

Pension Funding Weakens for 4th Year in Row

BY MICHAEL MCDONALD

Funding for U.S. state retirement plans fell for a fourth straight year as insufficient contributions and inadequate investment gains overwhelmed cuts that more than 40 legislatures have made to benefits since 2007.

The median funding ratio was 71.7 percent for the year through June 2011, down from 74.3 percent the prior period, data compiled by Bloomberg show. Taxpayers in Illinois, the weakest of the group at 43.4 percent, are paying the price: the relative borrowing cost of the state and its localities is almost double the five-year average.

More than 30 states, including New Jersey and California, had less than 80 percent of assets needed to meet obligations.

That left them short of the threshold for sustainability of their plans.

"A lot of the states have done the easiest stuff first," **Christopher Mier**, chief municipal strategist at Loop Capital Markets in Chicago, said regarding benefit cuts. "From there it gets progressively more difficult."

The funding drop shows the challenge states face trying to recover from investment losses suffered during the recession. The Standard & Poor's 500 Index sank 38.5 percent in 2008, the most since 1937.

Lawmakers have lifted retirement ages, forced workers to contribute more to plans and suspended cost-of-living increases. Yet more than 30 states still

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Christie Orders Newark Cuts

BY TERENCE DOPP AND ELISE YOUNG

New Jersey Governor **Chris Christie** said his administration will order spending cuts in Newark as the state's largest city starts its 10th month without a budget.

Christie told reporters yesterday that it is "ridiculous" that the city of about 277,000 people, 12 miles west of Manhattan, hasn't approved a plan for the year that began Jan. 1. Newark will have to agree to unspecified cuts if it wants state aid to balance its budget, Christie said.

Newark Mayor **Cory Booker**, 43, proposed a spending plan in February. The City Council hasn't approved it.

"Saying they're late is like being kind," Christie, a 50-year-old Republican, said after touring a hospital in Flemington. "We are looking very carefully at this budget and

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BLOOMBERG BAROMETER

BENCHMARK STATES 5-YEAR CDS

STATE	THIS WEEK	LAST WEEK	CHANGE(BPS)
California	194	196	-2
Florida	93	95	-2
Illinois	204	206	-2
New York	87	99	-12
Pennsylvania	112	117	-5
Texas	67	69	-2
Wisconsin	86	89	-3

Source: CMA

IN THE PIPELINE

MUNICIPALITY	AMOUNT
Montgomery County MD	\$318 million GO
South Carolina Transportation	\$432 million Rev
Los Angeles DWAP	\$650 million Rev
Mississippi Development	\$163 million Rev
San Antonio TX	\$520 million Rev
Wilson County TN	\$80 million GO

BLOOMBERG VALUATION AAA BENCHMARK YIELDS

DESCRIPTION	CURRENT	PREVIOUS	NET CHANGE
BVAL 1Y	0.20	0.20	0
BVAL 2Y	0.28	0.28	0
BVAL 3Y	0.35	0.36	-0.01
BVAL 4Y	0.47	0.49	-0.02
BVAL 5Y	0.63	0.63	0
BVAL 6Y	0.83	0.88	-0.05
BVAL 7Y	1.11	1.11	0
BVAL 8Y	1.34	1.34	0
BVAL 9Y	1.52	1.54	-0.02
BVAL 10Y	1.69	1.71	-0.02
BVAL 20Y	2.56	2.55	0
BVAL 30Y	2.89	2.89	0

VOLUME

NEW SUPPLY	SOLD YTD	TRADED	OFFERINGS
30-DAY	\$207.4 Bln (Neg Fixed LT)	\$12.4 Bln	\$11.1 Bln
\$11.1 Bln LT (Fixed LT)	\$58 Bln (Comp Fixed LT)	(MSRB)	(Bloomberg Pick)
\$429 Mln ST (Fixed ST)	\$51.1 Bln (Fixed ST)	↓ 4%	↑ 0.6%

VARIABLE RATE (VRDOs)

WEEKLY AAA RATE	0.176%
WEEKLY AA RATE	0.190%
DAILY RESET INVENTORY	\$1.1 Bln ↑ 151%
WEEKLY RESET INVENTORY	\$2.2 Bln ↓ 29%

Available VRDO/TOB inventory offered by remarketing agents for cash settlement

NEWARK...

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I'm unsatisfied with the efforts of this administration and the city council to cut back that budget."

Newark has been in decline for decades. In 1967, 26 people were killed and 725 injured during six days of race riots. The city, which has lost more than a third of its population since the 1930s, has the 10th-highest poverty rate among major U.S. municipalities. It also suffers from persistent crime.

The state gave Newark a \$32 million loan last year and the city ended the year with an \$18 million surplus, Christie said. Newark has again asked for \$24 million, and Christie said he doubts it needs that much. The governor said he expects to reach an agreement with city leaders on a financial-aid package.

"Last year I stepped up, the state did, and gave them a \$32 million loan," he said. "What did I find this year? They had an \$18 million surplus from last year on my \$32 million loan, OK? Fool me once, shame on you. Fool me twice, shame on me."

Booker, a Rhodes Scholar and Yale-educated lawyer, became mayor in July 2006 and is midway through his second four-year term. He has pledged to turn Newark around by luring investment and reducing crime.

In 2010, Booker faced an \$83 million deficit in a \$605 million budget as the recession cut revenue and Christie reduced aid to towns and cities. Booker raised property taxes 16 percent, sold 16 city-owned buildings and eliminated about 800 jobs, including 167 police officers.

Newark's 2012 application for transitional aid, which helps cities in financial distress, cited a structural deficit, increased pension and health-care costs and a reliance on non-recurring revenue from a settlement with the Port Authority of New York and New Jersey. Booker's spending plan called for a \$10 million cut in departmental expenses, to \$327 million.

PENSIONS...

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failed to deposit enough into their systems last year as they struggled to balance budgets, according to Mier.

"If they had been diligently making their contributions there wouldn't have been this crisis," said **David Draine**, a senior researcher in Washington at the Pew Center on the States. "It's the states that came into the recession with poorly funded plans and a history of failing to make sufficient contributions that were already in a very vulnerable spot."

Estimates of states' combined pension deficit have ranged from \$1 trillion to as much as \$4 trillion as lawmakers and regulators debate the appropriate rate for discounting liabilities. The Governmental Accounting Standards Board has adopted new rules that could swell the gaps.

Funding levels are falling as lawmakers cave to pressure to lower assumed rates of return amid volatility in performance.

New York, which has consistently made its actuarially required payments, had less than 100 percent of the assets it needed in 2011 after lowering its rate to 7.5 percent from 8 percent. The California Public Employees' Retirement System, the largest public pension fund with \$244 billion of assets, voted in March to cut its rate to 7.5 percent from 7.75 percent. The fund earned 1 percent in the year ended June 30, after gaining 21 percent the year before.

While corporate plans have been cutting equities in favor of fixed-income, public funds have done the opposite. They've increased stocks to nearly 70 percent of portfolios on average over the last decade as they seek higher returns, according to the Center for Retirement Research at Boston College. State systems are also boosting stakes in alternatives such as hedge funds, Cliffwater LLC, an investment advisory firm with offices in New York and Los Angeles, said in a June report.

"They are essentially doubling down to earn their way out of this problem and it's not working," said **Kimberlee Lisella**, vice president of customized strategies at Cutwater Asset Management Corp., which oversees \$32 billion. "These strategies have had mediocre returns at best and the volatility has been off the charts."

Illinois lawmakers in August failed to act on a cost-cutting pension overhaul, ending a one-day legislative session called by

Democratic Governor **Pat Quinn**.

The Democratic-controlled legislature considered increasing employee contributions, passing some costs to local school districts, and forcing workers to choose between the current system and receiving free retirement health care. None won majority support.

Standard & Poor's in August cut Illinois's rating to A, citing "weak pension funding levels and lack of action on reform measures." New Jersey had its grade dropped by the three major credit raters last year, in part because of its unfunded liability.

Investors demand about 1.5 percentage points of extra yield to own 10-year GOs from Illinois issuers rather than AAA securities, compared with a five-year average of 0.88 percentage point.

"We all look like idiots," Representative **Daniel Biss**, an Evanston, Illinois, Democrat, said in a speech in August as the House failed to advance a bill that would have eliminated the legislature's own pension plan, one of five the state manages.

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DIARY

New York's JPM Suit Called 'Template'

JPMorgan Chase & Co.'s rivals may face government lawsuits claiming tens of billions of dollars in damages tied to investor losses on mortgage bonds after New York's attorney general filed a fraud lawsuit against the nation's biggest bank by assets.

A state-federal task force set up this year to investigate misconduct in the bundling of mortgage loans into securities will bring other cases, according to New York Attorney General **Eric Schneiderman**. Investor losses in the JPMorgan case alone will be "substantially more" than the \$22.5 billion cited in his complaint, he said.

"We do expect this to be a matter of very significant liability, and there are others to come that will also reflect the same quantum of damages," Schneiderman said in an interview yesterday with Bloomberg Television's **Erik Schatzker**. "We're looking at tens of billions of dollars, not just by one institution, but by quite a few."

Schneiderman alleged that the Bear Stearns business that JPMorgan took over in 2008 deceived mortgage-bond investors about defective loans backing securities they bought. Bear Stearns "systematically failed" to evaluate loans, ignored defects uncovered and "kept investors in the dark" about review procedures and problems with the loans.

The Bear Stearns mortgage unit packaged \$212 billion in

mortgage bonds from 2003 through 2006, according to the state's complaint. Losses on \$87 billion of those bonds packaged during two of those years total \$22.5 billion so far, it estimated.

The case targets mortgage securitizations between 2005 and 2007 involving Alt A and subprime mortgages, Schneiderman said in a conference call with reporters. It will take further investigation to determine the full extent of the losses.

"There are further losses being incurred," according to Schneiderman, who called the case a "template" for cases against other issuers of mortgage securities.

New York will use at least some of the money it collects from the suits to reimburse investors, Schneiderman said.

"The investors who were defrauded deserve to get money back," he said. "I don't think there's any dispute about that. This is a matter of doing justice. If anything, most folks in the U.S. think there were too few strings on the banks that were the recipients of the bailout and the recipients of taxpayer-backed loans."

Joe Evangelisti, a JPMorgan spokesman, said the New York-based bank would contest the state's complaint, which is "entirely about" conduct by Bear Stearns. JPMorgan acquired Bear Stearns in March 2008 after a run on what was then Wall Street's fifth-largest securities firm.

— David McLaughlin

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ACCORDING TO

BlackRock's Fink Sees Robust Recovery

■ BlackRock Inc.'s **Laurence D. Fink**, who has been trying to persuade retail investors to get out of cash, said the U.S. is about a year away from having a more robust economy. "When you talk about macro issues in the U.S., our banking system is far better than most banking systems and our housing crisis is 90 percent behind us," Fink, chairman and chief executive officer of the world's largest asset manager, said in an Oct. 1 interview from his New York office. Fink has been urging investors for more than a year to buy equities as the U.S. economy expanded and the stock market rallied. BlackRock today started the third phase of a five-year branding campaign, with a series of advertisements telling savers to get out of cash and low-yielding bonds and suggesting they put money in high-quality stocks, exchange-traded funds and products that generate higher income. BlackRock, which Fink co-founded in 1988 and then built through a series of acquisitions into a \$3.56 trillion manager, is seeking to expand by attracting assets rather than making transformational deals. Fink has added top executives such as Philipp Hildebrand, the former head of the Swiss central bank, to help expand relationships with institutional clients overseas, and Linda Robinson, who joined as head of marketing and communications last year and oversees the branding campaign.

— Alexis Leonidis

MTA: No Return to 'Bad Old Days'

■ The New York Metropolitan Transportation Authority's overtime costs exceeded budget forecasts by a combined \$100 million in the past two years because of reduced staffing, storm-related emergencies and maintenance needs, according to state Comptroller **Thomas DiNapoli**. The comptroller, in a report on the agency's finances, also found that its debt service may reach \$3 billion by 2016, 41 percent higher than this year. Debt-service costs as a percentage of total revenue may rise to almost 20 percent by 2018 from 15.9 percent in 2011, even with biennial 7 percent fare and toll increases, the comptroller reported. Even so, the MTA's finances have stabilized because of increased ridership, lower energy and interest costs, and changes expected to save about \$1.1 billion a year by 2016, the report said. One risk stems from a court decision under appeal that struck down a payroll tax in counties served by MTA commuter trains, which officials expected to generate \$1.5 billion in 2012 and almost \$1.8 billion by 2016, DiNapoli said. "We know the debt service amounts to a significant amount of money and we've budgeted for it," said **Adam Lisberg**, an MTA spokesman. "If we didn't spend the money installing subway platform countdown clocks, replacing and modernizing signal switches and repairing rails, the system would go back to its bad old days. So we have to do the work, and increasingly such costs come from borrowing."

— Henry Goldman

TRADING

Most Active Bonds

DESCRIPTION	STATE	DATED	COUPON	MATURITY	VOLUME	PRICE AVERAGE	YIELD AVERAGE	NO. OF TRADES
Port Auth-174Th	NY	10/10/12	4.458	10/01/62	31,290,000	102.177	4.351	55
CA Var Purp	CA	12/01/05	4.750	03/01/35	23,245,000	105.665	2.987	39
Broward-Q1-Arpt	FL	09/27/12	4.000	10/01/42	16,850,000	100.867	3.894	203
CA St	CA	10/04/12	5.000	09/01/42	16,505,000	111.776	3.577	46
CA St	CA	10/04/12	4.000	09/01/37	12,725,000	102.070	3.748	51
CA Mun Fin-Var-Chevro	CA	11/12/10	-	11/01/35	11,700,000	100.000	-	12
Allegheny Hosp-W Penn	PA	06/19/07	5.375	11/15/40	10,005,000	76.359	7.381	16
Lower Neches Vly-Ref	TX	05/17/12	-	05/01/46	10,000,000	100.000	-	10
FL Boe-A-Ref	FL	03/06/12	3.000	06/01/23	9,170,000	106.157	2.214	17
Henry Cnty Wtr-Ref-A	GA	11/06/12	4.000	02/01/16	8,500,000	110.720	0.647	12
CA St-Var Purp-MBIA-B	CA	02/01/07	3.250	12/01/27	7,840,000	102.026	2.730	31
Washington Hgr Edu	WA	10/01/12	5.000	10/01/42	7,715,000	111.382	3.631	18
PR Infra-Ser B	PR	09/28/06	5.000	07/01/46	7,450,000	100.237	4.927	121
Cape Coral-Fsa-Cr	FL	11/06/06	5.000	10/01/36	7,140,000	110.599	2.209	11
NH H/E Var-B-Dartmout	NH	04/05/07	-	06/01/41	6,800,000	100.000	-	8

*Volume numbers treat trades >\$1MM as \$1MM due to MSRB reporting restrictions

RESULTS OF SALES

Long Term Bond Sales Results

SELLING DATE	ISSUE	STATE	RATING	AMT TAX (MM)	1 YEAR	5 YEAR	10 YEAR	20 YEAR	STATUS	TYPE	SENIOR MANAGER
10/01	New York City -A1	NY	Aa2/AA/AA	N 525.00	-	5.000/0.910	5.000/2.130	5.000/2.860	Repriced	Negt	JPMorgan Securities Llc
10/01	New York City -B	NY	Aa2/AA/AA	N 457.99	-	5.000/0.910	5.000/2.130	3.125/3.180	Repriced	Negt	JPMorgan Securities Llc
10/01	Harris Co Toll Rev-C -Ref	TX	/AA-/AA-	N 253.90	2.000/NRO	-	5.000/2.030	5.000/2.830	Repriced	Negt	Wells Fargo Bank N.A.
10/01	New York City -C	NY	Aa2/AA/AA	N 142.01	2.000/NRO	4.000/0.910	5.000/2.130	3.125/3.180	Repriced	Negt	JPMorgan Securities Llc
10/01	Pend Oreille Pud -Creb	WA	A3/ /A-	T 38.00	.834/100.000	2.417/100.000	3.921/100.000	-	Final	Negt	Seattle-Northwest Secs
10/01	Travis Co -Ref	TX	Aaa/AAA/	N 33.66	-	2.000/0.720	5.000/1.800	-	Final	Negt	First Southwest Company
10/01	Travis Cnty -Ref -Txbl	TX	Aaa/AAA/	T 21.68	.300/100.000	1.067/100.000	-	-	Priced	Negt	BOSC Inc
10/01	Fairview Pk -Ref	OH	Aa2/ /	N 20.59	2.000/0.480	2.000/1.110	4.000/2.370	-	Final	Negt	Huntington Investment Co
10/01	Northville Pub Schs -Ref	MI	/AA-/	N 20.56	-	4.000/1.220	5.000/2.500	-	Final	Negt	Stifel Nicolaus & Co Inc
10/01	Carmel First Mtg -Ref	IN	/AA+/	N 19.57	2.000/0.410	4.000/1.000	-	-	Final	Negt	City Securities Corp
10/01	Fairfield ULSD -Ref	OH	/AA/	Q 8.64	2.000/0.400	-	2.500/1.780	3.000/2.790	Final	Negt	Stifel Nicolaus & Co Inc
10/01	Pratt Cnty USD #382 -Ref	KS	/A+/	Q 8.55	2.000/0.500	2.000/1.000	2.000/1.800	-	Final	Negt	George K. Baum & Company
10/02 10:30	Pine Cnty	MN	/A-/	N 13.41	3.000/0.400	4.000/1.000	3.000/2.090	-	Awarded	Comp	Piper Jaffray Companies
10/02 11:00	Univ of Alabama -A	AL	Aa2/AA-/	N 265.66	-	5.000/0.750	5.000/NRO	3.000/NRO	Awarded	Comp	Wells Fargo Bank N.A.

*Ratings from Moody's/S&P/Fitch

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