Bond Case Briefs

Municipal Finance Law Since 1971

Finance

How Good An Investment Are Municipal Bonds?

Municipal bonds, informally referred to as “munis,” are debt obligations of local, county, states, cities, counties and other governmental entities. The issuers use the proceeds of bond offerings to fund their day-to-day operations and to finance capital projects such as building schools, libraries, parks, highways, bridges and sewer systems. As detailed below, most municipal bonds are exempt from income taxes, making them especially attractive to individual investors in high tax brackets.

Types Of Municipal Bonds

General Obligation (GO) bonds are not backed by revenue from a specific project. Their interest may be paid from the issuer’s general funds or from property taxes earmarked for that purpose. The issuer may pledge to raise property taxes as needed to satisfy debt service on its bonds.

Revenue bonds are supported by revenue from a specific project such as a toll bridge, airport, hospital or utility. They generally pay higher interest rates than GOs because the associated interest payments depend on a single project, rather than the issuer’s full faith and credit. Industrial Revenue Bonds (IRBs) are a subcategory of revenue bonds issued on behalf of private-sector companies.

Continue reading.

Forbes

by Martin Fridson

Jun 7, 2023

Bonds Are Back. Where Vanguard’s Bond Boss Sees Value Now.

After a lousy year for bonds in 2022, the outlook is better. So much better that Sara Devereux, global head of the fixed-income group at Vanguard, has taken to sporting a button around the office declaring, “Bonds Are Back.”

“I haven’t seen this kind of opportunity in a long time, after a decade of yields at the zero lower bound,” says Devereux, whose unit has more than $2 trillion in assets under management.

Vanguard is the world’s second-largest asset manager, with $7.7 trillion in assets under management. In bonds it is best known for index funds. But it is also one of the biggest providers of U.S. active bond funds, with $890 billion in assets, and Devereux is helping lead the charge in active management.

Continue reading.

Barron's

By Lauren Foster

Updated June 8, 2023

Franklin Templeton: Higher Credit Quality in Munis.

Jennifer Johnston, Franklin Templeton director of municipal bond research, discusses where to find value in the municipal bond market with Romaine Bostick and Scarlet Fu on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

June 7th, 2023

Municipal Bond ETFs – Expect More from Your Munis

ETFs and mutual funds have become an increasingly popular means of gaining exposure to municipal bonds. These funds offer investors convenient, diversified access to broad and targeted municipal markets. VanEck's municipal income ETFs offer investors the ability to exercise control over their portfolio yield, duration, and credit exposure at different points in the interest rate cycle.

Target Exposures, Tax-Exempt Income and Low Cost Muni ETFs

The indices underlying each ETF target specific maturity ranges or credit exposures, resulting in distinct performance yield and duration characteristics.

Continue reading.

VANECK

JUNE 10, 2023

SIFMA US Municipal Bonds Statistics.

SIFMA Research tracks issuance, trading, and outstanding data for the U.S. municipal bond market. Issuance data is broken out by bond type, bid type, capital type, tax type, coupon type and callable status and includes average maturity. Trading volume data shows total and average daily volume and has customer bought/customer sold/dealer trade breakouts. Outstanding data includes holders' statistics. Data is downloadable by monthly, quarterly and annual statistics including trend analysis.

YTD statistics include:

- Issuance (as of May) $137.3 billion, -23.9% Y/Y
  Trading (as of May) $12.1 billion ADV, -13.1% Y/Y
  Outstanding (as of 4Q22) $4.0 trillion, -1.4% Y/Y

Download xls

June 1, 2023

Burned by BABs, Issuers Look for a Way Out: Orrick

Between April 2009 and December 31, 2010, state and local governments borrowed more than $181 billion through the issuance of 2,275 separate issues of Build America Bonds, which were authorized under the federal American Recovery Reinvestment Act of 2009 ("ARRA"). Under ARRA, the U.S. Treasury was supposed to provide cash subsidy payments equal to 35 percent of interest payable on outstanding BABs for the life of the bonds.

The promise of BABs subsidy payments in full was short-lived because of a debt ceiling fight – this one in 2011 between the 112th Congress and the Obama Administration which resulted in the Budget Control Act of 2011 (the "BCA") and the implementation of automatic spending reductions ("sequestration") beginning in March 2013.

Since sequestration took effect on March 1, 2013, BABs subsidy payments have been reduced year over year, with reductions ranging from a high of 8.7 percent in 2013 to a low of 5.7 percent for federal fiscal years 2021 through 2030. Under current law, BABs subsidy payments are subject to sequestration through federal fiscal year 2030 unless Congress takes action to modify or eliminate the sequester.

In addition to this partial sequestration imposed by the BCA, the Statutory Pay-As-You-Go Act of 2010 ("PAYGO") can impose mandatory spending cuts based on legislation that increases the federal budget deficit. In 2022, it was reported that due to COVID-19 relief legislation (which did not include a waiver of the PAYGO reductions), there was the potential for 100% sequestration of BABs subsidies beginning in January 2023. Fortunately, the Consolidated Appropriations Act of 2023, enacted in December of 2022, provides a reprieve from PAYGO sequestration through federal fiscal year 2025.

The prospect of a total elimination of BAB's subsidy payments, combined with uncertainty about the debt ceiling and the ability of Congress and the Biden Administration to resolve the current political logjam, has triggered renewed interest by the public finance community in BABs refundings. Many issuers simply want to get out of BABs altogether at this point.

For issuers that are thinking about "breaking up" with their BABs, important considerations include:

- **Redemption Provisions:** For BABs issued with 10-year par calls, it is straightforward to redeem and refund BABs, and many BABs have been refunded for savings over the past few years with traditional tax-exempt bonds.But many outstanding BABs were issued without a 10-year par call, leaving other redemption provisions as options.

Make-whole Call provisions. A make-whole call is a common redemption provision for taxable bonds, including BABs, that requires a payment by the issuer to the bondholder based on the net present value of future coupon payments, thereby putting the bondholder in the same position they would have been if the bonds were not redeemed.The present value calculation for make-whole calls is usually based on a spread against Treasuries—the higher the spread against Treasuries, the higher the discount rate and therefore the smaller the redemption price.

As a broad market observation, it has generally not been possible to tax-exempt refund BABs through a make-whole call and achieve savings. However, as the spread between taxable and tax-exempt rates increases, there may be opportunities for savings depending on market conditions. In addition, some issuers may be interested in redeeming their BABs despite some dissavings to avoid the risk of future increases in sequestration.

Extraordinary Call Provisions. In addition to make-whole calls, most BABs included extraordinary redemption provisions ("ERP"), which generally provide for a more issuer-favorable redemption price if specified conditions have occurred resulting in negative affects on the BABs subsidy.The particular conditions for exercise of ERPs vary between the bond documents for different issues of BABs.

For issuers looking to exercise the ERP for their BABs, it is important to closely review the language to determine whether the conditions have been met. Views may differ as to whether the ERP conditions have been met as a result of sequestration, and current bondholders may object to the exercise of an ERP if the issuer undertakes a refunding of BABs using the ERP. It is necessary to consider the potential impact of such an objection on the ability to issue the refunding bonds, including whether litigation might lead to a larger redemption price that would reduce the savings on the transaction and potentially affect the ability to issue the refunding bonds. As another consideration, exercising an ERP under conditions where bondholders object might lead to a negative reputation among taxable bond investors.

- **Budget and Debt Policy Considerations:** Retiring BABs through a refunding and issuance of tax-exempt bonds will result in the loss of the federal interest subsidy.Issuers will need to evaluate the loss of the subsidy in their refunding savings analysis under any applicable debt policy or budgetary procedures for the issuance of any refunding bonds, but may be able to take sequestration into account in reducing the estimated value of those subsidy payment.It may be the case that there are savings from refunding the BABs even taking into account the lost subsidy payments.
- **Refunding Bond Issuance Authority:** Issuers of revenue bonds should consult with counsel and closely review the provisions of their bond documents to evaluate whether the issuance of tax-exempt refunding bonds to redeem BABs qualifies as an issuance of refunding bonds or possibly triggers any additional bonds tests or has other covenant implications.

As a best practice, issuers should be sure to consult with Bond Counsel and other finance team members to fully assess the legal, financial and market considerations of any refunding transaction and financial benefits of any refunding transaction, and especially any transaction calling the bonds using an ERP.

by Christine Reynolds and John Stanley

May.24.2023

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Should We Rethink Reserves? - GFOA Publication

GFOA's best practice "Fund Balance Guidelines for the General Fund" is one of GFOA's most often cited standards. However, GFOA's consulting work with local governments has revealed that there are many opportunities for reserve optimization beyond the guidance provided in the best practice. This paper brings what we have learned together with university research to describe new opportunities for local governments to get the best value from their reserve strategies.

DOWNLOAD

Publication date: May 2023

U.S. Public Sector Cyber Risk Is Mainstream Now, Says S&P Seminar.

Key Takeaways

- The provision of essential services and the sensitive information held by local government organizations, utilities, and health services make them prime targets for cyberattacks.
- Cyber risk management should therefore be a priority for the U.S. Public Finance sector (and private companies), but it often remains underfunded and insufficient.
- Cyber risk mitigation should be integrated into organizational planning, particularly given the complexity of balancing risks across very large systems and organizations within those system.

Continue reading.

1 Jun, 2023

Cybersecurity Standards Gain Ground in Counties.

More counties are embracing voluntary cybersecurity frameworks to evaluate their risk and better protect their assets, a recent report shows.

County governments are reducing their cybersecurity risk levels by embracing voluntary standards, including those developed by the federal government, according to a report released last week.

Research from the National Association of Counties (NACo) and Accenture found that 50% of counties use the controls outlined in the National Institute of Standards and Technology's (NIST) Security and Privacy Controls for Information Systems and Organizations special publication.

Meanwhile, almost 30% use either a bespoke state or county-specific framework, a cybersecurity maturity model certification program or the 27001 Maturity Model developed by the International

Organization for Standardization and the International Electrotechnical Commission. Just over 20% said they do not use a standardized cybersecurity framework, while 18% said they do not know.

Continue reading.

Route Fifty

By Chris Teale

JUNE 2, 2023

Las Vegas Ballpark Pitch Revives Debate on Public Funding for Sports Stadiums.

CARSON CITY, NEV. — Gov. Joe Lombardo wants to help build Major League Baseball's smallest ballpark — arguing that the worst team in baseball can boost Las Vegas, a city striving to call itself a sports mecca.

Nationwide debate about public funding for private sports clubs has been revived with the Oakland Athletics ballpark proposal. The issue pits Nevada's powerful tourism industry, including trade unions, against a growing chorus of mostly progressive groups that, throughout the country, are raising concerns about use of tax dollars to finance sports stadiums but could otherwise fund government services or schools.

The debate over relocating the team from California to Nevada echoes others around the country, where politicians have approved large sums of taxpayer money going to sports clubs in Buffalo, New York; Atlanta, Georgia; and Nashville, Tennessee. In Tempe, Arizona, though, voters rejected a $2.3 billion proposal that would have included a new arena for the NHL's Arizona Coyotes.

Continue reading.

Associated Press

June 04, 2023

Parametric's Patel Expects Heavy Inflows Into Munis.

Parametric Managing Director Nisha Patel discusses the outlook for the muni market with Romaine Bostick and Scarlet Fu on "Bloomberg Markets: The Close."

Watch video.

Muni MomentBloomberg Markets: The Close

May 31st, 2023

Maximizing Returns With Tobacco Bonds: Benefits, Risks and Investment Strategies

When most investors think of municipal bonds, general obligation or GO bonds tend to be the first thing that pops into their heads. And for good reason. These bonds issued by state and local governments form the backbone and bulk of the municipal bond sector. Cash flow and interest payments are driven by tax revenues.

But there is more than one type of bond in muni land and some may be lucrative for investors. In this case, it's the tobacco settlement bonds.

With their natural inflation protection, high yields and tax-free status, tobacco bonds could make for an interesting portfolio addition for investors. And thanks to the growth of municipal bond ETFs and mutual funds, getting exposure is easier than ever.

Continue reading.

dividend.com

by Aaron Levitt

May 31, 2023

An Overview Of U.S. State Budgets And Municipal Bonds.

Summary

- California just released its mid-May budget update, which tells a story of further revenue slowing and an increased budget deficit.
- States report monthly cash flows—and combined with economic data—have expected the robust revenue growth of the last few years to stabilize, slow and potentially retreat.
- While the forecast looks cloudy, state and local governments have largely planned well for a rainy day.

Continue reading.

Seeking Alpha

May 23, 2023

Franklin Templeton Investments

Municipal Bond Issuers on Edge as Debt Ceiling Deadline Nears.

City and state governments fear potential surge in cost of financing

A Utah city's plan to issue about $15 million in bonds to fund a new parking structure has officials fixated on the fast-approaching deadline to raise the U.S. debt ceiling. The fear: A default could upend the bond market.

"The cost will skyrocket for us, and financing could become unattainable," said Mark Shepherd, mayor of Clearfield, about 30 miles north of Salt Lake City.

A surge in borrowing costs could result in local projects in Clearfield and elsewhere being left unfinished, said Shepherd, who is also chair of a National League of Cities committee on federal advocacy.

Continue reading.

The Wall Street Journal

By Brenda León and Heather Gillers

Updated May 26, 2023 5:27 pm ET

Fitch Places Muni Ratings Tied to U.S. Sovereign on Rating Watch Negative.

Fitch Ratings – San Francisco – 26 May 2023: Following Fitch Rating's placement of the United States' 'AAA'/'F1+' Foreign and Local Currency Issuer Default Ratings (IDRs) on Rating Watch Negative (RWN), Fitch has placed on RWN the 'AAA' ratings of certain categories of debt that are directly tied to the creditworthiness of the U.S. or its related entities.

Categories of debt with ratings that are affected include:

–Pre-refunded bonds with repayments that are wholly dependent on 'AAA' rated U.S. government and agency obligations held in escrow;

–Municipal housing bonds that are primarily secured by mortgage-backed securities issued by Ginnie Mae, Fannie Mae and/or Freddie Mac.

Continue reading.

What the U.S. Credit Rating Moves Mean for Muni Bonds.

After Fitch Ratings put the U.S. government's debt on watch for a negative downgrade Wednesday, Fitch analysts have been busy working out the implications for the $4 trillion muni bond market.

While the credit-rating firm believes Republicans and Democrats will reach a federal spending compromise before any Treasury bills default, Fitch analysts are wary of how a spending deal could hit the revenues of state and local governments.

"We're certainly watching very closely," said Doug Offerman, a senior director at the firm's public finance states group. Local governments rely directly on federal funding for healthcare, education and transportation. With federal spending amounting to a third of gross national product, any big

change will affect local economies. “It’s a big footprint,” Offerman said.

Continue reading.

Barron’s

By Bill Alpert

May 26, 2023

Puerto Rican Muni Bond ETF Launches.

First-of-its-kind fund focuses on U.S. territory bonds.

X-Square Capital, a Puerto Rico-based advisory firm, debuted its Triple Tax-Exempt Municipal Bond ETF (ZTAX), which it says is the first bond fund focusing on triple-tax-exempt muni bonds from U.S. territories.

The fund, with an expense ratio of 1.1%, launched on May 19 and invests in muni bonds issued by U.S. territories, with typical allocation ranges being 65%-80% Puerto Rico, 10%-25% U.S. Virgin Islands and 5%-10% Guam. While other funds hold Puerto Rican bonds, this is the first fund to fully focus on bonds from U.S. territories.

Its price has slipped to $25 since it launched last week at $25.95.

Part of the bond’s appeal stems from a 125-year-old law giving Puerto Ricans U.S. citizenship, and establishing that income from bonds issued by Puerto Rico would be exempt from local, state and federal taxes.

As yields rose in 2022, muni funds experienced record outflows of $122 billion. They also had their worst year since 1981, with the Bloomberg Municipal Bond Index dropping 8.5%, with high yield munis doing worse still, losing 13%.

This year may present an improved scenario, with expectations for a pause in interest rate increases. A looming recession may also bode well for the asset class, because muni bonds have historically gained in recessions.

Declining inflation may also boost fixed income assets.

The bonds were central to the debt crisis and bankruptcy that Puerto Rico underwent starting in 2015, when it announced it would be unable to pay its $123 billion debt, declaring bankruptcy in 2017 after the widespread damage to the island from hurricanes Irma and Maria.

Puerto Rico’s economy is still suffering compared to the mainland U.S., with average incomes a fraction of the poorest U.S. state; however, the unemployment rate has fallen significantly and now stands at 6%, higher than the U.S. average but lower than much of the last decade when it was about twice the national average.

With the restructuring having concluded, the “post restructuring,” bonds held by the fund are a bet on the future of Puerto Rico differing from its past decade.

etf.com

by Gabe Alpert

May 24, 2023

Reviewed by: Lisa Barr

Edited by: Ron Day

Municipal Bond Performance on Track for Worst May Since 1986.

- **Elevated rates, debt ceiling and SVB bonds dampened returns**
- **Investors optimistic about seasonal summer upswing ahead**

This month is on track to be the worst May in recent history for municipal bonds amid the elevated interest-rate environment and Treasury volatility caused by fear of a US default.

Municipal bonds lost 1.38% so far in May, according to data compiled by Bloomberg. Barring a major rally, that puts this month on track for the worst May performance since 1986, when bonds lost 1.63%. On average, munis gained 0.9% in May over the last decade, the strongest month of returns, buoyed by expectations of summer rallies.

Investors say the unusual weakness reflects a range of factors — chief among them an uptick of issuance after weeks of low supply that kept demand high, as well as renewed fears of additional rate hikes that dampened the performance of all types of fixed income. And even more alarming are concerns over US default as investors in state and local government debt tend to be risk averse. Fitch Ratings warned Wednesday that the US's AAA rating is under threat as the White House and Congressional Republicans try to reach an agreement.

Continue reading.

Bloomberg Markets

By Nic Querolo

May 26, 2023

Money in Munis in 2023 (Bloomberg Audio)

Eric Kazatsky, Senior US Municipal Strategist with Bloomberg Intelligence, joins us to discuss the municipal bond market. Hosted by Kriti Gupta and Madison Mills.

Listen to audio.

Bloomberg

May 26, 2023

Cities Face Mounting Financial Pressures.

On top of the familiar problems—pensions, inflation, pandemic aid ending—officials are also trying to prepare for two potentially devastating scenarios: a recession or the U.S. defaulting on its loans.

As big cities try to regain a steady financial footing after the pandemic, some familiar but stubborn problems threaten to knock them off balance, a panel of municipal finance experts warned this week.

“We’re in a moment of inflection right now,” David Schleicher, a Yale law professor, said during a virtual gathering on municipal distress held by the Volcker Alliance. “We’ve been living through this period of flush state and local budgets, and we’re about to see a real turn.”

While the economy has proved resilient in many places, it has had an uneven effect on cities. The pressures facing municipalities include the imminent end of federal pandemic aid, uncertainty around the economic condition of downtowns, inflation, and increased demand for social services and other city services.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

MAY 19, 2023

Fitch: Strong Financial Profiles and Loan Oversight Support CDFI Credit

Fitch Ratings-New York/San Francisco-17 May 2023: Strong loan portfolio management and financial profiles support community development financial institutions’ (CDFIs) credit ratings amid growing economic headwinds, Fitch Ratings says. CDFIs play an important role in providing affordable financing in the current environment of high interest rates and reduced credit supply, supporting low-income and low-wealth communities by providing capital to individuals, businesses, and organizations that historically have not had access to mainstream sources of credit.

Like other social lending institutions, CDFIs generally exhibit solid demand, low loan delinquencies and losses, conservative risk management, and strong financial profiles. This is reflected in the high investment grade ratings currently assigned to CDFIs. CDFIs keep loans on balance sheet and typically provide active oversight of their loan portfolios, with early and frequent follow-ups for delinquent loans and other loss mitigation strategies to minimize loan defaults and losses.

While CDFIs’ modest delinquency rates are slightly higher than those of banks, charge-off levels are comparable, despite the portfolios’ perceived higher risk and lower credit quality. The median 90+ day delinquency rate among CDFIs was 1.30% between 2017 and 2021, compared to 1.06% for banks. Furthermore, the median net-charge off rate among CDFIs was 0.48% between 2017 and 2021, similar to 0.50% for banks during the same time period, according to the FDIC and Opportunity Finance Network, the industry trade group for CDFIs. Fitch forecasts a mild recession

beginning in the second half of the year, and while loan performance may deteriorate, loan losses are expected to remain well within Fitch's stressed rating assumptions.

Continue reading.

Fitch: Financial Conditions, Debt Limit, CRE Are Key Credit Risks

Fitch Ratings-New York-18 May 2023: Tightening financial conditions, an increased focus on office real estate valuations and political risks from wrangling over the US federal debt limit are among the key credit risks highlighted in Fitch Ratings' Risk Headquarters report for 2Q23.

Since the last quarter, the key risks we highlighted regarding financial instability related to the rising costs of capital were reflected in some of the largest bank failures in US history and the swift takeover of Credit Suisse by UBS following rapid deposit outflows. While further systemic contagion risk has been mitigated through prompt government and regulator support measures, the longer-term effects on financing costs, especially for smaller and regional banks, and credit conditions in the wider economy remain highly uncertain.

The new pressures faced by US community and regional banks have also renewed investor concerns regarding commercial real estate, specifically offices, which are facing a combination of secular challenges from changing work patterns, cyclical pressures from a lacklustre economic outlook and tightening financing conditions.

Our key risks have been updated since the last quarter. Risks related to the cost of capital and financial instability, inflation, and geopolitics, policy and governance are still significant. Fitch expects broader risks to investment and consumption to persist as financial conditions continue to tighten and inflation remains above central bank targets. Political risks are also largely unchanged, with heightened focus on the US federal debt limit as the "x-date" approaches in June or July. Geopolitical risks pertaining to the Russia-Ukraine war, tensions over the Taiwan Strait and US-Chinese geopolitical competition remain.

China Macro has been removed from the key risks. Uncertainty over the Chinese economy's recovery in 2023 has been reduced significantly with the end of Zero-Covid and a rapid consumption-led jump in growth in the first quarter.

'Risk Headquarters – May 2023' is available at fitchratings.com.

Contacts:

Justin Patrie, CFA
Senior Director
+1 201 283 4620
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

S&P U.S. Mortgage Revenue Bond Program Rating Actions In Line With Expectations After Application Of Updated Criteria.

Key Takeaways

- We reviewed all sector ratings within scope following the release of our "Mortgage Revenue Bond Program" criteria, published Oct. 10, 2022.
- Overall, the extent and magnitude of rating actions aligned with our expectations, although the direction of rating actions was more uniformly positive than expected.
- Rating changes were limited to one notch.
- Application of the criteria resulted in minimal rating actions in the sector, and we expect continued rating stability under the new framework.

Continue reading.

18 May, 2023

Senior-Living Debt Defaults Far Outpace the Rest of Government Debt Market.

- **About 7% of outstanding senior-living bonds in payment default**
- **With business model changing, new projects are riskier**

One sector is an outlier when it comes to the traditionally-tiny default rates in the $4 trillion municipal bond market.

Roughly 7% of the $43 billion in outstanding senior-living bonds, or about $3.2 billion, is in default on a payment, according to data compiled by Bloomberg. That compares to a rate of less than 1% for all state and local government debt.

Health care has been slammed by a shortage of caregivers and higher wage and supply costs, even as the pandemic pushed occupancy rates down. Hundreds of nursing homes have closed since the beginning of the pandemic as they cope with those pressures, along with government reimbursements that fall short of covering costs — and the fallout is expected to continue.

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

May 22, 2023

Fitch: Labor Demand Shows Clear Signs of Cooling, but Slow Pace Continues

Fitch Ratings-New York-16 May 2023: Despite unemployment being at a 54-year low, the labor market will weaken as aggregate demand stagnates in response to higher interest rates and tightening credit conditions, exacerbated by stress in the banking sector, according to Fitch Ratings.

“Labor demand still exceeds supply, but this imbalance is declining, now at approximately 2.3 percent of the labor force in first-quarter 2023 compared with 3.2 percent last quarter,” said Olu Sonola, Fitch Head of U.S. Regional Economics. “Job openings have also declined by 1.6 million from peak levels. Wage growth year-over-year has decelerated significantly since last quarter in a number of states.”

The labor market remains relatively tight, even though the job openings to unemployed ratio is now down to 1.6 from the peak of 2.0 in March 2022. Thirty-five states have non-farm payrolls at or above pre-pandemic levels in first-quarter 2023.

Employment levels now exceed pre-pandemic levels in all but fifteen states, while the unemployment rate is below pre-pandemic levels in 30 states. Slower recovery in leisure and hospitality is a drag on Nevada, Oregon, and Hawaii, and several other states with large cities due primarily to the slow return to office trends, such as New York, California and Illinois.

Western and Midwestern states dominate with very high labor utilization. Mississippi, West Virginia, New Mexico, and South Carolina continue to show structural weakness in utilization. New Jersey is the only state with a year-over-year change in employment-to-population ratio of over 1.0 percentage point.

For more information, a special report titled “U.S. States — Labor Market Quarterly Tracker — 1Q23” is available at www.fitchratings.com.

Contact:

Olu Sonola
Head of U.S. Regional Economics
+1-212-908-0583
Fitch Ratings, Inc.
300 W 57th Street
New York, NY 10019

Vicky Raso
Analyst
+1-646-582-3649

Blythe Logan
Analyst
+1-646-582-3640

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: Ongoing Disclosures Help Mitigate CA, Other Public Finance Delayed Audits

Fitch Ratings-Chicago/New York-17 May 2023: Delays in the release of California’s GAAP-based audited financial statements are not a near-term credit concern given ample state financial

disclosures, Fitch Ratings says. However, severely delayed audits can trigger negative rating pressure on U.S public finance issuers when alternative disclosures are insufficient. Fitch relies on financial statements and other relevant information to support its analysis and ratings decisions. A failure to provide fiscal data in a timely manner can lead to a negative rating action or even a rating withdrawal if the information available is not sufficient to support the rating analysis.

The state of California (AA/ Stable) has fallen behind in issuing GAAP-based audited financial statements but continues to provide timely financial disclosures, including monthly cash reports and detailed budget and revenue forecasts. Through FY18, the state released its Annual Comprehensive Financial Report (ACFR) by March 31, nine months after the end of the fiscal year and somewhat late compared to other states.

The state transitioned to a new financial accounting system, "Fi$Cal", during FY2019 and since then the release of the annual audit has become progressively later. FY19 results were released in October 2020, FY20 in February 2022, and FY21 in late March 2023. There is no current date for the release of the FY22 ACFR. Despite these delays, California continues to provide transparency in its financial operations through an abundance of robust and timely budgetary and revenue information.

GAAP-based ACFRs are an objective and important source that Fitch and other market participants typically rely on to understand a government's financial performance. The ACFR provides a set of financial statements that comply with accounting requirements established by the Governmental Accounting Standards Board (GASB) and audited by an independent auditor using generally accepted auditing standards. The ACFR presents an official account of a government's financial condition for the last fiscal year, comparing it to prior fiscal years, and includes management discussion and analysis of the results.

Habitually delayed publication of an ACFR beyond 270 days past the end of the fiscal year can be an indication of management weakness. Fitch has downgraded and/or withdrawn ratings on certain entities with chronically late financial statements. Fitch downgraded the Issuer Default Rating (IDR) of Manhattan, Kansas to 'AA' from 'AA+' on May 18, 2020, due in part to the city's repeated delays in publishing audits. Fitch withdrew the rating on Manteca Finance Authority, CA's sewer revenue bonds on April 12, 2023, because of the system's continuing inability to provide reliable financial information. Conversely, Fitch upgraded the IDR on Northport, Alabama to 'AA+' from 'AA' on March 17, 2023, noting improved budget management practices as evidenced by the steps taken to ensure the timely filing of its financial audits following a short period when such filings had been delayed.

The median audit timeline for municipal governmental bond sectors has grown from of 147 days in 2009 to 164 in 2020, according to a 2022 report from the University of Illinois, Chicago and Merritt Research Services. Pandemic disruptions, including steep declines in state and local government employment in 2020, have likely contributed to longer audit timeframes. State and local government employment has since recovered, although it is still down slightly relative to 2019 averages, with Fitch expecting a mild recession beginning later this year.

In some states, the state auditor either conducts or signs off on the local government's audit, which typically takes more time than audits by a private firm. When financial audits are delayed, Fitch typically relies on other fiscal disclosures including unaudited actuals and monthly budget reports showing the performance of both revenues and expenditures. This additional transparency is key in Fitch's ability to perform its forward-looking credit analysis and to continue to assess an issuer's creditworthiness.

Contacts:

Karen Krop
Senior Director, US Public Finance
+1 212 908-0661
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Ashlee Gabrysch
Director, US Public Finance
+1 312 368-3181

Sarah Repucci
Senior Director, Fitch Wire
Credit Policy – Research
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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Did Your Town Make This List of Best-Performing Cities?

The Milken Institute is out with its annual report ranking the economic performance of more than 400 metropolitan areas. Here's what it takes to be a booming city.

A new report ranking the economic performance of hundreds of cities found that booming high-tech sectors are driving gross domestic product growth in large and small cities alike, but that growth comes at the cost of affordable housing.

On Wednesday, the Milken Institute, an economic think tank, released its 2023 Best Performing Cities Index. Published annually since 1999, the report aims to measure cities' economic performance based on metrics such as labor market conditions, tech industry growth, and access to housing and broadband. This year's index primarily uses data from 2021, representing the first full year of recovery after the onset of the pandemic.

Continue reading.

ROUTE FIFTY

by MOLLY BOLAN

MAY 18, 2023

Cryptocurrency: Fairy Tale or Future

The late 2022 FTX scandal seems like a plausible end to the era of blockchain mania, so 2023 is a good time to look back and ask ourselves, "What can we learn from crypto thus far?" After all, local governments will face increasing pressure to adopt new technologies, not just

blockchain/cryptocurrency.

LEARN MORE.

Muni Bonds: Recession Potential Warrants Second Look

Recessionary pressures on the economy continue to mount, as the Fed tries to toe the line between raising interest rates to combat inflation and maintaining economic growth. In the meantime, muni bonds present investors with a prime fixed income option.

Given rising rates, fixed income investors have yield top of mind. At the same time, they also need quality exposure, given the threat of recession. Both can be addressed via muni bonds.

“Should the U.S. economy fall into a recession, high yield municipals may fare better than their taxable counterparts,” private asset manager Lord Abbett noted. “Over the long term, municipal bonds historically have experienced a fraction of the default rates of similarly rated corporate bonds.”

The aforementioned blog post, in particular, looked at periods of recession and how muni bonds fared.

“Focusing specifically on recessionary periods, municipal fundamentals have historically outperformed corporates: during the past five economic contractions in the United States, municipal bonds’ credit ratings have been much more stable, and default rates have been much lower relative to corporate bonds,” the asset manager added.

2 Cost-Effective Muni Bonds ETFs

Not sure where to start with getting municipal bond exposure? One fund to consider, especially for the cost-conscious investor, is the Vanguard Tax-Exempt Bond ETF (VTEB).

With a 0.05% expense ratio, the fund offers low-cost exposure to municipal debt. Comparable funds have an average expense ratio of 0.68%, based on Morningstar data.

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 muni bonds from primarily state or local governments, or agencies exempt from U.S. federal income taxes and the federal alternative minimum tax (AMT).

Another option launched just months ago is the Vanguard Short-Term Tax-Exempt Bond ETF (VTES). The fund, with its similarly low 0.06% expense ratio, seeks to track the S&P 0–7 Year National AMT-Free Municipal Bond Index, which is designed to meld two benefits of municipal bond exposure: tax efficiency and tax-exempt yield.

VTES’ benchmark includes bonds with maturities ranging from 0–1 years as well as 5–7 years. As such, investors get the risk-mitigating benefits of short-term exposure while also obtaining more yield, common with longer-duration bonds.

Given this balance, VTES may best suit investors with an investment horizon of two to four years. Additionally, it could work for high net worth clients looking for tax-exempt income.

“VTES is designed for tax-sensitive investors who have a preference for taking on less interest rate risk than the overall municipal market,” said Jeff Johnson, head of fixed income product at Vanguard, in an interview with VettaFi.

ETFTRENDS.COM

by BEN HERNANDEZ

MAY 19, 2023

Tax-Free Income on Sale: Buying Municipal Bonds at a Discount with Closed-End Funds

There’s nothing better than getting a high yield, except if that high yield comes tax free. And right now, investors have the opportunity to engage in such a transaction.

Despite their steadfastness and stability, municipal bonds have continued to trade sideways – and lower – in the wake of the Fed’s pace of interest rate hikes. Munis are prized by many investors for their high credit quality and their ability to provide federal, and in some instances state/local, tax benefits. Now could be one of the best times to add the bonds variety to a portfolio.

However, there is a way to buy munis at both a discount and a higher yield. Closed-end funds are some of the biggest buyers of muni bonds, and right now, their discounts to net asset values (NAVs) are at some of the highest levels not seen in over a decade. With tax-free yields closer to 8%, investors looking to juice their income have a rare opportunity in the sector.

Continue reading.

dividend.com

by Aaron Levitt

May 16, 2023

Why Muni Mutual Fund and ETF Flows Are Diverging.

Pat Luby, CreditSights senior municipal strategist, discusses the divergence between muni mutual funds and muni ETF flows with Vonnie Quinn and Romaine Bostick on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

May 17th, 2023

How to Target the Sweet Spot of the Muni Yield Curve.

The muni bond market's yield curve is inverted in the short end but positively sloped and steep in the intermediate part, providing attractive roll yield for those who target these maturities.

What is Roll Yield?

Roll yield is a term used to describe the increase in price that an investor can receive as a bond's maturity ages. When a bond gets closer to its final maturity, its yield typically decreases, causing an increase in its price. This price appreciation is known as roll yield and is a desirable feature for investors, especially when targeting intermediate-term bonds with wider yield differentials between maturities. This strategy can potentially generate alpha and enhance an investor's total return.

How Can I Use Roll Yield to Boost Return?

The muni yield curve is an important indicator of the health of the municipal bond market and the broader economy. The muni yield curve has recently become inverted in the short end, meaning that yields of some longer-dated municipal bonds are lower than those of shorter-term bonds. However, the intermediate part of the curve remains positively sloped and steep, providing attractive roll yield for investors who target these maturities. Steepness refers to the degree of absolute difference between yields of different maturities.

Continue reading.

etftrends.com

May 20, 2023

Cities Stare Down Huge Budget Gaps.

Growing expenses and lagging downtown recoveries are straining city finances as federal pandemic relief funds run out.

Many city governments are suddenly confronting bad budget news, as years of federal coronavirus aid starts to run out, expenses climb and local economies continue to adjust to post-pandemic conditions.

For now, talk of big budget gaps and subsequent service cuts is limited to a few headline-grabbing localities. But experts warn that other cities face comparable pressure and likely will face similar situations soon.

In New York City, Mayor Eric Adams called for broad cuts to services, such as schools and libraries, in order to address an anticipated shortfall of $2.9 billion next year. Sheng Thao, Oakland, California's new mayor, faces what city officials say is the largest general fund deficit in the city's history, with a projected shortfall of up to $345 million. And Milwaukee could face cuts to police, firefighters and libraries when federal aid dries up next year, officials say, because of rising pension costs and dwindling state aid.

Continue reading.

Route Fifty

By Daniel C. Vock

May 9, 2023

Astute Treasury Management Strategies as Inflation Cools.

State and local financiers now face interest rate markets that anticipate decelerating inflation and a weaker economy. Public treasurers and debt managers need fresh ideas, agility and prudent strategies.

As if they didn't already have enough on their plates, public-sector financiers are facing a fresh challenge: With its recent escalation of the short-term "Fed Funds" interest rate, the Federal Reserve has now engineered what's known as a fully inverted yield curve. That's when market interest rates are highest on shorter-maturity U.S. Treasury debt instruments and descend sequentially as maturities increase. It's now downward-sloping for most maturities from three months going out to 10 years.

It's the exact opposite of what's considered a normal yield curve, because ordinarily investors require additional interest compensation for the illiquidity of tying up their money longer term, plus a yield premium to compensate for interest rate risk on longer-term paper — what's known as duration risk.

Astute state and local government treasurers and financial managers must now take into account the dynamic nature of the inverted yield curve scenario and adjust their strategies accordingly. Oversight committees and governing boards should be scheduling study sessions to get up to speed.

Continue reading.

governing.com

by Girard Miller

May 9, 2023

UBS: Regional Banking Crisis Fails to Rattle Munis

Banks are significant owners of municipal bonds. Therefore, the recent high-profile regional bank failures of Silicon Valley Bank (SVB), Signature, and First Republic have raised concerns about the forced selling of their municipal portfolios and potential implications for the market as whole. Thus far, the impact to the muni market has been muted.

For context, the size of the SVB muni portfolio is USD 7.4bn, according to their most recent 10-K. At the same time, market participants expect its muni portfolios to be sold in an orderly manner over the next few weeks rather than an abrupt sale. That said, about 85% of the portfolio consists of longer-dated bonds with low coupons between 1.5%–3.0%, according to our data. However, there is

limited appetite for market discount bonds from the dominant investor base for munis (private clients) given the unfavorable tax treatment imposed upon disposition or maturity of the bonds (*see* Education note: tax implications on discount munis, 17 February 2023). By contrast, we think institutional-based buyers (banks and insurance companies) that are less sensitive to the tax consequences are apt to seek buying opportunities in the low coupon space.

Signature Bank had a very modest amount of muni holdings (USD 249mn) and the disposal should have no or very limited impact on the market, in our view.

More recently, First Republic Bank was sold to JPMorgan and their entire muni portfolio was obtained by JPMorgan. Should JPMorgan want to reduce their muni holdings, we also expect them to do so in an orderly fashion over time and without disrupting the market as a whole.

Tight supply remains a tailwind

The municipal market has been starved for issuance thus far this year (down 25% y/y through April) and would be able to digest SVB's municipal portfolio with ease, in our view, if not for the low coupon long duration structure. As a point of reference, the size of SVB's muni portfolio is a little more than one week of average new issuance supply in 2023. In the next 30 days, funds available for reinvestment exceeds expected new issuance by USD 13.5bn, thus the inflow of available bonds should not have a major impact on the overall market. We are also heading into redemption season, when reinvestment proceeds typically outpace issuance by a large majority and provide a healthy tailwind to municipals in the months of June–August.

Overall, the stress on regional banks thus far has had a muted impact on the broader municipal market. Banks account for about 15% of municipal bond holdings, most of which is concentrated in the large systemically important banks which are in strong financial health.

by UBS Editorial Team 09 May 2023

Main contributors – Ted Galgano, Kathleen McNamara, Sudip Mukherjee

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Republican States Move to Block Giant Asset Manager's ESG Push for Utility Companies.

A group of Republican-led states have filed a motion with a federal regulator to block BlackRock, the largest asset manager in the world, from imposing sustainable investing practices on utility companies.

The states, led by Indiana Attorney General Todd Rokita (R), appealed to the Federal Energy Regulatory Commission (FERC) to keep BlackRock from laying down environmental, social and governmental (ESG) investing priorities on utility companies, continuing a GOP crusade against what it argues is "woke" investing.

The states, including Utah, Alabama, Alaska, Arkansas, Iowa, Kentucky, Louisiana, Mississippi, Missouri, Montana, Nebraska, Ohio, South Carolina, South Dakota, Texas and West Virginia, filed the motion against the investment company on Wednesday, asking the FERC to not give it blanket authorization to buy more than $10 million in voting stakes in a utility company if it imposes ESG priorities.

Continue reading.

THE HILL

BY STEPHEN NEUKAM

05/10/23

JPMorgan Targeted by Republican States Over Accusations of Religious Bias.

Nation's largest bank rebuts claims of GOP attorneys general and treasurers, who say the bank mistreats people of faith

WASHINGTON—JPMorgan Chase has become the target of a campaign by Republican state officials seeking to expose what they see as religious discrimination in the bank's business practices.

Nineteen Republican state attorneys general sent a letter this month addressed to JPMorgan Chief Executive Jamie Dimon, accusing the nation's largest bank of a "pattern of discrimination" and of denying customers banking services because of political or religious affiliations. In March, 14 Republican state treasurers wrote a similar letter to Mr. Dimon, making the same accusations.

The letters said JPMorgan terminated client accounts due to religious beliefs—which the bank denies—and they also demanded the bank respond to detailed survey questions on issues of concern to conservatives. The survey probes policies around speech freedoms, for example, in a nod to conservatives who believe employees of faith should feel free to express disagreement with workplace priorities such as diversity or climate initiatives they view as progressive.

Continue reading.

The Wall Street Journal

By Jathon Sapsford

May 13, 2023

Paxton and Normangee ISD Announce Settlement with UBS to Compensate School District Over State Pro-Energy Law.

Attorney General Paxton and Normangee Independent School District ("Normangee ISD") announced a settlement with UBS in the amount of $850,000. The settlement resulted from the company's inability to underwrite Normangee ISD's bonds under the terms of a Texas law known as "SB 13," which stipulates the terms on which certain companies can do business with state governmental entities.

"UBS's actions in this case were costly, and it is critical that they compensate Normangee ISD to recover losses. That's exactly what this settlement accomplishes," said Attorney General Paxton. "I remain committed to combatting the corporate ESG investment agenda, shielding taxpayers from the extra costs that come with it by shifting the burden to banks, and protecting Texas energy

companies."

SB 13 requires financial companies who contract with Texas governments to certify that they do not boycott energy companies. UBS certified that it does not boycott energy companies when it entered into a contract to underwrite $18.6 million in bonds to be issued by Normangee ISD.

But the Texas Comptroller placed UBS and several other financial services firms on a list of energy boycotters in August 2022, and the Attorney General's Public Finance Division concurred in that determination, thus disapproving the underwriting contract with Normangee ISD. Through no fault of its own, Normangee ISD then had to re-bid the contract at a higher interest rate, causing it financial harm. Attorney General Paxton then negotiated the settlement with UBS on Normangee ISD's behalf.

May 12, 2023 | Press Release

S&P Cyber Risk Insights: Ongoing Preparedness Is Key To U.S. Power Utilities Keeping Attackers In The Dark

Key Takeaways

- Electric utilities remain attractive targets for malicious actors attempting to access proprietary customer data or cause economic and social disruptions or for financial gain.
- Although we view a utility's compliance with the North American Electric Reliability Corp.'s cyber standards as providing a high degree of protection, we nevertheless believe management teams must continually update practices to address evolving risks.
- To date, cyberattacks and physical attacks have not led to any rating actions in the power utility sector, partly due to utilities' sound risk management practices.
- We believe a successful attack would harm a utility's finances and reputation, which could adversely pressure ratings.

Continue reading.

11 May, 2023

Fitch: EPA Memo Ramps Up Cyber Regulations for Water Utilities

Fitch Ratings-Austin/New York-11 May 2023: The US Environmental Protection Agency's (EPA) requirement that all public water systems incorporate cyber risk and resiliency in their periodic reviews will add an increased regulatory and financial burden, which could be onerous for smaller systems and systems with minimal existing cyber infrastructure, Fitch Ratings says. The requirement could have a significant effect on water utilities' capex budgets, and margins would be pressured if systems are unable or unwilling to pass on the added costs to customers through rate increases.

The EPA's memorandum, which became effective immediately on March 3, 2023, requires states to incorporate a review of cyber resilience in its regular period audits of public water systems (sanitary surveys). Sanitary surveys identify deficiencies that could affect safe water supply, and the EPA is

including cybersecurity as a potential deficiency.

States may now be required to evaluate cybersecurity practices and controls as part of the regulatory requirement to review public water systems' equipment and operations to ensure water supply or safety. A utility must address and correct any cybersecurity deficiency identified by the state. Significant deficiencies could include absence of a practice or control or presence of a vulnerability that has a high risk of being exploited. Should deficiencies not be remedied and result in a breach, Fitch would consider the magnitude of the impact on both finances and operations. Deficiencies may negatively affect our view of management and governance and potentially result in negative rating action if a breach results in weakened financial metrics or supply disruption.

The Cybersecurity and Infrastructure Security Agency is able to help states with risk assessments, but it is not a dedicated resource and ultimately the responsibility will likely fall on states to interpret cyber resilience and remedies, leading to varying approaches.

Given that there was little federal cyber regulation for the sector prior to this memorandum, many utilities will likely have deficiencies cited in sanitary surveys. Water utility operational technology can be quite old and may not be compatible with needed cybersecurity upgrades or software enhancements. We expect water utilities could incur significant costs in the medium term to update systems and upgrade infrastructure to improve cybersecurity.

In the absence of new robust federal appropriation, we expect utilities will pass on costs to customers through rate hikes, where feasible. Smaller utilities with weaker cybersecurity practices and technology may be less able to fully pass on what could be considerable costs, as its customer base could be less able to bear a jump in rates. As a result, margins could suffer, liquidity and leverage could weaken, and negative rating pressure could build.

The EPA points to a few broad resources that are available to help utilities with remediation, but these resources have other funding mandates besides cybersecurity and will only provide some of the resources needed. These include the Drinking Water State Revolving Fund loan fund, EPA's Midsize and Large Drinking Water System Infrastructure Resilience and Sustainability Program, and USDA Rural Utilities Service Water and Environmental Programs loans.

America's Water Infrastructure Act of 2018 (AWIA) requires water systems serving over 3,300 people to assess the risk and resilience of computer systems, but does not provide for any formal review of utilities. The EPA memo, on the other hand, applies to all public water systems. Assessments and emergency response plans under the AWIA may be used to support states' cyber resilience assessments.

In April, Missouri, Arkansas and Iowa filed a petition to have the EPA cybersecurity mandates reviewed in the U.S. Court of Appeals for the Eighth Circuit. These states have concerns with the financial burden presented by the new requirement and argue that EPA does not have authority to expand the scope of existing regulations without Congressional action.

Contacts:

Audra Dickinson
Senior Director, US Public Finance
+1 512 813-5701
Fitch Ratings, Inc.
2600 Via Fortuna
Austin, TX 78746

Omid Rahmani
Associate Director, US Public Finance
+1 512 215-3734

Sarah Repucci
Senior Director, Fitch Wire
Credit Policy – Research
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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 Sector Weighs Procurement Outsourcing.

Facing a shrinking workforce and a largely paper-based procurement processes, more state and local agencies are pushing routine purchasing tasks to third parties.

State and local government procurement shops face increasing pressure to streamline processes, reduce costs and comply with evolving cybersecurity and privacy regulations. As a result, more are turning to outsourcing, according to the report, "2023 ISG Provider Lens Procurement BPO, Transformation and Software Platforms," published by Information Services Group last month.

A few factors are behind that trend, according to Nathan Frey, head of ISG's U.S. public-sector business. They include a need to support a dwindling post-pandemic workforce, an urgent push to digitize largely paper-based procurement processes and greater acceptance of outsourcing by government overall.

Continue reading.

Route Fifty

By Stephanie Kanowitz,
Contributor, GCN

May 12, 2023

Commuters Ditched Public Transit for Work From Home. Now There's a Crisis.

- **Without help, agencies warn of higher fares, service cuts**
- **Top transit systems see total $6.6 billion shortfall by 2026**

The post-pandemic reality for America's public transportation is bleak. Work from home has solidly set in, leaving transit agencies that rely on fare-box revenue facing a fiscal cliff.

As pandemic aid dwindles, the nation's biggest transit systems face a roughly $6.6 billion shortfall through fiscal year 2026, according to a Bloomberg tally of the top eight US transportation agencies based on passenger trips. Rising labor costs and inflation are hitting as farebox revenue stagnates after ridership collapsed. Those eight agencies serve regions that combined contribute about $6 trillion annually to the national economy.

Local officials are pressing for help. Last month, the California Transit Association asked the state for $5.15 billion over the next five fiscal years. Without more money, transit officials across the country warn that the public can expect steep ticket price increases and drastic cuts to train and bus schedules, while long-planned expansion projects are on the chopping block. That pleading worked for New York's Metropolitan Transportation Authority when state lawmakers recently approved a massive bailout.

Continue reading.

Bloomberg CityLab

By Skylar Woodhouse

May 9, 2023

Green Bonds are Ready For a Comeback.

The bond market sneezed in 2022, and green bonds caught the same cold. Fortunately, according to some analysts, green bonds are in the position to rebound this year. In the case of municipal green bonds, that provides new opportunities for cities to make climate-resilient investments in their future, and corporate citizens are among those to reap the benefits.

What are green bonds?

Assets in global sustainable and green bonds reached $516 billion at the end of 2022, an elevenfold increase over the past decade, according to a recent analysis from Morningstar. Verizon, one of the largest corporate green bond issuers in the U.S., made headlines this week with its fifth billion-dollar green bond since 2019.

So, what are green bonds anyway, and why do they matter in the world of finance? As with any bond, green bonds are issued by companies and governments as a way to raise money. Investors purchase the bond, and they're paid back later with interest. But in the case of green and sustainability-linked bonds, the funds are specifically earmarked for projects that positively benefit people and the environment.

Continue reading.

Triple Pundit

by Tina Casey

May 10, 2023

Why Are We Allowing the Private Sector to Take Over Our Public Works?

The Inflation Reduction Act will reshape the physical and economic landscape of the United States over the next decade, including in ways that might surprise a lot of people.

Anyone keen to understand how should look at Brookfield Renewable Partners' recent investment of up to $2 billion in Scout Clean Energy and Standard Solar. B.R.P. is a vehicle of Brookfield Asset Management, a leading global asset management firm, with around $800 billion of assets under management, and it purchased two American developers and owner-operators of wind and solar power-generating facilities. This took place six weeks after President Biden signed the I.R.A. into law.

The I.R.A. will help accelerate the growing private ownership of U.S. infrastructure and, in particular, its concentration among a handful of global asset managers like Brookfield. This is taking the United States into risky territory. The consequences for the public at large, whose well-being depends on the quality and cost of a host of infrastructure-based services, from energy to transportation, are unlikely to be positive.

Continue reading.

The New York Times

By Brett Christophers

May 8, 2023

Munis May Be on the Cusp of a $100B Reinvestment Surge: Bloomberg

The $4 trillion municipal-bond market is on the cusp of a seasonal surge in reinvestment dollars, with more than $100 billion of debt set to mature over the next few months. Shruti Singh reports on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

May 12th, 2023

Muni Market Update (Bloomberg Audio)

Joe Mysak, columnist with Bloomberg News, joins to talk about the muni bond market. Hosted by Paul Sweeney and Madison Mills.

Listen to audio.

Bloomberg Markets

May 12, 2023

How the Flight Into Money Markets Is Impacting Munis.

James Camp, Eagle Asset Management managing director of strategic income, discusses how the flight of cash into money markets has affected the municipal bond market with Romaine Bostick and Scarlet Fu on “Bloomberg Markets: The Close.”

Watch video.

Muni MomentBloomberg Markets: The Close

May 10th, 2023

NASBO Summaries of Fiscal Year 2024 Proposed State Budgets.

View the state budget summaries.

Slowing US State Revenues Put Spotlight on Record Rainy Day Funds.

- **Tax receipts ease as states post best credit quality in years**
- **Post-pandemic rebound, federal aid helped states’ finances**

Record reserve funds built by US states in the past two years are likely to be needed as tax receipts slow, federal pandemic aid dwindles and the economy heads toward a recession.

California already is projecting a massive deficit for next year and Illinois posted a “stunning” $1.84 billion drop in April receipts from a year ago. The National Association of State Budget Officers says most states are planning for softer revenue growth or slight declines for fiscal 2023 and 2024, after double-digit percentage increases for two consecutive years.

Overall states’ tax revenue growth is poised to decrease to between 0% and 5% from as high as 20% in each of the last two years, Nicholas Samuels, a senior vice president for Moody’s Investors Service, said in an emailed statement Wednesday.

Continue reading.

Bloomberg Politics

By Shruti Singh

May 4, 2023

S&P: Reliable Funding Continues To Support Stable GARVEE Sector View Amid Stubborn Construction Cost Inflation

Key Takeaways

- With most grant anticipation revenue vehicle (GARVEE) ratings in the 'AA' category, S&P Global Ratings views the federal-grant-secured transportation sector as stable, reflecting our expectation of reliable funding and continued strong support for transportation infrastructure investment across all levels of government.
- Funding from the Infrastructure Investment and Jobs Act (IIJA; also known as the Bipartisan Infrastructure Law) in federal fiscal 2022 totaled $58.2 billion for the Federal-Aid Highway Program and $13.4 billion for transit formula grant programs sourced from the Highway Trust Fund. Based on estimates of outlays, the fund is projected to be exhausted in 2026.
- Construction project cost inflation and labor shortages continue to erode the anticipated benefits of IIJA funding, with overall construction input prices 38.2% higher in March 2023 than in January 2020 and down just 0.9% from last year.
- Our AA+/A-1+/Stable U.S. sovereign credit rating is linked to both stand-alone GARVEE ratings and those backstopped GARVEE ratings that benefit from an additional pledged security such as state gas taxes.
- Our analysis of key financial metrics for fiscal 2022 shows that GARVEE programs have very strong maximum annual debt service coverage that we do not expect will materially erode as states and regional transportation agencies potentially issue more debt to maintain and expand investment in roads and transit.

Continue reading.

27 Apr, 2023

S&P U.S. Not-For-Profit Health Care Rating Actions, April 2023.

S&P Global Ratings maintained 20 ratings without revising the outlooks, took seven negative and one positive rating actions, and revised two outlooks unfavorably and two outlooks favorably without changing the ratings in the U.S. not-for-profit health care sector in April.

Included in the seven negative rating actions was Beverly Community Hospital, Calif. that was downgraded, placed on CreditWatch with negative implications, and subsequently downgraded again after it filed for bankruptcy and missed a payment to the trustee on its series 2017 bonds. In addition (and excluding any corresponding rating action), we removed two issuers from CreditWatch and placed a third on CreditWatch with negative implications. There were six new sale issuances in the month, with five ratings and outlooks unchanged, and one issuer that had a corresponding upgrade.

Continue reading.

4 May, 2023

S&P U.S. Municipal Water And Sewer Utilities Rating Actions, First Quarter 2023.

Overview

S&P Global Ratings performed 16 rating actions, 29 outlook revisions, and 14 CreditWatch actions within the U.S. municipal water and sewer utilities sector in first-quarter 2023. Seventy-four ratings were maintained with no outlook revisions. While one rating was removed from CreditWatch, we placed 13 on CreditWatch with negative implications.

Continue reading.

2 May, 2023

Evolution of State of the Art Airports and the Role of Public Private Partnerships: Squire Patton Boggs

Walking through LaGuardia Airport in 2023, you might forget that just a few years ago the terminals were woefully out of date. Featuring leaky roofs and cramped waiting areas, the Wall Street Journal commented that the old terminal B at LaGuardia was "possibly the worst major airport in the world." To combat its woeful reputation, in 2015, the Port Authority of New York and New Jersey (the "Port Authority") unveiled a Vision Plan for its redevelopment that included two new state-of-the-art terminals and significant public and private cooperation. Eight years and $8 billion later, LaGuardia now gleams as a beacon of modernity. In 2023, LaGuardia Airport's Terminal B was named the world's best new terminal and achieved the highest global 5-Star Airport Terminal Rating from Skytrax, the international transport rating organization.

LaGuardia's transformation is just one of several new airport "glow ups" that are largely the product of the industry's growing embrace of public private partnerships (also known as "P3s"). For instance, LaGuardia's Terminal B, commenced in June 2016 and completed in January 2022, was part of a P3 between the Port Authority and LaGuardia Gateway Partners ("LGP") through a Design-Build-Finance-Operate-Maintain model. The $4 billion Terminal B included 35 gates, two island concourses and dual pedestrian sky bridges, and was financed through a mix of approximately $2.5 billion special facilities revenue bonds issued by New York State Transportation Development Corp. ("TDC"), $1.5 billion in Port Authority funds and $200 million in equity from LGP. LaGuardia's Terminal C, which replaced Delta Air Lines' ("Delta") existing C and D Terminals, broke ground in July 2017 and was opened in June 2022 through a P3 between the Port Authority and Delta. Terminal C included 37 gates across four concourses and the largest Delta Sky Club within the airline's system. Terminal C's $4 billion price tag was financed through approximately $2.89 billion in TDC's special facilities revenue bonds, $500 million from the Port Authority and the remainder financed by Delta. In addition, the Kansas City International Airport recently unveiled a new, 40-gate terminal featuring a modern environment with dedicated arrival and departure levels, covered parking in an adjacent garage, moving walkways and consolidated security checkpoints. This $1.5 billion project is the result of a design-build joint venture team including The Weitz Company and Clarkson Construction Company. In addition, there are several P3s that are currently under construction including, the Los Angeles International Airport Automated People Mover Project ("LAX APM") and the ongoing transformation of JFK Terminal 1, Terminal 4 and Terminal 6.

Continue reading.

Squire Patton Boggs – Alethia N. Nancoo, Catherine Z. Romanchek, Taylor L. Klavan and Jessica Ice

May 4 2023

Using Public-Private Partnerships For Social Infrastructure.

Public-private partnerships (PPPs) have emerged as a popular mechanism for funding and developing infrastructure projects around the world. In recent years, these partnerships have extended beyond traditional transportation and utility projects to encompass social infrastructure. This trend reflects the growing recognition that social infrastructure, including schools, hospitals and community centers, play a critical role in promoting economic development and improving quality of life. By leveraging the resources of both the public and private sectors, PPPs can help to optimize the provision of social infrastructure while reducing the burden on public budgets.

During my time as the CEO of a public-private partnership (P3) development firm and national policy advisor on P3s, I've seen firsthand how public-private partnerships can help improve social infrastructure, but I've also seen instances where it may not be the best solution.

PPPs involve the collaboration between the public and private sectors to build and operate infrastructure projects. The public sector retains ownership and control of the assets, while the private sector provides financing, construction and/or management services. PPPs can be structured in a variety of ways, including build-operate-transfer (BOT), build-own-operate (BOO) and design-build-finance-operate (DBFO). In any case, the partnerships are typically established through a competitive bidding process to ensure accountability and the best value for taxpayers.

Continue reading.

Forbes

by Dee Brown

May 5, 2023

Muni Market Update (Bloomberg Audio)

Joe Mysak, editor of the Muni Market Brief, joins the program to discuss everything going on in the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

May 05, 2023

S&P: U.S. States' Fiscal 2024 Budgets Expected To Weather Economic

Uncertainty

Key Takeaways

- Even with our expectation of slower revenue growth, most fiscal 2024 U.S. states' budgets are structurally balanced, in our view, with minimal use of reserves.
- Strong reserve levels position states to address the projected shallow recession in fiscal 2024.
- Tax relief and other budget priorities demonstrate competition for future growth amid slowing demographic trends.

Continue reading.

27 Apr, 2023

Traditional Municipal Bond Concepts and New ESG Concepts Collide in a Village Outside of Chicago: McNeese

The world of municipal bonds tends to be conservative in nature and slow to change. The ESG movement (environmental, social, governance) presents a new way of looking at things that can cause confusion and even shock when it bumps up against traditional concepts. This was the case in the municipality of Bolingbrook, an Illinois village 36 miles southwest of Chicago.

A municipality's ability to incur debt generally is governed by state law. The security pledged by the municipality in support of the debt will vary, but commonly will fit within one of the following categories:

General Obligation Bonds. Often issued to finance general capital projects such as roads, bridges and public buildings, general obligation bonds are backed by a pledge by the municipality of its "full faith and credit" and a pledge of its taxing power. In an event of default, bondholders may ask a court to force the municipality to use its general funds, or to raise its real estate taxes, in an amount sufficient to pay the bonds.

Limited Tax or Revenue Bonds. Often issued to finance specific commercial or industrial development, such as a shopping mall or public utility infrastructure, limited tax or revenue bonds are secured by a pledge of only the revenues derived from a specific tax or revenue source. In an event of default, bondholders are limited to seeking repayment from the tax or revenue stream that was pledged by the municipality.

As an outgrowth over concerns about climate change and the general environmental health of the planet, the securities business, which is always concerned with risk, wants environmental risks to be analyzed and disclosed in connection with the sale of securities. Many investors are concerned not only with these risks but also with whether the issuer of securities is using the proceeds of the securities to undertake environmentally beneficial projects. For other investors, socially responsible investing has become a key component of their portfolios. These concerns have resulted in the development, first in Europe and now in the United States, of "ESG" concepts – investing with an eye toward environmental, social and governance impacts.

A full discussion and analysis of ESG is beyond the scope of this article. But, a few key points to keep in mind: first, ESG is not specifically defined – efforts to do so are ongoing, including by securities regulators. In the meantime, many concepts, some sound and some less so, have found their way

under the ESG umbrella. Second, ESG has become a political football. From the right are claims that ESG is just an excuse for advancing progressive goals and will result in lower returns for investors. From the left are claims that the right is smearing ESG as a means to avoid favored industries being held to account for the environmental impacts of their businesses. Third, as amorphous as the environmental concepts are, the social and governance concepts are even more so.

With the understanding that ESG remains in flux, let's look at what happened to Bolingbrook. In 2005, the Village issued it $47,715,937.70 Sales Tax Revenue Bonds, Series 2005 (the "2005 Bonds"). The 2005 Bonds were issued to finance a commercial and retail development featuring well-known retail and commercial stores. While the Village has issued general obligation bonds over the years, and carried a very high "AA" credit rating from S&P on those bonds, the Village issued the 2005 Bonds as limited tax revenue bonds, secured solely by the sales tax revenues generated by the stores located in the development. The 2005 Bonds were not backed by the Village's full faith and credit, and did not carry a rating from S&P or any other rating agency.

The 2005 Bonds were clearly marketed and sold as limited obligations with a higher degree of investment risk. The Limited Offering Memorandum dated December 14, 2005, pursuant to which the 2005 Bonds were sold, states in several places that the 2005 Bonds are limited obligations of the Village payable only from the specific home rule sales tax revenues pledged to secure the 2005 Bonds, and that neither the full faith and credit nor the general taxing power of the Village is pledged for the payment of the 2005 Bonds. It goes on to state that the 2005 Bondholders do not have the right to compel the exercise of any taxing power of the Village, other than the pledge of the home rule sales tax.

The project did not generate the anticipated level of sales tax revenues to pay debt service on the 2005 Bonds. As a result, the Village defaulted on the payment of the 2005 Bonds. The Village did not default on its general obligation bonds, which continued to be paid as and when due.

On January 26, 2023, S&P, in response to the 2005 Bonds default, downgraded the Village's rating on its general obligation bonds by seven notches, from "AA" to "BBB-". Why would S&P dramatically downgrade the Village's general obligation bonds, when the Village had not defaulted on their payment and had no legal obligation make up the difference on the amounts owed on the 2005 Bonds?

From the viewpoint of traditional municipal bond concepts, however, this downgrade doesn't make sense. The 2005 Bonds were sold with a structure under which the debt was payable solely from one source – the sales tax revenue. The risk was obvious and well-disclosed to potential purchasers that that if the sales tax revenues were insufficient, the debt service would not be paid. The Village has no legal obligation to use other revenues to pay this debt. S&P does not claim that the Village has a legal obligation to do so.

S&P's justification for the downgrade lies in its ESG approach, specifically, the governance component. S&P noted in its report accompanying the downgrade that "the lack of action from the village to address the default … is a risk management, culture, and oversight weakness under governance risk in our environmental, social, and governance framework." S&P further stated in the case of such a determination, it will cap the issuer's rating at BBB-.

S&P also emphasized in its report that the Village's "financial profile remains very strong, supported by strong annual operating surpluses backed by a very strong fund balance and liquidity position. Additionally, the village has an overall growing tax base that is benefiting from its location in the Chicagoland metropolitan statistical area (MSA)." In other words, the Village is a rich municipality which can afford to make the payment from non-sales tax revenues, therefore it should make it even

though it is not legally required to do so. S&P also criticized the Village for "taking on a financing that it would not support in the event of a default."

S&P's downgrade determination raises many questions and concerns for other municipalities that have issued limited tax revenue bonds in addition to their general obligation bonds. Are additional disclosures now required when such municipalities issue general obligation bonds? And, for that matter, what would such a disclosure look like?

We may soon see offering documents that contain a statement similar to the following: "In addition to its general obligation debt, the issuer from time to time issues limited obligation debt. It is possible that, at some point in the future, the issuer's general obligation bonds may be downgraded because of a payment problem with the limited obligation debt. This may be particularly true if the issuer holds a substantial rainy day fund and is otherwise doing well financially." As nonsensical as this may sound, recall that the Village's rosy financial picture was cited as a contributing factor for the downgrade.

Finally, from a very basic viewpoint, it is worth questioning what really is "good management" by a municipality. For Bolingbrook, "good management" (at least in S&P's view) meant paying debts that the Village was not legally obligated to pay. However, is it reasonable for a governing body elected by (and accountable to) the citizenry to use those citizens' tax dollars to pay limited obligation debt intended to benefit retail and commercial stores? And, for that matter, is it reasonable to expect an employee to recommend that such a non-required payment be made?

If "good management" is instead defined to mean proper stewardship of the public coffers, we think many municipalities would choose to follow Bolingbrook's approach.

by Timothy J. Horstmann and David Unkovic

27 April 2023

McNees Wallace & Nurick

Charter School Debt Seen as Insulated From Looming Recession.

- **Bonds backed by tourism, project revenues more susceptible**
- **No first-time payment defaults among charters year to date**

With angst about the health of the economy rising, portfolio managers are focusing on sectors that are shielded from a broad market downturn.

In general, municipal bonds tend to attract buyers in times of economic uncertainty as investors flock to haven assets. Still, some sectors within the $4 trillion market, like those tied to tourism, are more susceptible to slowdowns in spending. With that in mind, charter school and higher education debt should be near the top of investors' lists for those willing to inch down the credit spectrum, according to portfolio managers.

"The predominant funding source for charter schools is state aid," said Yaffa Rattner, head of municipal credit at Hilltop Securities Inc. "As long as the states remain relatively liquid and their budgets are stable, there isn't significant pressure on them to reduce funding."

Continue reading.

Bloomberg Markets

By Nic Querolo

April 24, 2023

Already-Lagging Junk Hospital Bonds Face Looming Medicaid Test.

- **High-yield muni index rallied 3.4% while hospital debt up 0.5%**
- **Millions likely to lose coverage in Medicaid enrollment change**

The already battered health-care industry faces another blow as Medicaid changes threaten to add more pressure on an industry still struggling to recover from the coronavirus pandemic.

The Bloomberg High-Yield Hospital Index is the worst-performing sector of the junk-rated corner of the $4 trillion muni market so far this year. The benchmark, which includes bonds sold by hospitals and retirement communities in addition to nursing and assisted-living facilities, has inched up just 0.5% this year, after a 14% loss in 2022. That's a drastic under-performance compared to the broader high-yield muni index, which has rallied 3.4% this year.

The hospital and health-care sectors continue to endure negative operating margins on higher cost of goods, labor shortages and strained patient volumes. That pressure is reflected in junk bonds as well as debt higher up on the rating spectrum, with Bank of America Corp. research earlier this month attributing the widening of BBB spreads largely to hospitals. Three rating companies, Moody's Investors Service, S&P Global Ratings and Fitch Ratings, have negative or equivalent outlooks on the not-for-profit hospital sector.

Continue reading.

Bloomberg Markets

By Shruti Singh and Lauren Coleman-Lochner

April 26, 2023

S&P U.S. Not-For-Profit Health Care Rating Actions, March And First Quarter 2023.

S&P Global Ratings maintained 24 ratings without revising the outlooks, took eight negative and two positive rating actions, and revised six outlooks unfavorably and one outlook favorably without changing the ratings in the U.S. not-for-profit health care sector in March.

Included in the eight negative rating actions was one issuer that was downgraded and placed on CreditWatch Negative. There were four new issuances in the month, with three ratings and outlooks unchanged and one rating lowered.

The 17 rating actions consist of the following:

- Eight downgrades on two health care systems and six stand-alone hospitals, five of which are now in the 'BBB' and speculative grade categories;
- Two upgrades due to the application of multiple revenue stream and guarantee criteria;
- Six unfavorable outlook revisions divided evenly between stand-alone hospitals and health care systems, also mostly in the 'BBB' and speculative grade categories. Five outlooks were revised to negative from stable, and one to stable from positive; and
- One favorable outlook revision to positive from stable on a stand-alone hospital in Maryland (Mercy Health Services).

Continue reading.

25 Apr, 2023

Fitch Ratings Updates Public Sector, Revenue-Supported Entities Rating Criteria; Adds CDFI Guidance

Fitch Ratings-New York-27 April 2023: Fitch Ratings has updated the Public Sector, Revenue-Supported Entities Rating Criteria report (the Revenue Master Criteria.

Principal among the updates is the inclusion of a new appendix providing additional clarity, transparency and guidance for assessing U.S. Community Development Financial Institutions (CDFIs) within the methodological framework of the Revenue Master Criteria. Specifically, the appendix introduces and/or expands on the following aspects of Fitch's approach to assigning ratings to CDFIs:

–The key rating drivers; revenue defensibility, operating risk, and financial profile;
–Individual assessments for evaluating each key rating driver;
–A more detailed rating positioning table that aligns financial profile with business risk;
–Detailed key metrics and ratios for determining assessments and ratings.

CDFIs that fall within the scope of the Revenue Master Criteria are typically organizations classified as tax-exempt by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code (e.g., not-for-profit CDFI loan funds) but which are not covered by sector-specific criteria.

The remaining updates to the criteria are mostly clarifying and editorial in nature. None of the revisions, including the new CDFI appendix, will have an impact on existing ratings.

The updated criteria report replaces the criteria report of the same name dated Feb. 23, 2021 and is available at www.fitchratings.com. The previous version of the criteria has been retired.

Contacts:

Dennis Pidherny
Managing Director
Fitch Ratings, Inc.
+1-212-908-0738
300 West 57th Street
New York, NY 10019

Karen Fitzgerald
Senior Director
+1-415-796-9959

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

S&P: Advisory Firms Pitch Community Banks on Interest Rate Risk Management Services

Advisory firms are pitching their services to small financial institutions seeking to manage interest rate risk on their balance sheets.

Amid the recent bank turmoil, more clients are hedging their portfolios against duration, in part because the cost of duration hedging has come down, advisers said in interviews. Hedging against duration is a strategy to reduce a portfolio's interest rate risk, as the longer a bond's duration is, the more sensitive it is to rate changes. Other steps to consider are pledging collateral to federal agencies to generate liquidity and building bond portfolios with laddered maturities, the advisers added.

Yet while lending institutions of all sizes face similar challenges, small banks often lack the tools to navigate the uncertain environment as well as bigger competitors, Derivative Path Inc. Head of Balance Sheet Strategy Isaac Wheeler said in an interview.

"I think community banks kind of drew the short straw," Wheeler said. "Even for our clients that do a good job of managing interest rate risk and have active hedging programs, they're not always as active as maybe a really large institution would be, just because they don't have the internal resources or the bandwidth to manage the hedging programs."

Minimizing rate risk

Banks should aim to build a laddered portfolio, composed of fixed-income securities with different maturity dates, Charles McQueen, president and CEO of McQueen Financial Advisors II Inc. said. The advisory firm launched new outsourced chief investment officer management services at the end of March to help clients manage their investment portfolios, providing guidance on governance, investment, spending, board education, setting long-term targets and portfolio review.

While a laddered portfolio might sacrifice some yield, it will be safer in the long run, McQueen said. Financial institutions that opt to sell securities should get multiple bids from brokerage firms of varying specialties and disciplines first. The problem, he added, is that many financial institutions are not well-versed in the sales process.

"They're just going to one broker who might not even specialize in the type of product they're trying to sell and they're getting terrible bids," McQueen said.

After Silicon Valley Bank's demise, banks are as hesitant as ever to make significant investments in bonds. Silicon Valley had high levels of uninsured deposits and deployed many of the funds into the bond market when interest rates were low. The value of the bonds the bank purchased came under

pressure after interest rates rose significantly. The underwater portfolio reduced the bank's access to liquidity when deposit outflows accelerated, and concerns about Silicon Valley's ability to meet customer demands for cash culminated in a run and the second-largest bank failure in US history.

Counterintuitive as it may seem, banks should buy longer-duration bonds while rates are up, Artisan Advisors LLC founder and managing partner Jeff Voss said in an interview. Banks that lock in asset yields on the funding cost side as Fed rate hikes continue can position themselves to take advantage when rates come back down, Voss said.

Additionally, banks can create liquidity sources in their bond portfolio by pledging collateral value to institutions like the Federal Home Loan Bank or the Federal Reserve, Voss said.

"If nothing else," he added, "they've got that set aside in a time of need."

Banks can also use derivatives to synthetically shorten the duration of fixed-rate assets such as municipal bonds or mortgage-backed securities, providing a benefit if interest rates rise, Chatham Financial Corp. managing director Todd Cuppia said in an interview.

"The bank could use a pay-fixed interest rate swap to hedge the market value sensitivity of fixed-rate assets," Cuppia said. "As interest rates rise, the fixed-rate bonds will decline in value, while the pay-fixed swap increases in value."

Other risks

Beyond bond portfolio risks, another concern for banks might be the falling value of long-duration, fixed-rate lending portfolios, both Voss and Wheeler said.

"I guarantee you if they're doing fixed-rate lending, the value of those portfolios is falling considerably," Voss said.

Perception risks can also crop up in moments of crisis in the broader industry, Darling Consulting Group Inc. President and CEO Matt Pieniazek said in an interview. Banks must clearly communicate why unrealized losses and security sales are not a sign of weakness, he added.

"Given what I call the March Madness in banking that took place last month, you'd better have a good story," Pieniazek said.

by Alex Graf

28 Apr, 2023

Muni Outlook for 2023 (Bloomberg Audio)

Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, joins the program to discuss everything going on in the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Apr 28, 2023

Why Muni Managers Are So Bullish.

“Credit quality right now is the strongest I have ever seen it,” Tom Kozlik, Hilltop Securities head of public policy and municipal strategy, says on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

April 26th, 2023, 12:48 PM PDT

High-Yield Muni Bonds: Risk With Plenty of Tax-Free Rewards.

Historically, the municipal bond market has been a steady-eddy performer for many investors. Thanks to the fact that they are free from Federal taxes, and in some instances state and local taxes as well, munis are often seen as a way for higher income or high-tax-bracket investors to get much-needed income. Add in their relatively low default rates and it’s easy to see why munis form the backbone of many investors’ taxable accounts.

But not all munis are “boring” and steady-eddy; some can even add a bit of spice to portfolios.

High-yield or junk municipal bonds are just such a security. Featuring low correlation to other bonds and tax-equivalent yields close to 9%, the rewards may outweigh the risks. For investors, adding a swath of high-yield munis to a portfolio could make a ton of sense.

The Other Side of the Tracks

Most investors are familiar with investment-grade municipal bonds, and the bulk of the $4 trillion municipal bond market sits firmly in this category. Munis are issued by state and local governments to run their day-to-day operations, raise money for essential services or build a non-revenue generating project like a park or painting a mural downtown. These are general obligation bonds (GOs) and, once issued, they go into the state or local government’s coffers. And because GOs are backed by taxes – and the state/local government’s ability to raise those taxes – many munis fall under the investment-grade banner.

But not all munis are investment grade. Some carry more risk and fall within the high-yield or junk category. For starters, not all local governments have stable finances – be it from poor economic conditions or too much issued debt overall, cities and local governments could have lower credit ratings.

The other form of high-yield muni debt, and also the largest category, is so-called revenue-backed and project bonds. These are projects that have “an element of essential service that is financially independent from the city, county or state they serve,” as defined by investment manager and muni specialist Nuveen. For example, a sports stadium, a public hospital, or light-rail system.

These munis and their potential for repayment are driven by the revenues generated by the project. Tobacco settlement bonds often fall under the high-yield category as well. Because of this, project bonds will often have lower credit ratings than the underlying state/local issuer. Thus, they pay higher yields.

Some Risk, But Plenty of Rewards

As expected, project-tied and high-yield munis have a higher default rate than their tax-backed investment-grade cousins. According to Moody's, 6.94% of all high-yield municipal bonds defaulted within ten years of their issuance between 1970 and 2021. This contrasts to only 0.9% of investment-grade municipal bonds during that time. The kicker is that the default rate for high-yield munis is much less than corporate junk bonds. Nearly 30% of corporate junk bonds defaulted during the same time period.

On the back of lower defaults versus regular junk bonds, you get a similar yield profile. Historically, high-yield munis have offered a similar tax-equivalent yield to those of junks bonds, particularly for those investors in higher tax brackets. For someone in the highest tax bracket, the 5.45% current yield on high-yield munis is roughly equal to the 9% on regular junk bonds.

Secondly, high-yield munis offer low correlation to junk bonds and other high-yield debt securities. According to Nuveen, high-yield munis have just a 0.5 correlation to junk bonds, a 0.42 correlation to the broader investment-grade bond market, and only a 0.34 correlation to mortgage-backed bonds. As for stocks, they have just a 0.28 correlation to the S&P 500. These low correlations provide plenty of diversification benefits.

Finally, high-yield munis have been pretty good on the total returns front as well. Over the last decade, the sector has managed to produce a 6.54% annual return for someone in the 32% tax bracket. That's not too shabby for a fixed income investment.

Adding a Dose of High-Yield Munis

Now, there is one caveat with regards to high-yield munis, and that is the so-called alternative minimum tax (AMT). Some high-yield munis will qualify for the tax system, with 2017 tax rules raising the AMT threshold to $1,079,800 for 2023 for married couples filing jointly. As a result, that higher threshold leaves regular investors immune to AMT.

With the benefits, high-yield munis could be a great portfolio addition. Just like regular munis, buying individual bonds can be a daunting task. So, funds and ETFs are the answer.

For index fund seekers, the SPDR Nuveen Bloomberg Barclays High Yield Municipal Bond ETF (HYMB) and VanEck Vectors High Yield Municipal Index ETF (HYD) are the two of largest funds in the category and offer exposure to hundreds of different high-yield muni bonds. With yields north of 5% and low costs, they could be all investors need.

However, the high-yield space is one area in which active management really makes a difference. Analyzing the revenue trends that affect payment of these bonds can unearth opportunities. Funds like the Lord Abbett High Yield Municipal Bond Fund (HYMAX) or PIMCO High Yield Municipal Bond Fund (PHMIX) could make sector-beating options for fixed income investors.

All in all, high-yield munis represent an under-utilized bond variety that can be used to boost income on an after-tax basis. While there is risk, the rewards are numerous.

dividend.com

by Aaron Levitt

Apr 26, 2023

Closed-End Bond Funds Are Selling at Steep Discounts. Moves to Make Now.

Leverage helps on the way up, but hurts on the way down, amplifying both gains and losses. That's what closed-end bond fund investors learned the hard way in 2022.

Last year, Barron'swarned of the "debt time bomb" inside such funds as interest rates rose. Bond prices move inversely with rates, and leverage made things worse, with the market prices of some levered bond closed-ends such as Pioneer Municipal High Income Opportunities (ticker: MIO) falling by almost 40% last year. (The funds typically trade at premiums or discounts to their underlying net asset values.)

Many bond strategists now think we are close to peak interest rates, which should presage an upturn for leveraged closed-end bond funds. Not only will their leveraged portfolios amplify gains as rates stabilize—and fall during a likely recession—but their leverage costs will decline.

Continue reading.

Barron's

By Lewis Braham

April 26, 2023

When to Consider Munis From Outside Your Home State.

A major benefit of municipal bonds, or "munis," is that the interest they pay is generally exempt from federal income taxes. They're also generally exempt from state income taxes if the issuer is from the investor's home state. That may seem like a compelling argument for sticking with in-state munis. However, many muni investors may benefit by diversifying outside of their home state, even if it results in a higher state tax bill. We've identified five factors when it could make sense to consider munis from other states. After considering all five, we think that muni investors in all states, with the exception of two high-tax states—California and New York—could benefit from investing in a national, not state-specific, portfolio of muni bonds. Even investors in California who are not in a high state tax bracket could achieve higher after-tax yields by diversifying nationally.

1. You live in a state with low or no state income tax
If you live in a state with low or no state income tax, you will likely benefit from diversifying your muni portfolio with munis from issuers outside your home state. The map below shows the maximum marginal income tax rate by state for married taxpayers filing jointly.

Continue reading.

by Cooper Howard of Charles Schwab, 4/28/23

advisorperspectives.com

Wall Street Boosts States' Credit Scores as Recession Worries Cloud Outlook.

- **Upgrades from Illinois to New Jersey show how US aid helped**
- **Analysts say a deep economic contraction would darken outlook**

The flood of US pandemic aid that flowed into state treasuries helped balance budgets and raise bond ratings. Now the question is whether a recession will halt states' financial progress.

"If we have a very deep and sustained recession, we might see the credit quality or the ratings being adjusted," said Dora Lee, director of research for Belle Haven Investments. "If we have a pretty mild recession, it is highly unlikely that these upgrades will be reversed."

Illinois, Massachusetts and New Jersey this year have garnered higher credit scores from rating companies, including brighter outlooks for the states as well. The upgrades also helped shrink bond yield spreads in the primary and secondary municipal markets, signaling investor perception of state debt is improving.

Continue reading.

Bloomberg CityLab

By Skylar Woodhouse

April 19, 2023

How an Auditor Shortage Could Hurt Local Governments.

Fewer auditors have led to a lag in financial reporting and is threatening to translate into more costs for governments.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this week I'm writing about a new, potentially harmful development regarding the staffing shortages in public finance.

It's no surprise to anyone at this point that local governments are struggling to find workers. But finance departments are especially hard-hit when it comes to brain drain. A National Association of State Treasurers study found that 60% of public finance workers are over 45 while less than 20% are younger than 35.

The private sector is facing similar issues. According to the American Institute of Certified Public Accountants (AICPA), the accounting profession has an acute shortage of workers as the population of graduates with accounting degrees has declined over the years.

Continue reading.

Route Fifty

by Liz Farmer

April 18, 2023

Accountant Shortage Leaves Some US Cities Without Credit Ratings.

- **S&P withdrew ratings on 64 local governments, utility systems**
- **Missing ratings are worrisome with economic headwinds ahead**

The municipality of Marion had planned to finance a new $10 million firehouse with a bond deal later this year, but that project and others are on pause because the city north of Columbus, Ohio, doesn't have a credit rating.

It was among the 64 local governments and utility systems that S&P Global Ratings withdrew ratings for this month for failing to file financial information on time. In March, the company put Marion and 148 other entities on a negative credit watch.

The withdrawal is "catastrophic," said Miranda Meginness, Marion's auditor. "It's hard for us to figure out how to go forward."

A growing shortage of accountants has exacerbated issues for Marion and plagued dozens of cities and counties across the US. Marion saw its general obligation debt rating downgraded two notches in June and has struggled to file its financials on time. Other municipalities have recently seen their bond ratings deteriorate or disappear, threatening their ability to finance projects and borrow at affordable interest rates.

Continue reading.

Bloomberg Business

By Nic Querolo

April 21, 2023

S&P: Not-For-Profit Utilities' Broadband Investments Require Enhanced Risk Management

Key Takeaways

- U.S. public power and electric cooperative utilities operating a competitive broadband business generally maintain 'A' category ratings, in line with the broader sector's modal rating category.
- Key broadband operating risks include competing with incumbent providers, technological obsolescence, and limited revenue raising flexibility, which can lead to cash infusions and weaken a utility's finances.
- We expect federal funding will jump-start broadband service to underserved areas, but credit quality could be pressured if broadband investment needed to complement federal funding weakens financial performance.
- Robust financial profiles and strong risk management practices can offset risks posed by broadband investment and support credit quality.

Continue reading.

17 Apr, 2023

S&P U.S. Charter Schools Rating Actions, First-Quarter 2023.

View the rating actions.

18 Apr, 2023

S&P U.S. Higher Education Rating Actions, First-Quarter 2023.

View the rating actions.

18 Apr, 2023

S&P U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of March 31, 2023.

View the ratings and outlooks.

19 Apr, 2023

Cities Look to Solve the ConstructionLabor Shortage.

Under a new program with the Labor Department, a dozen cities will work with federal experts to come up with plans to find much-needed infrastructure workers.

With the need for infrastructure workers about to explode as cities and states begin spending the billions of dollars allocated in recent federal laws, an association representing the nation's cities is trying to deal with the existing shortage of workers in the industry.

The National League of Cities estimates that the U.S. has a shortage of 1 million construction workers. So in a partnership with the U.S. Department of Labor, the group is launching what's called the Good Jobs, Great Cities Academy in an effort to find the workers needed to maintain the roads, bridges, buildings and water lines that will be built with the funds.

NLC and the Labor Department will pick 12 cities to work with federal experts from various agencies to come up with plans to find these workers.

Continue reading.

ROUTE FIFTY

BY KERY MURAKAMI

APRIL 21, 2023

MSRB First Quarter 2023 Municipal Securities Market Summary.

MSRB quarterly market summaries discuss key developments in yields, trading volume, new issuance, and mutual fund flows in the municipal bond market.

Read More.

Publication date: 04/20/2023

New Federal Program to Help Cities Plan 'Thriving Neighborhoods'.

The U.S. Department of Transportation announced an award of $21 million for 64 communities to coordinate transit, mobility, and land-use plans and navigate infrastructure funding opportunities.

In Brief:

- The Thriving Communities Program provides technical assistance to urban, rural and tribal communities for transportation and land-use planning.
- The Department of Transportation announced 64 communities will receive support in the first year.
- $21 million will be distributed to four teams of "capacity builder" organizations, including planning consultants, transportation experts and environmental nonprofits.

Continue reading.

governing.com

by Jared Brey

April 21, 2023

Long-Term Municipal Bonds May Yield Up to 5% After Taxes. How to Invest.

Municipal bonds, along with the entire fixed-income world, faltered last year as the Federal Reserve raised interest rates aggressively to fight inflation. But munis, up around 2% on average this year, are recovering. Some analysts think there's still value in the space, especially in longer-dated bonds.

"The real opportunity is beyond 10 years," says Duane McAllister, co-head of the muni team at Baird Advisors, referring to bonds maturing in 10 to 30 years.

Munis hold appeal for investors in high tax brackets, since their interest is exempt from federal taxation and may be exempt from state or local taxes, if you live in a state that issues the bonds. For example, a AAA-rated muni yielding 3.5% would have a tax-equivalent yield of 5.22% at a 33% federal rate for a head-of-household filer, according to Bankrate. At a 28% tax rate, the yield falls to 4.86%.

Continue reading.

Barron’s

By Lawrence C. Strauss

April 20, 2023

Compass Point Upgrades MBIA Stock to ‘Buy’ Rating: Positive Turning Point for Bond Insurer

Compass Point, a financial services firm based in Washington DC, has recently upgraded &MBIA (NYSE:MBI) stock from a “neutral” rating to a “buy” rating in a report released last Friday. This move has generated a great deal of buzz within the investment community as it represents an important turning point in the company’s prospects.

For those unfamiliar with MBIA, it is one of the largest bond insurers in the United States, providing financial guarantees for municipal and government-issued bonds. The company has gone through a number of challenging years and suffered significant losses during the 2008 financial crisis. However, recent developments have provided reason for optimism among investors.

The upgrade by Compass Point reflects improvements in MBIA’s balance sheet, which had been under pressure due to legacy issues from prior business activities. Under new management, MBIA has worked hard to address these challenges and streamline operations while also diversifying its revenue streams.

In addition to addressing legacy issues, MBIA has made strategic investments that are already paying off. For instance, the company acquired Athena Art Finance Corporation last year which provides specialty financing solutions for high-value art collections. This acquisition has not only added another source of revenue but also better positioned MBIA within the competitive finance industry.

Investors have taken notice of these positive developments and appear confident that they will continue to drive growth for MBIA going forward. Shares of the company have steadily appreciated since February when its Q4 2020 earnings report was released, showing improved profitability and return on equity.

While there are still challenges ahead for MBIA as it continues to navigate complex legal issues related to past business practices, Compass Point’s upgrade suggests that investors believe these risks are manageable and outweighed by potential rewards.

Overall, with favorable market conditions coupled with strategic management decisions and operational improvements made by MBIA executives over recent years — this latest development suggests that things are looking up for what was once a beleaguered bond insurer. Investors will want to stay tuned to see how things play out in months and years ahead as MBIA continues to rebuild its reputation and navigate the complex world of finance.

beststocks.com

by Elaine Mendonça

April 22, 2023

Long-Term Municipal Bonds May Yield Up to 5% After Taxes. How to Invest.

Municipal bonds, along with the entire fixed-income world, faltered last year as the Federal Reserve raised interest rates aggressively to fight inflation. But munis, up around 2% on average this year, are recovering. Some analysts think there's still value in the space, especially in longer-dated bonds.

"The real opportunity is beyond 10 years," says Duane McAllister, co-head of the muni team at Baird Advisors, referring to bonds maturing in 10 to 30 years.

Munis hold appeal for investors in high tax brackets, since their interest is exempt from federal taxation and may be exempt from state or local taxes, if you live in a state that issues the bonds. For example, a AAA-rated muni yielding 3.5% would have a tax-equivalent yield of 5.22% at a 33% federal rate for a head-of-household filer, according to Bankrate. At a 28% tax rate, the yield falls to 4.86%.

Continue reading.

Barron's

By Lawrence C. Strauss

April 20, 2023

Fitch: Recessionary Pressure to Intensify for U.S. Public Finance

Fitch Ratings-New York-13 April 2023: Positive rating momentum continued last quarter for U.S. public finance, though Fitch Ratings' latest quarterly rating actions recap says inflation, labor shortages and higher capital costs point to increased pressure overall in the coming months.

Fitch upgraded 38 U.S. public finance ratings and downgraded 12 in first-quarter 2023 (1Q23), continuing a similar trajectory from 4Q22 (43 upgrades and 18 downgrades). However, aggressive Federal Reserve monetary policy tightening likely means a mild recession in the near future while recent banking sector concerns add to the potential for contraction. This is creating a ripple effect for state and local government ratings, according to Arlene Bohner, Fitch's head of U.S. public finance.

'With a handful of states already reporting revenue declines, fiscal pressure could escalate if economic conditions deteriorate rapidly, though most states are well-positioned to absorb a moderate economic downturn,' said Bohner. Despite a 'deteriorating' sector outlook for 2023, states and local government ratings will remain stable.

The same cannot be said for not-for-profit hospitals (two upgrades, eight downgrades in 1Q23). Healthcare providers remain under considerable pressure, particularly with respect to labor, inflation, and equity market volatility, with elevated downgrades and negative outlook actions in the coming quarters likely. The outlook is more balanced for life plan communities (one upgrade, no downgrades in 1Q23) with limited coronavirus outbreaks and favorable demographic trends allowing

for stable to improving occupancy across most communities. More fiscal pain also awaits higher education (six upgrades, four downgrades in 1Q23) due largely to inflation, labor and wage pressure and generally soft enrollment, which could further erode operating margins.

Fitch's 'U.S. Public Finance Rating Actions Report and Sector Updates: First-Quarter 2023' report is available at 'www.fitchratings.com'.

Contact:

Arlene Bohner
Managing Director, Head of U.S. Public Finance
+1 (212) 908-0554
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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

View the Current List.

14 Apr, 2023

Fitch U.S. Public Finance Rating Actions Report and Sector Updates: First-Quarter 2023

Upgrades Outpaced Downgrades Positive rating momentum continued in 1Q23 for the U.S. Public Finance sector despite high inflation, persistent labor shortages and elevated costs of capital. In 1Q23, Fitch Ratings upgraded 38 U.S. Public Finance ratings and downgraded 12 compared to 43 and 18, respectively, in 4Q22. Upgrades represented approximately 4.5% of rating activity this past quarter, while downgrades represented approximately 1.5%. Six of eight USPF Sector Outlooks are deteriorating', with the remaining two at Neutral, relative to 2022. Fitch's Rating Outlooks Remain Stable Despite a largely deteriorating sector outlook, the distribution of Rating Outlooks continues to reflect credit stability. Stable Rating Outlooks represented 91.2% of the portfolio. Positive Rating Outlooks/Watches represented 5.5% of the portfolio and Negative Rating Outlook/Watches represented 3.4% as of 1Q23 quarter end. While an expected economic slowdown in 2023 will weaken the macro conditions facing U.S. states and local governments, Fitch anticipates overall credit quality will remain stable and strong given prudent efforts in recent years to bolster financial resilience. In the Not-For-Profit Hospital sector, healthcare providers remain under considerable pressure, particularly with respect to labor challenges, general inflation, and equity market volatility and limited coronavirus outbreaks and favorable demographic trends allowed for stable to improving occupancy across most Life Plan Communities. Despite deceleration in home prices, healthy residential real estate markets generally translated into consistent demand for LPCs.

ACCESS REPORT

Thu 13 Apr, 2023 – 1:21 PM ET

Of Standing and Stonewalling: Chester, Pennsylvania Bankruptcy Sheds New Light on Chapter 9 Eligibility Requirements - Cadwalader

On March 14, 2023, Judge Ashely M. Chan of the U.S. Bankruptcy Court for the Eastern District of Pennsylvania (the "***Court***") ruled that the City of Chester, Pennsylvania (the "***City***" or "***Chester***") was eligible for municipal bankruptcy relief under Chapter 9 of the Bankruptcy Code, specifically overruling objections that challenged Chester's authority under state law to file for Chapter 9 relief and whether the City negotiated with its creditors in good faith.1 The decision provides useful insight into some of the finer points of Chapter 9 eligibility and, like prior decisions concerning Chapter 9 eligibility, it confirms that Section 109(c)'s "good faith" negotiation requirement is a flexible standard left to the discretion of the court and that the court may consider the conduct of creditors in prepetition negotiations.

BACKGROUND

Chester is the oldest city in Pennsylvania. The City is located near Philadelphia and has a population of around 30,000 residents. Following the loss of its manufacturing base, the City suffered a steep decrease in revenues and population. Over time, the City accumulated multi-million dollar deficits, which in 1995 led to its designation as a "distressed city" under Pennsylvania's comprehensive state law for dealing with municipal distress – the Municipalities Financial Recovery Act, generally referred to as "***Act 47***." Under Act 47, if a municipality is determined to be in financial distress, then the Pennsylvania Secretary of Community and Economic Development (the "***Secretary***") must appoint a coordinator to prepare and administer a plan designed to relieve the municipality's financial distress.2

Despite decades of state supervision under Act 47, the City's financial situation continued to deteriorate, and in April 2020, the Governor of Pennsylvania declared a fiscal emergency for the City.3 Following the declaration of such a fiscal emergency, Act 47 authorizes the Governor to direct the Secretary to file a petition in state court to appoint a receiver for the distressed municipality. On June 1, 2020, the Secretary petitioned a state court for appointment of a receiver for the City, and on June 22, 2020, the court appointed Michael Doweary (the "***Receiver***") as receiver. Thereafter, the Receiver took various cost-saving measures, but those efforts were unable to improve the City's financial situation.

The Receiver also undertook negotiations with the City's major creditor constituencies in an effort to obtain debt relief for the City. At the time of the Receiver's appointment, the City's capital structure included two major bond issuances, consisting of (i) two series of "2017 Bonds" issued directly by the City, secured by certain casino and other revenues, and held entirely by a single financial firm – Preston Hollow Community Capital ("***Preston Hollow***") – and (ii) one series of unsecured "2021 Notes" issued by the Delaware Valley Regional Planning Commission on behalf of the City, and held by a more disparate group of bondholders. The City also had significant liabilities to both its current and former employees, including (i) current employees subject to collective bargaining agreements and represented by various unions, and (ii) retired employees entitled to benefits from the City's underfunded pension funds, but not benefiting from any centralized or organized representation (the "***Retirees***"). Between 2020 and 2022, the Receiver attempted to negotiate concessions from various

creditors (including the bondholders and unions), but was not able to reach an agreement with any of these constituencies.

Given the City's deteriorating financial condition and the Receiver's failure to obtain concessions from key creditors, the Receiver ultimately filed a Chapter 9 petition in the Court on November 10, 2022. Before filing the Chapter 9 petition, the Receiver obtained the requisite written authorization from the Secretary. Two major objections were filed to the City's eligibility for Chapter 9 relief, one by the City's mayor and City Council (the "***Elected Officials***"), and one by bondholder Preston Hollow. The Elected Officials argued that the City lacked authority under state law to file for Chapter 9 relief, while Preston Hollow claimed that the City did not negotiate in good faith with its creditors prior to filing for bankruptcy.

Continue reading.

Cadwalader Wickersham & Taft LLP – Ivan Loncar , Casey Servais, Lary Stromfeld , Thomas Curtin and Marc Veilleux

April 13 2023

S&P U.S. Not-For-Profit Senior Living Sector Exhibits Stability Despite Rising Pressures.

Key Takeaways

- In the U.S. long-term care sector, ratings are largely stable, although industry and macroeconomic challenges remain key risks.
- Effective and strong management teams were a significant differentiating factor across rated issuers.
- Rating pressure, where present, primarily consisted of multiple factors, including inconsistent occupancy levels, operating losses, and weakening balance-sheet trends.

Continue reading.

11 Apr, 2023

Fitch: End of Continuous Medicaid Enrollment Negative for NFP Hospitals

Fitch Ratings-New York-12 April 2023: The expiration of the Medicaid continuous enrollment provision will be mildly dilutive to not-for-profit (NFP) hospitals' payor mixes and add to operating pressures, Fitch Ratings says. Revenue erosion could be particularly acute for hospitals with higher Medicaid patient levels and could affect credit quality over time.

States recently began shedding Medicaid rolls following the expiration of automatic enrollment on March 31. The Department of Health and Human Services (DHHS) estimates that up to 15 million people, or 17.4% of current beneficiaries, could lose coverage over the next twelve months, either due to loss of eligibility or administrative hurdles despite still being eligible. Increased administrative churn with renewed eligibility determination following the hiatus of the last three

years will result in some losing coverage temporarily until they reenroll or secure other health insurance.

An increase in the uninsured population would be an additional negative factor weighing on hospital operations, further constricting margins that have been pressured over the last year as a result of increased expenses due to higher labor costs and generationally elevated inflation. Liquidity remains generally robust, providing a significant cushion to allow hospitals to manage higher costs, but market volatility has reduced unrestricted liquidity levels from sector highs in 2021, and deteriorating operating conditions will be felt more acutely in 2023 as a result.

We anticipate that there will be a renewed credit divide among hospitals with the reduction in Medicaid coverage. The number of those who become uninsured will vary by state and depend upon Medicaid policies, enrollment outreach and individual healthcare options. Hospitals in the 10 states that have not expanded Medicaid under the Affordable Care Act (ACA) may see heighted pressures with their uninsured population. Hospitals that are true safety net hospitals, with Medicaid and self-pay composing more than 30% of their payor base, are also likely to see greater revenue erosion. Hospitals with a greater percentage of Medicaid patients tend to have thinner margins, and an increase in uninsured patients would disproportionally pressure operating results.

Continuous enrollment has been supportive of NFP hospitals by reducing the uninsured population. Medicaid enrollment grew significantly compared with pre-pandemic enrollment, adding 15.5 million people between February 2020 and December 2021, with the uninsured rate dropping to a historic low of 8%, according to DHHS. Hospitals received reimbursement for patients that would otherwise likely have fallen under charity care (no reimbursement). The program also eased the administrative burden of hospitals having to facilitate Medicaid enrollment for some patients.

The Families First Coronavirus Response Act instituted continuous Medicaid enrollment at the height of COVID-19 and tied it to higher Medicaid rates the federal government paid to states during the public health emergency (PHE). States were not permitted to drop existing Medicaid enrollees who might become ineligible while receiving the enhanced federal medical assistance percentage (FMAP). The Consolidated Appropriations Act, 2023, de-linked continuous enrollment from the PHE, and enhanced federal Medicaid funds will be phased out between April 1 and Dec. 31, 2023.

States are subject to outreach and reporting requirements as they determine who is still eligible while they continue to receive enhanced FMAP. States will have 12 months to determine current eligibility and two additional months to complete outstanding actions.

Fitch: Labor Picture Continues to Brighten for U.S. NFP Hospitals

Fitch Ratings-Austin-11 April 2023: Some more rays of light are emerging for U.S. not-for-profit (NFP) hospitals on the labor front, according to the latest sector dashboard from Fitch Ratings.

“Hospital and ambulatory healthcare services payrolls have risen for 14 and 26 consecutive months, respectively, as of last month. Hospital and ambulatory healthcare services monthly job additions are also up an average of 15,150 and 24,300 per month, respectively, between March 2022 to February 2023. These statistics point to the potential of alleviating labor market pressure,” according to Fitch Ratings Director Richard Park.

The improving picture also extends to nursing facilities, which have been plagued by severe staff shortages the last several months. While still high, nursing facilities reported shortages of 17.3%

and 17.7% of nurses and aides, respectively, through the end of February. These figures are well below the peak in January 2022, when 28.3% and 29.8% of nursing facilities reported shortages of nurses and aides, respectively. 'Sustained staffing improvements at nursing homes should help improve length of stay/discharge challenges at hospitals,' said Park.

That said, quits rate are still high. The number of quits in the healthcare and social assistance sector were at 2.7% as of February 2023, compared with the 1.6% average from 2010 to 2019. Hospitals will have to invest in cost effective care solutions and develop enhanced business models that incorporate flexible staffing to adapt to labor costs that have been reset to a permanently higher level," said Park.

Fitch's latest "Hospitals and Healthcare Systems Labor Dashboard: April 2023" is available at www.fitchratings.com.

Contact:

Richard Park
Director
+1-512-813-5704
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330
Austin, TX 78746

Kevin Holloran
Senior Director
+1-512-813-5700

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch Hospitals and Healthcare Systems Labor Dashboard: April 2023

Year Over Year Average Hourly Earnings Growth Down: Average hourly earnings growth of hospital employees slowed to 4. 7% yoy in February 2023, down from a recent high of 8.4% in June 2022. Average hourly earnings growth of ambulatory healthcare services employees slowed to 3.8% yoy in February 2023 from a recent high of 6.3% in January 2022. Hospital/Ambulatory Payrolls Continue to Rise: Hospital and ambulatory healthcare services payrolls have risen for 14 and 26 consecutive months, respectively, as of March 2023, resulting in hospital and ambulatory healthcare services payrolls being 1% and 5.9% above the February 2020 level. Hospital and ambulatory healthcare services monthly job additions have averaged +15,150 and +24,300 per month, respectively, over the twelve month period from April 2022 – March 2023 compared to -2,010 and +20,350 per month over the twelve month period from April 2021 – March 2022. Lower average hourly earnings growth, continued payroll additions and an uptick in the health care and social assistance unemployment rate (from 2.1% as of December 2022 to 2.4% as of March 2023) point to the potential of alleviating labor market pressure. Job Openings Rate Declines From Peak: The healthcare and social assistance sector's job openings rate has lowered from a peak of 9.3% as of March 2022 to 7.4% as of February 2023.

ACCESS REPORT

Tue 11 Apr, 2023

Schools Find Power in Numbers.

Across the country, school districts are joining together to negotiate lower premiums for insurance, goods and services.

Between a shortage of bus drivers and the small number of buses that the Old Rochester Regional School District employs in Mattapoisett, Massachusetts, if a bus driver calls in sick for the afternoon sports program, one of the teams loses their ride to a game.

“We have to have the conversation: Well, which team hasn’t missed a game?” said Howie Barber, assistant superintendent of finance and operations.

So, to save money and increase the number of buses and drivers in the fleet, next year Barber will bid with other towns in his district on more than 20 buses—up from the six to eight buses his district currently operates. It requires getting over the mindset that each elementary school represents its own organization, he said.

Continue reading.

ROUTE FIFTY

By Rachel Gottlieb

APRIL 10, 2023

Gas, Guns, and Governments: Financial Costs of Anti-ESG Policies

As interest from investors in funds with environmental, social, and governance (ESG) policies has grown, so has a backlash from some politicians. Laws curtailing public sector activity with funds that take ESG-friendly actions have been proposed or passed in 17 states. One of them is Texas, where the state and political subdivisions raise about $50 billion in financing from the municipal bond market every year, placing it among the top three states in that market.

The Texas state legislature in September 2021 barred any of the state’s municipalities from contracting with banks that restrict funding of oil and gas or firearms companies. The laws led to the abrupt exit of five of the largest municipal bond underwriters from Texas; these underwriters had accounted for a bit more than a quarter of all the competitive bids for municipal bond underwriting in Texas. The issuers previously reliant on the targeted banks were more likely to rely on negotiated borrowing instead of holding an auction, and received worse pricing after the implementation of the law.

As a result, we estimate that Texas issuers will incur $300-$500 million in additional interest on the $31.8 billion borrowed during the first eight months following the implementation of the law.

Continue reading.

The Brookings Institution

by Daniel Garrett and Ivan T. Ivanov

Wednesday, April 12, 2023

Does ESG Matter in Public Finance? It Depends ...

Culture wars over environmental, social and governance factors used by pension fiduciaries are in the spotlight, but it's the municipal bond arena where long-term analysis must trump short-term symbolic politics. Sustainability actually matters to investors.

In case you've tuned it out, there's a battle underway between proponents of "sustainability" analysis of corporate business practices and those who favor "drill, baby, drill" and "anti-woke" free market profitability metrics and political slogans. The debate worked its way up to Capitol Hill, where Congress passed and President Biden vetoed a bill to stifle retirement account fiduciaries' consideration of environmental, social and governance (ESG) factors in their funds' investments.

At the state level, meanwhile, a number of oil-rich states have put corporate proponents of ESG-informed investing in a penalty box by blackballing them from plum municipal bond underwriting business. On the political front, it's another chapter in the ongoing battle over symbolic politics.

For pension funds, the argument for ESG investing has always been that it provides a long-term lens through which the future profitability and even sustainability of companies can be viewed, so that short-term financial performance and profits are not assumed to be perpetual. If you believe that fossil fuel industries will eventually be curtailed or replaced by green energy sources, then it's a reasonable concern that the residual value of an oil company might be impaired and thus less investment-worthy. But that doesn't sit well with political leaders in states where fossil fuel industries produce jobs, royalty income and a lot of tax revenues. So the primary focus has generally been driven by petroleum economics, with mostly symbolic focus on social and governance ideology.

Continue reading.

governing.com

by Girard Miller

April 11, 2023

Muni Demand Keeps Sliding as Rate Uncertainty Shakes Confidence.

- **Week ending April 5 saw $92 million of fund withdrawals**
- **Munis posted their worst performance since 1980 in 2022**

Investors have been pulling money out of municipal bond funds even though the asset class delivered strong returns in March.

Muni funds have seen eight straight weeks of withdrawals, with $92 million of outflows for the week ending April 5, according to Refinitiv Lipper US Fund Flows data. The exodus is unusual because retail investors tend to flee when returns are weak, but munis delivered a 2.2% return last month — the strongest performance for the month of March since 2008, according to data compiled by Bloomberg.

Portfolio managers say interest-rate uncertainty and banking turmoil have some investors on the sidelines. The Federal Reserve has been aggressively raising rates this past year to curb inflation, but recent bank failures may lead the central bank to pump the brakes on rate hikes to stabilize the financial system.

Continue reading.

Bloomberg Markets

By Nic Querolo and Skylar Woodhouse

April 12, 2023

Public-School Jobs Are Approaching Their Pre-Pandemic Peak.

- **Local education added 12,000 jobs in March to 7.93 million**
- **Latest increase in payrolls was smallest since September**

US local-government education payrolls inched closer to their pre-pandemic peak in March, extending a rebound that's trailed the broader economy's recovery.

Localities added education jobs for a sixth straight month, with a gain of 12,000 to around 7.93 million, according to Bureau of Labor Statistics data released Friday. While the latest jump was the smallest since September, it brings employment to within about 1.6% of February 2020 levels. Meanwhile, private-sector payrolls have surpassed their pre-pandemic mark by 2.7%.

The pandemic dealt an abrupt and brutal hit to the education workforce, amounting to hundreds of thousands of positions. Cities and towns have struggled to lure back educators tempted by higher pay in the private sector, or by jobs offering the option of working from home. A silver lining may be that the gradual pace of the rebound, at a time when many municipalities are fiscally healthy, could cushion against job losses should a recession hit.

Continue reading.

Bloomberg Markets

By Nic Querolo

April 10, 2023

States Awarded $6.5B to Help Remove Lead Pipes.

After shortchanging the states with the most lead pipes last year, funding was tweaked to get the money to where it was needed most.

When the Environmental Protection Agency handed out money last year to remove dangerous lead pipes, Illinois didn't get its fair share.

Although Illinois has the second most lead service lines in the nation, it received significantly less funding than California, which has a fraction of the number of lead pipes. With about 730,000, Illinois received just $52.4 million. By comparison, California received $122.5 million to remove about 65,000 lead pipes, according to the EPA.

But the distribution of funds was evened out last week when the EPA distributed more than $6.5 billion in Drinking Water State Revolving Fund dollars. This time, states that previously felt they were being shorted are getting a much larger share of the funding.

Continue reading.

ROUTE FIFTY

by Kery Murakami

APR 11, 2023

Muni Bonds Poised to Do Really Well: Neuberger's Iselin

Jamie Iselin, Neuberger Berman's head of municipal fixed income, explains why he thinks muni bonds are attractive right now on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

April 12th, 2023

Munis in Focus for April (Bloomberg Audio)

Joe Mysak, editor of the Muni Market Brief, joins the program to discuss everything going on in the municipal bond market. Hosted by Kriti Gupta and Jess Menton.

Listen to audio.

Apr 14, 2023

As States Plan for Next Year's Budget, the Economy Flashes Mixed Signals.

Even with rising inflation and worries about a looming recession, most state budgets are

doing better than expected. But there are signs that the slowdown policymakers keep planning for is getting closer.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer, back from vacation, and this week I'm doing a state budgets update.

With just a few months left in most states' fiscal year and a looming deadline to pass next year's budget, the spring months can be a bit of a juggling act for lawmakers if the current year's revenues aren't lining up with expectations.

The key word here is expectations. And many states have dialed them down compared with what they experienced in fiscal 2022.

"These last few years have been very unique—it's unprecedented to see double-digit revenue growth for two straight years," said Brian Sigritz, director of state fiscal studies for the National Association of State Budget Officers (NASBO). "Some of that was economic strength, and some of it was due to the federal funding flowing to states and households. States weren't assuming that level of growth would continue."

Continue reading.

Route Fifty

By Liz Farmer

APRIL 4, 2023

S&P 'AAA' Rated U.S. Counties: Current List

View the Current List.

5 Apr, 2023

S&P 'AAA' Rated U.S. Municipalities: Current List

View the Current List.

5 Apr, 2023

Fitch: US Water Utilities' Debt Would Increase Under Proposed PFAS Rule

Fitch Ratings-New York/Austin-03 April 2023: The US Environmental Protection Agency's (EPA) recently proposed rule setting limits on per- and polyfluoroalkyl substances (PFAS) in drinking water would increase public water utilities' debt burden as a result of the added costs of compliance, Fitch Ratings says. The strong rate flexibility and capacity for additional debt exhibited by water systems

is expected to limit the impact on credit quality, but will depend on the final scope of rule. EPA expects to finalize the rule by the end of this year.

The proposed National Primary Drinking Water Regulation (NPDWR) outlines maximum contaminant levels for six PFAS and would require utilities to monitor PFAS levels in drinking water systems, notify the public and reduce levels to comply with the regulated standard. The proposed limit is essentially the equivalent of non-detectable levels.

As with other sector-wide issues, we would assess the credit impact of this rule on utilities on a case by case basis, considering each system's capital budget, debt profile, preparedness, and rate flexibility. Technology risk is not a concern as the treatment technology is well known.

Some of our rated issuers are already addressing PFAS given state regulations. States such as Massachusetts and California have implemented their own PFAS limits that are not as stringent as the proposed rule, and affected utilities have started, and in some cases even completed, treatment to meet those standards. Other utilities have disclosed that they do not have any detectable PFAS in their water supply.

The enormous costs involved in PFAS remediation will be a primary consideration as utilities submit feedback to the EPA; the public comment period currently closes May 30, 2023. The EPA estimates that between 3,400 and 6,300 public water systems will need to reduce PFAS under the proposed rule, and that annual costs would total between $772 million and $1.2 billion, including capital and operational expenses. Once the rule is finalized, water systems would have three years to comply.

The costs of compliance will likely drive utilities to incur additional debt. While water utilities are expected to pass on higher operating and capital costs to customers through rate increases, those facing significant capital spending requirements or serving limited customer bases/service areas may be unable to immediately recoup upfront costs, leading to higher debt levels.

However, rating actions are likely to be limited, as Fitch's water utility ratings reflect a stress scenario that already incorporates a 10% increase in capital spending. This level of stress should encompass anticipated spending for most systems under the rule and the compliance timeline as currently proposed. Systems with significantly higher PFAS exposure and related spending requirements will be at higher risk for negative rating action.

Federal or other government grants will also help offset costs for some systems. The Bipartisan Infrastructure Law (BIL) provides up to $10 billion to address contaminants, including $4 billion through drinking water state revolving funds, $5 billion through EPA's Emerging Contaminants in Small or Disadvantaged Communities Grant Program, and $1 billion through clean water state revolving funds.

It is unclear if the costs of reducing PFAS levels will be shared by other entities. Some states and local governments have sued companies that used PFAS in an attempt to hold them accountable for clean up costs.

The market has anticipated increased regulation, including a federal PFAS rule. Fitch has a deteriorating sector outlook for US water and sewer utilities for 2023 that reflects economic and business conditions, including anticipated higher costs of compliance with environmental regulations, that create a more challenging operating environment relative to 2022. We note that more stringent regulatory requirements and shorter deadlines could cause further pressure, and based on the proposed limits and the three-year compliance timeline, the NPDWR would contribute to a sustained deteriorating outlook.

Contacts:

Audra Dickinson
Senior Director, US Public Finance
+1 512 813-5701
Fitch Ratings, Inc.
2600 Via Fortuna
Austin, TX 78746

Dennis Pidherny
Managing Director, US Public Finance
+1 212 908-0738

Victor Valdez
Senior Analyst, US Public Finance
+1 512 813-5650

Sarah Repucci
Senior Director, Fitch Wire
Credit Policy – Research
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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 Pursue Pipeline Sales as Natural-Gas Bans Catch On.

Possible sales come as regulators debate fossil fuels' future in home heating and cooking

Two of the country's largest utility companies are weighing potential sales of parts of their natural-gas pipeline networks as efforts to phase out in-home gas use accelerate.

Dominion Energy Inc. is considering selling its gas-distribution companies serving North Carolina, Ohio and parts of the Western U.S., according to people familiar with the matter. Combined, the assets could be worth as much as $13 billion, some of the people said, though they are unlikely to be sold all together.

Meanwhile, National Grid PLC is exploring a possible sale of part of its pipeline network serving the Northeast as lawmakers there look to curtail fossil-fuel use, according to people familiar with the matter. One option under discussion at the British utility company is to sell a minority interest in the network, some of the people said.

Continue reading.

The Wall Street Journal

By Katherine Blunt, Laura Cooper and Jimmy Vielkind

April 6, 2023

Fitch Rtgs Updates U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria.

Fitch Ratings-New York-05 April 2023: Fitch Ratings has published revised “U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria.” The revised criteria represent minor editorial updates and clarifications to the existing version dated April 2022 . No ratings are affected.

The full report is available at www.fitchratings.com.

Contact:

Margaret Johnson, CFA
Senior Director
+1 212 908 0545
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Gary Sokolow
Director
+1 212 908 9186

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Hospitals Face ‘Make-or-Break Year’ After Bleak 2022, Fitch Says.

- **Last year was worst for nonprofit operations, firm says**
- **With less cash on hand, higher expenses, uncertainties remain**

Last year is shaping up to be the worst year ever for the finances of US nonprofit hospitals — and 2023 isn’t looking much better, according to Fitch Ratings.

“2023 is going to be the make-or-break year” for stemming financial declines, senior director Kevin Holloran said during a presentation Wednesday on the challenges facing nonprofit hospitals.

Those trials include labor costs and shortages, inflation, a higher cost of capital, investment losses and the end of billions in federal pandemic funds. While the need for expensive traveling nurses has declined, basic wages have jumped.

Continue reading.

Bloomberg Business

By Lauren Coleman-Lochner

April 6, 2023 at 11:21 AM PDT

Muni Issuance Low Amid Strong Demand: Thornburg's Lando

Thornburg Investment Management Portfolio Manager Eve Lando says municipal bond issuance has been a bit lower than expected amid demand that is “quite strong.” She speaks with Katie Greifeld and Romaine Bostick on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

April 5th, 2023

Muni Closed-End Funds Yield Over 4%, Now at Big Discount to Portfolio Values.

Closed-end municipal bond funds are trading at unusually wide discounts to their net asset value and now offer yields of 4% or more.

The sector recently traded at an average discount of 11% to net asset value, or NAV, compared with a long-term average of about 4%, according to Matisse Capital.

Leading funds ranked by size include Nuveen AMT-Free Quality Municipal Income (Ticker NEA), Nuveen Quality Municipal Income Fund (NAD), Nuveen AMT-Free Municipal Credit Income (NVG) and BlackRock Municipal 2030 Target Term (BTT).

Continue reading.

Barron’s

By Andrew Bary

April 5, 2023

Muni Money-Market Fund Yields Hit 4%.

Investors can now get a 4% yield on low-risk municipal money-market mutual funds—but that rate may not last because yields in the sector are volatile.

Municipal money-market funds are formerly a hot and now backwater area of the tax-exempt market that offers investors an alternative to the much larger taxable money-market funds.

There are about $130 billion of muni money-market funds, according to Morningstar , against more than $5 trillion of taxable money funds.

The muni total is down from $500 billion prior to the financial crisis. Vanguard, Fidelity, Charles Schwab (ticker: SCHW), and JPMorgan Chase (JPM) are leading players in muni money funds.

Continue reading.

Barron's

By Andrew Bary

April 3, 2023

Municipal CEF Sector Update: A Trio Of Tailwinds

Summary

- Tax-exempt municipal bonds have had a tough ride since 2022; however, the sector enjoys a number of current and upcoming tailwinds.
- These tailwinds include a stabilization and likely increase in net income once the Fed starts to reverse the policy rate, likely further gains in the NAV and historically wide discounts.
- We also highlight what we are doing in our Income Portfolios as well as a number of funds we like.
- I do much more than just articles at Systematic Income: Members get access to model portfolios, regular updates, a chat room, and more.

Continue reading.

Seeking Alpha

Apr. 05, 2023

Are Munis The Antidote To Recessionary Fears?

As lending tightened following the collapse of Silicon Valley Bank and job growth slows, the Fed may finally be seeing the cooling of the economy it set out to orchestrate, according to fixed-income managers at Los Angeles-based Capital Group.

For investors, it's time to reexamine the shifted landscape, they said, and one of the best places to look for some stability is municipal bonds.

Karl Zeile, a portfolio director, and Greg Ortman, an investment director, wrote in a joint publication "Recession Resilience: Municipal Bonds Can Help Shield Portfolios" that while many high-quality bond sectors can do well in a recession relative to equities, municipal bonds have some unique advantages that could make them bright spots in an otherwise dismal investment environment.

Those advantages include distinctive characteristics that provide some resistance to recessionary impact, high current yields and strong post-pandemic fundamentals, all of which act as a buffer if

growth continues to slow and recession fears mount.

Zeile wrote that should the U.S. enter a recession, he expected it to have all the hallmarks of a traditional recession. “I would expect equities to experience a correction due to the pressure on earnings,” he said. “The job market may weaken, causing a cash crunch for consumers, and economic growth would further contract.”

While that sounds unpleasant, those are pains that lead to municipal bond gains. The services supported by municipal revenue bonds tend to be essentials, like water and sewer services, garbage collection and tax collection. Consumers may skip a lot of things, but the essentials are the last to go, providing that recession resistance.

“When recession knocks at the door with a car payment, credit card and a water bill due, everyone wants the ability to take a shower,” Ortman said. “People might not dine out at a restaurant, but they will open their wallets for water, electricity and gas to avoid shutoff.”

In addition, municipal bond yields are still at or near decade highs, with the yield to worst for the Bloomberg Municipal Bond Index hovering around 3.25% at the end of March, they said, and the likelihood of negative returns even in the wake of market shocks is less than it was a year ago. And, as always, the income on the investment is federally tax-free, and sometimes tax-free at the state level as well.

Add to that the fundamental strength of the municipalities issuing these bonds, and this corner of the fixed income market is unusually flush. The federal government disbursed billions of dollars to tribal, local and state government through the pandemic, and those strong balance sheets buoy the general obligation side of the muni bond market.

Still, not every sector deserves a buy, Zeile and Ortman said. For example, transportation agencies are still reeling from the pandemic and a recession, wherein movement and ridership slows, could spell trouble. Similarly, healthcare and hospitals are still struggling with costs and staffing shortages.

“Even with those considerations, selectivity is possible,” Zeile said. “To skirt some risk and consider credit quality, investigate a multi-state system or an integrated provider versus a single-site, standalone hospital.”

FINANCIAL ADVISOR

by JENNIFER LEA REED

APRIL 7, 2023

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

View the Current List.

31 Mar, 2023

How a Florida Retiree Scored a $3.4 Million Refund for Muni-Bond Investors.

- **Larry Wasserman discovered flaw in key bond issue data point**
- **Incorrect figure caused hundreds to overpay for securities**

Thanks to the persistence of Larry Wasserman, a 78-year-old retired broker who lives in Boca Raton, Florida, about 300 investors who were overcharged for municipal bonds are getting $3.4 million back.

Wasserman, who retired in 2016 after almost five decades, discovered that a key data point known as a factor had been improperly calculated on a bond he had purchased. The figure is a rare feature in muni bonds, and the steps that he had to go through to figure out he had overpaid underscore how opaque the $4 trillion tax-free debt market can be for individual investors.

The former broker made more than 20 calls to the trustee of the bonds and the company that insured them to straighten out the trouble with the factor. He compiled enough information to call regulators, which investigated and determined that he and others had been overcharged.

Continue reading.

Bloomberg

By Martin Z Braun

March 29, 2023

Silicon Valley Bank & Stress Tests: What Can Local Governments Learn?

Though the full story of what, exactly, caused the collapse of Silicon Valley Bank (SVB) is still coming into focus, it does seem clear that insufficient stress testing played at least some role. A bank stress test determines whether a bank has enough capital to withstand a financial stress or shock. A stress test can address different types of risks, like credit risk, market risk, and liquidity risk.

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Government Finance Officers of America

Hospitals Hit Troubling Milestone in Most 1Q Defaults Since 2011.

- **Even high-rated systems struggling: Municipal Market Analytics**
- **Many local facilities lack access to capital, FTI says**

Hospitals have hit another unfortunate milestone.

In the worst start to the year in more than a decade, bonds of eight hospitals lapsed into impairment — meaning they experienced covenant issues amounting to a technical or monetary default — compared to just one last year, Municipal Market Analytics data show.

It was the highest first-quarter count of hospital borrowers disclosing a default since 2011, according to MMA's Matt Fabian and Lisa Washburn. Together with seven retirement homes, hospitals made up almost half of the 33 new impairments in the period, MMA said in a note this week.

Continue reading.

Bloomberg

By Lauren Coleman-Lochner

March 31, 2023

Failing Banks and the Need to Protect the Public's Cash.

Letting all depositors off the hook creates a moral hazard, but taxpayer money should be protected. If Congress won't extend full insurance to states and localities, banks should be required to protect those deposits with their own collateral.

The Bank Panic of 2023 started three weeks ago and ran like wildfire through the high-tech business community and the regional bank industry as Silicon Valley Bank, a national leader in lending to startup businesses and venture capitalists, suffered a two-day run on its deposits after announcing megabillion-dollar losses in its bond portfolios. Big depositors yanked $42 billion from the bank in just one day before it was shut down.

Fortunately for SVB's uninsured depositors, federal agencies stepped in over the following weekend to prevent contagion by promising full recovery to that bank's depositors and extending lifelines to others, at the expense of the entire banking industry, whose investors will foot the bill through special assessments to the Federal Deposit Insurance Corp. fund that are allowed in special cases of "systemic risk" to the U.S. economy. Treasury Secretary Janet Yellen is considering possible emergency measures for smaller banks.

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governing.com

OPINION | March 28, 2023 • Girard Miller

The CHIPS Act Challenge for State and Local Governments.

The federal government has a powerful policy vision for the development of a vibrant U.S. semiconductor industry. How those visions play out is of intense interest.

As an innovative and unusual foray into industrial policy, the $50 billion-plus bipartisan CHIPS and Science Act has been heralded as key to the U.S. in regaining technological leadership, bolstering national security, solving ongoing supply issue problems, and sparking innovation and research. It's all in an effort to revitalize an industry that has "fallen out of balance," in the words of U.S. Secretary of Commerce Gina Raimondo. As she recently pointed out, "In 1990, the U.S. accounted

for 37% of global chip manufacturing capacity. Today, that number is only 12%."

For state and local governments, this is a huge economic development opportunity. The CHIPS bill, New York Gov. Kathy Hochul said in a statement, "will help New York create 21st century jobs and technologies and become a global capital for chip manufacturing."

Economic development hunger is hardly new and the CHIPS Act has sparked tremendous state and local excitement. The federal government's dramatic push for development is an alluring extra. "There's always significant interest in getting companies to come to the state, but now there's a federal lollipop on top," says one CHIPS Act researcher who has carefully studied the department's Notice of Funding Opportunity (NOFO) that was released at the end of February.

Continue reading.

Route Fifty

By Katherine Barrett & Richard Greene

MARCH 28, 2023

Route Fifty State & Local Roundup: Top Counties Return to Pre-Pandemic Populations

Plus: Seattle gig workers get paid sick leave; Chicago and Wisconsin go to the polls; California's insulin experiment hits a bump; Big gaps in electric vehicle ownership; and more news you can use from around the country.

It's Friday, March 31, and we'd like to welcome you to the weekly State and Local Roundup. This week the Census Bureau released the latest population figures from counties nationwide, reflecting a return to pre-pandemic figures in some of the most populous counties following an exodus in 2021.

The population rise is largely owing to immigration, according to the U.S. Census Bureau's Vintage 2022 estimates of population. If it weren't for international migration, many of the largest counties wouldn't have seen population increases. Some are still losing residents to suburbs, exurbs and other regions of the country like the Sunbelt.

More than one-half of all counties (52.5%) grew between 2021 and 2022, according to Census estimates. The largest counties, having populations at or greater than 100,000, mostly experienced population increases (68%); while the smallest counties nationally, those with populations below 10,000, experienced more population loss (60.8%) than gains (38.3%).

Continue reading.

Route Fifty

By Elizabeth Daigneau, Daniel C. Vock and Molly Bolan

MARCH 31, 2023

Federal Infrastructure Bill Paves the Way Toward More Transportation Infrastructure Public-Private Partnerships.

The $1.2 trillion Infrastructure Investment and Jobs Act (IIJA) is poised to change how the United States views and implements public-private partnerships (P3s). At a high level, the IIJA encourages public entities to consider P3s and incentivizes private entities to engage in the P3 market by dismantling roadblocks that have prevented the widespread adoption of P3s in the U.S. — including by removing government red-tape, increasing the availability of federal funding, and delivering much needed technical expertise and guidance to successfully execute P3s. In this article, the first in a series, we explore (1) the doubling of private activity bonds, (2) a P3 technical assistance program for government agencies, (3) TIFIA driven value-for-money analyses, (4) the streamlining of important environmental reviews, and (5) the creation of a government reporting feedback loop on P3 projects.

Continue reading.

Troutman Pepper – Christian Michael Riley, Alexander Z. Bulkin, Robert A. Gallagher, Jason C. Spang, Kevin P. Wallace and MK Houston

March 29 2023

Disney Outmaneuvers DeSantis in Clash Over Theme Park District.

Walt Disney Co. pushed through changes limiting the powers of the municipal authority that governs its Florida theme parks ahead of a controversial takeover by representatives of Governor Ron DeSantis.

The changes were quietly approved last month by the outgoing board of the Reedy Creek Improvement District, the entity that provides fire protection, electricity and other services in the resort area. The last-minute changes restrict the powers of the new board members for decades, including their ability to review theme-park expansions and billboard advertising.

While the maneuver is a victory for the world's largest theme-park operator, it extends the clash between Disney and Republicans in the state, who have threatened to sue to reverse the changes.

"Disney has once again overplayed their hand in Florida," Bridget Ziegler, one of the new board members, posted on Twitter, accusing Disney of arrogance. "We won't stand for this and we won't back down."

The company defended the move, saying in a statement: "All agreements signed between Disney and the district were appropriate, and were discussed and approved in open, noticed public forums in compliance with Florida's government in the Sunshine law."

The Orlando Sentinel first reported the new agreement, citing lawyers for the municipal entity, which has been renamed the Central Florida Tourism Oversight District.

The "declaration of restrictive covenants," passed by the old board, is valid in perpetuity or, if that's considered unlawful, until "21 years after the death of the last survivor of the descendants of King

Charles III, King of England."

It's the latest twist in the fight between DeSantis and the corporation that kicked off when Disney criticized a law he signed limiting elementary school teachings about gender identity. Disney had controlled the Reedy Creek district since its founding almost 60 years ago.

Bloomberg CityLab

By Felipe Marques

March 30, 2023

How Disney Dodged Ron DeSantis and Kept Control of Its Florida Land.

'Disney didn't do anything secret' in securing key approvals before governor's new board gained oversight

Walt Disney Co. for now has outmaneuvered Florida Gov. Ron DeSantis in the battle for control over the more than 24,000-acre parcel of land near Orlando where Walt Disney World Resort is located.

In February, Disney went before a local board and secured approvals for the next 30 years on zoning, infrastructure and air-rights that the company might need if it chooses to expand Disney World, giving the company an advantage that has become clearer in recent days.

This week, those approvals were criticized by members of a new board that was created by the Republican governor to strip Disney of governing control over the land's special tax district, known as Reedy Creek. Mr. DeSantis, who has been clashing with Disney for more than a year, appointed the new board after the February meeting.

Continue reading.

The Wall Street Journal

By Robbie Whelan and Arian Campo

Updated April 1, 2023 1:48 pm ET

How Will Silicon Valley Bank Collapse Impact Bank Ownership of Munis?

Municipal bonds remain a viable, high-quality source of liquidity for banks, experts say, although they are divided about whether the collapse of two regional banks will curtail or eliminate the sector's ownership of municipal bonds.

Following the collapse of California-based Silicon Valley Bank on March 10 and New York-based Signature Bank (SGBG) on March 12, experts differ on how this will impact their holding of municipal bonds. Some say it will continue unabated, others say it could peter off, yet others believe banks may alter their duration to avoid the pitfalls of SVB and Signature.

“I do not believe banks will broadly reduce their ownership of municipal debt in light of the recent collapses of SVB and Signature Bank (SGBG),” Chris Brigati, managing director of municipal investments at Valley Bank, said.

Bank ownership of municipal bonds amounts to approximately 15% of the $4 trillion market, falling slightly during the COVID 19 pandemic, according to experts.

“I could even make a case for banks to increase their participation at some point,” Brigati added.

Market and economic technicals, as well as the inherent benefits of municipals, support bank ownership, he and other experts said.

“Ratios versus Treasuries are presently rich as compared to historical norms,” Brigati explained. “I do not foresee any immediate reason for this to change with anticipated near-term supply/demand dynamics.”

If and when municipals offer a better relative value dynamic, banks could justifiably increase their engagement above recent norms, according to Brigati.

Cooper Howard, fixed income strategist focused on municipals at Charles Schwab (SCHW), agreed the inherent benefits of municipal bonds will continue to fuel ownership by banks.

“I would expect that banks will continue to be large buyers of municipal bonds because of their tax benefits and high credit quality,” Howard said. “The issues in the banking sector didn’t change that,” he continued, noting the amount banks purchase in the future will chiefly depend mostly on yields relative to comparable securities.

Signature, SVB, and San Francisco-based First Republic – which is also under fiscal stress lately – all hold municipal bonds.

SVB held $7.4 billion of municipal bonds and notes as of Dec. 31, 2022, which were marked as having a fair value of $6.15 billion and ratings of A1 and above, according to its 10-K filing with the Securities & Exchange Commission.

Signature Bank (SGBG) – which in 2015 launched a public finance business – held $247 million of state and municipal securities in 2022, up from $7 million in 2018, according to its recent 10-K.

First Republic carries $19.4 billion of state and municipal securities, up from $8.19 billion in 2018.

But with the feds and large banks coming to the rescue of the banks, a “fire sale” of their municipal portfolios into the market appears unlikely, according to Lisa Washburn, managing director, chief credit officer at Municipal Market Analytics.

Should some banks have an initial “knee-jerk reaction,” which Brigati said is unlikely, the underlying fundamental reasons that make ownership of municipal paper within bank portfolios possible continues to offer strong justification for no change to their engagement in the asset class, he said.

“Naturally, the tax-exempt benefits of bank-qualified paper persist in offering a strong draw for banks in particular,” Brigati explained. “Additionally, the excellent credit quality, along with the diversification within the asset class offers another reason for continued engagement,” he said.

While markets, in general, remain volatile due to banking sector concerns, that shouldn’t stem municipal ownership by banks, according to John Miller, head of municipals at Nuveen, and Anders

S. Persson, chief investment officer and head of Nuveen global fixed income.

“Some investors believe banks may be forced to sell municipal holdings and use the cash to shore up their balance sheets,” the pair said in a March 20 report.

“At this time, we see no credit issues appearing in municipals as an asset class,” that would force banks to sell their municipal holdings, they wrote.

“As regulators convene to discuss a way forward for banks in the wake of SVB, attention may be focused on munis, and while it is too soon to advance substantive prognostications, we will be on the lookout for anything that impacts demand for the asset class,” Jeff Lipton, managing director and head of municipal credit and market strategy at Oppenheimer & Co., said in a March 17 report.

The 2018 Economic Growth, Regulatory Relief and Consumer Protection Act reclassified municipal bonds as high-quality, liquid assets and provided another vehicle for banks to help meet their liquidity needs, Lipton pointed out.

“While active investment by banks has generally been softer more recently, this buyer class has remained part of the muni liquidity profile,” Lipton wrote.

Even with the lower corporate tax rates created by the Tax Cuts and Jobs Act of 2017, banks have remained a significant holder of municipals – albeit with higher allocations into taxable municipals, Lipton noted.

Going forward, Lipton plans to closely follow bank flows to gauge any meaningful selling pressure.

So far, there is little evidence that ownership of munis by banks – which hold about $540 billion of municipals, $140 billion of that is held by regional banks – will dwindle, according to Eve Lando, portfolio manager and managing director at Thornburg Investment Management.

About half of that exposure is in direct loans, so it shouldn’t be part of a sell-off, Lando noted.

“The total muni market is $4 trillion, so in isolation, the large bank numbers are a small fraction of the entire market and unlikely to flood the market,” she said in a March 21 report.

“We have seen one or two bid-wanted lists but nothing close to moving the market,” Lando added. “Contagion risk is low in the muni market prompted by bank selling.”

While others agree there will be little to no change in bank ownership of municipal bonds, they say banks could reduce their investment exposure.

“I do not expect bank ownership of municipal bonds will materially change,” Paul Mansour, a veteran New York City municipal bond analyst and current vice chairman of the New Hampshire Municipal Bond Bank.

However, the former head of municipal research at Conning said he expects financial institutions will shorten their duration.

“The ongoing banking crisis was created by a mismatch of short-term deposits secured by longer-term fixed-income securities of all types,” he explained.

“Deposits were withdrawn more rapidly than assumed could happen fueled by social media, forcing the banks to unload their fixed-income assets at distressed prices,” Mansour said, adding, he also

expects the long end of the municipal curve to cheapen as a result.

Peter Delahunt, managing director of municipal securities at New York-based global firm StoneX Group Inc. (SNEX), said deposit growth and loan demand drive a bank's appetite for bonds. The primary mission is to use the deposits to make loans, he explained. Where loan demand is insufficient for investing the deposits, banks will then invest in bonds, Delahunt added.

"Conversely, as funding becomes constrained when deposit growth deteriorates, there is less to invest in bonds and/or loans," he continued.

"So far as this banking crisis leads to deposit deterioration, there will be less investment demand for bonds from the banks, whether tax-exempt or taxable," Delahunt said.

The tax-exempt nature of bond demand will be determined by a bank's tax status – vis-a-vis the tax equivalent alternatives amongst the various fixed income securities, he noted.

"The other narrative is how much loan demand will be squeezed by the Fed's hawkish stance," Delahunt said.

Banks significantly added municipal bonds to their portfolios just after the 2008-2009 financial crisis for two leading reasons: first, they liked the credit quality in the sector and second, there were not as many other investment options at the time, according to Tom Kozlik, managing director and head of public policy and municipal strategy at HilltopSecurities.

"Therefore, there is likely to be a natural reversion in bank investment patterns in the near term, but this was because they added them in the beginning to the middle of last decade," Kozlik explained.

He said if banks reduce their municipal holdings going forward it might not necessarily be related to the current regional banking collapse.

Like others, Kozlik is cautiously watching the banking crisis unfold.

"We do not know if the banking sector issues are going to snowball and/or if the economy is going to face headwinds," he said.

Jon Barasch, long time credit analyst and fixed income specialist in New York, said municipals meet the federal banking regulations pertaining to high quality liquid assets and liquidity coverage ratios to which banks are subject.

Rather than curtailing ownership, he agrees banks could work toward a slight drop in maturity duration given the recent developments.

"Perhaps the bonds banks do choose to own will be shorter in duration than years past," Barasch said, noting the troubled banks owned bonds that featured longer maturities.

Jim Tinker, vice president of Alphaledger, who has more than 15 years in banking and municipal finance, said most banks are on pause in terms of adding to municipal holdings.

"This is mainly the result of deposit declines reducing excess cash, which was underway prior to the closings of Silvergate Bank, Silicon Valley Bank, and Signature Bank (SGBG)," he explained. "With the recent bank closures, I would not be surprised if banks decided to reposition some of their municipal holdings to reduce duration and/or reallocate to increase liquidity," Tinker said.

In the meantime, banking concerns continue to roil the financial markets, with potential impacts on the municipal market, sources said.

Multiple recent rating downgrades of banks, including First Republic, engendered fear among investors and depositors.

The plethora of troubles that felled Credit Suisse last week and ended in a $3 billion takeover of the Swiss bank by its bigger rival UBS on Sunday added an extra dark cloud.

And news reports that the Biden administration was in talks with Warren Buffett, the chairman of Berkshire Hathaway (BRK/A), who famously swooped in with billions to bolster Goldman Sachs (GS) during the 2008 financial crisis, only signaled that the current panic might grow worse still.

Jennifer Johnston, director of research at Franklin Templeton Municipal Bonds, spoke of the uncertainty over the collapse during a March 21 webinar about navigating rates and risk.

With bank ownership at approximately 15% of the $4 trillion municipal industry, she is evaluating the potential for bank selling of municipals.

“That’s something we are watching and looking to see how it unravels,” she said.

By Christine Albano

BY SOURCEMEDIA | MUNICIPAL | 03/21/23 03:44 PM EDT

Is Participatory Budgeting Coming to a Local Government Near You?

Amid an influx of billions of federal dollars, some think the tool may see an uptick in use.

Welcome back to Route Fifty’s Public Finance Update! I’m Elizabeth Daigneau, subbing in for our Public Finance guru Liz Farmer while she’s on vacation, and this week, I’m writing about participatory budgeting.

It’s far from a new idea, and you’ve probably been reading about it for years, but participatory budgeting has slowly been growing since it was first introduced in the U.S. in Chicago in 2009. Many anticipate it is about to see a boom as billions of federal dollars continue to pour into local communities.

For the uninitiated, participatory budgeting is a tool that encourages citizens to decide how a portion of taxpayer money should be spent. It has been utilized by school districts in Arizona and Central Falls, R.I.; counties such as King County, Washington; and countless cities. It started in Brazil in 1989, and to date, roughly 7,000 cities around the world have used the tool, including 29 here in the U.S. where residents have collectively allocated $386 million, according to the nonprofit Participatory Budgeting Project.

Continue reading.

Route Fifty

By Elizabeth Daigneau

MARCH 21, 2023

How to Spend Your City's Money.

In a system known as participatory budgeting, citizens tell the government what to do.

n August, 2021, five Portuguese firefighters were battling a bushfire in the south of the country when a sudden wind drove the blaze up a steep slope beneath them. They had only a few seconds to climb into the cab of their truck before it was surrounded by flames. Once inside, they activated a safety feature that sprayed a cloud of water to cool the cab. The air was dark and smoky, but they used oxygen masks to breathe from cannisters of purified air. They soon managed to drive to a stretch of road where the fire was less fierce, and escaped without serious injuries.

The firefighters came from the municipality of Cascais, a coastal city of two hundred and fifteen thousand people near Lisbon. Their truck, with its cooling-water system and oxygen masks, cost a hundred and sixty thousand euros; before they purchased it, in 2017, they used a vehicle from 1996 that lacked both features. Though the upgrade was a matter of life and death, they couldn't get funding for it from the national government. Instead, they used a process called participatory budgeting. Each year, the government of Cascais allows citizens to propose, debate, and vote on projects that the public budget will fund. Winning projects receive up to three hundred and fifty thousand euros, and the city guarantees that it will execute them within three years. Since it launched the system, in 2011, Cascais has spent fifty-one million euros implementing hundreds of projects. The city has renovated derelict buildings, constructed high-school science labs and skate parks, improved accessibility at beaches, created green spaces, installed Wi-Fi and charging stations at bus stops, and much more. Collectively, these projects have reshaped the urban landscape: within Cascais, nobody lives farther than five hundred metres from a participatory-budgeting project.

Many cities around the world practice some form of participatory budgeting, but even among those that do, Cascais is an outlier. It spends prodigiously through the system: in Paris, five per cent of the city's annual investment budget has been allocated to participatory projects in recent years, but in Cascais, more than fifteen per cent of the budget flows through the program, and the percentage can float higher if voter turnout rises. Cascais is surprising in another way: its mayor, Carlos Carreiras, is both a champion of participatory budgeting and a member of a center-right political party. Participatory budgeting is often considered a tool of the left, but its role in Cascais suggests that it could have a broader appeal; part of the theory behind it is that citizens can be better than officials at knowing how money should be spent.

Continue reading.

The New Yorker

By Nick Romeo

March 24, 2023

Policy Thoughts about Single-Family Mortgage Social Bonds.

DOWNLOAD REPORT

The Urban Institute

by Laurie Goodman & Janneke Ratcliffe

March 24, 2023

Muni Moves in March (Bloomberg Audio)

Joe Mysak, editor of the Muni Market Brief, joins the program to discuss everything going on in the municipal bond market. Hosted by Paul Sweeney and Jennifer Ryan.

Listen to audio.

Mar 24, 2023

The Pros Fail to Meet the Moment With Bond ETFs.

Actively managed fixed-income ETFs stumbled last year and only 40% are beating their benchmarks in 2023.

The pitch for an actively managed bond exchange-traded fund can be compelling, especially when there's market turmoil and uncertainty: Let a pro handpick bonds that can outperform benchmarks instead of investing in an index-tracking fund on autopilot, but pay less than you would for a mutual fund. Oh, and you can save on taxes, too.

More investors are taking the bait. Last year, active ETFs accounted for 14% of overall ETF flows even though they made up just 4% of assets, according to a report from Bloomberg Intelligence analyst Eric Balchunas, who tracks the data. So far this year, more than 30% of incoming flows are to active ETFs. In addition, since 2021, dozens of such funds have been unveiled, including versions from big names like Vanguard Group and JPMorgan Chase & Co.

But a look at performance — when it mattered most — should stop investors in their tracks. Active fixed-income ETFs were a total flop as bonds were hammered by the Federal Reserve's actions last year and suffered their worst performance on record. Just half of 182 actively managed bond ETFs outperformed their respective indexes, data from Morningstar Inc. shows.

Continue reading.

Bloomberg Opinion

by Alexis Leondis

March 23, 2023

One Year of Rate Hikes Ends Decades of Bond Market Prosperity.

Bonds suffered historic losses after the Fed began raising interest rates in March 2022

KEY TAKEAWAYS

- Federal Reserve's interest rate hikes in 1980 sowed the seeds for a long-term rally in bond markets.
- But the same prescription, taken again last year to tame inflation, has hammered bond returns.

In the early 1980s, the Federal Reserve conquered high inflation with economically painful interest rate hikes that, in turn, planted the seeds for a 40-year bull market in fixed-income securities.

The run finally began to end March 17, 2022.

That's the day the Fed, after protecting the U.S. from pandemic calamity by maintaining its benchmark lending rate at a historic low of 0-0.25% for two years, raised rates for the first time since 2018.

Continue reading.

INVESTOPEDIA.COM

By LYLE NIEDENS

Published March 24, 2023

Unpacking Muni Opportunities in a Slowing Economy.

Still shaking off 2022's dismal returns, municipal bond investors now worry about the impact of a potential economic downturn. Gloomy news reports of projected budget gaps for state and local governments only add to their anxieties. But the muni market is more resilient than headlines suggest, and a closer look across sectors can help discern areas of opportunity from those that require a bit more caution.

Muni Market Resilience Starts at the State Level

Many state and local governments will face fiscal challenges next year, but they inherently have the flexibility to work through them. For example, foreseeing a $22.5 billion deficit due to a slowing economy, California is already strategically delaying funding and shifting spending to close the gap without having to tap into its $36 billion in reserves.

More broadly, the outlook is favorable for most state and local governments, thanks to the record budget revenues and reserves in hand. In fact, the median state reserves-expenditures ratio is currently 25%—well above its roughly 10% over the long run. By contrast, the ratio was just under 12% heading into the global financial crisis of 2008.

Strong fiscal report cards are the linchpin of the muni market's overall appeal. They also explain why muni bonds have weathered economic malaise much better than corporate bonds. In fact, muni

bonds have had fewer downgrades, more stable ratings and significantly fewer defaults—near-zero—compared to corporate issues since 1981, which includes five official US recessions (Display).

Continue reading.

ALLIANCE BERNSTEIN

MARCH 22, 2023

Cities' Credit Ratings Are at Risk Because There Aren't Enough Accountants.

- **149 muni ratings on negative watch for disclosure delays: S&P**
- **S&P says staffing challenges have led to late fiscal documents**

Municipalities across the US are at risk of having their credit ratings downgraded or withdrawn by S&P Global Ratings because staffing shortages have delayed financial disclosure documents.

S&P has placed 149 long-term, underlying and program ratings on a negative credit watch this year because the ratings company hasn't received 2021 financial statements from the issuers. That's the most since at least 2018, and materially higher than the prior five-year average of 95 such moves, according to S&P data.

"If we don't have the financials, then bondholders don't have the financials," Jaime Blansit, a rating associate at S&P, said in an interview. "We don't want financial deterioration happening without our knowledge and updating our rating accordingly. Without financials we don't know if the rating is accurate or not."

Continue reading.

Bloomberg CityLab

By Danielle Moran

March 14, 2023

Should We Worry About Municipal Bond Defaults?

When it comes to safety in fixed income, municipal bonds have long proven their mettle as a strong, secure way to generate income and returns. After all, in theory, a state or local town has the ability to raise taxes to help pay for coupon payments and make investors whole. And history suggests just that.

But it isn't always the case. Municipal bond defaults do happen.

With recession risks rising and new trends emerging, some analysts are predicting we could see a new wave of such events in the staid muni market. So, what should investors do? Is it time to abandon our muni bonds and look toward greener pastures? History is a good guide.

Continue reading.

dividend.com

by Aaron Levitt

Mar 13, 2023

State & Local Roundup: Bank Collapses Add to Worries for State and Local Officials

Plus: Lawmakers want to tighten SNAP work requirements; Conservatives continue DEI assault; A potential labor strike in L.A.; and more news you can use from around the country.

It's Friday, March 17, and we'd like to welcome you to the weekly State and Local Roundup. This week, a second bank failed and a third narrowly avoided collapse, following the implosion of Silicon Valley Bank last week. The troubles in the banking industry have already caused headaches for state and local officials and could cause even bigger problems down the road.

After the federal government took control of Silicon Valley Bank, New York state regulators and the Federal Deposit Insurance Corp. on Sunday closed Signature Bank, which suffered from losses associated with cryptocurrency. Major banks agreed Thursday to rescue First Republic Bank with a $30 million package.

Continue reading.

Route Fifty

By Elizabeth Daigneau, Daniel C. Vock and Molly Bolan

MARCH 17, 2023

Muni Investors Fret Over First Republic.

First Republic Bank's tumbling share price has left muni bond holders worried about the bank's large stockpile of state and local government debt.

The bank was downgraded to "junk" by S&P Global Ratings Wednesday and was the worst performer in the S&P 500, according to FactSet. Its stock is down 74.99% month-to-date.

First Republic has been hit after the failures of Silicon Valley Bank on Friday and Signature Bank on Sunday. Cryptobank Silvergate Capital also said earlier this month it would shut down.

First Republic said Sunday it shored up its finances with funding from the Federal Reserve and JPMorgan Chase & Co. Executives at the bank said in a statement that day that First Republic's "capital and liquidity positions are very strong."

San Francisco-based First Republic, which is the 14th largest bank by assets according to the Federal Reserve, had $19.4 billion in municipal bonds on its books as of Dec. 31, according to its most recent filing. In contrast, Cincinnati-based U.S. Bancorp, the 5th biggest bank, has a little over $10 billion.

So far this week, muni debt has gotten a boost as investors have fled to ultra-safe investments. If First Republic sells its munis, a larger-than-usual amount of debt could get dumped into the $4 trillion market, dragging down prices.

But, historically, when banks have unloaded munis under pressure, they've generally been able to do so in an orderly way, said Daniel Solender, partner and director at the investment company Lord Abbett.

Should First Republic need to sell, Mr. Solender said, "it doesn't seem like there's a need to rush any sales."

About $580 billion of outstanding muni debt is held by banks, according to the Federal Reserve. Regional banks own close to $140 billion, according to Barclays PLC. Demand chronically outstrips supply in the muni market, one reason it generally remains calm in the face of turmoil – outside of a really major firesale.

"Silvergate sold $4 billion," said Mikhail Foux, head of municipal strategy at Barclays. "I don't think anybody noticed and nobody even knew."

The Wall Street Journal

By Heather Gillers

Mar 15, 2023

Table Of Contents: S&P Global Ratings Credit Rating Models

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An S&P Global Ratings model information document provides a summary description of a Ratings Model (a model that is used in the process of determining a Credit Rating) or a Criteria Model (a complex model that is based on advanced economic, financial, mathematical, or statistical methodologies used in the development of Criteria). A model information document typically includes a summary description of: (i) the model, (ii) assumptions underlying the model, (iii) data used in model development and calibration, and (iv) model limitations. A model information document also includes references to related criteria. Our credit rating models may be global, regional, or local, be specific to an individual industry or subject area, or apply across several industries or subject areas.

Material changes to credit rating models are described within our model information documents, which provide information describing recent material changes to models, where applicable. The publication of an updated model information document to describe material changes to a model typically follows shortly after use of the revised model is approved by S&P Global Ratings. There may be some instances where the description of a material change to a model could potentially reference changes being made by an issuer or a transaction that are confidential until the the issuer

or transaction makes those details public. Accordingly, in these instances the publication of updates to a model information document may be timed to ensure that any publication does not communicate confidential information.

This table of contents, which we update continuously as we introduce or enhance models, will direct you to all active model information documents for the groups or instruments listed below. We most recently republished this table of contents on the date shown above.

Continue reading.

13 Mar, 2023

State Laws Shield Many Municipal Natural Gas Utilities From Energy Transition-Related Demand Erosion: S&P

Key Takeaways

- S&P Global Ratings rates 40 municipal gas utilities, 32 of which operate in states that preclude counties and cities from banning new natural gas connections.
- Based on these states' laws, we believe the 32 utilities are unlikely to experience intermediate-term erosion of demand for natural gas that might otherwise weaken their creditworthiness as the energy transition proceeds.
- We believe that any negative pressure on existing gas sales will be manageable for the eight utilities that operate in states where they are not shielded by protective regulatory measures and might become exposed to prohibitions on connecting new gas appliances.
- Current mandates apply to new construction and the replacement of existing appliances; they do not require property owners to replace functioning gas appliances. We believe cost considerations will limit voluntary replacements.
- The Inflation Reduction Act's tax credits for electric heat pumps and hot water heaters cover only a portion of conversion costs and, therefore, might not provide a sufficient catalyst for property owners to voluntarily accelerate their transition to electric appliances from gas, although combining some states' incentives with federal tax credits might make the move more attractive.

Continue reading.

14 Mar, 2023

Fitch: HFA Loan Performance Compares Favorably to RMBS Loans

Fitch Ratings-New York/San Francisco-13 March 2023: Loans originated by state housing finance agencies (HFAs) show strong performance, with generally lower delinquencies than securitized loans with similar credit characteristics in residential mortgage-backed securities (RMBS) pools, due in part to HFAs' pre-mortgage engagement with potential borrowers and continued engagement after the mortgage is closed, Fitch Ratings says.

Fitch compared HFA loan performance with alt-A, subprime, and reperforming loans (RPLs), which have similar attributes to HFA loans, including weighted average interest rates and FICO scores. We

assessed HFA and RMBS loans across 15 states representative of a range of geographic and economic conditions. The performance comparison is based on aggregate delinquency rate reporting by the HFAs, rather than the more granular loan-by-loan payment information for RMBS portfolios.

Most HFA single family programs are secured by a pool of first lien, fixed-rate, 30-year mortgages on primary residences for first time homebuyers. HFA loans have home price and income limit restrictions, and subsequently lower average balances relative to other mortgage loans. Strong HFA loan performance is attributable to underwriting standards that require full documentation and mortgage insurance for any loans with 80% or lower LTVs, as well as keeping the loans on balance sheet, which gives the HFAs ownership of the loans and a vested interest in ensuring that they perform well. This includes active oversight of the loan portfolios, with early follow-ups for delinquent loans to help keep borrowers in their homes and the loans performing.

Continue reading.

'The Era of Urban Supremacy Is Over'

On the last day of February, Glen Lee, the chief financial officer of Washington, D.C., issued a warning to the mayor and members of the District of Columbia Council, who are undertaking such costly ventures as free bus service and expanded affordable housing.

"The Covid-19 pandemic," Lee wrote, "has brought about significant changes in the District's population and economy, with potential long-term implications." Revenue estimates, he said, have "been lowered due to 1) a more pessimistic economic outlook and 2) a deteriorating real property market."

In Lee's view, there are still more danger signals:

Continue reading.

The New York Times

by Thomas B. Edsall

March 15, 2023

Extreme Storms Will Punish Cities That Aren't Prepared.

Hurricane-strength winds and intense rainfall will target the US Northeast in coming decades, a new report warns, redrawing the US flood risk map.

In August 2021, a series of severe storms hit the middle of Tennessee, shattering local rainfall records. In the town of Waverly, flash floods tore homes off their foundations and killed 20 people, including 7-month-old twins swept out of their father's arms.

"It's just devastating, to watch your lives go away in dumpsters," Waverly resident Christy Brewer told a reporter from local NBC affiliate WSMV.

Weeks later, the remnants of Hurricane Ida swept over the same area, completing a one-two punch of wind and rainfall that helped turn Tennessee into one of 2021's costliest US states for weather disasters.

Continue reading.

Bloomberg CityLab

By Patrick Sisson

March 15, 2023

States Consider New Transportation Funding Options: NASBO

In recent years, states have begun responding to the diminishing buying power of motor fuel revenue. States are concerned that in the long term, the current structure of state and federal fuel tax revenue will not be able to meet infrastructure funding needs as most gas taxes are set at fixed rates and do not rise with inflation, new vehicle fuel economy continues to increase, and the sale of electric vehicles rapidly grows. Since 2013, 33 states have taken actions to raise their fuel tax revenues. Many of the actions resulted from multi-year transportation plans and were combined with other revenue-raising actions. While motor fuel taxes have been impacted by the rise in vehicle fuel efficiency and the increase in electric vehicle sales, they currently remain the largest revenue source for transportation. According to NASBO's State Expenditure Report, in fiscal 2022 motor fuel taxes represented 38.4 percent of transportation fund revenue, followed by license and registration fees (19.8 percent), vehicle sales and use taxes (10.4 percent), tolls (1.3 percent), and all other (30.1 percent).

Continue reading.

National Association of State Budget Officers Budget Blog

States' Role in Water and Wastewater Spending Secure, Says EPA.

An agency official reassured state and federal officials that "states are very much in the driver's seat" in picking which projects to spend funds from the bipartisan infrastructure bill.

The top Environmental Protection Agency official on water policy reassured senators on Wednesday that the agency will give states flexibility in deciding how to spend the $48 billion for water and wastewater funds that was included in the bipartisan infrastructure bill.

"The states are very much in the driver's seat in selecting the projects that really meet the needs of their residents," said Radhika Fox, the assistant administrator for water at the EPA.

At the hearing, West Virginia Sen. Shelley Moore Capito, the top Republican on the Senate Environment and Public Works Committee, raised concerns that the Biden administration would not just consider what areas are most in need of help with their water infrastructure, but that it would factor in other administration priorities as it distributes the money, including its Justice40 initiative

to send 40% of funding to disadvantaged communities.

Continue reading.

Route Fifty

By Kery Murakami

MARCH 16, 2023

Muni Reaction to Financial Instability (Bloomberg Audio)

Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, joins the show to break down the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Mar 17, 2023

Bank Woes Create Bond Bargain in Obscure Corner of Muni Market.

- **Muni prepaid gas bonds trade wider on bank contagion**
- **Barclays analysts "continue seeing value" in the sector**

Investor concerns over the crises within the financial industry are bleeding into a corner of the $4 trillion municipal-bond market where major investment banks guarantee energy for public utilities.

Spreads have widened on so-called prepaid gas bonds, which government agencies use to purchase long-term supplies of natural gas. Large institutional banks act as facilitators of the transactions, guaranteeing the supply and providing investors tax-exempt exposure to bank credit. Now, with global markets on edge over turmoil at Credit Suisse Group AG and the collapse of some US regional banks, those bonds have cheapened.

Unlike traditional municipal bonds that are backed by government revenues like taxes or household utility bills, these securities are more closely correlated to the corporate market on a credit basis. So while the broader municipal bond market has rallied, prepaid gas bonds have underperformed because a key-rating factor is the quality of the bank involved in the transaction.

Continue reading.

Bloomberg Markets

By Maxwell Adler and Danielle Moran

March 16, 2023 at 9:12 AM PDT

Credit Backdrop Adds to Muni ETF Appeal Amid Bank Drama.

As though rising rate volatility and recession fears weren't concerning enough for investors, the last week's bank run drama and instability has all eyes on the risk of contagion to the broader economy. That has investors looking to safer options, and for those investors who are put off by rapidly falling yields in Treasurys, it may be the right time to consider how a muni ETF can play an important role in recession proofing portfolios in 2023.

When talking about munis, market watchers will be well aware of how badly they performed last year — what investors may not know, however, is that municipal bonds have a strong tendency to bounce back after a tough year. Not only do munis tend to rebound, they're also seeing a solid, stable credit backdrop thanks to unspent Federal aid and record reserves.

That may add to munis' strength as a bulwark, less impacted by the bank situation than Treasurys have been while still looking at the financials sector with caution in mind. Three different muni ETF categories ranked in the top fifteen ETF categories on YCharts based on one month returns, as well, suggesting recent strength and durability for the category.

Continue reading.

ETFTRENDS.COM

by NICK PETERS-GOLDEN

MARCH 15, 2023

ESG Factors of Munis May Attract Non-US Investors.

US municipal bonds have traditionally been owned by US retail investors but their environmental, social and governance characteristics may attract overseas and institutional investors.

David Knutson, head of US fixed income product management at Schroders, told Markets Media that municipal bonds are generally not widely owned outside the United States. He explained that the US market is a natural habitat for municipal bonds, due to their related tax exemptions.

"However, there are inherent sustainable characteristics to a lot of municipal issuance, such as funding hospitals, water and infrastructure, so there could be growing demand among non-US investors," he added.

Continue reading.

marketsmedia.com

by Shanny Basar

03.15.2023

S&P U.S. Public Finance Rating Activity, February 2023.

View the rating activity.

Ground Lease Risks in Municipal Bond Projects: ArentFox Schiff

Ground lease structures have become a common feature of conduit financings in the municipal bond market. They provide tax advantages to projects and can be structured several different ways depending on the tax-exempt status of the parties involved.

The majority of the projects involve tax-exempt lessor structures. Since government entities and nonprofit organizations are exempt from real property taxes in most jurisdictions, a ground lease between such entities and a borrower-sponsor provides a project the opportunity to either be exempt from property taxes or subject to a payment-in-lieu of taxes arrangement, both of which can provide significant savings over the life of a project.

In higher education, universities usually utilize conduit financed ground lease structures to build student housing projects. These projects include a ground lease between a university, as landlord, and the borrower-sponsor, as tenant. The university agrees to the ground lease because, since the borrower-sponsor is responsible for repayment of the bonds and the mortgage is on the leasehold, the university can build a project on campus without incurring debt and keep the project for free once the ground lease is terminated. During the term of the ground lease, the provisions of the ground lease provides a means for the university to regulate or supervise the project and receive an annual ground lease rent.

In other industries, the issuer often owns the land and ground leases the land on which the project is to be built to the borrower-sponsor, who constructs the project and subleases it back to the issuer. Such a project qualifies for a real property tax exemption because it is owned by a government entity, and since the government entity is also tenant under the sublease, the project qualifies for sales tax exemptions on materials during construction. The issuer, as tenant under the sublease, is responsible for payment of the bonds, while the borrower-sponsor develops and operates the project pursuant to terms and conditions of agreements with the issuer. The borrower-sponsor usually has an opportunity to purchase the land and project once the bonds are paid.

These structures present unique risks to bond buyers. The bonds are generally secured by mortgages on the leasehold and/or subleasehold estates. Bondholders should be mindful of the rights of parties to terminate the ground lease or interfere with their ability to exercise remedies. If the ground lease is terminated or the trustee cannot take possession of the project, the corresponding lien on the physical project is extinguished and the collateral package has no value.

With that in mind, bondholders should seek the following protections in any ground lease that is part of a municipal bond financing:

- **Term** – the term of the ground lease should be at least five years beyond the maturity date of the bonds, and bondholders should push for more if at all possible. The extra five or more years allows for a workout and extension of the term of the bonds in the event it is needed to allow the project to cash flow to cover operating expenses and debt service. If the bonds on a project have a bullet maturity, the term of the ground lease should be at least double the term of the bonds to allow for

a refunding of the maturing bonds.

- **Authorization** – the ground lease should explicitly authorize the borrower-sponsor to incur a mortgage on the ground lease or else a court would consider the lien on the leasehold estate invalid.
- **Transfer and Assignment** – the ground lease should be assignable by the trustee without limitations. Failure to include such provisions could prevent a mortgagee from selling or transferring the leasehold estate (by sale or otherwise) upon foreclosure or the execution of an assignment-in-lieu of foreclosure. It is important for the provisions to allow for the trustee to designate another entity to take position in lieu of the trustee since the financing structure may rely on the status of borrower-sponsor to preserve the tax-exempt status of the bonds and/or provide other tax benefits. Additionally, such designee should be entitled to a new lease to aid in the restructuring of the project upon foreclosure or assignment-in-lieu of foreclosure.
- **Notice and Opportunity to Cure** – any notice of default by the tenant under the ground lease should be provided to the trustee, and the trustee should have an opportunity to cure of at least 30 days. An uncured event of default of tenant under the ground lease usually grants the lessor the right to terminate the ground lease, which would eliminate the trustee's collateral. A notice and opportunity to cure allows the trustee to preserve its collateral and later seek reimbursement for such expenses of borrower under the leasehold mortgage, trust indenture or other bond documents.
- **New Lease** – if the ground lease is terminated for any reason, like termination upon default, or is rejected in bankruptcy, the trustee should have the opportunity to enter into a new lease on the same terms.
  No Modification – the ground lease should not be permitted to be modified without the consent of mortgagee, or else the landlord and borrower could modify mortgagee rights and remedies without mortgagee's knowledge or consent.

In our experience representing bondholders, most of the ground leases we have reviewed have included the foregoing provisions. As we have encountered more complex financings, we have seen the following serious issues:

- **Cross-Default** – the ground lease and sublease must not cross-default with the trust indenture, loan agreement or any other bond document (Example: "A default under the Trust Indenture is a default under this Lease…"). Any event of default under the bond documents should provide the trustee the chance to exercise remedies, not give the landlord the opportunity to eliminate the leasehold estate and, as a result, the collateral, unless the trustee cures borrower-sponsor's default.
- **Third Party Beneficiary** – the ground lease and sublease should recognize the trustee and any successor trustee as third-party beneficiaries. This can be done by including a provision that designates any leasehold mortgagee as a third-party beneficiary that can enforce the agreement against the landlord and the tenant. Leasehold mortgagees are not parties to the ground lease, so a third-party beneficiary designation is required to enforce mortgagee protections in the ground lease and sublease against the landlord and tenant in court. Additionally, if success of the project is dependent on the landlord and borrower-sponsor meeting certain standards or offering certain services under the ground lease or sublease, the third-party beneficiary designation is necessary for the leasehold mortgagee to enforce those provisions against the parties if they fail to meet expectations.
- **Borrower Notices and Consents** – if the project is a lease-sublease structure where the borrower-sponsor is the tenant under the ground lease and the landlord under the sublease, the borrower-sponsor should have no consent rights on any mortgagee matters under the ground lease or the sublease. The borrower-sponsor as ground lease tenant and sublease landlord is more of a passthrough entity for the project until the bonds are paid, while the borrower-sponsor as

developer and manager is a true party-in-interest to the project. Just as developers and managers usually do not have consent rights to modifications of the collateral, the borrower-sponsor should not have those consent rights to the mortgage in the project. It grants the borrower-sponsor serious leverage in a workout against bondholders. If the borrower-sponsor has consent rights over mortgages in the sublease, for example, it could prevent the execution of a mortgage on the subleasehold estate over unpaid management and developer fees that are subordinate to debt service.

- **Shared Parcels** – the ground lease and sublease should be on their own subdivided plot, not part of a larger fee estate parcel. When ground lease projects are part of a larger fee estate parcel, the project is at risk of unrelated actions and charges on the fee estate. For instance, if a landlord that has ground leased part of the fee property to a project, funded by bonds and secured by a leasehold mortgage, decides to develop the rest of the property on the fee estate and secure it by a fee mortgage, a foreclosure of that fee mortgage would extinguish the leasehold and subleasehold estates. Similarly, if the landlord's fee project incurs taxes, utility charges, homeowners association fees or other costs that have the potential to become "super liens" superior to the leasehold estate, a foreclosure of those liens would terminate the ground lease and sublease. If the ground lease and sublease must be part of a larger fee parcel, the ground lease and sublease should (a) require that any mortgage or lien placed on the fee interest is subordinate to the ground lease, (b) require that the landlord promptly pays any charges or fees that risks the leaseholds, and (c) allow for the borrower-sponsor and the leasehold mortgagee to cure charges on the fee estate and seek reimbursement from the landlord.
- **Multiple Mortgagees** – The ground lease should recognize the potential for multiple mortgagees and prioritize the most senior mortgagee. We have encountered projects with multiple mortgagees where the mortgagees do not have an intercreditor agreement. In those cases, either the subordinate mortgagees are subordinate to the senior mortgagees based on time of recording and the other bond documents, or the subordinate mortgagees have a springing security interest that attaches once the senior bonds are paid off. Because there is no intercreditor agreement, the deal is silent as to negotiation procedures upon an event of default. Subordinate mortgagees, who usually have a closer relationship with the borrower-sponsor and misaligned interest with the senior mortgagees, too often take the reins negotiating with landlords in a workout without notifying or consulting the senior mortgagees. Either the ground lease should clarify that the landlord will prioritize the most senior secured mortgagee in negotiation and dispute resolution, and/or an intercreditor agreement with clear guidelines should be recorded on the project.

Before investing in a ground lease project, bondholders must fully understand the project and its risks. While reviewing the official statement and engaging with the underwriter, this client alert should serve as a comprehensive checklist of issues that should be addressed. In the context of a limited offering, perspective purchasers of the bonds have leverage to request our suggested changes to the ground lease. In those transactions, most landlords are related parties that directly benefit from the conduit financed project. It would generally benefit landlords for the projects to succeed, and a failure to negotiate in good faith or a termination of the ground lease with a leasehold mortgage would negatively impact their reputation and rating in the bond market. If any of these protections are not included when the bonds are issued, it is critical to obtain them in a workout as a condition for forbearance or refinancing.

by Mark Angelov & Sterling Johnson

March 9, 2023

ArentFox Schiff

GFOA Teams with Aon to Help Local Governments Mitigate Natural Disaster Risk.

This week, GFOA announced that it's teaming with Aon plc (NYSE: AON), a leading global professional services firm, on a first-of-its-kind initiative to provide local U.S. governments with state-of-the-art tools to help them better analyze and plan their rainy day funds.

LEARN MORE

Fitch: US Airport Infrastructure Grants Help Offset Rising Capital Costs

Fitch Ratings-Austin/New York-07 March 2023: The recent round of Federal Aviation Administration (FAA) grant awards to US airports under the 2021 Bipartisan Infrastructure Law (BIL) is supportive of airports' ability to address needed infrastructure expansion or improvement costs, given the capital-intensive nature of airports and higher revised budgets as airports move ahead with capital projects, Fitch Ratings says. US airport traffic has essentially recovered to pre-pandemic levels, contributing to strong airport financial profiles, although the size and scale of needed capital investments remains a significant ongoing budget pressure and is a key factor in our analysis.

We expect that airports' cost per enplanement and debt levels will continue to rise at major market airports undertaking capital projects, as federal funding will only defray only a portion of the total costs. Fitch believes airport cashflow and liquidity profiles will remain solid in 2023 and following years, given the broad political and financial support for airport improvements, and stronger airline industry positioning due to positive travel trends.

In late February, grants were awarded to 99 commercial airports, with funds to be used for terminal facility projects geared to expansion, modernization, security, and sustainability targets. While federal programs have existed for decades to infuse funds for airport infrastructure needs, grants under the BIL may help lessen the impact of industry pressures from rising capital budgets, exacerbated by the combination of elevated inflation and higher borrowing costs. Further, the magnitude and duration of capital plans, particularly at the large-hub facilities, are resulting in airports seeking solutions to avoid passing through all capital costs via airline fees.

The BIL provides almost $970 million of federal grants per year over five years through the competitive Airport Terminal Program (ATP) for airport terminal improvement and access projects and air traffic control tower updates, demonstrating continued strong government support for the industry even though COVID risks have diminished. However, this amount only represents a small proportion of the estimated infrastructure needs across US airports. A 2021 survey from Airports Council International-North America indicates a backlog of projects well in excess of $100 billion over the succeeding five-year period.

FY23 grants were spread across non-hub, small, medium and large hub airports, with Chicago O'Hare (A+/Stable) receiving one of the largest award amounts of $50 million for its Terminal C rehabilitation, which has a total budget of $136.3 million and is part of the airport's larger $12 billion, 10-year capital plan. The smaller Key West airport (A-/Stable) was awarded $13.3 million for a new concourse with seven added gates. The BIL grant and separate federal and state grants cover around 65% of the total project cost of $113.4 million. Smaller airports generally benefit more from grant awards relative to their larger peers as their debt capacity for project funding is constrained

by their limited enplanement bases.

Contacts:

Seth Lehman
Senior Director, Infrastructure and Project Finance
+1 212 908 0755
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Jeffrey Lack
Director, Infrastructure and Project Finance
+1 312 368 3171

Sarah Repucci
Senior Director, Fitch Wire
Credit Policy – Research
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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MSRB: Negative Yield Municipal Bonds

View the publication.

03/09/2023

Muni Bond Update (Bloomberg Audio)

Joe Mysak, columnist with Bloomberg News, joins the program to discuss the latest on the municipal bond market. Hosted by Paul Sweeney and Kriti Gupta.

Listen to audio.

Mar 10, 2023

Vanguard's First New ETF in Two Years Targets Short-Term Munis.

- **VTES tracks short-maturity munis and charges a fee of 0.07%**
- **First new Vanguard fund since Ultra Short Bond ETF in 2021**

Vanguard Group Inc.'s first new exchange-traded fund in two years is setting sail at a turbulent time for municipal debt.

The Vanguard Short-Term Tax-Exempt Bond ETF (ticker VTES), which tracks an index of municipal bonds due in seven years or less, begins trading Thursday, according to a press release. The asset-management giant's last new ETF was the Vanguard Ultra Short Bond ETF (VUSB), which debuted in April 2021 and now has $3.3 billion of assets.

After a strong start to 2023, US state and city debt suffered its worst February since 2008 as sticky inflation and the Federal Reserve's resolve to tame it shredded fixed-income returns. But even with the recent swings, ETFs are becoming a force in the muni market: In February, assets in exchange-traded products surpassed the total held in closed-end funds, Barclays Plc data show.

"We're seeing heightened demand for fixed-income ETFs, muni ETFs in particular, and in fact, muni ETFs are the fastest-growing category," said Sara Devereux, Vanguard's global head of fixed-income. "We're hearing from investors who want to minimize their tax liability through an ETF at the short-end of the yield curve, and VTES fits that need."

Short-term munis are luring investors with the highest yields in years after the Fed's aggressive campaign to hike rates. What's more, amid all the questions about the central bank's policy path, shorter maturities also offer the benefit of being less sensitive to swings in interest rates than their longer counterparts.

The new entry brings Vanguard's relatively lean lineup to 82 funds with nearly $2 trillion in assets, ranking the firm as the world's second-largest ETF issuer. The move comes less than four months after Vanguard's first-ever closure of a US fund.

VTES is Vanguard's second muni-focused ETF after the $25 billion Vanguard Tax-Exempt Bond Index ETF (VTEB), which it introduced in 2015. VTES charges a fee of seven basis points and is managed by Steve McFee, who also oversees VTEB.

Bloomberg Markets

By Katherine Greifeld

March 9, 2023

Muni Bonds Finally Gained Some Value in Q4.

It wasn't much, but muni bonds got a small reprieve during the holiday season, according to Federal Reserve data released Thursday.

The total value of outstanding municipal debt edged upward to $3.891 trillion in the last three months of 2022, after dropping for five quarters in a row.

The total return on the Bloomberg municipal bond index over those three months was 4.1%, ahead of much of the bond market. The Bloomberg U.S. Aggregate Bond index—largely U.S. Treasurys, highly rated corporate bonds and mortgage-backed securities—returned 1.87%, according to FactSet.

It didn't last, though. To date this year, munis are up less than 0.1%, according to the Bloomberg muni index.

The Wall Street Journal

By Heather Gillers

Mar 9, 2023

Muni Bond Update: Credit Quality Still Looks Strong

While 2023 has started on shaky ground for the municipal bond market, there are reasons to be optimistic for more stability ahead, according to Jennifer Johnston, Franklin Templeton Fixed Income's Director of Municipal Bond Research. She explains why California's issues don't reflect all states, and offers reasons for optimism.

As we reflect on the disappointing performance of municipal bonds in 2022 and even so far in 2023, the fundamentals really have not been a driving force. In fact, in many cases we have actually seen a peak in terms of muni bond credit quality, and many municipalities are actually stronger today than they were prior to COVID-19. Hopefully, state and local governments have prepared themselves for the next rainy day.

Coming into 2023, municipal bond fundamentals were strong as most state and local issuers utilized COVID-19 relief funds to address pandemic costs and economic challenges so they shore up rainy day funds and position themselves for a potential economic slowdown. States in particular entered the year with very strong balance sheets that surpassed levels seen before the pandemic.

California an outlier, not an example

Following a huge surplus in the prior fiscal year, California now projects a large projected deficit in California for fiscal 2024. California's budget deficit has gotten a lot of media attention given the state's sheer size. But the deficit was not a surprise to us as we have been monitoring the state monthly and we think it's an outlier for a few reasons. However, we feel this volatility is not a trend we see nationwide. California is highly reliant on income taxes as a main revenue source. California's income tax structure is very progressive and as a result it has a high reliance on capital gains taxes, which were muted during last year's overall market downturn. We still feel California can utilize its reserve funds (which are the highest in its history) and other budget measures to preserve its fiscal strength over this coming year. We think California can weather this year's challenges.

In contrast, most other states are reporting higher-than-expected income and sales tax receipts. Illinois, for example, is a stronger credit than before the pandemic. The state is projecting an additional US$1.2 billion in revenue since the last projection in November. The state has utilized its surpluses smartly and has prepaid pension expenses and debt. It really has seen a turnaround.

The impact of inflation

Inflation not only hits consumers, it hits governments too. Wage inflation has created challenges, but it also increases income taxes, so that can actually have a positive impact for states. Sales taxes also increase as the price of goods increase, and we've seen good performance in sales taxes. To combat inflation, interest rates are rising, however, so the cost of borrowing for governments is going up.

The good news is that rainy day funds are near all-time highs as states used federal support funds to pay down debt and reduce expenses. So in sum, higher inflation, wage increases, and additional borrowing costs are having a negative impact on budgets, but these are being partially offset with

higher tax revenue from additional economic activity.

by Jennifer Johnston of Franklin Templeton Investments, 3/8/23

Goldman Sachs Launches Community Municipal Bond ETF.

Goldman Sachs Asset Management has launched the Goldman Sachs Community Municipal Bond ETF (NYSE Arca: GMUN), an exchange traded fund that provides exposure to tax-exempt municipal securities with the aim to maximize tax efficiency.

GMUN seeks to provide investment results that closely correspond, before fees and expenses, to the performance of the Bloomberg Goldman Sachs Community Municipal Index, a rules-based index designed to track the municipal securities market with remaining maturities between one and 15 years. The fund also has screens that consider certain social or environmental factors.

By focusing on one- to 15-year maturities within the investment-grade municipal bond universe, the portfolio will seek to deliver diversified market exposure with lower duration and higher credit quality than the broader municipal market.

According to GSAM, ownership of high-quality municipal bonds following a rules-based methodology driven by sector, source of funds, and use of proceeds may offer higher credit quality and increased exposure to environmental and social themes than the broader fixed income universe. Targeted allocation into municipalities and projects with positive impact will provide the opportunity to invest in education, healthcare, clean energy, and more community-related initiatives.

“In the past year, we saw greater adoption of municipal bond ETFs as advisors and end clients saw the benefits of diversification, liquidity, and ease of use relative to other investment products,” said Todd Rosenbluth, VettaFi’s head of research. “The new offering from Goldman Sachs will be focused on essential services such as education, healthcare, and clean water that help to build and grow a local community.”

GMUN carries an expense ratio of 0.25%.

ETF TRENDS

by JAMES COMTOIS

MARCH 9, 2023

Rainy Day Funds Reach Historic Levels: NASBO Budget Blog

As inflationary pressures, high interest rates, geopolitical conflict and other factors contribute to slower projections for economic growth, many economists are predicting that the next recession will occur sometime in 2023. How prepared are state governments to weather a possible downturn? After two consecutive years of widespread and sizeable budget surpluses and recent state policy actions to strengthen their reserves, states are now more financially prepared than ever to handle an economic downturn. Rainy day fund balances reached new heights in fiscal 2022, after already growing sharply in fiscal 2021. Based on enacted fiscal 2023 budgets, state reserves are projected to

increase further by the end of the current year. While not all states would necessarily have to tap their reserves in the event of a recession, having a robust rainy day fund is a helpful tool many states rely on to manage fiscal uncertainty.

Rainy Day Funds Saw Substantial Growth During the Pandemic

Before the onset of the COVID-19 crisis, state rainy day funds were at a then all-time high in fiscal 2019, 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 as well as cash flow challenges due to the tax filing deadline shift, helping them to close budget deficits by the end of fiscal 2020 – 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.

Continue reading.

NASBO Budget Blog

By Kathryn White posted 01-25-2023 03:14 PM

New Threat to Town, School District Budgets: Rising Rates.

Cash-strapped towns and school systems have pulled back on loans

Rising interest rates are squeezing cash-strapped towns and school systems that use short-term borrowing to keep cash flowing while they wait for property tax dollars to come in.

A-rated cities and school districts are paying 3.16% for a one-year loan issued March 3, compared with 0.21% at the beginning of 2022, according to data from Refinitiv MMD. In places where local budgets are already burdened by inflation, rising borrowing costs add to the pressure to raise taxes or cut services.

For most of the past decade, short-term borrowing cost almost nothing and offered an easy solution for places with limited reserves and slow-to-arrive revenues. Altogether municipalities generally issue several billion dollars in short-term debt a month to cover day-to-day expenses like keeping traffic lights on and roads plowed.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated March 7, 2023

Data-Based Decision-Making Is Flawed When the Data Is Flawed.

There are many reasons the quality of state and local data can be poor. Using that

information can lead to unfortunate results.

There's nothing new about the importance of data to the smooth functioning of state and local government. But over the last few years, with the aid of advancing technology, phrases like "data-driven" have become ubiquitous and are used to make it appear that policies that fit in that category have some kind of magical seal of reliability.

In fact, "while it's a positive development that agencies are relying more on data," says Tracey Smith, associate director of Virginia's Joint Legislative Audit and Review Commission (JLARC), "that doesn't mean the data is actually good."

There may even be an inverse correlation between increased use of data and the likelihood that it is accurate, timely and useful.

Continue reading.

Route Fifty

By Katherine Barrett & Richard Greene

MARCH 2, 2023

S&P U.S. Not-For-Profit Acute Health Care Rating Actions, 2022 Year-End Review

S&P Global Ratings' portfolio rating actions in 2022 were more negative compared with the previous year's rating actions, which were relatively evenly split between upgrades and downgrades. While initial trends in 2022 were almost balanced through the first six months, a dramatic shift began in the summer where downgrades far outpaced upgrades for the rest of the year. This was mainly due to operating pressures associated with labor and supplies coupled with weakening balance sheets as investment markets declined and government stimulus funding largely ended. Despite the negative ratings shift in the second half of the year, we maintained the ratings on a majority of our health care organizations in 2022 and assigned ratings to eight new issuers.

There were more favorable outlook revisions (stable to positive, negative to stable, or negative to positive) than unfavorable outlook revisions (stable to negative, positive to stable or positive to negative) in the first half of the year, before the summer shift.

Lists of stand-alone hospitals and health systems with rating and outlook changes, as well as a list of the eight new organizations rated by S&P Global Ratings last year, are at the end of this article.

Continue reading.

28 Feb, 2023

Fitch: Early NFP Hospital Medians Show Expected Deterioration; Will Worsen

Fitch Ratings-Austin/New York/Chicago-02 March 2023: Not-for-profit hospital operating margins

were pressured following a difficult FY22, according to medians compiled by Fitch Ratings for hospitals with an earlier FYE 2022. Audited results show materially weaker profitability and liquidity relative to FY21 due to expense increases and investment market losses.

The decline in operating results are likely to be even more pronounced in our full-year medians later this year when we have financial reporting for all rated hospitals, given the fact that the results of hospitals with later FYEs bore the full brunt of intensifying financial pressures in 2022, including labor inflation and market volatility. Fitch does not expect a rapid financial recovery for most providers, although hospitals under operational pressure will begin to see breakeven results on at least a month-to-month basis at some point in 2023 with revenue growth and expense pressures easing. Nevertheless, margins are not expected to return to pre-pandemic levels for quite some time.

Continue reading.

Fitch Ratings Updates U.S. Water and Sewer Rating Criteria.

Fitch Ratings-New York/Austin-03 March 2023: Fitch Ratings has updated its criteria for U.S. water and sewer utilities. The criteria updates and replaces the criteria from April 2020.

Among the notable revisions Fitch has made include changes to thresholds used to assess operating cost burden to reflect increased costs across the sector in light of recent inflationary pressures. Periodic updates to the thresholds to recognize changes in sector-wide costs were anticipated when the criteria was reframed in 2020, and are likely to continue going forward. Fitch is also changing the treatment of Fitch adjusted net pension liability and pension expense in its FAST analysis to reflect a five-year historical average (versus holding last audit year's value constant in nominal terms through five-year horizon), the goal being to have a smoothing effect given recent market volatility.

The key criteria elements remain consistent with those of the prior report. There is no impact on outstanding ratings and no credits are being placed Under Criteria Observation. The previous version of the criteria has been retired.

The updated criteria report is available at 'www.fitchratings.com'.

Contact:

Audra Dickinson
Senior Director
+1-512-813-5701
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330
Austin, TX 78746

Dennis Pidherny
Managing Director
+1-212-908 0738

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Transportation Department Announces $145M for Projects that Reconnect Communities.

When the Interstate Highway System was constructed starting in the 1950s, its path cut right through communities—decimating previously vibrant and racially diverse neighborhoods. A recently announced initiative, the Reconnecting Communities Pilot Program, seeks to rectify those wrongs. For the first time, the federal government is set to distribute $145 million to 45 nationwide projects designed to reconnect communities cut off from opportunity by historic infrastructure decisions like the federal highway system.

“Transportation should connect, not divide, people and communities,” said U.S. Transportation Secretary Pete Buttigieg about the grant opportunity. “We are proud to announce the first grantees of our Reconnecting Communities Program, which will unite neighborhoods, ensure the future is better than the past, and provide Americans with better access to jobs, health care, groceries and other essentials.”

Simultaneous to the award distribution, Buttigieg’s department announced the creation the Reconnecting Communities Institute, which will provide grant recipients and other organizations with the technical assistance they’ll need to achieve their goals.

Continue reading.

American City & County

Written by Andy Castillo

1st March 2023

New GFOA Research: The Budget Officer as the Decision Architect

Organizations benefit from decision architecture. Budget officers can be the decision architects of local government by building on four job responsibilities that allow them to reduce the impact of well-known problems of bias and noise in human decision processes.

Publication date: February 2023

DOWNLOAD

Digital Bonds: The Disruption Is Underway - S&P

Key Takeaways

- Digital bond issuance has risen in recent months, and should continue to increase given the

evident interest in the nascent market.
- Efficiency and speed of execution are the key benefits, while fractionalization and financial inclusion remain secondary considerations.
- Testing of issuance options and features has led to variations in bond parameters but little difference in terms of risk.
- Digitalization will reduce intermediaries' roles, while traditional financial players have adapted to protect their positions, so far.

Continue reading.

[Free Registration Required.]

27 Feb, 2023

How Environmentally Conscious Investing Became a Target of Conservatives.

The business world has been pulled into partisan politics, with Republicans bringing their battle against socially conscious investing to Congress.

It's been a widely accepted trend in financial circles for nearly two decades. But suddenly, Republicans have launched an assault on a philosophy that says that companies should be concerned with not just profits but also how their businesses affect the environment and society.

More than $18 trillion is held in investment funds that follow the investing principle known as E.S.G. — shorthand for prioritizing environmental, social and governance factors — a strategy that has been adopted by major corporations around the globe.

Now, Republicans around the country say Wall Street has taken a sharp left turn, attacking what they term "woke capitalism" and dragging businesses, their onetime allies, into the culture wars.

Continue reading.

The New York Times

By David Gelles

Feb. 28, 2023

Future Returns: Maximizing Benefit Through Social-Impact Muni Bonds

At the end of 2022, asset managers held US$8.4 trillion in ESG-aligned investment vehicles, according to the US SIF Foundation, representing 13% of all U.S. assets under management.

Eric Glass was one of the pioneers of that class of investments, helping launch AllianceBernstein's Municipal Impact fund in 2015. Glass helped raise US$1.4 billion for the fund, and managers proudly point to its many positive impacts.

But in 2021, Glass walked away from the Nashville, Tennessee-based

AllianceBernstein, striking out on his own to develop a municipal strategy that he believes can be even more impactful to local communities and more beneficial to investors. The muni-bond market has long been the vehicle for financing the fundamentals of a community—roads, water, electricity, education, and so on. Using it to target needier populations represents the muni market's natural evolution toward "socially responsible" metrics, Glass says.

Continue reading.

Barron's

By Andrea Riquier

Feb. 28, 2023

Fiscal Justice Investing Is Changing the Municipal Bond Market.

Government bonds have long been synonymous with public spirit. During World War I, Hollywood celebrities like Charlie Chaplin and Ethel Barrymore promoted "Liberty Bonds" to raise funds for U.S. military efforts. In the decades after the war, an irrepressible Wall Street salesman named Jim Lebenthal coined the phrase "Built By Bonds" to popularize buying local-government debt for public works projects.

A new generation of investors is imbuing that traditional sense of purpose with an awareness of those underserved in American communities and markets. The "fiscal justice" investing strategies they're developing subvert the existing municipal bond market and use it to alleviate some of the inequities in American society.Government bonds have long been synonymous with public spirit. During World War I, Hollywood celebrities like Charlie Chaplin and Ethel Barrymore promoted "Liberty Bonds" to raise funds for U.S. military efforts. In the decades after the war, an irrepressible Wall Street salesman named Jim Lebenthal coined the phrase "Built By Bonds" to popularize buying local-government debt for public works projects.

A new generation of investors is imbuing that traditional sense of purpose with an awareness of those underserved in American communities and markets. The "fiscal justice" investing strategies they're developing subvert the existing municipal bond market and use it to alleviate some of the inequities in American society.

Fiscal justice strategies are still new and haven't yet been packaged into a product that retail—or even institutional—investors can put money into. But the idea is gaining currency among all players, including foundations, academics, and impact investors, and may represent the next wave of socially responsible money management.

Continue reading.

yahoo.com

by Andrea Riquier

March 2, 2023

One City's Intriguing Experiment With 'Social Bonds'

With a bond issue earmarked for community projects and marketed to individual investors as well as institutional buyers, Chicago is trying to move the needle on social equity. Is it the start of a durable trend, or just a cute public finance anomaly?

The municipal bond market is dominated by large institutional buyers like insurance companies, banks and mutual funds. Individual investors usually get the leftovers. But the city of Chicago broke through that glass ceiling last month with a $160 million "social bond" issue that attracted a swarm of individuals and households who want their money to do more than just earn tax-free income. In this case, the bonds' proceeds are earmarked for a variety of urban social goals, including affordable housing, vacant-lot cleanup and the planting of 15,000 trees.

For a city with a checkered history of fiscal self-deception and perennially fragile bond ratings to pull off this sale is noteworthy in itself. That it could sell 20-year bonds at rates under 4 percent — below that of even today's super-safe U.S. Treasury bills — was itself a remarkable accomplishment.

Can and will other cities follow Chicago's lead? Or was this just a blip on the radar — a cute anomaly but not durable enough to move the needle in urban redevelopment and social equity?

Continue reading.

GOVERNING.COM

OPINION | Feb. 28, 2023 • Girard Miller

Public Finance Professionals Can Lead on Climate Change.

Climate change is a complex issue, and it's no surprise that there are many voices discussing how best to tackle it. So, where does the public finance professional fit in to this complex conversation? To tackle global issues such as the climate crisis and make our economy more sustainable, we need to train a new generation of public finance professionals with the right skills for the challenges ahead.

Carbon pricing is one of the ways in which public finance departments can help to tackle climate change. CIPFA's recent report, Public financial management can lead on climate action: the case for carbon pricing, argues that public finance professionals have an important role in advancing the global adoption of carbon pricing and bringing benefits to local communities. Public finance professionals also have many other skills that are necessary in the fight against climate change, like problem solving, leadership, relationship building, influencing and negotiation.

Carbon pricing involves placing a monetary value on carbon production and consumption, incentivizing the move to a lower carbon and greener economy. However, global adoption has been low and there are large gaps between what is politically viable to implement and what is needed if we are to achieve our climate goals. But there is a key role for the finance professional to design and implement these policies and demonstrate the benefits to local communities. The skills they need are more than just being good with numbers, though.

Continue reading.

Forbes

Mar 2, 2023

by Rob Whiteman

Rob Whiteman is the Chief Executive of the Chartered Institute of Public Finance and Accountancy.

Mortgages, ETFs, Autos, Munis, and Aviation (Bloomberg Radio)

Erica Adelberg, MBS Strategist with Bloomberg Intelligence, joins the program to discuss the housing market, mortgage rates, and outlook for home buying. Sylvia Jablonkski, CIO at Defiance, joins the show in-studio for a discussion on ETF flows and stocks. Kevin Tynan, Senior Autos Analyst with Bloomberg Intelligence, joins the program to discuss everything autos earnings, including ChargePoint, Rivian, and Tesla. Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, and Chris Brigati, Managing Director/Senior VP of Municipal Investments at Valley National Bank, join the program to discuss the latest on the muni bond market. Ali Ben Lmandani, CEO at ABL Aviation, joins in studio to discuss his investing strategy and aviation. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Mar 03, 2023

Nuveen's Malik Says Munis, Leveraged Loans 'Very Attractive'

Nuveen CIO Saira Malik says investors should take advantage of the “strong” fundamentals backing municipal bond and leveraged loan assets. “You are seeing entry points that you haven’t seen in years or even decades,” she says on “Bloomberg Surveillance.”

Watch video.

Bloomberg SurveillanceTV Shows

February 28th, 2023, 5:38 AM PST

Three Reasons Munis Are Right, Right Now.

The screaming banner headline running across the Goldman Sachs Asset Management “Muni Monthly” newsletter for January was hard to miss: “WHAT A START! BEST JANUARY IN 14 YEARS!”

Given the pounding that municipal bonds took for most of last year and the stellar turnaround taking place now, asset managers can be forgiven for wanting to shout the good word from the rooftops.

The S&P Municipal Bond Index showed a 3.21% return for January, the highest monthly return since 2009. For those who need reminding, that's tax-free at the federal level, and sometimes at the state and local levels, too, making this investment extremely attractive to tax-sensitive (read: high-ne--worth) clients. The taxable equivalent would be 4.9% for someone in a 35% tax bracket (using the formula of dividing the return percentage by one minus the tax bracket percentage) and with very low risk.

Continue reading.

FINANCIAL ADVISOR

by JENNIFER LEA REED

MARCH 1, 2023

Fed Rate Policy Is Shaking Up the World of Muni Debt.

Demand is down for municipal bonds, which have erased nearly all of their January gains

The markets' bumpy start to 2023 is causing whiplash even in the historically placid realm of state and local government debt. Municipal bonds this month have erased nearly all of their January gains after fears of rate increases cooled investor appetites.

"It has been a roller coaster," said Nathan Will, head of municipal credit research at Vanguard Group.

Muni fund inflows topped $1 billion a week for most of January, according to Refinitiv Lipper. They have slowed in February after strong sales and jobs data sparked mounting concerns that the Federal Reserve will continue to increase rates for the foreseeable future. In the week ended Wednesday, investors yanked more than $1.6 billion.

Their concern has blossomed just as a flurry of new bonds hit the market, pushing up supply. After weeks of lower-than-usual borrowing by state and local governments, New York City sold $677 million in muni debt this week on the heels of a nearly $2.5 billion bond sale by the University of California system.

"You had demand getting a little bit slower with supply picking up at the same time. That put some pressure on the market," said Daniel Solender, partner and director at the investment company Lord Abbett.

The year-to-date total return on the Bloomberg Municipal Bond Index was 0.55% as of Thursday, down from 2.87% at the end of January, according to FactSet. Measured daily, the total return has zigzagged just this year between a high near 0.6% and a low of negative 0.6%. Total return is the return on the bonds including price changes and interest payments.

The prospect of rising rates tends to push down bond prices because newly issued higher-interest debt makes outstanding lower-interest bonds less attractive. That is why munis, along with other bonds, suffered their worst year in decades in 2022 as rates climbed.

Most bonds in the $4 trillion muni market are backed by state and local taxes, and prices for the

ultrasafe securities tend to move in line with Treasurys. Demand rarely flags because the bonds have a perk coveted by high-income investors: Interest is generally exempt from federal and state taxes. A tax-free yield of 5% equates to a taxable yield of around 8% for investors in the top tax bracket, according to data from Nuveen Asset Management.

But after more than a year of investors and traders trying to predict what the Fed will do, heads are spinning even in the muni market. Over the past two months, debt maturing in one year has been trading at higher interest rates than debt maturing in three years, according to ICE Data Services. Market professionals say they can't remember that happening for such a prolonged period in more than a decade.

A so-called inverted yield curve, when short-term rates dwarf longer-term ones, is often seen as a sign of an impending economic slowdown when it appears in the Treasury market. In the muni market, where short-term securities are prized for their tax-exempt income, it is also a sign of confusion, said Municipal Market Analytics partner Matt Fabian. Like other investors, muni bondholders are trying to interpret a barrage of conflicting signals.

"All this volatility has bent the muni market a little bit," Mr. Fabian said.

Adding to the turmoil is a standoff in Congress as the U.S. approaches its borrowing limit.

"We're seeing the debt ceiling debacle shake muni markets," Amanda Hindlian, president of fixed income and data services at ICE, said this week. Republicans are calling for any increase in that limit to be paired with spending cuts, a path that could reduce federal funding for state and local governments.

State and local governments are already under budget pressure from rising interest rates, higher costs for goods and services and the possibility of a sustained economic slowdown. But federal aid and robust tax revenues from the stimulus-fueled pandemic recovery have created a strong financial cushion. Fitch Ratings deems the outlook for most state and local government bonds stable going into 2023. The firm upgraded New York City ahead of its bond sale this week, despite projected budget deficits and work-from-home-related revenue struggles.

Still some managers worry that muni prices don't fully reflect the possibility of a prolonged recession, particularly for the roughly half-trillion dollars in speculative-grade and unrated muni bonds that finance more risky ventures such as museums, charter schools and economic development projects.

"You're not getting paid enough in our view to take that risk on right now," said Duane McAllister, senior portfolio manager with Baird Advisors.

The Wall Street Journal

By Heather Gillers

Feb. 24, 2023

More States Push Back Against GOP's Anti-ESG Campaign.

While Florida and Texas rail against sustainability, Democrats and Republicans in other

states are embracing it.

An increasing number of US states are starting to push back against the anti-ESG rhetoric emanating from the Republican Party and a few of its high-profile governors. Some are moving ahead with their own rules to address sustainability concerns and lower greenhouse gas emissions.

With Congress deadlocked for at least the next two years, state governments are now at the forefront when it comes to environmental legislation. In Minnesota, Governor Tim Walz, a Democrat, signed legislation establishing a statewide carbon-free electricity standard. In New Jersey, Governor Phil Murphy, also a Democrat, announced a series of steps aimed at achieving 100% clean energy by 2035.

A few Republican-dominated states are bucking their party's anti-ESG messaging as well. Pension plan executives in Kentucky, where the parties split control of state government, said the state treasurer's call for them to pull funds from financial-services firms deemed "hostile" to Big Oil violated their fiduciary duty. State officials in North Dakota, a Republican-controlled state, took a similar stand.

Continue reading.

Bloomberg Green

By Tim Quinson

February 22, 2023

'Catastrophic Financially.' What It Means for Cities If the Debt Ceiling Isn't Raised.

A default on the federal level could discourage investors from providing the money cities need to function, build affordable housing, fix roads and make other improvements.

In rapidly growing Clearfield City, Utah, Mayor Mark Shepherd is watching the drama in Washington over raising the debt ceiling, worrying about what the federal government defaulting on its loans would mean for his city's overhaul.

In just the last four years, the city has permitted or started construction on an additional 4,000 homes after getting rid of its limit on building heights. It used municipal bonds to expand the city's train station and raise money for other projects like fixing its roads.

But Washington's stalemate could put a halt to more projects or force the city to raise taxes on citizens who could be dealing with a nationwide financial crisis.

Continue reading.

ROUTE FIFTY

by KERY MURAKAMI

FEBRUARY 21, 2023

S&P Outlook For U.S. Independent Schools: Consistent Demand Trends Despite Macroeconomic Pressures

Sector View: Stable

Our outlook on the U.S. independent school sector is stable. Risks, such as rising expenses, affordability pressures, and market volatility persist, but schools remain well positioned to manage operations through long-term budgeting.

Continue reading.

20 Feb, 2023

S&P Digital Booklet Published: Cyber Risk Insights

NEW YORK (S&P Global Ratings) Feb. 22, 2023–Cyber risks are an evolving threat to issuers' credit quality that must be systematically factored into organizations' governance and risk management frameworks, S&P Global Ratings said in a digital booklet, "**Cyber Risk Insights: Navigating Digital Disruption**," published today.

The booklet collates 11 reports covering subjects including how cyber risk affects credit ratings, the evolving cyber insurance industry, cyberthreats faced by issuers, and how cyber risks could impact credit quality across all sectors.

"This booklet is a selection of cross asset class insights from S&P Global Ratings' analysts, covering all rated entities from corporations, to governments, and structured finance transactions," said Tiffany Tribbitt, Senior Director & Lead for Global Cyber Security Research at S&P Global Ratings.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

Moody's: The Impact of Climate Change on U.S. Subnational Economies

Moody's Analytics new regional climate change forecasts shed light on the economic impact of this important long-term risk on all states, territories and metro areas in the U.S.

View the Moody's forecast.

FEBRUARY 24, 2023

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

View the Current List.

23 Feb, 2023

It's Been Two Years Since ARPA Was Signed Into Law and Almost 70% of Cities Have Committed their Allotments.

At the pandemic's height two years ago, American cities and counties were facing an uncertain future. Nationally, reported daily cases had peaked at more than 1 million, and renewed lockdown orders threatened to stifle the economy as it was re-emerging from a year marked by the onset of COVID-19.

The $1.9 trillion American Rescue Plan Act, which was signed into law last March, provided much more than $350 billion in necessary fiscal aid to floundering local, state and tribal governments—it paved a path beyond lockdown orders and social anxiety, letting local administrators build for the future. A new collaborative report from Brookings Metro, the National League of Cities (NLC), and the National Association of Counties (NACo) documents how 329 large cities and counties have prioritized expending their combined $65 billion federal allocation.

As of September, the tracked metros had committed 68% of their State and Local Fiscal Recovery Funds (SLFRF) dollars to 8,825 projects, an increase of 17% from the 7,537 projects that were reported in June. Of those, 34 counties, and 29 large cities and consolidated city-counties had committed 100% of their fiscal shares. Notably, 79% of large cities and consolidated city-counties have budgeted their allotments, compared to 59% of counties.

Continue reading.

American City & County

Written by Andy Castillo

23rd February 2023

High Yield and Recession-Proof: The Current Appeal of Municipal Bonds.

Bonds that offer high yield and can ward off the threat of a potential recession offer fixed income investors an attractive option. Right now, they can get that duality in municipal bonds.

That said, investors have been lapping them up as of late, which is a stark contrast from last year's bond debacle. Rising interest rates soured the taste for bonds amid the U.S. Federal Reserve's monetary policy tightening, but that's all proving to be in the past given the latest bond rally.

"Investors may have bailed out of muni-bond funds in record numbers last year, but now the asset class is not only looking attractive thanks to high yields but also appears well positioned to ride out a

recession," wrote Katherine Lynch in Morningstar, also noting the attractive yields munis are offering.

"As with the rest of the bond market, yields on municipal securities are at their highest levels in many years," Lynch wrote further. "The average intermediate muni-bond fund stands at 3%, compared with roughly 1% just a year ago. When investors factor in the tax-exempt nature of many municipal bonds, the yield advantage is even greater, in some cases topping those found on comparable taxable-bond funds."

Additionally, the threat of a recession looms large as the Fed continues to tighten rates. However, local governments have fortified their financial positions in order to withstand a slowdown in economic growth.

"In addition, thanks to a general trend of many state and local governments strengthening their fiscal positions over the past several years, credit quality in the muni market is seen to be exceptionally strong," Lynch added. "That should help muni-bond funds ride out the kind of recession that could hurt corporate bonds or other credit sensitive parts of the fixed-income market."

An Active Muni Option
For dynamic exposure to the muni bond market, consider the American Century Diversified Municipal Bond ETF (TAXF). The fund offers an actively managed strategy that allows for portfolio tailoring by seasoned portfolio managers.

The fund seeks to provide consistent tax-free income by employing an active, research-driven process that draws from across the municipal bond universe and adjusts exposure depending on prevailing market conditions. As with local government bonds in the U.S., credit risk is minimized, with close to 80% of the fund ranging in debt rated at AAA to A (as of May 31).

The fund also features a low expense ratio of 29 basis points. This should appeal to cost-conscious investors who may typically view actively managed funds as too expensive to consider.

ETF TRENDS

by BEN HERNANDEZ

FEBRUARY 21, 2023

S&P U.S. Public Finance Rating Activity, January 2023

View the S&P activity report.

Fitch: U.S. Labor Demand Will Weaken on Rising Interest Rates, South Dominated Jobs Recovery

Fitch Ratings-New York-14 February 2023: Fitch Ratings expects the U.S. labor market to weaken as aggregate demand stagnates over the course of the year in response to the lagged effects of higher

interest rates, according to a new Fitch report.

“The 517K payroll growth number for January 2023 was an upside surprise that is likely not going to be sustained.” said Olu Sonola, Head of U.S. Regional Economics. “Job growth has decelerated in five of the last six months. U.S. labor market conditions are still very strong, but they look set to continue the cooling trend in 2023.”

Employment recovery in 2022 was dominated by the South, particularly in high wage industries, such as information, and professional and business services. Four states in the South (Texas, Florida, North Carolina and Georgia) accounted for approximately 50% of job growth in the information, and professional and business services sectors, relative to pre-pandemic levels. Weakness in these sectors in 2023 will likely be a drag on job growth in these four states.

The state median jobs recovery rate is 100%, up two percentage points from 3Q22. Twenty-seven states recovered all job losses resulting from the onset of the pandemic.

States recouping 100% of 2020 employment losses include Indiana, Nebraska, Missouri, Maine, New Hampshire, New Jersey, Alabama, Arkansas, Florida, Georgia, Kentucky, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Arizona, California, Colorado, Idaho, Montana, Nevada, Oregon, South Dakota, Utah and Washington.

The labor demand and supply imbalance remains stubbornly persistent, equal to approximately 3.1%, or approximately 5.1 million, of the labor force. The labor supply is still notably below pre-pandemic levels and may not fully recover.

For more information, a special report titled “U.S. States – Labor Market Quarterly Tracker – 4Q22” is available at www.fitchratings.com.

Contact:

Olu Sonola
Head of U.S. Regional Economics
+1-212-908-0583
Fitch Ratings, Inc.
300 W 57th Street
New York, NY 10019

Vicky Raso
Analyst
+1-646-582-3649

Blythe Logan
Analyst
+1-646-582-3640

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

Fitch: US Debt Ceiling Policy Actions Consequential for Public Finance Credit

Fitch Ratings-New York-15 February 2023: Fitch Ratings believes the U.S. government is likely to raise or suspend the debt limit to avoid default. However, the way it resolves the latest debt ceiling impasse could affect the risk profiles of Fitch-rated states, local governments, and US public finance (USPF) revenue-supported entities. Federal budgets directly support a wide range of functions carried out by states and local governments, and broader federal spending is meaningful to the economic activity that underpins the credit quality of USPF issuers.

If resolution of the debt ceiling materially reduces federal spending, USPF credits could be directly affected over time, especially those that rely on federal funding for healthcare services, housing subsidies and grants, higher education grants and student loans, and other programs. Medicare and Medicaid cuts would be particularly consequential given their size and relative importance for healthcare institutions and state governments. Medicaid (a joint federal-state program) comprises roughly one-third of total state budgets, while Medicare and Medicaid combined are more than one-half of the payor mix for hospitals.

All USPF sectors would be exposed to the wider ramifications of reduced federal spending, which would gradually reverberate through economic activity and could weigh on future tax collections and revenues. The U.S. Treasury Department estimates federal spending averaged approximately one-fifth of total GDP in the five years before the pandemic. Significant federal fiscal consolidation could have meaningful effects on overall economic activity.

Most USPF ratings assume sufficient flexibility to respond to reduced federal funding. The ability of state and local governments to respond to direct cuts, primarily with their own spending cuts, reflects their significant autonomy within the U.S. federal structure. States benefit from strong legal and fiscal powers enshrined in the U.S. Constitution, and states in turn delegate substantial fiscal powers to local governments. Local governments bear the added risk of absorbing potential state tightening that could follow federal cuts, although they typically have broad budgetary tools and reserves to cushion unforeseen developments. Many states and local governments currently benefit from unusually high reserves and solid liquidity given multiple rounds of pandemic-related federal economic stimulus and generally prudent fiscal management.

Revenue-supported entities are also generally well-positioned to absorb the effects of reduced federal funding. Cuts to Medicaid and Medicare would add to fiscal challenges for not-for-profit hospitals. However, hospitals and health systems generally have rating flexibility due to significant balance sheet cushion, a hallmark rating strength of the sector, and the generally lower reimbursement levels from both Medicare and Medicaid compared to commercial payors.

A prolonged impasse marked by heightened brinksmanship and risk of default cannot be ruled out. In this scenario, higher uncertainty could have more serious economic consequences. While Fitch’s USPF ratings anticipate normal economic cycles, if debt ceiling uncertainty triggers a sharp and deep downturn, they would be subject to greater transition risk.

Most USPF ratings are not explicitly tied to the U.S. sovereign rating (‘AAA’/Stable) except when bond repayment depends on federal agencies or instruments. Negative rating action on the U.S. sovereign would likely result in negative action on ratings with direct links to, or dependence on, the sovereign rating unless other factors mitigate the exposure.

Bonds linked to the sovereign rating include municipal housing bonds currently rated ‘AAA’ and secured entirely, or predominately, by Fannie Mae and Freddie Mac mortgage-backed securities, pre-refunded municipal bonds where escrowed funds deposited with a trustee to advance refund the

bonds are invested in U.S. government obligations, and bonds fully enhanced by FHLB letters of credit. Ratings on pre-refunded municipal bonds depend on the rating assigned to U.S. treasuries or other bonds guaranteed by federal agencies.

Contacts:

Douglas Offerman
Senior Director, Public Finance
+1 212 908-0889
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
Credit Policy – Research
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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.

Municipal Bonds: Are States Recession-Ready?

Municipal bond investors worry about the impact of a potential recession on the financial health of individual states. States represent the largest sector in the $4 trillion muni market—14%—and provide important funding sources to other municipal issuers. Therefore, state budget challenges can have broad negative consequences if not handled effectively. But the state of the states is strong, and their solid fiscal report cards should help most of them skirt economic speedbumps on the horizon.

States Given Much Prep Time for Recession

If a recession strikes, it should be no surprise to state leaders. This has been one of the most telegraphed leadups to a possible downturn in decades. What's more, muni issuers have the fiscal strength and budget tools to navigate an economic setback.

States' financial health is its strongest in decades, the combined result of years of steady revenue income, increasingly conservative budgeting and leftover federal relief funds in the wake of the COVID-19 pandemic as well as improved pension funding practices since 2008. Total fund balances hit a record $343 billion in 2022, equal to 32% of their expenditures (Display).

Continue reading.

AllianceBernstein

Bryan Laing, CFA| Credit Analyst—Municipal Bonds
Daryl Clements| Municipal Portfolio Manager

FEBRUARY 13, 2023

Attention, Public Financiers: Money Is Now Growing on Trees

As polluters pay up for absolution, state treasuries and public pension funds might be able to capitalize on carbon offset credits. Public forests and timberland investments could yield untapped value.

Last month, Alaska Gov. Mike Dunleavy introduced carbon management and monetization bills that could be forerunners of similar legislation, in the 38 states with state forests, seeking to capture some of the economic value of global efforts to reduce carbon emissions. Just a month before, a major U.S. oil company promised the government of Guyana, where it has discovered a massive subsea oilfield, a $750 million deal to buy what are called carbon offset credits for local forest preservation. A week later, JP Morgan asset managers cut a deal to buy $500 million of loblolly pine timberland in Arkansas, Mississippi and Oklahoma, with investment analysts pointing to the trees' hidden environmental value as carbon sinks.

What spurs these actions is a slowly developing global marketplace. In simple terms, carbon offsets are tradable credits earned by property owners and enterprises that take actions to reduce or offset carbon dioxide emissions. Those credits can be sold for hard cash to businesses that pollute, in order for buyers to achieve a zero-carbon or reduced-carbon footprint. An example would be carbon credits earned by large landowners in the Amazon region who refrain from deforestation, which otherwise would yield them a higher land value if exploited for conventional agriculture.

Continue reading.

governing.com

OPINION | Feb. 14, 2023 • Girard Miller

Taxpayers Lose in GOP's War on ESG.

Texas and Florida lawmakers are targeting banks that support environmental, social and governance practices. The result? A hidden tax on residents.

What happens when Florida and Texas blacklist Wall Street's largest municipal bond underwriters because of their support for environmental, social and governance practices? The answer is a hidden tax foisted on their residents amounting to hundreds of millions of additional dollars.

If socialism means state control of production, distribution and exchange of goods and services, then Florida and Texas fit the description. That's not the case with California, whose embrace of ESG and free markets has allowed it to borrow more cheaply than Florida and Texas even though it has lower credit ratings. Superior demand makes California debt the outstanding performer among the three largest US states.

Companies committed to ESG favor protection of natural resources, human rights, health and safety, community engagement, transparency, compliance with regulatory policies, diversity, equity and inclusion. Investors like the potential. Asset allocation based on ESG criteria has grown to be at least a $35 trillion industry, according to the Global Sustainable Investment Alliance.

Elected officials in Florida and Texas, not to mention half a dozen other states which voted for Donald Trump in the 2020 presidential election, decry ESG as “woke.” These southern states, where racist laws prevailed 50 years ago, now prohibit the biggest Wall Street banks from arranging and selling their new bond offerings because they’re “woke,” often assigning the job smaller firms that may not have the resources or reach to ensure that the borrowers are getting the lowest possible borrowing costs.

Bloomberg Opinion

By Brooke Sample

February 18, 2023

ICE Fills Gaps in Fixed Income ESG Data.

Anthony Belcher, head of sustainable finance at ICE, said the exchange has been filling one of the big gaps in environmental, social and governance data which was fixed income and the link to securities issuance.

Belcher told Markets Media that market participants have been very focused on equities in sustainable finance and ESG, so Intercontinental Exchange saw fixed income as one of the big gaps.

“We can map a company’s ESG data to its fixed income issuance and cover 1.4 million debt securities,” he added. “Clients can now look at ESG from a multi-asset perspective as we also cover municipal bonds and mortgage-backed securities.”

Continue reading.

marketsmedia.com

by Shanny Basar

02.14.2023

Research Highlights Lack of Benefit from Public Funding of Sports Stadiums.

(The Center Square) – A recent academic paper on the economics of sports stadiums again has highlighted how publicly funding professional sports stadiums does not provide the benefits promised by politicians.

The paper highlights how building entertainment districts surrounding stadiums has not changed that formula and alternative tax funding mechanisms – like those planned to be used in Nashville to fund a new $2.1 billion Titans stadium – only serve to obscure the fact so much is public funding is

being used.

“The common justification that stadium-related spending results in increased economic activity is not well founded, because most fan spending derives from existing area residents who reallocate their spending from other local leisure consumption options,” the paper said. “Thus, spending at sports events crowds out other local spending and does not represent net new spending to the area.”

Continue reading.

By Jon Styf | The Center Square Feb 13, 2023

Lankford Wants to Stop Federal Subsidies to Professional Sports Stadiums

WASHINGTON, DC – Senators James Lankford (R-OK) and Cory Booker (D-NJ) introduced the No Tax Subsidies for Stadiums Act, a bill to end generous federal subsidies for professional sports stadiums. The bill would close a loophole in the tax code that allows professional sports teams to finance new stadiums with municipal bonds that are exempt from federal taxes. Rep. Earl Blumenauer (D-OR) is leading the bill’s introduction in the House of Representatives.

Municipal bonds are intended to give communities a way to finance projects, such as hospitals, schools, and roads, without needing to pay federal taxes on the debt’s interest. Using municipal bonds to finance sports stadiums diverts money away from these critical local infrastructure projects.

“Oklahomans should not be forced to pay for new professional sports stadiums in another state with their federal tax dollars when our veterans need better access to care, our federal interstate highways need upkeep, and our debt is skyrocketing past $31.5 trillion. Local taxes can pay for local stadiums,” said Lankford. “Our bill provides an opportunity to cut irresponsible federal spending and refocus our priorities on our constitutional tasks and responsibilities, not sports stadiums. I can’t see any reason we ever started using federal tax dollars to pay for stadiums, and I certainly don’t think we should keep doing it.”

“Over the last two decades, billions of American taxpayer dollars have been wasted by subsidizing the costs of professional sports stadiums,” said Booker. “It is wrong for wealthy investors to exploit a tool intended for critical local infrastructure projects, like schools and hospitals, in order to finance these stadiums. I am proud to introduce this bill that would put an end to this wasteful practice.”

“American taxpayers should not be forced to front the bill for professional sport teams. Billionaire sports owners are perfectly capable of financing their own stadiums to stage their immensely profitable games. Our tax dollars should be used to create communities where all of our families can thrive—communities that are safe, health, and economically secure,” said Blumenauer.

The bill would end federal subsidies for stadium financing but would not prevent localities and states from bidding and offering economic incentives to teams. In eliminating this wasteful expenditure, the bill also unties the hands of local governments to finance their stadium subsidies with taxes on tickets and in-stadium purchases—allowing states to target taxes on the people who actually use and benefit from the subsidy. Current tax law does not allow local governments to finance federal stadium subsidies by levying taxes on stadium purchases.

In a 2020 paper included in the National Tax Journal, it was estimated that as much as $4 billion

have been lost in federal tax revenue from subsidies to sports stadiums. The current Super Bowl Host Committee believes this year's Super Bowl brought in approximately $500 million to the local Arizona economy.

In addition to last weekend's Super Bowl, Phoenix recently hosted the PGA's Waste Management Open from February 6-12 and Car Week. A professor at Arizona State University says the three events will help the Valley area surpass $1 billion in revenue. When Phoenix hosted Super Bowl XLIX (49) and the Pro Bowl in 2015, the local economy received over $719 million in revenue. Revenue from sales taxes, hotel taxes, gas taxes, and car rental taxes totaled over $26 million.

Lankford is a member of the Senate Finance Committee and serves on the Tax and IRS Oversight Subcommittee.

BDA Bonding Time: A Discussion with Tom Kozlik of Hilltop Securities on Rates and Issuance in 2023

The BDA's most recent episode of Bonding Time features a discussion with Tom Kozlik of HilltopSecurities. The podcast was led by Brett Bolton of the BDA and covers:

- The Fed likely staying the course over first half of 2023 and its impact on Hilltop's issuance prediction
- Municipal credit outlook and the potential need for lifelines for key sectors such as mass transit
- An update on debt ceiling negotiations in Washington, DC

Listen to audio.

Bond Dealers of America

February 13, 2023

Muni Moves in January (Bloomberg Audio)

Joe Mysak, editor of the Bloomberg Brief: Municipal Markets, joins the program to discuss the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listent to audio.

Feb 17, 2023

World's Top Junk-Muni Fund Is Loaded With a Rarely Traded Stock.

- **Energy Harbor shares are top holding in 15 of Nuveen's funds**
- **Received in debt workout, shares deliver boon — and a risk**

The biggest holding in the world's biggest high-yield municipal bond fund isn't a municipal bond.

It’s a $1.5 billion stake in shares of Energy Harbor Corp., a thinly traded power company that’s not listed on any US stock exchange. The Nuveen High Yield Municipal Bond Fund — like many others run by the investment giant — received the stock three years ago after the company’s precursor, FirstEnergy Solutions, restructured its debts in bankruptcy.

It hasn’t been a bad investment. In fact, the shares have surged so much that it’s creating a dilemma for Nuveen — and posing a little-known risk to its investors.

Continue reading.

Bloomberg Markets

By Martin Z Braun and Miles Weiss

February 16, 2023

Muni ETFs Become A Force.

Bloomberg’s Max Adler discusses Muni ETFs with Matt Miller and Katie Greifeld on “Bloomberg ETF IQ.”

Watch video.

February 13th, 2023

Muni ETFs Are Nabbing Record Cash.

ETFs now account for about 11% of total municipal fund assets, surpassing the total held in closed-end funds, according to data analyzed by strategists at Barclays. Max Adler has more on “Bloomberg Markets.”

Watch video.

Bloomberg MarketsTV Shows

February 13th, 2023

Muni ETFs Gaining Assets From Mutual Funds.

Municipal bond exchange-traded funds are pulling in record cash as Bloomberg TV reported on Monday citing Barclays data, with ETFs making up nearly 11% of total municipal fund assets. But while the overall trend shows flows going into muni ETFs and coming out of muni mutual funds, that’s not a completely one-way migration.

Most recently, municipal bond ETFs are seeing a hiccup after being on a tear in 2022. The category has seen roughly $600 million in outflows year to date. Meanwhile, mutual funds saw significant

outflows in 2022 and have pulled in several billion dollars this year.

Consider also that two of the largest muni bond ETFs have seen opposing flows year to date. The $32 billion iShares National Muni Bond ETF (MUB) has lost more than $567 million year to date, while the $25.4 billion Vanguard Tax-Exempt Bond ETF (VTEB) has gained $340.7 million in the same time period. Although this year muni bond ETFs have seen more than half a billion dollars in outflows, in the past 12 months, the category gained almost $28 billion.

Continue reading.

Yahoo Finance

by Heather Bell

Tue, February 14, 2023

SIFMA US Municipal Bonds Statistics.

SIFMA Research tracks issuance, trading, and outstanding data for the U.S. municipal bond market. Issuance data is broken out by bond type, bid type, capital type, tax type, coupon type and callable status and includes average maturity. Trading volume data shows total and average daily volume and has customer bought/customer sold/dealer trade breakouts. Outstanding data includes holders' statistics. Data is downloadable by monthly, quarterly and annual statistics including trend analysis.

YTD statistics include:

- Issuance (as of January) $22.4 billion, -14.6% Y/Y
- Trading (as of January) $12.5 billion ADV, +21.0% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

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February 6, 2023

BofA Sees More Muni-Bond Defaults in 2023 After January Uptick.

- **First-time payment defaults rose 122% in January from year ago**
- **Forecast reflects a tougher outlook for riskier debt**

Expect more defaults in the $4 trillion municipal-bond market this year, Bank of America Corp. strategists said. Most of the distress will be concentrated in riskier sectors like nursing homes and hospitals.

Muni-bond defaults are forecast to total between $1.7 billion and $2.1 billion in 2023, according to a research note the bank published Friday. First-time payment defaults in January rose 122% year-over-year to $611 million, marking the third highest month since 2019, the note said. Almost all of the defaults were unrated securities in the not-for-profit, nursing home and hospital industries.

The forecast reflects a toughening financial outlook for higher yielding debt that until recently had benefited from an extended stretch of low interest rates, and in some sectors, stimulus money. Most of the credit pain will likely be concentrated among smaller issues.

Continue reading.

Bloomberg Markets

By Nic Querolo

February 7, 2023

S&P U.S. Public Finance Rating Activity, January 2023.

Download the S&P report.

S&P U.S. Municipal Sustainable Bond Issuance Outlook 2023: Momentum To Continue

S&P Global Ratings estimates total U.S. municipal sustainable bond issuance could reach at least $54billion in 2023.

Download Slides.

S&P U.S. Muni Sustainable Bonds: Momentum To Continue In 2023

A clear fit between the purpose of many municipal entities and the objectives of sustainable bonds is likely to spur ongoing use of the instruments, although headwinds persist.

Download

When States Take Over Financially Troubled Local Governments.

A recent bankruptcy filing by Chester, Pennsylvania, highlights the limits and difficulties with state programs in dealing with fiscal stress at the municipal level.

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this week is the third and final installment of my series on Chester, Pennsylvania's bankruptcy. You can find the first two parts here. This week, I'm taking a look at state oversight of distressed municipalities.

A number of states have programs in which they actively monitor municipal finances and roughly 20 have emergency manager laws allowing for direct intervention. People have long debated how effective these oversight programs are at generating a real recovery and what the right level of

intervention even is. Duly elected city officials don't like being told what to do by state overseers. States on the other hand, typically want troubled cities to just buckle down and take their advice—even if it's tough medicine.

So while the whole point of these programs is to avoid or mitigate extreme distress, they can also create or exacerbate tension between cities and states along the way.

Continue reading.

Foute Fifty

by Liz Farmer

FEBRUARY 7, 2023

The Politics of ESG Investing.

Leaders in conservative states are hesitant to adopt ESG-related principles. Are their positions purely political or substantive as well?

Florida Gov. Ron DeSantis made headlines when he banned the state's pension system in August 2022 from making investment decisions based on environmental, social, and corporate governance guidelines or any other guidelines outside of pure financial performance.

This is one of several recent examples of Republican officials in red states making such decisions when it comes to using ESG or other social responsibility factors in policymaking or administrative decisions.

Around the same time DeSantis announced his decision, Texas banned 10 banks and 348 investment funds from doing business with the state for allegedly boycotting fossil-fuel based energy companies. And before that, Utah threatened to sue S&P over its use of ESG as part of its creditworthiness rating criteria for the state.

Continue reading.

Route Fifty

By Hughey Newsome

Feb 10, 2023

GFOA is Rethinking Financial Reporting.

Local governments are in an era characterized by declining trust, increasing resource constraints, and increased risk. For these reasons GFOA has launched the Rethinking Revenue and Rethinking Budgeting initiatives. Part of the "rethinking" process is to ask questions and discover what is actually driving these processes and what provides value. Over time, status quo can stagnate while needs change. Similarly, we should be asking questions about financial reporting to determine if

current practices are still meeting needs. For example, in a time of decreasing trust in government, we should ask if lengthy, technical financial reports that are published many months in arrears are the most effective way to build trust with government's most important constituency: citizens. In a time of declining resources, we should ask if the finance officer's time is well spent producing these reports, if, in fact, these reports are not the best way to provide accountability to the public. Government finance officers face substantial opportunity costs with their time. Time spent on general purpose external financial reports is time not spent on other forms of decision support and public engagement. For these reasons, we are now launching "Rethinking Financial Reporting."

GFOA's next steps will follow the dictum "a problem well stated is a problem half solved." This means we will conduct rigorous research on questions like: To what extent do financial reports inform decisions and policy making? What is the cost of compliance with GAAP accounting and reporting standards? What do citizens/taxpayers want to know about local government finance? How do they define accountability for the use of their tax dollars?

GFOA's commitment to generally accepted accounting principles (GAAP) remains iron clad, as the consistency and comparability GAAP reporting offers is the best way for governments to meet their obligations to be accountable for the public resources they use to fulfill their public service missions. GFOA also supports financial reporting that is efficient and addresses the information needs of citizens, elected officials and other community stakeholders, and recognizes that current GAAP may not be the best way to achieve these objectives.

Now, we'd like to hear from the GFOA community. A fundamental question of Rethinking Financial Reporting is: "what are the benefits versus the costs of financial reporting?" In this spirit, we'd like to pose a few questions to members as a way to begin the conversation about Rethinking Financial Reporting.

JOIN THE DISCUSSION

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