Major Public Funding Sources to Reconnect Communities.

When the federal government invested billions of dollars in highways beginning in the 1950s, Black and lower-income neighborhoods across the country were razed or cut off from surrounding communities. Now, cities throughout the country are attempting to right those past wrongs and reconnect communities that were damaged by highway construction. To viably pursue equity goals within this redevelopment process, the voices of the residents who live in these neighborhoods must be raised. One organization attempting to do this is Hinge Neighbors, a community-led nonprofit based in Rochester, NY. This fact sheet provides a variety of resources to assist organizations like Hinge Neighbors in leveraging available funds to advance community redevelopment goals as highways are removed.

Download Report.

Urban Institute

by Christina Plerhoples Stacy, Yonah Freemark & Rebecca Dedert

June 9, 2022

The Big Debate Around Statehouses: What to Do With Budget Surpluses

States had another year of exceptional revenue growth driven by a number of factors, but the conversation around how to reward taxpayers is complicated.

Welcome back to another edition of *Route Fifty's Public Finance Update*! I'm Liz Farmer and this week I'm looking at the major themes in the upcoming state budgets. In the last post-recession era, passing a budget was a harrowing balancing act between cutting services or raising taxes and fees. Deficits were an annual occurrence in a number of places and the federal government largely left states alone to figure it out.

Not so this time around.

This newsletter looks at what states are doing with their surpluses and why—in at least one state—getting a budget passed before the July 1 fiscal year start is still going to be a nail-biter. As always, send feedback and tips to: publicfinanceupdate@routefifty.com.

Continue reading.

Route Fifty

By Liz Farmer

JUNE 7, 2022

[Are States and Localities Wasting Their ARPA Funds? Some in Congress Want to Know.]

The Treasury Department is not monitoring if governments are using the recovery money properly, Republican senators charge. They are asking the Government Accounting Office to investigate.

Senate Republicans are concerned that some of the $350 billion in American Rescue Plan Act funds for states and local governments is being wasted, and this week, they asked the Government Accounting Office to investigate.

Fourteen Republicans on the Senate Finance Committee wrote the GAO saying there has not been enough congressional oversight of how the money is being used, and that the Treasury Department hasn't made available detailed information as to whether states and localities are properly reporting how they're using the money.

The lawmakers cited a Fortune report that said some of the ARPA money is going for "questionable uses," including: $12 million for renovations of a minor league baseball stadium; $5 million for paying off debts of the Edward M. Kennedy Institute for the U.S. Senate; $70 million for tourism marketing in Puerto Rico; $6.6 million to replace irrigation systems at two golf courses; $2.5 million to hire new parking enforcement officers in Washington, D.C.; and $2 million for a county to help purchase a privately owned ski area.

Continue reading.

Route Fifty

By Kery Murakami

JUNE 9, 2022

Defining Distress: Lessons from the Federally Chartered Regional Commissions

Widening geographic inequality in the United States has shifted federal policymakers' attention to investing in "places" as well as "people." On his first day in office, President Biden signed an executive order prioritizing support for underserved communities, including those in rural areas.

For each of the three active federally chartered regional commissions that serve more than one state—the Appalachian Regional Commission, Delta Regional Authority, and Northern Border Regional Commission—the authorizing legislation explicitly requires the commission to assess annually which places within their service area can be classified as "distressed," and to spend at least half, but often more, of their grant resources in those places.[1] [2] [3] Given the large proportion of rural places in their coverage areas, the use of "distress" by the commissions offers insights and lessons for reaching vulnerable rural communities.

Each commission defines distress differently, starting from the respective statutory requirements, balanced by internal analysis and capacity. Comparing their definitions illuminates the implications of different approaches and provides insights into the idiosyncrasies of designing methods for targeting specific types of communities.

Continue reading.

The Brookings Institution

by Anthony F. Pipa, Heather M. Stephens, and Natalie Geismar

Friday, June 3, 2022

Considering Buying Municipal Bonds? Be Aware of Social Security and Medicare Implications.

During your working years, it's a good idea to invest heavily in stocks, since that could lead to solid, steady growth in your portfolio. But as retirement nears, it's smart to shift over to safer investments, like bonds.

Bonds don't tend to be as volatile as stocks, and so at a time when you might need to tap your investments for income, they're a good bet. And if you're going to buy bonds, you might want to focus on municipal bonds (or muni bonds) over corporate bonds.

Corporate bonds tend to come with higher yields than muni bonds. But muni bonds have a few distinct advantages. First, the interest income they pay is always tax-exempt at the federal level. And if you buy muni bonds issued by your state of residence, you can avoid state and local taxes, too.

Continue reading.

The Motley Fool

by Maurie Backman

June 8, 2022

Municipal Bounce Back In 2022? (Bloomberg Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Continue reading.

Bloomberg Radio

Jun 10, 2022

[ABRDN's Sickinger Sees 'Choppy' Muni Market This Year.]

Christina Sickinger, ABRDN municipal credit analyst, discusses the state of the municipal bond market with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

June 7th, 2022, 12:24 PM PDT

Bonds Could Make a Comeback as a Hedge Against a Recession.

Nearly half of investors believe that the U.S. will enter a recession in 2023, according to a Bloomberg survey conducted in April 2022, with another 15% predicting that it could happen this year. In anticipation of an upcoming recession, the S&P 500 index fell 16% so far this year – its worst start since 1970 – and many believe it will fall further.

Unfortunately, there aren't many good places for investors to park their capital. Cash isn't very attractive with 8% inflation, rising mortgage rates are hurting real estate, and alternative investments like gold and crypto are in the red. While bonds are suffering from rising interest rates, their yield could make them the lesser of the evils.

Let's look at what's driving the risk of a recession and why bonds might offer a safe haven.

Continue reading.

dividend.com

by Justin Kuepper

Jun 10, 2022

S&P: Federal Funds Kept U.S. Colleges And Universities Afloat; Some May Sink When They're Gone

Key Takeaways

- According to the U.S. Department of Education, the U.S. higher education sector received about $75 billion through the three major federal emergency pandemic relief bills: Coronavirus Aid, Relief, and Economic Security Act (CARES),
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), and the American Rescue Plan Act (ARPA).
- The median value of institutional funds received by schools we rate was about $2.0 million through CARES, $4.0 million through CRRSAA, and $5.0 million through ARPA.
- Several schools received additional aid in the form of a Paycheck Protection Program (PPP) loan or

additional state and local grants.
- Emergency government funds accounted for over 4% of adjusted operating revenue in fiscal 2021 for more than 30% of respondents.

[Continue reading.](#)

2 Jun, 2022

Fitch: US School Districts' Cyber Risk Heightened by Limited Resources

Fitch Ratings-Austin/New York-01 June 2022: US public school districts are increasingly targets of cyberattacks due to the volume of sensitive personally identifiable information (PII) that schools maintain and the generally limited resources devoted to cybersecurity, Fitch Ratings says. Cyberattacks increased in frequency, severity and sophistication during the pandemic, leaving school districts, already facing operational and financial stresses exacerbated by the pandemic, particularly vulnerable.

School districts turned to remote learning during the pandemic and most became reliant on third-party learning platforms and personal student devices to conduct classes, significantly increasing their exposure to cyberbreaches. According to a recent report by K12 Security Information Exchange (K12 SIX), 162 school districts across 38 states reported cyberbreaches in 2021. However, due to weak public disclosure requirements across the sector, the number of incidents is likely much higher. Fitch's analysis of recent school district cyberattack data suggests that district size does not seem to be a factor, as both large and small districts have been targeted.

Competing K-12 budget considerations and resource allocation often lead to weakness in institutional cybersecurity. The threat landscape and cost of breaches and remediation are growing at a much faster pace than school districts' IT budgets allocated to cybersecurity. This trend is further exacerbated by hiring and staff retention challenges in a tight labor market, especially for IT staff, and the generally limited ability of school districts to independently increase revenues.

Ransomware remains the most prevalent cyber event impacting K-12 schools, accounting for roughly 37% of the reported K-12 cyber incidents in 2021, according to K12 SIX. Ransomware attacks in 2021 resulted in school closures in some cases due to attackers withholding access to databases used in school operations, leading to loss of instruction time for students. Disclosed ransom amounts paid in 2021 by school districts trended around mid-six-digit figures, while the cost of recovery after incidents has been much higher, which may not have been fully covered by districts' insurance policies.

Some districts have no cyber insurance at all. Adequate third-party risk transfer through cyber insurance is becoming increasingly unattainable for school districts, with annual premiums across K-12 cyber policies reportedly soaring more than 300% (according to Aon PLC) and coverage levels shrinking. Districts will face greater financial risks from cyberattacks without the ability to adequately transfer risk. Fitch considers the impact of cyberattacks as part of its assessment of management, which is an asymmetric credit factor where evidence of significantly weaker characteristics may negatively affect the rating. In the event of a cyberattack, Fitch will evaluate management's ability to respond to the impact in relation to an entity's financial flexibility.

Schools subject to breaches that disclose confidential information could face financial, legal and reputational risks as well as the risk of enforcement actions due to regulations regarding privacy and confidentiality. PII is trafficked on the dark web, and minors are at elevated risk of identity theft, which can go undetected for years due to lack of regular credit monitoring for this demographic.

Data breaches and leaks constituted about 20% of K-12 reported cyber incidents in 2021. According to K12 SIX, 55% of disclosed school data breaches in 2021 were directly due to leaks originating from district vendors, highlighting the elevated third-party risk for the sector. School district data is a valuable target given the amount of sensitive PII pertaining to teachers, parents, students and other personnel, a trend that is expected to continue as long as profit incentives remain high and outweigh perceived risk of criminal prosecution.

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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.

Data Analysis: State Rainy Day Fund Balances Over Time

Introduction

Before the COVID-19 crisis, state rainy day funds and total balances were at an all-time high, after a decade of rebuilding reserves following the Great Recession. In spring 2020, when the pandemic first hit, this financial cushion softened the immediate blow for states facing revenue shortfalls and helped them to close budget deficits by the end of the fiscal year – something most states are required by law to do. At the same time, as state revenue projections were plummeting further, concerns grew that states might end up depleting the rainy day funds they had worked so hard to build in recent years.

As it turns out, these concerns did not come to pass, mainly because state revenues later performed considerably better than was expected early in the pandemic. This was driven by an influx of federal funds, higher-income workers being relatively insulated from the effects of the COVID-19 recession, the shifting of consumption from services to goods (more commonly taxed at the state level), and the expanded ability to tax online sales following the South Dakota v. Wayfair Supreme Court decision.

Now, nearly two years after the initial onset of the pandemic, state rainy day fund balances have reached new record levels. This is largely due to revenues exceeding lowered budget forecasts in the vast majority of states and increased federal aid, which led to substantial budget surpluses in some cases that were at least partly deposited into rainy day funds. However, it also has a lot to do with deliberate steps that states took in the years leading up to the pandemic to strengthen their reserves, informed by lessons learned from the Great Recession.

Continue reading.

NASBO

By Kathryn White posted 02-22-2022

S&P: Strong Management Continues To Determine Performance For U.S. Rental Housing Bonds

Overview

The demand for U.S. rental housing–across all price ranges–regained its footing in 2021 after a year of suppressed demand and general upheaval during the first year of the pandemic. The need and demand for affordable rental housing units remains a challenge across the country. The loss of low-cost rental units is making it even more difficult for moderate- and low-income households to find viable housing options. Federal funding, including aid to both renters and landlords, provided significant support, albeit not without distribution hiccups, and the eviction moratorium helped prevent widespread evictions and delinquent bills. However, inflation, increased expenses related to health and safety supplies and processes, higher labor costs and labor shortages, and supply chain interruptions have taken a toll on many U.S. rental housing bond properties. Financial results in 2021 for the 35 S&P Global Ratings' ratings on affordable age-restricted and mobile home park stand-alone rental housing bond (RHB) transactions show, on average, weaker debt service coverage (DSC) ratios compared with the previous year. In contrast, financial and operational performance, on average, for the 30 Section 8 ratings and six unenhanced affordable transactions showed improvement, as evidenced by an increase in average DSC and slight strengthening to overall occupancy rates for the portfolios, but challenges related to deferred maintenance and environmental hazards remain.

The rated universe of non-military stand-alone RHB transactions shrunk to 71 ratings as of April 2022, down from 110 a year ago. During the past year (April 2021 through April 2022), there were 39 rating withdrawals across 29 transactions, compared with 24 withdrawals across 17 transactions for the same period the previous year. In both years, some withdrawals were due to refinancing and defeasance, but many, particularly for age-restricted and Section 8 transactions, were due to poor financial and operating performance, non-payment and payment defaults, and information quality and reliability issues with management and governance to the extent that we could no longer maintain the ratings. This report provides more detail to how each property type subsector performed during the past year, and what we expect in the coming year.

Continue reading.

25 May, 2022

Public-Private Partnerships Provide Flexibility to Political Subdivisions in Designing and Financing Projects.

Public-private partnerships (P3s) have risen in prominence in recent years due to the flexibility they provide in designing and financing projects. P3s involve the collaboration between governmental entities and private enterprises to finance, build, design, operate, and maintain projects. These alternative project delivery models allow large governmental and civic projects to be achieved that would not otherwise be possible due to the use of flexible procurement methods and access to new sources of capital that P3s unlock. While Indiana and Kentucky have statutes that explicitly provide for P3s, they are also commonly utilized by political subdivisions in Ohio and West Virginia despite the absence of local P3 statutes in those jurisdictions. In each of these states, P3s have financed a variety of large projects.

Indiana

Indiana Code § 5-23-3 permits a political subdivision to enter into an agreement with a development partner ("operator") for the acquisition, design, development, reconstruction, repair, maintenance, and/or financing of any public facility or improvement on behalf of the governmental body. The process under this statute is commonly referred to as "Build-Operate-Transfer" or "BOT." Under the statute, the governmental body enters into a public-private-agreement with an operator to provide an identified service or deliverable to the governmental body for a guaranteed price. The BOT statute offers an efficient alternative to traditional procurement for capital projects and has been utilized by communities across Indiana for parking garages, town and city halls, firehouses, police stations, public works facilities, roads, sewer infrastructure improvements, parks, performing arts centers, schools, pools, and jails.

Political subdivisions that wish to utilize the BOT process for projects must first have the governing body of the unit adopt the BOT statute by resolution or ordinance. After adoption, any instrumentality of the unit, such as redevelopment commissions and sanitary sewer boards, may utilize the BOT process for financing and constructing its facilities and improvements. Under the BOT process, the governmental body issues a request for proposals and qualifications (RFP/Q) seeking firms interested in a public-private partnership to deliver a project or series of projects to the governmental body. Following the selection of a preferred offeror after the required notices and hearing, the governmental body negotiates directly with the preferred offeror during the scoping period to determine the terms in which the project will be designed and operated and to finalize a guaranteed budget for the project. Following the scoping period, the governmental body may formally award the project to the preferred offeror and enter into a BOT agreement with the operator.

BOT agreements, when structured properly, may offer a streamlined design and development process with an efficient procurement process, flexible financing terms, built in cost savings, and risk mitigation. Compared to traditional procurement processes, this unique approach to design and financing has numerous advantages such as:

1. the selection of the entire project team (design and construction) under one contract;

2. control of the design timeline;
3. oversight and authority of design elements and approvals;
4. a no-cost or low-cost scoping period;
5. numerous financing options;
6. potential for lower issuance costs;
7. assumption of construction risk by project team; and
8. a guaranteed budget or maximum price with no change orders.

Kentucky

Kentucky law provides broad authorization for state and local governmental entities to enter into P3 agreements of all types. Kentucky Revised Statutes (KRS) 45A.077 and KRS 65.028 outline the respective procurement process state and local governments must follow to pursue non-transportation P3s. Both P3 statutes require publication of a request for proposals (RFP) containing specific provisions, to include scoring criteria and how each factor is weighted, and require certain approval processes. Private businesses are explicitly authorized to submit unsolicited proposals to governmental entities and these statutes outline the competitive procurement process interested governments must follow for their consideration. Title 200 of the Kentucky Administrative Regulations (KAR) 5:355 further regulates both state and local non-transportation P3s to include requiring the head of the governmental body or agency to conduct specific qualitative and quantitative analysis before entering into a P3 agreement. Transportation P3s are regulated separately under KRS 175B.005-095, 200 KAR 10:010-030, and 603 KAR 2:020.

Starting July 1, 2024, the Kentucky General Assembly must approve P3s valued at $25 million or more unless the RFP or public notice of an unsolicited proposal have been published before that date. The State provides additional oversight of local P3s by requiring projects valued at over 30% of the local government's general fund revenue receipts from the previous year to be reviewed and approved by the Kentucky Local Government P3 Board.

Kentucky's exceptionally broad P3 statutes provide public entities with significant flexibility during the procurement process to receive creative proposals and select the proposal that provides the overall best value. The Commonwealth of Kentucky, public universities, and local governments have all taken advantage of this innovative project delivery method. Thus far, project types have included government office buildings, mixed-use parking garages, utilities, campus housing, downtown revitalization, and more.

Ohio

Ohio has one official P3 statute specifically authorizing transportation facility P3s. Pursuant to Ohio Revised Code Section 5501.70 et seq., the Ohio Department of Transportation is permitted to solicit and receive bids for the development, financing, maintenance, or operation of a transportation facility. Other political subdivisions can create P3 by utilizing local "port authorities," governmental entities created under Chapter 4582 of the Ohio Revised Code and empowered by Sections 13 and 16 of Article VII of the Ohio Constitution. Chapter 4582 of the Ohio Revised Code is divided into two separate provisions: Sections 4582.01-4582.20 governing several older port authorities, while Sections 4582.21 et seq. govern most port authorities.

Ohio's port authorities are powerful P3 entities because they are empowered to foster and encourage private enterprise and economic development within their individual jurisdictions (and in cooperation outside their jurisdictions), and port authorities have almost all of the development powers of a private developer. Furthermore, port authorities may enter into cooperative agreements with other political subdivisions, allowing a port authority to exercise any of its powers on behalf of the political subdivision, or even share those powers (except the powers of taxation and eminent domain) in an arrangement resembling a “joint venture” with local governments. This means that political subdivisions can do P3s with any private developer directly or in combination with the port authority. Importantly, port authorities are not subject to Ohio prevailing wage laws or restrictive procurement laws such as competitive bidding. This can lower costs of any P3 development and accelerate the timetable for project commencement and completion.

Recently, the Toledo-Lucas County Port Authority (TLCPA) was one of the driving forces behind the University of Toledo’s innovative P3, utilizing tax-exempt bonds to allow for the monetization of its parking system. TLCPA created a special purpose non-profit subsidiary, ParkUToledo Inc., to enter into the concession agreement with the University of Toledo. Frost Brown Todd acted as bond counsel to the TLCPA for this project.

West Virginia

In West Virginia, there is not a specific statute governing local government P3. However, local governments may use their statutory powers to enter into contractual agreements providing for the acquisition, design, development, operation, maintenance, and/or financing of projects. When West Virginia political subdivisions consider a P3 arrangement for all or any aspect of a project, there are several legal considerations. These include:

1. compliance with West Virginia Code § 5G-1, if applicable, for the procurement of architectural or engineering services;
2. compliance with competitive bidding requirements for construction contracts and local labor preferences, if applicable;
3. the political subdivision’s authority to transfer property;
4. the political subdivision’s authority to lease property;
5. the ability of the political subdivision to partner with other governmental entities to facilitate the P3 arrangement, which include but are not limited to building commission, county and municipal development authorities organized pursuant to West Virginia Code §7-12, and joint development entities created by two or more development authorities, counties and/or municipalities pursuant to West Virginia Code §7-12-9b, as well as governmental instrumentalities of the State of West Virginia;
6. whether the project would be subject to ad valorem property taxes; and
7. whether the structure being considered would be subject to business and occupation taxes.

This is not an exhaustive list but is intended to highlight issues under West Virginia law to be considered when entering into a local government P3.

West Virginia local governments have successfully partnered with a variety of public and private entities to complete projects. These projects have leveraged the expertise of private partners to achieve projects that often would not have otherwise been completed. In addition, P3 have allowed local governments to leverage additional funding sources, such as federal grants and new market tax credits, to complete more complex projects than would otherwise have been possible using traditional project delivery structures.

Conclusion

P3s provide political subdivisions in Indiana, Kentucky, Ohio, West Virginia, and many other states with streamlined and flexible approaches for designing, building, financing, operating, and maintaining projects that benefit the public. As discussed above, there is not a one-size-fits-all model to P3s. The advantages of utilizing P3s compared to traditional procurement methods are numerous, including reducing or eliminating the possibility of change orders, lower issuance costs, more expedient approvals on financing, and reduction of risk to the governmental entity. Most importantly, P3s provide political subdivisions with greater flexibility in selecting developers for the project by enabling political subdivisions to use a variety of criteria in awarding a project as opposed to just awarding a project to the lowest bidder.

Frost Brown Todd LLC – Carrie J. Cecil , Matthew K. Duncan, Jason M. Halligan, Emma H. Mulvaney, David A. Rogers and Beau F. Zoeller

May 31 2022

Nossaman: U.S. Department of Transportation Issues Temporary Waiver of Buy America Requirements for Construction Materials

U.S. Department of Transportation Issues Temporary Waiver of Buy America Requirements for Construction Materials
As anticipated by project sponsors and industry participants, the U.S. Department of Transportation (USDOT) issued a temporary waiver of Buy America requirements for construction materials on May 19, 2022.

The Infrastructure Investment and Jobs Act (IIJA) expanded the applicability of Buy America and required the Office of Management and Budget (OMB) to promulgate guidance extending the current Buy America requirements regarding iron and steel and manufactured products to include construction materials, as well. OMB issued initial IIJA-implementing guidance effective May 14, 2022. OMB also issued a request for information seeking public input on its guidance, and recently extended the deadline for comments to June 6, 2022.

Following the release of OMB's guidance, USDOT proposed a temporary waiver for the new construction materials requirement to facilitate implementation of this new obligation. The public comments submitted in response overwhelmingly supported the implementation of the temporary waiver.

Continue reading.

Nossaman LLP

By Alyn Shen, Shant Boyajian on 06.01.2022

Investors Dip Back Into Municipal Bonds.

Exchange-traded funds see record inflows as muni prices rebound after mostly falling all year

Investors are creeping back into the municipal-bond market, eager to take advantage of bargains.

Municipal-bond exchange-traded funds took in a record $1.8 billion for the week ended May 25, quadruple their weekly average for 2022, according to data from Refinitiv Lipper. Municipal-bond mutual funds continued to lose investor cash, but outflows fell to their lowest level since March.

Prices climbed as buyers ventured back in, with municipal bonds returning 2.9% from May 18 through Thursday, according to Bloomberg index data. Nuveen LLC, one of the largest managers of municipal bonds, said it plans this week to reopen its national and California high-yield funds, which closed to new investors last summer as prices skyrocketed.

Municipal bonds have returned minus 7.59% this year as of Friday, counting price changes and interest payments, according to Bloomberg index data from FactSet, pulling slightly ahead of other fixed-income investments. The Bloomberg U.S. Aggregate Bond index—largely U.S. Treasurys, highly rated corporate bonds and mortgage-backed securities—has returned minus 8.47% this year through Friday.

“I think things are turning around. I don’t think it’s a blip,” Municipal Market Analytics partner Matt Fabian said of the rally. “I think munis had gotten too cheap.”

A contributing factor in municipal bonds’ rise: They are in high demand in early summer when a swath of outstanding municipal debt gets paid off and investors need new sources of tax-free income. High-net-worth investors favor the roughly $4 trillion market for state and local government bonds because the interest they throw off is typically exempt from federal and often state taxes.

Muni prices have been dropping fairly steadily all year as yields rose in response to Federal Reserve efforts to rein in inflation. The prospect of newer, higher-yielding debt flowing into the market caused outstanding lower-yielding debt to lose appeal for investors. Bond prices fall as yields rise.

Part of the downward pressure on muni prices came from steady mutual-fund outflows, which amount to more than $40 billion so far this year, according to Refinitiv Lipper. Mutual funds control nearly $1 trillion in outstanding municipal bonds, according to Fed data. When those investors pull their money in unison, fund managers must come up with the cash quickly.

The record inflows into exchange-traded funds, which unlike mutual funds can be bought and sold at any time of day, likely reflect purchases by younger or more nimble investors, Mr. Fabian said. Some of the cash might also come from mutual-fund managers temporarily parking investors’ money while they look for bonds to purchase, he said.

Many remain wary of declaring the 2022 bond rout over. Economic turbulence, volatile bond rates, or more bond issuance than expected could push prices downward, Mikhail Foux, head of municipal strategy at Barclays PLC, wrote in a research report Friday. “The market is not out of the woods as of yet.”

But municipal credit has remained strong, with states, cities, and school districts flush with tax revenue from the Covid-19 recovery and federal aid from pandemic rescue packages. That creates an incentive for investors to tiptoe back into the market as prices drop, and increasingly they have.

One early entrant was New York state resident Jonathan Kahn, who said he bought his first muni bond in two years on April 6. Before purchasing a bond, Mr. Kahn said, he typically checks public trade data posted by the Municipal Securities Rulemaking Board, a self-regulatory organization, to see how much a dealer last paid for the security. Unlike in the stock market, there is no publicly searchable daily price information for municipal bonds, and many trade infrequently. Debt is issued by about 35,000 different borrowers ranging from states to sewer districts and rural hospitals, according to Municipal Market Analytics.

Mr. Kahn said that before April the last time he found a bargain was March 2020, when the onset of the Covid-19 pandemic prompted market panic and muni prices cratered. Over the past two months, Mr. Kahn said he has made 15 purchases in the muni market.

“It’s an open question as to how long yields will continue to go up and prices will continue to remain attractive,” he said.

The Wall Street Journal

By Heather Gillers

Updated May 31, 2022

Munis Bounce Back In May (Bloomberg Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Katie Greifeld.

Listen to audio.

Bloomberg Radio

Jun 03, 2022

A Look Into Incredible Growth in Sustainable Municipal Debt Issuances.

In the midst of current economic uncertainty, U.S. municipal governments are on track to issue over $60 billion in sustainable municipal debt in CY2022, reflecting a 30% increase from the 2021 numbers of $45.9 billion in sustainable municipal debt issuance.

In their recent report, S&P Global Rating indicates that municipal debt issued under the Environment, Social and Governance (ESG) label will continue to grow in the future, taking up a significant section of the overall municipal issuance. More and more local governments are tapping into the ‘Green Debt’ for their capital needs, which includes projects like water and wastewater utilities, financing green buildings, public transit, and much more.

In this article, we will take a closer look at the nature of sustainable debt and what the future holds.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jun 01, 2022

Investors Revisit Muni Bonds Amid Higher Yields and Strong Credit.

KEY POINTS

- It’s been a tough year for municipal bonds with investors cashing out amid rising interest rates.
- But higher yields compared to U.S. Treasurys and strong credit ratings may be sparking a shift, experts say.
- “I think that public finance upgrades will outpace downgrades in 2022,” said Tom Kozlik, head of municipal research and analytics at HilltopSecurities.

Continue reading.

cnbc.com

by Kate Dore, CFP®

JUN 1 2022

Munis Have Slid This Year as Investors Bail Out. They May Be a Bargain Right Now.

Municipal bonds have taken a beating this year as investors retreat amid rising interest rates. The market, however, could be poised for a comeback thanks to unusually attractive relative yields and strong balance sheets at state and local governments.

BlackRock and Insight Investment are among those arguing that municipal bonds look attractive compared with other bond markets today. The most obvious reason is that yields on tax-exempt 10-year municipal bonds rival those on Treasuries today, around 2.75%, and were yielding more than them as recently as mid-May. That is unusual because unlike Treasuries, interest income from munis are exempt from federal taxes and sometimes exempt from local tax in the states where they are issued, which is typically reflected in lower yields for munis because investors get to keep more of their interest payments.

Tax-exempt 10-year munis with AAA ratings yielded 98 cents for every dollar of Treasury yield on May 25. That’s higher than average over the past decade, when they yielded 94 cents for every dollar of Treasury yield. And excluding the first six months of 2020—when investors were concerned that fallout from Covid-19 would cripple state and local governments—they paid out 91 cents for every dollar of Treasury yields since 2012.

That raises one big question: If munis offer such a good deal, why aren’t they more popular?

Investors have pulled a net $38 billion from funds that invest in tax-exempt municipal bonds so far in 2022, according to Refinitiv Lipper, with outflows in 18 of the past 19 weeks, including a net $1 billion withdrawal the week ended May 25. That is the longest stretch of withdrawals since 2013.

It is likely because rising interest rates have fueled a selloff in the market in 2022, with the ICE US Broad Municipal Index posting an 8.2% year-to-date loss as of May 25.

“We’ve had a selloff and now [individual investors] are selling, even though it’s the worst possible time to sell,” said Vikram Rai, head of municipal strategy at Citigroup. “If mutual-fund flows stabilize, then muni returns will improve."

In other words, individual investors have been chasing performance—that matters because individuals own a greater share of the muni bond market than other corners of fixed-income markets. And the market's performance looks like it's in the early stages of a turnaround, with a 2.1% return for the week ended May 25.

What's more, the muni-market selloff was driven by volatility in the Treasury market, and not fundamental problems with state and local governments' finances. In fact, states have built up their largest fiscal cushion on record, according to Pew Research Center, after municipal governments received unprecedented support from the federal government's response to the Covid-19 pandemic.

"The fundamental backdrop for munis is incredibly strong," said Sean Carney, head of municipal strategy at BlackRock. "At these levels, these valuations, the market is pricing in a lot of bad news. And there's not a lot of bad out there once rates begin to stabilize."

The summer months are usually a good time for municipal bonds, he added, because bond maturities remove supply from the market and interest payments give investors extra cash to reinvest. "Over the next three months…the balance of supply and demand will be much more favorable," Carney said.

The market also stands to get "crossover buyers"—insurers, foreign investors and banks that don't benefit as much from munis' tax exemptions—that are moving into the market with bets that yields may have peaked, investors say.

"Insurance companies, large commercial banks and global investors have not only found value in the taxable muni bond market, but also the tax-exempt market, given their experience of it being a high quality market that produces solid streams of income" said Thomas Casey, senior muni-bond portfolio manager at Insight Investment.

Contrarians who want to take advantage of investors' shifting appetites can buy muni funds, but they come with a risk: The funds offer daily liquidity, so investor withdrawals may force managers to offload bonds at a loss. Most closed-end muni funds use leverage, meaning they borrow short-term and reinvest that borrowed money in long-term securities, introducing extra risk when short-term interest rates move in unpredictable directions. And while open-ended funds generally don't use leverage, strategists say investor withdrawals are weighing on the entire market. So in general, investors in muni funds should prepare to see red on their quarterly statements until interest rates start falling or other investors wade back into the market.

Investors who won't be trading in and out of positions often—a group that should include most individual investors—could instead focus on buying and holding individual bonds in their brokerage accounts.

Investors in high-tax states, such as New York and California, can buy bonds issued locally for a state or even local tax break. The trading costs of muni bonds, known as markups, are notoriously high for individual investors trading bonds. But they have been declining in recent years, according to the Municipal Securities Rulemaking Board—and since 2018 brokerages have been required to report them. In short, markups are a one-time cost that allows an investor to forgo paying fund-manager fees and avoid other risks that come with buying funds.

More individuals may be doing this already. Insight Investment's Casey said that he follows brokerage activity, and has noticed that while investors are still withdrawing cash from muni mutual funds, they have been buying more bonds directly.

For buyers who aren't eager to do the extra research to build a portfolio themselves, large asset managers offer separately managed ladder accounts for smaller investors. BlackRock, for example, offers standardized accounts for investors with as little as $125,000 (or $250,000 with slightly more customization). That structure gives investors some of the benefits of a large manager's credit-research team and relieves them of the burden of research.

Fund managers argue that credit selection will be important if the Federal Reserve causes a recession in its efforts to fight inflation. And they warn that some states' pension funding may suffer as a result of the steep selloff in financial markets this year, which could add hidden risks to seemingly strong fiscal positions.

But there is another trend that benefits investors who are willing to buy munis directly and hold them to maturity: Municipalities default far less often than companies do. The long-term default rate for municipal bonds is around 0.1%, while the comparable rate for corporate bonds is around 7%, according to Moody's.

The municipalities that did default had an average rating in the lowest tier of investment-grade (BBB-) five years before the event. So investors looking to pick individual bonds may want to stick with bonds rated A or higher, especially if economic growth continues to slow.

Among bonds rated A or higher, fund managers from both BlackRock and Insight Investments said they favor municipal bonds with claims on distinct revenue streams from state and local governments, known as "special revenue bonds." Those can include water and sewer services, toll roads and other utilities and essential services.

If the idea sounds simple, that's because it is—people need water and sewer services, so those borrowers will probably keep paying. That highlights why the muni market is one of the only bond markets where individual investors have a fighting chance of solo investing success, even if they don't necessarily have an edge.

Barron's

By Alexandra Scaggs

May 30, 2022

Investors Are Looking Back Into Muni Bond ETFs.

After the sell-off in the fixed-income markets, exchange traded fund investors are looking back into municipal bonds.

For example, among the most popular ETF plays over the past week, the iShares National Muni Bond ETF (NYSEArca: MUB) attracted about $1.2 billion in net inflows, according to VettaFi data.

Meanwhile, the muni bond ETF segment brought in a record $1.8 billion for the week ended May 25, or quadruple its weekly average for 2022 so far, the Wall Street Journal reported. However, municipal bond mutual funds continued to bleed money, but outflows dipped to their lowest level since March.

Muni bond prices are also strengthening as investors returned to this fixed-income segment, with MUB returning about 3.2% since its low last Wednesday.

The municipal bonds asset category has declined about 8% this year as of Thursday, including price changes and interest payments, according to the Bloomberg index data. In comparison, the Bloomberg U.S. Aggregate Bond index, which is largely comprised of U.S. Treasuries, highly rated corporate debt, and mortgage-backed securities, has decreased by 8.5% this year through Thursday.

"I think things are turning around. I don't think it's a blip," Municipal Market Analytics partner Matt Fabian told the WSJ. "I think munis had gotten too cheap."

A contributing factor to muni bonds' recent strength may be attributed to their high demand in early summer when a large number of outstanding municipal debt is paid off and investors re-invest in new sources of tax-free income. High-net-worth investors especially target the roughly $4 trillion market for state and local government bonds since the interest payments are typically exempt from federal and state taxes.

Muni bonds, along with the broader fixed-income market, have taken a beating this year in light of the Federal Reserve's increasingly aggressive monetary policy tightening measures to rein in decades-high inflation levels.

The downward pressure on munis partially came from mutual fund outflows, which were over $40 billion so far this year, according to Refinitiv Lipper data.

ETF TRENDS

by MAX CHEN

MAY 31, 2022

[Making The Case for Municipal Bonds Despite Recent Volatility.]()

The first half of the year has so far been challenging for investors in municipal bonds. Ben Barber, Director, Municipal Bonds, Franklin Templeton Fixed Income, shares his latest outlook and reasons for optimism.

After a rocky start to the year in US municipal bonds, investors have not seen a reprieve as the second quarter of the calendar year started off with more of the same volatility. Yields have continued to move higher, roughly 166 basis points (bps) from the start of the year.1 This has caused much of the downward price pressure on the sector and is being exacerbated by heavy outflows from retail investors.

The municipal market will continue to be pressured by the Federal Reserve's (Fed's) monetary policy that is aimed at helping to stem inflation as well as those inflationary pressures continuing to drive longer-term yields higher. As we have previously highlighted when providing updates on the municipal market, we will provide outlook for three important dynamics across the sector: technicals, fundamentals and valuations.

Continue reading.

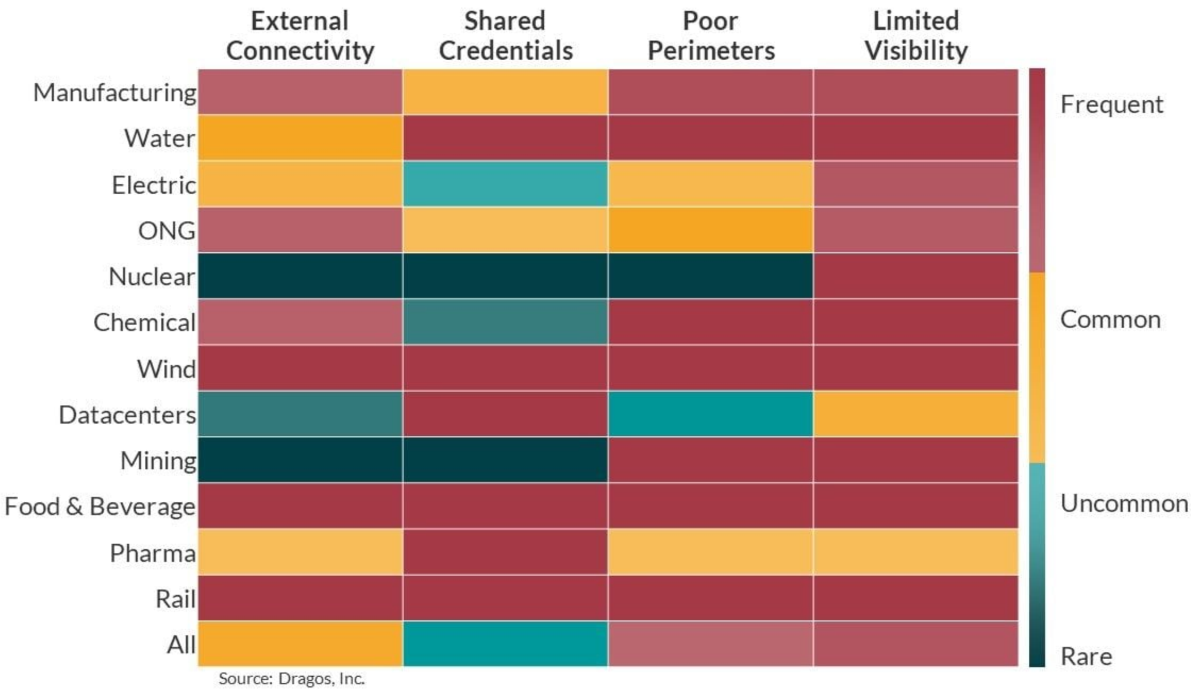
advisorperspectives.com

by Ben Barber of Franklin Templeton Investments, 6/2/22

Ftich: Operational Technology Cyberattacks Are a Credit Risk for Utilities

Fitch Ratings-Chicago/Toronto/Austin/New York-23 May 2022: Cyberattacks on industrial control systems/operational technology are more likely to have a credit and ESG impact than a corresponding attack on IT, Fitch Ratings says. Operational technology (OT) systems are vital production technologies that prioritize product or service availability and human safety and are often found in critical infrastructure environments. Cyberattacks that cause prolonged disruption in the delivery of these goods and services and materially affect cash flow, compromise safety or expose governance weakness could be a credit negative.

In the special report U.S. Cyber Risks in Operational Technology (How Operational Technology Influences Cyber Risk for Critical Infrastructure), we explore the IT/OT challenges in the power and utilities and water and sewer sectors, which have been recent targets of cyberattacks. The heatmap below illustrates a breakdown of Dragos' four key findings by OT industry vertical. The report also discusses credit and ESG impacts of cyber incidents in these sectors.



Historically, IT and OT systems were physically segregated and attacks on OT systems were rare; however, IT and OT systems are converging to leverage bigger data sets in real time to optimize performance, costs, safety, uptime and system efficiencies. These convergences, if done correctly, can greatly enhance operations and resiliency, but when done incorrectly, can weaken both operations and resiliency. An attacker that moves laterally and elevates privileges on an OT system can create much more harm compared with an intrusion into an IT system.

Attacks on OT are increasing in both frequency and severity. A report from Claroty found industrial control systems' vulnerability disclosures grew 110% over the last four years and saw a 25%

increase in 2H21 compared with 1H21. A report from Ponemon calculated the average cost of a cybersecurity incident to be $3 million and take an average of 316 days to detect, investigate and remediate.

Mon 23 May, 2022

[Munis Have Slid This Year as Investors Bail Out. They May Be a Bargain Right Now.]

Municipal bonds have taken a beating this year as investors retreat amid rising interest rates. The market, however, could be poised for a comeback thanks to unusually attractive relative yields and strong balance sheets at state and local governments.

BlackRock and Insight Investment are among those arguing that municipal bonds look attractive compared with other bond markets today. The most obvious reason is that yields on tax-exempt 10-year municipal bonds rival those on Treasuries today, around 2.75%, and were yielding more than them as recently as mid-May. That is unusual because unlike Treasuries, interest income from munis are exempt from federal taxes and sometimes exempt from local tax in the states where they are issued, which is typically reflected in lower yields for munis because investors get to keep more of their interest payments.

Tax-exempt 10-year munis with AAA ratings yielded 98 cents for every dollar of Treasury yield on May 25. That's higher than average over the past decade, when they yielded 94 cents for every dollar of Treasury yield. And excluding the first six months of 2020—when investors were concerned that fallout from Covid-19 would cripple state and local governments—they paid out 91 cents for every dollar of Treasury yields since 2012.

That raises one big question: If munis offer such a good deal, why aren't they more popular?

Investors have pulled a net $38 billion from funds that invest in tax-exempt municipal bonds so far in 2022, according to Refinitiv Lipper, with outflows in 18 of the past 19 weeks, including a net $1 billion withdrawal the week ended May 25. That is the longest stretch of withdrawals since 2013.

It is likely because rising interest rates have fueled a selloff in the market in 2022, with the ICE US Broad Municipal Index posting an 8.2% year-to-date loss as of May 25.

"We've had a selloff and now [individual investors] are selling, even though it's the worst possible time to sell," said Vikram Rai, head of municipal strategy at Citigroup. "If mutual-fund flows stabilize, then muni returns will improve."

In other words, individual investors have been chasing performance—that matters because individuals own a greater share of the muni bond market than other corners of fixed-income markets. And the market's performance looks like it's in the early stages of a turnaround, with a 2.1% return for the week ended May 25.

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Barron's

By Alexandra Scaggs

May 30, 2022

Bonds, Especially Muni Bonds, Are Making a Comeback.

Fixed income served as a strong diversifier in times of equity drawdowns over the past two decades — see the dot-com bubble and burst of the early 2000s and the global financial crisis of 2008. However, that's not been the case during the first four months of this year, with the Bloomberg U.S. Aggregate Index declining alongside the S&P 500 amid record inflation and rising interest rates.

That said, there have been some signs suggesting that the traditional relationship between stocks and bonds is returning. For example, the Bloomberg U.S. Agg has remained flat over the past month while equities have continued their downward trajectory.

Plus, yields are looking much more attractive now than they did a few months ago. Last week's 20-year Treasury auction signals strong demand for Treasuries. The auction was well covered, and 20-year bonds priced at 3.29%, which is less than the pre-auction level of 3.292%.

"Bonds have historically proven their worth during recessionary periods. As recessionary pressures and the cost-of-living squeeze increase in Europe and the U.S., investors are finding their way back into safe-haven assets," according to Russell Investments. "Bonds may continue to be an equity counterweight as market data points are reported in June, largely the consumer price index (CPI) print and any Federal Reserve rhetoric accompanying its expected 50 basis-point (bp) policy rate hike."

With bonds reasserting themselves as a risk ballast in multi-asset portfolios as their yields are now nominally higher, municipal bonds are looking especially attractive.

Tax-adjusted municipal bond yields look attractive when compared to taxable yields. For example, the Bloomberg 1-15 Year Municipal Blend Index (1-17)’s yield-to-worst was 3.1% on May 20, or 4.56% adjusted for a 32% tax rate. Compare that to the Bloomberg Aggregate Bond Index, which yields 3.42%.

In addition, the Bloomberg 1-15 Year Municipal Blend Index (1-17)’s duration is 4.6 years versus the Aggregate’s duration of 6.5. In short, municipals provide more attractive yield with less duration.

Within the broader fixed income opportunity set, a shorter-duration profile amid the current volatile rate regime, combined with strong state and government balance sheets, munis such as the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF) or the Avantis Core Municipal Fixed Income ETF (AVMU) could be an attractive opportunity over their taxable counterparts.

TAXF attempts to top the S&P National AMT-Free Municipal Bond Index, and by way of being actively managed, it can capitalize on credit opportunities by allocating up to 35% of its lineup to high yield munis. While junk-rated municipal bonds reward investors with higher yields due to elevated credit risk, these bonds are usually less volatile than high yield corporates.

With a duration of five years, TAXF is in intermediate-term territory, and its credit profile isn’t risky. The fund devotes about 12% of its weight to bonds rated BBB, BB, and B, while another 9.44% aren’t rated, according to issuer data. The rest of the portfolio is rated AAA, AA, or A.

The actively managed AVMU, meanwhile, looks to outperform the S&P National AMT-Free Municipal Bond Index.

AVMU is home to 453 municipal bonds, 22.28% of which are special tax issues. Another 29% are either state or local general obligation bonds. AVMU’s interest rate sensitivity isn’t high, suggesting that investors unfamiliar with this ETF may be missing out as they leave other muni products.

AVMU could also be ideal for patient investors looking to circumvent credit risk, as the ETF allocates most of its weight (96%) to bonds rated AAA, AA, or A. The fund had a duration of 6.04 years as of the end of 2021.

ETF Trends

MAY 27, 2022

Exploiting Inefficiencies in the Muni Market with Active Management.

While municipal bonds have always been known for investor benefits such as tax-free income and diversification, the muni market has cheapened amid 2022’s heightened volatility – making now an opportune time to invest.

In the upcoming webcast, Exploiting Inefficiencies in the Muni Market with Active Management, James Conn, Senior Vice President, Portfolio Manager, Franklin Templeton, will discuss with Franklin Templeton, one of the industry’s largest active muni managers, how they seek out the best opportunities and exploit inefficiencies in the complex muni market.

Franklin Templeton offers the actively managed Franklin Liberty Intermediate Municipal Opportunities ETF (NYSEArca: FLMI) and the Franklin Liberty Municipal Green Bond ETF (NYSE

Arca: FLMB) to help ETF investors better access the municipal debt markets.

The Franklin Liberty Intermediate Municipal Opportunities ETF invests in municipal securities with a maturity of three to 10 years and may include debt of any rating, including those below investment grade and defaulted securities. The fund won't focus on any single state and will not invest more than 15% of assets of a single state.

The Franklin Liberty Municipal Green Bond ETF was recently renamed on May 3 – FLMB was previously known as the Franklin Liberty Municipal Bond ETF. The new strategic direction will hold at least 80% of its net assets in municipal green bonds. The ETF will provide exposure to municipal securities that intend to use bond proceeds for projects and programs that promote environmental sustainability.

Franklin Templeton made the changes to capitalize on the increase in demand for sustainable investment funds, with U.S.-listed ESG funds and ETFs expected to reach $41 trillion in assets by the end of 2022. Money held in sustainable mutual funds and ESG-focused ETFs rose globally by 53% last year to $2.7 trillion, with a net $596 billion flowing into these investments. ESG-related assets account for one in three dollars managed globally.

ETF TRENDS

by MAX CHEN

MAY 24, 2022

GFOA Updates Economic Indicator Dashboards.

GFOA's economic indicator dashboards provide one location for local government finance officers to stay up-to-date on an array of data to help forecast revenue, expenditures, debt issuance, and more. Dashboards have been updated with inflation data, employment data, economic/market data, housing data, income and personal debt data, and local tax revenue data.

LEARN MORE

Conning Publishes 2022 State of the States Municipal Credit Report, Maintains Stable Outlook for State Credit Quality Despite Concerns About Inflation, Rising Interest Rates.

Interactive Access to Report Data Enables Deeper Understanding of Metrics

- Strong tax collections and unprecedented federal stimulus benefit states, although surplus spending could lower reserves and reduce recession preparedness.
- Less favorable borrowing conditions need to be watched as well.
- Florida, New Hampshire, and Texas break into the top five ranking bucking a historic trend toward Western and Mountain states.
- Housing markets strengthen in the West and South as Americans continue to migrate from the Northeast and Midwest – rural and suburban areas did especially well.

- Interactive features enable a closer look at the report's 13 metrics by state and region.

Continue reading.

Thu, May 19, 2022

S&P U.S. Not-For-Profit Health Care Rating Actions, April 2022

S&P Global Ratings affirmed 24 ratings without revising the outlooks and took nine rating actions in the U.S. not-for-profit health care sector in April 2022. There were 10 new sales in April. The nine rating and outlook actions consist of the following:

- Two downgrades on two health systems;
- Three upgrades on two standalone hospitals and one health system;
- One favorable outlook revision (to stable from negative); and
- Three unfavorable outlook revisions (all to negative from stable).

The table below summarizes S&P Global Ratings' monthly bond rating actions for U.S. not-for-profit health care providers in April. We based the credit rating affirmations and rating actions on several factors within enterprise and financial profiles, including business position, utilization, financial performance, debt levels, bond-issuance activity, physician relationships, and the external regulatory and reimbursement environment. This also incorporates our stable sector view and our assessment of COVID-19, staffing pressures, economic developments, and market volatility.

Continue reading.

16 May, 2022

New Digital Advancement Municipal Index Shows the Importance of Digital Access for U.S. Cities' Prosperity.

- The Digital Advancement Municipal Index uses 16 key indicators to profile U.S. cities' prosperity in the digital economy.
- The index provides a resource for cities and states to uncover opportunities for targeted action as they prepare to respond to historic federal investments in broadband infrastructure and digital equity.
- The index shows that while digital access and adoption are foundations for a vibrant city, they work jointly with other factors to improve quality of life.

Continue reading.

May 18, 2022

The States That Could be Headed for a 'Fiscal Cliff'

Three of them, in particular, may see difficulties in the years ahead as federal aid runs dry, according to a good government group.

California, Illinois and Pennsylvania could run into budget trouble in a few years, because they've been using a one-time surge of money from the federal government to pay for long-term expenses, fiscal experts warned Wednesday.

The sobering warning comes even as states are flush with cash, thanks to strong consumer spending and low unemployment. Some states are reaping the rewards of booming oil prices and, until recently, people trading high-flying tech stocks.

The Volcker Alliance, a nonprofit group that promotes responsible government spending, said the three states are among the most vulnerable for budget stresses when funds from the American Rescue Plan run out in 2026. President Biden signed the coronavirus relief law during his first few months in office. It contained $350 billion for state and local government relief.

Continue reading.

Route Fifty

By Daniel C. Vock

MAY 11, 2022

BondLink Partners with InspereX to Connect Municipal Issuers to Independent RIAs.

BondLink's integration with InspereX's BondNav trading platform will boost transparency for wealth advisors, demand for municipal bond issuers

BOSTON, MA / ACCESSWIRE / May 10, 2022 / BondLink, the cloud-based investor relations and debt management platform for the municipal bond market, today announced a new partnership with InspereX. This new integration will provide thousands of independent registered investment advisors (RIAs) with access to the financial data and reports that municipal bond issuers share via BondLink directly within the leading fixed income platform, BondNav®.

"The muni bond market is in the midst of a digital transformation and most major organizations have a platform for the transparent exchange of information. But, until now, the 50,000 government bond issuers had been excluded from this shift," said Colin MacNaught, CEO and co-founder of BondLink. "We're excited to combine the necessary and in-depth information that issuers share on BondLink with the trusted BondNav tools to streamline the research of RIAs. This level of transparency and exposure, for both issuers and investors, is crucial, especially in a volatile market."

Last quarter, the municipal bond market experienced a 6.4% loss, its worst quarter in nearly 40 years. As investors pull money out of the traditionally stable asset class, issuers increasingly are turning to platforms such as BondLink to differentiate their bond offerings and provide transparency to investors.

The new partnership will allow registered investment advisers to view BondLink's hosted research pages without leaving the BondNav platform, allowing users to learn about the issuer and their new projects in progress. Users also will be able to quickly access important documents, such as preliminary official statements/official statements, capital improvement plans, voluntary disclosure documents, and more on the integrated platform. The BondNav and BondLink integration will also introduce BondLink's municipal issuers' debt management programs to a new segment of investors.

"We're excited about our partnership with BondLink to allow our users access to vital issuer information which will help them make more informed decisions. This insight into the muni market is especially critical during a period of high volatility like we've seen this past quarter." said David Rudd, President at InspereX.

BondLink has similar integrations with a number of the municipal bond market's leading platforms, including Ipreo, Fidelity Investments, ICE Bonds, and the MSRB's EMMA website.

To learn more about the partnership between BondLink and InspereX, please visit www.BondLink.com and request a demo.

About InspereX

InspereX is transforming how fixed income securities and market-linked products are accessed, evaluated, and traded. Home to the pioneering BondNav® platform – one of the first cloud-native bond aggregation platforms – InspereX provides financial advisors, institutional investors, issuers, and risk managers deep access to fixed income markets across asset classes, as well as industry-leading origination, distribution, and education in market-linked products. Focused on delivering true price transparency, liquidity, best execution targeting price improvement, and the information advantage gained through data-aggregation – InspereX inspires greater confidence through the power of technology. The firm is a leading underwriter and distributor of securities to more than 2,000 broker-dealers, institutions, asset managers, RIAs, and banks. InspereX represents more than 400 issuing entities and has underwritten more than $670 billion in securities. The firm has seven trading desks and more than 200 employees with principal offices in Delray Beach, San Francisco, Chicago, and New York City.

About BondLink

BondLink, a cloud-based investor relations and debt management platform for the municipal bond market, helps issuers engage more bond investors through transparency and actionable insights. Founded by CEO Colin MacNaught, who spent seven years issuing nearly $25 billion in bonds on behalf of the Commonwealth of Massachusetts, and CTO Carl Query, BondLink went live in 2016. BondLink clients issued more than $50 billion in bonds in 2021. BondLink provides its issuer clients with tools to manage their capital financing programs more efficiently while providing investors with the interim financial reports and data they need to close information gaps and make informed decisions through a single platform. The company is backed by top investors within the municipal bond market, including Intercontinental Exchange and Franklin Templeton. Headquartered in Boston, BondLink recently was named to the 2022 GovTech 100, marking its fourth consecutive appearance on the annual list. For more information, visit www.bondlink.com, and connect on LinkedInand Twitter.

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New Online Hub to Help Cities Apply for Federal Infrastructure Funding.

The $50 million initiative will provide advice and resources to municipalities, especially small towns, through public sector groups and nonprofits, according to Bloomberg Philanthropies.

A $50 million initiative to aid cities in accessing billions in federal infrastructure funding was announced this week by its sponsors.

The Local Infrastructure Hub is bringing together public sector groups and nonprofits to help local leaders navigate the complicated Infrastructure Investment and Jobs Act application process in order to win grants. Experts will provide free coaching, data analysis and support, among other things, in developing the applications.

Local governments are eligible for funding for a wide range of projects through the $1.2 trillion infrastructure act signed into law last fall. But with nearly 400 separate grants to be doled out over the next 24 months, many communities will struggle to identify and apply for all the funding available to them, according to Bloomberg Philanthropies.

Continue reading.

Route Fifty

By Jean Dimeo

MAY 18, 2022

Understanding the Effects of School Funding.

Key Takeaways

Funding for California's schools has reached record-high levels, although the pandemic has exacerbated longstanding inequities in student outcomes. As policymakers grapple with questions around how much to fund schools and how that funding should be distributed, existing research can provide insights into where and how to use additional funds to improve outcomes. In this review of the research, several key themes emerge:

- **Several years of sustained spending increases improved student outcomes.** A robust body of research shows that across a variety of outcomes such as test scores, graduation rates, and college attendance, student performance improves with greater spending. Over the long term, students gain important benefits on economic outcomes such as wages. Benefits tend to be greater for lower-income students and districts.
- **How—and to whom—spending is targeted matters.** Policies that target district characteristics may not fully address gaps in spending and student outcomes, depending on how funding is targeted across students and schools within the same district. In California, spending is higher for low-income, Black, and Latino students—but current spending progressivity is not enough to close existing test score gaps.
- **The labor market for educators may constrain spending policies and create tradeoffs.**

Often, high-poverty schools rely on lower-paid and less experienced teachers, but have smaller class sizes. Large-scale policies to increase spending on new staff—such as the class size reduction of the 1990s—may adversely affect experience and credentials over the short run, limiting potential benefits per dollar.
- **Cost pressures in California schools affect the efficiency of funding.** Declining enrollment, rising employee benefit costs, and staffing shortages in some areas limit how efficiently funding translates into better school resources.

Continue reading.

Public Policy Center of California

Julien Lafortune, with research support from Joseph Herrera

Democrats Renew School Bond Push in $130 Billion Infrastructure Bill.

- **H.R. 604 would revive school infrastructure tax credit bonds**
- **Effort marks fresh push after Build Back Better stalled**

Congressional Democrats are looking to invest $130 billion in the nation's crumbling schools, partly by reviving a type of debt financing killed by tax reform during the Trump administration.

The Rebuild America's Schools Act, which went to committee markup Wednesday, would establish a $100 billion grant program and authorize $30 billion of school infrastructure tax credit bonds, both aimed at high-poverty schools around the country where shabby infrastructure poses a health risk to students and staff.

The bill, introduced by Virginia Democrat Bobby Scott, marks a renewed push to pass school infrastructure funding through a gridlocked Congress after a similar measure folded into President Joe Biden's Build Back Better Act failed. Democrats argue schools desperately need repair, and federal Covid-19 stimulus should be used for emergency purposes, not long overdue projects.

The somewhat obscure securities would likely be embraced by investors in the $4 trillion muni market, and schools would get a new tool for borrowing. "Issuers like having flexibility, and this is a structure that has had a long history in the market," said Jamie Iselin, head of muni fixed income for Neuberger Berman. "There is typically an investor for every type of security."

The debt portion of the proposed bill would reauthorize tax credit bonds, or TCBs, for school construction purposes after former President Donald Trump's Tax Cuts and Jobs Act eliminated them. Unlike tax exempt muni-bonds, which exclude interest from federal taxes, TCBs give a credit or payment to the issuer or investor.

Passage could be politically challenging, especially with midterm elections around the corner. "I can't foresee any type of dynamic that develops in the coming months that makes something like this a potential reality," said Tom Kozlik, head of municipal research and analytics at Hilltop Securities.

TCBs, in some form, have drifted in and out of tax legislation since they were first issued in 1998 as qualified zone academy bonds, or QZABs. The American Recovery and Reinvestment Act of 2009 created qualified school constructions bonds, as well as Build America Bonds, which like TCBs, allowed the federal government to subsidize state and local borrowing.

They were popular among investors because they offered taxable exposure to good credits at attractive spreads, Kozlik said. Many issuers, however, were frustrated when the federal subsidy was cut during the 2013 budget sequestration.

Over half of U.S. school districts need infrastructure overhauls, such as new heating or ventilation systems, in the majority of their buildings, according to a June 2020 report from the Government Accountability Office.

The Covid-19 pandemic threw that need into greater focus, with more than 40% of districts planning to spend American Rescue Plan funds on HVAC improvements, according to Burbio, a school data firm.

Republicans criticized the bill, calling additional funding superfluous in the wake of roughly $200 billion in pandemic aid given to schools with few guardrails. “Forcing schools to start construction projects during record-high inflation and major supply chain crises is completely irresponsible,” said Michigan Representative Tim Walberg.

Bloomberg Markets

By Nic Querolo

May 20, 2022

Princeton Joins School Bond Wave With $600 Million for Expansion.

- **Deal to be split between taxable, tax-exempt securities**
- **Proceeds will help prepare for addition of 500 undergrads**

Princeton University plans to bring its sterling credit rating to a battered bond market with a sale of $600 million of debt to help finance an expansion of its New Jersey campus as it prepares to accommodate hundreds more undergraduate students.

The Ivy League school will issue half as tax-exempt debt through the New Jersey Educational Facilities Authority as soon as Tuesday. The remainder will be taxable, sold through the Trustees of Princeton University. That will make it the latest university to offer taxable securities this year, after schools including Harvard University, the Massachusetts Institute of Technology and Washington University in St. Louis.

Name recognition, top credit ratings and a relatively slow week of tax-exempt issuance will help Princeton’s bond sale stand out during a tumultuous stretch for fixed-income. Munis are off to their worst annual start on record, driving benchmark 10-year yields to the highest in eight years.

“Compared to everything else in the market, it should get a great price,” said Daniel Solender, head of municipals at Lord, Abbett & Co., who said he has bought Princeton debt in the past and is interested in the tax-exempt portion. “There should be plenty of demand.”

When the school sold tax-exempt debt last year, it obtained yields that were below top-rated munis, data compiled by Bloomberg show. Its securities are still trading tight to the benchmark index: Last week, debt maturing in 2029 with a 5% coupon traded at an average yield of 2.81%, or 10 basis points above the BVAL AAA curve. It originally priced in March 2021 at 0.89%, or 2 basis points below the benchmark.

Proceeds of this month's sale will help fund two new groups of dorms under construction as the school plans to add 500 undergrads over four years, beginning this fall.

The bonds are also paying for the phase-out of steam generation for a more efficient hot-water heating system on the existing campus and an efficient system on a new campus in the adjacent township of West Windsor, according to Michael Hotchkiss, a spokesman.

The new campus, the first major expansion in West Windsor, will be built on lands Princeton has owned for more than 100 years and will include by 2023 a geo-exchange facility to heat and cool structures, graduate student housing and a 600-space garage. By 2025, the school will build a tennis and racquet center, a softball stadium, playing fields for rugby and recreational sports and a cross-country course.

In 2021-22, Princeton enrolled 8,382 undergraduate and graduate students. It admitted only 4% of undergrad applicants for that academic year, down from 6% the prior year, according to offering documents.

Strong endowment returns have helped bolster schools' balance sheets, driving the borrowing surge by giving them more leeway to take on debt, according to CreditSights. Taxable debt allows schools more flexibility in how they spend proceeds, but often requires issuers pay higher interest rates.

Princeton is among the richest universities measured by endowment per student, with a fund that was valued at almost $40 billion as of June 2021. Its 47% investment return for the year ended June 2021 ranked it second in the Ivy League behind Brown University.

"Demand in the market seems to be fairly selective, but Princeton is a solid gold name," said Patrick Luby, a municipal strategist at CreditSights.

Bloomberg Markets

By Nic Querolo and Janet Lorin

May 16, 2022, 7:30 AM PDT

— With assistance by Danielle Moran, and Kenneth Hughes

The Muni Market is Becoming More Concentrated.

Retail investors are a staple of the municipal bond market, holding about three-quarters of the nearly $4 trillion in outstanding bonds. But, according to recently released Federal Reserve data, the value of muni bonds directly held by retail investors fell by $18 billion during the fourth quarter of 2021, reaching their lowest levels since 2008.

Many retail investors are turning toward mutual funds and, increasingly, exchange-traded funds (ETFs) for exposure, which offer more diversification and better liquidity than direct ownership. In addition, actively-managed funds can tailor strategies to reduce risk during specific economic cycles or capitalize on opportunities as they arise.

This article will look at how the rise of muni bond funds could impact the market and the most significant funds in the space.

[Continue reading.](#)

municipalbonds.com

by Justin Kuepper

May 19, 2022

[U.S. Bond Funds See Outflows for 19th Straight Week.](#)

May 20 (Reuters) – U.S. bond funds continued to face huge outflows in the week to May 19 on fears that the Federal Reserve would raise interest rates higher than previously expected to keep inflation under control.

According to Refinitiv Lipper data, investors offloaded U.S. bond funds worth $8.39 billion in the 19th straight week of net selling.

U.S. Federal Reserve Chairman Jerome Powell said this week that the central bank will "keep pushing" to tighten U.S. monetary policy until it is clear that inflation is declining.

Investors sold U.S. municipal bond funds worth $3.05 billion in their biggest disposal in three weeks and exited taxable funds worth $5.52 billion.

U.S. high yield bond funds saw $2.93 billion worth of liquidation, which was the biggest weekly net selling in five weeks, and short/intermediate investment-grade funds posted outflows of $3.74 billion.

Meanwhile, U.S. short/intermediate government & treasury funds obtained inflows for a second straight week, worth $3.4 billion.

U.S. equity funds suffered a sixth consecutive week of outflow, amounting to $3.85 billion, although selling reduced 54% compared with a week ago.

U.S. large-cap equity funds received inflows of $2.59 billion after five straight weeks of net selling, but small- and mid-cap funds faced outflows of $1.83 billion and $0.69 billion respectively.

U.S. growth and value funds, both witnessed net selling of $1.7 billion and $200 million, respectively.

Among sector funds, financials, and consumer discretionary posted outflows of $1.34 billion and $0.61 billion, but utilities and healthcare lured inflows worth $0.78 billion and $0.69 billion.

Meanwhile, investors drew $20.31 billion out of U.S. money market funds as selling continued for a second week in a row.

Reporting by Gaurav Dogra and Patturaja Murugaboopathyin Bengaluru; Editing by Hugh Lawson

Why Wall Street Can’t Escape the Culture Wars.

Appealing to the customers of the future may be uncomfortable for bank CEOs, but it’s a commercial imperative.

Wall Street has always been involved in politics even if bank bosses sometimes want to pretend disinterest. In the past, they were able to stick mainly to battles about tax and regulation. Now, it is ever harder to avoid the U.S. culture wars.

Citigroup Inc. Chief Executive Officer Jane Fraser has stuck her head highest above the parapet with vaccine mandates to combat Covid and pledges of support for female staff in states that are banning or criminalizing abortions.

Jamie Dimon at JPMorgan Chase & Co. wouldn’t answer the question directly on Bloomberg TV this week, but he did say the bank would always look after the health of its staff. His institution and Goldman Sachs Group Inc. are both discussing policies like Citigroup’s now that the Supreme Court appears set to overturn Roe V. Wade, Bloomberg reported.

Continue reading.

Bloomberg Opinion

by Paul J. Davies

May 9, 2022

Fitch: Friendlier Skies for US Airport Metrics Post-COVID

Fitch Ratings-New York/Austin-11 May 2022: Most U.S. airports are approaching pre-pandemic passenger traffic despite the most recent COVID variant stunting growth during the early months of 2022, according to Fitch Ratings in its latest peer review for the sector. However, the sector is still up against inflation and a hesitant full return of business and international travel.

Since its last peer review Fitch has revised the Rating Outlook for nearly all U.S. airports to Stable from Negative. A notable outlier is New York’s John F. Kennedy International Airport (JFK) Terminal One Group Association, L.P., which still has a Negative Outlook even after two downgrades since the pandemic began. “The JFK terminal still has heightened exposures to international traffic and is less financially flexible than other U.S. airports due to limited liquidity and heightened dependency on volume driven airline fees,” said Director Jeffrey Lack.

Increased debt issuances are also signalling a return to normal with many airports already coming to market in 2022, among them Myrtle Beach, SC; Pittsburgh, PA (Allegheny County); and Syracuse, NY. While airports are seeing improved leisure traffic, international and business travel is still lagging. “With broader economic inflation on the rise, customer facility charge rates may increase moderately over a debt term to support rising debt and/or operating project costs,” said Lack. This is especially true for midrange and smaller airports.

Fitch’s ‘Peer Review of U.S. Airports’ is available at ‘www.fitchratings.com’.

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Additional information is available on www.fitchratings.com

Fitch: US Not-for-Profit Hospital Margins Decline with Operating Pressures

Fitch Ratings-Chicago/New York/Austin-12 May 2022: Not-for-profit hospitals and healthcare systems are pressured as they continue to face significant operating challenges, Fitch Ratings says. Revenue declines during pauses in elective procedures due to coronavirus surges and escalating operating expenses due to coronavirus care and high labor costs are leading to thinner margins, as we discuss in our report US Not for Profit Hospitals and Health Systems Face Mounting Operating Stress. Without effective, ongoing cost-cutting or the ability to grow top-line revenues, operating margins will continue to decrease.

We expect margins to improve later this year but will likely stabilize at levels lower than those seen prior to the pandemic. Healthcare providers have generally been able to absorb what are now the well-known implications under surge conditions, but they no longer have the benefit of federal stimulus funds to boost liquidity and help cover higher incremental operating expenses or lost revenue.

Operations will improve as staffing costs moderate and surgical volumes return, similar to months following prior surges. Hospitals will need to maintain some level of coronavirus care capacity going forward as the virus becomes endemic, especially if variants are difficult to contain and vaccination rates and immunity levels begin to wane. This will require resources to be able to sustain operations through periods of lower revenues and elevated expenses.

The vast majority of credits in our rated portfolio have healthy balance sheets, which continue to provide cushion to manage through inflationary pressures and intermittent coronavirus disruptions. Current balance sheet strength is a key credit factor, stabilizing ratings in the sector. However, additional coronavirus surges and negative equity market trends will erode the existing balance sheet cushion, which could lead to negative rating actions.

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S&P: Will Prolonged Higher Fuel Prices Slow The Rebound In U.S. Transportation Demand?

Key Takeaways

- Volatile fuel prices historically have not affected the credit quality of transportation infrastructure issuers and we expect the current higher prices will be credit neutral if they last for a limited time.
- The impact of rising fuel prices on demand and activity at airports and ports is generally negligible. However, higher fuel prices can translate into lower toll road traffic growth rates if sustained because travelers take fewer discretionary trips, while, conversely, boosting mass transit volumes as drivers become riders.
- Given significant pent-up demand for travel within the airport and toll road sectors due to lockdowns during the pandemic, we believe consumers are willing to absorb higher fuel prices for leisure travel for a limited duration, mitigating the effects of elevated costs and airfare increases in the near term.
- Longer term, we expect U.S. consumers could temper their travel behavior if elevated fuel prices and inflationary pressures persist or increase on a real basis due to market conditions or factors like carbon taxes.

Continue reading.

12 May, 2022

Biden Administration Releases $45B for Broadband to States.

Guidance for the infrastructure program says states must make affordable broadband available to the middle class, too, and cannot exclude cities from being considered for the funding.

The Biden administration on Friday made $45 billion in broadband funding from the bipartisan infrastructure act available to the states, emphasizing that they make sure any internet service that's built is affordable not only to those with low incomes but to the middle class as well.

“The internet is absolutely essential to every American's success,” Deputy Commerce Department Secretary Don Graves told reporters on a call. “That's why it's unacceptable that in 2022, millions of Americans are still without it.”

In addition, the department's National Telecommunications and Information Administration emphasized in its [notice of funding opportunity]() that states should make the dollars available to cities and nonprofits, like farm cooperatives, that want to start a broadband service to compete with private companies.

[Continue reading.]()

Route Fifty

By Kery Murakami

MAY 13, 2022

[Sustainable Outlook: Managing Climate Risk Through Intelligent Engineering Controls and Infrastructure With Erin Rothman, CEO and Founder of StormSensor]()

Urban flooding is one of the most economically damaging impacts of climate change on metropolitan areas, and is only increasing in degree and frequency.

On this episode of Sustainable Outlook, host Molly Barker is joined by Erin Rothman, CEO and founder of StormSensor, a climate technology company working with cities across the nation to combat this problem by helping them manage climate risk through the creation and deployment of intelligent stormwater, sewer, and coastal engineering controls and infrastructure.

With 15 years of stormwater and remediation experience, Erin discusses her career change from consulting to launching her own company, what led to her to create StormSensor's technology, and what sets StormSensor's technology apart from other competing technologies working to address the impacts of climate change on water resources and systems to ensure the long-term sustainability of our municipal cores.

[Click here to listen to the audio.]()

May 10 2022

K&L Gates LLP – Molly K. Barker

Land Value Capture and Municipal Financing for Sea Level Rise Adaptation Infrastructure and Health Outcomes; RFP

Original Date Posted: May 13, 2022 5:00 am

Due Date:
June 13, 2022, by 4:00 p.m. Pacific Time unless amended by addenda

City of Seattle Request for Proposals

Title: Land Value Capture and Municipal Financing for Sea Level Rise Adaptation Infrastructure and Health Outcomes

Proposal Due Date: Submissions are due June 13, 2022, by 4:00 p.m. Pacific Time unless amended by addenda.

The City of Seattle (City) Office of Sustainability & Environment (OSE) is seeking a qualified consultant team to develop a strategy to implement land value capture (LVC) and/or other revenue-generating municipal finance mechanisms to finance:

- infrastructure in the Duwamish Valley to protect the residential and industrial communities from expected sea level rise impacts, and,
- improvements to improve health, equity, and wealth building outcomes for residents (e.g., affordable housing, parks, workforce development, and other supportive services).

This will be done in partnership with the impacted communities, as part of a holistic strategy to establish the Duwamish Valley Resilience District (DVRD). A "Resilience District" is a geographic strategy, focused on adapting to flood risk and other climate change impacts, as part of a comprehensive approach to enable residents and businesses to thrive in place. The work will be managed through a partnership with the Office of Planning & Community Development (OPCD) and Seattle Public Utilities (SPU). Additionally, the work will require the Consultant to work closely with the City team and other consultants not part of this solicitation (community engagement, financing, and organizational development) to both co-design processes and undertake the work.

Optional Pre-Proposal Meeting: The City will host an online optional, pre-proposal meeting on Thursday, May 26, 2022, at 10 a.m. Pacific Time. Please notify City contacts of your interest in attending the pre-proposal meeting, so that they can provide you with a link to the meeting and manage any technical issues that arise.

Project Budget: $75,000

The full RFP and associated documents can be viewed and downloaded at the City's Consultant Connection at https://consultants.seattle.gov/category/bids-proposals/.

Emerging small businesses, as well as minority-owned, disadvantage-owned, women-owned, and service-disabled veteran-owned enterprises are encouraged to submit a response to this RFP. The City of Seattle is an Equal Opportunity Employer and selection of the Consultant is subject to applicable laws and ordinances regarding equal opportunity employment.

CLICK HERE TO DOWNLOAD THE RFP

[Cracking the Zoning Code.]

Understanding local land-use regulations and how they can advance affordability and equity

Local governments use zoning to control what types of buildings are allowed where and what sorts of uses are allowed within them. But this century-old tool—ostensibly created to separate industrial uses from residential uses—was also used to separate people of different races and classes.

As currently implemented, zoning can hinder progress toward achieving more inclusive communities, shared prosperity, better health, and stronger environmental protections. But when carefully designed and equitably implemented, zoning can help expand the supply of housing, increase housing affordability, and improve racial equity within a jurisdiction. Zoning can be a particularly effective tool when combined with incentives to develop subsidized housing and policies that discourage the displacement of people with low incomes. But zoning has limits: it defines allowed uses, but any change in a community also ultimately reflects the economy of the neighborhood and metropolitan area, which in turn determines whether developers are willing to invest.

In this feature, we explore the components of zoning codes and their implications, investigating not just zoning's role in influencing housing conditions and access but also how zoning rules are created, modified, and enforced—and by whom. We describe how zoning affects housing availability and how that influences the ability of people with different incomes, races, ethnicities, and other backgrounds to live in communities that best meet their needs. We also define key terms related to zoning and land use in the glossary and include a list of additional resources where readers can learn more about key zoning-related research.

Continue reading.

The Urban Institute

by Yonah Freemark, Lydia Lo, Eleanor Noble, and Ananya Hariharan

May 2022

Muni Issuance Poised to Surge Into a Historically Weak Market.

- **Gauge of 30-day visible supply is highest since early December**
- **Index has risen to $20.2 billion of announced offerings**

US municipal-bond sales are poised to accelerate to the fastest past of 2022, adding to the strains on what is already a historically weak market for state and city debt.

The nation's local governments are expected to sell $20.2 billion of debt over the next month, the most since early December, according to a Bloomberg index that tracks municipal bond sales announced for the next 30 days. The gauge doesn't represent the full tally of what actually hits the market, as many deals come with less than a month's notice.

Among the larger offerings on the calendar, Illinois, which received two credit upgrades last week, plans to sell $1.8 billion of debt, while the Port Authority of New York and New Jersey expects to market $910 million. New York's Dormitory Authority will issue $751 million for school-district improvements and the San Francisco Bay Area Rapid Transit District has scheduled $758.6 million of general-obligation green bonds.

The supply surge comes as the muni market is down nearly 10% in 2022, the worst annual start on record, as soaring inflation and the prospect of tighter monetary policy roil global fixed income. Municipal borrowing costs have risen as a result — benchmark 10-year muni yields have climbed almost 200 basis points since the start of the year, to the highest since March 2020.

Issuers are selling against a backdrop of weak demand. Spooked investors have yanked cash from muni mutual funds for 12 straight weeks, pulling out about $2.7 billion in the week through May 4, according to Refinitiv Lipper US Fund Flows data.

There have been signs that retail investors are tiptoeing back in, and some money managers say it's a good time to buy because municipal credit remains strong.

Kathy Jones, chief fixed-income strategist at Charles Schwab & Co., said she likes munis as a way to gradually add duration as prices cheapen.

"What we are seeing is investors trying to take on a little more income by going into longer-duration bonds," Jones told Bloomberg Television's Surveillance on Tuesday. "There are two areas we really like. One is municipal bonds. You can get on a tax-equivalent basis for a very high-income earner north of 5% in high-quality municipal bonds."

Bloomberg Markets

By Danielle Moran

May 10, 2022

— With assistance by John McCorry

[Supreme Court Clarifies Constitutional Analysis Regarding Municipal Commercial Sign Restrictions: Day Pitney]

The U.S. Supreme Court's recent decision in *City of Austin v. Regan National Advertising of Austin*, 596 U.S. ___ (2022), clarified the thorny issue of whether a municipal regulation is to be considered content based or content neutral in the context of regulation of commercial speech. The city of Austin, Texas' sign regulation, like many such regulations, distinguishes between on-premises signs and off-premises signs. Off-premises signs are those that have content that does not relate to the property on which the sign is located. These off-premises signs are typically classified as billboards. The complainant sought city approval to digitize some of its preexisting billboards, which the city refused to permit. The complainant filed suit and argued that the city's code regulated content in violation of the First Amendment, which required application of a strict scrutiny standard of review. The District Court held that the regulation was content neutral, applied an intermediate scrutiny standard and upheld the provision. The Court of Appeals reversed, finding the on-premises/of--premises dichotomy to be content driven. Thus, the regulation could not satisfy strict scrutiny and was therefore unconstitutional.

All the reviewing courts looked to the Supreme Court's prior decision in *Reed v. Town of Gilbert*, 576 U.S. 155 (2015) for guidance. In Austin, Justice Sotomayor, writing for the majority, held that a "regulation of speech is facially content based under the First Amendment if it 'target[s] speech based on its communicative content'—that is, if it 'applies to particular speech because of the topic discussed or the idea or message expressed,'" citing *Reed*, 576 U.S. at 163. In distinguishing the Court's decision in Reed, where the Court applied strict scrutiny to invalidate the sign regulation at issue, Justice Sotomayor noted that "[u]nlike the regulations at issue in *Reed*, the City's off-premises distinction requires an examination of speech only in service of drawing neutral, location-based lines. It is agnostic as to content." Hence, the Court reasoned, "absent a content-based purpose or justification, the City's distinction is content neutral and does not warrant the application of strict scrutiny." The Austin regulation, unlike the provision in *Reed*, "[did] not single out any topic or subject matter for differential treatment." The distinguishing feature of Austin's code rested solely on location. Therefore, reasoned the Court, the holding of the Court's decision in *Reed* did not require the application of strict scrutiny,

Having determined that the intermediate scrutiny analysis applied, the Court noted that "If there is evidence that an impermissible purpose or justification underpins a facially content-neutral restriction … that restriction may be content based," and that in order "to survive intermediate scrutiny, a restriction on speech or expression must be 'narrowly tailored to serve a significant government interest.'" Apparently, the parties disputed whether or not Austin could satisfy those standards and therefore the matter was remanded for further adjudication.

The upshot of the *Austin* decision is that location-based distinctions in signage ordinances, without more (as noted above), are not *per se* content based under *Reed* and therefore are analyzed under the intermediate scrutiny test pursuant to *Metromedia, Inc. v. San Diego*, 453 U.S. 490 (1981). In so doing, the Court defined "content-based" restrictions by narrowly looking to the subject matter or viewpoint of the restriction, rather than by accepting the more all-encompassing position of the three dissenting justices, who argued that off-premises restrictions are content based because they discriminate against certain signage based on the messages they convey, "e.g., whether they promote an on- or off-site event, activity or service." Utilizing the intermediate scrutiny standard, per the majority's opinion, is likely to permit municipalities to continue to apply different restrictions for on-premises signs as compared to off-premises signs.

Day Pitney Advisory

Day Pitney Author(s) Christopher John Stracco, Katharine A. Coffey

May 9, 2022

[Sustainable Bond Issuance Could Wane in 2022, Long-Term Outlook Still Bright.]()

Green, social, and sustainability bond issuance was $203 billion in the first quarter, down 11% on a sequential basis. Market observers say that the decline is attributable to the Federal Reserve boosting interest rates and Russia's invasion of Ukraine, among other factors.

However, a temporary issuance blip doesn't derail the long-term outlook for sustainability-linked bonds and related fare, indicating that when central bank tightening cools, the SPDR Bloomberg SASB Corporate Bond ESG Select ETF (RBND) could be an exchange traded fund to consider.

Citing macro headwinds, Moody's ESG Solutions said "we now anticipate GSSS bond volumes will be roughly flat compared with last year's total, with around $1 trillion of issuance for the whole of 2022. At an instrument level, we now forecast $550 billion of green bonds, $125 billion of social bonds, $175 billion of sustainability bonds and $150 billion of sustainability-linked bonds."

RBND debuted in November 2020 and tracks the Bloomberg SASB® US Corporate ESG Ex-Controversies Select Index. That index avoids bonds issued by companies that could be considered controversial. The bulk of the ETF's 447 holdings are dollar-denominated, investment-grade fare.

RBND's option-adjusted duration is 7.68 years, putting it in intermediate-term territory. While that's not short enough to be immune from rate hikes, intermediate-term bonds are usually the least correlated to stocks, indicating that RBND offers some portfolio diversification benefits. Additionally, the fund can act as a core fixed income holding for investors looking for sustainable bond solutions. Fortunately, the overall trajectory of that segment remains attractive despite the aforementioned 2022 hurdles.

"We continue to see many drivers supporting growth in the sustainable debt markets despite weaker issuance in the first quarter and our expectations for suppressed issuance the remainder of the year," added Moody's. "The need for climate mitigation and adaptation financing, accelerated decarbonization efforts to achieve net zero goals, growing regulatory attention on sustainability and a continued focus on the interconnectedness of environmental and social objectives will all support the sustainable debt markets over the long term."

About 55% of RBND's holdings are rated AAA, AA, or A, and the fund is reflective of the fact that more non-financial issuers are entering the green/sustainable bond markets, as financial services debt accounts for just 34.43% of the fund's portfolio.

"From a sectoral standpoint, nonfinancial corporates held a leading share of green bond issuance in the first quarter, with issuance of $52 billion representing 50% of the global total, up from a 37% share of market in the last quarter of 2021 and 42% during Q1 2022. Following non-financial corporates, financial institutions accounted for $27 billion, or 26% of global green bond issuance," concluded Moody's.

ETF TRENDS

by TOM LYDON

MAY 16, 2022

[Municipal Bond Struggles Continue In 2022 (Bloomberg Radio)]

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

May 13, 2022

World's Richest Family Bet on Munis, Japanese Stocks, Coinbase.

- **WIT added new positions in Japanese equities, Coinbase shares**
- **Firm cut exposure to emerging market fund in the first quarter**

An investment firm for the Walton family ramped up its position in a U.S. municipal bond fund and added a sizable stake in Japanese equities, while also betting on small-cap stocks and Coinbase Global Inc. before tumultuous declines.

WIT LLC, an acronym for the Walton Investment Team, invests mostly in low-cost exchange-traded funds. It held about $5.1 billion in U.S. stocks and ETFs at the end of last quarter, a filing with the US Securities and Exchange Commission showed Friday.

The firm, which oversees money for the world's wealthiest family, added 3.9 million shares of the iShares MSCI Japan ETF worth about $239.3 million, its biggest new stake and its fifth-largest overall. WIT also bought about $150 million in small-cap stocks through new positions in Vanguard and iShares index funds. The largest holding is the Vanguard FTSE Emerging Markets ETF, which was worth $1.6 billion at the end of the quarter even after it was whittled down.

Its next two largest stakes are in debt funds: the Vanguard Short-Term Treasury ETF and the iShares Short-Term National Muni Bond ETF. WIT added to both positions in the first quarter as front-end yields surged on expectations of accelerated Federal Reserve interest-rate increases.

While the vast majority of the positions are in index funds, WIT also acquired $15 million of Coinbase, the cryptocurrency exchange whose shares have tumbled 73% this year, and 64% since March 31.

The Walton family's fortune is estimated to be in excess of $200 billion, according to the Bloomberg Billionaires Index. About half of that is tied to Walmart Inc., the company founded by Sam Walton in 1950.

SEC rules require investors managing more than $100 million in U.S. equities to disclose their holdings, though family offices can appeal to keep these documents confidential.

Bloomberg Markets

By Pierre Paulden

May 13, 2022

S&P Cyber Brief: Reviewing The Credit Aspects Of Blockchain

Key Takeaways

- Cyberattacks affecting issuer creditworthiness increased in 2021 and are continuing with regularity in 2022.
- Blockchain is often cited as a security control option to avoid malware and distributed denial-of-service (DDoS) attacks, but using blockchain introduces other risks.
- Cryptography, including digital signatures, differentiates a blockchain ledger from a centralized

database, providing additional security.
- Credit risks of using blockchain could be administrative, operational, legal, and regulatory.

Continue reading. [Free registration required.]

5 May, 2022

DeSantis's Dissolution of Disney District Stumps Credit Raters.

- **Moody's and S&P say it's unclear how new law affects bonds**
- **Disney's tax district has sold about $1 billion of muni bonds**

Florida Governor Ron DeSantis's move to punish Walt Disney Co. by dissolving its debt-issuing district has befuddled two of the major credit rating companies that assign high marks to its municipal bonds.

Moody's Investors Service and S&P Global Ratings have changed their outlooks on the property tax bonds sold by the Reedy Creek Improvement District to "developing" — a rare designation that doesn't give bondholders much insight on how their investment will fare. The outstanding securities are rated Aa3 by Moody's and AA- by S&P, the fourth-highest levels available.

"Developing scenarios do not come up every day," said Geoffrey Buswick, a managing director in S&P's U.S. public finance team. "They are typically associated with an event where, depending on the outcome, the committee could see different credit paths." To put this in perspective, out of the more than 20,000 municipal securities rated by S&P, there are only six that have a developing outlook, according to the company.

This means that depending on how the dissolution pans out, the credit quality of the district's debt "could improve, remain the same, or weaken," analysts at Moody's wrote in an April 26 report. Those at S&P noted there is "at least a one-in-three chance" that the bonds could be positively or negatively impacted by the legislative action, but "future events remain unclear."

The vagueness speaks to how unusual it is for lawmakers to upend a corner of the $4 trillion municipal-bond market in a matter of days. Florida Republicans introduced the bill that could strip Disney of self-governing privileges on April 19, and in under a week it passed both legislative chambers and was signed by DeSantis.

Reedy Creek has about $1 billion of debt outstanding, which includes property-tax and utility bonds, according to data compiled by Bloomberg.

Meanwhile, Fitch Ratings took a stronger stance, moving the bonds to a negative watch. Dissolving the district and transferring its property will be complicated, increasing the likelihood of negative ratings actions, said Michael Rinaldi, Fitch's head of U.S. local government ratings.

The law says that without further legislative action, Reedy Creek would be dissolved in June 2023, giving stakeholders about a year to decide on next steps — whether it's transferring responsibilities to other local governments or creating a successor district. But for now, it seems that bondholders and ratings analysts will just have to sit tight.

Bloomberg Markets

By Danielle Moran

May 3, 2022

Jobs Act Directs Private Activity Bonds to Clean Energy, Carbon Capture: Holland & Knight

Highlights

- The Infrastructure Investment and Jobs Act provides a "once in a generation" investment into the nation's infrastructure, including $62 billion for clean energy, in addition to traditional infrastructure such as roads, bridges, transit and airports.
- Direct funding is set aside for several important climate programs, including electrification of the transportation system, buildout of the nation's power grid and cleanup of abandoned mines.
- Carbon capture, utilization and storage equipment, and direct air capture technologies are eligible for private activity bond financing through a new category of exempt facility bonds: qualified carbon dioxide capture facilities.

Continue reading.

Holland & Knight

by Luisella Perri | Woody Vaughan | Peter Baumgaertner | Michael L. Wiener | Caroline Sage

MAY 2, 2022

Increasing Higher Education Cyberattacks Add to Financial Pressures: Fitch

Fitch Ratings-Austin/Chicago/New York-05 May 2022: The higher education sector has seen a rapid increase in the number and severity of cyberattacks since 2020, at a time when many of these institutions are already grappling with financial and operating stress related to the pandemic, Fitch Ratings says. The sector is viewed as a target-rich environment due to the large amount of sensitive data, namely intellectual property (IP) and personally identifiable information (PII), that these institutions maintain for student curriculum, research and operations.

Threat actors took advantage of the pandemic to cause disruption to the higher education sector at a time when it was facing unprecedented challenges and a sharp shift to online delivery. Colleges and universities became much more reliant on remote third-party learning platforms and personal student devices to conduct classes, significantly increasing the exposure for these institutions. Insufficient digital infrastructure and network protection protocols can be material vulnerabilities across the sector.

A unique risk facing the sector is the theft of research data and IP by nation-state actors. In the past two years, more than 200 universities publicly disclosed they were victim to this type of theft, according to a 2021 threat intelligence report from BlueVoyant. Attacks targeting medical and biotech research accelerated during the pandemic, although the main target is still industrial and defense technology information. These cyberattacks could result in the loss of competitive grants and future patent royalty revenues, both critical lines of revenue for research-heavy institutions. In cases where staff or researchers are implicated, the risk of legal and financial repercussions are elevated. Federal contracts generally have cyber hygiene requirements with which universities may need to comply in order to conduct research or receive federal funding.

Investment in cyber preparedness is critical, as underfunding will continue to be exploited by bad actors as long as profit incentives remain high and outweigh the perceived risks of criminal prosecution. Institutions with larger financial cushions typically have more flexibility to afford material IT spend to shore up cyber defences or to respond to an attack. However, these costs would place a greater burden on institutions facing pre-existing operating pressures or with limited financial reserves. The average total cost of a data breach in the higher education sector is about $3.9 million, according to a 2020 Ponemon Institute report.

This effect of cybercrime is exacerbated by labor and funding issues. According to BlueVoyant, 77% of sector CIOs listed hiring and retaining IT talent as a top institutional priority that was hindered by uncompetitive salaries. Another two-thirds reported that IT funding has not recovered from budgetary cuts over the past decade. Preliminary Fitch median data suggest that overall capital spending still trails pre-pandemic levels.

Ransomware attacks against universities doubled through 2020, per BlueVoyant, and, together with ransom demands, continue to increase. Ransomware trends, such as double extortion, where attackers do not return access to data and threaten to leak stolen data if a ransom is not paid, are a critical risk, as college and university databases contain a wealth of sensitive information. Cyber breaches that disclose confidential information carry financial, legal and reputational risks, and the risk of enforcement actions, due to regulations regarding privacy and confidentiality.

In the event of a cyberattack, Fitch would assess the effect on financial metrics and performance disruption to operations and provision of services, delays in revenue generation, ransomware payments or unexpected capital costs. Cyber risk is an asymmetric credit consideration reviewed as part of our assessment of management and governance, where only weaker characteristics may affect the rating and are reflected in an elevated Environmental, Social and Governance (ESG) Relevance Score.

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S&P U.S. State Ratings And Outlooks: Current List

View the current list.

6 May, 2022

Fitch: U.S. to Recover All Pandemic-Driven Job Losses by Q3 2022

Fitch Ratings-New York-02 May 2022: The U.S. post-pandemic employment recovery continued at a remarkably steady pace in Q1 2022; all jobs lost at the onset of the pandemic are expected to be fully recovered by Q3 2022, according to Fitch Ratings.

“Thirteen states have recovered all job losses resulting from the pandemic. The state median jobs recovery rate is 89 percent, up eight percentage points from Q4 2021,” said Olu Sonola, Head of U.S. Regional Economics. “Hawaii and Louisiana are the only states to not have recovered at least 70 percent of all jobs lost during the pandemic.”

The states that have recovered all jobs lost to the pandemic are Arkansas, Florida, Georgia, North Carolina, Tennessee, Texas, Arizona, Idaho, Indiana, Montana, South Dakota, Utah and Colorado.

As of Q1 2022, Nebraska, Maine and New Mexico led continuing recoveries on a quarter-ove--quarter basis, increasing by 14.3, 12.0 and 11.7 percentage points, respectively.

The median unemployment rate at the end of Q1 2022 of 3.6% now equals the February 2020 pre-pandemic rate of 3.6 percent. The unemployment rate is now below the pre-pandemic level in 27 states.

At the end of 1Q 2022 a key measure of labor market shortages, the ratio of job openings to the unemployed, was a median 1.9 across all states. However, labor market shortages continue to be particularly acute in the West and Midwest regions.

Labor market shortages have contributed to elevated wage growth across many states. Year-on-year statewide increases in average hourly earnings range from 0.2 in Hawaii to 10 in New Mexico. Generally, the states with a higher ratio of openings to the unemployed have a higher rate of wage growth since Q1 2021.

For more information, a special report titled “U.S. States Labor Market Quarterly Tracker 1Q 2022” is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

[S&P U.S. Public Parking Facilities Ratings And Outlooks: Current List]

[View the list.]

4 May, 2022

[S&P U.S. Transportation Infrastructure Sector Update And Medians: U.S. Parking Sector View Is Now Stable]

Key Takeaways

- We are revising our U.S. parking sector view to stable from negative based on improving health and economic conditions, which we believe will continue to drive a recovery in parking demand over the next 12 months. Overall, we expect demand recovery coupled with prudent management actions–including parking rate increases or expense reductions, if necessary–will provide credit stability.
- Parking ratings remained relatively stable through the pandemic, with only five downgrades as of May 4, 2022, across a small universe of 20 issuers. Four of the five parking systems downgraded were rated in the 'BBB' category or lower, with two being speculative grade going into the pandemic. Several parking bonds, specifically those tied to airport or mass transit systems, were redeemed, refunded, or defeased by another government entity during the pandemic as parking volumes significantly declined.
- Our analysis of 2020 and 2021 parking medians revealed positive management actions and extraordinary support provided to limit the financial implications of the precipitous drop in utilization, with median debt service coverage (S&P Global Ratings-calculated) declining to a vulnerable (but still sufficient) near 1.0x in 2020 and 2021 from a strong 1.33x in 2019.
- Over the longer term, ongoing challenges and exposures to future health-and-safety-related mobility restrictions, behavioral changes of users (such as a shift to more remote work), evolving

urban centers, and technological innovations (such as video conferencing, online shopping, and charging stations for electric vehicles) will likely influence future parking demand.

Continue reading.

4 May, 2022

Inflation Isn't All Bad for Tobacco Bonds Battered by Selloff.

- **Illinois settlement, inflation boost payouts to $7.3 billion**
- **About $90 billion muni bonds are backed by settlement payments**

There's a little bit of good news for tobacco municipal-bond investors who have been battered by the market sell-off. The inflation that fueled the rout to begin with is, in a fortunate twist, boosting the revenue backing their holdings.

Payments to U.S. states this year under a 1998 national settlement with major tobacco companies rose by 10%, despite a decline in cigarette sales, according to figures disclosed late last month by the National Association of Attorneys General. That's in part because under the settlement, the companies have to increase their annual payments to adjust for inflation.

Tobacco companies led by Altria Group Inc. paid 46 states and territories about $7.3 billion, the highest since 2013, the data show. Along with a one-time windfall from a legal settlement, the 7% inflation adjustment helped offset a 6.1% cigarette sales decline.

"Inflation this year was helpful for tobacco bonds from a payment stance," said Sarah Gehring, a municipal credit analyst at UBS AG.

That said, it hasn't helped returns. Junk and non-rated tobacco bonds have lost about 16.3% so far this year, the worst sector among high-yield municipal debt, according to Bloomberg indexes. High-yield muni funds, suffering from a flood of investor redemptions, typically sell tobacco bonds first because they are among the most liquid high-yield muni securities. By contrast, investment grade tobacco bonds have lost 8.9% this year, about the same as the overall market.

Investors have pulled about $8.2 billion from high-yield muni funds this year amid a broad bond-market selloff and are on pace to break the record set in 2013, according to Refinitiv Lipper US Fund Flows data.

"A lot of the movement we see in tobacco is really technically driven," said Dan Barton, head of municipal research at Insight Investment Management.

Tobacco bonds are the worst-performing sector within high-yield munis

Illinois Settlement

State and local governments settled with cigarette makers to compensate taxpayers for decades of public health costs associated with smoking. Some governments have sold bonds, borrowing against the payments they expect to receive over years from this settlement. Payments on about $90 billion tobacco bonds outstanding, by par value, are based on cigarette shipment volumes, according to data compiled by Bloomberg.

To be sure, most of the payment increase to states this year came from an extra $546 million Illinois received to settle a dispute over money withheld by tobacco manufacturers. Excluding Illinois' windfall, payments rose 2% on average because of the inflation adjustment, according to UBS.

The tobacco settlement agreement requires manufacturers to boost their annual payments at least 3% — or more if inflation is higher. Inflation rose 7% in the 12-months ended December 2021 and has since increased to 8.5%.

After rising in 2020, the first year of the pandemic, tobacco sales fell in 2021 as federal pandemic stimulus payments wound down, said Gehring.

And those declines continue. Altria estimated that domestic cigarette industry shipment volume decreased 6.3% in the first quarter of 2022.

Smoking Habits

A combination of higher gas prices, consumer-goods inflation and the recent conclusion of Covid-19 relief programs is likely weighing heavily on smoking habits, according to Bloomberg Intelligence analyst Kenneth Shea.

Last week, the Biden administration disclosed details on a proposed ban on menthol cigarettes, which make up around 30% of U.S. cigarette sales, according to Barclays Plc.

Tobacco bonds issued in the last few years are structured to withstand significant smoking declines. Illinois bonds issued in 2017 and rated A by S&P Global Ratings Inc, were structured to withstand annual tobacco shipment declines of about 18% without defaulting.

However, junk and non-rated tobacco bonds — which have a higher ratio of outstanding debt to annual payments from the companies and long maturities — are vulnerable to lower smoking rates and more sensitive to regulatory changes. Earlier vintages of the bonds assumed smaller annual consumption declines, of 3% to 4%, and carry greater risk.

In addition to its annual payment of about $260 million, Illinois received an extra payment to resolve a long-running dispute with tobacco companies over allegations the state wasn't enforcing a statute aimed at protecting them from losing market share to firms that didn't sign onto the 1998 agreement.

Since the national settlement imposed significant costs to the tobacco companies that participated, states adopted laws assessing similar costs on cigarette makers that didn't participate to level the playing field. Disputes arose in Illinois and other states over the enforcement of the statues and as a result tobacco companies withheld payments.

In 2013 and 2021, arbitration panels found that Illinois had upheld its obligation. The settlement resolves the companies' dispute with Illinois until 2028.

Although the additional payment is positive for Illinois tobacco bond holders, prices on the $670 million securities are little changed as the muni market contends with near-record outflows.

Bloomberg Markets

By Martin Z Braun

May 4, 2022

Office of Management and Budget Issues Buy America Implementation Guidance: Nossaman

The Office of Management and Budget ("OMB") recently issued initial Buy America implementation guidance required by Sections 70901-52 of the Infrastructure Investment and Jobs Act (P.L. 117-58; "IIJA").

The Buy America preference applies to federally supported public infrastructure projects, including the structures, facilities and equipment for highway, transit, water and energy projects in the United States. Effective May 14, 2022, the Buy America preferences require that:

Continue reading.

By Alyn Shen, Shant Boyajian on 05.02.2022

Nossaman LLP

What Does the Dynamic Nature of Yield Curve Indicate?

In the last few weeks, many investors were alarmed by the "inverted yield curve," as for some, it indicates a financial recession being imminent in the near future. The yield curve movements and its inversion are two of the closely tracked phenomena by many fixed income investors.

The dynamic nature of the yield curve typically showcases how certain market forces and political decision making are impacting capital markets, and more importantly, the economy in general. From normal yield curve to flattened shape and then to some form of inversion are all indicative of the financial market conditions at a particular time – and, since it illustrates time/maturity related to the interest rates, investors watch the yield curve shapes very closely.

In this article, we will take a closer look at the different shapes of the yield curve and what the current yield curve indicate.

Continue reading.

municipalbonds.com

by Jayden Sangha

May 05, 2022

What Is a Zero-Coupon Bond?

Learn more about what zero-coupon bonds are, how they make money, and how they might fit into your portfolio.

Most bonds in the investment universe work by providing a stream of regular interest payments to the investor over the life of the bond. When a typical bond comes due — or when the bond reaches its maturity — the investor receives the face value of the bond, and the transaction formally ends.

Zero-coupon bonds are debt securities that are sold at deep discounts to face value. As their name indicates, they don't pay periodic interest payments, but they do reach full maturity at a certain point, and the bondholder then receives the face value of the bond, plus any accrued interest.

Understanding zero-coupon bonds

Zero-coupon bonds make money by being sold to investors at substantial discounts to face value. Zero-coupon bonds compensate for not paying any interest over the life of the bond by being available for far less than face value. Put another way, without a deep discount, zero-coupon bonds wouldn't be especially competitive.

Continue reading.

The Motley Fool

Sam Swenson, CFA, CPA

May 4, 2022

Muni Carnage Could Create Opportunity.

Municipal bonds and the related exchange traded funds are languishing as interest rates rise, but a silver lining could materialize.

While the first four months of 2022 have been rough on munis, some market observers believe that rare opportunity could avail itself in this corner of the bond market. That could be a boon for an array of exchange traded funds, including the VanEck Vectors Muni Allocation ETF (MAAX).

"Relative to other fixed income investments, muni yields are attractive, too. One common metric to analyze the relative attractiveness of the muni market is the municipals over bonds (MOB) spread," says Cooper Howard of Charles Schwab. "It's a ratio of the yield on a AAA muni to that of a Treasury before considering the tax benefits that munis offer. Since the start of the year, the MOB spreads for most maturities have been steadily climbing and are now above their five-year averages."

MAAX is a relevant consideration in terms of finding opportunity and value with muni bonds because the ETF's 19 holdings are other ETFs and closed-end funds spread across varying credit qualities and durations.

Current MAAX components include the VanEck Vectors Long Muni ETF (MLN), the VanEck Vectors High Yield Muni ETF (HYD), and the VanEck Vectors Short High Yield Muni ETF (SHYD).

"Although prices have fallen, it's largely due to rising interest rates and not credit concerns. As a result, we believe the risk of defaults in the muni market remains low," adds Howard. "The ongoing economic recovery, combined with the multiple rounds of federal aid, have helped bolster most state and local governments' finances. Tax revenues have surged and rainy day funds (a pool of money a state can use under certain circumstances) are also at record highs, according to the National

Association of State Budget Officers. Generally, states have used rainy day funds to help counteract the negative impact of declining revenues."

Translation: With prices down, yields up, and state and local finances mostly sturdy, some high-yield muni exposure could be warranted. With HYD, SHYD and other holdings, MAAX offers those credit opportunities, and the ETF sports a 30-day SEC yield of 2.74% — confirmation that investors are compensated for credit risk.

To that end, 68% of MAAX's holdings carry investment-grade ratings, while only 9.58% have junk grades, indicating that credit risk is minimal with this fund.

ETF TRENDS

by TOM LYDON

MAY 2, 2022

Barclays Says to Buy Disney District Munis Amid DeSantis Feud.

- **If dissolution goes through, investors could see 'upside'**
- **Reedy Creek has about $1 billion of outstanding muni debt**

The municipal bonds caught in the middle of a feud between the Walt Disney Co. and Florida Governor Ron DeSantis look attractive given the securities' protections for bondholders, according to strategists at Barclays Plc.

The Reedy Creek Improvement District, a special district in central Florida that encompasses the Walt Disney World Resort and theme parks, has racked up about $1 billion of outstanding municipal debt over the years — and now those bonds have been thrown into limbo amid the fight. In April, DeSantis signed a law that would dissolve the district in 2023 barring further legislative action.

Some of the investment-grade bonds have cheapened since DeSantis announced that he wanted the legislature to consider ending the special privileges that Disney enjoys in the state through the special district that was created in 1967. Debt due in 2026 traded at a spread of 86 basis points on Friday, compared to as little as 30 basis points in early April.

Investors and analysts have been trying to figure out how Florida's unusual move to dissolve the district will play out in the municipal-bond market. Credit-rating companies have noted the uncertainty surrounding the situation, and have held off on downgrading the bonds. Research firm Municipal Market Analytics said last week that it's a buying opportunity, and Barclays is now voicing a similar view.

Strategists at Barclays say the Reedy Creek bonds are protected by the state of Florida's pledge not to impair the debt for the life of the obligations. The security on the bonds is "expressly contingent" on the state's pledge not to limit or alter Reedy Creek's right to own projects or collect taxes, which constitutes a non-impairment clause, they said.

"If the dissolution goes through, we could see upside to bonds from current levels; if it does not, we would not expect much downside; hence, this risk-reward seems attractive to us," strategists Clare Pickering, Mayur Patel and Mikhail Foux wrote in a note to clients published Friday.

There is potential for upside in the debt because the investor protections mean that the bonds may have to defeased, or paid off, in order for the district's dissolution to go through, according to Barclays. There are several ways of defeasing outstanding bonds including a tender, make-whole or refunding, the strategists wrote.

"Most options will likely result in price appreciation of outstanding bonds from current levels," they said.

The new Florida law doesn't specifically outline a succession plan for the district's responsibilities and its debt. Reedy Creek told bondholders that it expects to explore options while continuing to pay debt service, according to an April regulatory filing. The filing noted Florida's pledge to bondholders.

"We find the district's bonds are attractive at current levels and recommend buying RCID taxable and tax-exempt bonds," the Barclays strategists wrote.

Bloomberg Markets

By Danielle Moran

May 6, 2022

Kansas City Bonds And American Dream Mall (Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

May 06, 2022

Green Meets Munis in Brand New MBNE.

Experienced fixed income investors know about municipal bonds. That's a given. More recently, many have been getting wise to green bonds, or debt issued to fund environmentally friendly projects.

Those concepts meet in the SPDR Nuveen Municipal Bond ESG ETF (MBNE), which debuted in April. The actively managed MBNE is sub-advised by Nuveen. MBNE, which attempts to beat the Bloomberg 3-15 Year Blend (2-17) Municipal Bond Index, is off to an impressive start, as highlighted by $32.29 million in assets under management in just about a month on the market.

That's an encouraging sign for multiple reasons, not the least of which is the point that bonds of nearly all styles are struggling this year due to interest rate tightening by the Federal Reserve. Importantly, MBNE's impressive start is relevant because it shows that there's appetite for the marriage of green bonds and municipal debt.

"The municipal bond market saw another record year for sustainable bonds in 2021, with $46 billion in issuance across the three categories of green, sustainability, and social bonds. This was an increase over the $27 billion in ESG-labeled issuance in 2020," writes Parametric's Lauren Kashmanian. "Based on current growth projections for labeled bonds in the municipal bond market, issuance could grow to $60 billion this year. To put these numbers in perspective, sustainable-labeled issuance in the municipal market totaled 9.7% of overall municipal bond issuance in 2021, up from a 5.5% share in 2020. This could increase to about 13% of total projected annual issuance for 2022."

Home to 94 bonds, MBNE sports an option-adjusted duration of just over five years, meaning that this is an intermediate-term ETF. MBNE's current yield is 4.38%,
according to issuer data. That's arguably staggering by the standards of traditional muni bond funds, and it far exceeds what investors earn on 10-year Treasuries.

While MBNE only holds 94 bonds, that number could be due to the fund being actively managed and the growth in green muni space.

"The green bond category covers a range of issuers and sectors that continues to expand, including sustainable building projects, wastewater management, renewable energy, climate-adaptive infrastructure, and clean mass transit," adds Kashmanian.

Last year, green munis accounted for 47% of overall sustainable bond issuance. Spotting sources of growth for green municipal bonds isn't difficult.

"Green buildings and water-related improvements represented the two largest shares of green muni bond issuance in 2021, each at 33%, followed by public transportation at 20%," concludes Kashmanian.

ETF DATABASE

BY Tom Lydon

May 09, 2022

Retail Investors Tiptoe Back Into Muni Bonds as Yields Beckon.

- **Number of daily trades is rising, a sign of retail activity**
- **Buyers may be lured by higher yields after muni market selloff**

Retail investors are showing signs of tiptoeing back into the $4 trillion tax-free bond market by one measure, signaling that key holders of the debt may be looking for bargains.

The number of daily trades surpassed 60,000 on a few days in late April, levels last seen during the 2020 pandemic-induced selloff. In March, that figure averaged around 42,600, according to trade data from the Municipal Securities Rulemaking Board.

The increase in the number of daily trades exceeds the growth in the total dollar value of trades. That suggests that more trades are of smaller size, typically a sign of retail investors getting more active.

To the extent individual investors are buying, they're doing so after muni bonds have been getting weaker all year. Average yields are about 3.2%, compared with 1.1% at the end of last year, according to Bloomberg index data. Excluding a brief time in the early part of the pandemic, current levels are the highest in years. And for some securities, yields can be even higher, which is attracting investor interest.

"Tax-exempt yields above a 4% have caused people to re-engage in the asset class," said Christopher Lee, head of municipal-bond sales for Wells Fargo's Corporate & Investment Bank & Co. He said the rising number of trades is a "gauge of retail engagement."

The number of muni trades per day has surged, a sign of retail activity

If more retail investors are buying, they're still only taking baby steps. Investors have pulled money out of muni bond mutual funds for 11 straight weeks through the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data.

"We have been seeing a lot more interest from retail investors lately," Nisha Patel, a managing director at Parametric Portfolio Associates LLC, said. "While yields may go higher due to pressure from market outflows, I think we are in an opportunistic range of yields already," she said. "These are yields that the market has not seen since 2018, excluding the start of the pandemic."

While historically retail investors were the biggest holders of tax-free bonds, institutional investors have been acquiring a growing share of the market in recent years. Households and nonprofits directly held about 28% of muni bonds at the end of 2020, according to Citigroup Inc.

Max Christiana, a portfolio manager for Belle Haven Investments, said it's hard to know when the market has reached an absolute bottom, but it doesn't make sense to wait.

"It would be wise for investors to lock in yield during this buying period, rather than arrive at the party too late when the market normalizes," Christiana said.

Bloomberg Markets

By Skylar Woodhouse and Amanda Albright

May 2, 2022

BlackRock's Carney: Munis to Hold Well Amid Rising Rates

Sean Carney, BlackRock's head of municipal strategy, says municipal bonds will "hold in well" as the Federal Reserve raises rates. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

May 3rd, 2022

Bonds Are Starting to Look Attractive. Investors Should Be Careful in Chasing Yield.

With the Federal Reserve aggressively raising interest rates, bonds' yields have been climbing (and their prices falling). Pros are mixed on when is the time to buy.

As bond yields remained ultralow for many years, dividend stocks didn't have a lot of competition for income investors' attention. But now, as the Federal Reserve continues to raise interest rates and tighten monetary policy to fight raging inflation, the competitive landscape has changed dramatically and swiftly.

Investors, however, need to use caution before they start chasing fast-rising bond yields. The 10-year U.S. Treasury note's yield was shade below 3% this week, up from about 1.5% at the end of 2021. Bond yields and prices move in opposite directions—in this case, pressuring prices in various fixed-income classes such as high yield, investment-grade corporates, and municipals ahead of what's expected to be more rate hikes and tightening by the Fed.

Still, "for the first time in over a year, we are starting to see interest from our client base in allocating to fixed income," says Robert Michele, chief investment officer at J.P. Morgan Global Fixed Income, striking a more upbeat view about bond-investing prospects at current levels.

Institutional investors such as pension funds and insurers, he says, have shown interest in investment-grade corporates yielding in the 4.5% neighborhood and even around 5% with longer maturities, among other assets.

Some individual investors, Michele adds, have been putting money into municipal bonds, whose yields have also risen nicely this year, as well as some taxable bonds.

Michele says that market expectations for the federal-funds rate—the central bank's short-term interest rate benchmark—indicate that it will be at roughly 3.25% a year from now, compared with the current target of 0.25% to 0.5%. (The Fed is expected to boost that Wednesday by a half percentage point.)

Michele believes that short-term rates of 3.25% a year from now—or in that vicinity—makes sense, and is something that bond investors can live with. "It feels like we've put in a bottom in terms of bond prices for the next six-to-nine months," he says.

Still, the bond market is fraught with crosscurrents.

Tom Tzitzouris, head of fixed-income research at Strategas, says that while sophisticated investors can trade in and out of Treasuries as yields and prices bounce around, "for the long-term investor, I don't see this as an entry point."

He wants to see the 10-year Treasury note's yield to move up to around 3.25%, or even a little higher. "I do believe the 10s can get up there," Tzitzouris says. "I don't know if we're going to get up there next week or next month or next year. [But] that would be a good point for a buy-and-hold investor" to jump into bonds.

Tzitzouris adds that he doesn't see much value in the 10-year at its recent yield range because it's "below even the most optimistically low inflation expectation over the next decade of 3%."

Michele is a little more upbeat about fixed-income opportunities, including investment-grade corporate bonds. "There's still a high degree of confidence that the Fed has enough tools in this cycle to engineer a soft landing," he says, adding that corporate profitability has been strong.

He also likes municipal debt, which "might be the one part of market that's is the most underappreciated." Ten-year AAA municipal bonds recently had taxable equivalent yields of roughly 4%, well above where they were at the beginning of the year.

Barron's

By Lawrence C. Strauss

May 4, 2022 10:30 am ET

Fitch: Ransomware a Growing Cyber Risk for US Corporates, Financials, Govt

Fitch Ratings-New York/Chicago-27 April 2022: The frequency, severity and sophistication of ransomware attacks in the U.S. rose dramatically in 2021 from the prior year, a trend that is expected to continue as long as profit incentives remain high and outweigh perceived risks of criminal prosecution. While Fitch has not taken credit rating actions in any sector from a ransomware attack, risks are increasingly negative for affected issuers due to rising ransom costs amid increasingly effective extortion techniques, and the increasingly diverse proliferation of attacks given the interdependency of systems and businesses across the supply chain.

In 2021, there were 421.5 mil. attempted ransomware attacks in the U.S. and 623.3 mil. globally, up 98% and 105% YoY, respectively, according to a March 2022 report from the Senate Committee on Homeland Security and Governmental Affairs. Ransom payments are also increasing; for 1H21, financial institutions reported $590 million in ransomware payments, exceeding all payments made in 2020.

Cybercrime has increased since the pandemic as businesses expanded their remote access capabilities and digital footprints. According to the Senate report, ransomware attacks on government entities outpaced attacks on the private sector. Sectors such as healthcare and financial services that possess valuable personal sensitive information, payment data or intellectual property tend to be targeted most.

Cyber criminals indiscriminately targeted high-value organizations with substantial financial resources and increasingly small-medium-sized enterprises across the globe throughout 2021. Cyber criminals are increasingly utilizing denial of service (DoS) and other burgeoning extortion techniques such as ransomware-as-a-service (RaaS) and are continually rebranding to evade law enforcement. The stealing and encrypting of sensitive personal data in double- and multi-pronged extortion attacks have also grown dramatically. These attacks often occur by utilizing leak sites on the dark web with the threat of releasing of sensitive data and personal information.

Increased incidents have led to executive orders and proposed legislation to address these risks. There were also several high-profile arrests within several ransomware groups and some even claiming to have shut down, even if temporarily. In the U.S., the Cybersecurity and Infrastructure Security Agency (CISA) has mandated minimum hygiene levels and the FBI patched vulnerable servers via a court order. The SEC recently proposed new rules for enhanced and standardized cybersecurity incident reporting disclosures by publicly traded companies within four business days of the event.

These positive steps are additive, with potential material benefit from increased levels of transparency regarding cyber risk, and the elevation of these risk concerns to the board and executive levels. This is critical as boards establish budgets for risk management, but more importantly approve risk parameters and choose leadership that establishes risk culture.

Fitch will review any reported, known or identified cyber incident individually, assessing the effects of a cyber event relative to ratings headroom and financial, operational and reputational impacts. As cybersecurity is an asymmetrical risk, Fitch does not give credit for favorable cyber hygiene and risk management, but deficient cybersecurity management can adversely affect ratings.

Easy Muni Money Vanishes and Issuers Are Paying Up.

- **Several muni-bond sales on pause as yields surge ever higher**
- **Era of easy money for cities is ending as the Fed hikes near**

U.S. cities and states are paying up to get muni deals off the ground as buyers gain more bargaining power — a marked departure from the anything-goes market for sellers in the easy-money era.

Issuers including Denver and New Hampshire are finding buyers now have the upper hand as the Federal Reserve's push to tighten monetary policy raises refinancing costs. A $246 million portion of a bond sale from the city of Denver had a total interest cost of 3.21% versus around 1.75% for a similar offering two years ago.

At the same time, Mississippi State University is pausing plans for a debt refinancing because yields have jumped so much that the transaction doesn't make financial sense anymore. Meanwhile Texas sold AAA rated bonds for its water loan program last week, offering a whopping 233 basis points versus just 11 basis points for its similar two-year bonds launched back in September 2021.

Another way of thinking about it: The great muni selloff is offering investors saddled with historic losses this year one small win in the form of bargain prices on new deals.

"We've seen the pricing power shift from the issuers, who were seeing that excess demand and heavy subscriptions in 2021 — we're now seeing that power shift to investors," said Christopher Lee, head of municipal-bond sales for Wells Fargo's Corporate & Investment Bank & Co. "They're being much more disciplined and selective due to having lower cash positions, rising rates and volatility as a whole."

Yields on 30-year AAA munis have jumped about 150 basis points in 2022

Tougher Market

Investors say current conditions bear soft echoes to the 2020 rout, when borrowers were forced to offer elevated payouts because of ultimately unfounded concerns that municipalities would see their finances deteriorate drastically from the pandemic.

Now money managers have sway over how issues are priced and structured, and are more comfortable turning down transactions than they were last year.

When Denver, Colorado, sold bonds last week, for example there were fewer bidders than usual on the sale, though it still amounted to a little less than a dozen bidders, according to Guadalupe

Gutierrez-Vasquez, Denver’s cash and capital funding director for the finance department. “We didn’t see nearly as much participation,” she said.

The city found that there was more interest in a taxable transaction that featured shorter-dated maturities. “Investors are definitely reluctant to go longer out on the yield curve,” she said.

Still, she said that the borrowing costs in the muni market remain historically low. The yield on the Bond Buyer’s 20-year index stands at about 3.2%, while it’s averaged 5.5% since the 1960s, the data show.

While the primary market remains open, long-term municipal debt sales are down 11%, according to data compiled by Bloomberg. Several debt refinancings have been paused due to the market volatility. An Arizona agency delayed the sale of $146 million of bonds to refinance securities sold for the stadium home to the National Football League’s Arizona Cardinals, according to Teddy Eynon, the chair of the agency’s board. The agency expects to move forward with the sale over the next 30 days, he said in an emailed statement.

When it made issuance plans, New Hampshire’s Department of Transportation was expecting it would generate savings of around $17 million based on yields as of early January, said Marie Mullen, director of the department’s division of finance. Now thanks to the spike in interest rates, its April bond sale — which hasn’t closed yet — is estimated to generate less savings than that, around $6 million, Mullen said. All the same, it still meets the savings threshold that the state looks for to conduct such refinancings.

Yield Is Back

As new deals are priced, investors are also facing elevated levels of bonds up for sale in the secondary market. The amount of bonds out for the bid on Bloomberg’s platform has stayed high, averaging about $1.1 billion in 2022, about twice the level seen in 2021.

The elevated bid lists are akin to “shadow supply” each week, Lee said. “That’s another form of supply the market has had to digest,” he said.

Wesly Pate, a portfolio manager at Income Research & Management, said the market is behaving in a way that’s “healthy.”

Deals that are struggling are typically not offering enough in yield to compensate for the risks, he said. Those transactions may need the bank underwriting the debt to step in and hold some of the securities as a result.

Borrowers with lower credit ratings are having to pay higher yield penalties, known as credit spreads, to compensate investors for the risks. Revenue bonds rated A are offering over 0.6 percentage points of additional yield compared to AAA rated debt for the highest since late 2020, according to Bloomberg BVAL.

“The market is differentiating across credits once again,” he said. “What we’re seeing today is a return to healthy market discourse and healthy market behavior in terms of appropriately evaluating risk and spreads.”

Bloomberg Markets

By Amanda Albright

April 26, 2022

Fitch: Key Credit Risks Evolve as Stagflation Potential Rises

Fitch Ratings-New York-26 April 2022: The global credit environment has shifted significantly over the past several months with the Russia/Ukraine war upending the macroeconomic outlook and shifting plausible risk scenarios, says Fitch Ratings. The outlook for monetary tightening has increased notably, as has the potential for stagflation, wherein interest rates and inflation rise faster amid lower-than-expected growth.

The effect of a global stagflation scenario on our ratings portfolio would be most felt in sectors with greater exposures to higher input costs, heightened market volatility and tightened financing conditions. This includes industrial and travel-related sectors and finance and securities firms, especially in emerging markets.

Heightened macroeconomic, financial market and geopolitical uncertainty will also have contributing effects on other key risks, including from a debt overhang and asset bubbles, supply chain and trade disruptions, climate transition and Chinese financial sector risks. Each of these risks has been torqued by the events of the past two months, mainly from materially higher inflation and interest rate projections, a significant commodity price shock, added trade and supply chain interruptions and shifting policy prioritizations around Europe’s energy transition.

Other emerging and related risks also remain, including those from increased cyber-attacks and ongoing coronavirus-related effects on transport, supply chains and economic activity in certain key economies.

For additional information and links to our most relevant reports on Fitch’s key credit risks, please see our latest Risk Headquarters report available through the link above.

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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.

How Should The Public Sector React To Inflation?

Inflation in the 12 months to March 2022 hit 6.2% in the UK, according to recently released figures from the Office for National Statistics. This will result in the biggest fall in living standards in 30 years.

Expectations are for inflation to rise even further. It's a trend we're seeing around the world – one that will result in difficult conversations and even harder decisions being taken in households everywhere.

The effects of inflation are most often felt in the increase in the price of household bills, groceries, and gas for your car, as your money buys less than it used to. But public sector organizations around the world that provide essential public services are not immune to the risks that inflation brings either.

These same difficult choices that private citizens are having to make will have to be made by local governments and public bodies too. As the cost of providing their essential services continues to rise, procurement departments will witness these increases first-hand.

Inflation has the potential to severely disrupt public bodies, especially through their contract procurement and contract management as the cost of services, materials, and supplies rise further. To better insulate themselves from the decline in purchasing power, public bodies should be looking to update their existing contractual terms.

Already agreed fixed-price contracts bring risk too. The increase in cost of building supplies may incentivize contractors to cut corners to save money, resulting in poor quality results. Inflation also has the potential to put suppliers and contractors out of business – leaving the customer with few options for compensation. The management of especially high-value contracts will need specialist skills and expertise to negotiate and manage, as the risks of failure are significantly greater.

Public procurement departments must also be alert to opportunistic suppliers trying to pass on costs because they see the public sector as a soft target with unlimited funds. Or alternatively, they may continue to charge higher prices while blaming inflation – even if the cost of goods begins to fall. To guard against this, procurement professionals need to have the skills to manage contracts in a way that benefits the public, mitigates and identifies potential risks, and delivers value for money.

Public bodies are there to serve citizens. As inflation rises, securing value from taxpayer money will become more important than ever, while continuing to provide essential services that many people rely on. As times change and volatile world events shape our reality, contract negotiation and management will be the first line of defence to guard against these pressures.

Forbes

by Rob Whiteman

Apr 28, 2022

For Public Cash Managers, Rewards — and Risks — in a Fast-Changing Landscape

With the Federal Reserve raising interest rates, the yields on money market funds, state investment pools and bank accounts lag the payouts on safe securities. Staff needs to do its

upside/downside homework.

For two years, the term "cash management" has been an oxymoron, because there was no point in managing governments' operating cash when its return was nil. For financial staffers, the theme was "park it and forget it" while putting their time to better use elsewhere. But now it's time for that sleepy money to come out of hibernation. Public cash managers can now re-engage in their craft to generate serious revenue. As always, a changing market landscape brings a changing risk environment.

Throughout the COVID-19 pandemic, the Federal Reserve suppressed interest rates, pushing the so-called federal funds rate close to zero. As a result, traditional liquidity products used by cash managers didn't fare much better. In the money market fund industry, for example, the prevailing yield in recent years has been just one basis point (0.01 percent). Banks likewise have paid virtually nothing on their money market deposit accounts and short-term certificates.

Continue reading.

governing.com

by Girard Miller

April 26, 2022

GFOA: Rethinking Local Government Revenue Systems

There are many options for how local government revenues could be changed. To help guide us toward the best options, this article is dedicated to developing a set of evaluation criteria. These criteria will help us differentiate between how local governments could raise revenue and how they should raise revenue.

The Rethinking Revenue initiative is a joint project of many organizations that have an enduring interest in creating thriving local communities and making sure that those communities are served by capable and ethical local governments. Rethinking Revenue is about providing local governments with the ability to raise enough revenues for the services their communities need—and to raise those revenues fairly and in a way that is consistent with community values.

Publication date: April 2022

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S&P U.S. Not-For-Profit Health Care Ratings And Outlooks As Of March 31, 2022.

View the Outlooks.

26 Apr, 2022

Climate Change & Muni Bond Insurance.

Municipal bonds continue to remain a popular way for investors to gain powerful tax advantages and a solid yield. As such, investors of all sizes – from mom & pop portfolios to the largest pension and insurance funds – use them as the cornerstone of their asset mix. Part of their appeal continues to be their conservative nature and the ability of states to tax in order to keep paying the bonds.

However, investors may want to rethink their stance on muni bonds conservativism.

Thanks to new climate change threats, munis may be riskier than we thought. And that newfound risk is now being identified in additional costs to muni bond insurance and credit profiles. For states and municipalities, it could strain their ability to access cheap credit. For investors, it's now an added risk.

Climate Change Risk Enters the Conversation

When PG&E filed for Chapter 11 bankruptcy back in 2019, the Wall Street Journal called it the "first climate change bankruptcy." If you remember, massive wildfires potentially caused by faulty utility equipment destroyed billions of dollars' worth of property. The culprit was an extended period of drought, creating perfect conditions for the fire to spread. While lawsuits and bankruptcies due to environmental negligence have since occurred, it was the first time that climate-specific risks had caused a major financial catastrophe.

Overall, it was a watershed moment for a variety of industries.

Since that time, various agencies and analysts have begun addressing the perils of climate change with regards to their credit ratings. Additional demand from investors looking for ESG requirements have helped spur this along. The staid municipal bond sector hasn't been ignored in this re-rating of assets.

Munis Are Particularly Vulnerable

States and cities are facing increased occurrences of intense hurricanes, floods, wildfires and droughts.
The issue for munis is two-fold. For starters, these sorts of natural disasters can destroy property and ruin the assets paid for with municipal bond issuance in the first place. But these events can have major financial impacts in other ways as well.

This includes reducing GDP and tax-bases used to pay back the bonds. New analysis by investment manager BlackRock suggests that just over 15% of the issuers in the S&P National Municipal Bonds index will suffer "climate-related losses of 0.5% to 1% of gross domestic product a year" over the next decade. Some states and cities are poised to fare even worse than the average. For example, in Miami, Florida, hurricanes and rising sea levels are estimated to clip 4.5% of the city's GDP per year over the study period. All in all, county data shows that more than 60% of the people in the U.S. face "risk of climate threat and insufficient readiness."

For the $3.8 trillion muni market, this is a huge issue. Muni's safety is driven by the underlying population's cash flows and the ability for states/cities to tax that cash to pay for bonds. With lower GDP rates due to climate change, muni bonds have the potential to get riskier.

This risk is now showing up in rising costs for municipal bond insurance.

In order to keep rates low, many municipal bond issuers will take out insurance policies that protect bond owners in the wake of a default. Basically, the insurance guarantees the repayment of the principal and all associated interest payments. Historically, this insurance has been cheap for bond issuers to acquire, making it worth their while to keep interest rates low. However, more and more insurance agencies are starting to add the effects of climate change risk into their models for underwriting. This has caused prices for muni bond insurance to steadily rise in recent years – adding anywhere from 0.2 to 0.5 basis points to the cost of a bond. However, analysts predict that bond insurance costs will be forced to rise further as insurance agencies grapple with climate losses and work new models into their underwriting.

Cities can't really forgo this insurance either. At the same time, more and more investors are starting to require this insurance to be added to bonds before investing. The latest Bloomberg data shows that $8.8 billion worth of new munis issued during the first quarter of this year had insurance. This was the most active first quarter for insured munis since the Great Recession.

The overall effect is that states and cities are forced to pay more for their needed capital, while their ability to pay for the bonds is constrained due to lower GDP/climate change damage.

Bigger Risks for a Sleepy Sector

For investors, climate change risks throw cold water on the supposedly risk-free status of munis. More and more investors seem to be getting that idea and demanding that more bonds be covered by insurance. All of this has had an added effect of increasing borrowing costs and making the finances of states/cities even more constrained.

None of it is good news for investors in the sector. In the end, investors need to re-think how they use muni bonds and understand that rising insurance costs for bonds is a direct reflection of the new risk reality in the sector.

municipalbonds.com

by Aaron Levitt

Apr 27, 2022

Qualified Broadband Projects Added to Private Activity Bonds by Jobs Act: Holland & Knight

Highlights

- More than 30 million Americans lack access to reliable high-speed internet service and, as the COVID-19 pandemic has demonstrated during the last two years, the economy has become more dependent on robust and affordable internet access.
- As part of the new Infrastructure Investment and Jobs Act, $65 billion was allotted for broadband infrastructure, and the legislation added a new qualified broadband projects category for use with the private activity bond (PAB) program.
- PABs, which generally are tax-exempt and used to finance major projects such as airports and commuting facilities, now include projects to provide broadband services to underserved

geographic areas based on residential access and minimum data transfer speeds.

More than 30 million Americans still lack access to reliable high-speed internet. The need for reliable and affordable internet access has become increasingly important as the economy becomes more dependent on internet access, particularly during the last two years as remote work and learning became commonplace due to the COVID-19 pandemic.

On Nov. 5, 2021, Congress passed the Infrastructure Investment and Jobs Act (IIJA), a $1.2 trillion bipartisan infrastructure bill that made a number of changes to federal incentives for infrastructure development. In addition to investing in roads, bridges, airports and other traditional infrastructure assets, the IIJA invests $65 billion into broadband infrastructure and related government programs aimed at expanding access to affordable and reliable internet services to millions of Americans in rural areas, areas of low-income families and tribal communities.

Private activity bonds (PAB) are bonds that are issued by a governmental entity whose proceeds are used by a nongovernmental, or private, entity. The federal tax code allows state and local governments to issue certain enumerated categories of PABs on a tax-exempt basis for “qualified private activities.” Tax-exempt PABs provide a lower cost of capital for such private entities to finance certain projects. Examples of existing tax-exempt PAB projects include airports, commuting facilities, docks, wharves, and water and sewer facilities. The IIJA added a new category of qualified private activities: qualified broadband projects.

Meeting Project Qualifications

A qualified broadband project is one designed to provide broadband services to underserved geographic areas (Eligible Area) where at least 50 percent of residential households do not have access to broadband service with a speed of at least 25/3 mbps from a non-satellite, non-cellular company that results in such areas receiving certain minimum speeds after the project is complete (Required Results). To meet the Required Results, the PAB applicant must show that 1) after completion of the project, residences, businesses or a combination thereof within the Eligible Area now have access to broadband service of speeds of at least 100/20 mbps, and 2) 90 percent of the residences and businesses in the Eligible Area who now have access to the 100/20 mbps speeds could not have received access to the previous minimum speeds of 25/3 mbps before the buildout.

The new legislation also requires the issuer of qualified PABs to notify each broadband service provider who delivers services within the area of the project’s scope and to request information from such providers regarding the provider’s ability to deploy, manage and maintain a broadband network capable of providing internet access to the area meeting the Required Results. Issuers must allow the providers at least 90 days to respond to this notice and request for information.

The federal government limits the amount of tax-exempt bond financing for several categories of qualified PABs that states can issue by setting an annual state volume limit under Section 146 of the Internal Revenue Code known as “volume cap.” The volume cap is adjusted each year for inflation; in 2022, the cap is the greater of $110 per capita or $335 million. Qualified broadband projects are one such category subject to the state volume cap. An issuer with a qualified broadband project must apply for an allocation of its state volume cap for 25 percent of the principal amount of the bonds; the remaining 75 percent is exempt from the volume cap requirement. The volume cap requirement does not apply to qualified broadband projects that are government-owned and -operated, and no volume cap allocation is required for such projects.

Potential Complications

The benefits of the IIJA's broadband PAB program notwithstanding, there are a few complicating factors. One such complication is the state volume cap. Each state's volume cap is shared among the other categories of tax-exempt bonds and, as such, the volume cap has become scarce in certain states, particularly due to the high demand for tax-exempt housing bonds. On the other hand, the volume cap is advantageous to many smaller states because of the $335 million floor and allows them to issue relatively more PABs than larger states.

Another complication comes from the requirement that PAB applicants ascertain the existing broadband coverage of potential Eligible Areas. The FCC currently has a map showing what services are currently provided by which providers in each area; however, the utility of the map is somewhat diminished by the fact that the map does not indicate how many residences in the area have access to such services, regardless of whether they are actually provided, which is the metric required to determine the eligibility of a given area for qualified broadband projects. In addition, the FCC depends on providers to report the data contained in the map, and such self-reported data has at times been found to be lacking in accuracy. More complete documentation of coverage areas, both before and after construction, will be key to implementation of the broadband PAB program to properly structure transactions and avoid compliance issues that could impact the tax-exempt status of these bonds.

Conclusion and Considerations

Despite any issues, the broadband PAB program is a valuable tool to begin bridging the "digital divide" that exists for millions of Americans in underserved areas. Not only does the program provide additional financing options for providers in these areas, it will also attract capital and businesses in areas that until now have not been attractive to investment. These provisions are currently effective and apply to all bonds issued after Dec. 31, 2021.

Holland & Knight attorneys have represented numerous issuers, financial institutions, underwriters and private users on PABs throughout the U.S. Please contact the authors of this alert if you have any questions regarding the use of PABs for broadband projects or other types of allowable projects.

APRIL 22, 2022

Caroline Sage | Luisella Perri | David J. Stevens

Holland & Knight

Rising Interest Rates Present Opportunity for WIFIA and US Water Utilities: Fitch

Fitch Ratings-New York/San Francisco-25 April 2022: A rising interest rate environment could prove a boon for the Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) program, according to a new Fitch Ratings report. The WIFIA loan program has been hugely successful for U.S. water utilities but is currently oversubscribed.

The size of the WIFIA program has increased by 2.5x since its inception. Congressional appropriations in fiscal 2022 would support an estimated $6.4 billion in WIFIA loans, funding about $13 billion in total project costs. According to Director Shannon Groff, the potential growth in loans occurs at an opportune time as interest rates and costs of borrowing in the public markets are increasing.

“WIFIA loans could play a significant role in addressing the over $743 billion the EPA estimates is needed for water infrastructure improvements over the next 20 years,” said Groff.

Many of the projects that have applied for WIFIA loans have come from states identified as having the most significant capital needs in nominal terms. These states have some of the largest populations, among them California ($51 billion in capital needs for water and $20.1 billion for wastewater), New York ($22.8 billion; $28.7 billion), Florida ($21.9 billion; $15.8 billion), and Illinois ($20.9 billion; $6.5 billion).

Texas, one of the most highly populated states in the country, has not been active in applying for WIFIA loans. Despite the EPA identifying $45 billion in water investments and $9.2 billion in wastewater, Texas utilities have not closed any loans thus far and have only submitted two letters of interest.

‘WIFIA – Sustained Strong Demand’ is available at ‘www.fitchratings.com’.

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The Municipal Bond Market Might Catch a Break Next Month.

Like the rest of the bond markets, municipal bond markets have been trending lower to start 2022. However, they could get a reprieve from the downside as municipal bond investors could look to reinvest their payouts.

“The municipal-bond market, pummeled by a swift rise in interest rates and a near-record investor exodus from mutual funds, appears poised to get a little bit of support next month,” a Bloomberg report notes.

“Citigroup Inc. strategist Jack Muller estimates that the amount of cash state and local government bondholders will receive from principal and interest payments in May will exceed the volume of new debt sales by about $9.5 billion,” the report adds. “Since investors typically reinvest those payments, that will likely lift demand for bonds.”

As mentioned, it’s a welcome change of pace as the Bloomberg report notes a record exodus from municipal bond mutual funds. This could open up bargain buys for municipal bonds in exchange traded funds (ETFs) as well.

Getting Convenient Muni Exposure

The debt market has a plethora of options available to investors looking to dip into muni bonds. However, Vanguard has a simpler solution to get convenient muni exposure in one ETF.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

The fund comes with a 30-day SEC yield of 2.56% as of April 27. Average duration stands at 4.6 years (as of March 31), so rate risk is mitigated as the expectation of rising rates continues for the rest of 2022.

ETF TRENDS

by BEN HERNANDEZ

APRIL 29, 2022

Disney Muni Bonds Are a Bargain After DeSantis Blow, Analysts Says.

Investors should buy more municipal bonds sold by the embattled Walt Disney Co.’s special district, analysts at Municipal Market Analytics said.

Bonds of Reedy Creek Improvement District, which was created in the 1960s for the development of Walt Disney World in Florida, fell last week after Governor Ron DeSantis signed a bill that would dissolve the district in 2023 without further legislative action.

“If bond prices tumble again this week or after, investors able to ride out the volatility and manage related customer communications have an opportunity to earn incremental income,” Municipal Market Analytics’s Matt Fabian and Lisa Washburn wrote in a note to clients dated Monday.

Reedy Creek has roughly $1 billion of municipal debt outstanding that was thrown into flux when the Florida lawmakers passed the bill last week. Florida statutes say that the obligations would be transferred to other local governments, and Reedy Creek has reassured bondholders the debt service will continue to be paid wile options are considered.

Even with the latest developments, Florida will "very likely respect the strong non-impairment language" it promised to bondholders, the analysts said. That should mitigate any "hypothetical medium-term default risk" posed by the new law that may dissolve the district.

MMA says that the Reedy Creek trade "may see a performance lag for some time" as ratings companies will likely take action on the bonds as the situation unfolds. Fitch Ratings has already placed the debt on a negative watch, indicating the bonds could be downgraded and MMA said others are likely to follow "or, possibly, do worse."

Moody's Investors Service moved the outlook on Reedy Creek bonds to developing from stable, citing the uncertainty around the new law, the ratings firm said in a report on Tuesday.

"The developing outlooks reflect uncertainty surrounding the State of Florida's recent decision to dissolve the district during a special legislative session," Moody's analysts led by Francis Mamo wrote in the report.

Still, Florida has pledged to not "in any way impair the rights or remedies of the holders," according to Reedy Creek's bond documents. That strong language is key to evaluating the risk of the bonds, MMA says.

The legislation to dissolve Reedy Creek emerged after a month-long feud between DeSantis and Disney in which the entertainment giant criticized a law the governor backed that limits school instruction about gender identity and sexual orientation

"It is one thing for Florida to threaten one of its local units with rapid dissolution for purely political reasons," Fabian and Washburn wrote. "It would be a very different thing for the state to knowingly walk away from or violate its own nonimpairment pledge to bondholders."

If the state does the latter, Florida's triple A rating could be in jeopardy, the analysts said.

"Doing so could very reasonably lead to rating downgrades of any state or local bond dependent on a contract with Florida and possibly Florida's own bond ratings," according to MMA. "Because Florida's issue is with Disney and not the bond market at large, we do not believe this is where the current situation will lead."

Bloomberg Markets

By Danielle Moran

April 26, 2022

Slower Growth Ahead: Revenue Surpluses Boost U.S. State Budget Flexibility, For Now

Key Takeaways

- Most U.S. state budgets are benefiting from recent strong revenue collections although national economic conditions will likely temper, slowing fiscal 2023 revenue growth.
- Many states are responding to surplus revenues by either pursuing tax rate reductions or building reserve accounts while few are choosing to address long-term pressures such as retirement liabilities or high fixed-cost burdens.
- Rainy-day reserves are at historical highs as the ability to use these funds remains a crucial tool for budgetary management.
- States must focus on long-term structural budget balance to preserve credit quality as economic growth slows.

Continue reading.

28 Apr, 2022

Citigroup Sees Muni Revival With Investors Poised to Get Cash Bonanza.

- **May reinvestment cash expected to exceed new debt sales**
- **Sees shift giving 'significant uptick in technical support'**

The municipal-bond market, pummeled by a swift rise in interest rates and a near-record investor exodus from mutual funds, appears poised to get a little bit of support next month.

Citigroup Inc. strategist Jack Muller estimates that the amount of cash state and local government bondholders will receive from principal and interest payments in May will exceed the volume of new debt sales by about $9.5 billion. Since investors typically reinvest those payments, that will likely lift demand for bonds.

The surfeit of cash marks a shift from the past two months, when the pace of new debt sales exceeded the amount investors received just as markets were hit by selloffs ahead of the Federal Reserve's first interest-rate hike. That could ease the pressure on a market that's been hit by a nearly 9% loss this year as yields surged and investors pulled out.

"May is expected to bring a significant uptick in technical support, after two months of negative cashflow," Muller wrote.

The rout drove benchmark 10-year tax-exempt bond yields to 2.66% by Tuesday, nearly as much as those on Treasuries, which aren't tax-free. That measure of relative value indicated that the municipal bond prices were at their cheapest since November 2020, since tax-free yields usually hold well below those on Treasuries.

Yet it's no sure thing that individual investors will be keen to plow money back into the market. Jonathan Kahn, an individual investor who lives in New York, said he's holding off reinvesting interest coming due next month because he thinks rates could move higher.

Citigroup estimates that municipalities will sell about $35.5 billion of new debt in May, while investors will receive some $45 billion from maturing bonds, coupon payments and securities that will be paid off early.

The uptick in technical support comes after demand for all bonds, including munis, has plummeted on expectations that the Fed will carry out an aggressive campaign of monetary policy tightening to combat the highest inflation in decades. Investors have yanked about $40 billion from municipal-bond mutual funds this year.

March and April are typically the weakest months for muni fund inflows because investors tend to unload some holdings to pay tax bills ahead of the mid-April U.S. filing deadline. Historically, principal and interest payments to bondholders are also lighter.

Bloomberg Markets

By Martin Z Braun

April 28, 2022

Muni Market's Unprecedented Slide Seen Having More Room to Run.

- **Muni Market's Unprecedented Slide Seen Having More Room to Run**
- **'There's still potential for more pain' with Fed set to hike**

Municipal bonds are heading for their worst start to a year on record, and fund managers say nailing the direction of the $4 trillion market from here likely has little to do with the fiscal health of U.S. states and cities.

It's all about the broader rates market, say portfolio managers including Julio Bonilla at Schroders Plc. And with the fixed-income universe still solidly on the defensive amid speculation the Federal Reserve will opt for an aggressive rate hike next week to combat soaring inflation, that means the slide in munis probably isn't over.

"There's still potential for more pain in the muni market," Bonilla said. The crucial backdrop for him is that Treasuries will remain under pressure as the Fed starts shrinking its balance sheet and as its rate increases boost currency-hedging costs for overseas investors.

Munis have lost 8.7% in 2022, an unprecedented decline for the first four months of the year, according to data compiled by Bloomberg. The broader U.S. bond market has declined even more, falling 9%.

Longer-term benchmark municipal yields have risen to the highest since March 2020, pushing investors to yank billions of dollars from muni mutual funds. Cities and states are finding that they're paying up to get muni deals off the ground as a result.

There's a divide emerging between Wall Street analysts and investors about how to approach the muni market now. Some bank strategists have been more positive lately: Citigroup Inc. and Bank of America Corp. this week both said the market will get support around mid-year, a period when investors traditionally receive principal and coupon payments that they may look to reinvest. Truist Financial Corp. said this week that munis are poised to outperform.

But outflows continue. Investors pulled about $2.9 billion from municipal mutual funds in the week through Wednesday, marking 11 straight weeks of outflows, according to Refinitiv Lipper US Fund Flows data.

And the broader force of rising interest rates has shown a strong precedent this year of overwhelming technical forces like supply and reinvestment trends. Take January, one of the muni market's best months historically because of light supply and strong investment demand. This year, munis fell 2.7% in January, whereas the 10-year average for the month is a gain of 1%, Bloomberg index data show.

Brad Libby, portfolio manager of the $1.8 billion Hartford Municipal Opportunities Fund, said the market could be "closer to the end" of outflows given how high rates are. But he said red-hot inflation is the key risk that could cause the cash exodus to continue.

"If we get to a point where the market is comfortable that rate levels have stabilized and inflation has peaked and going to come down from its historically high levels, I think you'll find some traction in the market," he said.

Bloomberg Markets

By Amanda Albright

April 29, 2022

— With assistance by Danielle Moran

[Muni Fund Redemptions an Opportunity: InspereX's Ware]

Jason Ware, head of municipal bond trading at InspereX, discusses the widening of credit spreads in the municipal bond market with Taylor Riggs on "Bloomberg Markets: The Close."

[Watch video.]

Bloomberg Markets: The Close

April 27th, 2022, 12:20 PM PDT

[Fitch: Florida's Reedy Creek Dissolution Bill Heightens Bondholder Uncertainty]

Fitch Ratings-New York-28 April 2022: The Florida state government's move to dissolve several independent special districts on June 1, 2023 creates significant risk to the credit quality of these districts, including Reedy Creek Improvement District (RCID), says Fitch Ratings. In response, Fitch placed the 'AA-' rating on RCID's ad valorem tax bonds and the 'A' rating on its utilities revenue bonds on Rating Watch Negative due to uncertainty in servicing the RCID debt post-dissolution. We expect the state will ultimately work with various stakeholders to resolve the uncertainty in a way that ensures timely repayment of RCID debt, with reconstitution of the district as one option specifically offered in the bill. The failure to do so could alter our view of Florida's commitment to preserve bondholder rights and weaken our view of the operating environment for Florida governments.

The RCID was created by a special act of the Florida legislature in 1967 and granted the power to own, operate and maintain various utility systems and infrastructure projects, issue tax-exempt debt and levy and collect fees, service charges and ad valorem taxes. Walt Disney Co. (A-/Stable) and its wholly owned subsidiaries own substantially all of the land within the district. The bill unwinding the RCID reflects a unique and dynamic level of discord between the state and Disney. Fitch does not currently consider the state's action a precursor to similar dissolution measures or interference in the operations of other local governments.

Fitch's U.S. Tax-Supported Rating Criteria recognizes certain structural factors as a strength for all U.S. local governments, including significant, but not unlimited, autonomy and respect for property rights and bondholder security. In that context, the RCID dissolution bill is outside our baseline expectations for the sector, as it creates ambiguity around which entity or entities will ultimately repay bondholders, which carries adverse consequences for RCID's credit quality and was a significant factor in the Negative Watch.

Fitch expects the title of all property owned by RCID, including its indebtedness, to be transferred to Orange (AAA/Stable) and Osceola (AA/Positive) counties, the cities of Bay Lake and Lake Buena Vista (neither rated), or to a successor agency, pursuant to state law. Fitch believes the mechanics of implementation, including the transfer of the revenue pledged to bondholders, will be complicated, increasing the likelihood of negative rating actions for RCID's outstanding bonds. Moreover, neither Orange nor Osceola county provide the complete suite of utility and emergency services provided by RCID. Fitch expects the RCID to continue to maintain its facilities and operations and to service its debt through the dissolution date.

Furthermore, the dissolution potentially impinges creditors' rights and may violate the state's covenant to bondholders under the RCID Enabling Act in that it will not limit or alter the right of the district to carry out various governmental services or to levy and collect taxes, fees and other charges. These risks have been highlighted in Fitch's ESG Relevance Score of '5', indicating high relevance to the rating, for Governance Structure for the RCID utilities revenue bonds and Rule of Law, Institutional & Regulatory Quality, Control of Corruption for the ad valorem tax bonds.

The full financial and operational implications and responsibilities stemming from a transfer of RCID's assets and liabilities for the receiving governments and taxpayers is unknown at this time. The ad valorem taxes levied by RCID (approximately $139 million in fiscal 2021) are in addition to those taxes levied by the counties and cities on RCID taxpayers as part of their respective general millage rate. Fitch will evaluate the potential credit impact on Orange and Osceola counties, if any, as more information about the potential allocation becomes available.

The dissolution bill allows for the re-ratification of the RCID on or after June 1, 2023. Any such re-ratification would likely result in changes to the governance and administrative structure of RCID (or successor agency) while potentially preserving the operating and fiscal powers that underpin the creditworthiness of its outstanding debt. Conversely, prolonged uncertainty with respect to the dissolution procedures, litigation or other factors that alter the security provisions and/or the capacity for repayment from the respective pledged revenue streams could lead to a downgrade of the RCID ratings.

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What Inflation Means for State and Local Budgets.

Rising costs are starting to put pressure on budgets and may increase pension risk. Still, government balance sheets are in good shape and the economy remains in growth mode.

In February 2009, the economist Mark Zandi spoke at a conference hosted by Governing. He predicted that the still-painful Great Recession would be done by that fall. More precisely, he predicted it would be over on Sept. 15. As it happened, Ben Bernanke, then the chairman of the Federal Reserve, gave a speech declaring that "the recession is very likely over at this point" — on Sept. 15, no less.

No economic forecaster is ever perfect, but Zandi's track record has been good enough to make his current optimism heartening to hear. "It's fair to say, despite all the angst about recession risks, that the most likely scenario for the U.S. economy over the next 12 to 24 months is for it to evolve into a self-sustaining economic expansion," Zandi said.

Self-sustaining, meaning that economic growth will continue despite the approaching end of the extraordinary fiscal stimulus provided by Congress in response to the pandemic. And despite the fact that the Fed is putting on the brakes, raising interest rates and pulling back from its bond-buying spree. "I don't think there's going to be any debate by the summer that we're going to be at full employment," Zandi, the chief economist at Moody's Analytics, said last week. "I do think inflation is moderating and by the end of 2023, we'll be back to the Fed's targets of 2 to 2.5 percent."

Even assuming the economy doesn't head into recession, however, state and local governments are having to contend with a range of fiscal challenges. Inflation is at a 40-year high, meaning the cost of capital projects and even routine service delivery is going up. The tight labor market means governments are having to increase salaries, which in turn puts upward pressures on pension costs. Already, rising interest rates are limiting the success of governments in issuing taxable bonds. "I would not be surprised to see significantly lower volume by the end of the year," said Natalie Cohen, president of National Municipal Research. "Perhaps $100 billion less."

There have been some upsides for states and localities amid all the economic shifts. Inflation causes pain but it's also led to an increase in sales tax revenues. The hot housing market will also pay dividends, although policymakers will be under a lot of pressure to offer property tax relief as values surge. Most states remain in good shape financially, bringing rainy-day funds up to about 10 percent of general fund budgets, even as lawmakers simultaneously go on tax cut and spending sprees.

“I thought I’d have $200 million in the bank at the end of the year,” said Matt Gress, Arizona’s budget director. “Instead, we have a $4 billion surplus.” Gress, like Zandi and Cohen, spoke at a webinar hosted last week by the Volcker Alliance and the Penn Institute for Urban Research.

States and localities face a number of fiscal challenges and a fair amount of uncertainty, but they’re in much better shape than expected at the start of the pandemic. “States and localities are in about as good a shape as they’ve ever been coming into something like this,” Zandi said. “That does give me some solace that states and locals can help navigate the economy through this bumpy period.”

Recession Risks

Zandi puts chances of a near-term recession at about 1 in 3. He concedes that his fairly rosy forecast depends on three factors. The first is that the pandemic will wind down. COVID-19 is not going away, but each successive wave has caused less economic disruption, as businesses and households continue to adapt.

The second assumption is that the economic fallout from Russia’s invasion of Ukraine will be contained. That war is far from over, but we may have already experienced the worst of its fallout in terms of rising oil and agriculture prices. Finally, Zandi assumes that the Fed, with its work normalizing and raising interest rates, will succeed in calming inflation without pushing the economy into recession.

Those are three big assumptions. A lot of economists believe the Fed has moved too slowly to dampen growth, while inflation is a problem around the world, not just a U.S. phenomenon. COVID-19 and the war in Ukraine remain unpredictable but clearly disruptive forces. Zandi attributes much of the growth in inflation to supply chain problems he thinks will be resolved, but not everyone is so sanguine.

At any rate, some of the damage has already been done. “Year over year inflation has reached new highs this year,” Gress said. “They’re among the fastest price increases ever recorded.”

He notes that the metropolitan Phoenix area is seeing inflation at even higher levels than the nation as a whole, at just under 11 percent. A lot of that is being driven by housing prices, although gas has also been a driver. “The typical Arizona household has spent more than $4,500 for the same goods and services over the past 12 months,” Gress said.

Rewards and Pitfalls for States

In the short run, inflation has done some good for state budgets. Since sales taxes are pegged to prices, consumers paying more for goods means they’re paying more in taxes. In Arizona, for example, taxable sales were up 17 percent through March, with 40 percent of the growth driven by inflation.

States benefited during the pandemic as consumers shifted their purchases from services and experiences toward goods, which are more often taxable. Thanks to the Supreme Court’s Wayfair decision in 2018, states and localities were poised to collect taxes on online purchases. And, of course, state and local budgets have been helped immensely by federal spending, including $350 billion in direct aid from last year’s America Rescue Plan Act.

But governments are not immune to the costs of rising wages due to the tight labor market. Aside from their immediate impacts, wage gains also put pressure on pensions, which are generally tied to salary levels. Meanwhile, interest rates have already hurt stock prices, making it more difficult for pension funds to meet their own hopeful projections in terms of investment returns. “In a higher inflation environment, the states are set to have underperforming assets, compared to what the actuaries are expecting," said Les Richmond, vice president of Build America Mutual Assurance, a municipal bond insurer.

States face other challenges. A shaky economy could lead to increased Medicaid costs. And, while states overall have refilled their unemployment insurance trust funds back to pre-pandemic levels, some states — notably California — remain well below where they were.

But states are still in good financial shape at the moment. Indeed, as Zandi notes, all manner of balance sheets — not just those of governments but households and corporations as well — are healthy, while banks are highly capitalized and highly liquid, stress-tested to endure much rougher economic conditions than are currently the case.

"There are no major, fundamental, structural problems in the economy," he said. "Go back to every recession since World War II and you have some segment of the economy that's completely out of whack."

governing.com

April 25, 2022 • Alan Greenblatt

Special Districts Are Kingdoms of Unaccountable Power.

Disney's Reedy Creek is only one of 38,000 such entities nationwide—twice the number of U.S. cities.

Until recently, the Reedy Creek Improvement District was an obscure bit of trivia for students of urban politics. In 1967 Florida created the district so that Walt Disney World could control its local region without input from voters. Last week it entered the national news when the Florida Legislature, in response to Disney's criticism of the state, passed a law that dissolves Reedy Creek and thus ends Disney's personal government.

Yet Reedy Creek is only one example of the proliferation of powerful "special districts," shadowy local governments that exercise ever-greater control over taxation and spending. Florida alone has 1,800 such districts. According to the U.S. Census, there are more than 38,000 of them across the country—double the number of cities.

Although some types of special districts have value, most are superfluous, obscure and burdensome. They are means to escape citizen limitations on government power and should be brought under the control of regular voters and local governments again.

The growth of special districts began in the Great Depression. In 1934 President Franklin D. Roosevelt urged the formation of special districts to skirt laws that limited the total amount of local debt or required voter referendums to issue debt. New Deal programs required states to create special districts, such as soil and housing authorities, to get federal funds.

Spurred by the feds, the number of special districts exploded in the following decades. Bureaucrats and legislators set up districts to fund irrigation and drainage, fire protection, libraries, community colleges, hospitals, welfare, water, solid waste, mortgage credit, transit, bridges, parks, electrical power, cemeteries, mosquito control and on and on. They also set up special districts like Reedy

Creek, which do almost everything a city can do, but without most of the constraints.

After the tax revolt in the 1970s, special districts became a convenient way for government to escape new limitations on taxes. Over the past four decades, states have created more than 8,000 local governments. Ninety-six percent of these have been special districts. Special districts grew lobbying arms to protect their special benefits. The Florida Association of Special Districts holds its annual conference in—where else?—Orlando.

Special districts are an increasing burden to taxpayers. They intentionally keep their accounting obscure, but by one estimate they collectively spend more than $200 billion a year. It's probably an underestimate, since we know California districts alone spend $76 billion. In Nassau County, N.Y., 140 different special districts cost the average homeowner $1,000 a year in property taxes.

Special districts have increased spending faster than other types of government because voters don't know how to stop them. In Nassau County the districts hold their elections off-season, when there is almost no opposition or voter interest and turnout is typically less than 5%. Americans often pay taxes to as many as five of these districts. Before the Disney saga entered the news, most people couldn't name a single one.

Without citizen oversight or limitations, special districts issue more and more-treacherous debt. A California task force found that 5% of special district bonds for development defaulted, far more than the 1% of normal city debt. When Moody's analyzed defaults on government debt it rated after 1980, almost 80% were from special districts.

It's not surprising that many of these unaccountable districts descend into scandal. Colorado uncovered 20 cases of special-district embezzlement in recent years. One man worked for two different water districts and stole $1 million from them. Washington state found hundreds of thousands of dollars stolen from obscure drainage districts. It declared dozens of special districts "unauditable." They had almost no financial reports.

Florida created the Reedy Creek special district after Disney promised to build a new suburban community, but the district charter ensured there was no accountability when Disney canceled the project. Reedy Creek hired Disney security as a police force and claimed they were just company "cast members" wearing "costumes," who didn't have to provide public records. The district allowed Disney to issue hundreds of millions of dollars of tax-exempt "municipal" bonds that cost other Floridians and the federal Treasury.

It is past time voters brought these districts to heel and brought their functions under control of regular cities and counties. At the least, states can pass laws clarifying their shadowy finances. The Washington State Legislature passed a law in 2020 dissolving districts that couldn't account for their funds. Unless other states follow its lead, taxpayers will have to bear an increasing burden from unaccountable entities they barely know exist.

The Wall Street Journal

By Judge Glock

April 25, 2022 1:02 pm ET

Mr. Glock is the director of research at the Cicero Institute and author of "The Dead Pledge: The Origins of the Mortgage Market and Federal Bailouts, 1913-1939."

S&P U.S. And Canadian Airport Ratings And Outlooks: Current List

View the current list.

22 Apr, 2022

Qualified Broadband Projects Added to Private Activity Bonds by Jobs Act: Holland & Knight

Highlights

- More than 30 million Americans lack access to reliable high-speed internet service and, as the COVID-19 pandemic has demonstrated during the last two years, the economy has become more dependent on robust and affordable internet access.
- As part of the new Infrastructure Investment and Jobs Act, $65 billion was allotted for broadband infrastructure, and the legislation added a new qualified broadband projects category for use with the private activity bond (PAB) program.
- PABs, which generally are tax-exempt and used to finance major projects such as airports and commuting facilities, now include projects to provide broadband services to underserved geographic areas based on residential access and minimum data transfer speeds.

More than 30 million Americans still lack access to reliable high-speed internet. The need for reliable and affordable internet access has become increasingly important as the economy becomes more dependent on internet access, particularly during the last two years as remote work and learning became commonplace due to the COVID-19 pandemic.

On Nov. 5, 2021, Congress passed the Infrastructure Investment and Jobs Act (IIJA), a $1.2 trillion bipartisan infrastructure bill that made a number of changes to federal incentives for infrastructure development. In addition to investing in roads, bridges, airports and other traditional infrastructure assets, the IIJA invests $65 billion into broadband infrastructure and related government programs aimed at expanding access to affordable and reliable internet services to millions of Americans in rural areas, areas of low-income families and tribal communities.

Private activity bonds (PAB) are bonds that are issued by a governmental entity whose proceeds are used by a nongovernmental, or private, entity. The federal tax code allows state and local governments to issue certain enumerated categories of PABs on a tax-exempt basis for “qualified private activities.” Tax-exempt PABs provide a lower cost of capital for such private entities to finance certain projects. Examples of existing tax-exempt PAB projects include airports, commuting facilities, docks, wharves, and water and sewer facilities. The IIJA added a new category of qualified private activities: qualified broadband projects.

Meeting Project Qualifications

A qualified broadband project is one designed to provide broadband services to underserved geographic areas (Eligible Area) where at least 50 percent of residential households do not have access to broadband service with a speed of at least 25/3 mbps from a non-satellite, non-cellular company that results in such areas receiving certain minimum speeds after the project is complete (Required Results). To meet the Required Results, the PAB applicant must show that 1) after completion of the project, residences, businesses or a combination thereof within the Eligible Area now have access to broadband service of speeds of at least 100/20 mbps, and 2) 90 percent of the residences and businesses in the Eligible Area who now have access to the 100/20 mbps speeds could not have received access to the previous minimum speeds of 25/3 mbps before the buildout.

The new legislation also requires the issuer of qualified PABs to notify each broadband service provider who delivers services within the area of the project's scope and to request information from such providers regarding the provider's ability to deploy, manage and maintain a broadband network capable of providing internet access to the area meeting the Required Results. Issuers must allow the providers at least 90 days to respond to this notice and request for information.

The federal government limits the amount of tax-exempt bond financing for several categories of qualified PABs that states can issue by setting an annual state volume limit under Section 146 of the Internal Revenue Code known as "volume cap." The volume cap is adjusted each year for inflation; in 2022, the cap is the greater of $110 per capita or $335 million. Qualified broadband projects are one such category subject to the state volume cap. An issuer with a qualified broadband project must apply for an allocation of its state volume cap for 25 percent of the principal amount of the bonds; the remaining 75 percent is exempt from the volume cap requirement. The volume cap requirement does not apply to qualified broadband projects that are government-owned and -operated, and no volume cap allocation is required for such projects.

Potential Complications

The benefits of the IIJA's broadband PAB program notwithstanding, there are a few complicating factors. One such complication is the state volume cap. Each state's volume cap is shared among the other categories of tax-exempt bonds and, as such, the volume cap has become scarce in certain states, particularly due to the high demand for tax-exempt housing bonds. On the other hand, the volume cap is advantageous to many smaller states because of the $335 million floor and allows them to issue relatively more PABs than larger states.

Another complication comes from the requirement that PAB applicants ascertain the existing broadband coverage of potential Eligible Areas. The FCC currently has a map showing what services are currently provided by which providers in each area; however, the utility of the map is somewhat diminished by the fact that the map does not indicate how many residences in the area have access to such services, regardless of whether they are actually provided, which is the metric required to determine the eligibility of a given area for qualified broadband projects. In addition, the FCC depends on providers to report the data contained in the map, and such self-reported data has at times been found to be lacking in accuracy. More complete documentation of coverage areas, both before and after construction, will be key to implementation of the broadband PAB program to properly structure transactions and avoid compliance issues that could impact the tax-exempt status of these bonds.

Conclusion and Considerations

Despite any issues, the broadband PAB program is a valuable tool to begin bridging the "digital divide" that exists for millions of Americans in underserved areas. Not only does the program provide additional financing options for providers in these areas, it will also attract capital and businesses in areas that until now have not been attractive to investment. These provisions are currently effective and apply to all bonds issued after Dec. 31, 2021.

Holland & Knight attorneys have represented numerous issuers, financial institutions, underwriters and private users on PABs throughout the U.S. Please contact the authors of this alert if you have any questions regarding the use of PABs for broadband projects or other types of allowable projects.

by Caroline Sage | Luisella Perri | David J. Stevens

APRIL 22, 2022

Holland & Knight LLP

Fitch: Public Power Cyber Defenses Hardened Against Rising Threats

Fitch Ratings-Austin/New York-21 April 2022: Public power utilities are well-positioned to weather attacks due to the electric sector's years of attention to cyber threat mitigation and regulatory requirements, which offers a heightened level of protection relative to other infrastructure assets, Fitch Ratings says. Federal warnings of cyberattacks targeting US critical infrastructure coincide with news reports of Texas energy sector infrastructure system probes, which can be used to scan and monitor networks for weaknesses. Risks are amplified, and increased information technology investment and spending will be necessary.

The Department of Energy (DOE), CISA, National Security Agency, and the FBI jointly released an alert in mid-April to warn that certain advanced persistent threat (APT) actors are capable of gaining full system access to multiple industrial control systems (ICS) and supervisory control and data acquisition (SCADA) devices using custom-made tools that target ICS/SCADA. Electric utilities are exposed to these threats as they use ICS to connect into the electric grid and SCADA to gather and process data from substations. Events caused by operating technology (OT) breaches can threaten human safety and the availability of essential assets and are much more severe than IT breaches.

The costs to maintain and update cybersecurity will rapidly increase to keep pace with elevated ICS threats amid geopolitical tension. System lifecycles are decreasing along with rapid evolution of technology and sophistication of cyber intrusions. Strengthening of cyber hygiene culture through investment in human capital and technology is critical to continue effective mitigation of fast-evolving APT threats.

Electric utility critical assets have been hardened by over a decade of compliance with the North American Electric Reliability Corporation's (NERC) critical infrastructure protection (CIP) mandatory cyber hygiene security standards. Key elements of NERC CIPs include critical asset identification or cataloguing; security controls; background checks and training; electronic, physical and system security; incident management; recovery plans; change management and vulnerability assessments; and information protection. The level of federal attention and investment makes the electric sector uniquely experienced to manage cyber threats, much more than other critical infrastructure.

The Electric Reliability Council of Texas (ERCOT) manages the electric power grid for about 90% of Texas load. ERCOT collaborates with relevant government and industry agencies to protect the Texas electric grid from cyber threats. Two ERCOT working groups routinely meet to assess and address security risks. The Public Utility Commission of Texas (PUCT) and ERCOT contract with a third party to act as the PUCT's cybersecurity monitor to provide resources and report to the PUCT on cyber readiness.

The renewed emphasis on partnerships as threats increase is supported by platforms allowing utility operators to share cyber threats in real time without compromising competitive or sensitive information. Public power consortiums, such as the American Public Power Association and the Large Public Power Council, provide their members with cybersecurity support programs. CISA and the FBI updated the CISA Shields Up program in March 2022, providing best practices, technical guidance, free tools and resources that are available to all organizations.

The ability to protect infrastructure from attacks is considered under Fitch's US public power rating criteria as part of Fitch's assessment of management quality and governance, which is an asymmetric credit factor where weaker characteristics may constrain a rating. Fitch assesses utilities' cyber security policies, investment and training; their maintenance of insurance against cyberattacks; and their protocols to address cyber incidents. No public power ratings are currently constrained by concerns regarding a utility management's lack of preparation. In the event of a cyberattack, Fitch would assess the effect on financial metrics and performance of halts in service, delays in revenue generation, ransomware payments or unexpected capital costs.

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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.Public Power Cyber Defenses Hardened Against Rising Threats
Thu 21 Apr, 2022 – 12:30 PM ET

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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.

Utilities Want to Convert Coal Plants to Nuclear; Skeptics Abound.

States and utilities are looking at placing small nuclear reactors at former coal plants, but the technology and economics remain unproven

U.S. utilities and startup firms are trying to convince lawmakers, regulators and customers that they can convert aging coal power plants to house small nuclear reactors, a so-far unproven way to deliver electricity.

The burgeoning idea would place fleets of small, modular nuclear reactors at or near former coal-fired power plants and is taking hold across the electricity industry. Utility companies see it as a way to repurpose coal plants they are set to retire and are joining with startups developing the reactors, looking to tap into billions of dollars in federal funding.

Following lobbying efforts by industry, lawmakers in more than a dozen states this year are considering legislation that would open the door to coal-to-nuclear conversions.

Continue reading.

The Wall Street Journal

By Jennifer Hiller

Apr. 18, 2022

Sustainable Munis for Stronger Communities: Impact Report.

How much impact does an investor make when they invest in sustainable municipal bonds? We explore in this report.

All municipal bond issuances finance projects all over the country. However, only some of those bonds can be qualified as having a positive environmental, social and governance (ESG) impact, promoting a pathway towards sustainable development. But how much impact does an investor make when they invest in sustainable municipal bonds? In this impact report, we highlight the current and future positive impact potential of the top ten holdings and the portfolio summary of the VanEck HIP Sustainable Muni ETF (SMI).

SMI offer investors a way to build a sustainable core muni portfolio without significantly affecting risk and return, over the long term. SMI provides access to a diverse group of issuers at both the state and local levels, who are proactively investing in solutions that fund operations or projects that support or advance sustainable development, as well as promote positive social and environmental outcomes or mission accomplishment.

VanEck HIP Sustainable Muni ETF (SMI)

- Broad muni exposure with a focus on sustainability (ESG, UN Sustainable Development Goals (SDGs), climate threat resilience and a focus on opportunity zones)
- Core portfolio of investment-grade tax-exempts with intermediate duration
- Managed to maximize sustainability exposure while seeking to maintain benchmark characteristics

View Report

ETF Trends

APRIL 24, 2022

By Michael Cohick
Director, Product Marketing
Van Eck Associates Corporation

What if Public Funds Were Controlled by the Public?

Through the dry-sounding Participatory Budgeting Project, Shari Davis is pushing a quietly radical idea: Democracy shouldn't be confined to voting.

Shari Davis has civic brokenness and systemic inequality on the brain. Also: Batman.

What if Gotham didn't solve its problems via masked vigilante? What if Bruce Wayne's fortune was redistributed among the community, and the community decided how to spend it? Davis, 34, has been offering such prompts to young people around the country. The questions are an avenue into a larger point these days: Our democracy needs not just repair but wholesale reimagining.

But where issues like voter suppression, gerrymandering and disinformation campaigns might occupy other reformers, Davis has built a career around a more humble target: the public budget, that joyless document that causes eyes to glaze over while quietly affecting our day-to-day lives at the deepest levels.

Continue reading.

The New York Times

By Chris Colin

April 18, 2022

Municipal Bonds Might Be a Bargain Buy Right Now.

The bond markets might be in pain, but it could be a value investor's gain when it comes to the municipal bond market. Bargain hunters may be able to swoop in and pick up munis at below market value.

A majority of fingers can point to inflation for the current bond market environment, including municipal bonds. As consumer prices continue to climb, the U.S. Federal Reserve is compelled to keep raising interest rates, which can erode bond income over time.

"March consumer prices were 8.5% above their level a year earlier, while producer prices were up 11.2%," Barron's notes. "As bad as those numbers were, they essentially confirmed what we knew already and suggested that the pace of price rises might be close to a peak."

A Wall Street Journal report notes a drop in the issuance of municipal bonds despite their attractiveness in terms of offering investors tax-free income. It seems inflation fears are souring the taste for municipal bonds despite their tax benefits.

"Bond issuance by state and local governments dropped 8% in the first quarter from a year earlier, with public officials calling off re-financings and spending down stimulus cash," Wall Street Journal says. "At the same time, spooked investors yanked their money from municipal-bond funds, which suffered their biggest quarterly outflows since 2013."

2022 is certainly a stark contrast from just a year ago when investors were picking up municipal bonds in anticipation of higher taxes. Local governments have been forced to cut prices on debt due to a lack of demand.

"2021 was a market where everybody wanted to buy because there was so much inflow and so much cash," said Chris Lee, head of municipal sales at Wells Fargo & Co., the fourth-largest muni-bond broker-dealer by volume last quarter. "This year it's much more of a negotiation."

Find Bargains in 1 ETF

Rather than look through a haystack of potential muni bond opportunities, investors can opt for the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. This index includes municipal bonds from issuers that are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

ETF TRENDS

by BEN HERNANDEZ

APRIL 19, 2022

High-Yield Municipal Bonds on Track for Worst Year Since 2008.

- **Losses outpace investment-grade munis, company high-yield**
- **Muni high-yield on track to post worst year since 2008**

High-yield municipal bonds are one of the worst-performing sectors of U.S. debt this year, reversing a strong showing in 2021 and encapsulating the lack of demand for state and local government bonds.

Sub-investment grade muni debt is down 9.3% so far this year — outpacing losses in both investment grade munis and high-yield corporate debt — putting it on track for its worst year since 2008, according to Bloomberg data. It's a stark reversal from 2021, when high-yield munis returned nearly 8% and helped make the case that municipal bonds can act as a haven in the fixed-income sector.

But whereas municipal debt was scarce and historically expensive last year, those conditions are no longer present, prompting muni fund outflows over the past 10 weeks. Investors pulled roughly $3.5 billion from municipal-bond mutual funds in the week ended April 20, marking another multibillion dollar week of outflows, according to Refinitiv Lipper US Fund Flows data.

That's had an outsized impact on high-yield muni returns, which tend to appeal to more opportunistic investors and face competition from other asset classes, said Matt Fabian, a partner at research firm Municipal Market Analytics.

"High yield has been unduly dependent on excessive demand versus supply and has been unduly affected by the reversal of demand from mutual funds," Fabian said. "In the prior world, where bonds were scarce, it was doing really well."

There's a sense that the pain isn't over in the sector either.

RJ Gallo, senior fixed income portfolio manager at Federated Investment Management Co., said high-yield municipals can still fall further and that is why he's favoring "mid- to higher-quality" bonds when his team is looking to buy.

"We think it's just a matter of time before more selling starts to come as people react to the losses they've already accrued and that weakness will propagate down the credit spectrum," he said in an interview.

Even a reversal in mutual fund flows and sentiment is unlikely to have an immediate impact on high-yield performance, Fabian said. The competition they face from other sectors means investors are quick to look for other options.

"It's less about warehousing tax-exempt income and more about outperforming other high-yield alternatives," he said. "If the global markets are still weak, then high yield will be encumbered by that."

Bloomberg Markets

By Fola Akinnibi

April 22, 2022

— With assistance by Danielle Moran

High-Yield Muni Bond ETFs Are Having a Rough Time.

Speculative-grade municipal bond-related exchange traded funds have taken a beating, with high-yield munis on pace for their worst year since 2008.

Year-to-date, the VanEck Vectors High Yield Muni ETF (HYD) declined 10.8%, the SPDR Nuveen S&P High Yield Municipal Bond ETF (NYSEArca: HYMB) decreased 11.0% and the BlackRock High Yield Muni Income Bond ETF (HYMU) fell 11.9%.

High-yield municipal bonds are one of the worst-performing areas in U.S. fixed-income markets this year, marking a swift reversal from their strong performance in 2021, Bloomberg reports.

Speculative-investment grade muni debt is down 9.3% so far in 2022, or underperforming both investment-grade munis and high-yield corporate bonds, which puts this fixed-income segment on track for its worst year since 2008, according to Bloomberg data.

In comparison, high-yield munis returned almost 8% in 2021 and helped support the case for municipal debt as another diversifying haven for fixed-income portfolios.

However, conditions have quickly changed. The municipal bond market has seen muni fund outflows over the past 10 weeks. Investors also yanked about $3.5 billion from muni-related bond mutual funds through the week ended April 20, marking another multi-billion dollar week of outflows for this fixed-income category, according to Refinitiv Lipper US Fund Flows data.

"High yield has been unduly dependent on excessive demand versus supply and has been unduly affected by the reversal of demand from mutual funds," Matt Fabian, a partner at research firm Municipal Market Analytics, told Bloomberg. "In the prior world, where bonds were scarce, it was doing really well."

RJ Gallo, senior fixed income portfolio manager at Federated Investment Management Co., warned that high-yield municipals could still continue to decline.

"We think it's just a matter of time before more selling starts to come as people react to the losses they've already accrued and that weakness will propagate down the credit spectrum," Gallo told Bloomberg.

ETF TRENDS

by MAX CHEN

APRIL 22, 2022

Good Timing for New ESG Muni Bond ETF.

The SPDR Nuveen Municipal Bond ESG ETF (MBNE) debuted earlier this month, and while the jury is still out on this product, as is the case with any exchange traded fund that's less than a month old, MBNE could prove to be a well-timed rookie ETF.

The reason is simple: As the number of equity-based environmental, social, and governance ETFs surged in recent years, advisors and investors clamored for more ESG fixed income strategies. Those funds are arriving, and more recently, as MBNE proves, issuers are testing ESG waters in the world of municipal bonds. This suggests that MBNE's timing could be good.

"The sustainability-related bond market has boomed in the past two years. In fact, in just the last year, the issuance of green, social, sustainability and sustainability-linked bonds reached $1 trillion in 2021, more than 69% higher than in 2020 ($606 billion), and almost triple the $326 billion in 2019," according to Morgan Stanley research.

The actively managed MBNE, which is sub-advised by Nuveen, attempts to beat the Bloomberg 3-15 Year Blend (2-17) Municipal Bond Index and holds 81 municipal bonds. The combination of active management, ESG, and municipal bonds could serve investors well via the ETF structure.

"On the fixed-income side, interactions with issuers often occur in the primary market, when the issuers are raising money themselves. That provides an enormous window of opportunity to talk with issuers and potentially have some influence over how that capital is directed," notes Navindu Katugampola, Morgan Stanley head of sustainable investing.

MBNE has a current yield of 4.25%, which is impressive when considering that approximately 88% of the fund's holdings are rated AAA, AA, or A, according to issuer data.

The marriage of ESG and municipal bonds is also relevant due to various green financing needs that cities and states have. ESG-friendly munis are another tool in the toolbox for ESG-conscious issuers. For individual investors and clients, MBNE could be a shrewd way to play a still-young corner of the bond market.

"From renewable energy and infrastructure to affordable housing, schools and healthcare—and these projects are going to require financing at a significant scale. Second, the diversity and breadth of the fixed-income market allows us to address these issues through a variety of structures," concludes Morgan Stanley.

ETF TRENDS

APR 20, 2022

Muni Bond Delinquencies Show Senior Living Industry 'Most Poorly Positioned' to Withstand Covid.

Senior living facilities represented the largest portion of delinquencies reported by municipal bond issuers in the first quarter of 2022, highlighting the sector's struggles during the Covid-19 pandemic.

The majority of the 83 credit events in the first quarter of 2022, mostly among small, unrated borrowers – particularly senior living communities. In fact, the industry stands out as "the municipal bond sector most directly harmed by the pandemic," according to an April 15 report by Moody's Investors Service.

"Senior living was the most poorly positioned sector to withstand the pandemic," the report read. "This is both because of the vulnerability that senior living has by nature to a health emergency that disproportionately affects the elderly, and because the inherent financial weakness of many borrowers left them with little margin to survive a disaster of any kind."

More broadly, the senior living sector saw 24% of the 675 bond delinquencies and default events reported from April 2020 to March 2022.

"Many facilities were unable to attract new residents amid state-mandated lockdowns, and incurred greater expenses to protect residents and employees from the virus," the report reads. "This combination pushed into delinquency numerous senior living borrowers that had previously if only barely, kept their heads above water."

Among senior living operators – which the report defines as those with independent living, assisted living and memory care communities or CCRCs – there were 45 financings that disclosed delinquencies since the pandemic began in 2020.

The report grouped them into four categories: 16 first-time delinquencies as a result of the pandemic; nine delinquencies that may have occurred anyway, but were hastened by the pandemic; 16 operators that defaulted prior to the pandemic; and a nebulous fourth category with four financings where "public disclosure was inadequate to determine whether the pandemic was the cause."

Delinquencies caused by the pandemic totaled $1.46 billion in outstanding debt, with two companies in Florida and Texas carrying outstanding debt of more than $200 million apiece.

Companies that appeared likely to default, Covid or not, carried total debt outstanding of more than $365 million. The category included a project still under construction, a community whose troubles stemmed from a Legionella outbreak in 2019 and a project that started drawing from its debt service reserve fund in the same year.

The Moody's report is the latest in a pile of evidence that municipal bond defaults are a big issue in the senior living industry.

A recent Municipal Market Analytics (MMA) analysis found that the senior living industry represented about $1.6 billion of muni bonds in default in 2021, which tied the record number of senior housing defaults set the year prior.

Despite defaults in the senior living sector, investors remain aggressive and bullish on the long-term outlook. At the same time, senior living operators sold $7.4 billion in new bonds as of December 2021, which represented nearly a quarter more than they sold in 2019.

By Nick Andrews | April 15, 2022

Senior Housing News

Fitch: US States Strategize for Clean Energy Transition

Fitch Ratings-New York-13 April 2022: Many US states are positioning for growth of a green economy in the absence of definitive guidelines from the federal government, as the US transitions to carbon-free electricity by 2035 and net carbon neutrality by 2050, Fitch Ratings says. Energy diversification, development of sustainable industries and workforce planning would help broaden states' economic and tax bases. States are fostering emergent technologies such as hydrogen production, enacting clean energy legislation and developing the supports necessary to pivot from carbon-intensive industries, while expanding infrastructure to support the expected boom in electric vehicle (EV) sales.

The Infrastructure Investment and Jobs Act (IIJA) competitive $8 billion allocation for four regional clean hydrogen hubs has led Nebraska, Oklahoma and Utah to enact legislation to foster hydrogen development and production and allow for receipt of associated federal funds. West Virginia officials indicated interest in a hub to be located amid its dense natural gas and pipeline resources. This hub would compete with a public/private proposal from the newly formed Northern Appalachian Industrial and Ohio Clean Hydrogen Hub that would leverage natural gas and industrial resources from Ohio, Pennsylvania and West Virginia.

Oklahoma partnered with Louisiana and Arkansas to form the HALO hydrogen hub coalition, which will repurpose depleted oil and gas reservoirs and use geological formations for hydrogen storage and carbon capture. Similar to the proposals from the northern Appalachian applicants, the HALO hub would clearly meet the IIJA's target of locating at least two of the hydrogen hubs in areas with the "greatest natural gas resources", as 95% of hydrogen in the US is derived from natural gas.

Continue reading.

Fitch: High Gas Prices Could Slow Gains in Toll Road Leisure Traffic

Fitch Ratings-New York-11 April 2022: The resurgence in vehicle leisure traffic in 2021 could moderate if high gas prices persist, Fitch Ratings says. The average US regular gasoline price crossed $4 per gallon in March for the first time since 2008 according to the American Automobile Association. High gas prices typically have the greatest effect on leisure traffic, as drivers tend to take fewer or shorter trips. Recovery in commuter traffic, which remains below pre-pandemic levels, could also be prolonged.

Spikes in gas prices generally correspond to valleys in vehicle miles travelled. Toll roads weathered large traffic declines historically and were resilient during the extreme shock from the pandemic. Many toll roads are generating more toll revenue than before the pandemic. This is despite lower transactions in some cases, as these toll roads have implemented one-time toll rate increases.

Toll roads with substantial leisure traffic outperformed expectations in 2021, with traffic in some cases surpassing 2019 levels, as many travellers took road trips to avoid air travel. Leisure air travel rebounded with the decline in coronavirus cases but high gas prices are making both flights and car trips more expensive. We expect the effects of increased costs on vehicle leisure traffic to be modest given pent-up demand for travel.

Mid-Bay Bridge and Rickenbacker Causeway are two rated projects in Florida with significant leisure traffic exposure that could see reductions in travel if gas prices remain elevated. However, both of these toll roads have sufficient liquidity to withstand moderate traffic declines at current rating levels. For both Mid-Bay Bridge (BBB+/Stable), which links to the beach in the Florida panhandle, and Rickenbacker (BBB+/Stable), a causeway in Miami, 2021 traffic surpassed pre-pandemic levels.

Passenger traffic for toll roads with a more diverse user base, or that cater to commuters, recovered more slowly than for toll roads with a large leisure component. Passenger traffic generally remains roughly 10% below 2019 levels, largely due to remote work. High gas prices could encourage workers to continue telecommuting, further delaying traffic recovery. Some states suspended or plan to suspend state gas taxes temporarily. The savings for consumers are relatively small, however, and would unlikely significantly affect commuter or travel decisions.

Commercial traffic has already surpassed pre-pandemic levels due to strong US consumer goods spending over the last year, mitigating lagging passenger traffic recovery for those toll roads that serve both types of users. However, elevated inflation may lead to a decrease in personal consumption, reducing commercial traffic.

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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: Construction Cost Inflation Weighs On U.S. Public Infrastructure Investment

Key Takeaways

- Overall project cost inflation for public sector sponsors creates a dilemma: Either scale back the scope of capital programs or increase funding from some combination of taxes, tolls, general fund sources, federal grants, or additional debt.
- The highest construction cost inflation seen in decades has arrived at an inopportune time; as historic levels of federal investment in infrastructure are starting to flow, cost inflation is beginning to erode some of its benefits.
- The Producer Price Index (PPI) for building materials and supplies increased 24.9% between

March 2021 and March 2022, and 58.6% between pre-pandemic January 2020 and March 2022.
- Construction cost inflation will result in public sector project sponsors seeing higher bids from contractors, larger contingencies in new contracts along with wider cost escalation ranges for materials, as well as a shift away from fixed-price contracts.

[Continue reading.]

14 Apr, 2022

[S&P: Temporary State Gas Tax Suspensions Likely Will Not Affect Revenue Or General Obligation Bond Ratings]

NEW YORK (S&P Global Ratings) April 12, 2022–S&P Global Ratings today said that temporary state gasoline tax suspensions, implemented recently by a few U.S. states, and under discussion by others, are unlikely to lead to rating changes on highway user tax-supported debt. To date, only three states with gas tax-supported bonds outstanding–Connecticut, Maryland, and New York–have suspended collection of their gas taxes, each for a limited time. None of the states anticipates a drop in debt service coverage compared with originally budgeted projections. However, we continue to monitor the situation and to the extent future state gas tax suspensions result in material declines in debt service coverage, we could potentially take a rating action. At the same time, we don't expect state gas tax suspensions will have a significant impact on general obligation (GO) bond ratings, which are usually paid from state general funds, and not the dedicated state transportation funds that pay highway user tax-secured debt. We also expect state general fund reimbursements to a transportation fund for lost tax revenues, if any, will be relatively small compared with overall general fund revenue, and have a limited effect on GO credit quality.

In general, gas tax revenues are only one component of pledged highway user tax revenues, and bonds secured by these revenues typically enjoy high coverage of debt service, well above their additional bonds tests (see "U.S. Highway User Tax Bonds Prove Resilient," published July 14, 2021, on RatingsDirect). The state highway funds into which pledged gas tax revenues are deposited often have a changing mix of different revenues and tax rates, designed to match state long-term capital programs for roads and bridges, and frequently adjusted by legislatures to keep up with inflation and infrastructure needs. Such other revenues might consist of state motor vehicle registration fees or sales taxes on cars.

States have an incentive to provide adequate state highway funding so that transportation fund revenues, after payment of debt service, can be used to pay for ongoing road maintenance and capital improvements. We believe a temporary tax change on one component of pledged highway user tax revenue is unlikely to have a long-term impact. To the extent that a temporary gas tax cut was made permanent, or debt service coverage was lowered to levels below an additional bonds test, further review could be warranted. A greater risk is the potential long-term threat of reduced gas consumption from electric vehicles (see "California's Order Requiring Zero-Emission Vehicles Poses Challenge To Gasoline Taxes," published Oct. 21, 2020). High retail gas prices, a justification for the temporary tax suspensions, are not likely to be significantly lowered because of the suspensions, since state tax often represents only a small portion of the overall cost of gas to the consumer.

States also have an incentive to demonstrate adequate security for bondholders so they can pursue ongoing capital programs. Details for Connecticut, Maryland, and New York State, which have highway user tax bonds outstanding, are below. A fourth state, Georgia, has also temporarily suspended its gas tax but does not have rated highway user tax debt, while Florida's legislature has passed a one-month gas tax suspension for October, which the governor has not yet signed into law.

Connecticut's most recent April 2022 monthly projection indicates that growth in state transportation fund revenues above originally budgeted fiscal 2022 levels will more than compensate for the estimated $90 million loss of pledged highway user tax revenue from suspending collection of the state's 25-cent per gallon gas tax to June 30, 2022, from April 1, 2022. Even with the approximately $90 million loss, Connecticut estimated in April 2022 that overall growth in state transportation fund revenue has raised projected transportation fund revenue to $2.07 billion from a budgeted $1.89 billion, and that motor fuels tax revenue, after the gas tax suspension, would come in at $480 million, its budgeted level. The amount of gas tax loss from the suspension approximates the extra amount of gas tax over the adopted budget that Connecticut would have collected based on recent updated revenue projections.

Maryland is suspending collection of its motor fuels tax for 30 days, to April 16, 2022, from March 18, 2022. The state motor fuels tax is 36.1 cents per gallon for gasoline and 36.85 cents per gallon for diesel fuel. Maryland estimates a loss of approximately $100 million due to the suspension, compared with fiscal 2022 total pledged highway user tax revenue of approximately $3.5 billion. In addition, a pending supplemental state budget, which has already passed the state senate, would reimburse Maryland's dedicated purpose account to offset the loss.

New York State enacted a suspension of the Metropolitan Commuter Transportation District (MCTD) sales tax, as well as the motor fuel tax imposed on gas and highway diesel from June through December 2022, which will apply to about 16 cents of the state's approximate 33-cent gas and 32-cent highway diesel tax surcharges outside the MCTD and 16.75 cents within the MCTD. New York does not issue bonds secured by gas tax revenues. However, the New York Metropolitan Transportation Authority (MTA) issues dedicated tax fund debt, which is in part supported by state-distributed motor fuel taxes. The governor's executive budget projected before the tax suspension that motor fuel tax distributed to the MTA dedicated tax fund for the full 2023 fiscal year would be $94.6 million, or only about 3% of total projected MTA dedicated tax fund revenue. The tax suspension covers only seven months, is for less than the full gas and highway diesel tax rates, and the state budget will reimburse the MTA and other local entities for the lost revenue from state general fund money. The cost to the state is estimated at $585 million, or less than 0.5% of estimated state revenues in fiscal 2023.

Other states have also floated proposals to temporarily suspend their gas tax, and we will evaluate such proposals when and if they are enacted. Not all proposals may lead to temporary gas tax suspensions–for example, a proposal to do so in Massachusetts was defeated recently in the state legislature.

This report does not constitute a rating action.

S&P Global Ratings, part of S&P Global Inc. (NYSE: SPGI), is the world's leading provider of independent credit risk research. We publish more than a million credit ratings on debt issued by sovereign, municipal, corporate and financial sector entities. With over 1,400 credit analysts in 26 countries, and more than 150 years' experience of assessing credit risk, we offer a unique combination of global coverage and local insight. Our research and opinions about relative credit risk provide market participants with information that helps to support the growth of transparent, liquid debt markets worldwide.

Facing Violent Threats and Abuse, State and Local Officials Are Calling It Quits.

It's fueling concerns that qualified people may abandon or avoid public service. "That's a big price to pay," warns one expert.

A growing cadre of government officials and potential candidates for office is leaving public service—or are thinking about it—as threats of violence and physical and verbal attacks affect their safety and that of their children and homes.

The National League of Cities revealed in November that 81% of local officials have been subjected to personal attacks, physical assaults or cyberbullying. A March poll by the Brennan Center for Justice found that one in six election officials has experienced threats and one in five is unlikely to serve out the current term.

"The price that we're going to pay is that getting good people to run for public office will be the most challenging thing we will face," Clarence Anthony, CEO and executive director of the National League of Cities, said. "And that's a big price to pay in a democratic system."

Continue reading.

Route Fifty

By Sharon O'Malley

APRIL 15, 2022

Hawkish Fed Is Top Muni Concern in 2022, Hilltop Survey Shows.

- **42% of analysts focus on impact of central bank's strategy**
- **Public finance rating upgrades likely to outpace downgrades**

The Federal Reserve's pace of action is the top issue concerning municipal bond analysts for 2022, according to a survey published Monday by Hilltop Securities.

Among the 130 analysts surveyed, 42% say the Fed is the most important issue or trend influencing the market. Munis have been hit hard by a broader selloff, spurred in part by the Fed's tightening monetary policy to combat inflation.

Other notable trends include 33% who cited demographic shifts in the U.S., political divisiveness at 31%, public pensions at 30% and Russia's invasion of Ukraine at 28%. The pandemic was cited by fewer than one out of four respondents.

Municipal bonds have lost about 7% this year, according to Bloomberg indexes, in a rare pullback for an asset class typically known for its stability.

Most of the analysts surveyed said that remote work will impact public finance in the medium to long term. About 54% of those surveyed also expect that rating upgrades in the public finance sector will significantly outpace downgrades.

Bloomberg Markets

By Skylar Woodhouse

April 11, 2022

Muni Bonds Are Down So Much That They're Buys Again.

A funny thing happened in the past week, as news emerged of inflation hitting a four-decade high. A few strategists started looking a bit more positively on bonds, or at least somewhat less negatively.

March consumer prices were 8.5% above their level a year earlier, while producer prices were up 11.2%. As bad as those numbers were, they essentially confirmed what we knew already and suggested that the pace of price rises might be close to a peak.

But while the major stock averages were down for the second straight week (and the third for the Dow industrials), the price slide in the bond market slowed. The yield on the benchmark 10-year Treasury (which moves inversely to its price) rose by 0.095 of a percentage point, to 2.808%, bringing the two-week increase to 0.434 of a point and the year-to-date rise to 1.312 points.

The sharp run-up in bond yields has changed the calculus between equities and fixed income.

Truist Advisory Services this past week downgraded its recommended stock exposure to neutral, its lowest level since 2010, owing to the drop in the equity risk premium (the extra return from stocks over bonds). The move reflected a downshift in global economic growth, stickier inflation trends, and ongoing geopolitical risks, as well as Federal Reserve policy tightening, which may mean that growth could suffer if inflation isn't tamed, a research note said.

While such tactical shifts are important to institutional portfolios looking to dampen near-term risks, the absolute yields on government bonds remain relatively unenticing, even though the real yield on the 10-year Treasury inflation-protected security was approaching zero after having been below negative 1% in early March.

Much more attractive are long-maturity investment-grade municipal bonds, with tax-exempt yields hitting 4%, the highest since late 2016, according to John R. Mousseau, CEO and director of fixed income at Cumberland Advisors.

The muni market is going through one of its typical bouts of feast and now famine, he writes in a client note. Tax-free bond funds saw $4.8 billion exit in the week ended on April 6, the most since the financial market meltdown in March 2020, according to Investment Company Institute data reported by the Bond Buyer. Muni fund managers sell what they can to meet redemptions, overwhelming Wall Street dealers with supply, he adds.

The result is a buyer's market, with those 4% tax-exempt yields equivalent to 6.35% on a taxable security, he writes. Indeed, 20-year double-A munis yield roughly the same as their fully taxable corporate counterparts in the low-4% range.

What Cumberland is trying to buy are bonds issued last year at 2% to 3%, which have suffered a "breathtaking backoff in prices," Mousseau adds in an email.

Bonds originally offered around par now may be selling around 70 to 75 cents on the dollar with a yield to maturity of 4.15% to 4.25% for 30-year paper. That price plunge isn't related to credit problems, just higher yields, he emphasizes. To be sure, there are tax complications with discount munis, but they still yield 0.15% to 0.20% more than new-issue par bonds, even after taxes.

If you're looking to add bond ballast to a balanced taxable portfolio, munis might be your best bet.

Barron's

By Randall W. Forsyth

April 16, 2022

Muni Bond ETFs Have Taken a Beating, but Things Could Turn Around.

The municipal bond market and related exchange traded funds are under pressure as an increasingly hawkish Federal Reserve monetary policy outlook weighs on the once-popular fixed income play.

Year-to-date, the Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB) has dropped 6.6%.

According to a recent Hilltop Securities survey of analysts, 42% of participants indicated that the Fed is the most important factor or trend influencing the municipal bond market today, Bloomberg reports. Munis have been dragged down by broad selling pressure triggered in part by the Fed's tightening monetary policy to combat inflation at four-decade highs.

Other notable trends that participants have indicated were cause for concern in the munis market include demographic shifts in the U.S. at 33%, political divisiveness at 31%, public pensions at 30%, and Russia's invasion of Ukraine at 28%. On a lighter note, the pandemic was a major concern for fewer than 25% of respondents.

According to Bloomberg data, municipal bonds, which are known for their stability, have suffered one of their worst starts to a new year, falling off 7% in 2022 so far.

Looking ahead, some argued that the muni bond market could rebound after the record decline over the first quarter.

"At current levels, a lot of bad news has already been priced in, and muni valuations are cheap enough to outperform Treasuries for the remainder of the year," strategists Mikhail Foux, Clare Pickering, and Mayur Patel said in a note on Monday, Bloomberg reports. "In our view, current levels present a good entry point to start slowly adding muni exposure."

The strategists added that the "catalysts for higher rates are largely behind us."

"We are becoming a bit more sanguine on the market for the remainder of the year and expect 2Q22 returns to be positive," they said.

ETF TRENDS

by MAX CHEN

APRIL 11, 2022

Hybrid Work Poses Credit Risk to Cities Looking to Issue Debt.

- **Fitch affirms negative outlook for Kansas City on remote work**
- **Hybrid work changing the way cities fill pockets of revenue**

Remote working may be be a boon for many Americans. But it could lead to higher borrowing costs for some cities tapping the municipal-bond market.

Fitch Ratings, earlier this week, affirmed its negative rating of Kansas City, Missouri, flagging remote work as a credit risk. The city anticipates a slow recovery in earnings taxes — which is its largest source of general fund revenue — because of increased remote work, Fitch noted.

While cities have been receiving Federal aid to stay afloat, many could risk a downgrade if they burn through pandemic stimulus money without finding other means to fund deficits, Bloomberg Intelligence strategist Eric Kazatsky said in an interview. And those that face a downgrade may have to issue bonds with higher yields to compensate the increased credit risk. This makes it more expensive to issue bonds and makes refunding less optimal, said Eric Friedland, director of municipal research for Lord Abbett & Co.

Drivers of Downgrades

Remote work can impact a city's revenue in multiple ways, from wage taxes that are levied depending on where workers put in their hours to the sales taxes that commuters pay at a local coffee shop on the way the office. Some states may require you to pay income taxes if you work there for just a day or two and for other states that might be 60 days.

A handful of cities in Ohio, such as Cincinnati, Toledo and Columbus, that rely heavily on income taxes could also see weakness in their revenue streams from remote working and potentially be subject to a downgrade, Kazatsky said.

Cincinnati, for example, derives 73.5% of its general fund revenue from income taxes, a Bloomberg Intelligence report published Thursday said. The average reliance on income taxes for municipal issuers is 8%, according to data from the Metropolitan Policy Program at the Brookings Institute.

Cities that have a greater dependence on commuter taxes are the most sensitive to work-from-home arrangements, Bloomberg Intelligence's report said.

Richmond, Virginia, has the highest share of jobs held by workers commuting from outside the city at 77%, according to data from Pew Charitable Trusts. New York's commuter share is 28% and Philadelphia's is just under 50%.

While remote work won't be the sole credit driver, it is a factor that ratings firms and investors are increasingly considering, said Dora Lee, director of research at Belle Haven Investments. Cities looking to issue debt must not dismiss remote work as a risk, especially as flexible work becomes a longer reality, said Tom Kozlik, head of municipal research and analytics at Hilltop Securities.

"The uncertainty is the most important thing, because this is a once in a generation type shift that we're seeing and I think there are a lot of people who are down playing it," he said.

Navigating the Risk

Large cities may be able to preempt a potential downgrade because their economy is often not focused on a single industry, Lee said. Such cities could use their diverse economy to reinvent themselves, she added. And their revenues could be fairly insulated because of the higher cost of living.

S&P Global Ratings revised their outlook for San Francisco to stable from negative on Thursday despite adding remote work as a risk. San Francisco-based firms have been asking for a reassessment of their property taxes as they're increasingly adopting flexible work, which could put a dent in the city's revenue. But the city's "economically sensitive" revenue streams will be able to bounce back in the long term, credit analyst Chris Morgan said in the report.

"Maybe people are not doing full time in the office, but if the sales tax figures and hotel tax revenues are still rising because of some of the other factors like tourism, then it might not be that big of a deal," Li Yang, a credit analyst with S&P Global Ratings, said in a phone interview. "We don't necessarily need to see office workers go back 100%."

Smaller towns outside larger cities could also see economic growth as hybrid work becomes more permanent, Lee said. With people not traveling to large cities for work as frequently as they were pre-pandemic, smaller suburban areas could see a boost to their economy.

President Joe Biden, governors and mayors have been pushing workers to return to their offices to help revive city economies. Local businesses that relied on workers going into the office could see some respite.

Workers who went to the office in 10 of the largest U.S. business districts rose to 42% of pre-Covi--19 levels in the week ended March 30, according to data from Kastle Systems.

Bloomberg Markets

By Skylar Woodhouse

April 8, 2022

Fearful Muni Investors Increasingly Embrace Bond Insurance.

- **About $8.8 billion of munis sold in Q1 of 2022 were insured**
- **Increase drives the most-active first quarter in over a decade**

As fears of rising interest rates whipsaw prices in the $4 trillion dollar municipal bond market, more issuers are turning to bond insurance.

State and local governments bought insurance for about $8.8 billion of bonds they issued in the first three months of 2022, representing roughly 8.9% of the total securities sold. Both are the highest levels for a first quarter in more than a decade, according to data compiled by Bloomberg. The volume of insured bonds rose even as year-over-year quarterly sales fell.

The latest figures are still a far cry from the mid-2000's, when at times more than half of bonds issued were sold with insurance. As the financial crisis clobbered bond insurers, and yields broadly fell, demand for bond insurance plunged. But earlier in the pandemic, fears of default spurred increasing demand for coverage, and now higher yields and historic volatility offer an opportunity for insurers to strengthen their pitch.

Build America Mutual, one of two dominant insurers in the muni-bond market, reported its most active first quarter in the company's history, which dates back to 2012. The company insured $4.3 billion of bonds in the primary and secondary markets spread across 27 states, and roughly a third was rated in the AA category.

"There is more demand from investors who are focusing on value preservation and seeking more-liquid securities due to the volatility in rates and uncertainty about fund flows," said Grant Dewey, Build America's head of municipal capital markets.

Assured Guaranty Municipal Corp. insured $5.1 billion in primary and secondary markets in the first quarter, with a 500% year-over-year increase in secondary market insurance. The group insured seven deals with insured par over $100 million, including a $691 million transaction for the Metropolitan Washington Airports Authority.

Demand rose over the past two years, initially due to the pandemic which led to broader credit concerns, said Robert Tucker, Assured's head of investor relations and communications.

Bond insurers guarantee that investors will be paid principal and interest on their securities even if the entity that issues the bonds, such as a local government, defaults. The insurers also perform due diligence for offerings and provide bondholders with ongoing surveillance of insured securities. Their efforts can soothe investor concerns about credit risk and improve liquidity.

"For a long time we've had an improving economy and declining rates, kind of a risk-on market," said Patrick Luby, municipal strategist at CreditSights. "We are now in a more cautious environment, so investors are more wary of credit risk and duration risk."

Luby expects adoption of bond insurance to continue rising because of pricing pressure in the primary market. Adding insurance to a bond can broaden its appeal and increase the comfort level among investors, bolstering demand and potentially improving prices.

Bloomberg Markets

By Nic Querolo

April 12, 2022

Fitch: Stagflation Scenario Would Not Affect Most US Public Finance Ratings

Fitch Ratings-New York-07 April 2022: The vast majority of US public finance (USPF) ratings would not be affected under a stagflation scenario as identified as a downside risk in our March Global Economic Outlook, Fitch Ratings says. We assessed the potential effects across regions and sectors of a plausible adverse scenario of sharply reduced growth amid prolonged increased inflation and interest rates as a result of the fallout from the Russia-Ukraine war, including slowing home price growth, supply chain disruptions and high energy prices.

Continue reading.

U.S. Public Finance 'Predictability' Continues in 1Q22; Inflation a Concern - Fitch

Fitch Ratings-New York-07 April 2022: Fiscal predictability is now firmly in place for U.S. public finance to kick off 2022, according to Fitch Ratings in its latest quarterly rating actions report.

Fitch upgraded 29 U.S. public finance ratings and downgraded seven last quarter, compared to 34 and 12, respectively, in 4Q21. Many of last quarter's upgrades were for local governments (15 upgrades versus one downgrade 1Q22), which like state governments are benefiting from the enormous coronavirus-related stimulus funding provided by the federal government since spring 2020.

"The funds are a windfall for some local governments, whereas others, including dense urban areas and those with dependence on travel and tourism, may still see some shortfalls and will likely take longer to recover," said Arlene Bohner, Head of U.S. Public Finance for Fitch Ratings.

Inflation remains firmly top of mind as a concern for public finance heading into the second quarter. "Rising inflation, continuing supply-chain pressures and energy supply risks elevate the possibility state revenue growth could weaken more aggressively, or turn negative, if economic conditions deteriorate rapidly," said Bohner.

Rising operating costs are another area of concern, particularly for not-for-profit hospitals and life plan communities given industry-wide shortages of nursing and hospitality staff. Lower rated hospitals and LPCs, particularly those undergoing expansions, could experience more pronounced rating pressure if construction costs rise significantly enough to precipitate more debt borrowing.

"U.S. Public Finance Rating Actions Report and Sector Updates: First Quarter 2022" is available at www.fitchratings.com.

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Credit Fundamentals Strong: Kayne Anderson's Friedricks

Kim Friedricks, Kayne Anderson Rudnick managing director of fixed income, discusses the impact of rising rates on municipal bonds and says credit market fundamentals are strong right now. She speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

April 6th, 2022

Opinion: Congress and Taxpayers Should Both Say No To Restoring These Muni-Bond Provisions

Neither the reinstatement of tax-exempt advance refunding bonds nor a direct subsidy bond program similar to Build America Bonds is a good idea

The Biden administration's Build Back Better plan left out two major provisions that aim to reduce state and local government financing costs. Due to intense lobbying by the Bond Dealers Association, the Government Finance Officers Association, the National League of Cities, the National Association of Counties and U.S. Conference of Mayors, among others, those proposals are expected to be resurrected in smaller separate bills later this year.

But these provisions, which authorize financing tools that previously comprised sizable parts of the municipal bond market, may not save as much money for taxpayers as proponents claim and should be viewed skeptically by Congress.

The first provision is the reinstatement of tax-exempt advance refunding bonds, which had been repealed by the 2017 Tax Cuts and Jobs Act. These are state and local government refinancings sold more than 90 days in advance of the first "call date" of existing debt.

Continue reading.

MarketWatch

By Martin J. Luby

April 7, 2022

Fitch Ratings Releases Minor Updates to NFP Life Plan Community Rating Criteria.

Fitch Ratings-New York-05 April 2022: Fitch Ratings has published their revised "U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria." The revised criteria represent minor editorial updates and clarifications to the "U.S. Public Finance Not-For-Profit Continuing Care Retirement Community Rating Criteria" (published March 2021). No ratings are affected.

The criteria and all related reports are available at www.fitchratings.com.

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S&P: Outlook For North America Engineering And Construction And Implications For P3 And Muni Infrastructure

Inflation in construction inputs will result in public and not-for-profit infrastructure owners seeing higher bids by contractors, larger contingencies allowance, wider cost escalation ranges for materials and a shift away from fixed-price contracts – with supply chain disruptions also contributing to delays and overall project cost escalation.

Download

Fitch Ratings Updates Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria.

Fitch Ratings-New York/Milan-05 April 2022: Fitch Ratings has made a minor update to its “Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria” as part of the routine criteria review.

The revision clarifies that public-sector counterparty obligation ratings are an input in the rating process primarily, but not necessarily only, for public-private partnership (PPP) transactions rated under the “Infrastructure and Project Finance Criteria”.

The update has no impact on existing ratings.

This report replaces the criteria report of the same name dated 4 May 2021.

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FTA Releases Initial Guidance for Capital Investment Grants Program: Nossaman

Transit authorities across the nation rely on the Capital Investments Grants ("CIG") program administered by the Federal Transit Administration ("FTA") to fund major capital expenses for expansion and core capacity projects. The CIG program is codified at 49 U.S.C. § 5309, and FTA currently administers the program in accordance with its "Final Interim Policy Guidance" published in June 2016.

The recently enacted Infrastructure Investment and Job Act (P.L. 117-58; "IIJA") amended the CIG program statute. Consequently, FTA has prepared initial guidance on the IIJA revisions to the CIG program and is soliciting comments from all interested parties through April 14, 2022. This initial guidance seeks comment on the changes to the CIG program made in the IIJA and covers the following three topics: (1) project eligibility; (2) procedures related to meeting Transit Asset Management targets; and (3) how bundles of CIG projects can enter the Project Development phase of the CIG program.

This initial guidance is not a wholesale replacement of the 2016 guidance, and FTA intends to propose a more comprehensive update of the 2016 guidance later this year. The following three topics covered in the initial guidance will assist project sponsors in understanding the IIJA revisions to the CIG program while FTA prepares the larger guidance update:

1. **Project eligibility.** The initial guidance revises the project eligibility thresholds. The Small Starts eligibility of the CIG program now applies to projects with a total estimated capital cost of less than $400 million and that are seeking CIG funding of less than $150 million. The New Starts eligibility of the CIG program now applies to projects with a total estimated capital cost of $400 million or more or that are seeking CIG funding of $150 million or more. The initial guidance also revises the Core Capacity eligibility of the CIG program to corridors that are at capacity today or will be in 10 years.
2. **Procedures related to meeting Transit Asset Management targets.** The initial guidance also reflects the new IIJA requirement that CIG projects make progress towards achieving FTA's state of good repair or "Transit Asset Management" performance targets set forth in 49 U.S.C. § 5326(c)(2).
3. **Bundles of CIG Projects.** The IIJA allows project sponsors to bundle CIG projects together—either immediately or in the future—and advance that bundle of projects through the CIG process. The initial guidance reflects this new eligibility, providing that each project in a

bundle must be individually eligible for CIG and included in the applicable metropolitan transportation plan. Bundling must also enhance the capacity of the transportation system and enable time or cost savings.

By Kathy Fernandez, Shant Boyajian on 03.30.2022

Nossaman LLP

Infrastructure Law: $2.9 Billion Now Available

Last month, the Department of Transportation announced $2.9 billion of funding is now available for major infrastructure projects through a combined Notice of Funding Opportunity (NOFO) under President Biden’s Bipartisan Infrastructure Law (BIL).

CLICK HERE

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5 Things Local Governments Need to Know About Short-term Vacation Rentals.

Short-term rentals have presented major policy and tax questions for cities and counties. Here are the key considerations for local leaders.

U.S. vacation rental revenue is expected to be $17.7B in 2023, up from $10.3B in 2020. And average unique available listings for short-term rentals on Airbnb and Vrbo are expected to increase to about 1.3 million listings this year, up 20% from 2019.

Although this sharing industry started with individual owners looking for ways to make a few extra dollars by renting out an unused room, that is no longer the case. Hosts with multiple units have become a key driver of this short-term rental economy, according to analysis released by CBRE Hotels’ Americas Research.

Why? Because short-term rentals routinely yield 30% more profits for investors than long-term leases.

Continue reading.

Route Fifty

By Nick Del Pego

APRIL 8, 2022

How Some States Could Get Shorted With Lead Pipe Removal Funds.

There are concerns that EPA is distributing billions of dollars in the infrastructure law

based on an outdated study that does not consider how many dangerous pipes each state has.

State officials and environmental advocates say some states could be shortchanged hundreds of millions in bipartisan infrastructure dollars to remove dangerous lead pipes because the U.S. Environmental Protection Agency has outdated information about the states' needs.

"We're super happy the money is there for lead service replacement, but the allocation formula doesn't adequately reflect where the needs are," said Donald Jodrey, federal government relations director for the Alliance for the Great Lakes, in an interview.

The issue was also raised by Rep. Jan Schakowsky, an Illinois Democrat, during a House Energy and Commerce subcommittee hearing last week on the Infrastructure Investment and Jobs Act's funding of drinking water programs.

Continue reading.

Route Fifty

By Kery Murakami

APRIL 8, 2022

Do Rates Drive Muni Performance?

Summary

- While the municipal bond market generally follows rate changes in the U.S. Treasury market, it does not move in lockstep.
- A contributing factor is that the tax exemption is valuable in all rate and tax environments to many types of investors.
- We believe it is likely that 2022 will also deliver modestly positive performance by year-end.

Continue reading.

Seeking Alpha

Apr. 06, 2022

What to Buy Following an Epic Bond Rout.

Bonds don't offer much to like at the moment.

The yield on the benchmark 10-year Treasury note rose over a quarter percentage point, to 2.65%, in the first four days of this past week in what bond market veteran Jim Bianco of Bianco Research called an "epic rout." That slump in Treasuries came on the heels of the worst quarterly setback for the bond market in decades during the first three months of this year.

Investors may still want to take a fresh look at bonds and consider balancing portfolios of stocks. As the Federal Reserve embarks on sharply rising short-term interest rates, the greater risk could actually now be in stocks. A push by the Fed to raise rates to as much as 3% by year end runs the risk of tipping the economy into recession.

Continue reading.

Barron's

By Andrew Bary

April 8, 2022

Muni Bond Boom Is Sputtering as Interest Rates Rise.

Governments are less willing to borrow and households are less willing to invest in the $4 trillion market

Rising interest rates are threatening the municipal-bond boom on Wall Street, leaving governments less willing to borrow and households less willing to invest in the $4 trillion market.

Bond issuance by state and local governments dropped 8% in the first quarter from a year earlier, with public officials calling off refinancings and spending down stimulus cash. At the same time, spooked investors yanked their money from municipal-bond funds, which suffered their biggest quarterly outflows since 2013.

States and cities have been forced to cut prices to sell their bonds to banks and insurance companies because muni bond funds are no longer offering top dollar, dealers said.

Continue reading.

The Wall Street Journal

By Heather Gillers

April 11, 2022

Muni Bonds Struggle Through 2022 (Bloomberg Radio)

Amanda Albright, reporter with Bloomberg News, discusses the latest news from the municipal bond market. Hosted by Matt Miller and Kriti Gupta.

Listen to audio.

Bloomberg Radio

Apr 08, 2022

[President Biden Signs Bill Expanding Cybersecurity Reporting Obligations.]

President Biden signed the [Consolidated Appropriations Act, 2022] into law on March 15, 2022. Section Y of the new omnibus appropriations bill is titled The Cyber Incident Reporting for Critical Infrastructure Act of 2022 ("the Act"). Importantly, the Act significantly expands federal cybersecurity incident and ransom demand reporting requirements for critical infrastructure entities. In light of these new requirements, critical infrastructure entities who suspect that they may be subject to the Act should begin investigating how the Act will impact their business and consider establishing protocols which may be necessary to ensure compliance.

Notably, the Act does not directly define many necessary terms and obligations. Instead, the Department of Homeland Security's Director of the Cybersecurity and Infrastructure Security Agency ("CISA") has been tasked with promulgating a final rule finalizing these definitions and obligations. Within 24 months of the Act's enactment, CISA is required to begin the notice-an--comment rulemaking process. The final rule must then be published within the 18 months following the start of the rulemaking process. Interested stakeholders will want to review the proposed rule promptly when it is released and consider submitting comments as appropriate.

Incident Reporting Obligations

With respect to incident reporting, the Act requires covered entities to comply with new and expanded obligations when they experience a "covered cyber incident." The term "covered entity" means a critical infrastructure entity—as defined by [Presidential Policy Directive 21] ("the Directive")—that satisfies the criteria established in CISA's final rule. Although CISA's criteria will remain unknown until the final rule is promulgated, the Directive clarifies the types of entities that may be subject to the expanded requirements.

Under the Directive, critical infrastructure entities are those operating in the following sectors:

- **Chemical sector.** Including manufacturing, storing, using, or transporting potentially dangerous chemicals.
- **Commercial facilities sector.** Includes a range of sites that are open to the public and draw large crowds for shopping, business, entertainment or lodging.
- **Communications sector.** Includes satellite, wireless and wireline providers, which depend on each other to carry and terminate their traffic.
- **Critical manufacturing sector.** Encompasses the production of primary metals; machinery; electrical equipment, appliances and components; and transportation equipment that may be susceptible to man-made and natural disasters.
- **Dams sector.** Delivers water retention and control services in the United States, including hydroelectric power generation, municipal and industrial water supplies, agricultural irrigation, sediment and flood control, river navigation for inland bulk shipping, industrial waste management and recreation.
- **Defense industrial base sector.** Encompasses research and development, as well as the design, production, delivery and maintenance of military weapons systems, subsystems and components to meet U.S. military requirements. The sector provides products and services for mobilizing, deploying and sustaining military operations. It does not include the commercial infrastructure of those who provide services such as power, communications, transportation or utilities, which are covered under other sectors.
- **Emergency services sector.** Includes law enforcement, fire and rescue services, emergency medical services, emergency management and public works.

- **Energy sector.** Includes entities that focus on electricity, oil and natural gas.
- **Financial services sector.** Includes depository institutions, providers of investment products, insurance companies, and other credit and financing organizations, as well as the providers of the critical financial utilities and services that support these functions.
- **Food and agriculture sector.** Includes farms, restaurants, and registered food manufacturing, processing and storage facilities.
- **Government facilities sector.** Includes general-use office buildings and special-use military installations, embassies, courthouses, national laboratories and structures.
- **Healthcare and public health sector.** Focuses on protecting all sectors of the economy from terrorism, infectious disease outbreaks and natural disasters.
- **IT sector.** Covers hardware, software, and IT systems and services, along with the communications sector and the internet.
- **Nuclear reactors, materials and waste sector.** Encompasses most aspects of America's civilian nuclear infrastructure, such as nuclear facilities, materials and waste, as well as any cybersecurity related to these facilities.
- **Transportation systems sector.** Focuses on safely, securely and efficiently moving people and goods through the country and overseas. Subsectors include aviation, highway and motor carrier, maritime transport system, mass transit and passenger rail, pipeline systems, freight rail, postal and shipping.

Water and wastewater systems sector. Concentrates on ensuring the supply of drinking water and wastewater treatment.
Similar to the definition of "covered entity," the full definition of "covered cyber incident" will not be available until CISA publishes the final rule. However, the Act establishes that the definition of "covered cyber incident" will contain certain key elements. Pursuant to the Act, the final rule's definition of "covered cyber incident" must require, at minimum, the occurrence of:

- A cyber incident that leads to substantial loss of confidentiality, integrity or availability of such information system or network, or a serious impact on the safety and resiliency of operational systems and processes;
- A disruption of business or industrial operations, including due to a denial of service attack, ransomware attack or exploitation of a zero-day vulnerability against 1) an information system or network, or 2) an operational technology system or process; or
- Unauthorized access or disruption of business or industrial operations due to loss of service facilitated through, or caused by, a compromise of a cloud service provider, managed service provider or other third-party data hosting provider, or by a supply chain compromise.

CISA's final rule will also outline many substantive requirements such as incident reporting obligations and ransom reporting obligations. In each instance, the final rule shall require a covered entity to report the following within 72 hours of the covered entity's reasonable belief that a covered cyber incident has occurred:

- A description of the "covered cyber incident including i) identification and a description of the function of the affected information systems, networks, or devices that were, or are reasonably believed to have been, affected by such cyber incident, ii) a description of the unauthorized access with substantial loss of confidentiality, integrity, or availability of the affected information system or network or disruption of business or industrial operations, iii) the estimated data range of such incident, and iv) the impact to the operations of the covered entity;"
- A description of the vulnerabilities exploited and the security defenses that were in place, as well as the tactics, techniques, and procedures used to perpetrate the "covered cyber incident;"
- Any identifying or contact information related to each actor reasonably believed to be responsible

for such cyber incident;
- The category or categories of information that were, or are reasonably believed to have been, subject to unauthorized access or acquisition;
- Identification information of the impacted entity; and
- Contact information for the impacted entity or an authorized agent of the entity.

In the event that a covered entity makes a ransom payment, the final rule will also require the covered entity to make the following disclosures to CISA within 24 hours of such payment:

- A description of the ransomware attack, including the estimated date range of the attack;
- A description of the vulnerabilities, tactics, techniques, and procedures used to perpetrate the ransomware attack;
- Any identifying or contact information related to the actor or actors reasonably believed to be responsible for the ransomware attack;
- The name and other information that clearly identifies the covered entity that made the ransom payment or on whose behalf the payment was made;
- The contact information of the covered entity or authorized agent that made the ransom payment;
- The date of the ransom payment;
- The ransom payment demand, including the type of virtual currency or other commodity requested;
- The ransom payment instructions; and
- The amount of the ransom payment.

Additionally, the Act also requires a covered entity to submit updated reports to supplement previously provided information when substantial new information is discovered. Once a report is submitted, all data relevant to the "covered cyber incident" or ransom payment must then be preserved by the covered entity pursuant to procedures yet to be established through the rulemaking process.

Exceptions to Reporting Obligations

The exceptions to these reporting obligations are fairly narrow. For instance, while a covered entity would otherwise be required to make two reports to cover both a covered cyber incident and a ransom payment, the Act allows such an entity to combine all required information into a single report. Similarly, in the event that a covered entity is subject to certain reporting requirements to other Federal agencies, the report to the other agency may satisfy the entity's reporting obligations to CISA provided that a sharing agreement between the agencies exists.

Using a Third Party to Submit a Required Report or Make a Ransom Payment

A covered entity may either submit a required report itself or use a third party to do so. Such a third party can include an entity such as an "incident report company, insurance provider, service provider, Information Sharing and Analysis organization, or law firm." In the event that a covered entity utilizes a third party, it must be aware that the use of such a third party does not relieve the covered entity from its reporting requirement. Rather, a covered entity utilizing a third party is subject to the same reporting obligations and timelines as it would be had it submitted the report or made the ransom payment itself.

Notably, third parties are largely exempt from independent obligations under the Act. Importantly, where a third party submits a report or makes a ransom payment on behalf of a covered entity, that third party is not obligated to submit a separate report on its own behalf. However, such a third party does have an obligation to advise the covered entity of their responsibilities regarding the covered entity's reporting obligations. Thus, businesses who act as third parties and provide reporting services to covered entities should remain apprised of all reporting requirements and prepare to advise their clients.

Incident Report Sharing and Data Use

Though the Act establishes substantial reporting obligations, it also limits CISA's ability to use and share the information provided by covered entities in the reports. Importantly, such information may only be used by the Federal Government for:

- Cybersecurity purposes;
- Identifying a cyber threat or security vulnerability;
- Purposes of responding to, "or otherwise preventing or mitigating, a specific threat of death, a specific threat of serious bodily harm, or a specific threat of serious economic harm;"
- Purposes of "responding to, investigating, prosecuting, or otherwise preventing or mitigating, a serious threat to a minor;" or
- Purposes of "preventing, investigating, disrupting, or prosecuting an offense arising out of a reported cyber incident."

In addition to the limitations on use, similar to other cyber threat information-sharing opportunities provided by the Federal Government, information contained in required reports is afforded further protections. Importantly, information obtained by CISA via a required report may not act as the basis for any cause of action. Similarly, such information is also protected from admission into evidence in any future proceeding. Thus, any information contained in a required report may not be received into evidence, subjected "to discovery, or otherwise used in any trial, hearing, or other proceeding in or before any court, regulatory body, or other proceeding."

In providing these protections, the Act intends to enable covered entities to fully disclose all relevant information regarding a covered cyber incident without incurring the risk of potentially exposing itself to liability due to the content of the report. Additional protections establish that information disclosed to CISA pursuant to the Act:

- Is considered to be the "commercial, financial, and proprietary information of the covered entity when so designated by the covered entity;
- Is exempt from disclosure under the Freedom of Information Act (FOIA);
- Is exempt from disclosure required by any "State, Tribal, or local freedom of information law;"
- Is not considered to be a waiver of any "applicable privilege or protection provided by law, including trade secret protection;" and
- May be shared externally only when the victim's identity is anonymized.

Enforcement

In the event that a covered entity fails to comply with the new cyber incident reporting obligations, CISA's director may request information if it suspects the entity of noncompliance. If the covered entity fails to respond within 72 hours, CISA may then issue an administrative subpoena. Should the covered entity subsequently fail to comply with the subpoena, CISA may turn the matter over to the U.S. Attorney General for civil enforcement and covered entity may potentially held in contempt of court.

However, prior to exercising their enforcement authority, the CISA director must first consider i) the complexity of determining whether a covered cyber event has occurred as well as ii) the covered entity's previous interactions with the agency and the likelihood that the entity is aware of its reporting obligations.

Other Notable Provisions

In addition to expanding reporting obligations, the Act also creates several entities and programs intended to improve the state of cybersecurity in the U.S. These additional provisions call for the creation of:

- The Cyber Incident Reporting Council, led by the Secretary of Homeland Security, which will be responsible for coordinating, deconflicting, and harmonizing Federal incident reporting requirements;
- A ransomware vulnerability warning pilot program intended to "leverage existing authorities and technology to specifically develop processes and procedures for . . . identifying information systems that contain security vulnerabilities associated with common ransomware attacks, and to notify the owners of those vulnerable systems of their security vulnerability;" and
- The "Joint Ransomware Task Force to coordinate an ongoing national campaign against ransomware attacks, and identify and pursue opportunities for international cooperation."

Key Takeaways

Though there is much that will remain unclear until CISA promulgates the final rule, businesses should, at the very least, be aware of the following:

To whom does the Act apply? The Act applies to covered entities as defined by CISA.

What does the act mandate? Reports must be made to CISA when the covered entity makes a ransom payment or experiences a covered cyber incident.

When must the report be made? Reports must be made to CISA within 72 hours of a business's reasonable belief that a covered cyber incident has occurred and 24 hours of any ransom payment.

How is the information contained in the reports protected? CISA may only use the information in the reports for very limited purposes outlined above. Such information is further protected from disclosure via discovery, FOIA requests, or other open records requirement, etc.

How is the Act enforced? The CISA may request information in the event that it believes a covered entity may be noncompliant. If the entity fails to respond to the request within 72 hours, the CISA may issue a subpoena. If the entity fails to respond to the subpoena, the CISA may turn the matter over to the U.S. Attorney General who may enforce the subpoena.

Crowell & Moring LLP – Sarah Rippy, Matthew B. Welling, Evan D. Wolff, Maida Oringher Lerner, Alexander Urbelis and Michael G. Gruden

March 24 2022

Local Governments Are Attractive Targets for Hackers and Are Ill-Prepared.

Nearly one-third of cities and counties would be unable to tell if they were under attack in cyberspace. Many lack sound IT practices, while rigid policies, politics and bureaucracy can hinder better defense practices.

President Joe Biden on March 21, 2022, warned that Russian cyberattacks on U.S. targets are likely, though the government has not identified a specific threat. Biden urged the private sector: "Harden your cyber defenses immediately."

It is a costly fact of modern life that organizations from pipelines and shipping companies to hospitals and any number of private companies are vulnerable to cyberattacks, and the threat of cyberattacks from Russia and other nations makes a bad situation worse. Individuals, too, are at risk from the current threat.

Local governments, like schools and hospitals, are particularly enticing "soft targets" – organizations that lack the resources to defend themselves against routine cyberattacks, let alone a lengthy cyber conflict. For those attacking such targets, the goal is not necessarily financial reward but disrupting society at the local level.

Continue reading.

governing.com

March 29, 2022 • Richard Forno University of Maryland, Baltimore County

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S&P ESG Credit Indicator Report Card: U.S. States And Territories

We are disclosing in this report our ESG credit indicators for the U.S. states and territories sector. Our ESG credit indicators provide additional disclosure and transparency at the entity level and reflect our opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are applied after the credit rating has been determined. They are not a sustainability rating or an S&P Global Ratings ESG evaluation.

Continue reading.

31 Mar, 2022

S&P U.S. State Ratings And Outlooks: Current List

View the S&P List.

31 Mar, 2022

Municipal Bond Projects: Intellectual Property Risks - ArentFox Schiff

Private activity bonds may finance projects that rely on novel technology subject to intellectual property protections, such as patents, trade secrets, and know-how.

The novelty of the technology presents unique risks for bond buyers, as these projects often represent initial efforts to commercialize previously untested technology at a production scale.

Technology that looked promising on paper or even performed on a small experimental scale may not work, or may not deliver the projected economic output, once scaled up to production levels. Resolving engineering issues can be time-consuming and capital-intensive, resulting in capital needs far exceeding the initial projections.

As a result, bondholders should be particularly mindful of their ability to exercise remedies, if not to take possession of the project, then at least in order to have leverage in a workout.

If the collateral package securing the bonds does not properly capture intellectual property rights, the collateral package is virtually worthless. Foreclosing on a physical production plant without the right to use intellectual property necessary for its operation is pointless because the plant cannot be operated. No one would be interested in purchasing it without the right to use the intellectual property.

A threshold issue in these types of transactions is determining whether the operation of the project relies on protected intellectual property, including by:

1. obtaining representations and warranties relating to intellectual property;
2. searching the public record and to the extent potentially applicable patents or patent applications exist, determining whether they apply to the project and whether workarounds are available; and
3. determining whether trade secrets or know-how are implicated.

The borrower and its affiliates have an incentive to overstate the project's reliance on protected intellectual property to extract value in a workout. We have encountered borrowers who contended that the project could not be operated without licenses of patents owned, not surprisingly, by affiliates of the borrower. However, due diligence established that none of the patented technology was actually used in the project. We have also encountered third parties who claimed that the project relied on trade secrets, only to discover through due diligence that the project consisted entirely of standard commercial equipment used in a standard manner. In those cases, the trustee was able to exercise remedies and resell the project without purchasing licenses.

If protected intellectual property is, in fact, present, the next step is determining its ownership and licensing structure to ensure that upon foreclosure, the right to use the intellectual property will pass to the purchaser.

This is not always the case. Often the owner of the intellectual property is the parent of the borrower. The parent licenses the intellectual property to the borrower, and the borrower pledges the license to the trustee. This structure – where a mere license is pledged – is very problematic if the license is either ***revocable*** or ***non-transferrable***.

An intellectual property license is considered intangible personal property. It can therefore be foreclosed upon by the trustee and sold together with the physical plant in a single foreclosure sale. Where the license is ***transferrable***, the buyer at such foreclosure – whether it is the trustee or a third party purchaser – will acquire rights in the license that are identical to the borrower's rights before the foreclosure. Therefore, the foreclosure buyer would be able to use the licensed intellectual property and enforce the license against the licensor. However, if the license is non-transferable, the licensor could simply ignore the sale of the license. The licensor would be free to enforce its intellectual property rights against the buyer, precluding the buyer from using the intellectual property. This would leave the trustee unable to operate or sell the physical plant.

Critically, the license should explicitly state that it is transferrable, or, as a condition to the bond financing, the licensor should consent to the borrower's grant of a security interest in the license to the trustee ***and*** agree to recognize any buyer at foreclosure as successor licensee. There is a significant risk that a license silent on the issue of transferability or assignability will be determined by a court to be non-transferrable, rendering the security interest in the license meaningless.

The trustee's security interest is similarly meaningless if the license is transferrable but ***revocable***. Because a buyer of a transferrable license in foreclosure receives the same rights that the borrower had in the license, a license that is revocable in the hands of the borrower will also be revocable in the hands of the buyer. The licensor could therefore revoke the license both before or after the foreclosure sale.

Where the intellectual property aspects of the collateral package are defective, common law arguments are often available to protect bondholders. However, our view is that the best bondholder protection is for the intellectual property owner, typically the parent, to grant to the trustee and any future owner of the property a license to use the intellectual property. As a backup to these rights, the owner should also agree that the trustee has the right to grant sub-licenses to any future owner of the property. This method effectively ensures that the intellectual property "runs with" the project through foreclosure and subsequent sales.

In addition, such a direct agreement between the trustee and the licensor would expressly spell out the parties' respective rights and obligations and, for that reason, would be less likely to result in a dispute or litigation than even a properly set up security interest in a robust (transferrable and irrevocable) license.

To the extent these protections are not included when the bonds are issued, it is critical to obtain these protections in a workout as a condition for forbearance or additional funding.

by David L. Dubrow, Mark A. Angeloy

April 1, 2022

Fitch: Recent Virus Variant and Russia-Ukraine Fallout Marginal for Airports

Fitch Ratings-London/New York/S?o Paulo/Singapore-28 March 2022: The Omicron variant is barely causing a ripple to airport traffic recoveries worldwide in the final quarter of 2021 according to Fitch Ratings, and the rating agency does not anticipate the Russia-Ukraine conflict to create major fallout for the sector, according to the agency's latest Global Airport Tracker.

Most European airports outside Russia are not likely to be drastically affected by the loss of direct air traffic to and from Russia. Restrictions on airspace access, however, could affect some routes. 'The potential impact of geopolitical tension on inflation, GDP, consumer confidence, increased jet fuel costs and the propensity to fly is a secondary consequence of the conflict that could pause the positive momentum of air travel recovery,' said Fitch Senior Director Seth Lehman.

While more countries have relaxed their travel restriction policies in recent months, the above conditions could push back already delayed prospects for European airports with vacillations in coronavirus cases keeping passenger traffic below 50% of 2019 volume in fourth-quarter 2021. The U.K. and Italy are still feeling many of the effects.

By contrast, U.S. airports saw average recoveries near 90% in fourth-quarter 2021 even as the Omicron variant further delayed a return to normal operations. Domestic and leisure-focused airports saw or surpassed new highs while international gateways still lagged. Canadian airport traffic struggled for most of 2021, though recently announced easing of government restrictions should result in improving trends in 2022.

China's zero-coronaviurs policy and an increasing number of cases depressed recovery last quarter. Conversely, domestic traffic buoyed recovery for India and Latin America closer to U.S. numbers with Colombia and Mexico (above 90%) leading the charge. Brazil lagged somewhat, reaching 80% of 2019 volumes in December.

Fitch's 'Global Airport Traffic Tracker: 4Q21' is available at 'www.fitchratings.com.'

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Additional information is available on www.fitchratings.com

Washington University Latest School to Sell $1 Billion in Munis.

- **Deal comes to market amid weak muni performance and volatility**
- **Federal stimulus for higher education likely to end this year**

Washington University in St. Louis is planning to sell $1 billion in municipal bonds, joining a wave of schools tapping taxable debt amid a period of historic volatility and weak performance in the $4 trillion market.

The private university is looking to finance a slate of capital projects, including a neuroscience research facility and cancer center, offering investors one of the largest taxable deals on the calendar that's expected to price this week, according to roadshow documents.

"If you have your focus on credit and you know how to maneuver the market well, there are definitely buying opportunities," said Dora Lee, director of research at Belle Haven Investments.

"Rewind to last year, everyone was looking for yield, and now yield is here."

The Missouri university is the latest school to issue taxable debt this month, following similar deals by the Massachusetts Institute of Technology and University of Michigan.

The higher education sector was hit with credit downgrades early in the pandemic, and many colleges and universities have struggled to overcome pressures on enrollment, on-campus living and fluctuations in state budgets. This year will likely be the last to see significant budget relief from federal Covid stimulus, according to a Fitch Ratings report, and it could be a painful transition.

That said, enrollment declines were on average less severe at private colleges and universities, and top-choice schools were better insulated from wavering student interest, according to the Fitch report. Washington University accepted 13% of its applicants this year. Plus, it has seen full-time enrollment grow 12% since the 2017-18 school year despite a slight dip during the pandemic.

The deal stands to benefit from solid investor demand, garnering an Aa1 rating from Moody's Investors Service, which cited a strong financial profile, leadership and an "excellent" brand.

The University of Michigan's century bond — the biggest ever sold by a college or university and part of a record $2 billion debt package — was "well-oversubscribed" earlier this month, according Barclays Plc, the underwriter.

However, Washington University's deal will likely price "slightly cheaper" given the difference in name, said Nisha Patel, a managing director at Parametric Portfolio Associates LLC. It will also issue the debt under a corporate CUSIP in a move that may give the school more flexibility in how it spends the proceeds.

"This is obviously not the typical structure that most muni buyers are looking for, especially all that duration in an environment where rising rates are a concern," she said.

Washington University plans to use the funds to build a 620,000-square foot neuroscience facility with an 1,800-car garage, as well as an ambulatory cancer center that will be jointly owned with Barnes-Jewish hospital.

Bloomberg Markets

By Nic Querolo

March 30, 2022, 8:00 AM PDT

Should States Fund Municipal Broadband and Cooperatives?

Municipal broadband is booming, growing 600 percent since 2018. These alternatives to private-sector Internet service promise better access and affordability to communities. But are they really cost-effective?

Despite the more than $1.6 trillion private Internet service providers (ISPs) have invested in broadband infrastructure since 1996, the Internet landscape in the U.S. faces significant challenges. Over 30 percent of American households do not have broadband at home, while as many as 42 million do not have the option to purchase it in the first place, especially in rural areas. Millions more are unsatisfied with the Internet they do have. Moreover, large ISPs face little or no competition in most U.S. markets, resulting in Internet service that is comparatively more expensive than most peer nations while also not being relatively fast.

As private ISPs have struggled to tackle these issues, two related models have emerged as creative alternatives: municipal broadband and cooperatives. These models differ from private ISPs in that they are locally controlled — local governments or public utilities in the case of municipal broadband networks and subscribers in the case of cooperative networks—and are more focused on expanding access and affordability for residents than in making a profit. Today, there are over 600 communities served by a municipal network of some kind and 300 served by a cooperative.

Though municipal broadband and cooperatives have been growing in popularity, they have also been a topic of heated debate. Proponents argue that these models are more democratically accountable and will lead to increased competition as well as higher quality, more affordable, and wider-reaching service than that provided by their private-sector counterparts. Conversely, detractors say these models may not be financially sustainable and could potentially crowd out private investment. Additionally, some argue that lack of expertise makes governments ill-suited to take on the tasks of operating and maintaining commercial broadband networks and that failure comes at the expense of taxpayers.

Continue reading.

governing.com

By Kevin Schwartzbach, Rockefeller Institute of Government

March 28, 2022

In Depth: The Rise and Rise of Public Pensions in Private Equity - Cadwalader

Two recent news items got me thinking about public pensions, their continued rise in private equity and their sovereign status. The first news item, already widely covered in the media, is the announcement by the Securities and Exchange Commission ("SEC") of new rules requiring (among other things) enhanced periodic disclosure for fees, expenses and performance (including, possibly, reporting performance with and without the use of fund financing) (*see, e.g.,* "The SEC's Private Market Takeover" in *The Wall Street Journal*). *The Wall Street Journal*, in its unfavorable write-up, described the SEC as dancing "to the public pension tune," and *The Washington Post*, taking a more favorable view, noted that part of the motivation for the SEC is that "many retirees depend on the pensions that are invested in" private markets. (For *The Washington Post's* write-up, see "SEC proposes basic rules for private equity, hedge funds.") What's notable is that both the media supporters and the media detractors have focused on public pensions. The media coverage therefore seems to imply that public pensions are partly driving this regulatory change.

I am not so sure, since that would be in conflict with the second news item, which is the increasing deployment of public pension money in private equity as a long-term secular trend. According to Prequin, the average public pension allocation has increased from just above 6% in 2010 to close to 9% in 2021. In percentage terms, that's a huge increase and a vote of confidence in private markets. (*See* "Retirement Funds Bet Bigger on Private Equity" in *The Wall Street Journal*.) It's also worth remembering that these percentages are of massive holdings. Some of the biggest players have allocated an even larger exposure: the California Public Employees' Retirement System voted to increase its private equity allocation to 13% over the next four years, which equals roughly $25 billion dollars of additional demand from a single investor. With the increased demand from public pensions for private equity products, we have seen a greater internal focus on questions of sovereign immunity and its associated waivers at banks and sponsors. (I would also forecast an ever-increasing number of SMA facilities with public pensions, especially in the latter half of this year.)

What we can say for certain is that public pension money has confidence in private equity returns (now more than ever), but at least some voices in the media think that the current push for greater regulation and disclosure comes from those same investors. It's possible that both of these statements are true, but it seems more likely that we need to be skeptical of the claim that public pensions are the source of the SEC's recently proposed rules. It is just as probable that the SEC was going to focus on private markets anyway, regardless of the actions or concerns of public pensions. Nonetheless, the greater exposure to sovereign-status public pensions and the greater focus on private market regulation are at least correlated. Both of these trends have been major stories of the past year, and each trend features sovereign-status public pensions as key actors.

In any case, there is some concern that increased public pension money may expose sponsors and funds to greater sovereign immunity risk and also that increased public pension participation in these markets may lead to greater regulation. The first concern, sovereign immunity, can be addressed succinctly: the exceptions and waivers to sovereign immunity that we see from many states and their agencies (i.e., their public pensions) remain robust. The second concern, which is that the increased participation of public pensions in private equity is causing greater regulation, is likely unfounded based on the facts we can observe.

Two Sides of the Sovereign Coin

The current British sovereign gold coin features the face of Elizabeth II on the obverse (front) and St. George slaying his dragon on the reverse. It's the perfect embodiment of these two ideas: Elizabeth as sovereign looks serenely into the distance, but there is also the myth on the back: real or imagined dragons need slaying. (Certainly the proposed SEC rules are the sword, but I will let the reader decide who is St. George and who is the dragon.)

Side One: The Queen Can Do No Wrong

Cadwalader's *Fund Finance Friday* newsletter has covered sovereign immunity before in detail. (See "Immunity Unlikely" by Wes Misson, which offers an excellent overview of the issue and the sponsor/lender protections available via various waivers.) The short version is that public pensions enjoy sovereign status under the Eleventh Amendment of the United States Constitution (though they are only one category of investors that may enjoy sovereign status, as foreign governments (or their agencies), supra-national organizations and Native American tribes may have sovereign rights in federal or state courts as well). However, the sovereign immunity of state public pensions is often waived when the state agency is entering into a commercial contract. This waiver may take the form of statutory or constitutional waivers (37 such states as of 2021) or common law waivers (12 such states as of 2021). In addition, we often see a public pension investor reserve its Eleventh Amendment status in a side letter, but will also have what lawyers call "mitigating language," which essentially states that the reservation of sovereign immunity does not in any way limit the investor's obligations to fund capital calls. Sovereign immunity is therefore often mitigated, and counsel perform careful due diligence to identify the risk and assess the mitigations available given the jurisdiction in question and the language in the side letter and limited partnership agreement. When such mitigants exist, the sovereign has a serene gaze indeed.

Side Two: St. George vs. the Dragon

Then there's the dragon, real or imagined. This is the media narrative that increased regulation of private markets is coming and that it's in part driven by public pension investors. It's easy for some in the media to make that connection ‒ according to The Wall Street Journal article, public pensions account for 35% of all private equity capital, so it is tempting to connect the correlation of increased public pension money with increased regulation and to infer a causation. I would be skeptical of that claim. Pension funds have been and continue to be extraordinary partners with their private equity sponsors. The largest pension funds are not just investors, but co-investors or joint-venturers, and some are even exploring the option of becoming liquidity providers to select sponsors.

Conclusion

We have often heard or read that "private markets are the new public markets." A cynic could now say "private regulations are the new public regulations." While the current composition of the SEC certainly suggests a greater role for regulation in private markets, it is not at all clear that these actions are a result of greater public pension participation. We should not blame public pensions for the political decisions of a select few in Washington. In fact, the increased allocations toward private equity suggest that the partnership between public pension investors and private equity sponsors is stronger than ever (for my part, my father's public pension is tied up in many of the deals I work on, even though I typically represent the lenders). In addition, while many bankers/sponsors may receive increased internal scrutiny on sovereign immunity exposure to such investors, reputational risk and legal waivers mitigate this exposure into a manageable commercial risk (with some exceptions for certain problematic jurisdictions). Despite the proposed regulations, it's not an exaggeration to say that the relationship between public money and private equity is now a cornerstone of the American economy. It's a bit like a certain motto written on another English coin: *honi soit qui mal y pense*, or "shamed be whoever thinks ill of it."

By Christopher Montgomery
Special Counsel | Fund Finance

March 31, 2022

Cadwalader, Wickersham & Taft LLP

The Toughest Fix in Urban America: Transforming Civic Culture

From public health to race relations to infrastructure, city leaders' best-laid policies won't amount to much if they haven't tackled their organizations' culture.

When it comes to big urban challenges — coordinating a public health response to the pandemic, combating racism in the police department or rebuilding crumbling infrastructure — the greatest barrier may be the least understood: organizational culture.

Ask any business CEO and they will tell you that culture is everything — it defines the unwritten rules that determine how work gets done. Amazon is cost-conscious, customer-centric innovation; Disney is about storytelling. Each city has its own distinct culture as well, and the culture is what allows certain innovations to flourish while shutting down most other reform efforts.

Unfortunately, in most government agencies, the culture was set long ago, before the internet, let alone the metaverse.

[Continue reading.](#)

Bloomberg CityLab

by Neil Kleiman and Alexander Shermansong

March 31, 2022, 4:30 AM PDT

[Wall Street Must Come Clean on Fossil-Fuel Plans, Texas Says.](#)

- **Texas Comptroller has asked firms to clarify their policies**
- **Hegar says firms craft different narratives for clients**

Texas Comptroller Glenn Hegar says he wants financial services firms to be transparent in their environmental, social and governance rhetoric.

Heger in an interview said that many Wall Street firms have "two thought processes" depending on which clients they deal with, crafting one narrative about divesting from fossil fuels, and another when trying to land business in the oil and gas industry.

Earlier this month he sent requests to major financial services firms like BlackRock Inc. and Invesco Ltd. seeking clarification of their fossil-fuel investment policies and procedures. The requests come about six months after Texas — the nation's No. 1 oil and gas producer — enacted a law that prohibited government contracts with or certain investments in companies that have shunned fossil-fuel producers.

"If a company on one hand says 'I'm not investing in oil and gas, it's a terrible industry,' but in essence they're doing business there, you have to ask are you telling the truth or are you making a story up?" he said in an interview in Austin on Wednesday.

"This list will bring light and transparency to what's truly going on," Hegar, a Republican, said. "One of the frustrations that I have right now is trying to quantify what does ESG mean?"

Hegar wouldn't comment on specific companies that will or will not be on the divestment list until the responses have been received and determinations are made. Companies have 60 days after receiving the letter to respond to the inquiry. He said that he's had conversations with a few firms on their policies, but declined to say which firms he personally spoke with.

"The true narrative of what's going on needs to be told and I think this will help bring that truth out," he said. "If I'm going to entrust you with my dollars then I want to make sure you adhere to the policies that we believe."

BlackRock has come under fire from Republicans after Chief Executive Officer Larry Fink in January warned that companies will be left behind if they don't embrace sustainable business practices. Since then, it's touted itself as "perhaps the world's largest investor in fossil fuel companies" with $259 billion invested in energy companies globally and $91 billion in Texas.

Texas has been a flash-point for Republican anger at Wall Street over social issues such as climate change and racial injustice. Lawmakers last year approved legislation intended to punish banks for adopting restrictive gun policies, a move that upended a crucial market for municipal finance. Bank of America, Goldman Sachs Group Inc. and JPMorgan Chase & Co. have halted underwriting for

Texas and its municipalities.

Earlier this month a conservative Texas lawmaker warned Citigroup Inc. that it could be barred from underwriting municipal bonds and that company employees could face criminal prosecution unless the bank backs off its policy to pay for workers to travel outside of Texas for an abortion.

Bloomberg Markets

By Danielle Moran

March 30, 2022, 3:18 PM PDT

— With assistance by Shelly Hagan

Munis to Perform Inline With Treasuries: Chris Brigati

Chris Brigati, Valley National Bank senior vice president and managing director of municipal investments, says munis have reacted poorly to the recent volatility in Treasuries. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Listen to audio.

Bloomberg Markets: The Close

March 23rd, 2022, 12:47 PM PDT

Big Inflows for U.S. Money Market Funds on Talk of Recession.

April 1 (Reuters) – U.S. money market funds lured big inflows in the week to March 30 as investors flocked to safer assets due to concerns that the Federal Reserve's aggressive stance to tackle inflation could send the economy into a recession.

U.S. investors purchased money market funds of $30.88 billion in their first weekly net buying since March 2, Refinitiv Lipper data showed.

The widely tracked U.S. 2-year/10-year Treasury inverted on Tuesday for the first time since September 2019 as the Fed signalled a willingness to go hard and fast on tightening to curb inflation.

The 10-year yields falling beneath 2-year rates is widely seen as a harbinger of economic recession.

As investor caution crept in, U.S. equity funds faced outflows worth worth $1.58 billion during the week, compared with inflows of $13.89 billion in the previous week.

U.S. investors offloaded value funds worth $5.63 billion in their biggest weekly net selling since mid-Oct., while growth funds also faced withdrawals of $557 million.

Among U.S. sector funds, tech and industrials received $345 and $224 million respectively in inflows, while real estate funds lost $256 million in outflows.

Meanwhile, investors sold U.S. bond funds for a 12th straight week as they pulled out a net $3.86 billion, compared with withdrawals of $1.16 billion in the preceding week.

Investors exited U.S. municipal bond funds worth $2.24 billion in a seventh straight week of net selling. Taxable bond funds also witnessed outflows, amounting to $1.71 billion after an inflow in the previous week.

U.S. short/intermediate investment-grade funds saw outflows surging to a three-week high of $3.74 billion.

Meanwhile, U.S. high yield bond funds received $1.04 billion in their first weekly net buying in four weeks. Loan participation, and inflation-linked funds also lured inflows of $1.18 billion and $815 million respectively.

Reporting by Gaurav Dogra and Patturaja Murugaboopathy in Bengaluru; Editing by Louise Heavens

April 1, 2022

Reuters

Muni Bonds Wrap Up Worst Quarter In Nearly 40 Years Amid Hawkish Fed: Bloomberg

Municipal bonds have finished the worst quarter since the early 1980s as investors discount the Federal Reserve's aggressive rate hike policy.

Note that muni bonds are issued by states, local governments, or countries to finance its capital expenditures on projects such as highways or schools.

Specifically, muni bonds ended Q1 with a 6.4% loss, the biggest drawdown since 1981 at -9.7%, according to data from Bloomberg.

Continue reading.

Seeking Alpha

Mar. 31, 2022

Taming Inflation With More Aggressive Interest Rate Hikes and Quantitative Tightening.

In the most recent Federal Open Market Committee meeting, Chair Jerome Powell indicated he views the U.S. economy to be in a strong position, with consistent job growth and wage increases; however, he sees inflationary pressures to be an ongoing concern for American families – the rise in prices, which are evident in almost all goods and services, are warranting the Fed to take aggressive action in moving towards tightening the

monetary policy and preventing an "overheating" situation of the economy. During the meeting, the Fed adopted a quarter percent increase in Fed fund rates – the first rate hike since 2018.

In this article, we'll take a closer look at the American economic forecast and how Fed's interest rate hikes will likely impact fixed income markets.

[Continue reading.]

municipalbonds.com

by Jayden Sangha

Mar 30, 2022

[Muni Investors Waiting on Fed Clarity: Hilltop's Kozlik]

Tom Kozlik, head of municipal research and analytics at Hilltop Securities, sees more uncertainty and outflows in the municipal bond market. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

[Listen to audio.]

Bloomberg Markets: The Close

March 30th, 2022, 12:12 PM PDT

[Muni Bonds Close Worst Quarter Since 1980s Down More Than 6%.]

- **Rising rates increase chance of further short-term decline**
- **Some analysts see potential for pickup in demand on valuations**

The municipal-bond market is ending its worst quarter in about 40 years with a 6.4% loss, a dramatic pullback for an asset class that investors favor for its stability.

The loss so far this year is in line with bonds globally as central banks increase interest rates to combat the fastest inflation in decades. The municipal market is still underperforming U.S. Treasuries, heightening investor concern.

"We need this quarter over with," said Dan Solender, head of municipal debt at Lord, Abbett & Co.

The selloff has wiped $108 billion of market value from Bloomberg's municipal index since the start of 2022. Outflows from mutual funds have persisted, creating intense selling pressure in the secondary market for municipal securities.

The amount of bonds out for bid stood at $1.2 billion on Wednesday, a level not see in all of 2021, according to Bloomberg data.

"It's finally sinking in — investors now believe that rates are going higher," said Chris Johns, a managing director at Davidson Fixed Income Management. Retail investors, the core muni buyer base, have an "itchier trigger finger" when they see that interest rates are set to rise, he said.

Analysts have begun highlighting cheaper valuations in the municipal-bond market as an opportunity for new buyers. Thirty-year AAA municipals offer about 106% of the yield of comparable Treasuries, the highest since late 2020, according to data compiled by Bloomberg. That gauge of valuations, known as the muni-Treasury ratio, was as low as 67% in June 2021.

Solender said the market is seeing a "strange" shift from conditions just a year ago, when interest rates were about 100 basis points lower and cash was flooding into the market. Now, the credit conditions of municipalities has improved — but interest rates have soared. Higher yields should make munis more appealing to buyers, he said.

Morgan Stanley strategists led by Michael Zezas, Samantha Favis and Barbara Boakye said in a note this week that they now had a "constructive outlook" based on improved valuations. They said investors could be "uncomfortable" adding exposure to municipals in the near term, but the securities could end up outperforming other fixed-income alternatives over a six to 12 month period.

So-called crossover buyers, who don't typically focus on tax-exempt purchases, are already buying bonds at relatively low prices, said Mark Whitaker, senior vice president at Mesirow Financial. But he said that uncertainty around the Federal Reserve, the Treasury market and the geopolitical landscape could continue to weigh on the market.

"Fund flows could still be volatile," he said.

Bloomberg Markets

By Amanda Albright

March 31, 2022

— With assistance by Martin Z Braun, and Nic Querolo

[Muni Performance In 2022 (Bloomberg Radio)]

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Matt Miller and Katie Greifeld.

[Listen to audio.]

Bloomberg Radio

Apr 01, 2022

[S&P ESG Brief: Incorporating Climate Transition Risk In U.S. States Credit Ratings]

Key Takeaways

- In our consideration of 'E' factors that influence state credit ratings, climate transition risk is most prevalent in states with high fossil fuel production and energy generation, particularly when states draw significant economic or financial resources from these carbon-intensive industries.
- We primarily consider climate transition risks within our credit analysis of a state's economic and budgetary performance, particularly when considering gross state product composition, number of jobs associated with the energy sector, and revenue collected from severance taxes that fund operations.
- We also consider how states are attracting sectors that are more insulated from transition risk, how states incorporate transition risk into long-term financial and capital planning, and how they enable cross-agency and regional coordination to reduce greenhouse gas emissions.
- States better positioned to absorb transition risk are likely to repurpose revenue derived from carbon-intensive activities to help with workforce retraining. That said, despite efforts to ensure a just transition, there could be a disproportionate effect on individuals who can least afford it, leading to potential social capital risks.

Continue reading.

22 Mar, 2022

GFOA: New Best Practices and Advisories Approved

Earlier this month, GFOA's Executive Board approved the following best practices and advisories:

- Abstain from Using and Investing in Cryptocurrency for Government Operations **(New Advisory)**
- Budget Control **(New Best Practice)**
- Long-Term Financial Planning **(Revised Best Practice)**
- Marketing Municipal Bonds as Green, Sustainable, Social, or Other Alternatively Designated Bonds **(New Best Practice)**

VIEW ALL BEST PRACTICES

Nuveen Bond-Market Coercion Led to $628 Million in Damages, Rival Says.

- **Preston Hollow says smear campaign reduced its bond business**
- **Delaware jury trial set for July after three-year legal fight**

Preston Hollow Capital LLC said in a court filing that U.S. bond-market powerhouse Nuveen LLC should be forced to pay as much as $628 million in damages for trying to coerce banks into not doing business with its smaller rival.

Nuveen's head of municipal investment John Miller smeared Preston Hollow and wrongfully used his firm's market power in a bid to blackball its competitor, Dallas-based Preston Hollow said in a court filing earlier this month. It's the latest salvo in a more than three-year legal battle that's headed for a July trial in state court in Wilmington, Delaware.

"Preston Hollow will prove at trial Nuveen engaged in a coordinated attack on Preston Hollow, including false and defamatory statements to the largest and most influential municipal bond broker-dealers," lawyers for Preston Hollow said in an unsealed March 2 filing. "As a result, the dollar volume of municipal-bond transactions originated by Preston Hollow sharply declined in 2019 and that decline continued in 2020 and 2021."

Nuveen, one of the biggest buyers of U.S. state and local government bonds, denied in a separate filing that it had targeted Preston Hollow's business and argued that it shouldn't be hit with any damages.

"We continue to believe PHC's claims are meritless, particularly its damages claims which lack any legally valid analysis or supporting evidence, and disregard PHC's own contradictory testimony," Nuveen spokeswoman Jessica Greaney said in an an emailed statement.

Nuveen is a unit of teachers' investment group TIAA and the second-largest municipal bond-fund manager. Miller oversees $230 billion of municipal assets. New York-based TIAA has more than $1.3 trillion under management.

Preston Hollow occupies a niche in the $4 trillion municipal-bond market, by lending directly to risky projects. The fund has extended $3.7 billion in loans, financing projects such as hospitals in California and New York.

Rival Experts

Preston Hollow's estimate of damages became public March 2 as part of the fund's request to block an expert from Nuveen from testifying about it at trial. The filing had originally been sealed.

According to Nuveen's expert, Glenn Hubbard, a finance and economics professor at Columbia University, the damage analysis by Preston Hollow's expert is based on flawed assumptions, shaky math and shouldn't be presented to the jury, court filings show. Nuveen says it's not liable for any damages.

Testimony from Michael Goldstein, Preston Hollow's expert, "will confuse the jury and severely prejudice Nuveen," according to Nuveen. Goldstein is a professor of applied investment at Babson College in Massachusetts.

"Among other things, PHC's damages calculation assumes that its revenue decline was solely attributable to Nuveen, ignoring other factors that dramatically affected the municipal bond market, including record-breaking inflows that flooded the municipal bond market beginning in 2019," Greaney said in her statement.

The case is Preston Hollow Capital LLC v. Nuveen LLC, N19C-10-107-MMJ, CCLD, Delaware Superior Court (Wilmington).

Bloomberg Markets

By Jef Feeley

March 22, 2022

— With assistance by Martin Z Braun

Fitch: Post-Pandemic Bumps Minimal for US Toll Roads

Fitch Ratings-New York-23 March 2022: U.S. toll roads were first out of the gate on the road to pre-pandemic recovery and are well-positioned to return to normal traffic and revenue growth, according to Fitch Ratings' latest sector peer review.

"Toll roads were able to restore traffic and revenue growth off of peak declines at the outset of the pandemic very quickly, which bodes well for the sector in the coming months with travel restrictions being lifted," said Director Anne Tricerri. Toll traffic and revenue levels are also positioned to move beyond pre-pandemic levels over time.

One area of potential concern for toll roads, like all other major transportation sectors, is rising gas prices. "High gas prices could curb growth coming out of the pandemic, especially for discretionary leisure traffic as we head into the summer travel season," said Tricerri.

U.S. toll roads proved to be one of the most resilient infrastructure sectors to the pandemic's stranglehold on the broader economy and one of the quickest to return to pre-pandemic traffic movement. Since its 2020 peer review, Fitch has taken two positive rating actions, revised the Rating Outlook on five toll roads to Stable from Negative, and revised the Outlook on one to Positive from Stable. Perhaps the most notable sign of the sector's strength is that Fitch has not taken any negative rating actions on toll roads during this period.

Fitch has also released an update to the interactive peer study for U.S. toll roads, available in the 'U.S. Toll Roads – 2022 Fitch Analytical Comparative Tool (FACT)'. Going forward, Fitch will conduct its annual peer reviews using a more granular five-point volume assessment scale as detailed in its 'Transportation Infrastructure Rating Criteria Exposure Draft' that was published last month. Fitch's 'Peer Review of U.S. Toll Roads' is available at 'www.fitchratings.com'.

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Soaring Road Construction Costs Could Nix Some State and Local Projects.

Highway and street materials have increased 21% since last year due to hikes in

petroleum-based and other products and truck and driver shortages.

Inflation for construction materials far exceeds the already high inflation for consumer goods, a trend that, if it continues, threatens to sap the spending power of money flowing to states and localities from Washington in President Biden's signature infrastructure law.

The cost of highway and street construction materials has increased by 21% in the last year, according to the American Road & Transportation Builders Association, compared with 7.9% for ordinary consumer goods.

The climbing cost of road construction is in line with increases in the broader construction industry, where prices have gone up 20% in the last year.

Continue reading.

Route Fifty

By Daniel C. Vock

MARCH 25, 2022

Fitch: 10 States Achieve Full Pre-Pandemic Jobs Recovery

Fitch Ratings-New York-24 March 2022: Annual national employment gain revisions have pushed 10 states into a full, pre-pandemic employment recovery in January, according to Fitch Ratings.

Arkansas, Tennessee, Georgia, Florida, North Carolina, Montana, Utah, Idaho, Texas and Arizona all achieved the full recovery milestone. Only Hawaii, North Dakota and Louisiana have not reached at least a 70 percent recovery of jobs lost as of the peak of the coronavirus pandemic.

"January saw the state median jobs recovery rate hit 82 percent, up 2 percentage points (pps) from the prior month," said Olu Sonola, Head of U.S. Regional Economics at Fitch Ratings. "The new annual revision shows a steady positive employment recovery in nearly every state since July 2021, led by Texas with a 21 pps increase in the recovery rate."

Recovery in major coastal states such as California and New York have remained steady. California and New York both experienced a 2.0 pps increase in their recovery rates from the prior month, reaching 82 and 74 percent, respectively.

As of January, Utah, Kansas and Idaho led continuing employment recoveries on a month-over-month basis, increasing by 5.6 pps, 5.4 pps and 5.0 pps, respectively. Maryland and West Virginia reflected the most significant employment recovery decelerations, declining from 77 pps to 75 pps and from 74 pps to 72 pps, respectively.

Since August 2021, no state saw an increase in its unemployment rate compared to January 2022. New Hampshire and Georgia saw month-over-month increases in their Fitch-adjusted unemployment rates from 5.6 to 5.8 percent, and 4.3 to 4.5 percent, respectively.

The median Fitch Ratings-adjusted unemployment rate, which reclassifies those who have left the labor force as unemployed, declined marginally to 5.0 percent in January, from 5.3 percent in December. The rate remains above the current median state official unemployment rate of 4.0

percent, which declined from 4.1 percent in December.

For more information, a special report titled “U.S. States Labor Markets Tracker” is available at www.fitchratings.com.

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Muni Pension Risk? It's in the Past for Now.

Unfunded pensions for state and local governments were once expected by some to sink the whole market. That never happened. Instead, unfunded pension liabilities are in their best condition in nearly a decade, according to Pew Charitable Trusts, and are less of a financial burden on many state and local governments. The improvement in pension liabilities supports the case that credit quality in the muni market has improved and is strong overall.

How do pensions work?

The state or local governments that provide pensions must contribute and invest funds to pay for future benefits. The employees usually must contribute, as well. Future benefits are based on a variety of factors such as projected retirement dates, growth in salaries and life expectancies.

Municipal pension plans vary in terms of funding levels, annual expenses, and the ability and willingness to fully fund their plans. If the value of a plan’s assets falls, or the future retirement benefits promised become more expensive, the municipality generally must contribute more. Those costs compete with other costs, such as other public services or debt payments. Large payments to pensions can take funds away from payments to other resources—such as keeping the municipality operating, or making payments to bondholders. If pension expenses become too burdensome, the municipality risks defaulting on its bonds.

Continue reading.

advisorperspectives.com

by Cooper Howard of Charles Schwab, 3/23/22

Public Pension Health Augurs Well for Muni Bond ETFs.

A lengthy run of a bull market for equities and low interest rates helped shore up public pensions, and that's good news municipal bonds and the related exchange trade funds.

The news gets even better for investors considering ETFs such as the Avantis Core Municipal Fixed Income ETF (AVMU). These days, the financial health of public pensions is as strong as it's ever been. Obviously, that's relevant regarding AVMU, which holds 443 bonds.

Reaching a funding rate of 100% is the holy grail of public pension finances, and it's rare, but a funding rate of 80% is considered strong. Today, nine states are in the 70%–80% camp while another 13 states are above 80%.

California and Florida, the largest and third-largest states, respectively, are in that 70%–80%, and those are two of AVMU's largest state allocations. New York, another one of the fund's largest state exposures, has public pensions funded above 80%.

"The good news is that in general, states have the financial resources to make payments to both their pension plans and bondholders," notes Cooper Howard of Charles Schwab.

Public pension health is relevant regarding AVMU because the ETF allocates over 29% of its weight to local and state general obligation bonds.

"Many municipalities have used the recent strong economic recovery and substantial fiscal aid to help shore up their unfunded pension liabilities. For example, contributions have increased an average of 8% per year. Even some of the plans with the lowest funding have made significant improvements to contributions to get their plans on better footing. Illinois, Kentucky, Pennsylvania, and New Jersey have all increased contributions by an average of 16%," adds Howard.

Enhancing the allure of AVMU is the fact that credit conditions in states are improving, which is reflected in the fund's stout credit quality. Just 3% of the fund's holdings aren't rated AAA, AA, or A. Additionally, states are actively moving to reduce pension debt.

"Nearly every state has enacted reforms—such as reducing benefits—to their pensions, according to Pew Charitable Trusts. The most common reform is to reduce the cost-of-living adjustment (COLA) for retirees, which in turn reduces the projected liability. Steps like these can free up money for debt service, because the state or local government can scale back current contributions for future pension obligations," concludes Schwab's Howard.

ETF TRENDS

by TOM LYDON

MARCH 23, 2022

ETFs Are Becoming a Go-To Investment Vehicle to Access the Munis Market.

Once a large source of direct investment demand for municipal debt securities, retail investors are shifting their habits as more turn to the easy-to-use exchange traded fund vehicle to tap into the $4 trillion market.

According to Federal Reserve data, the value of bonds directly owned by households declined by $18 billion over the fourth quarter of 2021 to the lowest level since 2008, Bloomberg reports.

This does not mean that retail investors are ditching bond exposure. Instead, more buyers are picking up mutual funds and ETFs, which have roughly doubled their muni holdings over the past decade – the increased muni bond holdings reflect the increased money inflows that have funneled into these funds.

“When individual investors were the drivers of the market, every investor is different, and you had this incredible diversity for buyers and sellers,” Patrick Luby, municipal strategist at CreditSights, told Bloomberg. “Munis will maintain their appeal to individual investors, but I think the way they access munis will continue to shift.”

Luby argued that as interest rates declined over the last three decades, holding individual debt securities’ risk and reward tradeoff changed. The risk of losing their principal was no longer cushioned by the high yields. Furthermore, it also becomes harder for financial advisers to profit from educating investors about individual deals.

“Mutual funds are becoming larger, over the last decade, their holdings pretty much doubled,” Mikhail Foux, head of municipal strategy at Barclays Plc, told Bloomberg. “Right now, they’re the most important institutional player in the municipal space.”

Looking ahead, Foux projected that the shift out of retail muni holdings would continue and believed there is a similar trajectory in the corporate market.

“There has been a lot of M&A activity in the mutual fund business and acquisitions of the separately managed account shops,” Sweta Singh, portfolio manager at City Different Holdings LP, told Bloomberg. “Our market is getting more concentrated with bigger players because there is bottom-line pressure on margins.”

ETF TRENDS

by MAX CHEN

MARCH 24, 2022

Volatility Returns in Muni Market’s Worst Quarter Since 1994.

- **Benchmark yields saw biggest jump since April 2020 on Tuesday**
- **State and local debt has lost 5.5% in 2022: Bloomberg indexes**

Volatility has come roaring back in the municipal-bond market.

The $4 trillion state and local-debt market just logged its most volatile 10-day period since the early 2020 selloff, according to data compiled by Bloomberg. Benchmark yields rose as much as 11 basis points on Tuesday, driving the market to its worst day of performance since April 2020. AAA yields rose as much as 2 basis points as of 4 p.m. on Wednesday.

The rout came after Federal Reserve Chair Jerome Powell’s hawkish comments triggered a tumble in Treasuries as the central bank head seeks to tame the worst inflation in 40 years. Tuesday’s move pushed the muni market to a 5.47% loss this year, poised for its worst quarter since 1994, according to Bloomberg indexes.

“I don’t necessarily expect a quick snap back,” said Mikhail Foux, head of municipal strategy at Barclays Plc, who described the selloff as driven by the Fed’s commentary. He said the market could start to recoup some of its losses in the second half of the year.

Outflows from municipal-bond mutual funds, typically a major buying force, have weighed on the market. The selling pressure accelerated on Tuesday, with the amount of bonds out for bid climbing to $1.6 billion, according to data compiled by Bloomberg. The average amount money managers are seeking bids on this month is nearly double the level in 2021.

BlackRock Inc.’s iShares National Muni Bond ETF, the biggest muni exchange-traded fund, saw a $275 million daily outflow on Tuesday, the biggest on record for the ETF, which debuted in 2007 and is often watched as a bellwether of muni demand.

Some relatively small municipal-bond offerings have been canceled or postponed amid the selloff. A bond offer set to be sold via auction this week by Peekskill, New York, was canceled, according to data compiled by Bloomberg. Albuquerque, New Mexico, canceled a portion of a bond sale that was meant to refinance debt, according to Albuquerque Treasurer Cilia Aglialoro. The rest of the city’s bond offering is still planned for a sale via auction tomorrow.

Peekskill City Comptroller Matthew Alexander didn’t immediately respond to a request for comment.

New York City sold $953 million of bonds on Wednesday and is offering investors extra yield as borrowing costs jump. Ten-year bonds that mature in August 2032 sold at 2.61%, or about 51 basis points higher than the interpolated 10-year curve, according data compiled by Bloomberg. That’s slightly lower than the offering yield. It’s about double what it paid when it sold 10-year bonds in August.

Leslie Martin, a tax-exempt portfolio manager at Cavanal Hill Investment Management, said she’s focusing on shorter-dated securities, which investors have been looking to for refuge from rising interest rates.

She said the amount of bonds out for the bid isn’t as high as Tuesday. Yields showed signs of stabilizing on Wednesday. Ten-year muni-bond yields rose 2 basis points to 2.08%.

“I’m hoping today is a little calmer,” Martin said.

Bloomberg Markets

By Amanda Albright

March 23, 2022

— With assistance by Joseph Mysak Jr, Martin Z Braun, and Nic Querolo

Munis to Perform Inline With Treasuries: Chris Brigati

Chris Brigati, Valley National Bank senior vice president and managing director of municipal investments, says munis have reacted poorly to the recent volatility in Treasuries. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

March 23rd, 2022

Mom and Pop Buying Fewer Muni Bonds Directly as ETFs Heat Up.

- **Retail investors account for almost 75% of muni market's value**
- **Shift to managed accounts expected to continue in years ahead**

Mom and pop investors long have been staple retail buyers of state and local debt. Now that's changing as fewer and fewer are directly purchasing municipal bonds in the $4 trillion market.

The value of bonds directly owned by households fell by $18 billion in the fourth quarter of 2021, dropping to the lowest level since 2008, according to Federal Reserve data. Instead, those buyers are moving toward mutual funds and exchange traded funds, which have roughly doubled their muni holdings over the last decade.

Managed accounts offer buyers more liquidity and diversification, and their rise has put a spotlight on fund flow data as a key bellwether of the market's health. It also has homogenized the market by condensing individuals' investment strategies into the hands of account managers looking to beat a benchmark.

"When individual investors were the drivers of the market, every investor is different and you had this incredible diversity for buyers and sellers," said Patrick Luby, municipal strategist at CreditSights. "Munis will maintain their appeal to individual investors, but I think the way they access munis will continue to shift."

Together, direct and indirect retail account for almost three-quarters of the muni market's total value, dwarfing the holdings of insurance companies and U.S. banks, which each held about 12% in the fourth quarter.

As interest rates fell over the last few decades, the risk and reward tradeoff of buying individual bonds shifted, Luby said. Investors still ran the risk of losing principal, but smaller yields made mistakes more costly. It also become harder for financial advisers to squeeze out profits educating investors about individual deals.

Investors aren't necessarily selling individual bonds, but as their bonds mature, they're not putting as much money into new bonds. The Federal Reserve data isn't a perfect measure because it estimates households residually, or by subtracting all other reported holdings from the total market size. Still, it's one of the closest approximations of how much muni debt individuals hold directly.

“Mutual funds are becoming larger, over the last decade, their holdings pretty much doubled,” said Mikhail Foux, head of municipal strategy at Barclays Plc. “Right now, they’re the most important institutional player in the municipal space.”

Foux expects the reallocation of retail muni holdings to continue, and pointed to a similar trajectory in the corporate market.

“There has been a lot of M&A activity in the mutual fund business and acquisitions of the separately managed account shops,” said Sweta Singh, portfolio manager at City Different Holdings LP. “Our market is getting more concentrated with bigger players, because there is bottom line pressure on margins.”

Bloomberg Markets

By Nic Querolo

March 24, 2022

Municipal Bond Performance In 2022 (Bloomberg Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Mar 25, 2022

Five Ways Muni Investors Can Navigate a Rising-Rate Environment.

Options for navigating the $4 trillion market for state and local government bonds

Investors checking the value of their municipal-bond portfolios are getting bad news.

With the Federal Reserve rate increase earlier this month and expectations of more increases, municipal-bond prices have grown increasingly volatile, and the Bloomberg Municipal Bond Index has been down 46 of 57 trading days so far this year. Before 2022, that hadn’t happened since the index’s inception in 2001.

That isn’t a problem if you are holding bonds until maturity, collecting interest along the way. But U.S. households increasingly invest in munis by buying shares of mutual and exchange-traded funds, which are more easily traded and can rise and fall in value based on market moves.

Worried investors have pulled $12.9 billion from municipal-bond funds since the start of the year, according to Refinitiv Lipper, the most sustained outflows since the Covid-19 pandemic sent the market into free fall in March 2020. Investors are moving money into stocks and buying inflation-protected Treasurys, financial advisers said. (Some of the money being withdrawn is also likely going to pay tax bills.)

But even in a world of rising rates, investors, advisers, managers and brokers said, there are many options for navigating the $4 trillion market for state and local government bonds.

1. Buy very short-term bonds

Bonds that mature soon, say within the next three years, won't fall in price as much as say 10-year bonds in response to Fed moves. (Yields rise as prices fall.) That is because it won't be long until those bonds mature and the cash can be reinvested in freshly issued, potentially higher-yielding munis.

The gap between shorter- and longer-term yields has shrunk recently, meaning investors aren't giving up as much buying shorter-term bonds. "You're really not getting any yield benefit in going out longer," Ted Halpern, president of Ashburn, Va.-based Halpern Financial, said in an email. "So why take the risk?"

Investors have added $11 million to the Van Eck Short Muni ETF so far this year while withdrawing $65 million from the Van Eck Intermediate Muni ETF, according to Morningstar Direct.

2. Buy very long-term bonds

Buying bonds with faraway maturity dates, say 20 years or more, could also pay off for patient investors. Those bonds are likely to lose more value over the next several years than short-term debt, but could rebound stronger if the Fed reins in inflation and interest rates fall.

"This is sort of an offensive strategy," said Justin Hoogendoorn, head of fixed-income strategy and analytics at broker dealer HilltopSecurities. "Even though it looks like it could be underwater for a period of time, you'll be ahead of the game eventually." Plus, there is steady demand for long-term bonds from certain asset managers, such as insurance companies, which helps push up prices.

Morgan Stanley Research head of municipal strategy Michael Zezas recently suggested buying equal quantities of muni bonds maturing in less than four years and munis maturing in more than 20.

3. Buy junkier bonds

A stimulus-fueled economic boom and waves of federal Covid-19 aid to state and local governments have buoyed the finances of municipal borrowers. That means worries about repayment troubles are unlikely to drive down prices on most bonds, at least in the near term. Buying lower-rated, higher-yielding muni debt could be one potentially appealing way for investors to insulate themselves against the impact of rising rates.

That is because any change in interest rates will erode the value of a higher coupon bond less than it would a lower interest one with the same maturity date. High-yield funds experienced inflows in the week ended Wednesday, after more than a month of outflows, according to Refinitiv Lipper.

Still, bondholders venturing into the high-yield market should be aware that it is more volatile than high-grade muni bonds and many advisers caution against chasing yield in junk bonds.

"The ride could get rougher, maybe a lot rougher," said Matt Fabian, a partner at Municipal Market Analytics.

4. Sell and lower next year's tax bill

Lowering tax costs is usually the reason investors turn to the munis in the first place, since the bonds typically pay interest that is exempt from federal, and often state, taxes. Falling muni prices in 2022 present an opportunity for another way of reducing tax bills, known as “tax-loss harvesting,” something that has been hard to do in recent years as muni prices have risen.

That means selling an investment that has dropped in value to book the loss and count it against any gains booked during 2022, with the ultimate goal of reducing next April’s tax bill. (Investors typically buy a similar bond to the one sold to keep their portfolio largely intact.)

“It is a way of making lemonade out of lemons!” Brian Cohen, an investment adviser with Melville, N.Y.-based Landmark Wealth Management, said in an email.

5. Stop trying to time the market

Yes, any muni bonds purchased today could easily fall in value as rates climb and expectations for further increases shift. But those bonds are still going to carry higher coupons than almost any debt issued over the past several years. Sitting on the sidelines might make sense for a few weeks or months. But investors holding out for the best bargain might end up missing out.

“At the end of the day nobody knows how to pick the absolute bottom,” said Mikhail Foux, head of municipal strategy at Barclays PLC.

The Wall Street Journal

By Heather Gillers

March 27, 2022

Fitch ESG Credit Trends 2022.

Investors, regulators, and stakeholders in capital markets are paying increasing attention to social issues, and this ESG theme will rise in prominence over 2022. In conjunction, the nexus between environmental and social issues will become stronger as ESG integration becomes more sophisticated as more disclosures and data become available.

DOWNLOAD SPECIAL REPORT

The Smart Way for Public Pensions to Divest from Russia.

Many want to sanction Putin and Co. at every turn, but it’s a mistake to move too quickly. Pension funds actually don’t hold that much in Russian assets, and they’re sitting ducks for crafty, amoral traders.

With Russia’s brutal invasion of Ukraine demanding a response from freedom-loving peoples everywhere, the NATO nations and other countries around the world have embarked on a wide range of economic sanctions. Some of them are far more extensive than anybody had previously imagined possible, such as the freezing of Russian central bank assets and its global interbank access, and now the U.S. oil boycott. Amid this global expression of scorn, American state and local politicians are jumping on the banishment bandwagon. First it was vodka, and now it's public pension funds.

The New York City controller was first out of the chute with a call to divest the city's pension funds of its Russian assets. Then California, Colorado, Connecticut, Kansas, Illinois, New Jersey and New York state politicians quickly pounced, and more have followed. On principle, the moral imperative is unarguable: Anything we in the NATO alliance can do to starve the leeches in the Russian economy is worth consideration.

But as with vodka, where most of the product consumed in the U.S. is actually manufactured everywhere but Russia, appearances and feel-good pronouncements can be deceiving. So let's be sure we learn from the past before we pull the plug on sunken capital previously invested in Russia and its companies. Moreover, let's not go overboard with counterproductive laws prohibiting investments in domestic companies doing business in Russia.

Continue reading.

Governing.com

March 15, 2022 • Girard Miller

GFOA: Infrastructure Programs as a Countercyclical Tool

The pressures brought about by the COVID-19 pandemic have created an environment conducive to innovative approaches to government finance and new ways to build the capacity necessary to help states and localities ride through difficult times.

Publication date: February 2022

Author: Yonghong Wu

DOWNLOAD

Muni Investors Find Shelter From Volatility in Short-Term Bets.

- **Short duration muni bonds outperforming broader market**
- **Muni bond losses this year on track to be worst since 1994**

Municipal bond investors are finding shelter in shorter-duration securities as they wait out what's shaping up to be the worst quarter for munis since 1994.

The muni market has posted a loss of 4.9% this year, with the 10-year benchmark yield hitting the highest mark since the pandemic-induced tumult of March 2020. But some market participants are seeking relief at the shorter end of the curve.

Bonds with maturities of one, three and five years have lost just 1.16%, 2.65% and 3.88%, respectively, outperforming the broader market in 2022.

Robert W. Baird & Co. was underweight five-year munis last year, but thinks yields have risen enough there in recent weeks to make them worth buying now. The yields are higher and the duration is relatively low, giving them some protection against rising rates.

“There’s been a lot of activity in that five-year area,” said Gabriel Diederich, a portfolio manager at Robert W. Baird. “We want to look at where there’s been an adjustment in valuation because that’s where we can find a lot of opportunity.”

Issuers are feeling the impacts of the underperformance at the long end as well. In response, they’ve either pushed pause or simply dealt with wider spreads, according to Kimberly Olsan, senior vice president of municipal bond trading at FHN Financial.

For example, the Dormitory Authority of the State of New York is indicating spreads of 130 basis points to the 30-year high-quality benchmark for a $3 billion deal scheduled Tuesday. That’s roughly 50 basis points wider than what authority issued in December 2021 for a similar structure, Olsan said.

“Yield volatility is expected to give buyers similar, wider spreads in upcoming issues,” she added.

Munis have weakened along with other bond markets as rising inflation pressures the Federal Reserve to tighten the money supply, a process expected to start on Wednesday with a quarter point hike. Investors have been pulling their cash from the municipal market for nine consecutive weeks, the longest stretch since 2018, according to Refinitiv Lipper.

Olsan said she’s keeping an eye out for stability in yields and a slowdown in the robust secondary market, where some fund managers have been forced to sell to meet redemptions, as signs of a return to normalcy. That and an end to the outflow cycle, Diederich added.

“It’s the demand side that’s really dictating valuations,” Diederich said. “The broader trend of outflows, certainly from open-end funds, which are the big gorilla in the room, has not been positive.”

Bloomberg Markets

By Fola Akinnibi

March 15, 2022

— With assistance by Amanda Albright

Fitch: Pandemic Entrenched State Population Changes, Migration Key Factor

Fitch Ratings-New York-17 March 2022: The pandemic accelerated US population trends exhibited in the five years prior, and should they be sustained, will prove key to states’ long-term demographic outlooks, Fitch Ratings says in a report elaborating on pandemic demographic changes and expectations for population growth.

Domestic migration and, to a lesser extent, lack of international migration, were the largest drivers of population changes during the pandemic. Those states with the largest population gains had the largest influx of people from other states, led by Idaho and Montana, which also had relatively high population growth in the years leading up to the pandemic.

Positive population trends for these states are likely to continue in conjunction with strong economic growth. While not evidencing causation, home price growth and employment recovery are generally strongest in states with the highest population growth, continuing pre-pandemic patterns.

Continue reading.

States Seek Waiver for $380M in Unemployment Loan Interest.

The push for a break from the federal government on the borrowing costs comes as Republicans in Congress are increasingly scrutinizing aid for states

With 10 states and the Virgin Islands on the hook for about $380 million in interest payments on loans from the federal government to keep their unemployment systems funded, and the amount growing every week, state officials are trying to rally support for a bill in Congress that would wipe away the borrowing costs.

But the push comes as Senate Republicans argue that Democrats went overboard passing the $1.9 trillion American Rescue Plan Act, and want to claw back money from states instead of giving them more. And the states with so-called “Title XII advance” loan balances outstanding are largely Democratic leaning, which calls deeper into question whether a proposal to cancel the interest could ever gain serious traction in the narrowly divided Senate.

An emergency request by the Biden administration for more pandemic funding is stalled after Senate Republicans wanted about half of the $15 billion requested to come from taking back $7 billion in ARPA dollars from states.

Continue reading.

Route Fifty

By Kery Murakami

MARCH 18, 2022

Municipal Bonds Amid Rising Interest Rates (Bloomberg Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Mar 18, 2022

U.S. Bond Funds See Money Outflows for 10th Straight Week.

March 18 (Reuters) – U.S. bond funds posted big outflows in the week to March 16 as another strong reading on U.S. inflation last week locked in expectations that the Federal Reserve will have to act rapidly on tightening policy to control surging prices.

U.S. investors exited bond funds for a 10th consecutive week, selling $7.24 billion worth, compared with net selling of $7.8 billion in the previous week, Refinitiv Lipper data showed.

The Fed announced a quarter of a percentage point increase to near-zero U.S. interest rates on Wednesday, and signalled it would hike rates more aggressively than expected to tame soaring inflation, following a firm inflation reading last week.

Continue reading.

Reuters

March 18, 2022

Investortools Adds ICE Bonds' Muni Market Data to the Investortools Dealer Network.

ATLANTA & NEW YORK, March 16, 2022–(BUSINESS WIRE)–Intercontinental Exchange, Inc. (NYSE: ICE), a leading global provider of data, technology and market infrastructure, today announced that ICE Bonds has expanded its connection with Investortools' Perform, providing executable municipal market data from ICE TMC within the Investortools Dealer Network. Customers can now use ICE's leading fixed income pricing and yield curves, and seamlessly access the ICE Bonds municipal bond liquidity and execution protocols, on the Perform platform.

"Getting live, executable content onto Perform's dealer network has been an important priority for us and we're excited to offer customers seamless access to our unique and diverse liquidity pool to manage their investing needs," said Peter Borstelmann, President of ICE Bonds. "Investortools is a leader in the municipal bond space, and is a great match for the services that we provide to the market. We're excited to work with them to offer customers more efficient trading options and risk management solutions."

This expanded integration builds on the connectivity ICE and Investortools announced in July 2021, and provides expanded access to ICE's fixed income evaluated prices, analytical tools and ICE Bonds trading protocols, including click-to-trade, portfolio trading and request for quote. Customers can use these protocols to access deep liquidity in municipal bonds and other fixed income securities, including Corporates, Treasuries, Agencies and Certificates of Deposit.

"The inclusion of ICE's municipal bond data and analytics onto Investortools' platform will expand the reach of ICE's comprehensive and robust muni market data," said Amanda Hindlian, President of Fixed Income & Data Services at ICE. "ICE's focus in the muni market has centered on digitizing, standardizing and offering quality data and analytics to help investors and market participants make informed decisions when assessing the $4 trillion municipal bond market."

Perform offers end-to-end portfolio management including trade allocation, compliance, trade messaging and performance attribution to global institutional and private wealth managers. Customers will also operate in a straight-through-processing environment, with Perform providing pre-trade analytics and compliance, and trading through ICE Bonds' execution platform.

"Seamless and efficient access to market data, analytics and execution venues is critical for our customers throughout the lifecycle of their trades," said Jon Anderson, Chief Product Officer and Co-Head at Investortools. "This expanded connectivity with ICE allows us to deliver both the pre-trade tools and execution protocols that our clients need to design portfolios and execute their strategies in the municipal bond market."

ICE TMC, which is part of ICE Bonds, provides market participants with access to an open all-to-all market for trading municipal, corporate, agency and government bonds, as well as Certificates of Deposit. For municipal bonds traded over ICE TMC, over 600 unique market participants have traded 272,484 distinct securities (CUSIPS) with fill rates consistently over 99% during the last two years.

For more information about ICE Bonds, please visit: https://www.theice.com/fixed-income/ice-bonds.

March 16, 2022

GFOA: Errors Made in Calculating Net Investment in Capital Assets

From Confusing to Cringe-Worthy: Errors Made in Calculating Net Investment in Capital Assets

If you have not regularly followed the technical accounting and financial reporting topics discussed in *GFR*, GFOA's annual *GAAP Update*, and other GFOA updates, you may not be aware of the relative frequency with which the calculation of net investment in capital assets—a classification of net position reported in the financial statements of U.S. state and local governments—has been the focus of articles such as this. If, on the other hand, you have been checking this space regularly, you might be forgiven for having rolled your eyes and considered skipping this article, once you saw the title.

Publication date: February 2022
Author: Michele Mark Levine

DOWNLOAD

As Public Funding Dwindles, Colleges and Universities Turn to Private Sector Partners.

Historically, the federal government played the dominant role in funding large infrastructure projects across the country – in many cases funding all or nearly all of project costs. In recent decades, however, public funding has been harder and harder to come by, while the need for infrastructure investment has soared across various sectors of the economy. Ironically, there is no clearer than the adoption of the recent $1 trillion federal infrastructure bill that the historic public financing model is dead. The bill provides only a small fraction of the resources required to meet the country's infrastructure needs and expressly encourages projects that leverage the limited federal dollars with private capital through public-private partnerships (commonly known as P3s).

P3s are contractual agreements between a government and a private entity in which the private sector takes on the risks associated with developing, financing, operating, and maintaining public infrastructure. P3s are a proven and cost-effective approach to building critical infrastructure projects in less time, while minimizing the public sector's risk.

In recent years, Higher Education institutions have been among the most successful users of the P3 model. The P3 model provides a number of benefits to these institutions, including the provision of a higher quality housing product, the transfer of risks to the private sector, and the retention of school personnel and financial resources for educational projects more aligned with the school's mission.

These benefits are now more pronounced than ever before, as dwindling public funding nationwide has increased financial pressure on public colleges and universities. At the same time, many colleges and universities are growing at a rapid pace and have a need for new educational facilities and other campus resources. The P3 model permits growing institutions to expand their campuses quickly, and without expanding and diverting existing staff or resources to operate and maintain the new facilities.

Most recently, Louisiana State University awarded a P3 agreement for modernization of energy plants on its Baton Rouge Campus to a team led by CenTrio Energy and LAW Energy partners. Louisiana State University is just following suit. Several universities have utilized a P3 model to modernize and expand their campuses, which has proven to deliver far more educational infrastructure in less time, than a public institution could hope to provide using the traditional delivery model.

We have also previously highlighted a number of successful P3 education projects taken on by higher education institutions, including the Michigan State University P3 for a planned expansion of the university's health and research facilities at the Grand Rapids campus, a P3 for off-campus student housing at Florida International University, and Plenary Properties Merced's completed construction on the well-known UC Merced 2020 campus expansion project – a $1.2-billion,1.-
-million-square-foot social-infrastructure P3 that has been called the largest social-infrastructure project completed in the United States to date.

Of course, not all colleges and universities require larger campuses, and in light of an increased focus on virtual learning, many institutions are now finding that they need less physical space, not more. P3s can help colleges and universities address this situation, as well. The private sector is able to both help modernize and shrink educational facilities and monetize land resources that are no longer needed for educational purposes, thereby both reducing the institution's operating costs and creating new revenue sources. The P3 model is a flexible one, and in the light of the diverse and changing infrastructure needs of colleges and universities, we expect to see many more higher-education P3s in the future.

March 7, 2022

Bilzin Sumberg

University of Michigan Sells Record-Sized College 100-Year Bond.

- **It's also the biggest bond sale in the school's history**
- **Strong reception enables Barclays to double size of offering**

The University of Michigan has sold the biggest-ever century bond by a college or university as part of a record $2 billion debt package.

The top-rated school marketed $1.2 billion of century bonds this week that won't mature until April 2122, capitalizing on investors' desire for long-dated, high-quality debt. The bonds priced at par with a 4.45% coupon. A second $500 million tranche due in 30 years priced at par with a 3.5% coupon, and a third tranche at the same price covered $300 million of green bonds.

Collectively, it's the biggest debt sale in the school's history, according to data compiled by Bloomberg, and the century bond's size was about double the initial target. The bonds were underwritten by Barclays Plc and are subject to federal income taxes, with the proceeds earmarked for campus improvements.

The substantial demand "was a testament to the university's strength and overall strategy," said John Augustine, a managing director at Barclays who runs the bank's higher education group. Investors ranged from investment management firms to insurance companies, with buyers both in the U.S. and Europe. He said the deal was "well oversubscribed."

Hundred-year bonds are an unusual phenomenon in the $4 trillion municipal bond market, where states and cities raise money for infrastructure projects. They're almost exclusively sold by highly rated colleges like the University of Pennsylvania and the Massachusetts Institute of Technology, institutions that have already been around for more than a century. The Port Authority of New York and New Jersey and New York and Presbyterian Hospital have sold such debt.

Augustine said the school was initially targeting $500 million to $700 million of century bonds, but demand allowed it to essentially double the size, which was unusual for a large deal in such a volatile market. Demand for ultra-long debt typically comes from institutional buyers, such as insurance companies looking to match their assets with their longer liabilities.

"Strong demand from investors, both in the U.S. and abroad, allowed the university to upsize the transaction beyond what was originally expected," said UMIch Chief Financial Officer Geoff Chatas said in a statement. "Regardless of where market rates go from here, this committed funding will provide long-term rate stability for the university."

Rival school Michigan State University sold $500 million of century bonds on March 2 with a 4.165% yield to maturity. That deal was more than two times oversubscribed, and indications of interest reached about $1.1 billion, according to Michigan State CFO Lisa Frace. That demand caused spreads to narrow 5 basis points from preliminary pricing, she said.

Price Pressure

"UMich is a stronger credit, but of course it's a much bigger tranche size," said Patrick Luby, municipal strategist at CreditSights. "The weakness in U.S. Treasuries exaggerated the pressure on the pricing for the University of Michigan bond."

Most of the University of Michigan debt will be used for campus improvement projects, with a portion specifically labeled as "green bonds" with proceeds dedicated to helping the campus achieve its goal to be carbon neutral by 2040.

Augustine expects more well-known universities to sell ultra-long dated debt. They're looking to "take some risk off the table and secure that capital now," he said.

Bloomberg Markets

By Danielle Moran

March 11, 2022

— With assistance by Janet Lorin

Don't Drag Banks Into the Culture Wars.

Politicians shouldn't force banks to lend to controversial industries — or forbid them from it.

Addressing social and environmental challenges such as guns and climate change is one of the greatest responsibilities facing America's policy makers. Lately, though, both Democrats and Republicans have been trying to pressure banks into doing this crucial job for them — and thereby getting them to absorb the political costs and risks involved. It's a trend that's both irresponsible and counterproductive.

No doubt, all companies — including those in the financial sector — must do more to manage social and environmental risks, in particular those related to climate change. To that end, the Securities and Exchange Commission is rightly working on climate-risk disclosure rules, so investors will have the information they need to make the best possible decisions and to hold public companies accountable. The Federal Reserve, for its part, should ensure that bank capital requirements take into account potential losses on vulnerable assets such as oil reserves and coastal real estate. Together with government initiatives aimed more broadly at curbing global warming, these policies should help align the profit incentive with the greater good.

Continue reading.

Bloomberg Opinion

By The Editors

March 7, 2022, 5:00 AM PST

Fitch Ratings Updates U.S. Affordable Housing Rating Criteria.

Fitch Ratings-New York-09 March 2022: Fitch Ratings has published an updated criteria report titled 'U.S. Affordable Housing Rating Criteria.' The report replaces the existing criteria dated March 5, 2020.

Primary revisions to the criteria include additional sub-factor assessments for the revenue defensibility and operating risk key rating factors, providing greater transparency in Fitch's assessment of credit risk. The revised criteria report also describes the explicit forward-looking scenario approach for affordable housing surveillance reviews, which, similar to the initial rating assignment, consider revenue and expenses stresses, and the potential impact on a project's debt service coverage (DSC). The magnitude of the revenue and expense stresses are evaluated in the context of the revenue defensibility and operating risk assessments.

The updated criteria report also references Fitch's 'Completion Risk Rating Criteria' for the analysis of construction risk (if present) and incorporates Fitch's approach to Third Party models, which are informed by issuer projections with Fitch providing stresses for the third-party cash flow proformas. Additionally, the report was revised to clarify that workforce housing is within scope of the criteria.

No changes to the ratings of existing transactions are anticipated as a result of the application of the criteria.

The criteria report is available at 'www.fitchratings.com/criteria/us-public-finance.'

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Additional information is available on www.fitchratings.com

One Year Into ARPA Rollout, Spending Varies as Scrutiny Mounts.

Billions in state and local aid from the American Rescue Plan Act have gone to combat the pandemic, but also to build monuments and fix state buildings. Republicans are increasingly questioning the need for all the funding and how it is being spent.

A year after President Biden signed the $1.9 trillion American Rescue Plan Act into law, states and localities have used their $350 billion share of direct aid to provide Covid-19 vaccines, give workers on the frontlines of the pandemic extra pay, and to boost local economies—as with the grants Fountain Inn, South Carolina gave businesses in its downtown to improve storefronts and put up more art.

But the massive relief package, passed by Congress along partisan lines and signed by Biden on March 11 last year, remains controversial.

The state and local aid has gone to a wide array of programs. Much of the spending has clear ties to public health and economic recovery. But not all of it on the surface seems to be related to the pandemic.

Continue reading.

Route Fifty

By Kery Murakami

MARCH 11, 2022

Policymakers Have Multiple Pathways to Stress Test Municipal Pension Plans.

Building on existing financial reporting practices can help manage investment risks

Funding levels for municipal pension plans have improved in recent years, Pew research shows, with the shortfall shrinking between assets on hand and liabilities for promised benefits. The aggregated funded ratio had risen slightly in 2017 to 68% from 66% in 2015. And the historic investment gains of the last year are estimated to bolster that percentage to at least 80% for 2021.

Despite the encouraging trend, public pension funding can be volatile. Even before the pandemic, many economists were forecasting lower long-term investment returns compared with past business cycles and the first months of 2022 have highlighted the potential for dramatic market swings.

Returns that come in significantly lower than predicted could force local governments to raise their pension fund contributions to make up the shortfall. Pension stress tests, which simulate funding levels and required contributions under a range of economic scenarios, can help plan sponsors prepare for these potential cost increases.

Continue reading.

The Pew Charitable Trusts

By Stephanie Connolly

March 7, 2022

Muni Bonds Reach Cheapest Level Since 2020 as Citigroup Says It's Time to Buy.

- **Citigroup strategists say munis 'past the point of peak pain'**
- **'Ratios look pretty good,' says Breckinridge's Pease**

It's been a bleak stretch in the $4 trillion municipal-bond market, with returns slumping, retail investors dumping bonds and volatility giving issuers pause. But some portfolio managers are jumping into the fray.

They're dipping into cash piles with munis brushing up against their cheapest levels since 2020 relative to Treasuries, which are outperforming amid haven demand fueled by the war in Ukraine.

While both markets are down in 2022 ahead of an expected Federal Reserve rate hike this month, the losses in munis are steeper.

Citigroup Inc. strategists said in a note Monday that the muni market is “past the point of peak pain” and recommended buying. They noted that the Fed has backed off its hawkish stance given the Ukraine conflict, the sort of crisis that tends to bolster muni performance. Traders still expect a quarter-point Fed rate increase next week amid elevated inflation, having stepped back from bets on a half-point boost.

“This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven’t seen since March 2020,” said Evgenia Lando, a portfolio manager for Thornburg Investment Management. Last year, before the market selloff, Lando built up cash given what she saw as a lack of buying opportunities, with credit spreads staying tight.

Lando said she put in orders for a bond offering last week from the Lower Colorado River Authority. The agency sold about $343 million of debt, including a 2032 maturity that priced to yield 2.02%, while a 10-year segment it sold a year earlier priced to yield 0.96%. Spreads were wider on the latest sale than a year ago.

Kevin Danckwerth, head of muni trading at Citigroup, said the cash cushion that mutual funds built up before the selloff means they can be both buyers and sellers in the current environment.

‘Both Sides’

Last year, municipal funds attracted more than $96 billion of cash, while outflows this year have totaled $12.1 billion through March 3, according to Refinitiv Lipper data.

“Most mutual funds are on both sides of the trade right now,” Danckwerth said. “They came into the year in a good position from a cash perspective.”

Customer buying averaged about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to statistics from the Municipal Securities Rulemaking Board.

It may be a sign that retail buyers are also tempted by the higher yields, even as munis enter what is often a rough stretch because of selling related to tax payments before the mid-April U.S. filing deadline.

“Ratios look pretty good considering where we’ve been,” said Ben Pease, head of muni trading at Breckinridge Capital Advisors, who said his team was comfortable adding exposure to municipals. “There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields.”

Barclays Plc said a muni-Treasury ratio of 90% may cause some investors to begin dipping their toes in. But they noted the challenges of doing so amid volatile markets.

“This year, investors are faced with some of the hardest market conditions in recent history, as muni-Treasury ratios keep oscillating, and rate volatility is never conducive to risk-taking,” strategists led by Mikhail Foux said in a March 4 note. “The belly of the curve has adjusted enough that it is starting to get interesting versus Treasuries.”

Bloomberg Markets

By Amanda Albright

March 7, 2022

[Global Economic Ramifications of the Eastern European Conflict.]

As local and state economies were starting to emerge from the COVID-19 grip, the economic outlook was hit with supply chain issues due to the slow revival of the manufacturing sector and other related issues. In recent weeks, the Eastern European conflict has made the global economic forecast even more grim with certain sectors of the economy bearing the brunt of Russia's invasion of Ukraine, with the global energy sector being the prime example.

As a retaliatory measure, global sanctions will not only serve as a detrimental blow but also have long-lasting impacts on Russia's economy. However, the effects of the Russian economic downfall will likely also be felt at the global level for years to come.

In this article, we will take a closer look at the domestic and global ramifications, especially in the financial and energy markets, of the Eastern European conflict and the world's retaliation.

Continue reading.

municipalbonds.com

by ..Jayden Sangha

Mar 02, 2022

[Vanguard's Muni Head Sees Risk-Off Mood Prevailing With Fed Hiking.]

- **Tone may persist 'until you re-establish the inflow pattern'**
- **Signposts to follow include reduced volatility, Malloy says**

Municipal-bond investors have plenty to absorb lately, from soaring oil prices to accelerating inflation. But Vanguard Group's Paul Malloy says the focus should be on market volatility and the path of the Federal Reserve.

With investors bracing for the central bank to start lifting interest rates next week to combat the highest inflation in decades, munis have joined a broad bond-market slump. The Bloomberg Municipal Bond Index is down 3.9% in 2022, trailing a 3.4% drop in Treasuries, which have benefited from haven buying amid the war in Ukraine.

As Vanguard sees it, the turbulence roiling markets from equities to Treasuries has spooked muni investors, a mostly risk-averse group that focuses on generating tax-exempt income from assets that don't swing much. Investors have pulled about $12.1 billion from muni funds this year through March 3, Refinitiv Lipper data show. The outflows may persist until volatility ebbs and investors get a clearer idea of when the Fed's anticipated rate hikes will end, Malloy says.

"They are in a risk-off mood because of rising interest rates," Malloy, whose firm held about $258 billion of muni assets as of Feb. 28, said in an interview Thursday. Volatility also "means risk-off for the time being. There's just a lot of uncertainty out there until you re-establish the inflow pattern back into the municipal market."

Malloy spoke on a day of losses for Treasuries, with 30-year yields reaching the highest since May after the latest inflation data. With munis underperforming, the market for state and city debt has cheapened in relative terms. Citigroup Inc. said this week that it may be time to buy.

Malloy sees munis as being closer to fair value, but he's reluctant to call them cheap because Treasury yields have been a moving target, which makes assessing value more difficult. He says munis also become harder to hedge given that volatility.

And with retail buyers still balking, that leaves money managers waiting for stability in markets to assess when the tide will change.

"You are looking at signposts," Malloy said. "The signposts are reduction in volatility, a little bit more clarity on the Fed hiking path, which we have not even started yet."

Bloomberg Markets

By Shruti Singh

March 10, 2022

How Recent Rate Volatility Impacts Municipal Bonds

Clinton Investment Management CEO Andrew Clinton discusses the outlook for the municipal bond market with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

March 9th, 2022, 12:51 PM PST

UBS: Muni Credit Quality is Resilient Amid Uncertainty

Municipal bonds have had a rough start to the year in the wake of rising inflation and geopolitical tensions. While market returns have been unfavorable year to date, the fundamental credit quality of key sectors such as states, local governments, transportation agencies and utilities remains robust and overall credit downgrade and default risks remain low.

If history is any guide, investors should note that the high inflation periods of the late 70s and early 80s saw very few defaults even as the value of municipal bonds declined significantly during that period.

Municipal credit quality has improved from the pandemic-induced disruption in 2020. Rating upgrades outpaced downgrades in 2021 in the wake of federal financial assistance, which stabilized the balance sheets of many municipal obligors.

Although, rating changes are usually a lagging indicator, we expect overall credit quality to remain stable in 2022 despite market headwinds and a tapering off of federal fiscal support. Municipal finances are generally better insulated from global events than other asset classes and most municipal issuers entered this period of high volatility with substantial financial strength. Moreover, the US economy's oil intensity is much lower than it used to be in the 70s and 80s. State and local tax revenues remain robust coming out of the pandemic.

Stellar investment returns in 2021 bolstered underfunded state and local pension plans, although some of that benefit has been clawed back by recent market declines. High essentiality sectors with rate autonomy, such as water sewer and electric utilities, have strong pricing power to combat inflationary pressures. Toll roads have historically demonstrated strong ability and willingness to adjust toll rates in line with inflation. However, some sectors such as not-for-profit hospitals and private colleges will continue to experience margin pressures in 2022, especially smaller issuers with low pricing power. However, there may be some buying opportunities in high quality healthcare issuers.

While high inflation in the near term will have limited credit impact, prolonged and unrestrained inflation over the longer term (which we don't expect), would indeed pressure municipal credit quality. In our view, strong credit fundamentals support good entry points for long-term buy and hold investors currently, as outlined in our blog Municipal market performance update.

by UBS Editorial Team

11 Mar 2022

Muni Investments Amid Inflation (Bloomberg Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Matt Miller and Kriti Gupta.

Listen to audio.

Bloomberg Radio

Mar 11, 2022

It May Be a Good Time to Take a Second Look at Muni Bond ETFs.

The municipal bond market and related exchange traded funds have taken a beating ahead of the Federal Reserve's multiple interest rate hike outlook for 2022, but some have waded back into munis market, arguing that this could be a cheap entry point.

Some portfolio managers highlighted municipal debt trading at their cheapest level since 2020 relative to U.S. Treasuries, Bloomberg reports. While both Treasuries and munis have retreated ahead of any Fed monetary policy tightening, the losses in municipal bonds have been much more severe.

Consequently, Citigroup Inc. strategists argued in a recent note that the muni market is "past the point of peak pain" and recommended buying the asset category.

Citi analysts also pointed out favorable trends that could help munis turn around, such as the fact that the Fed is taking a softer tone from its previously hawkish stance due to the uncertainty fueled by the Russia-Ukraine conflict, which is the sort of crisis that tends to support safe-haven, quality debt like munis.

Nevertheless, the markets still anticipate a quarter-point Fed rate hike at its next weekly meeting to help cap some rising inflationary pressures, but it is still a step back from bets on a half-point increase.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," Evgenia Lando, a portfolio manager for Thornburg Investment Management, told Bloomberg.

Investors are also buying and showed an average purchase of about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to Municipal Securities Rulemaking Board data.

"Ratios look pretty good considering where we've been," Ben Pease, head of muni trading at Breckinridge Capital Advisors, told Bloomberg. "There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields."

ETF investors who are interested in the munis space can also consider targeted ETF strategies, such as the popular iShares National Muni Bond ETF (NYSEArca: MUB), the Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB), and the SPDR Nuveen Bloomberg Municipal Bond ETF (NYSEArca: TFI).

ETF TRENDS

by MAX CHEN

MARCH 7, 2022

S&P Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors

Key Takeaways

- S&P Global Ratings incorporates environmental, social, and governance (ESG) risks and opportunities into the credit rating analysis of U.S. public finance (USPF) entities based on factors embedded in our sector-specific criteria.
- ESG credit factors can materially influence the creditworthiness of a rated entity or issue when we have sufficient visibility and certainty to include in our credit rating analysis.
- Our long-term credit ratings do not have a pre-determined time horizon and ESG credit factors incorporate qualitative and quantitative analysis to determine materiality within our credit rating analysis.
- Even as additional data become available, reflecting ESG risks and opportunities within our credit rating analysis will require a qualitative view of an entity's capacity to anticipate and plan for a variety of emerging risks that could disrupt its credit fundamentals.

- We have updated this sector-by-sector analysis originally published in April 2020 to provide additional insight on how ESG credit factors intersect with aspects of our criteria frameworks shown throughout this article. The examples are not exhaustive and represent where the risks could be most material to our credit rating analysis.

Continue reading. [Free registration required.]

2 Mar, 2022

Muni Investors Seek Proof From Governments Selling ESG Debt.

- **Allowing money managers to track goals could cut funding costs**
- **Regulator MSRB is looking at developing ESG standards**

But some governments are reluctant to spend more money tracking and reporting whether their projects are meeting environmental, social, or governance goals. The Municipal Securities Rulemaking Board, the market's industry-funded regulator, is looking at developing standards related to ESG disclosure. Still, only around half of muni ESG issuance is subject to outside verification, data compiled by Bloomberg show.

Getting this right is critical for the development of the ESG portion of the $4 trillion market for muni bonds. Until issuers and investors can determine standards that both can live with, governments likely won't be able to cut their funding costs by selling muni ESG bonds, because money managers won't pay extra for the securities.

"We haven't been willing to pay more because we haven't been receiving the information that we're looking for," said Alexa Gordon, head of municipal ESG at Goldman Sachs Asset Management LP, speaking on a February panel about ESG practices in the muni bond market. "I could care less if someone slaps a green label on a bond, what we care about is the ongoing commitment to an eventual impact."

The market for muni ESG debt has been growing fast from a small base. About $50 billion of bonds were sold with social, green or sustainability labels in 2021, around 11% of overall issuance and nearly a twofold increase from the year prior, according to data compiled by Bloomberg. S&P Global Ratings projects that the market will continue to expand, with issuance likely topping $60 billion in 2022.

Progress is slower than in other markets, such as in corporate and sovereign debt, where global issuance last year topped $1 trillion.

Sally Bednar, head of municipal ESG solutions at Wells Fargo, says that her group is "beginning to see signs" of a pricing benefit for issues that carry ESG labels, but there's not enough evidence to say there's a definitive link.

"We do know that as more investors increase their focus on ESG bonds, the ESG label can lead to a broader universe of investor interest, which can drive demand for the bonds," she said.

Investor Pressure

About half of all new municipal bonds labeled as having an environmental, social or governance benefit in the last two years are verified by an outside company, up from just 35% in 2019, according to data compiled by Bloomberg. And in 2021 more than three-quarters of governments selling the debt had committed to continually updating investors for years, the data show.

That is in response to investor pressure, but the muni bond market is fragmented, which has made it difficult to develop standard disclosure or labeling practices, said Daniel Rabasco, head of municipal bonds at Insight Investment Management Ltd. There are about 1 million municipal securities outstanding divvied among tens of thousands of issuers.

“The muni market moves at a snail’s pace,” he said. He said he’s fielding more and more queries from clients on how to factor ESG into their investments, especially as wealth continues to transfer to a younger generation.

“We all intuitively know that municipal governments have a lot of sustainable requirements and what muni bonds finance in many cases we know are ESG projects, but investors are demanding the data to back it up,” he said.

‘Overly Burdensome’

The MSRB last year asked issuers, investors, broker-dealers and municipal advisers for suggestions to improve disclosure of ESG related risks and labels.

Cities and states have reservations about being required to take specific steps. In its response to the MSRB inquiry, the city of Detroit said that standardized ESG disclosures would be “overly burdensome” and “costly,” potentially inhibiting borrowers from using the designations.

But for investors to be willing to accept slightly lower yields on the debt, they have to be confident their money is actually serving an ESG purpose, said Goldman Sachs Asset Management’s Gordon.

“When bonds are labeled without an independent certification, there is a lot less confidence that industry standards are being met,” she said.

Bloomberg Markets

By Danielle Moran

March 4, 2022

S&P U.S. State Ratings And Outlooks: Current List

View the Current List.

2 Mar, 2022

Fitch: US Public Finance AAA Downgrades Rare, Spike During Recessions

Fitch Ratings-New York-01 March 2022: US Public Finance (USPF) ‘AAA’ downgrades during 2008 through 1H21 have been rare, in line with high rating stability rates observed in the sector, says

Fitch Ratings in its report Downgrading from the Top (Frequency, Drivers and Magnitude of USPF 'AAA' Downgrades Since 2008).

The majority of the 97 downgrades recorded over the observed period were for debt issued by local governments and water and sewer entities. More than one-third reflected criteria updates rather than deterioration in the issuer's credit fundamentals. Local government 'AAA' downgrades due to credit deterioration were largely driven by insufficient reserve levels and deteriorating gap-closing capacity, while high leverage was the main factor driving water and sewer utilities downgrades.

Continue reading.

Fitch: Material ARPA Funds for Water Projects Bolster Utility Credit

Fitch Ratings-Austin/New York-02 March 2022: Allocations under the American Rescue Plan Act (ARPA) to water and sewer utilities will provide a material infusion of cash that will boost capex and improve water supplies and infrastructure resilience, supporting credit quality, Fitch Ratings says. Water, sewer and stormwater projects are set to receive a meaningful amount of the $350 billion designated for cities and counties under ARPA's State and Local Fiscal Recovery Fund. Water/sewer is the largest subcategory of planned infrastructure spending under ARPA, according to initial reporting from the ARPA Investment Tracker, a partnership of the National League of Cities, the National Association of Counties and Brookings Metro.

Under the Treasury Department's final rule for ARPA published in January, eligible projects include those meeting the Environmental Protection Agency's (EPA) requirements for the Clean Water State Revolving Fund and Drinking Water State Revolving Fund. The rule further expands eligible projects to include culvert repair, removal and replacement of storm sewers and other stormwater infrastructure, dam and reservoir rehabilitation for drinking water supplies, along with lead remediation projections such as testing and lead service line replacement. Governments must commit ARPA funds by 2024 and spend them by 2026.

Federal funds under ARPA, combined with the unprecedented $55 billion allocated primarily to the state revolving funds under the Infrastructure Investment and Jobs Act, will allow water and sewer utilities to accelerate capital projects to meet critical needs and address maintenance and plant improvements, improving a utility's life-cycle ratio and annual capex/depreciation, which we consider as part of a utility's operating risk profile. Moreover, these funds could also temper rate increases or the need for additional debt to cover capex.

A number of water and sewer utilities have already received sizable ARPA allocations, which are expected to help systems preserve cash and potentially limit additional debt. In Florida, for example, the Okaloosa County water and sewer system received about $12 million in ARPA funds, which is about 18% of their budgeted capex between fiscals 2021-2025. Roughly 16% of the Polk County utility system's five-year, $230 million capital improvement plan is supported by ARPA funds. Broward County plans to use $21.4 million of ARPA funds for a septic tank elimination project, and Palm Beach County has allocated $75.0 million for various improvements, including septic-to-sewer conversion.

ARPA aid and, in some cases, rate increases will help alleviate pressures on operating margins. Water and sewer utilities face higher operating and capex costs due in part to federal mandates and inflation. Costs associated with per- and polyfluoroalkyl substances (PFAS) remediation and the

EPA's Lead and Copper Rule will likely be realized over the next few years. Government construction prices were up 10.5% yoy in January and construction wages rose 3.8% yoy at YE 2021.

According to the ARPA Investment Tracker, 45% of all U.S. large cities and counties with populations of at least 250,000, 152 entities in total, have reported and designated funding for specific projects. So far, about $885.6 million has been allocated for water and sewer improvements. Another 185 such entities have not specified projects or have not reported. Smaller cities and counties do not need to report on their uses of ARPA funds until April 30, 2022.

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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.

Why Cities Need to Prepare for Climate Migration.

In October 2017, weeks after Hurricane Maria's winds peeled Dachiramarie Vila's wood and zinc house off its foundation, the water and food she had stored began to run out. Supermarkets in her hometown of Las Piedras, Puerto Rico, started rationing goods. Gasoline became scarce. Clean drinking water was hard to come by.

Soon, mosquito bites would dot her children's bodies. Then Vila's son fell ill, most likely with an infection from contaminated water. The boy's pediatrician told her he couldn't conduct any tests to verify; the laboratory had been destroyed in the storm. That's when, sitting with the doctor in an unlit hospital corridor, flashlight in hand, Vila broke down.

"I'm going," she said she later told her family. "I can't do anything else. I can't live like this anymore." Vila, her husband, and their two children—along with eight extended family members—fled to Orlando, Florida.

Continue reading.

The Urban Institute

February 28, 2022

Muni Bonds Reach Cheapest Level Since 2020 as Citigroup Says It's Time to Buy.

- **Citigroup strategists say munis 'past the point of peak pain'**
- **'Ratios look pretty good,' says Breckinridge's Pease**

It's been a bleak stretch in the $4 trillion municipal-bond market, with returns slumping, retail investors dumping bonds and volatility giving issuers pause. But some portfolio managers are jumping into the fray.

They're dipping into cash piles with munis brushing up against their cheapest levels since 2020 relative to Treasuries, which are outperforming amid haven demand fueled by the war in Ukraine. While both markets are down in 2022 ahead of an expected Federal Reserve rate hike this month, the losses in munis are steeper.

Citigroup Inc. strategists said in a note Monday that the muni market is "past the point of peak pain" and recommended buying. They noted that the Fed has backed off its hawkish stance given the Ukraine conflict, the sort of crisis that tends to bolster muni performance. Traders still expect a quarter-point Fed rate increase next week amid elevated inflation, having stepped back from bets on a half-point boost.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," said Evgenia Lando, a portfolio manager for Thornburg Investment Management. Last year, before the market selloff, Lando built up cash given what she saw as a lack of buying opportunities, with credit spreads staying tight.

Lando said she put in orders for a bond offering last week from the Lower Colorado River Authority. The agency sold about $343 million of debt, including a 2032 maturity that priced to yield 2.02%, while a 10-year segment it sold a year earlier priced to yield 0.96%. Spreads were wider on the latest sale than a year ago.

Kevin Danckwerth, head of muni trading at Citigroup, said the cash cushion that mutual funds built up before the selloff means they can be both buyers and sellers in the current environment.

'Both Sides'

Last year, municipal funds attracted more than $96 billion of cash, while outflows this year have totaled $12.1 billion through March 3, according to Refinitiv Lipper data.

“Most mutual funds are on both sides of the trade right now,” Danckwerth said. “They came into the year in a good position from a cash perspective.”

Customer buying averaged about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to statistics from the Municipal Securities Rulemaking Board.

It may be a sign that retail buyers are also tempted by the higher yields, even as munis enter what is often a rough stretch because of selling related to tax payments before the mid-April U.S. filing deadline.

“Ratios look pretty good considering where we’ve been,” said Ben Pease, head of muni trading at Breckinridge Capital Advisors, who said his team was comfortable adding exposure to municipals. “There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields.”

Barclays Plc said a muni-Treasury ratio of 90% may cause some investors to begin dipping their toes in. But they noted the challenges of doing so amid volatile markets.

“This year, investors are faced with some of the hardest market conditions in recent history, as muni-Treasury ratios keep oscillating, and rate volatility is never conducive to risk-taking,” strategists led by Mikhail Foux said in a March 4 note. “The belly of the curve has adjusted enough that it is starting to get interesting versus Treasuries.”

Bloomberg Markets

By Amanda Albright

March 7, 2022

The Irresistible Appeal of the ‘Post-Industrial Park’

In *Parks for Profit*, a sociologist argues that glitzy urban parks that rely on private funders can trigger displacement and drain resources from other public spaces.

An on-again, off-again romance smolders between nature and the American city. It’s complicated.

The original matchmaker was 19th century landscape architect Frederick Law Olmsted, whose picturesque green spaces like New York City’s Central Park offered urbanites an idealized experience of nature. During the Great Depression, the Works Progress Administration built smaller neighborhood parks for the industrial working classes (though these, of course, were racially segregated and unequal).

But as urban centers deindustrialized and white residents left for the suburbs, local governments often stopped maintaining parks, surrendering them, along with the industrial infrastructure these green spaces offered a reprieve from, to overgrowth and disrepair.

Continue reading.

Bloomberg CityLab

by Michael Friedrich

March 5, 2022

Munis Lag Sharp Swings Seen in Taxable Bond Markets.

In February, munis continued to lag the abrupt moves seen in the taxable bond markets prompted by heightened geopolitical risk and anxiety over inflation and monetary policy.

Keeping tabs on performance

For the first two months of 2022, tax-exempt paper (-3.2%) had underperformed an index of US Treasury securities (-2.6%) in the midst of high rate volatility. By contrast, munis held up better than investment grade corporate debt which witnessed steeper losses of over 5% on a year-to-date basis. We attribute the better performance from munis vis à vis corporate debt in large part to subdued new issuance. Thus far in 2022, the pace of new municipal bond sales is down by about 20% compared to the same time last year, as an example.

Outflows persist

The spike in rate volatility in the early weeks of 2022 had prompted municipal mutual fund inflows to reverse course. Munis have now posted losses for two straight months. And, muni mutual funds have witnessed net cash outflows for five consecutive weeks totaling roughly USD 10.6bn according to the Investment Company Institute (ICI). In the near-term, we anticipate outflows to continue leading up to the Fed meeting taking place in two weeks.

Portfolio themes

In the midst of heightened volatility, we recommend that muni investors consider the following portfolio strategies:

- **Consider short-dated munis for liquidity strategy.** Investors seeking opportunities to position assets for a liquidity strategy may now find better absolute values in short-dated munis. Yields on high grade AA munis at the two-year spot have jumped to now rest at over 1%, up from only 25bps in the first week of January.
- **Position in high coupon premium bonds at the longer part of the curve.** We prefer 4% to 5% premium bonds for their defensive characteristics. By contrast, low coupon bonds (2.5% to 3%) are more sensitive to interest rate changes and are vulnerable to become market discount bonds subject to unfavorable tax treatment.
- **Practice municipal sector diversification**. CIO provides detailed research coverage for 601 municipal obligors nationwide. This coverage spans across nine different sectors and serves as a useful guide for investors seeking diversification opportunities in the midst of volatile markets.

by UBS Editorial Team

02 Mar 2022

Main contributor: Kathleen McNamara, CFA, CFP, Sr. Municipal Investment Strategist Americas

A Shift Back to Safe Havens Is Fueling an Appetite for Munis.

As the situation between Russia and Ukraine continues to play out, investors are heading into municipal bonds to help pad their portfolios amid the volatility. In the meantime, a sustained moved towards munis continues, according to a Bloomberg report.

Whether it was the long or short end of the yield curve, muni yields fell based on Bloomberg BVAL data. In the case of the benchmark 10-year yield, it experienced its largest drop since the November 2020 U.S. presidential election.

Meanwhile, equities investors have been experiencing bouts of seasickness the way stocks have been moving up and down. This is causing investors to seek safe havens such as municipal debt.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

FEBRUARY 28, 2022

Municipal Bonds and Rising Rates: 3 Considerations for Investors

Muni bonds have successfully weathered periods of rising rates—and delivered consistently positive performance—through the years.

Key Takeaways

· Municipal bonds have a history of consistently positive performance though a variety of interest-rate environments.

· Based on historical and current tax-exempt yields, municipal bonds continue to offer compelling relative value.

· Municipal bonds have featured low correlations with other asset classes and have experienced less frequent and smaller yield moves than taxable bonds.

Continue reading.

Lord Abbett

By Daniel S. Solender, Philip B. Herman, Gregory M. Shuman

March 1, 2022

Rising Rates Hit Munis.

Worries about Federal Reserve interest-rate increases hit state and local debt, even as concerns about municipal finances retreat

Municipal-bond investors spent more than a decade fretting about state and local government finances. Now they are worried about interest rates.

Municipal budgets are in far better shape than during the aftermath of the 2007-09 financial crisis or the early-Covid shutdowns when investors fled munis in droves. But the expectation that the Federal Reserve will begin ending pandemic stimulus measures has driven yields on state and local debt, which rise when bond prices fall, to their highest levels since April 2020.

“Credit has just not been the boogeyman that anyone thought it might be,” said Matt Fabian, a partner with Municipal Market Analytics. “The real risk in the sector at least for now is rates.”

Investors seek munis for their stable, often tax-free payments, considered low-risk because they are typically backed by taxes or fees on essential government services. Over the past decade, with yields remaining fairly stable, even a small drop in a town’s credit rating could cause a relatively significant change in the price of its bonds.

Many now consider the prospect of rising rates a more immediate threat, reducing the appeal of outstanding debt by offering better returns on newly issued bonds.

Benchmark 10-year, triple-A general-obligation bonds were trading at 1.65% Friday, according to Refinitiv MMD, up from 1.04% at the start of the year.

The premium investors pay for gold-plated, triple-A rated bonds compared with more speculative triple-B debt has shrunk to 0.7 percentage point from 0.83 percentage point a year ago, according to Refinitiv MMD data for 10-year, general-obligation munis.

The finances of America’s towns, counties and school districts are looking increasingly stable, with governments raking in revenue thanks to federal aid and the stimulus-fueled economic recovery. At the state level, budgets are so flush that officials are topping up state pension funds and giving residents tax rebates.

The bustling economy has served as a rising tide that lifted a range of municipal credits. There were 238 more upgrades of municipal borrowers than downgrades in 2021 by ratings firm S&P Global, not including housing projects. In 2020, there were 676 more downgrades than upgrades. There are now fewer government entities working their way through bankruptcy than at almost any time in the past 10 years, according to Municipal Market Analytics.

Defaults are rare for municipal borrowers, aside from speculative projects like nursing homes that are allowed to issue municipal bonds because they are perceived to have some public benefit. Now postcrisis restructurings by cities like Detroit and San Bernardino, Calif., are in the rearview mirror. Puerto Rico last month emerged from bankruptcy—the largest municipal issuer ever to restructure.

Longer-term threats to municipal finances remain, including climate change, underfunded pension liabilities and population loss in older cities in the Northeast and Midwest. But current risks to the value of bonds issued by states and cities are generally coming from larger market forces, analysts said.

Investors have pulled a net $6.7 billion from municipal-bond funds so far this year, according to Refinitiv Lipper, the most sustained outflows since March and April 2020, when early-pandemic shutdowns left investors panicked that cities and towns would struggle to pay bills. That loss of confidence drove yields on 10-year, tax-exempt, triple-A general-obligation munis to a high of 2.8% on March 23, 2020, when 10-year Treasurys were yielding 0.75%.

Now muni yields are rising alongside Treasury yields as investors try to game out the volatility in global markets and the intentions of world leaders.

“It’s sometimes very hard to read the tea leaves when you’ve got geopolitical risk, Covid, a Fed that is going to be raising rates and inflation that may or may not be transitory,” said Cynthia Clemson, co-director of municipal investments at Eaton Vance Management.

“Municipal credit is in good shape,” Ms. Clemson said. “Everyone’s trying to think ‘What are rates going to do?’”

The Wall Street Journal

By Heather Gillers

Feb. 22, 2022

Write to Heather Gillers at heather.gillers@wsj.com

Municipal Bond Investors' Fears Turn to Rising Tates.

- After municipal government finances weathered the COVID-19 pandemic, thanks to federal government aid and better-than-expected revenue during the pandemic, municipal bond investors are now concerned about interest rates rising, the *Wall Street Journal* reports.
- As the Federal Reserve starts removing pandemic stimulus measures, yields on state and local debt are rising. And in bond markets, yields move inversely to bond prices, so rising yields indicate falling bond prices.
- “Credit has just not been the boogeyman that anyone thought it might be,” Matt Fabian, a partner with Municipal Market Analytics, told the WSJ. “The real risk in the sector, at least for now, is rates.”
- Rising rates make outstanding debt less attractive to investors, because, by contrast, newly issued bonds offer better returns. Benchmark 10-year, triple-A general obligation (GO) bonds were trading at 1.65% on Friday, up from 1.04% a the beginning of the year, WSJ said, citing Refinitiv MMD data.
- So far this year, investors have pulled a net $6.7B from municipal bond funds, the most consistent outflows since March-April 2020, when early in the pandemic investors worried that local governments would have a hard time paying their bills.
- That plunge in confidence pushed yields on 10-year tax-exempt triple-A GO munis to a high of 2.8% on March 23, 2020, while 10-year Teasurys yielded 0.75%.
- By contrast, this year muni yields are rising along with Treasurys as investors try to divine global market volatility and word leaders’ actions.
- “It’s sometimes very hard to read the tea leaves when you’ve got geopolitical risk, COVID, a Fed that is going to be raising rates and inflation that may or may not be transitory,” Cynthia Clemson, co-director of municipal investments at Eaton Vance Management, told the WSJ. “Municipal credit is in good shape,” she added. “Everyone’s trying to think ‘What are rates going to do?'”
- In the past six months, the Vanguard Municipal Tax Exempt Bond ETF (NYSEARCA:VTEB) has dropped 4.0% and the VanEck High-Yield Muni ETF (BATS:HYD) has fallen 6.2% vs. the S&P 500’s -0.5% decline as seen in this chart, while the iShares IBoxx $ Investment Grade Corporate Bond

ETF (NYSEARCA:LQD) declined by 8.3%.
- For the week ended Feb. 16, money market funds (-$41.9B), taxable bond funds (-$8.1B), and tax-exempt bond funds (-$1.3B) suffered significant outflows, according to Refinitiv Lipper data. Equity funds (+4.8B) were the only macro group that brought in new capital during the week.

Seeking Alpha

by Liz Kiesche

Feb. 22, 2022

S&P: Inflation Could Weigh On U.S. Not-For-Profit Utilities' Credit Ratings

Key Takeaways

- Inflation–which has reached levels not seen in decades–can adversely influence utilities' operating costs, add to the material and labor costs underlying capital projects, amplify borrowing needs, and expose utilities to higher borrowing costs.
- The effects of inflation are manifest in consumers' utility bills and expensive utility bills add to the other growing pressures on consumers' pocketbooks.
- Inflation can sap some of the benefits not-for-profit utilities derive from autonomous ratemaking authority if it is the catalyst for consumer and political resistance to utility retail rate adjustments needed to maintain a sound alignment among revenues, expenses, and debt service in the face higher operating and capital costs.

Continue reading.

24 Feb, 2022

Munis Shed Sleepy Reputation With Biggest Swings in 10 Months.

- **Gauge of 30-day volatility reaches highest since early April**
- **Retail buyer base has 'inherent fear of rates rising'**

The often-sleepy municipal-bond market is increasingly turbulent in the lead-up to the Federal Reserve's widely expected move to start lifting interest rates next month.

A gauge of 30-day volatility tied to Bloomberg's municipal-bond index is the highest since early April 2021. It's coming amid a global bond selloff that's driving the municipal market to a second straight monthly decline, for a 3.3% loss to start the year, according to Bloomberg indexes.

The swings are an opportunity for some investors, but are spooking others: Investors pulled about $1.3 billion from muni mutual funds during the week ended Wednesday, Refinitiv Lipper US Fund Flows data show.

Nicholas Foley, a portfolio manager at Segall Bryant & Hamill, said the market could see volatility climb even more as the Fed begins hiking rates. Municipals are especially vulnerable because they depend on retail buyers, and there's an "inherent fear of rates rising always," he said.

UBS Group AG strategists say the muni turbulence may persist until calm returns to Treasuries, where a measure of volatility reached the highest since March 2020 this month. Benefiting in part from their haven status amid rising geopolitical tension, Treasuries have fared better than munis to start the year, losing about 3%.

For Foley, municipals are still relatively expensive compared to Treasuries, leaving them more at risk of a selloff. Liquidity in the market is "thin," and when investors put bonds out for sale there can be few bids, he said.

"I'm a little surprised they've held as well as they have," he said.

Supply Threat

The market could also see supply start to increase, which could further weigh on performance. Barclays Plc strategists led by Mikhail Foux said the market remains vulnerable.

"Fund outflows and rate volatility have not been conducive for risk-taking; if supply picks up, munis may underperform even more," they said.

Still, investors aren't all bemoaning the volatility. Foley has been selling into the short end of the market, where demand has stayed strong as investors look to shield themselves from higher interest rates.

Meanwhile, he's bought long-duration debt that has cheapened. Those securities have been hit hard because that area of the market is dominated by institutional investors like mutual funds that are dealing with outflows, he said.

"For a smaller active manager, it's much easier to find value and add value in these types of markets," he said.

Bloomberg Markets

By Amanda Albright

February 22, 2022

[Fitch: Airports, Lessors Lead Global Aviation Recovery, Airlines Lag]

Fitch Ratings-Chicago/New York-18 February 2022: The global pandemic was the worst event-driven crisis in modern aviation history, having a material negative effect on the financial and credit metrics of airlines, aircraft lessors and airports, and the performance of aircraft and engine asset-backed securities (ABS). While pandemic-related risks remain, a marked rebound in traffic is driving a recovery, albeit with the pace and extent varying by sector, says Fitch Ratings.

Airports and aircraft lessors have led the aviation sector's recovery, while airlines remain the most challenged subsector with full recovery potentially taking years. At the trough in 2Q20, revenue passenger kilometres (RPKs) fell by nearly 90% year-over-year. Traffic has since recovered, but the latest data for December 2021 show RPKs still down 45% versus December 2019.

[Continue reading.]

Fitch ESG in Credit –Customer-Related Issues

Regulations Drive Standardisation and Disclosures on Customer-Related Social Issues

View the Fitch report.

Sustainable Fitch: Eco Material's Green Bond Aligned with ICMA Green Bond Principles

Read the full report: Eco Material Technologies Inc.

Sustainable Fitch, using its proprietary ESG Ratings methodology, has provided its second party opinion on the green bond and associated framework issued by Eco Material Technologies Inc.. The transaction is compliant with the four pillars of the ICMA Green Bond Principles and is also aligned with the “eco-efficient and/or circular economy adapted products, production technologies and processes” ICMA category, Sustainable Fitch says in a new report.

We have assigned a Framework Rating of ‘2’ (on a scale from ‘1’ through ‘5’, where ‘1’ is strongest) to the bond in our second party opinion, which indicates that the instrument has a better than average framework alignment for an instrument of this type.

Eco Material will use the proceeds of the issuance to fund the acquisition of Boral Resources LLC, a North American subsidiary of Boral Limited that is the leading distributor of fly ash in the US with a 50% market share.

We believe that Eco Material’s core product line of supplementary cementitious materials, including fly ash, represent low carbon material alternatives to Portland cement and that these materials can significantly contribute to the decarbonisation of the cement industry, which currently accounts for 8% of global CO2 emissions.

Fly ash reduces the carbon footprint of the cement industry as the share of cement supplemented by fly ash is directly proportional to the CO2 emissions savings. Furthermore, Sustainable Fitch believes that the fly-ash business that Eco Material intends to acquire from Boral Resources generates additional environmental benefits by contributing to the circular economy as it repurposes a by-product of coal power plants that would otherwise be treated as waste.

Boral Resources reprocesses about 7 million tonnes of fly ash a year, which prevents it being stored in landfills and reduces fly ash’s health hazards and water contamination; therefore, it is Sustainable Fitch’s assessment that the transaction contributes to UN Sustainable Development Goal 12.5: “By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse”.

Eco Material intends to provide an impact report, which will include the CO2 savings from the use of its products, on an annual basis as part of its sustainability or other reports available to investors.

Wed 26 Jan, 2022

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Additional information is available on https://www.sustainablefitch.com.

State and Local Public Pension Plan Funding Up.

The amount of money in government plans grew from 2020 to 2021 because of strong investment returns and required contributions, a new report shows.

The "funded status" of state and local government pension plans nationwide increased to 75% in 2021, up from 72% in 2020, because of strong investment returns and more governments making required plan contributions. according to the latest Public Plans Database Snapshot analysis from MissionSquare Research Institute.

According to Investopedia, funded status is a pension fund's financial status measured by subtracting its obligations from its assets. This is useful for understanding how many employees will be covered in a worst-case scenario should their government or company be forced to pay all retirement benefits at once.

Key Findings

Here are some of the key findings from the December Public Plan Database Snapshot:

- Most state and local pension plans contribute nearly all or more than the full actuarially determined employer contribution.
- The mix of pension fund investments has changed immensely since 2005. The share of total portfolios invested in real estate, hedge funds, commodities and alternative investments increased from 9% in 2001 to about 29% in 2020.
- The ratio of active workers to plan beneficiaries is decreasing across all public plan sizes. Factors contributing to this trend include the ongoing retirement of baby boomers and the departure of other employees amid the "Great Resignation."

MissionSquare established the snapshot in 2007 as a detailed look at state and local pension plans. It is a collaborative effort with the Center for Retirement Research at Boston College, the Government Finance Officers Association and the National Association of State Retirement Administrators.

The database is updated every quarter with the most recently reported funded ratios, investment income and other information for 210 of the largest plans in the U.S., representing 95% of state and local pension assets, the report says.

For more information from the MissionSquare Research Institute pension plan analysis click here.

Route Fifty

By Andre Claudio

FEB 22, 2022

Baby Bonds May Gain National Momentum.

Following the passage of so-called “baby bond” legislation in Connecticut and Washington, D.C., and a slew of other states considering such legislation, congressional and public finance leaders including Connecticut Treasurer Shawn Wooden, and Sen. Cory Booker of New Jersey, are pushing for a federal baby bond law to help narrow the racial wealth divide.

“We need to put forward a bold, aspirational vision for racial and economic justice in this country [and] I think baby bonds are a foundational piece of that,” Booker said.

Booker made the statement via video during a webinar last week hosted by Prosperity Now and the New School Institute on race, power and political economy.

Last year, Booker and Rep. Ayanna Pressley, D-Mass., reintroduced the American Opportunity Accounts Act. The legislation, which would create a federally funded savings account for every American child at birth that would grow each year depending on family income, now has 15 cosponsors including Senate Majority Leader Chuck Schumer.

“I’m excited about the possibility of getting this passed,” Booker said.

Wooden, who has championed baby bonds for some time, expressed a similar view – that the political climate may be right for passing federal baby bond legislation.

“We’re in a moment in this country where my thinking and the thinking of others is that we’ve got to go bold, we’ve got to go big with racial disparities and the wealth gap expanding,” Wooden said, adding, “We’re at a moment where America’s watching, the citizens of Connecticut are watching and so we have the political space to go bigger and bolder.”

In July of last year, Connecticut became the first state to enact a baby bond law. Its baby bonds are funded through state general obligation bonds, with $50 million to be authorized each year for 12 years.

Wooden, who was sworn in this year as the National Association of State Treasurers president, said that Connecticut’s program was generally modeled after the American Opportunity Accounts Act with some key distinctions.

For example, “the program had to be very targeted and so is just directed at poor children” – meaning “the mom who is giving birth qualifies for state Medicaid,” Wooden explained.

Connecticut’s baby bond accounts are seeded with $3,200, which is automatically invested on the child’s behalf. When the children reach age 18, they can use the funds for postsecondary education, purchase of a home in the state, or other specified investments.

Wooden also talked about the process that Connecticut went through to implement its baby bond program saying that it involved a lot of basic organizing and conversations with key stakeholders. That feedback, Wooden said, later informed the baby bond program design and in the end, Connecticut's program passed with bipartisan support.

Washington's baby bonds program, enacted in October through a unanimous vote, similarly stemmed from significant community involvement and "building a large tent," according to D.C. councilmember Kenyan McDuffie.

McDuffie introduced the bill and also spoke during the webinar.

Under Washington's program, a trust fund is created with $500 for each child born into a lower-income family after October 1, 2021. An additional $1,000 is added to the account each year that the parents of the child have income below three times the poverty level.

Similar to Connecticut's program, children have access to the funds when they reach the age of 18 but can only use the money for specified activities like purchasing a home, investing, starting a business and paying for education.

In a paper advocating for states and cities to embrace baby bonds, Prosperity Now policy fellow Shira Markoff outlined essential elements of a baby bond program. These include a substantial monetary endowment and automatic enrollment.

Additionally, Markoff noted that baby bond funds should be restricted to wealth-generating assets, and the accounts should be structured with an emphasis on endowments and have a sustainable funding source. The baby bonds should ideally also be excluded from state income asset limits.

Addressing the "why" behind baby bonds, racial justice advocate and New School economics and urban policy professor, Darrick Hamilton, said that baby bond programs take on wealth inequality head-on.

"The problem with wealth inequality is that some people are born with capital and some people aren't. The critical ingredient to building wealth is wealth," Hamilton explained, adding, "We need a public sector that levels the playing field in a more just way – not simply by just giving people something but rather by empowering people."

Overall, Hamilton agreed that baby bonds are foundational to combating wealth inequality and he applauded states and communities for taking their own steps to bring baby bonds to fruition.

Thus far, in addition to the programs in Connecticut and Washington, baby bond legislation has been proposed in Iowa, New Jersey, New York and Wisconsin.

"It's exciting to see that states and cities are not waiting for the federal government," Hamilton said.

By Kelley R. Taylor

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A Simple Solution to Policing for Profit.

Brookside, Ala., issued so many speeding tickets that police had to direct traffic around the

courthouse.

Everyone knows the speed trap: a sudden speed-limit drop, often poorly marked, with police waiting to pounce and local courts ready to assess fines for the local treasury. This has now gone mainstream, as communities large and small across the U.S. adopt policies that make citizens targets to be squeezed, not constituents to be protected.

This destructive exploitation is due in part to state and federal laws that allow jurisdictions—and sometimes law-enforcement agencies themselves—to keep the proceeds from fines, forfeitures and court costs. Fortunately, there is a simple fix.

In some places, police prey on citizens. In Brookside, Ala., as Birmingham News columnist John Archibald recently reported, from 2018 to 2020 “revenues from fines and forfeitures soared more than 640 percent and now make up half the city’s total income.”

So many tickets are issued that police have to direct traffic around the courthouse. Forfeitures—in which property is seized by police on suspicion of a crime, requiring the owner to prove his innocence in court to regain his property—are out of control. In 2020, taking advantage of its 1½ miles of Interstate 22, the town of about 1,250 residents had more misdemeanor arrests than residents. That year it collected $487 in traffic fine and forfeiture revenue for each resident, quite an achievement for a town with no traffic lights. Total town income more than doubled on proceeds from fines and forfeitures. Brookside’s police chief recently resigned under pressure from state lawmakers and the public.

A Justice Department investigation of Ferguson, Mo., found similar forms of policing for profit, and other jurisdictions around the country, from Doraville, Ga., to Chicago have faced lawsuits over such tactics. What was once limited to sleazy rural jurisdictions is now common. And it isn’t just fines. According to the Institute for Justice, the government now seizes more property from citizens than burglars do.

It is easy to see the appeal for government officials. Voters may punish politicians at the polls when taxes are raised to fund government, but when those same expenditures are funded by fines, forfeitures and court costs paid by those who “violate” the law, politicians face less risk. Some targets may be out-of-towners, but too often those targeted are poor and minority citizens who may be less likely to vote.

What is at risk, however, is the legitimacy of law enforcement. Policing for profit produces a predatory relationship between officers and citizens. Policing is no longer about protecting people, but about extracting money from them. This also promotes hostile interactions between police and citizens, which increases the likelihood of violence. The entire system winds up being corrupted. Can an accused person expect fair treatment when everyone in the system knows that its well-being depends on revenue from convictions?

The U.S. Supreme Court held in *Tumey v. Ohio* (1927) that when judicial officials profit directly from fines, defendants are denied due process. It also held, in *Ward v. Village of Monroeville* (1972), that if those administering the fines benefit indirectly from boosting municipal budgets, then due process is violated.

Two 2019 decisions from the Fifth U.S. Circuit Court of Appeals, *Cain v. White* and *Caliste v. Cantrell*, applied the due-process requirement that judges be entirely disinterested in the outcome. Noting that money from fines and fees went into a slush fund that covered judicial personnel and travel, the court held that judges’ knowledge that their day-to-day comfort depended on revenue from convictions was enough to bias them unacceptably, denying defendants the neutral decision makers to which they were entitled.

We agree. As municipalities' and law enforcement's reliance on revenue from fines, fees and forfeitures grows, the chance that defendants will get a fair shake falls. Judges are supposed to avoid even the appearance of impropriety, and relying on people targeted by law enforcement as a revenue source makes the entire process appear improper.

What to do? One would hope for greater judicial scrutiny, but the judiciary is part of the problem. Appellate courts and the U.S. Supreme Court should provide more supervision. So should state legislatures and Congress.

The solution is to send the money from fines, fees and forfeitures elsewhere. If that money went to a state's general fund, municipalities would have no incentive to target people for extra revenue and could focus simply on public safety. Even if the state returned the money to municipalities based on a neutral formula, the incentive to engage in financially motivated law enforcement would vanish.

For law enforcement to flourish, it must hold the moral high ground. Redirecting the flow of funds to remove the temptation for predatory policing would be a good first step.

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By Penny J. White and Glenn Harlan Reynolds

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