital LLC, Whitebox Advisors LLC, Taconic Capital Advisors LP, and GoldenTree Asset Management.

Those disclosures revealed that LCDC members “significantly increased their holdings of bonds they argued in court were of no value while engaging in confidential mediation talks about their restructuring,” according to the letter.

Meanwhile, the bonds increased in value “and the restructuring plan revealed at the end of the mediation period increased their return.” The LCDC was part of a global settlement announced in February to restructure Puerto Rico’s core government debt.

“An investigation is needed to reveal whether some hedge funds may have made these trades with non-public information obtained through the mediation discussions, and without disclosing their true economic interests,” the letter said.

In a statement, the LCDC said its members “adhered to and respected all elements of the mediation protocol and trading restrictions during the period in which they were negotiating with the oversight board.”

“As creditors with long-term investments in Puerto Rico, our members have consistently engaged in a constructive, transparent manner with the oversight board to facilitate the commonwealth’s timely emergence from bankruptcy and economic recovery,” it added.

The individual firms listed in the letter did not immediately respond to requests for comment or deferred to the LCDC statement.

A spokesman for the New York Attorney General's office said: "We're reviewing the letter now, and will look further into this matter." The oversight board declined to comment.

By Reuters

Aug. 5, 2020

(Reporting by Karen Pierog in Chicago; Editing by Alden Bentley and Matthew Lewis)

New York Lawmakers Seek Probe of Puerto Rico Bondholders.

Reps. Alexandria Ocasio-Cortez, Nydia Velázquez are among those asking New York's attorney general to investigate allegations that bondholders concealed interests

Five New York-based members of Congress are asking their state's attorney general to probe whether investment firms that own billions of dollars in Puerto Rico bonds concealed aspects of their investments to manipulate prices and profit unfairly.

In a letter sent Wednesday, the Democratic lawmakers, led by Reps. Alexandria Ocasio-Cortez and Nydia Velázquez, asked New York Attorney General Letitia James to investigate allegations of insider trading using the Martin Act, a broad antifraud statute commonly used to pursue financial crime, or other similar laws.

"Although hedge funds have secured generous settlements and made billions off this crisis, it now appears that their greed may have driven some New York financial institutions to take illegal actions," said Ms. Ocasio-Cortez, a critic of the management of Puerto Rico's debt crisis.

Fabien Levy, a spokesman for the New York attorney general's office, said the office had received the letter.

"We appreciate multiple members of Congress reaching out with their concerns," he said. "We're reviewing the letter now, and will look further into this matter."

The letter concerns allegations that a bondholder committee took public positions that drove down the price of certain debt securities while its members bought them at discounted prices and negotiated a restructuring proposal that improved how they would be repaid.

The lawmakers said those bond trades might have been made without proper disclosure of the "true economic interests" of bondholders, including Aristeia Capital LLC and Taconic Capital Advisors LP.

Puerto Rico's financial oversight board, which is steering the bankruptcy and leading negotiations, declined to comment.

A spokesman for the bondholder committee said its members "adhered to and respected all elements of the mediation protocol and trading restrictions during the period in which they were negotiating."

"As creditors with long-term investments in Puerto Rico, our members have consistently engaged in a constructive, transparent manner with the oversight board to facilitate the Commonwealth's timely

emergence from bankruptcy and economic recovery,” the spokesman said.

The Martin Act was used successfully in the early 2000s by Eliot Spitzer, New York’s attorney general at the time, to go after Merrill Lynch and the investment-banking industry. More recently, New York’s attorney general attempted to use the antifraud statute in a case against Exxon Mobil Corp., alleging that the oil giant misled investors about how it accounts for the impact of climate change on its operations by using internal estimates that differed from its public statements.

New York State Supreme Court Justice Barry Ostrager ruled in December last year that the attorney general’s office didn’t prove that the company had violated the law. Lawyers for Exxon said the company had done nothing wrong.

Wednesday’s letter said the Martin Act could be used to investigate possible wrongdoing by Puerto Rico bondholders “and ensure the integrity of the municipal bond markets.”

Puerto Rico entered bankruptcy in 2017 under the weight of government debts, spiraling pension obligations and a poverty rate over 40%. While the bankruptcy has crushed the value of many of the U.S. territory’s bond debts, some savvy investors have profited handsomely, buying bonds on the cheap that have rallied on expectations about how much they will recover.

Since the bankruptcy, some investors have argued that older government bonds should be treated more favorably in a restructuring, saying that more recent debt issuances breached debt limits in Puerto Rico’s constitution and should be reduced or disallowed.

Bondholders generally have to disclose the size of their investments in court filings, but weren’t always required to break down which securities they owned. That changed in May, when the federal judge overseeing the bankruptcy case ordered the submission of more detailed disclosures.

Some bondholders later revealed they owned bonds they had said publicly were of no value while “engaging in confidential mediation talks about their restructuring,” according to the New York lawmakers. A restructuring proposal released after those restructuring talks included higher recoveries for some of the older, disputed bonds compared with earlier discussions, rallying prices.

The lawmakers’ letter called for an investigation “to reveal whether some hedge funds may have made these trades with non-public information obtained through the mediation discussions.”

Other large creditors in Puerto Rico’s bankruptcy have hinted at similar concerns about bondholder disclosures. In March, financial guarantors with billions of dollars on the line asked for greater transparency and raised concerns about bond trading based on nonpublic information. They later amended their court filings to remove those allegations, though they maintained that bondholders had traded and negotiated without making proper disclosures.

[U.S. House Members Seek Probe into Puerto Rico Bond Trading.](#)

- **Hedge funds may have manipulated bond prices, lawmakers claim**
- **Bondholder group says members followed trading restrictions**

A group of New York Congressional members are seeking an investigation into alleged insider trading of Puerto Rico debt by hedge funds as the firms were negotiating with the bankrupt island on how to reduce its debt.

The hedge funds may have manipulated bond prices by trading on non-public information while they were involved in mediation discussions and without disclosing their entire exposure to Puerto Rico debt, the federal lawmakers, including Alexandria Ocasio-Cortez and Nydia Velazquez, wrote in a letter to New York Attorney General Letitia James.

“Your office has a powerful tool in the Martin Act to investigate possible wrongdoing by these financial actors and ensure the integrity of the municipal bond markets,” the lawmakers wrote, citing the state’s law that enables attorney generals to investigate securities fraud.

Puerto Rico went into bankruptcy in May 2017 after racking up \$74 billion of debt owed by the commonwealth and its agencies during a decade-long economic decline. Hedge funds have been buying the securities for several years at discounted prices.

The letter singles out one ad hoc group of investors called the Lawful Constitutional Debt Coalition. That group includes, as of June 24, 2020, GoldenTree Asset Management, Whitebox Advisors, Monarch Alternative Capital, Taconic Capital Advisors, Aristeia Capital, Farmstead Capital Management, FCO Advisors and Marble Ridge Capital, according to court documents.

“The LCDC’s members adhered to and respected all elements of the mediation protocol and trading restrictions during the period in which they were negotiating with the oversight board,” Greg Marose, a spokesman for the group, said in a statement. “As creditors with long-term investments in Puerto Rico, our members have consistently engaged in a constructive, transparent manner with the oversight board to facilitate the commonwealth’s timely emergence from bankruptcy and economic recovery.”

Puerto Rico’s oversight board declined to comment.

“We’re reviewing the letter now, and will look further into this matter,” a spokesperson for AG James said in a statement.

Bloomberg Markets

By Michelle Kaske

August 5, 2020, 1:12 PM PDT

[Supreme Court Validates PR Financial Oversight Board, but Challenges Remain: Skadden](#)

Since PROMESA was enacted in 2016 to pave the way for a comprehensive restructuring of Puerto Rico’s mounting municipal debt obligations, the U.S. District Court for the District of Puerto Rico (District Court) has become a haven for litigious groups of creditors and other constituencies. Undoubtedly frustrated with the progress and trajectory of the cases of the commonwealth and its subsidiaries, these groups have mounted a number of complex legal attacks to the efficacy and validity of PROMESA. However, the debtors recently secured a significant win in *Fin. Oversight & Mgmt. Bd. for P.R. v. Aurelius Investment, LLC, No. 18-1334*, when the U.S. Supreme Court, reversing a decision of the U.S. Court of Appeals for the First Circuit, concluded that the appointment of the members of the Financial Oversight and Management Board (Oversight Board) — the debtors’ statutory representative under PROMESA — passed constitutional muster.

Background

In 2016, Puerto Rico faced a dilemma: It was burdened by a seemingly insurmountable debt load, yet because Chapter 9 of Title 11 of the United States Bankruptcy Code only permits municipalities of states to declare bankruptcy, it was unable to restructure that debt under the traditional avenue for municipal bankruptcy relief. In response, Congress enacted the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). PROMESA created the Oversight Board and authorized it to, among other things, commence bankruptcy proceedings under the statute on behalf of the commonwealth and its instrumentalities. PROMESA also vests the Oversight Board with significant, sometimes final, authority over the various debtor entities. For example, the Oversight Board — and not the municipal debtors themselves — is the statutory representative of the debtor entities in bankruptcy. Pursuant to the statute, the members of the Oversight Board were appointed by President Obama, without subsequent confirmation of those appointees by the Senate. The Oversight Board commenced restructuring proceedings on behalf of the commonwealth and five of its instrumentalities (PROMESA Cases) in the District Court.

Shortly thereafter, a group of creditors filed a motion to dismiss the PROMESA Cases, contending that President Obama's appointment of the members of the Oversight Board violated Article II, Section 2, Clause 2 of the United States Constitution (Appointments Clause), which provides that the president "shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States" The District Court denied the motion. The First Circuit subsequently reversed, concluding that the appointment process did violate the Appointments Clause. However, the court ultimately found that the actions of the Oversight Board taken to that point were valid under the *de facto* officer doctrine.¹

Opinion

Writing for a unanimous court, Justice Stephen G. Breyer² began by concluding that the Appointments Clause, by its plain language, directly applied to the appointment of all "Officers of the United States," including those exercising power in, or in relation to, Puerto Rico. *See Slip Op.* at 8-9. However, the Court explained that this conclusion was not dispositive, next addressing whether or not the members of the Oversight Board fell within the purview of the "Officers of the United States" covered by the Appointments Clause. *See id.* at 9. Justice Breyer read the text to suggest a distinction between "federal officers" exercising powers on behalf of the national government, and officers exercising authority on behalf of "some other government" — which, based on the federalist structure envisioned by the Constitution, included local (usually state) governments. *See id.* at 9. Noting the unique way that territories such as Puerto Rico fit into this federalist structure, the Court explained that Congress had in fact been given the power to establish localized governance constructs on behalf of territories that were unable to do so on their own (i.e., non-states). *See id.* at 9-10 (citing Const. Art. I, § 8, cl. 17; Const. Art. IV, § 3, cl. 2).³ Justice Breyer explained that this clearly contemplated a distinct, localized exercise of authority. *See id.* at 10. And indeed, the Court noted that these powers had long been used to create and fill government offices on behalf of U.S. territories without resort to the process contemplated by the Appointments Clause, and that even Puerto Rico itself had a long-standing history of doing so. *See id.* at 10-13. Justice Breyer explained that this reflected an underlying trend of permitting such actions to be taken outside of the strict constitutional appointment construct for "federal officers" where the officers and their corresponding duties were "primarily local" in nature. *See id.* at 14.

Thus, Justice Breyer proceeded to examine whether the statutory mandate and authority of the Oversight Board were primarily local in nature; the Court held that they were. *See id.* The Court reasoned that the Oversight Board was the statutory representative of the commonwealth and its

instrumentalities, effectively all of its powers and responsibilities were circumscribed by Puerto Rican — not federal — law, and it carried out its duties in conjunction with existing commonwealth government officials. *See id.* at 15-17. That the Oversight Board’s actions in the realm of PROMESA might have broader, national consequences was irrelevant. *See id.* at 16. In light of the Oversight Board’s “primarily local duties,” the Court held that the selection of the board’s members “is not subject to the constraints of the Appointments Clause.” *See id.* at 17.4

Conclusion

PROMESA is a unique response to a unique event in modern American history — the solution to crippling municipal debts of an American territory. As such, the statute and structure of the PROMESA process, such as the validity of the Oversight Board appointments, have been subject to numerous legal challenges. While the Supreme Court upheld the validity of the Oversight Board and its appointments, other challenges remain. Indeed, only several weeks ago an insurer of certain Puerto Rican bonds filed a complaint contesting the constitutionality of the PROMESA statute itself.⁵ This challenge, brought by bond insurer Ambac Assurance, asserts that the PROMESA statute violates the Constitution’s uniformity requirements with respect to bankruptcy legislation. The complaint argues that while the Constitution gives Congress plenary power to legislate on the subject of bankruptcy, such legislation must be uniform and not favor a specific debtor, such as the PROMESA debtors. Whether this latest attack will gain any traction with District Court Judge Laura Taylor Swain remains to be seen, but practitioners and interested parties are wise to continue to pay close attention to the continuing proceedings challenging the PROMESA process and structure.

1 As the First Circuit explained, the doctrine “confers validity upon acts performed by a person acting under the color of official title even though it is later discovered that the legality of that person’s appointment ... to office is deficient.” *See Aurelius Inv., LLC v. Puerto Rico*, 915 F.3d 838, 862 (1st Cir. 2019) (citation omitted). The court applied the doctrine based on its conclusion that (1) the Oversight Board members acted in the good faith belief that they had the requisite authority under PROMESA and (2) unwinding the PROMESA Cases would jeopardize the substantial progress made by the commonwealth and its instrumentalities to date, along with the livelihood of Puerto Rican citizens.

2 The Court’s decision was unanimous, but Justices Clarence Thomas and Sonia Sotomayor wrote separate concurring opinions.

3 The latter is known as the Territorial Clause, which provides in full: “The Congress shall have Power to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States; and nothing in this Constitution shall be so construed as to Prejudice any Claims of the United States, or of any particular State.” *See* Const. Art. IV, § 3, cl. 2. The First Circuit’s decision rested largely on its conclusion that the Territorial Clause did not trump the Appointments Clause. *See Aurelius*, 915 F.3d at 855.

4 In doing so, the Court rejected the First Circuit’s analysis as dependent on case law examining the clause’s role in the appointment of officers exercising primarily federal duties. *See id.* at 18. The Court seemed to reject an approach that emphasized the legal source of those duties — *i.e.*, state or federal law — instead focusing on the level at which those duties are exercised — *i.e.*, “primarily local” in nature. *See id.*

5 *See* Complaint, *Ambac Assurance Corp. v. Fin. Oversight & Mgmt. Bd. for P.R. (In re Fin. Oversight & Mgmt. Bd. for P.R.)*, Case No. 17-03283 (LTS), Adv. Proc. No. 20-00068 (LTS) (D.P.R.

May 26, 2020), ECF No. 1.

Skadden Arps Slate Meagher & Flom LLP – Julie E. Cohen, Joseph O. Larkin, Stephen J. Della Penna and Steve Walsh

August 3, 2020

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New Water, Sewer Main Extension Rules Issued for Indiana Municipal Utilities: Barnes & Thornburg

Earlier in 2020, the Indiana General Assembly adopted IC 8-1-2-101.5, which requires all municipalities to comply with the water and sewer main extension rules promulgated by the Indiana Utility Regulatory Commission (IURC).

The new statute applies to all main extension agreements entered into after June 30, 2020. All municipally owned sewer utilities are now covered by the IURC rules, even though municipal sewer utilities are not otherwise regulated by the IURC. The rules also apply to all municipal water utilities even if they have withdrawn from IURC jurisdiction.

What does this mean for municipalities? The core impact is that the [extension rules](#) govern how much the customer can be required to pay if they request a main extension and what opportunity must be given to the customer to recoup its investment as later customers tap onto the main.

The IURC put together a [handout](#) about the new legislation and about its main extension rules.

Another resource is the Indiana Administrative Code for the [now applicable water main extension rules](#) and [sewer main extension rules](#).

Barnes & Thornburg LLP – Nicholas K. Kile, Lauren M. Box and Hillary J. Close

August 5, 2020

Moody's Announces Completion of a Periodic Review of Ratings of MBIA Inc.

New York, July 31, 2020 — Moody's Investors Service ("Moody's") has completed a periodic review of the ratings of MBIA Inc. and other ratings that are associated with the same analytical unit. The review was conducted through a portfolio review in which Moody's reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), recent developments, and a comparison of the financial and operating profile to similarly rated peers. The review did not involve a rating committee. Since 1 January 2019, Moody's practice has been to issue a press release following each periodic review to announce its completion.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Credit ratings and outlook/review status cannot be

changed in a portfolio review and hence are not impacted by this announcement. 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.

Key rating considerations are summarized below.

The Ba3 senior unsecured debt rating of MBIA Inc. (MBIA) and Baa2 insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation (National) reflect National's capital resources, the meaningful delinking from MBIA Insurance Corporation (MBIA Corp., IFS rating Caa1) and the amortization of its insured portfolio. Offsetting these strengths is National's run-off status, which results in a weaker alignment of interests between shareholders and policyholders, its significant exposure to below investment grade credits, as well as the firm's transition toward a higher risk investment portfolio, which includes substantial investments in debt and equity securities issued by MBIA.

The Caa1 IFS rating of MBIA Corp. reflects the firm's weak liquidity and capital position following large claims payments in recent years, as well as uncertainties associated with the outcomes of several ongoing loss recovery efforts, which could put either upward or downward pressure on the rating.

The Caa1 IFS rating of MBIA Mexico, S.A. de C.V. (MBIA Mexico) is based on the implicit and explicit support from its parent, MBIA Corp.

This document summarizes Moody's view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Financial Guarantors Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

This announcement applies only to EU rated and EU endorsed ratings. Non EU rated and non EU endorsed ratings may be referenced above to the extent necessary, if they are part of the same analytical unit.

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.

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Loan Woes Heighten Risks to American Dream Bonds.

Three missed mortgage payments on another megamall property operated by the owners of the bond-financed American Dream development have investors concerned whether the large-scale New Jersey project can withstand the lengthy closure caused by the COVID-19 pandemic.

American Dream developer Triple Five Group missed three straight monthly loan payments on a \$1.4 billion mortgage for the Mall of America in Minnesota that it also owns. Last year, Triple Five

was forced to put up Mall of America as collateral on a construction loan for American Dream.

“The unknowns of whether the developers will step up makes it very hard for bondholders,” said municipal bond analyst Joseph Krist. “At the end of the day you want to know you have someone behind the credit that will step up and carry a deal during trying times.”

[Continue reading.](#)

National Mortgage News

By Andrew Coen

July 29, 2020, 4:06 p.m. EDT

[New Jersey Could Allow Local Governments to Borrow to Avoid Budget Cuts.](#)

Lawmakers this week approved legislation that would allow county and municipal governments to issue “coronavirus relief bonds” they would then pay back over 10 years.

Local leaders in New Jersey could issue “coronavirus relief bonds” to help offset shrinking tax revenues under a bill passed this week by state lawmakers.

The [legislation](#), passed 24-16 by the state Senate on Thursday, would allow counties and municipalities to borrow up to 30% of the previous year’s budget with a repayment period of up to a decade, backed by local property tax revenue. Localities could also seek permission from the state to borrow higher amounts with longer repayment periods.

The Assembly approved the bill 57-20 in May.

[Continue reading.](#)

Route Fifty.

By Kate Elizabeth Queram,

JULY 31, 2020

[COVID-19 and the Future of Transportation in California: Nossaman](#)

On July 23, 2020, the California Transportation Foundation convened a panel of transportation professionals for the webinar “Transportation Outlook: Moving Beyond COVID-19.” The panelists discussed the impacts of the coronavirus and what the future holds for California’s transportation sector in the wake of the pandemic. Below are key takeaways from the panel:

Adjusting to a “New Normal”

- COVID-19 has significantly altered the way some Californians commute to work; remote work could become a permanent feature of the post-pandemic economy.

- Transit agencies are actively preparing for a future where telecommuting is commonplace, and transit will need to evolve to account for long-term decreases in ridership and travel patterns.
- Transit agencies are implementing thorough sanitation protocols in conjunction with face covering requirements, and are devising programs to educate the public about the effectiveness of such measures in combating the spread.

Financial Outlook

- State and local ordinances aimed at limiting transmission of the coronavirus will continue to negatively impact sales and use tax revenue, one of the primary funding sources for the state's transportation projects.
- The passage of the Road Repair and Accountability Act of 2017(SB1) came at the perfect time, providing much-needed funding for the state's transportation projects.
- With urgent need for trillions of dollars in federal unemployment relief, there is little optimism that Congress will pass additional spending measures for infrastructure stimulus before national elections in November.

COVID-19's Effects on the Construction Industry

- The industry was grateful that state leaders designated construction to be essential work, which protected construction workers' livelihoods while also ensuring progress on critical transportation projects.
- The construction industry has shown that it can build projects safely during the pandemic by coordinating closely with state and local authorities, and devising safety measures to ensure construction workers have adequate protective equipment and physical distancing while on the job.
- The construction industry will continue to face difficulties in developing and implementing scheduling, staffing and operational guidelines to comply with different local orders that change frequently.

Silver Linings for the Future

Although the pandemic has resulted in significant adverse impacts for the transportation sector, there have been bright spots, including:

- Public agencies using the pandemic to rethink how to better serve the public's transportation needs, in particular for California's low-income and underserved communities.
- Acceleration of existing construction projects due to lighter traffic.
- Fewer cars on the road perhaps providing a preview of California's transportation future, with lower congestion and the growing prevalence of active transportation, such as walking and biking.
- Although funding sources for transportation remain unclear, public agencies could be taking advantage of lower material costs and increased competition among contractors to procure projects below budget; uncertainties remain regarding workforce impacts, supply chain impacts and related cost of materials.

An end to the coronavirus pandemic is far from certain, but these difficult times have underscored the transportation sector's resilience. By the panel's conclusion, it was clear that the collaborative spirit and problem-solving mindset of those working in the transportation industry have been essential to weathering a global crisis over the last several months, and that such qualities will continue to shape California's transportation future.

New Municipal Bond Buying Program Comes to Aid of NJ Municipalities During COVID-19 Crisis and Beyond.

Parsippany, N.J. — Finding ways to finance debt has become a major priority for municipalities across New Jersey as a result of the COVID-19 pandemic. The [Municipal Excess Liability Joint Insurance Fund \(MEL\)](#), which serves nearly 65% of all municipalities in the State, has established a special program to provide aid and stabilize the Municipal Bond Market.

The MEL created the Joint Cash Management and Investment Program (JCMI) to purchase short-term (1 year) Bond Anticipation Notes (BAN) at fair market prices to save towns money and enable the continuation of important local improvement projects such as roads, bridges, equipment, and construction. The MEL is the largest workers' compensation, liability, and property insurer of local governments in New Jersey.

"At the beginning of the COVID-19 pandemic municipal markets were in turmoil, no one was buying municipal debt and interest rates had risen," said Jon Rheinhardt the MEL Investment Chairman. "We had been working on getting this program operational when we received a call from the Governor's office asking what we could do to help and how fast we could do it."

With more than \$500 million in funds to invest, the MEL entered the marketplace to help stabilize a tightening municipal bond market.

"Many regular investors left the market due to uncertainty and the few that still bid were at really high rates," explained Dan Mariniello a Principal with NW Financial Group, which is a financial advisor to the MEL. "By entering the market and bidding a more appropriate market interest rates they were able to stabilize the rising interest rates in the market."

MEL has already developed a significant market presence. More than \$95 million in notes for 26 municipalities have been purchased, which represents approximately 9 percent of the short-term competitive notes sold in New Jersey since April.

The Borough of Ringwood was the first town to benefit from the program.

"We had a \$6.5 million Bond Anticipation note coming due in early April," said Scott Heck the Manager of the Borough of Ringwood. "We were concerned whether or not we would get any bids in light of the economic uncertainty, or that the interest rate would be very high which could seriously affect the community's budget." He added, "This program saved us directly with a great rate and also took away the financial uncertainty, and I am grateful."

To date, the JCMI has focused bidding only on short-term debt from municipalities that are affiliated with MEL, which includes 388 municipalities across New Jersey. However, the success of the program has ultimately benefited all municipalities seeking to finance their short-term debt in New Jersey during this crisis.

"We are always looking for ways to assist our members, but we are also committed to developing programs that positively impact municipalities and the state," said Joseph Hrubash, Deputy Executive Director of the MEL JIF.

David Grubb, Executive Director and Co-Founder of the MEL JIF said that this is only the beginning. “We will be able to do even more if bills [A-3971](#) and [S-2475](#) are passed, which would authorize towns to issue ‘coronavirus relief bonds’ to borrow money to cover shortfalls and unanticipated costs that are a direct result of the COVID-19 pandemic.”

The Joint Cash Management and Investment Program was made possible after special rules were adopted ([NJAC 5:38-1](#)) in 2019 by the Department of Community Affairs Division of Local Government Services to allow Joint Insurance Funds to expand investments to include the purchase of short and long-term municipal debt.

###

The Municipal Excess Liability Joint Insurance Fund is the largest governmental self-insurance pool for property and casualty in the country. For more than 30 years, the MEL JIF has provided risk management, training, education, resources and guidance to municipalities, public entities and public officials across New Jersey. Since 1987 MEL JIF has saved New Jersey taxpayers over \$3 billion dollars. Visit [NJMEL.org](#) for details.

July 28, 2020

[California's Infrastructure Bank.](#)

The IBank issues a number of different bonds in order to finance programs

In 1994, California created an Infrastructure Bank (IBank) in state government. It is found in the California Government Code Title 6.7, Division 1, Chapter 1. The formal name of the IBank is The Bergeson-Peace Infrastructure and Economic Development Bank (Section 63002). The IBank is the state's only general-purpose financing authority. Its purpose is to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy, and improve the quality of life in California communities.

Article 1 sets forth a number of findings and declarations. Section 63000 provides the following findings and declarations by the Legislature:

The Legislature finds and declares the following:

- (a) Economic revitalization, future development, and a healthy climate for jobs in California will depend upon a well-conceived system of public improvements that are essential to the economic well-being of the citizens of the state and are necessary to maintain, as well as create, employment within the state for business.
- (b) It is necessary for public policy to support the efforts of businesses attempting to expand, businesses seeking to locate in California, and local economic development organizations, public agencies, and new entrepreneurs by dedicating public fiscal resources to confront obstacles and barriers that impede economic growth.
- (c) Existing mechanisms that coordinate federal, state, local, and private financial resources are inadequate to attract and sustain that level of private investment that is essential to a growth economy.

(d) In order to secure and enhance the economic well-being of Californians, promote economic development in the state, and provide a healthy climate for the creation of jobs, it is necessary for public policy to support the efforts of expanding businesses, businesses seeking to locate in California, local development organizations, public bodies, and new entrepreneurs to gain access to capital through current and potential operations of financial markets.

(e) The high cost and the lack of availability of industrial loans for small- and medium-size businesses is making it difficult for thousands of these enterprises to get established, to maintain their present employment levels, or to expand employment.

(f) The problem of access to capital is acute in the high technology industry clusters because companies must often finance large capital expenditures early in their development cycle, and cannot obtain financing sufficient to cover the cost of those expenditures. Consideration should be given to industry clusters that may include the following:

(1) Health care technology.

(2) Multimedia.

(3) Environmental technology.

(4) Information technology.

(g) The high cost and limited availability of loans and capital has led a number of states to take action to remedy these conditions through concerted public and private investment programs that include efforts to do the following:

(1) Use the state's access to capital markets more effectively for economic development.

(2) Create financing pools to access national capital markets or help government sponsors and public-private economic development organizations obtain credit enhancement on their own.

(3) Facilitate credit enhancement for selected specific projects.

(4) Provide or arrange for loan insurance.

(5) Create and support secondary markets for loan portfolios of urban and rural economic development corporations and others.

(6) Improve access to international capital markets.

(7) Provide opportunities for public pension funds and other institutional investors to play a larger role in state economic development.

(8) Arrange for or provide subordinated debt for selected projects.

(9) Increase support for local infrastructure development.

(h) Local governments in California bear a primary responsibility for the business of promoting job creation and economic development efforts. California's continued reliance on autonomous local entities often fails to adequately consider regional impacts of business expansion. Projects of a regional nature need the benefit of a state coordinating function to augment and enhance local economic development and environmental efforts.

(i) The State of California has not embarked on a major infrastructure financing effort since the decade of the 1960's, despite persistent unemployment and soaring population growth.

(j) California's ability to compete in a global economy depends upon its capacity to implement policies that take maximum advantage of public and private resources at the local, regional, state, and national levels. These policies should be coordinated with any future legislative plan involving growth management strategies designed to make economic growth compatible with environmental protections. It is the intent of the Legislature in enacting this act to create a mechanism to finance projects needed to implement economic development and job creation and growth management strategies, and to provide a secure and stable funding source for implementation of this act in order to meet critical economic, social, and environmental concerns.

(k) The State of California needs a financing entity structured with broad authority to issue bonds, provide guarantees, and leverage state and federal funds using techniques that will target public investment to facilitate economic development. The goal is to produce more private sector jobs with less public sector investment.

(l) The mechanisms for financing public improvements and private job creation strategies provided for in this act are in the public interest, serve a public purpose, and will promote the health, welfare, and safety of the citizens of the state.

(m) The public policies and responsibilities of the state, including all of the above purposes and functions, cannot be fully obtained without the use of financing assistance and can be most effectively furthered by the creation of the California Infrastructure and Economic Development Bank.

The IBank is housed in GO-Biz, which is the Governor's Office of Business and Economic Development, and is governed by a 5-member Board of Directors and has a full-time Executive Director to run the daily operations. The Board is comprised of the Director of the GO-Biz, State Treasurer, Director of Finance, Secretary of the Transportation Agency, and a gubernatorial appointee.

The IBank issues a number of different bonds in order to finance programs. According to the IBank, the following are the types of bonds issued:

Industrial Development Bonds (IDBs), which is tax-exempt conduit revenue bond financing for eligible small to mid-size manufacturing companies up to \$10 million for the acquisition, construction, rehabilitation and equipping of manufacturing and processing facilities.

IRC Section 501(c)(3) Bonds, which are tax-exempt conduit revenue bonds that provide low-cost financing for capital improvement projects for nonprofit public benefit corporations.

Public Agency Revenue Bonds (PARBs), which is tax-exempt bond financing for government entities used for projects that enhance infrastructure, or the economic, social or cultural quality of life for residents in the community or State.

Exempt Facility Bonds, which is tax-exempt financing for projects that are government-owned or consist of privately used or leased facilities on public -property; such as private airline improvements at publicly owned airports, ports, water facilities and other private enterprises that serve the general-public.

There are a number of benefits to doing business with the IBank, such as its Infrastructure State Revolving Fund Program, which offers below-market interest rates, a non-competitive application

process, and no matching fund requirement or federal overlays. It also has numerous bond financing programs as set forth above. These bond programs have competitive applications with technical assistance provided by IBank staff. There is also the Jump Start Loan Program, which is intended to assist low-wealth entrepreneurs in low-wealth communities start, grow, and thrive. This program offers financial literacy training and microloans. There is also the California Small Business Loan Guarantee Program that is focused on helping lenders provide loans to small businesses, farmers and exporters that may not otherwise qualify if it were not for the guarantee.

Among other services, the IBank issues loan guarantees in partnership with seven partner Financial Development Corporations (FDCs) located throughout the State of California. Potential borrowers may contact FDCs directly to apply for a loan through participating financing institutions, credit unions, or Community Development Financial Institutions (CDFIs). These programs include the Infrastructure State Revolving Fund (ISRF); the California Lending for Energy and Environmental Needs (CLEEN) Center, which includes the Statewide Energy Efficiency Program (SWEET) and Light Emitting Diode (LED) Street Lighting Program; the Small Business Finance Center, which includes the Jump Start Loan Program, which includes the California Small Business Loan Guarantee Program (SBLGP) and Farm Loan Program; and the Bond Financing Program, which includes 501(c)(3) bonds, Industrial Development Bonds (IDBs), Exempt Facility Bonds, and Public Agency Revenue Bonds (PARBs).

According to the IBank, they have financed more than \$55 billion in infrastructure and economic development projects throughout the State of California.

California Globe

by Chris Micheli

Chris Micheli is a lobbyist with Aprea & Micheli, as well as an Adjunct Professor of Law at the University of the Pacific McGeorge School of Law.

July 30, 2020 6:23 am

[Vegas Train Approved for Record \\$4.2 Billion of Unrated Debt.](#)

The sale of a record \$4.2 billion in unrated municipal bonds to finance a passenger train to Las Vegas moved closer to happening with a key vote in Nevada, promising to test investor appetite for risk amid a coronavirus pandemic.

Nevada's state board of finance Friday cleared the way for Virgin Trains USA to sell \$950 million in tax-exempt private activity bonds for a high-speed rail to the gambling hub from a southern California desert town. The company, backed by Fortress Investment Group private equity funds, had already won the ability to sell \$3.25 billion in such debt through a California state agency.

Virgin Trains plans to sell both issues together by September 30, according to spokesman Ben Porritt. That would surpass the biggest unrated tax-exempt deal on record, \$1.75 billion the company sold last year for its inaugural rail system in Florida. That line hasn't run since March because of the outbreak.

The 170-mile (274-kilometer) California to Nevada project is expected to break ground by the end of this year. The company says that its electric trains to a Las Vegas station three miles from the Strip

will reach 200 mph and take 85 minutes from the California terminus in Apple Valley.

The cost of the project, about \$5 billion, will be covered primarily through the debt, while the company will contribute \$583 million, according to a report reviewed by the Nevada board.

"I'm very thankful and appreciative of the jobs that this is going to create as we move out of this Covid recession that we're dealing with right now and try to get our people back to work," said Nevada Governor Steve Sisolak, chair of the state's finance board, before the unanimous vote.

Bloomberg Markets

By Romy Varghese

July 24, 2020, 10:31 AM PDT

[New York MTA Looks to Spending Cuts While Congress Debates Aid.](#)

- **Transit agency to mull \$350 million of spending cuts in 2021**
- **Congress has a few weeks to hammer out additional aid**

New York's Metropolitan Transportation Authority is seeking another \$350 million of spending cuts in its 2021 budget as the transit agency grapples with billions in lost revenue and Congress negotiates another coronavirus relief bill.

The MTA, the largest U.S. public transportation system, plans to discuss the spending reductions with its board on Wednesday, MTA Chairman Pat Foye said Tuesday in an interview with video site Cheddar. The MTA is reworking its budget as it seeks about \$10.4 billion of federal aid for the rest of 2020 and next year. Without additional federal help, the MTA may consider service cuts, employee layoffs and deficit borrowing.

"Those are things unattractive, unpalatable and unacceptable to New Yorkers," Foye said during Tuesday's interview. "But obviously we've got to balance our books."

States, cities and mass-transit agencies throughout the U.S. are looking to the federal government for additional help. Public transportation systems are seeking \$36 billion to cover lost revenue as riders have avoided subways, buses and commuter rail lines.

Even as ridership declines and increased disinfecting and cleaning costs have rocked MTA's finances, some municipal-bond investors see the transit agency's \$45.4 billion of outstanding debt as a buying opportunity. Yields on MTA bonds increased this year and the debt offers relative value, according to Citigroup Inc.

Citi's long-term view on the credit follows S&P Global Ratings' downgrade of the MTA to BBB+ from A- on July 8, and Moody's Investors Service in April cut its rating to A2 with a negative outlook, meaning it could be dropped further.

The potential \$350 million reduction along with earlier budget cuts and savings from MTA's plan to reduce headcount could help the agency slash its 2021 budget by \$1.1 billion, Foye said. The \$350 million spending cut would come from reducing overtime and cutting or ending consulting contracts.

The MTA may not receive the full \$3.9 billion it's requesting from the federal government to help the

agency through 2020, S&P analysts said in the July 8 report.

Still, states and cities may get around \$500 billion of federal funds, which may be tied to covering coronavirus-related costs, Bloomberg Intelligence analysts Nathan Dean and Eric Kazatsky wrote in a report Tuesday.

Federal lawmakers have only a few weeks to pass another stimulus bill before Congress takes a scheduled August break.

Bloomberg Politics

By Michelle Kaske

July 21, 2020, 11:39 AM PDT

[S&P Bulletin: New Jersey's \\$9.9 Bil. Borrowing Plan Could Pressure Its Credit](#)

NEW YORK (S&P Global Ratings) July 16, 2020—S&P Global Ratings said today that the credit impact of the recent agreement between the governor and legislative leaders of New Jersey (A-/Negative) to borrow up to \$9.9 billion for budgetary relief will depend upon the amount of actual borrowing and its long-term implication for the state's ongoing structural deficit. The agreement would allow for general obligation (GO) borrowing through fiscal 2021. The state has not yet directed any new borrowing to take place, and the current three-month budget ending Sept. 30 does not call for new cash flow or deficit borrowing, although it defers a substantial amount of expenses that would normally be paid in September 2020 into October 2020. The amount of borrowing in fiscal 2021 will depend on what is included in the state's fiscal 2021 budget, expected to be enacted in September. However, by authorizing up to \$2.7 billion of GO budgetary relief borrowing between now and Sept. 30, the new agreement makes it increasingly likely, in our view, that new legislative action will lead to a borrowing of near that amount, either to avoid budget cuts, or to eliminate the need for the September cash deferrals—particularly cash deferrals to schools. The currently enacted three-month budget anticipates \$2.2 billion of cash deferrals from September into October, close to the amount of borrowing that would be authorized. An additional \$7.2 billion of borrowing for budgetary relief would be authorized for the state's nine-month fiscal year ending June 30, 2021. A borrowing of that size would amount to about 27% of the state's earlier projection of \$26.2 billion of budgetary operating revenue for the 12 months ending June 30, 2021, which we would view as a large structural deficit, if it were fully issued long-term for budgetary relief. Over the last several years, the state has typically arranged for up to \$2 billion of cash flow notes due within its fiscal year. The governor is expected to release his fiscal 2021 budget proposal in August, which will outline specific borrowing proposals. We believe that until July revenue returns are known, it may be difficult to assess the amount of borrowing needed. The budget relief borrowings are expected to have maturities of three to 10 years, although they could be longer. It is unclear whether the proposed borrowings can pass legal muster, since the state's constitution requires GO bonds to be approved by popular vote except in the event of "emergency." The state Office of Legislative Services has raised questions as to what might be permissible. However, we believe that even if courts disallow a GO bond, the state would still have the ability to issue short-term, within-the-fiscal-year cash flow notes, or refund long-term annual appropriation secured debt under a "scoop and toss" structure for near-term budget relief without a popular vote, although perhaps at less favorable interest rates. The state could also defer cash payments across fiscal years, although we would view this as a sign of significant fiscal pressure. No legislation has actually been enacted at this point authorizing the

proposed GO bonds, but legal challenges are expected once the proposed bill passes. THE THREE-MONTH ENACTED BUDGET The state extended its fiscal year that normally ends June 30, to Sept. 30, 2020, to allow \$1.5 billion of current cash flow borrowing to remain outstanding while it collects in July on income tax payments coming due under the extended July 15 income tax filing deadline, as well as to have more time to assess the effect of the pandemic on revenue before enacting a final fiscal 2021 budget for the nine-month period ending June 30, 2021. The current cash flow notes have a renegotiated final maturity of Sept. 25, 2020, just before the end of the state's newly extended fiscal year. In our view, the enacted extended three-month budget puts off hard decisions regarding cutting expenditures or raising revenue. The state will need to address these issues in its nine-month fiscal 2021 budget that must be adopted before the end of September. The current three-month budget solves cash shortfalls, after repayment of \$1.5 billion of outstanding cash flow notes due at the end of September, by deferring substantial expenses for one month in September into October of the next fiscal year. However, this is not a long-term solution. The enacted three-month budget is similar to the governor's proposal (see "New Jersey's Revised Fiscal 2021 Budget: A Work In Progress," published June 15, 2020, on RatingsDirect), with slightly higher revenues and expenditures, reflecting slightly improved tax collections, and with a slightly higher fiscal end Sept. 30, 2020, fund balance equal to \$957 million, or what we calculate as a modest 3.1% of annualized appropriations, compared to the \$494 million fund balance projection in the governor's original proposal. However, without the one-month cash deferrals of expenditures, the state would have a negative ending fund balance at Sept. 30, 2020. (For more information as to the nature of what payments are temporarily deferred, please refer to our earlier report.) Our credit focus remains on the size of the state's ongoing structural budget deficit between long-term revenues and expenditures, including the significant shortfall in funding of the state's pension contribution on an actuarial basis. The state has indicated that despite projected budgetary deficits it will increase its annual pension contribution from to 80% of actuarially determined contribution from 70% for the 12 months ending June 30, 2021. In our view, however, funding an increased pension contribution by deficit borrowing for it does not change the size of the structural deficit. We expect the state's fiscal 2021 budget to provide clues as to the state's willingness to implement ongoing expenditure cuts or revenue increases. In this respect, a budget that relies primarily on large one-time deficit financing could indicate significant credit pressure.

[Continue reading.](#)

Fitch to Assign a S-T Rating to Indiana Fin Auth (Stadium Project) Ser 2005 A-5 of 'F1+'

Fitch Ratings-New York-22 July 2020: On the effective date of July 29, 2020 Fitch Ratings will assign a 'F1+' short-term rating to \$97,200,000 Indiana Finance Authority lease appropriation bonds (Stadium Project), Series 2005 A-5.

KEY RATING DRIVERS

The short-term 'F1+' rating assigned to the bonds will be based on the liquidity support provided by U.S. Bank National Association, rated 'AA-/F1+/Negative', in the form of a Standby Bond Purchase Agreement (SBPA). The long-term 'AA+/Stable' rating is based on the rating assigned to the bonds. For more information on the long-term rating, see Fitch's rating report dated July 21, 2020, at www.fitchratings.com.

The SBPA will provide for the payment of the principal component of purchase price plus an amount

equal to 37 days of interest calculated at a maximum rate of 12%, based on a year of 365 days for tendered bonds during the daily and weekly rate modes in the event that the proceeds of a remarketing of the bonds are insufficient to pay the purchase price following an optional or mandatory tender. The SBPA will expire on July 28, 2023, the stated expiration date, unless such date is extended; upon conversion to any interest rate mode other than daily or weekly; or upon the occurrence of certain events of default that result in a mandatory tender or other events of default related to the credit of the bonds that result in an automatic and immediate termination. The remarketing agent is U.S. Bancorp Investments, Inc. The bonds are expected to be converted to daily rate mode from the indexed rate mode on July 29, 2020.

The bonds will be issued in the daily rate mode, but may be converted to a weekly, flexible, indexed or term rate mode. While bonds bear interest in the daily and weekly rate modes, interest is paid on the first business of each month, commencing Aug. 3, 2020. Holders of bonds bearing interest in the daily and weekly rate modes may tender their bonds for purchase with the requisite prior notice. The trustee is obligated to make timely draws on the SBPA to pay the purchase price in the event of insufficient remarketing proceeds, and in connection with the expiration or termination of the SBPA, except in the case of the credit-related events permitting immediate termination or suspension of the SBPA.

Funds drawn under the SBPA are held uninvested, and are free from any lien prior to that of the bondholders. The bonds of each series are subject to mandatory tender: (1) upon conversion of the interest rate (except between daily and weekly); (2) upon expiration, substitution or termination of the SBPA; and (3) following the receipt of written notice from the bank of an event of default under the related SBPA, directing such mandatory tender. Optional and mandatory redemption provisions also apply to the bonds.

Bond proceeds were issued to (i) purchase the Stadium Notes, (ii) pay the costs of issuance of the Stadium Bonds, (iii) fund the Debt Service Reserve Account of the Debt Reserve Service Fund and (iv) pay capitalized interest on the Stadium Bonds during construction of the Stadium Project.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-The short-term 'F1+' rating to be assigned to the Bonds is at the highest rating category level and cannot be upgraded.

Factors that could, individually or collectively lead to negative rating action/downgrade:

-The 'F1+' rating to be assigned to bonds the will be adjusted downward in conjunction with the short-term rating of U.S. Bank, National Association.

ESG Considerations

The ESG.RS conforms to that of U.S. Bank, National Association.

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimum credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Fitch: Supreme Court Ruling Creates Uncertainty in Oklahoma

Fitch Ratings-New York-16 July 2020: The recent U.S. Supreme Court ruling concerning Native American nations in eastern Oklahoma (Issuer Default Rating AA/Stable) presents the state with a score of jurisdictional issues that will take time to address. However, Fitch Ratings expects the generally cooperative relationship between the nations and the state will help clarify sovereignty issues raised by the ruling and provide for an agreement that limits the long-term credit implications to the state.

In *McGirt v. Oklahoma*, the court held that three million acres of eastern Oklahoma, which includes 24% of the state's population and much of the greater city of Tulsa area, remain reservation land of the Muscogee (Creek) Nation. In addition to the Creek Nation, the ruling extends by interpretation to four other Native American nations in the state, as these nations' boundaries were established through the same federal legislation. In total, these areas account for 43% of the state's land mass.

In the short-term, the ruling primarily affects criminal prosecution under the federal Major Crimes Act (MCA). An estimated 1,700 tribal inmates tried under state law and currently serving out their sentences may choose to seek a new trial in federal court. The extent to which eligible inmates seek retrial will determine the scale of disruption to the state's judicial and correction systems but Fitch expects the state to manage this process effectively.

While the Supreme Court majority's opinion stated that the ruling only considered the MCA, Fitch believes the ruling creates ambiguity around the regulatory and civil powers of the state and its municipal governments, including excise, property and income taxation of up to 200,000 tribal members if they reside within the newly affirmed reservation boundaries. The Court has repeatedly ruled against state or local government taxation of income earned by tribal members on a reservation, land owned by tribal nations and the enrolled tribe members that live on such lands,

absent U.S. Congressional action authorizing it.

Following the Court ruling, the state is expected to continue its negotiations with Native American nations to resolve jurisdictional uncertainties on criminal justice and other government functions. Oklahoma has a long history of navigating dual sovereignty with Native American nations and a generally cooperative relationship that will likely continue. Fitch anticipates that current tension around gaming issues in the state may hamper these discussions somewhat, but not materially so. Reflecting the cooperative relationship, following the Court's ruling, the state, along with the five nations, released a joint statement that noted their significant progress toward an agreement to present to Congress and the U.S. Department of Justice to address any jurisdictional issues raised by the Court's decision.

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[Bond Experts Raise Caution Flags on Detroit's \\$250M Anti-Blight Borrowing Plan.](#)

Experts say municipal bonds with Detroit's high interest rates could charitably be called high yield for potential investors. Others might call them junk bonds.

Five years removed from bankruptcy, the city of Detroit is on a path to borrow a quarter-billion dollars to address the city's extensive blight problem in the middle of an economy destabilized by the ongoing coronavirus pandemic.

Despite the uncertain economy, the municipal bond market is humming and several experts say the city is likely to find investors for the approximately \$250 million in bonds Mayor Mike Duggan wants to issue for blight removal.

But some see a range of potentially problematic issues — the city's history of financial struggles, the scandal-tainted demolition program and the possibility that the pandemic will sharply constrain city revenues.

Detroit also will have to pay an estimated \$240 million in interest on the debt in addition to the

amount of the high-yield bonds, according to a spokeswoman for the city.

"This deal looks like it has a lot of hair on it," Daniel Berger, senior market strategist for Refinitiv, a data and analytics firm that specializes in global financial markets, said, referring to risks and obstacles associated with the proposal.

Marilyn Cohen, who worked as an analyst and bond broker before founding Envision Capital Management in California more than 20 years ago, put it more bluntly.

"This to me looks like it's fraught with disaster," Cohen said. "Just because you have access to the money because it's cheap money doesn't mean you should grab it unless you have all your ducks in a row."

Duggan is plowing ahead, driven by the severity of the city's blight crisis and the job opportunities for Detroiters expected to be hired for demolition and rehab work. His plan — known as Proposal N, for neighborhoods — is headed for the Nov. 3 ballot for voters to decide. If approved, the city would issue up to \$250 million in bonds to demolish an estimated 8,000 blighted homes and secure another 8,000 vacant houses so they can be more fully rehabbed.

The city has thoroughly considered the cost and affordability of the neighborhood improvement bonds, according to the city's finance and demolition departments. The bonds will be repaid through property taxes connected to the city's debt millage, which provides a more stable revenue stream than those more directly affected by the COVID-19 pandemic, such as taxes on casinos.

The city has projected it will lose about \$194 million in general fund revenues in the current fiscal year, which began July 1. The projected losses represent about 18% of the previous year's general fund budget.

Property taxes that flow into the city's general fund are expected to drop about 6%, or \$7 million, this fiscal year compared with the previous year's budgeted amount. The city is expecting income tax revenues to drop about 13%, or \$150 million, from the start of the pandemic through June 2021.

Duggan acted quickly to address the pandemic-related budget crunch. He laid out a series of cuts in April to address the overall \$348 million budget deficit the city projected through June 2021.

"In general, national experts are finding that the cities that rely more heavily on property taxes will not experience such an immediate collapse in their revenues from the coronavirus economic contraction," city officials wrote in response to written questions from the Free Press. Detroit's CFO projected a recession scenario for this bond sale and found that even in the recession scenario projection, the city would be able to pay debt service without driving the debt millage rate above the current level," officials wrote.

The answers provided through the city's media relations department did not identify the specific city officials who compiled the answers.

Based on the city's financial modeling, Detroit expects to issue a blend of 64% tax-exempt bonds and 36% taxable bonds that will be repaid over 30 years. The plan is to issue \$175 million in bonds next year and \$50 million in 2023, leaving room to issue another \$25 million in bonds if the market conditions remain favorable, according to a city memo.

The city of Detroit anticipates interest rates on its new bonds to be between 3.64% and 6.58%. That's significantly more expensive than borrowing by neighbors like Oakland County, armed with the highest possible bond rating. Long-term interest rates on AAA-rated government bonds currently

are about 1.45%, according to Berger.

While elevated interest rates are not optimal for the city, they are expected to spur interest in the municipal market because higher interest rates mean higher yields for investors.

“Everybody’s grabbing for yield,” Cohen said.

But Cohen said she would advise her clients to put their money elsewhere.

The city’s recent history of managing demolitions — federal authorities investigated contracting irregularities, among other problems — raises questions about how the bond proceeds would be spent. Cohen said she also has doubts about the city’s ability to repay the debt because the rest of this year and 2021 could be a nightmare for cities’ balance sheets.

“Overall, I just worry about a repeat performance in some way, shape or form,” she said, referring to the city’s historic bankruptcy filing.

City leaders could inspire confidence in their plan if they tapped local businessman Dan Gilbert or someone else qualified in the private sector who could be involved in the city’s blight removal efforts, Cohen said.

Detroit businessman Dan Gilbert has studied Detroit blight and participated in a blight task force in 2014. One bond expert suggested city leaders tap his expertise to boost the city’s pitch to investors should voters approve Mayor Mike Duggan’s \$250 million bond proposal.

Detroit businessman Dan Gilbert has studied Detroit blight and participated in a blight task force in 2014. One bond expert suggested city leaders tap his expertise to boost the city’s pitch to investors should voters approve Mayor Mike Duggan’s \$250 million bond proposal. (Photo: Junfu Han, Detroit Free Press)

Gilbert has studied Detroit’s blight problem. He was involved in a blight removal task force in 2014 and testified during the city’s bankruptcy trial that year, saying, “I’d probably put myself in the top 1% in knowledge of blight in the city of Detroit.”

In response to concerns about its demolition program, city officials said that a newly established demolition department has policies and procedures in place that have improved operations.

“With the creation of the new demolition department, we assessed existing processes, policies, and failures with the goal to create a more effective and efficient demolition program that meets or exceeds industry standards,” city officials said.

Duggan needs a cash influx to continue fighting blight before more houses deteriorate past the point of saving. The federal funds that previously fueled the city’s demolition efforts are used up.

Since its exit from bankruptcy in late 2014, Detroit has received several credit upgrades from ratings services. Moody’s Investors Service in February rated a portion of the city’s debt as Ba3, which is three levels below investment grade.

Municipal bonds with such high interest rates could charitably be called high yield, Berger said, while others would call them junk bonds.

Duggan’s pitch to sell the plan to City Council and voters has focused on the need to solve Detroit’s vast blight problem so that vacant, dilapidated homes no longer are part of everyday life for children in Detroit.

It's a compelling narrative to pitch to investors, but they will be more interested in details about the city's revenue streams and tax base, Berger said.

"It's quite a story and to explain it to bondholders, it's quite a job to do," Berger said. "Investors will get down to brass tacks and it's either 'Will they pay or won't they pay?' "

The city's current debt millage is 9 mills. If voters approve the bonds, the millage will remain at current levels because other debt will be paid off as the city takes on new debt. If the blight bonds are not issued, the millage will fall to 6 mills, according to an analysis of the proposal by the City Council's Legislative Policy Division.

For the average homeowner, that would be a difference of about \$57 in annual property taxes, according to the analysis.

For the most part, the city is no longer under state oversight that was in place post-bankruptcy. However, debt issuance approval is one of the few remaining responsibilities of the state's Detroit Financial Review Commission, said state Treasury spokesman Ron Leix.

Ron Rose, a member of the commission, praised Duggan's blight removal efforts so far. Any problems that cropped up were the result of having to tear down so many homes, he said.

Rose said the city has done a spectacular job of financial planning since the bankruptcy, particularly with respect to its pension payments.

"They've put themselves in as good a position as any city could've done to meet those obligations," he said.

Detroit Free Press

by Joe Guillen

July 24, 2020

[Nuveen Slapped with New Antitrust Suit by Preston Hollow.](#)

Nuveen, a major player in the municipal-bond market, is facing an antitrust suit filed Monday by smaller competitor Preston Hollow Capital, months after the conclusion of a similar case in a Delaware court.

Nuveen and John Miller, the firm's head of municipal finance, attempted to "organize a boycott" of Dallas-based Preston Hollow through "threatening and anticompetitive" correspondence with banks and broker-dealers, according to the lawsuit filed in New York federal court.

Preston Hollow, which has \$3.6 billion in investable assets, posed a "direct threat" to Nuveen — a behemoth with \$1.1 trillion in assets under management — and its "ability to buy sufficient high yield municipal bonds," the lawsuit states. To push the firm out, Nuveen pressured major investment banks, including Goldman Sachs, JPMorgan and Wells Fargo, to stop working with Preston Hollow or lose business with Nuveen, the suit alleges.

The firm is now suing for damages of not less than \$100 million.

A spokesperson for Nuveen declined to comment on the matter.

Preston Hollow made similar claims in another suit in the Delaware Chancery court, in which a vice chancellor in April ruled that Nuveen “used threats and lies” to successfully damage the firm. The court, however, refused to issue an injunction against Nuveen, and said Preston Hollow should have instead sought money damages.

The firm also has a pending defamation lawsuit in Delaware Superior Court, where it is seeking \$100 million in damages.

Preston Hollow in April said it would “vigorously pursue” monetary damages in the defamation claim and at the time hinted it was looking into lodging the antitrust lawsuit.

“Municipal borrowers deserve a truly competitive marketplace where they are able to select the capital provider that meets their needs in funding their vital projects, not the needs of a large money manager like Nuveen,” Preston Hollow CEO Jim Thompson said. “This is, in essence, the very injustice that the vice chancellor exposed.”

fastinform.com

By Rachel Uda

July 21, 2020.

[Florida to Use Municipal Bonds to Boost Private Space-Launch Industry.](#)

The state of Florida is getting ready to utilize the issuance of municipal bonds in order to further its agenda of boosting the private space-launch industry. This throws the spotlight on fixed income investors who haven't yet allocated their exposure to municipal bond exchange-traded funds (ETFs).

Per a Bond Buyer report, “Gov. Ron DeSantis signed legislation in late June enabling Space Florida, the state’s aerospace economic development agency, to bypass approval from the governor and cabinet to issue revenue bonds for private companies pursuing capital projects. The bill’s sponsor, Sen. Tom Wright, R-New Smyrna Beach, said the law provides Space Florida with the same streamlined bonding process afforded to other governmental entities and will foster a more competitive marketplace for the state’s space industry.”

“Space Florida has done a tremendous job in attracting companies to our state,” Wright said in a statement. “From this bill’s passage, they will be able to conduct business and save costs for all involved parties, while ensuring the state of Florida is not on the hook when it comes to issuing bonds.”

“This legislation clarifies and simplifies the process for Space Florida to utilize its bonding authority to further grow the aerospace industrial capacity in Florida,” Ketcham said. “The financing tool kit of Space Florida is akin to a commercial enterprise as it is not backed by the full faith and credit of the State of Florida. This recent legislation removed potential ambiguity on that issue.”

ETF TRENDS

by BEN HERNANDEZ on JULY 16, 2020

The Bay Area's Transit Dilemma: Too Many Agencies, Not Enough Riders.

With budget gaps fraying a large and fragmented public transportation system, transit voices in San Francisco and Oakland push for a single regional operator.

As public transit agencies across the U.S. grapple with budget holes, safety concerns, and ongoing economic uncertainty, a number of policymakers, advocates and officials in the San Francisco Bay Area are calling for the region's numerous and disjointed systems to join together for better interoperability. Bus and rail operators must coordinate pandemic response plans and reduce barriers to access, or riders will suffer, they say.

"The Covid-19 crisis has laid bare the ways in which our current system puts modes in competition with each other—with serious consequences for access, equity, and the financial stability of the network," Laura Tolkoff, a regional planning policy director at the think tank SPUR, wrote in a letter to regional transportation leaders on Sunday. "The failure to coordinate service now could leave the Bay Area's riders with significantly degraded service and access."

Tolkoff's letter was addressed to the members of the Blue Ribbon Transit Recovery Task Force, a group of agency leaders, politicians, government officials and stakeholder representatives convened by the Metropolitan Transportation Commission to split up tranches of federal pandemic aid. The MTC—a regional authority charged with coordinating and allocating funding to transportation projects around the Bay—does not have authority to override or require agencies to plan or operate service in tandem with one other. With 27 transit agencies serving the region's 9 counties and 101 municipalities, lack of coordination is a real problem.

The fragmentation of Bay Area transit has long been a target of local complaints. Back in 1872, "Emperor" Joshua Abraham Norton, a local eccentric known for issuing pretend proclamations via newspaper, called for the immediate construction of underwater link between Oakland and San Francisco. Norton commanded the leaders of the two cities to "determine the practicability of a tunnel under water; and if found practicable, that said tunnel be forthwith built for a railroad communication."

More than a century later, the real-life Transbay Tube opened as the final segment of the original Bay Area Rapid Transit plan. But while BART provides rail service across a vast area, it is just one player on a crowded stage of transit providers and agencies. From large operators such as the San Francisco Municipal Transportation Agency, Alameda-Contra Costa Transit District, and Caltrain to much smaller ones such as the Golden Gate Transportation District and the Rio Vista Delta Breeze, each agency largely functions as an independent fiefdom, with its own planning, operations, and fare payment concerns. The Bay Area is unique in the U.S. for being a massive metropolitan area without one central transit operator, in contrast with the Metropolitan Transportation Authority in New York City, the Los Angeles County Metropolitan Transportation Authority, or Regional Transportation District in Denver.

That splintering creates problems for riders and taxpayers even under normal circumstances, advocates say. Complaints about afternoon SFMTA trains scheduled to arrive just minutes after a Caltrain departure at the adjacent station are common. A multibillion-dollar BART extension plan that has redundancies with a simultaneously planned Caltrain electrification has been a recent punching bag for local rail wonks.

"There's never been a better moment to reimagine this entire system."

Ian Griffiths, the policy director for Seamless Bay Area, a group that advocates for a regional transit merger, said that the pandemic is revealing new frictions, such as the SFMTA bus routes traveling near full capacity, while BART trains that are nearly empty run parallel underground.

“If an alien came to look at the Bay Area and saw those long trains running empty, they’d probably observe that it’s not very efficient,” he said. With ridership and sales tax revenues gutted amid the pandemic, “there’s never been a better moment to reimagine this entire system.”

Efforts by SPUR, Seamless, and other local policy and advocacy groups culminated earlier this year in AB 2057, a bill put forth by California State Assembly member David Chiu that sought to force transit agencies to improve interconnectivity, with efforts like discounted fare programs that work between systems, standardized wayfinding and real-time arrival signage, and a comprehensive system map. “Every agency has wanted to do these kinds of things, but the bill would finally require it,” Chiu said.

The bill would have also convened a task force for tackling harder things like coordinating route planning and considering a common set of bus and rail fares—all paving the way towards a centralized transit-planning authority.

The pandemic knocked AB 2057 off the state’s formal legislative docket in late April. But Chiu, Griffiths, and other advocates are continuing to push their vision while the region’s transit recovery task force splits up emergency transit funding from Congress and develops a cohesive public health plan. They’ve gained support among a few county supervisors and smaller-agency transit managers.

“We are faced with an opportunity that we haven’t had in all the years I’ve served on the commission, which is to look at how transit operates across the region,” Jim Spering, a Solano County Supervisor who is also chair of the task force, said at a virtual meeting in April.

But plenty of transit leaders warn that the devil is in the details. Jeffrey Tumlin, the executive director of the SFMTA, said that forcing big city transit agencies to cede their independent route planning authorities—in the absence of additional state or federal funding—would inevitably mean worsened service quality on systems like his, which is the largest in the Bay and serves 45% of the region’s transit riders. For example, if SFMTA bus arrivals had to match BART’s schedule, it would almost inevitably mean fewer buses for SFMTA passengers than what they have now. “Advocates are just not understanding the massive unintended consequences of their well-intentioned ideas,” he said.

Tumlin said that he and other agency heads recognize that they must work together, and that there are appropriate ways to coordinate, such as creating an official regional service map and helping passengers navigate stations and stops with more uniform and legible signage. State Senator Scott Wiener’s recent bill, which would remove environmental review requirements for simple transit and bike lane projects, is another way the entire Bay Area can speed transit improvements, he said.

Janice Li, a member of the Bay Area Rapid Transit Board of Directors, is conflicted. She said that she believes that advocacy for system integration is logical, and that eliminating certain redundancies could help transit agencies save money. At the same time, she worries about the effects on riders who are already reeling from the pandemic’s grave social and economic impacts.

“Communities of color are already facing evictions, police brutality and the inability to access employment,” she said. Given that those groups have disproportionately used public transit in the past and have continued to as essential workers through the pandemic, “pushing forward with dramatic changes” on transit could be yet another disruption in their lives.

Further complicating these challenges are the dramatic changes that the transit landscape has undergone in the past three months, and which continue to unfold. Virtually every agency in the country is dealing with massive budget shocks, but in the Bay Area that looks different for each fiefdom: Caltrain's ridership base of tech workers are still largely working from home, and it's now mulling shutdown. Meanwhile, SFMTA is continuing to transport tens of thousands of daily riders, but still faces \$568 million in revenue loss over the next four years.

While the vision of a "seamless" regional transit system was always supposed to be about providing better service for Bay Area transit riders, the harsh financial reality could mean fewer transit agencies, period—which could be counterproductive to the original goal, said Bob Allen, the director of policy and advocacy campaigns at Urban Habitat, a housing and transportation justice nonprofit that has urged network coordination.

"Consolidating and saving money doesn't mean transit is better or more equitable for riders," he said. "The goal should be to run more and better transit service."

But that leaves difficult questions for transit agencies across the region as leaders argue about how to fairly allocate resources, with limited emergency aid from Congress eventually set to expire.

"What are the answers? And who makes the answers?" Li asked. "Then the question of restructuring and governance reform also becomes, who lives and who dies? It feels kind of Hunger Games-y."

Bloomberg CityLab

By Laura Bliss

July 6, 2020, 7:01 AM PDT Corrected July 7, 2020, 10:18 AM PDT

[S&P Bulletin: New York City Fiscal 2021 Budget Reflects Caution Amid Uncertain Economic Recovery](#)

NEW YORK (S&P Global Ratings) July 7, 2020—S&P Global Ratings said today that New York City's \$88.2 billion fiscal 2021 adopted budget is balanced and reflects a reduction of \$4.6 billion, or nearly 5%, from the fiscal 2020 adopted budget, indicative of the ongoing revenue challenges stemming from the fragile economic recovery as well as uncertainty over further state aid reductions that could be implemented to shore up the state's financial position. Furthermore, we believe the unknown timing for a rebound in tourist activity could weigh on the revenue forecast, as the governor recently implemented a travel quarantine for visitors arriving from states with high infection rates while federal restrictions on arrivals from many foreign countries remain in place.

We believe the city's fiscal 2021 budget and June 2020 financial plan incorporate a cautious approach to recovery, including total private sector employment not returning to the precrisis peak until first-quarter 2023. It mirrors S&P Global Economics' forecast as identified in our report "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect, which indicated that although the recession may have reached bottom in May 2020, the lingering effects of COVID-19 will severely limit upside potential until an effective vaccine is widely available. Over the longer term, we will observe how various changes could affect the city's revenue sources, including how smaller real estate footprints by major corporations or continued net out-migration by individuals and families could initiate a negative feedback loop of declining property values and lower personal income tax revenue, potentially leading to service cuts. That

said, New York City has successfully diversified its corporate tax base with technology and other service sector companies. We believe that this, coupled with excellent universities, diverse entertainment offerings, and attractiveness as a leisure and business travel destination, will lead the city's economy to ultimately rebound, albeit potentially at a slower pace than that of other large cities.

Central to the budget negotiations and a key factor in adopting the budget is a \$1 billion reduction to the New York Police Department's budget, which consists of:

Shifting \$430 million in operating funds to youth and social services and \$537 million in capital funds primarily to the New York City Housing Authority;
Limiting overtime costs; and
Reducing headcount by 1,100 by canceling a cadet class.

The revision largely reflects the community unrest that led to a change in expenditure priorities. We believe policing practices could be modified in a way that reduces the social risk stemming from these protests. Furthermore, despite the acceleration in revenue loss from March to June to \$9 billion (affecting both fiscal years 2020 and 2021), the utilization of reserves remains the same with \$1.3 billion in fiscal 2020 and \$2.75 billion in fiscal 2021.

The June 2020 financial plan through 2024 reflects out-year budget gaps in fiscal years 2022 through 2024 at 4.4%, 3.1%, and 3.2%, sequentially, declining to 3.1%, 1.8%, and 1.9% of revenue net of contingency line items for the city's general and capital stabilization reserves equal to \$1.25 billion. Given the recurring personnel and agency expense savings, the projected gaps are smaller than those estimated with the April executive budget. The plan includes restoration of the general and capital stabilization reserves in the out-years as anticipated in the fiscal 2021 executive budget following near depletion in fiscal years 2020 and 2021.

This report does not constitute a rating action.

Howard Taps Bond Market Most Black Colleges Miss Out On.

- **University plans to sell \$215 million in debt on Thursday**
- **Marks first deal by historically Black college since pandemic**

When Howard University completes a \$215 million bond sale this week, it will become the first historically Black college to join in the unprecedented borrowing binge that has swept over U.S. markets.

American universities as a whole have been active participants in this frenzy, with more than 100 of them selling \$27 billion of bonds this year. But historically Black colleges and universities, known as HBCUs, have accounted for only \$147 million, or 0.5%, of that amount. And that came from a deal that Howard, which was founded in Washington, D.C., in 1867, did in February. The country's 100 other HBCUs have been left out.

By many measures, the cards are stacked against Black institutions. They tend to serve lower-income students, which makes their balance sheets less robust and their endowments smaller — the sorts of things that may limit prospective bond buyers. No Black institution cracks the top-100 richest schools in the country and HBCUs average \$15,000 per student in endowment funds, compared to \$410,000 for similar non-HBCU schools, according to a 2018 U.S. Government

Accountability Office report.

It is only now, months into the torrid bond-market rebound orchestrated by the Federal Reserve, that Howard's Chief Financial Officer Michael Masch is confident that investors are ready to buy the school's debt once again. Masch was forced to put a planned sale on hold in March, when the pandemic briefly caused the bond market to seize up, and has been waiting for the right moment to revive it ever since.

"There was just no market to go to," Masch said in an interview. "We just folded our tents and faded back into the night and waited until there would be a settling down of the credit markets."

The sale also marks the first debt offering by an HBCU since the police killing of George Floyd on May 25 sparked widespread protests and a broader national conversation about racism and systemic inequality in the U.S.

The heightened focus on such issues may lure in more buyers than normal and help push down the interest rate that Howard has to pay, bond analysts say, but that will ultimately do little to address the financial difficulties that HBCUs face.

Serving underrepresented groups means that Black institutions have to chip in more for tuition for low-income students than peers, said Emily Wadhwani, an analyst for Fitch Ratings. Their endowments are much smaller as well, with the median endowment coming in at half that of a comparable predominantly white school, according to the 2018 GAO report. The combined endowment of all 101 HBCUs totals about \$3.86 billion, a tenth of Harvard University's endowment, according to an estimate by the United Negro College Fund.

This financial picture is not one that's rewarded by Wall Street. As a result, even a top-tier HBCU like Howard carries a low investment grade credit rating, despite receiving more than \$200 million in direct aid annually from the federal government. Most of the universities that tapped the muni market since the sell-off in March have been in the highest rating tier.

For lower-rated issuers, it costs more to borrow because investors require higher yields to make up for owning riskier bonds. And HBCUs have to contend with racial bias on Wall Street, according to a 2018 academic study that found they pay higher fees than peer schools even when accounting for credit quality, maturity and the size of the deal.

Bill Mayew, a professor of accounting at Duke University and one of the original authors of the 2018 report, said that two years later, such bias likely still exists though he hasn't done an updated analysis. There is "no reason to suspect any difference in how the market operates," he said.

"Their resources that they have on hand via a foundation or cash endowments, are often, not always, but often smaller than their peers," said Fitch's Wadhwani, who analyzes higher education credits. "How well they fundraise and how long they've been around — all of those things are frequently weaker than those of their greater peers."

The Howard deal has underlying ratings one notch above junk by S&P Global Ratings and Fitch. The taxable offering is scheduled to price Thursday, in a negotiated sale managed by Barclays Plc and Loop Capital Markets. The bonds are expected to carry Assured Guaranty Municipal Corp. insurance, and proceeds will be used to refinance higher yielding debt sold in 2011.

Howard, named for Civil War hero General Oliver O. Howard, head of the post-Civil War Freedman's Bureau, has awarded more than 100,000 degrees. The university is made up of 13 schools and colleges and hosts a leading research library on African American history. Howard's alumni include

California Senator Kamala Harris, Supreme Court Justice Thurgood Marshall and novelist Toni Morrison.

The timing of Howard's bond sale during a national reckoning around racial inequality may draw more demand and new buyers to the deal. Clients have been asking about ways they can invest in minority communities, said Ron Homer, head of impact strategy at RBC Global Asset Management.

And investing in HBCUs checks the boxes for impact investment strategies, said Eric Glass, a portfolio manager at AllianceBernstein. "There's no better social investment within the education space in my opinion," he said. Glass said he participated in Howard's February sale, receiving a smaller allocation than he wanted because the deal was "incredibly" oversubscribed.

That interest is already beginning to be reflected on the fundraising side, where HBCUs have lagged historically, according to Michael Lomax, chief executive officer and president of the United Negro College Fund.

In June, Netflix CEO Reed Hastings and Patty Quillan donated \$120 million to the UNCF, Spelman College and Morehouse College, the largest individual gift for scholarships at HBCUs ever. Public funding for HBCUs has seen some increased support even amid other pandemic-induced spending cuts. In Florida, Governor Ron DeSantis set aside \$123 million in the budget for the state's historically Black institutions, including \$17 million for Bethune-Cookman University, which has been grappling with major financial challenges. And HBCUs received \$577 million from the federal stimulus package in April.

The Netflix donation is a breakthrough, but it will take more than a one-time donation to push these schools forward, Lomax said. "This is a community which has received significant gifts but is generally speaking not the beneficiary of the same level of philanthropy as their white peers."

Still, the Howard sale doesn't appear to be the prelude to an HBCU bond boom. There are no other such deals on the calendar so far, according to data compiled by Bloomberg. Howard plans to come to market again this year, its first new money issuance since 2011, to finance a steam distribution center, said Masch.

But even as the market continues to favor borrowers, HBCUs simply don't have the financial profile to come to market and take advantage in the way other, richer institutions can, he said.

"If you have a lot of cash around and a pretty robust income portfolio which is not tuition dependent — the bond markets are going to view your ability to repay your debt favorably," Masch said. "It's a great opportunity if you have the cash."

Bloomberg Markets

By Danielle Moran and Fola Akininbi

July 7, 2020, 9:35 AM PDT

— *With assistance by Janet Lorin*

[S&P Bulletin: Michigan's 2020 Budget Agreement Is Not Expected To](#)

Materially Affect Most Schools, Despite Aid Cuts

NEW YORK (S&P Global Ratings) July 8, 2020—On June 29, Michigan’s governor and legislature reached an agreement to balance the state’s 2020 budget for the fiscal year ending Sept. 30. We believe this agreement, which includes a \$256 million reduction in per-pupil state aid, does not pose immediate fiscal pressure for most public schools, including locally governed school districts as well as charter schools. This is primarily because the state will be allocating \$530 million in federal CARES (Coronavirus Aid, Relief, and Economic Security) Act funding for COVID-19 related expenses that schools have or will incur as they prepare for the 2020-2021 academic year. Our understanding is that this funding will function as a grant to schools to offset related expenses. And while the exact timing and allocation of funds is still uncertain, it affords flexibility as the federal funding can provide relief for COVID-related expenses that may have otherwise been supported by state aid.

The \$256 million state aid reduction translates to a \$175 per-pupil, or 23%, cut in the August 2020 disbursement to schools, which equates to a 2% cut to the total fiscal 2020 foundation allowance. The August payment is the last payment of the state’s fiscal year, as funding is distributed to schools from October through August in equal increments. S&P Global Ratings maintains public ratings on 317 school districts and 28 charter schools in Michigan, with median enrollment of 1,985 and 811, equating to a median cut of \$347,000 and \$142,000, respectively. The state has not released new information regarding fiscal 2021 funding since its May revenue estimating conference, at which time it projected a \$3 billion budget shortfall, with more than two-thirds of its funding derived from sales and income taxes. We expect more clarity in the coming months as budget deliberations continue for the fiscal year beginning Oct. 1. In our view, as state aid is a major revenue source for charter schools and most school districts, Michigan schools will face increased credit pressure should state aid cuts increase in magnitude in fiscal 2021, especially if they are not offset by additional relief funding. This stress would be heightened for those schools with a greater reliance on state funding, low liquidity, or already limited operations, such as many of our rated Michigan charter schools which have a weaker ratings distribution compared to the sector as a whole. For more information on Michigan charter schools, see our “Charter School Brief: Michigan,” published May 17, 2019, on RatingsDirect.

In anticipation of possible cuts, school districts and charter schools across the state have already begun adjusting their budgets, focusing on staffing plans and expense flexibility. In our view, these decisions will be key to maintaining credit quality. Those that have already taken action will be better prepared for the August reduction and possible further cuts. Many schools annually issue state aid anticipation notes in July and August (and in particular through the Michigan Finance Authority borrowing pool), which should help weather potential cash flow disruptions. We expect the number of borrowers and sizing of borrowings could increase, in anticipation of further cuts. While the pandemic has resulted in certain expense savings from facilities being closed and federal relief provides near-term support, we expect increased costs associated with preparing to reopen in the fall will place a greater burden on schools’ fiscal 2021 expenses. In addition, we believe enrollment trends could also fluctuate for individual schools given uncertainty around modes of instruction, which would have a direct impact on revenues and operations. We expect to monitor state aid updates closely in the coming months and evaluate each school’s operating flexibility, liquidity cushion, and ability to make necessary expense adjustments in response to any further funding cuts.

This report does not constitute a rating action.

Riskier Bet: Why CalPERS, the Country's Largest Pension Fund, is Getting into Banking.

IN SUMMARY

How does the nation's biggest public pension system pay down its debts amid a global economic collapse? One idea: Become a banker.

Retired DMV clerks, former firefighters and aging government bean-counters across California, put on your three piece suits: You might be getting into the banking business.

The California Public Employees' Retirement System, which manages a nearly \$400 billion basket of nest eggs for retired public workers across the state, is wading into the rollicking market for private debt.

It used to be that lending directly to small and medium-sized companies not traded on public stock exchanges was the business of big banks. But after the financial crisis of 2008, those traditional lenders were forced to park their money into less risky ventures. And that left behind a financial vacuum into which "shadow bankers" such as private equity financiers have been rushing ever since.

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CALMATTERS.ORG

BY BEN CHRISTOPHER

JULY 9, 2020

California 'Wall of Debt' Returns as State Bets on Federal Aid.

- **Budget for next year depends on deferred payments to close gap**
- **Coined by Jerry Brown, last 'wall of debt' took years to end**

California's "wall of debt" is returning.

Former Governor Jerry Brown coined that term in May 2011 as he pushed for an extension of tax increases to chip away at the mounting burden from payment deferrals, internal borrowing and bonds sold to keep the state afloat in a previous fiscal crisis. It took until this year for the last block of the wall to disappear.

In the face of a \$54.3 billion two-year deficit driven by the coronavirus pandemic, the \$133.9 billion budget for the fiscal year beginning Wednesday will start to build that wall up again. It defers \$12.9 billion in payments to schools and community colleges and borrows \$9.3 billion from other funds to avoid steep cuts in the hope that Washington will send additional aid by October.

The blueprint that current Governor Gavin Newsom signed Monday entails some upfront pain. The state's two higher-education systems will lose about \$1 billion combined and \$2.8 billion will be slashed from state employee compensation, which would be made up if the federal rescue happens. But the approach to put off cuts to protect residents most in need from the unprecedented crisis risks erecting a debt burden that may take years to dissipate.

"I would expect that California will develop another wall of debt as it tries to solve this budget gap," said Jennifer Johnston, vice president and research analyst for Franklin Templeton Investments. "The question is just how excessive do they get?"

More Aid

California joins other states raiding reserves and counting on hypothetical federal dollars to deal with the pandemic-induced downturn that has already resulted in the loss of more state and local jobs than were seen in the previous recession. States and cities will need \$500 billion in additional federal aid over the next two years to avoid major economic damage, Moody's Analytics said in a report released last week.

"Nearly overnight, the revenue drop from the Covid-19 recession knocked the constitutional level of school spending more than \$10 billion below where it was in last year's budget," said H.D. Palmer, a spokesperson for Newsom's finance department, who added that the K-12 spending deferrals are "to avoid significant reductions to school spending at this critical time."

"Up to \$5.7 billion of these deferrals can be eliminated if the federal government provides the state with additional fiscal relief - funding the governor will continue fighting for," Palmer said.

A Democrat-backed bill that would give states and cities about \$1 trillion has stalled in Congress. Still, many municipal credit analysts believe a round of stimulus will come considering the dire consequences without one.

Citi Backs Big-Government Solutions to Avert State Fiscal Crisis

"It makes sense that they don't want to make drastic cuts to schools if they're going to get additional aid from the federal government," said John Ceffalio, municipal credit research analyst at AllianceBernstein, referring to California. "It's not ideal, but it's understandable."

Brown, who left office in 2019, blasted what he called California's "wall of debt" after the state deferred payments and used accounting gimmicks leading to nearly \$35 billion of budgetary borrowing as of May 2011, according to state documents.

While the coming year's spending plan doesn't include deficit borrowing, the general fund is supported by loans from state departments and special accounts, such as a \$500 million loan from the underground storage tank cleanup fund, \$107 million from the labor and workforce development fund, and \$77.7 million from Department of General Services, budget documents show.

Budget Compromise

The deal struck by Newsom and Democratic legislative leaders reflects a compromise between the governor's May budget that called for immediate expense reductions in July absent \$14 billion in federal aid and the lawmakers' framework that triggered cuts only in October if Congress fails to pass a rescue package. They had to balance a \$13.4 billion deficit this year and \$40.9 billion in the next.

Under the agreement, should the federal government come through with \$14 billion by October 15, the dollars will flow to priorities such as paying off the school deferrals. Officials will also draw down the state's \$16 billion rainy day fund by about half in the year starting Wednesday.

"Now is not the time to slash services, especially when Californians need their government the most," Assembly budget chair Phil Ting said in statement Friday after the budget's passage. "We

learned from the Great Recession that deep cuts can prolong economic recovery and have no desire to repeat that.”

Franklin Templeton’s Johnston said she hopes that California’s leaders will return to the fiscal practices that helped propel the state’s standing among investors, while they grapple with the current uncertainty wreaked by the pandemic.

“That’s one difference about the way Covid has impacted state and local governments versus any recession. There was no gradual easing into it,” Johnston said. “It’s hard to model, and I think everybody is trying to figure out the rules as we go along.”

Bloomberg Markets

By Romy Varghese

June 30, 2020, 6:00 AM PDT

[Chicago’s Pension Debt Soared \\$1.7B in 2019: City Analysis](#)

Chicago’s pension debt soared by approximately \$1.7 billion in 2019, according to the [city’s audited annual financial report](#) released Thursday.

In all, Chicago owes \$31.79 billion to its four employee pension funds representing police officers, firefighters, municipal employees and laborers, according to the 2019 Certified Annual Financial Report. That is an increase of nearly 5.6% from 2018, according to the report.

Chief Financial Officer Jennie Huang Bennett said that growth was “not surprising” because the city was not required in 2019 — the last full year of Mayor Rahm Emanuel’s tenure — to contribute to its pension funds based on actuarial estimates. That requirement, which took effect in 2020, has helped balloon the city’s deficit.

That law is designed to force the city’s pensions to be funded at a 90% level by 2045, to ensure that funds can pay benefits to employees as they retire.

The city made no significant progress toward that goal in 2019, with the laborers’ and firefighters’ pension funds funding level rising slightly and the police officers’ and municipal employees’ funds funding level flat, as compared with 2018, according to the report.

The firefighters’ fund has the lowest funded level of the four funds at 17%, according to the report.

The laborer’s fund has the highest funded level of the four funds at 43%, according to the report.

The city’s 2020 budget called for the city to contribute \$1.68 billion to its four pension funds, city records show.

The city ended the year with \$185 million in cash on hand, an increase of \$23 million from the end of the 2018 fiscal year, officials said. In addition, the city ended 2019 with a \$4 million surplus in its general fund, which it uses to pay for most city services, according to the report.

That allowed the city to add \$10 million to its long-term reserves, Huang Bennett said.

The audit provides a snapshot of the city's finances before the coronavirus pandemic hit, causing a financial catastrophe and blowing a \$700 million hole in the city's 2020 budget.

Huang Bennett told reporters Thursday that the city's finance team had not seen anything to suggest that the shortfall has grown since Mayor Lori Lightfoot detailed the gap on June 9.

The city's 2020 budget forecast, released in August 2019, warned that the city's annual budget deficit could swell to \$1.6 billion in 2021 if the economy fell into a recession. Federal data shows a recession began in February, as the pandemic sickened tens of thousands of Americans.

wttw.com

Heather Cherone | July 2, 2020 4:20 pm

[Largest Public-Private Partnership Social Infrastructure Project In U.S. History Completed At UC Merced.](#)

MERCED, Calif., June 22, 2020 /PRNewswire/ — After four years, a coalition of organizations has completed the largest public-private partnership (P3) social infrastructure project in U.S. history. The 1.2-million-gross-square-foot campus expansion, known as UC Merced 2020, was officially delivered to the University on June 1.

"This project will enable UC's newest and fastest-growing campus to serve up to 10,000 students and increase access to the exceptional research, teaching, and public service opportunities provided by the most respected public university system in the world," says Nathan Brostrom, UC Merced's Interim Chancellor.

The \$1.3 billion project includes student housing, classrooms, teaching and research space, student wellness and counseling facilities, and recreational spaces. Delivery occurred in three phases, beginning in mid-July 2018, with the second phase finished in mid-2019.

The P3 development team, which banded together under the banner of Plenary Properties Merced (PPM), was led by developer and equity provider Plenary in partnership with Webcor; Skidmore, Owings & Merrill LLP, the lead campus planner; and Johnson Controls Inc, which is responsible for operations and maintenance.

Proving the Viability of the P3 Model

Public-private partnerships are collaborations between a government entity and private-sector companies to design, build, finance, operate, and maintain projects, allowing the project to be completed on time or ahead of schedule and typically for a lower cost than would have been possible if the project was developed in a more traditional manner.

"The project was conceived as a design, build, finance, operate, and maintain (DBFOM) project," says Webcor Chief Operations Officer Matt Rossie. "The University provided a vision. The Plenary Properties Merced team turned the vision into designs, procured subcontractors, installed the infrastructure, constructed the buildings, and commissioned the building systems - all in less than four years."

"Because of the DBFOM delivery method, everything was designed and built with long-term

maintenance, operations, and energy costs factored into the equation, resulting in a project that has been holistically designed and built to provide long-term value,” Rossie adds.

“The project’s on-time completion significantly improved UC Merced’s response to the novel coronavirus pandemic,” Interim Chancellor Brostrom says. “The additional space we have opened on campus will be critical in ensuring that we could comply with social distancing requirements while still serving our students who remained on campus. We are grateful for these partnerships.”

“We appreciate the contributions of all who have had a hand in this accomplishment and we look forward to making sure these new facilities perform to the highest standards and serve the needs of current and future generations of UC Merced students, faculty and administrators,” says Dale Bonner, executive chairman of Plenary Concessions.

“This on-time, on-budget completion of the 2020 Project shows that incredible things can happen when all stakeholders work together with a true spirit of partnership,” adds Bonner.

Overcoming Obstacles

The myriad obstacles the P3 team overcame made the project’s on-time and on-budget completion particularly noteworthy. “This team persevered through floods, wildfires, and a pandemic. They respected their client and the community. They never lost sight of their obligation to deliver this project on time and on budget,” says Rossie. “We all believed in the purpose of the project: building an institution of higher learning that would benefit the residents of the Central Valley and further the futures of young people.”

The project team committed to the local community by locally sourcing workers and ensuring the community benefited from the UC’s investment in Merced. In addition to purchasing locally, project leaders staffed 82 percent of the field labor with local San Joaquin Valley residents. Hundreds of apprentices, who worked a total of nearly 800,000 hours, gained training and experience that will serve as the foundation of future lucrative and successful careers in the construction industry.

Team members were also actively engaged in local volunteer opportunities, from fundraisers and parades to building sets for a local high school play.

The Model of the Future

Public-private partnerships have traditionally been employed for transportation projects. “UC Merced 2020 proves that the P3 model is a highly advantageous way to build social infrastructure projects, as well,” Rossie says. “The project has demonstrated what Webcor’s approach of transparency, collaboration, and partnership with our clients and subcontractor partners can achieve, and sets the stage for future projects to take advantage of the same formula to deliver social infrastructure projects with speed, efficiency, and quality.”

The UC Merced 2020 project has been recognized with numerous awards, including the 2017 Infrastructure Journal Global Award, a 2016 P3 Award, a Public Sector Champion Award from the Performance-Based Building Coalition, and a 2017 award for P3 Social Infrastructure Project of the Year.

About Webcor

Webcor is a premier provider of commercial construction services, known for its innovative and efficient approach, wide range of experience, cost-effective design-build methodology, skill in concrete construction and expertise in building landmark projects. Webcor’s mission is to build

structures of superior quality with integrity, continuously improve its processes by employing the best talent in the industry, and add social and economic value to its communities. Founded in 1971 and repeatedly honored as one of the Greenest Builders in California, Healthiest Employers, Top Corporate Philanthropists, Best Places to Work and Largest California Construction Firms, Webcor has offices throughout the state in San Francisco, Alameda, San Jose and Los Angeles. More information is available on the Webcor website and on LinkedIn, Facebook, Twitter and Instagram.

About Plenary

Plenary (previously as “Plenary Group” and now developing and maintaining PPP investments as “Plenary Americas” following its acquisition by Caisse de dépôt et placement du Québec) is North America’s leading long-term investor, developer and operator of public infrastructure. With a reputation built on having delivered diverse and challenging privately-financed public infrastructure projects, Plenary prides itself on innovation and delivering first-class infrastructure on-time and on-budget. Plenary’s project portfolio of \$16 billion across both the United States and Canada includes 50 projects in the health, transportation, defense, justice, education and government accommodation sectors. Plenary is recognized for its holistic approach to delivering projects – embracing finance, planning, design and construction, complementary commercial development, asset management and operations. Learn more at www.plenarygroup.com or @PlenaryAmericas on Instagram and LinkedIn.

About UC Merced

UC Merced opened in 2005 as the newest member of the University of California system, and is the youngest university to earn a Carnegie research classification. The fastest-growing public university in the nation, UC Merced enjoys a special connection with nearby Yosemite National Park, is on the cutting edge of sustainability in campus construction and design, and supports high-achieving and dedicated students from the underserved San Joaquin Valley and throughout California. The Merced 2020 Project, a \$1.3 billion public-private partnership that is unprecedented in higher education, will nearly double the physical capacity of the campus and support enrollment growth to 10,000 students.

[S&P: Missouri School Districts' Liquidity And Reserves Should Provide Near-Term Cushion Against Funding Cuts](#)

Key Takeaways

- Missouri’s most recent round of expenditure restrictions will likely weaken fiscal 2020 operating performance for many school districts.
- Nonetheless, we believe that most of our rated Missouri school districts carry sufficient reserves and liquidity to finish the fiscal year without material cash flow pressures.
- State aid funding for 2021 remains uncertain and could pose credit pressure depending on the depth and timing of cuts, with potential midyear and year-end cuts reducing time to adjust operations.
- Missouri’s year-end budget cuts will likely mean weaker operating performance for state school districts, but S&P Global Ratings believes that most districts should avoid major cash flow issues on the strength of their reserves and liquidity.

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