Why a Pullback Could Still Prove Inviting for Municipal Bonds.

Municipal bonds are languishing amid the recent spike in Treasury yields, but that selling pressure could bring opportunities with exchange traded funds like the iShares National Muni Bond ETF (NYSEArca: MUB).

MUB seeks to track the investment results of the S&P National AMT-Free Municipal Bond IndexTM. The fund generally will invest at least 90% of its assets in the component securities of the underlying index and may invest up to 10% of its assets in certain futures, options and swap contracts, cash, and cash equivalents. The index measures the performance of the investment-grade segment of the U.S. municipal bond market. Municipal bonds give debt market investors an extra layer of safety given that local government debt typically has a lower rate of default compared to corporate bonds.

"Municipals struggled throughout the month of February, posting their worst month of performance since the pandemic-induced selloff in March 2020," according to BlackRock research. "The S&P Municipal Bond Index returned -1.36%, driven by rising interest rates resulting from improved COVID metrics, expectations for additional fiscal stimulus and continued easy monetary policy, and optimism for the U.S. economy. Municipals underperformed Treasuries as historically rich valuations recalibrated and municipal-to-Treasury ratios re-set from their recent all-time tight levels."

A Good Time to Revisit MUB?

Municipal bonds have long been considered some of the most reliable fixed income options. Enter Covid-19 and a once untouchable space could now be in jeopardy with defaults. Nevertheless, MUB and friends are proving steady amid a spate of new issuance.

"Issuance was modestly elevated in February at $33 billion, 22% above the 5-year average. Initial primary market strength faded mid-month as the emergence of risk-off sentiment and elevated secondary trading weighed on new issues, causing underwriters to show more flexibility in both structure and pricing. The average rate of oversubscriptions fell dramatically from 8.0x during the first half of the month to just 2.4x in the second half," notes BlackRock.

Higher issuance isn't always a drag on assets such as MUB. In fact, there some sound fundamental factors in the ETF's favor.

"We maintain a cautious but constructive view on the asset class," adds BlackRock. "While the month of March has been a historically weak seasonal period for muni bonds and we expect rate volatility to continue, the considerable re-set of valuations has created a better backdrop for the municipal market, assuming recent performance weakness does not drive a prolonged outflow cycle. Additionally, given our view that markets tend to overcorrect, a continued selloff could create an attractive buying opportunity."

ETF TRENDS

by TOM LYDON

MARCH 9, 2021

Fitch Ratings Updates State Revolving Fund and Muni Finance Pool Program Criteria.

Fitch Ratings-Austin-03 March 2021: Fitch Ratings has published an update to its "State Revolving Fund and Municipal Finance Pool Program Criteria." This report replaces the previous report of the same title published on Sept. 18, 2019.

The fundamentals of these criteria remain unchanged. However, with this release, Fitch has updated its Portfolio Stress Model (PSM). The latest version follows the same logic and underlying benchmarking assumptions as the previous, but the multiple-based approach used to create the prior PSM's liability rating stress hurdles using the pool's weighted-average default rate has been replaced with a Gaussian copula approximation function. Fitch believes the updated PSM is a more robust model overall and should more closely match the framework laid out in the "CLOs and Corporate CDOs Rating Criteria," thus providing even greater consistency in approaches given the similarities of the two sectors.

As a result of the PSM update, programs with less than 30 obligors may demonstrate somewhat higher stress hurdles than what were previously produced. Further, programs with higher weighted-average maturities may demonstrate lower stress hurdles. On average, Fitch is expecting less than a +/-4% net change in stress hurdles.

Additionally, these criteria now allow for the assignment of credit scores in lieu of credit opinions for USPF utility sector obligors.

No ratings changes are expected as a result of these updates.

Contacts:

Major Parkhurst
Director
+1-512-215-3724
Fitch Ratings, Inc.
111 Congress Ave. Suite 2010
Austin, TX 78701

Julie Garcia Seebach
Director
+1-512-215-3743

Tim Morilla
Associate Director
+1-512-813-5702

Doug Scott
Managing Director
+1-512-215-3725

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. Not-For-Profit Health Care Rating Actions, 2020 Year-End Review.

S&P Global Ratings' U.S. not-for-profit health care outlook and rating actions in 2020 were heavily influenced by the pandemic with a higher than typical amount of unfavorable outlook revisions (mostly to negative from stable), particularly in the spring when we simultaneously revised outlooks on 42 health care organizations in anticipation of upcoming financial and operating pressures. In addition, in 2020 we downgraded four times more organizations than we upgraded. Four of the nine upgrades occurred in January before the pandemic with all but one of the remaining upgrades due to affiliation or merger with a higher rated organization.

Nevertheless, we maintained a majority of our ratings, reflecting financial flexibility from strong balance sheets, enterprise profile strengths, and governmental support through stimulus funds. There have also been some favorable outlook actions including credits that were revised back to stable after having outlooks revised to negative as part of our multi-credit rating action in April 2020 when we believed those credits with weaker reserves and credit characteristics could face relatively more pandemic related challenges.

The health care portfolio is composed largely of stand-alone hospitals (59%) and health care systems (35%) with the remaining ratings on long-term care, human service providers and a physician group practice. Relative to their percentage of the total portfolio, the stand-alone providers had a higher number of downgrades and unfavorable outlook revisions in 2020. However, stand-alone hospitals also accounted for over three-quarters of the favorable outlook revisions. We believe this reflects the continued bifurcation of credit quality for stand-alone providers and the larger portfolio of stand-alone ratings. Health care systems were not immune to credit actions either as they experienced upgrades, downgrades, and both unfavorable and favorable outlook actions, although in each category at a rate lower than their percentage representation in the overall portfolio. We believe this reflects system benefits, including size, scale, and for many, centralized control, all of which provided benefits in managing through the pandemic.

Continue reading.

25 Feb, 2021

U.S. Public Finance: Public Pension Funds - S&P Guidance

OVERVIEW AND SCOPE

1. This document provides additional information and guidance related to our criteria "Public Pension Funds," published June 27, 2007. It is intended to be read in conjunction with those criteria. For a further explanation of guidance documents, please see the description at the end of this article.

2. This guidance discusses additional information that S&P Global Ratings may consider when exercising analytical judgement in assessing pension fund independence, management, and operating and financial performance, as well as when assessing a credit enhancement program issue.

Continue reading.

26 Feb, 2021

Empty Office Buildings Squeeze City Budgets as Property Values Fall.

A looming hit to tax revenues puts pressure on Congress to deliver relief.

WASHINGTON — At a meeting with Treasury Secretary Janet L. Yellen last month, Jeff Williams, the mayor of Arlington, Texas, laid out his grim economic predicament: Heavy spending on coronavirus testing and vaccine distribution had dwarfed dwindling tax revenue, forcing the city to consider painful cuts to services and jobs. While sluggish sales and tourism were partly to blame, the big worry, Mr. Williams said, is the empty buildings.

Those dormant offices, malls and restaurants that have turned cities around the country into ghost towns foreshadow a fiscal time bomb for municipal budgets, which are heavily reliant on property taxes and are facing real estate revenue losses of as much as 10 percent in 2021, according to government finance officials.

While many states had stronger-than-expected revenue in 2020, a sharp decline in the value of commercial properties is expected to take a big bite out of city budgets when those empty buildings are assessed in the coming months. For states, property taxes account for just about 1 percent of tax revenue, but they can make up 30 percent or more of the taxes that cities and towns take in and use to fund local schools, police and other public services.

Continue reading.

The New York Times

By Alan Rappeport

March 3, 2021

Fitch: Job Recovery Stagnates for U.S. Metros

Fitch Ratings-New York-02 March 2021: Fitch Ratings' latest U.S. Metro Labor Markets Tracker shows jobs recovery among major MSAs up slightly.

The median jobs recovery rate among major metros inched up to 59% from 58% during November and December 2020. However, month-over-month employment for major metros — those with populations of one million or more — fell slightly for the same period. Fitch projects jobs recovery to remain slow and uneven at least through 1Q21.

“Employment trends will likely remain weak across MSAs in the next few months until vaccination rates materially increase and support a more robust return in economic activity,’ said Senior Director Olu Sonola.

Job recovery in the Northeast, Midwest and Western parts of the country either stayed flat or fell with a median recovery rate of 53% in December. The South was the only outlier to experience a pick-up in its recovery rate with a median recovery rate of 65% as of December 2020.

Leisure and hospitality continues to be the hardest hit sector. Since the onset of the pandemic, the median share of jobs lost linked to the sector is 50% for major metros. The median major metro recovery among these jobs was 55% as of December, while the median was 59% for all U.S. metros.

Fitch’s latest “U.S. Metro Labor Markets Tracker” is available at ‘www.fitchratings.com’.

Contact:

Olu Sonola, CFA
Senior Director
+1-212-908-0583
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Dylan Szeto
Analyst
+1-646-582-4048

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

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Biden’s $1.9 Trillion Pandemic Bill Includes Aid for Hard-Hit Cities. Is It Too Little, Too Late?

The Biden administration’s $1.9 trillion pandemic relief package is on the fast track, but Washington is still trying to find the right fix for an overlooked aspect of the crisis: a massive tax shortfall experienced by cities hit by the collapse in commercial property values.

Local governments rely on property tax revenue to fund an array of vital programs and services, and those ghostly rows of empty commercial buildings are not just eyesores, but a growing policy problem.

At a meeting with Treasury Secretary Janet L. Yellen last month, Jeff Williams, the Republican mayor of Arlington, Texas, laid out his grim predicament: While pandemic relief costs and sluggish tax revenue and tourism were partly to blame for budget shortfalls, the big worry, Mr. Williams said, was all those the empty buildings.

Continue reading.

The New York Times

By Alan Rappeport and Glenn Thrush

March 3, 2021

Stimulus Clears Senate – Legislation Includes State and Local Aid but No Muni Provisions.

This weekend, the $1.9 trillion dollars *American Recovery Act* took a huge step forward bypassing the Senate on a party-line vote. While the package does not include any muni provisions, of note is $350 billion in direct aid to state and local governments.

All indications are the bill will face little resistance in the House, and be signed into law by week's end.

Infrastructure Talks Progress

As Washington begins to turn its attention beyond stimulus, infrastructure talks continue to heat up. Last week, the Biden Administration met with House leaders to discuss the next steps and parameters. While on the Senate side, legislation to reinstate tax-exempt advance refundings was introduced with strong bipartisan support.

The BDA continues to work with our partners to ensure legislation to restore advance refundings, as well other muni market priorities are included in any infrastructure bill. We will continue to provide updates as they become available on possible infrastructure legislation and as other muni legislation is introduced.

Bond Dealers of America

March 8, 2021

BDA Washington Weekly: A Turn to Munis and Infrastructure

Read the Washington Weekly.

Bond Dealers of America

March 5, 2021

ASCE 2021 Infrastructure Report Card.

Read the ASCE Report.

[CDFI Bond Guarantee Program.]

CDFI Bond Guarantee Program Benefits

Through the CDFI Bond Guarantee Program, the Secretary of the Treasury makes debt available to CDFIs from the Federal Financing Bank. The loans provide long-term capital not previously available to CDFIs, and inject new and substantial investment into our nation's most distressed communities. The CDFI Bond Guarantee Program has guaranteed nearly $1.7 billion in bonds to date.

OVERVIEW

Enacted through the Small Business Jobs Act of 2010, the CDFI Bond Guarantee Program responds to a critical market need—long-term, low-cost capital that can be used to spur economic growth and jump start community revitalization. Through the CDFI Bond Guarantee Program, Qualified Issuers (CDFIs or their designees) apply to the CDFI Fund for authorization to issue bonds worth a minimum of $100 million in total. The bonds provide CDFIs with access to substantial capital that is then used to reignite the economies of some of our nation's most distressed communities.

Unlike other CDFI Fund programs, the CDFI Bond Guarantee Program does not offer grants, but is instead a federal credit subsidy program, designed to function at no cost to taxpayers. The bond proceeds are debt instruments that must be repaid.

The Secretary of the Treasury provides a 100 percent guarantee on these loans, with a maximum maturity of 30 years. The Qualified Issuer sells the government-backed bonds to the Federal Financing Bank (FFB)—a government corporation that ensures the efficient use of federal financing—and bond proceeds are used to extend credit to CDFIs for community development purposes. The Qualified Issuer thus acts as a "go between" financier to the broader CDFI community.

CDFIs benefit from the potential scale of the CDFI Bond Guarantee Program, which offers long-term credit at below-market interest rates. This unique program incentivizes and empowers CDFIs to execute large-scale projects, including the development of commercial real estate, housing units, charter schools, daycare or healthcare centers, and municipal infrastructure. In addition to these projects, eligible CDFIs may use the capital to extend credit to other community development borrowers—or Secondary Borrowers—or refinance existing loans at low interest rates, freeing up capital for additional investments. By promoting large-scale, long-term investment, the CDFI Bond Guarantee program helps breathe new life into economically underserved areas.

[Download CDFI Bond Guarantee Program Fact Sheet.]

[U.S. DOT Announces Latest Round of INFRA Grants: Nossaman]

The U.S. Department of Transportation ("DOT") has announced it is making $889 million available through its latest round of Infrastructure For Rebuilding America (INFRA) grants. In its February 17 announcement, the DOT noted that the INFRA grants "will fund transportation projects of national and regional significance that are in line with the Biden Administration's priorities, including creating good-paying jobs, improving safety, and applying transformative technology, and explicitly addressing climate change and racial equity."

For the selection process, the DOT has made clear that it will be evaluating INFRA projects on whether they aim to address climate change and environmental justice. According to the DOT, "projects should include components that reduce emissions, promote energy efficiency, incorporate electrification or zero-emission vehicle infrastructure, increase resilience, and recycle or redevelop existing infrastructure."

Racial equity will also be considered as a selection criterion, looking at the extent to which the project sponsors have completed equity-focused community outreach, and whether projects are designed to improve connections to underserved communities in order to reduce barriers to opportunity. The DOT will also consider whether projects are located in federally-designated community development zones, such as Opportunity Zones. The DOT defines Opportunity Zones as "economically distressed" communities designated by the state's governor and certified by the U.S. Secretary of the Treasury.

Secretary of Transportation Pete Buttigieg emphasized, "We are committed to not just rebuilding our crumbling infrastructure, but building back in a way that positions American communities for success in the future — creating good-paying jobs, boosting the economy, ensuring equity and tackling our climate crisis."

INFRA projects will also be rated on the extent that they use innovative technology, delivery, and financing methods to deliver projects in a cost-effective manner.

DOT will make awards under the INFRA program in amounts of at least $25 million for large projects and at least $5 million for small projects. The authorizing statute, the Fixing America's Surface Transportation Act, requires 10 percent of available funds to be reserved for small projects and 25 percent of funding allocated to rural projects.

INFRA grants may be used to fund a variety of components of an infrastructure project; however, the DOT is specifically focused on projects in which the project owner is significantly invested and positioned to proceed rapidly to construction. Eligible INFRA project costs may include: costs for reconstruction, rehabilitation, acquisition of property (including land related to the project and improvements to the land), environmental mitigation, construction contingencies, equipment acquisition, and operational improvements directly related to system performance.

The DOT's Notice of Funding Opportunity also announces the creation of the INFRA Extra initiative, which will identify competitive applicants who do not receive an INFRA grant and authorize them to seek a loan through the Transportation Infrastructure Finance and Innovation Act.

Applicants will have to move swiftly: the DOT has set a deadline of **March 19** to submit proposals. Applications are available here.

Nossaman LLP

By Alexander Bulkin on 03.04.2021

Municipal Bonds Finally Succumb To The Rise In Treasury Yields.

Summary

- Technicals and politics kept muni returns resilient to government rate rises… until now.

- While Treasuries have been selling off (pushing up their yields) on the reopening of the economy and inflation expectations, municipal bonds (munis) had remained resilient.
- For potentially more resilient performance in the face of rising Treasury rates, we believe investors should consider high-yield municipal bonds.

Continue reading.

Seeking Alpha

Mar. 03, 2021

Muni Recovery Trade Wins Big as Covid-Battered Bonds Rally Back.

- **Index with convention center, ballpark sees biggest returns**
- **Profiting from wager on bounce back from the pandemic**

The best bet in America's municipal-bond market is on life returning to normal.

The Bloomberg Barclays index of the riskiest municipal securities backed by lease payments — which includes those issued by the owner of Chicago's McCormick Place convention center, the American Dream shopping mall in New Jersey and Hartford, Connecticut's baseball stadium — has returned more than 5% so far this year even after the recent selloff in the bond market. That's five times more than the overall return on municipal junk bonds and stands in contrast to the losses investors have suffered on investment-grade debt.

The returns reflect optimism that the end of the pandemic will herald the return of spectator sports, industry conventions and office life — all of which have been in virtual hibernation since last March. That promises to revive the streams of revenue — like hotel taxes — that back local government bonds sold for civic projects.

"The reopening bias is pervasive through the bond market," said Gabe Diederich, a portfolio manager for Robert W. Baird, which holds Chicago convention center debt as part of $8 billion in muni assets under management. "It's something investors are already shifting money toward in expectation it takes place — very similar to the inflation trade."

The riskiest revenue bonds were among the hardest hit during the selloff that erupted in the wake of the pandemic a year ago, when investors dumped the securities in droves on speculation the projects would be roiled by the shutdown of the nation's economy.

The securities have since rebounded as the spread of the virus slows and millions of Americans get vaccinated.

A 2050-maturing bond issued by the Metropolitan Pier and Exposition Authority — which oversees Chicago's convention center, the nation's largest — tumbled to as little as 90.5 cents on the dollar last year. It last traded for about 119 cents. Debt backed by the American Dream shopping mall, one of the biggest issues of unrated municipal bonds, has jumped to 112 cents from 92 cents in April.

The gains come amid broader speculation that the nation's economy will gain steam, with Congress moving toward enacting President Joe Biden's $1.9 trillion recovery package. While that has triggered a rise in interest rates that has weighed on the broader debt market, municipal junk bonds have been relatively insulated since the higher yields make them less sensitive to rising rates.

Yet even with the rise in yields, those on the highest-rated bonds are still low by historical measures. That has also helped to buoy demand for lower-rated bonds issued by borrowers that stand to benefit financially from the recovery.

“They are anticipating continuing progress toward normalcy,” Diederich said.

Bloomberg Markets

By Shruti Singh

March 4, 2021, 11:23 AM PST

[What Does the Recent Hike in Treasury Yields Indicate?]

The recent unexpected hike in treasury yields has many investors worried about the future of their investments in all asset classes.

As the 10-year and 30-year treasuries hit 1.60% & 2.29%, respectively, investors are concerned whether these changes are due to inflation expectations under the assumption that rapid economic recovery is imminent in the near future – even though all the leading economic recovery indices are still skeptical. In addition, Federal Reserve chair Jerome Powell also showed his skepticism in the recent senate hearing about the inflation expectations, saying, “We could have a surge in spending as the economy reopens. We don’t expect that to be a persistent longer-term force, so while you could see prices move up that’s a different thing from persistent high inflation, which we do not expect.”

In this article, we will take a closer look at the recent surge in treasury yields and how the Fed is likely to mitigate inflation fears.

Continue reading.

municipalbonds.com

by Jayden Sangha

Mar 03, 2021

Muni Bonds Prove a Refuge for Investors Hiding From Rising Rates.

- **The debt posts small March gains as Treasuries see losses**
- **It may be short-lived, with Barclays saying ‘stay defensive’**

For now at least, America’s state and local government bonds are a refuge from the losses piling up in other corners of the debt markets.

Yields on 10-year benchmark tax-exempt bonds edged lower Friday by about one basis point to

1.07%, a 4 basis-point drop since the end of last week, according to Bloomberg's BVAL indexes. Yet those on comparable Treasuries have jumped about 14 basis points to 1.55% over that time.

The result: municipal bonds have eked out a small gain this month while Treasuries and corporate debt have lost 0.81% and 1.26%, respectively, according to Bloomberg Barclays indexes.

The disconnect shows that the municipal market's usual ties to Treasuries have weakened somewhat amid speculation that the nation's recovery from the pandemic will drive interest rates higher. That conviction was reinforced by Friday's report from the Labor Department that employers added nearly twice as many jobs to payrolls in February than had been expected.

The municipal market's status as a haven may prove short lived. As Treasury yields started trending higher late last year, those on state and local government bonds continued to fall, opening a record gulf between the two. Then that swiftly changed during the last two weeks of February, when yields surged steeply.

That jump in yields could be helping the municipal market by drawing in investors who may have balked at buying when valuations were at record highs. Yet the market may face pressure in the weeks ahead if investors continue to pull cash out of mutual funds or sell debt to pay tax bills, as they often due around this time of year.

"Munis were able to withstand the Treasury selloff much better, as more attractive valuations brought in buyers, helping tax-exempts outperform," Barclays municipal analysts Mikhail Foux, Clare Pickering and Mayur Patel wrote in a note Friday. "However, if rates keep rising, coupled with fund outflows and heavier tax-exempt supply, munis will likely follow, and investors should still stay defensive."

Bloomberg Markets

By Fola Akinnibi

March 5, 2021, 10:34 AM PST

Muni Bond Managers Beaten by Index Funds Eye a 2021 Comeback.

- **70% of active muni fund managers lagged benchmarks in 2020**
- **Strategy 'reflects a winning position in the long run'**

This may be the year that money managers in the municipal-bond market show up the index funds that have been raking in record amounts of cash.

The bond pickers, who pride themselves on deep research and skill at profiting from pricing inefficiencies and swings in a market with 50,000 issuers, largely lost out during the chaos that erupted early in the pandemic, when prices lurched from an unprecedented freefall to a record-setting rally. The returns of more than 70% of national municipal funds lagged their benchmarks — the third time in five years a majority have underperformed, according to data compiled by Bloomberg.

Yet there are signs they may be bouncing back. With the freedom to hold more lower-rated bonds, they have been more insulated from the recent surge in yields and stand to gain as the nation's rebound reduces the economic pressure on public transit systems, hospitals, nursing homes and others that have struggled during the slowdown.

“Given the outlook for credit with fiscal stimulus being supportive and the vaccine being given to more and more people, there is a good chance that the outperformance of lower quality will hold up with the economy improving,” said Dan Solender, head of municipal debt at Lord, Abbett & Co. “With rates rising a little, many portfolios are more defensive than the benchmarks, with higher average coupons.”

The stakes are high for money managers who have seen low-cost ETFs steadily lure in customers. Such funds, including the dominant ones run by Vanguard Group and BlackRock Inc., had record inflows of $13.6 billion in 2020, a 37% increase over the prior year, according to UBS Global Wealth Management. At the same time, the pace of investment flows into mutual funds — which hold 14 times as much in assets — slowed: they took in $39.1 billion, a 60% decline from a year before, according to Investment Company Institute data.

This year, the ETFs winning streak has snapped. BlackRock’s iShares National Muni Bond ETF and Vanguard’s Tax-Exempt Bond ETF, which hold about half of the $62 billion in muni ETF assets, have lost 1.05% and 1.06%, respectively. The median intermediate muni mutual fund has lost 0.67%, according to data compiled by Bloomberg. And about six in 10 active managers are beating their benchmarks.

Last year, less than a third of active municipal-bond managers beat their benchmarks. All nine of Fidelity’s national mutual funds missed their bogeys. Adam Banker, a spokesperson for Fidelity, declined to comment.

This year bets on riskier bonds are paying off, a shift from 2020, when they were pummeled during a panic-driven crash at the onset of the pandemic.

Active managers were particularly hard hit in that rout because a larger share of their holdings were in A, BBB and lower quality bonds than their respective benchmarks, said Beth Foos, senior analyst at Morningstar. Those with more transportation or hospital bonds relative to the benchmark also suffered.

“The riskier, low-quality bonds that drove solid returns in the strong muni markets of 2019 underperformed in early 2020 and funds that loaded up on some of the market’s riskier names and leveraged structures followed in that bumpy ride,” she said.

Vanguard, the low-cost fund behemoth, was able to capitalize on the pandemic dislocation because its funds were more heavily weighted to higher-rated bonds at the beginning of 2020, said Paul Malloy, head of municipals. All six of of Vanguard’s actively managed national muni funds beat their benchmark last year. Over the five-year period, three funds outperformed and three others missed their benchmark by 0.04% or less.

“We came in light on credit risk with dry powder to deploy,” Malloy said in an interview.

Amid the selloff, Vanguard, which oversees about $230 billion in municipal assets, swooped in to buy the safest tax-exempt bonds at unusually low prices then added lower-rated bonds from issuers like Illinois and the Metropolitan Transportation Authority that would benefit from stimulus.

Baird Advisors also had a good year. Three of its four national funds outperformed, including its new Strategic Municipal Bond fund, which returned 8.4%, beating its Bloomberg Barclays 1-10 Year Municipal Blend Index by 4.4 percentage points.

Baird's managers knew all the investors in the fund, which opened in November 2019, and felt they'd stick with their bets. That gave bond pickers the confidence to be more aggressive amid the selloff. The small size of the funds also made it easier to find cheap bonds when smaller retail investors were selling, said Lyle Fitterer, co-head of municipal investments at Baird.

Only one of T. Rowe Price Group's six national muni funds beat its benchmark last year, while all six fell short during the three and five year periods.

Hugh McGuirk, managing director of municipal investments at T. Rowe, said the firm is more focused on beating its peers than fund benchmarks. T. Rowe's muni funds tended to have lower rated bonds than their index, he said. Some positions, particularly senior living were particularly hard hit and haven't recovered as much as other sectors.

McGuirk said T. Rowe's under-performance in 2020 dragged down returns over the three and five year period. The firm's tax-free short fund has performed better than the Morningstar average over the 1, 3 and 5 year period, he said.

"We are active managers and we are taking greater positions in credit and typically running them a little bit longer against the benchmark," McGuirk said. "The way we are positioned reflects a winning position in the long run. It didn't pay off in 2020. But we expect over a long run period of time it will."

Bloomberg Markets

By Martin Z Braun

March 1, 2021, 7:00 AM PST

— With assistance by Bert Louis

A High-Yield Muni Fund Finds Bond Bets for the Long Haul.

A little more than a year ago, before the global pandemic reared its head, high-yield municipal bonds were very expensive.

At that time, "U.S. investors did better after tax in high-yield corporates than in high-yield munis," recalls David Hammer, an executive vice president at asset manager Pimco who oversees the firm's stable of muni-bond funds. "That doesn't happen very often."

Keenly assessing the municipal-bond market, whether it's scooping up a beaten-down security or sizing up how risky a portfolio should be, has been the singular focus of Hammer, 42, since he was a novice trader in 2004. Nowadays, he oversees about $53 billion of assets dedicated to muni bonds at Pimco.

Continue reading.

Barron's

By Lawrence C. Strauss

March 3, 2021 7:00 am ET

SIFMA US Fixed Income Securities Statistics.

Monthly, quarterly, or annual issuance, trading and outstanding volumes for the U.S. fixed income markets.

A quarterly report containing brief commentary and statistics on total U.S. fixed income markets.

View the quarterly report.

February 26, 2021

Despite Improved State Fiscal Conditions, Serious Challenges Remain, Including for Localities, Tribal Nations, and Territories.

State fiscal conditions have improved since last fall but states still face unprecedented costs to address the immediate crisis, limit the long-term harm caused by the pandemic, and address longstanding inequities that greatly worsened the pandemic's impact. Further, many cities and counties continue to face especially serious fiscal challenges, with revenues down even as costs have soared, and most localities have received no federal aid to date. Tribal nations and U.S. territories also face particularly difficult fiscal conditions. Hence, even though state revenues have improved, additional federal aid for states, localities, tribal nations, and territories is needed.

Over the last few weeks, governors have begun releasing their budget proposals for fiscal year 2022, which include updated revenue forecasts for the current, 2021 fiscal year. In many cases these are the first official forecast updates for several months, giving us the first comprehensive look at how forecasts have changed since the early days of the pandemic, when the fiscal situation appeared much more dire.

Most states (34) still project lower revenues for the current fiscal year than they expected before the pandemic struck, our analysis of these data indicates. In some cases, the forecasts are much lower. In four states — Alaska, Nevada, New York, and Texas — forecasts are more than 10 percent below pre-COVID-19 projections. In 20 states they are more than 4 percent below. (See Table 1.)

Continue reading.

CENTER ON BUDGET AND POLICY PRIORITIES

FEBRUARY 26, 2021 | BY MICHAEL LEACHMAN AND ELIZABETH MCNICHOL

Virus Did Not Bring Financial Rout That Many States Feared.

Grim forecasts held up for a few states, but many took in about as much tax revenue as before the pandemic — sometimes a lot more.

Throughout the debate over stimulus, one question has produced repeated deadlock in Washington: Should the states get no-strings federal aid?

Republicans have mostly said no, casting it as a bailout for spendthrift blue states. Democrats have argued the opposite, saying that states face dire fiscal consequences without aid. State aid could well be a stumbling block for President Biden's $1.9 trillion federal stimulus bill, which contains $350 billion in relief for state and local governments and narrowly passed the House this past weekend. It faces a much tougher fight in the Senate.

As it turns out, new data shows that a year after the pandemic wrought economic devastation around the country, forcing states to revise their revenue forecasts and prepare for the worst, for many the worst didn't come. One big reason: $600-a-week federal supplements that allowed people to keep spending — and states to keep collecting sales tax revenue — even when they were jobless, along with the usual state unemployment benefits.

[Continue reading.]

The New York Times

By Mary Williams Walsh

March 1, 2021

[Fitch: 21 U.S. States Saw Job Losses in December]

Related Fitch Ratings Content: [U.S. States Labor Markets Tracker (21 States Saw Job Losses in December]

Fitch Ratings-New York-24 February 2021: State employment improved marginally for most states in December; however, Fitch Ratings' latest U.S. States Labor Markets Tracker shows 21 states, mainly in the Northeast and West regions, saw month-over-month employment declines.

For six states, the December official unemployment rate improved while the Fitch-adjusted rate actually weakened, given further declines in those states' labor forces (Ohio, Georgia, Hawaii, Mississippi, Minnesota, Montana, and Pennsylvania). Furthermore, states like Minnesota, Oklahoma, Massachusetts, Delaware, New York, Oregon, New Hampshire, Illinois, California, New Mexico, North Dakota and Hawaii, have recovered less than 50% of the jobs lost at the peak of the pandemic.

"States with a larger percentage of those who dropped out of the labor force may suffer greater volatility in their unemployment rates as individuals seek employment after a period of not actively seeking work," said Senior Director Olu Sonola. Among those states are Iowa and Vermont, which have Fitch Ratings-adjusted unemployment rates more than 5 percentage points (pp) higher than their respective official unemployment rates.

Additionally, 41 states had a Fitch-adjusted unemployment rate higher than their own state official unemployment rate for December. The gap between the two measures is widest for the state of Iowa, where the labor force has declined by 7.6% since February 2020.

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

Contact:

Olu Sonola, CFA

Senior Director
+1-212-908-0583
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Arthur Tildesley, CFA
Associate Director
+1-646-582-4749

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

Additional information is available on www.fitchratings.com

Forget Bitcoin or Tesla. Muni Bonds Are the King of Costly.

State and local debt has become arguably the most expensive asset class anywhere.

Believe it or not, the $3.9 trillion municipal-bond market and Bitcoin have much in common.

A flood of money pouring in? Check: Muni bond funds added about $2 billion in the week ended Feb. 17, according to Refinitiv Lipper US Fund Flows data, building upon a $2.6 billion inflow in the prior period that was the fourth-largest on record. Scarce supply? You bet: Some analysts estimate that states and cities in 2021 will bring to market the smallest amount of tax-exempt bonds in 21 years. Fiscal stimulus supporting its case? Indeed: The prospect of $350 billion in aid to state and local governments should help stave off any widespread credit stress.

Perhaps most remarkably, though, muni investors appear to have fully embraced the “HODL” mentality of the crypto crowd. In typical times, February’s sharp selloff in U.S. Treasuries, which has sent the benchmark 10-year yield up almost 30 basis points to 1.35% (for a monthly loss of almost 2%), would have reverberated by now across the market for state and local bonds. Instead, tax-exempt yields have been borderline immovable; they only finally started to budge toward the end of last week.

By that time, municipal bonds became arguably the most expensive asset class anywhere. As Bloomberg News’s Danielle Moran noted, yields had fallen so low on top-rated tax-free debt that even after accounting for the exemption from federal taxes, it still made more sense for investors to purchase Treasuries instead. It’s certainly fair to argue that Bitcoin isn’t worth more than $50,000, or that shares of Tesla Inc. shouldn’t be trading at more than 1,000 times earnings. But it’s at least possible to make the case that they should. It’s not every day that a corner of the bond market rallies to such an extent that it’s objectively a bad deal.

Because most municipal bonds are exempt from federal income taxes, analysts prefer to gauge the market’s relative value using the muni-Treasury ratio, which divides the yield on triple-A rated tax-free debt by Treasuries with the same maturity. A higher ratio indicates munis are relatively cheap — if it’s above 100, investors are effectively getting the tax exemption for free. A lower ratio signals munis are getting pricier.

If you believe the likes of Delaware, Maryland, North Carolina, Texas and Virginia are roughly as creditworthy as the federal government, then it's only natural that their yields would be lower than Treasuries. For those in the top tax bracket, a 1.35% taxable yield like that on 10-year Treasuries is equivalent to a 0.85% tax-free yield. The market usually never reaches that breaking point.

That all changed last week. The 10-year muni-Treasury ratio tumbled to a record low 54%, meaning tax-exempt bonds were barely paying half of 10-year U.S. notes. The 30-year ratio crumbled to 69% — before this year, the previous low was 86%. And for five-year securities, the muni-Treasury ratio dropped to a puny 37.3%. According to Bloomberg Valuation data that tracks bond yields for 20 different states, five-year debt from all but Illinois and New Jersey yields less than five-year Treasuries, and many state obligations would yield less even after factoring in the tax exemption.

It's not as if this caught anyone in the muni market by surprise. Citigroup Inc. analyst Vikram Rai called it "excruciating richness." John Flahive, head of fixed-income investments at BNY Mellon Wealth Management, said "you really gotta scratch your head" at valuations. Bank of America Corp.'s strategists called it "futile" to call a bottom to muni-Treasury ratios. Adam Stern, co-head of research at Breckinridge Capital Advisors, said, "We're trying to find value where we can, and if you can't, hold your nose and move along."

The unspoken fear here is that the muni market can be particularly susceptible to painful reversals. It's dominated by individual investors who own shares of mutual funds or specific bonds in separately managed accounts. In either case, they tend to not react well to monthly losses on their supposed safe assets. The clearest example of this was in 2013, when a combination of the "taper tantrum" and high-profile distressed situations in Detroit and Puerto Rico led individuals to pull $60.7 billion from muni mutual funds that year, the most since at least 1992, as losses mounted in six of the final eight months of that year.

It doesn't have to be that way this time around. From a pure public policy perspective, no one should root against low borrowing costs for states and localities that are on the front lines of keeping the Covid-19 pandemic in check and distributing vaccines. In fact, part of the reason tax-free bond supply looks to be so low this year is that municipalities are opting to sell more taxable debt, which is more costly upfront but grants them greater flexibility to use the proceeds.

But it's also fairly obvious that muni-Treasury ratios can't permanently remain at levels that make tax-exempt bonds borderline impossible to buy. 1 One of the more troubling dynamics of this supply-demand mismatch is that fund managers are clearly reaching to purchase longer-dated debt or riskier securities. High-yield muni funds drew in $578 million in the week ended Feb. 17, after adding $832 million the week before, which was the second-biggest inflow ever. As is often the case in fixed-income investing, that strategy will work until it doesn't.

Yes, if an investor in the top tax bracket is convinced that taxes are going to go much higher in the coming years, then it's possible to make the case that munis still have some value relative to Treasuries. But legislation could potentially work in the opposite direction, too.

Bloomberg Markets

By Brian Chappatta

February 22, 2021, 2:30 AM PST

Brian Chappatta on Expensive Muni Bonds (Podcast).

Bloomberg Opinion columnist Brian Chappatta presents a column explaining that municipal bonds are arguably the most expensive asset class anywhere, given that the market has rallied to such an extent that even after accounting for the federally tax-exempt interest payments, investors would still be better off buying Treasuries than top-rated munis.

Listen to audio.

Bloomberg Radio

February 23, 2021 — 6:48 AM PST

March Madness Tournament Arena Tests Muni-Bond Market Appetite.

- **Indianapolis agency is selling $390 million of bonds**
- **Proceeds partly to finance renovations of NBA Pacers home**

One of the Indianapolis arenas hosting the men's college basketball championship next month is turning to the municipal-bond market to raise money for renovations, betting that fans will flock back to large venues once the pandemic is quelled.

The local government agencies that oversee the Bankers Life Fieldhouse, where some of the round 1 and 2 and Sweet 16 games of the tournament known as March Madness will play, are selling $390 million of tax-exempt bonds on Thursday.

Proceeds will be used to finance improvements to the arena that is home to the Indiana Pacers that were part of a 2019 agreement to keep the professional basketball team in Indianapolis until 2044. Some of the money also will refinance two bond anticipation notes sold in 2019 and 2020.

Renovations include combined club level seats, a larger center home scoreboard, and a public plaza that will double as a skating rink in the winter. Andy Mallon, executive director of the Capital Improvement Board of Managers of Marion County, said the work is expected to be completed by the end of 2022.

The sale comes less than a month before the start of the National Collegiate Athletic Association's 2021 men's basketball championship. Last year's tournament was canceled because of the Covid-19 pandemic. Officials decided to host all of this year's games in one geographical location, with the majority of the tournament's 67 games taking place in Indianapolis. Attendance is limited to 25% in the stadiums.

Large public gatherings such as concerts, conventions and of course sporting events were canceled when Covid-19 spread across the U.S. one year ago. That left venues, many financed with municipal bonds, empty for much of the year. They have been slow to relaunch as public health officials urge caution while the vaccine rollout ramps up, though the Super Bowl was hosted with limited fans when it was played in Florida earlier this month.

The bond sale also comes amid a nearly two-week long selloff that has forced yields on benchmark securities up by nearly 5 basis points as investors speculate on a post-pandemic surge in economic growth.

“Even with the recent selloff we’ve seen, muni rates are still historically very low,” said Craig Brandon, co-director of municipal investments for Eaton Vance Management. “We’re at a very pivotal time in the market this week and everyone’s waiting to see what the flow data is on Thursday.”

Bloomberg Markets

By Anastasia Bergeron

February 24, 2021, 10:51 AM PST

Will You Have to Pay Twice for Better Infrastructure?

Condo owners in Florida had already paid to upgrade their power lines. Palm Beach sent them another bill anyway.

Suppose your town decides to respond to frequent power outages by requiring property improvements. Good news: You’ve already made them and paid for them. Bad news: The town asks you to pay *again*. Can they do that? That’s the question raised by a recent decision of the United States Court of Appeals for the Eleventh Circuit.

The underlying facts should help us think more deeply about the delivery of municipal services; and, like just about everything just now, should make us think more deeply about how we’re making our communities resilient to climate change.

Here’s how the case arose: Tired of power outages from frequent tropical storms, the town of Palm Beach, Florida, decided a few years ago that the culprit was overhead power lines. The solution was to bury them in some neighborhoods. To pay for the cost, the town imposed a special assessment — a bill — on those who would benefit. So far, nothing unusual. Much of the cost of burying lines is typically passed on to local residents.

Continue reading.

Bloomberg Opinion

By Stephen L. Carter

February 27, 2021, 5:00 AM PST

Infrastructure Update: BDA Discusses Potential Legislation with Federal Agencies

The BDA hosted conversations with senior-level staff, both political and career, at the U.S. Department of Treasury and the Department of Transportation regarding potential infrastructure legislation this year, and the inclusion of municipal bond provisions.

Key points include:

- **DOT Secretary Pete Buttigieg recently [promoted the reinstatement of tax-exempt advance refundings] during his confirmation hearing in the Senate and his staff reaffirmed his support for such a provision;**
- Both DOT and Treasury expect the Administration to push infrastructure shortly after the current COVID bill is signed into law;
- The expected legislation will feature many grant programs, but we were reassured these programs will work to support and embolden the municipal market;
- The vehicle for the legislation has yet to be decided. The Administration may still push for a much larger package via additional budget reconciliation, much like COVID relief, or push these provisions through the surface transportation reauthorization later this year.

The BDA continues to work with our partners on the Hill to promote legislation that would:

- Restore the ability of state and local governments to save taxpayer dollars and generate additional funds for infrastructure and other key initiatives by restoring tax-exempt Advanced Refundings (ARs);
- Expand the use of tax-exempt Private Activity Bonds (PABs)
- Raise the Bank Qualified Debt limit from $10 million to $30 million and tie to inflation
- Create a direct pay bond similar to the former Build America Bond (BAB) program exempt from sequestration;
- Expand the utilization of green bonds for state and local governments to invest in resilient infrastructure.

The BDA will continue to provide updates as they come available.

Bond Dealers of America

February 24, 2021

SIFMA Welcomes Introduction of the LOCAL Infrastructure Act.

Washington, D.C., February 25, 2021 – SIFMA today issued the following statement from president and CEO Kenneth E. Bentsen, Jr. on the introduction of the LOCAL Infrastructure Act:

"SIFMA commends Senators Roger Wicker (R-MS) and Debbie Stabenow (D-MI) on their commitment to infrastructure investment, seen today with the introduction of the Lifting Our Communities through Advance Liquidity for Infrastructure (LOCAL Infrastructure) Act of 2021. Our state and local governments have a critical need, especially this deep into the Covid-19 pandemic, to fund the repair and even new construction of the bridges, roads, schools, health care facilities, water and sewer facilities, transportation facilities our communities rely on. This legislation would reinstate advance refunding, an important tool which allows state and local governments to save billions in interest costs by refinancing their outstanding debt to a lower interest rate. By reducing their debt service expenses, states and localities would free up their borrowing capacity for new investments in infrastructure and other important public projects, in turn boosting their local economies with the creation of new jobs and making public services more affordable."

[Hackers May Be Coming for Your City's Water Supply.]

More digitized and connected than ever, the nation's infrastructure is vulnerable to cyberattack.

I first saw the inside of a water-treatment plant in 2015. I was conducting a site visit at a municipal facility in New Jersey, where I was the state's director of cybersecurity. It wasn't an inspection; the plant manager had asked me to visit.

Changes at the facility over the years had made him uneasy. Analog machinery had given way to digital systems, and critical water-treatment processes were now automated. The plant required little human intervention in day-to-day operations. Thanks to remote-access technologies, more maintenance and monitoring activities were being performed off-site by a third party. All this was great for efficiency, especially for his resource-limited operation, but what about the risk? Optimizing for cost and speed meant connecting more digital and networked technologies to his plant floor. Security was no longer simply a matter of gates, guards and guns. It had become a matter of bits and bytes.

In early February that plant manager's unease became another's reality when someone reportedly tried to poison the water supply in the Gulf Coast city of Oldsmar, Fla. According to the Pinellas County Sheriff, a hacker gained remote access to Oldsmar's water-treatment-plant network and briefly increased the amount of sodium hydroxide in the water by 100 times—enough to cause death or serious injury to anyone who drank or touched it. Thankfully a technician noticed the anomaly and booted the hacker off the network before any damage was done.

What happened in Oldsmar fell just short of the nightmare scenario. The average person is unaware how dependent the country's critical infrastructure has become on digital technology. At power plants, waterworks and all manner of public utilities, special-purpose computers known as human-machine interfaces connect to ruggedized-process controllers that regulate actuators to spin turbines, rotate robotic arms or, in this case, open valves to release sodium hydroxide.

In a perfect world these communications and the operations they command would be walled off from internet-connected systems. But practical demands to monitor operations in real time, glean data analytics from the plant floor and perform remote maintenance have in many cases exposed vulnerable infrastructure to the other side of the firewall. The result is more web-based hacks of operational technology systems. The bad guys get access to critical infrastructure facilities when corporate devices are inadvertently connected to the internet or a network administrator's credentials are stolen in a spear-phishing scam.

Oldsmar wasn't the first cyberattack against water infrastructure. In April 2020 Israel's National Cyber Directorate urged all water-treatment companies to change their passwords on critical systems. In 2016, according to a report by Verizon's security unit, hackers with ties to Syria gained access to a water utility in an unknown country and managed to "handicap water treatment and production capabilities."

Despite the alarmist headlines, Oldsmar is mostly a good-news case study. The treatment center swiftly identified what was happening and took immediate action to keep the poison out of the public water supply. Even if the plant hadn't responded as quickly as it did, there were other controls in place that would have detected a problem and maintained the system's integrity.

But redundant controls and a bit of good luck shouldn't diminish the severity of this cyber threat to public health. The plant operator was tipped off by a mouse arrow moving across a screen and making changes to critical water-treatment processes. But what if the operator didn't have the benefit of a visual aide to observe the hacker in real time? What if the human-machine interface was manipulated by malware to report "all clear" as the hackers increased concentration of sodium hydroxide to lethal levels? Would the breach have been detected before someone drank or bathed with the corrosive adulterated water?

The answer and the problem are inextricably linked. Detecting toxic water en route to consumers requires sensors in the distribution network. Those sensors must be connected so they can communicate and transmit data for either humans or machines to take preventive actions. Anything that is connected can be manipulated. Should we rip the sensors out lest they be hacked? Of course not. Instead we must reduce vulnerability by extending security to all parts of the network, even those that seem beyond the reach of malicious actors.

"I just don't trust those computers," the New Jersey plant manager told me in 2015. We should all be untrusting when it comes to technology, but not at the expense of its embrace. The zero-trust mind-set made all the difference for the city of Oldsmar.

The Wall Street Journal Opinion

By Dave Weinstein

Feb. 26, 2021 5:53 pm ET

Mr. Weinstein is an associate partner at McKinsey & Co. and former chief technology officer of New Jersey.

S&P U.S. Not-For-Profit Health Care Rating Actions, 2020 Year-End Review.

S&P Global Ratings' U.S. not-for-profit health care outlook and rating actions in 2020 were heavily influenced by the pandemic with a higher than typical amount of unfavorable outlook revisions (mostly to negative from stable), particularly in the spring when we simultaneously revised outlooks on 42 health care organizations in anticipation of upcoming financial and operating pressures. In addition, in 2020 we downgraded four times more organizations than we upgraded. Four of the nine upgrades occurred in January before the pandemic with all but one of the remaining upgrades due to affiliation or merger with a higher rated organization.

Nevertheless, we maintained a majority of our ratings, reflecting financial flexibility from strong balance sheets, enterprise profile strengths, and governmental support through stimulus funds. There have also been some favorable outlook actions including credits that were revised back to stable after having outlooks revised to negative as part of our multi-credit rating action in April 2020 when we believed those credits with weaker reserves and credit characteristics could face relatively more pandemic related challenges.

The health care portfolio is composed largely of stand-alone hospitals (59%) and health care systems (35%) with the remaining ratings on long-term care, human service providers and a physician group practice. Relative to their percentage of the total portfolio, the stand-alone providers had a higher number of downgrades and unfavorable outlook revisions in 2020. However, stand-alone hospitals also accounted for over three-quarters of the favorable outlook revisions. We believe this reflects the continued bifurcation of credit quality for stand-alone providers and the larger portfolio of stand-alone ratings. Health care systems were not immune to credit actions either as they experienced upgrades, downgrades, and both unfavorable and favorable outlook actions, although in each category at a rate lower than their percentage representation in the overall portfolio. We believe this reflects system benefits, including size, scale, and for many, centralized control, all of which provided benefits in managing through the pandemic.

Continue reading.

Fitch Ratings Updates U.S. Public Finance Charter School Rating Criteria.

Fitch Ratings-New York-25 February 2021: Fitch Ratings has updated its “U.S. Public Finance Charter School Rating Criteria.”

The primary revision to the criteria is the use of historical state per-pupil funding levels for K-12 education as the input to the Fitch Analytical Stress Test Model — State & Local Governments (FAST) to determine the impact of a typical recession on revenues assuming constant enrollment. Previously, Fitch used either school-specific revenues if the school had at least 10 years of stabilized revenues or historical state per-pupil funding levels for schools with a more limited revenue history or greater enrollment volatility.

There is no expected impact on existing ratings.

The report replaces the criteria report of the same name dated Feb. 28, 2020.

Contact:

Arthur Tildesley, CFA
Associate Director
+1-646-582-4749
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Amy Laskey
Managing Director
+1-212-908-0568

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 Ratings Updates Public Sector, Revenue-Supported Entities Rating Criteria.

Related Fitch Ratings Content: Public Sector, Revenue-Supported Entities Rating Criteria

Fitch Ratings-New York/London/Moscow-23 February 2021: Fitch Ratings has updated the Public Sector, Revenue-Supported Entities Rating Criteria report (the Revenue Master Criteria) as part of the routine criteria review process. Revisions to the criteria are mostly editorial in nature and there is no impact on existing ratings.

The main revision is the addition of the Portfolio Analysis Model (PAM) with the Revenue Master Criteria. There is no change to the model, that was previously associated with only the U.S. Public Finance College and University Rating Criteria. The model will temporarily remain associated with both criteria through a transition period and will ultimately be maintained as part of the Revenue Master Criteria only.

Other minor and editorial revisions to the report are as follows: clarifying the scope by specifying certain types of International Public Finance entities that are or are not covered under the Revenue Master Criteria; showing an explicit 'B' category range for the Suggested Analytical Outcome in the Rating Positioning Table; adding information on the rating approach to distressed debt exchanges; and clarifying the application of the short-term ratings approach for issuers without Issuer Default Ratings.

This new criteria report replaces the criteria report of the same name dated 27 Mar 2020.

Contact:

Tipper Austin
Director
+1-212-908-9199
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Vladimir Redkin
Senior Director
+7 495 956 2405

Raj Sanghvi
Analyst
+1-212-908-0746

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@thefitchgroup.com
Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email: elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

[Dislocation Offers Muni Buying Opportunities: Kazatsky (Radio)]

MUNIS IN FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, on how the world has changed for rates and munis. Hosted by Paul Sweeney and Matt Miller

[Listen to audio.]

Bloomberg Radio

(Lisa Abramowicz filling in for Matt Miller).

February 26, 2021

MSRB Data Show Noticeable Shift in Municipal Securities Buying Patterns.

Washington, DC – The Municipal Securities Rulemaking Board (MSRB) today published research findings that reveal a noticeable shift in market behavior and structure over the last decade, driven by customer buying patterns.

"Our research shows a significant decline in individual investor purchases and a significant increase in institutional purchases of municipal securities over the last decade," said Marcelo Vieira, MSRB Director of Research, noting that individual investor trades are defined as trades of $100,000 or less, and institutional trades are defined as trades of over $1 million. "We believe the shift in customer buying may be driven by the increased use of separately managed accounts mutual funds and exchange traded funds."

As the official repository of all municipal securities trade data, the MSRB conducts analysis and publishes its research findings to enhance understanding of market trends. The MSRB's latest analysis shows a notable shift in the type and size of transactions in the municipal securities market over the past 10 years, particularly among customer purchases. Trading patterns in customer sales and interdealer trades remain relatively consistent. The trend is also significantly more pronounced when the analysis is limited to tax-exempt, fixed-rate securities, as trades of variable-rate and taxable securities are less common in the municipal market.

The analysis reveals that in the last decade, customer purchases of fixed-rate, tax-exempt municipal securities of $100,000 or less decreased 46%, from 3.8 million, or 87.2% of all customer purchases of those securities in 2010, to 2.0 million, or 77.8% of customer purchases in 2020. Meanwhile, institutional-sized purchases of over $1 million increased 46% in the same time period, from 83,787, or 1.9% of all customer purchases, in 2010 to 121,991, or 4.6% of customer purchases, in 2020. The MSRB's analysis is based on transaction data from the MSRB's Real-Time Transaction Reporting System (RTRS) database.

Date: February 24, 2021

Contact: Leah Szarek, Chief External Relations Officer
202-838-1500
lszarek@msrb.org

Municipal Bonds: Back To The Basics

Summary

- As an investor, municipal bonds could offer you tax-exempt income, which can carry more attractive advantages if current tax rates increase, and higher income-generating capabilities after accounting for tax. Don't let market-wide panic disrupt your investment plan.
- As an investor, municipal bonds could offer you tax-exempt income, which can carry more

attractive advantages if current tax rates increase, and higher income-generating capabilities after accounting for tax. Don't let market-wide panic disrupt your investment plan.
- Taking a look at three fundamental characteristics of the municipal bond market that have historically helped preserve not only credit quality but defaults, and should play a large part in managing how the municipal market navigates 2021.

Continue reading.

Seeking Alpha

Feb. 24, 2021

Muni Credit Plays Defense When Rates Rise.

Summary

- Historically, when Fed rate hikes spurred higher yields, BBB-rated municipals beat US Treasuries and AAA-rated munis.
- In our estimation, a five-year, AA-rated muni would see 0% returns if yields were to rise just 15 basis points, while yields would have to rise nearly 50 basis points for the return on a 20-year, BBB-rated muni to drop to zero.
- When economies improve, yields tend to rise. And when yields go on offense, muni credit has offered muni investors a powerful defense.

Continue reading.

Seeking Alpha

Feb. 22, 2021

Make Sure That Your Municipal Bonds Pay You For The Risk You Take.

Over the past decades I have written about weird fixed income market events and crazy, newly issued bonds. This one doesn't take the cake but it's the icing on it.

The State of Louisiana in February 2021 issued some taxable municipals. No surprise there since many other municipalities followed them. Louisiana's specific series of revenue bonds refinances an older issue that was marketed to build Highway I-49 North and South. So far so good. Here's the zinger: the bonds are payable by abandoned and unclaimed property revenue after refunds and fees.

The Official Statement (page 31) defines "Unclaimed Property" as:

"…cash or securities-related property. Examples of cash include bank deposits, trust distributions, annuities, certificates of deposit, traveler's insurance policies, wages or other compensation for personal services, deposits or refunds owed to a subscriber by a utility, mineral royalty payments, property in an individual retirement account and contents of safe deposit boxes."

California and many other states call such assets, Escheat Property. The Escheat laws grant the right of a government to take ownership of estate assets or unclaimed property. This happens most often when someone dies with no will or heirs to claim the property.

By using unclaimed property as a source of revenue, Louisiana is relying on the rightful property owners to forego their rights to these assets. The state grabs them and uses the revenue generated to repay their bonds.

But what if a major portion of this unclaimed property gets reclaimed and must be paid back by the state to the rightful owners? In the case of the I-49 bonds there could be insufficient funds to make interest payments.

The Division of Administration recognized this potential problem. So it agreed to transfer up to $15 million for possible debt service payments should a significant part of the unclaimed property suddenly be reclaimed by the owners or heirs. However, this $15 million backstop is subject to governmental appropriation. In other words, it’s not guaranteed. So bondholders could be left out in the cold.

This type of Special and Limited Obligation is not at the top of the pecking order like a General Obligation, water and sewer, or an airport revenue bond. Always ask yourself, “Am I getting paid for the risk I’m taking?”

These taxable munis backed by Unclaimed Property generate a big NO to such a question. The five-year Louisiana bonds yield 1.059%, seven years, 1.543%, and ten years, 1.879%. Compare these yields with alternative bonds such as the T-Mobile below.

Kudos to the underwriters who disclosed in the Official Statement the amount of abandoned and unclaimed property collected every year since 2011. This calculation netted out what Louisiana refunded to the rightful owners net of fees and administrative costs (of course). It left the actual amount allocated to the Unclaimed Property Fund. Analysts can then determine if the cash from this net Unclaimed Property Fund will be sufficient to service the bonded indebtedness.

The problem is that few individual investors actually read the Official Statement. So they will never know the risk they are taking and if they are being paid for that risk.

You would be far better off investing in corporate bonds where you receive quarterly earnings reports, revenue reports, and profit and loss reports, rather than hoping Louisiana’s unclaimed property coffers will grow in an amount sufficient to pay you.

Take a look at corporate bonds like T-Mobile 4.75% due February 1, 2028 (CUSIP: 87264AAV7). This is a junk bond that S&P rates BB. But this wireless carrier’s revenue growth and superior 5G coverage versus its rivals is doing quite well. There are cost synergies with its Sprint S 0.0% acquisition and it is not one of those walking dead zombie companies that rely on debt to keep them afloat. The aforementioned bonds yield around 2.04% to the Feb. 1, 2023 call and 3.54% to maturity in 2028.

Conclusion: Unclaimed property versus a 5G juggernaut? No contest.

Forbes

by Marilyn Cohen

Feb 23, 2021

Municipal Bond Yields Rise, Swept Up in Treasuries Surge.

CHICAGO (Reuters) – Municipal bond yields were following U.S. Treasury yields higher after valuations between the two markets reached unsustainable levels, analysts said on Thursday.

Earlier this year, the $3.9 trillion market where states, cities, schools and other issuers sell debt had been resisting a steep sell off in Treasuries that lifted yields, putting the historically close correlation between the two markets out of whack.

Now, munis are catching up, with the 10-year yield on Municipal Market Data's (MMD) benchmark triple-A scale, which started 2021 at 0.720%, climbing 45 basis points since Feb. 12. It closed up 5 basis points at 1.14% on Thursday.

The iShares National Municipal Bond exchange-traded fund (ETF) fell on Thursday to its lowest level since November at 115.14. The largest muni ETF, which reached an 11-month high of 117.95 on Feb. 11, was last down 0.43% at 115.30.

Flows into municipal bond funds plummeted to $37.68 million in the week ended Feb. 24 from net inflows of nearly $2 billion in the prior week, Lipper reported on Thursday.

"Munis were holding up extremely well to the rest of the bond market and the last week and a half we've seen a reversal in that," said Andrew Richman, senior fixed income strategist at Sterling Capital Management. "The relative value finally got so bad (munis are) starting to move up in the yields right now."

The ratio of top-rated 10-year, tax-exempt bonds to comparable taxable Treasury yields hit an all-time low of 54.7% on Feb. 16, according to Daniel Berger, senior market strategist at MMD Refinitiv, who said ratios that low were a key reason for the recent move higher in muni yields. The ratio was 76.2% on Thursday.

"Munis got incredibly rich to Treasuries," Berger said, adding that "a little more supply this week" was another factor.

Low supply of new debt in January amid high demand from investors heavy with cash from coupon and principal payments helped keep muni yields from following Treasuries higher. The prospect of an income tax hike and new stimulus funding for states and local governments under a Democrat-controlled White House and Congress also held yields in check.

Improving economic data, inflation concerns, and fears of a supply surge to finance massive new fiscal stimulus, have sent the 10-year Treasury yield soaring from 0.930% on Jan. 4 to over 1.6% on Thursday.

Muni yields are typically lower than those of comparable Treasuries because interest income earned on munis is exempt from federal and sometimes state taxation.

Reporting By Karen Pierog; Editing by Alden Bentley and Marguerita Choy

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High Yield Munis Benefit From Anticipated Fiscal Support.

Summary

- The VanEck Vectors Muni Allocation ETF had a NAV total return of +1.33% vs. +0.64% for the Bloomberg Barclays Municipal Bond Index.
- The municipal bond market continues to benefit from both strong demand and limited supply.
- MAAX will continue to be positioned overweight both credit and duration, relative to its benchmark, while closely monitoring for signs of deterioration within the muni market.

Continue reading.

Seeking Alpha

Feb. 21, 2021

Local Hazards Grow as Americans Churn Out More Garbage.

Increasing waste, full landfills and shuttered recycling programs mean more cities are paying to send their trash out-of-state.

As U.S. cities struggle to rein in garbage while propping up pricey recycling efforts, more companies are profiting from America's growing waste problem and leaving local communities to face the environmental consequences.

At 4.9 pounds of trash per person, per day, the U.S. is the most wasteful country on the planet. Of the 292.4 million tons of refuse Americans generated in 2018, half was buried in landfills while another 32% was recycled or composted, according to the U.S. Environmental Protection Agency. The rest was burned (the preferred term being "combusted") to generate electricity.

Before 1970, the U.S. dealt with its trash by dumping it in open pits. But in 1976, waste management fundamentally changed, thanks to the Resource Conservation and Recovery Act. That law created disposal standards for solid and hazardous waste, bolstered recycling programs and mandated landfills install better protection against seepage into the surrounding environment.

Continue reading.

Bloomberg Green

By Jacqueline Davalos

February 26, 2021, 1:00 AM PST Updated on February 26, 2021, 3:37 PM PST

For Cities, Less Traffic Means Lost Revenue.

Cities have seen parking fee and traffic fine collections drop during the pandemic as commuters and tourists stay home and enforcement is relaxed.

Sluggish tax collections have dragged down city revenues during the coronavirus pandemic, but a decline in parking fees and fines is also posing a problem for several cities where tourism and commuting have dropped off.

In Washington, D.C., traffic tickets make up about 2% of the city's locally generated revenue, but money collected from traffic violations has declined precipitously, according to financial estimates provided by the Chief Financial Officer. The city collected $68 million in non-automated parking fines in Fiscal 2019. That figure declined to $36 million in Fiscal 2020 and is estimated to drop to $4 million in Fiscal 2021, according to data provided by the CFO's office.

The non-automated fines are "expected to decline significantly as there are fewer commuters and less traffic," according to a recent CFO report. Tickets issued by the city's network of traffic enforcement cameras have also declined, with revenue predicted to drop from $123 million in Fiscal 2019 to $100 million in Fiscal 2021, according to the CFO.

In addition to having fewer drivers to ticket, the city has also stopped issuing tickets for certain types of violations, such as for expired meters or expired license plates. A spokesman for the District's Department of Motor Vehicles confirmed the city is currently only ticketing for 47 safety violations, including parking in front of a fire hydrant.

"The District government is currently reviewing whether parking meter enforcement should be restarted in commercial areas," DMV spokesman James Miller said in an email. "However, since no decision has been made, all tickets remain in their current status for the duration of the public health emergency, with no additional penalties applied."

Chicago saw a 52% decline in the number of parking tickets issued by the city last year after Mayor Lori Lightfoot similarly ordered the city to stop ticketing and booting illegally parked vehicles unless it's for a public safety reason.

Less parking enforcement has in some cases also led to reduced workforce needs.

In Washington, D.C., a handful of the city's parking enforcement officers have been detailed to other government programs, with some assisting at Covid-19 testing sites. Thirteen of the city's 242 parking officers are detailed, Miller said.

Miami Beach, Florida also had to scale back the size of its parking enforcement office after garage and street meter fee collection declined by more than 90% at the outset of the pandemic.

The city is down to 15 full time parking enforcement officers from a staff of 28 full-time and 27 part-time officers, said Monica Beltran, the assistant director of the Miami Beach Parking Department. Some parking officers were able to find jobs elsewhere in city government. But the city's parking department is self-funded through its fee collection and had little choice but to cut expenses when its revenues tanked, Beltran said.

With hotels, bars, entertainment venues and restaurants shut down at the outset of the pandemic, the tourism-dependent city had few visitors or workers paying to park at street meters or in the 12 city-run garages. To allay concern about transmission of the virus though high-touch surfaces, the city also removed 750 parking meter pay stations and transitioned to an app-based system, Beltran said.

Parking revenues have started to bounce back as businesses have been allowed to reopen—with Miami Beach now collecting about 65% of its average weekly parking fees. Even with the drop in revenue collection, the city expects to maintain a 50% cap on parking garage capacity during the spring break season to prevent the area from becoming a hot spot for virus transmission, Beltran said.

“Those measures affect our bottom line but they are necessary,” she said. “The demand is there but you have to do the right thing. If you open the doors, it could become a free for all.”

Route Fifty

By Andrea Noble,

FEBRUARY 17, 2021

[To Plug a Pension Gap, This City Rented Its Streets. To Itself.]

Cities and states issued at least $6.1 billion in pension bonds last year. Novel ways to do so include renting property they already own under dummy corporations.

The City of Tucson, Ariz., decided last year to pay rent on five golf courses and a zoo — to itself. In California, West Covina agreed to pay rent on its own streets. And in Flagstaff, Ariz., a new lease agreement covers libraries, fire stations and even City Hall.

They are risky financial arrangements born of desperation, adopted to fulfill ballooning pension payments that the cities can no longer afford. Starved of cash by the pandemic, cities are essentially using their own property as collateral of sorts to raise money to pay for their workers’ pensions.

It works like this: The city creates a dummy corporation to hold assets and then rents them. The corporation then issues bonds and sends the proceeds back to the city, which sends the cash to its pension fund to cover its shortfall. These bonds attract investors — who are desperate for yield in a world of near-zero interest rates — by offering a rate of return that’s slightly higher than similar financial assets. In turn, the pension fund invests the money raised by those bonds in other assets that are expected to generate a higher return over time.

If they can pull off the strategy, cities issuing these bonds can reduce their pension bills by an amount that’s the difference between what they earn and what they pay out. But as with any strategy based on long-term assumptions, there is risk.

Taxpayers can still owe the pension fund money if the investments don’t get the return they expect. And although most municipal debt is considered bulletproof because a government pledges to make its creditors whole in the event of a default, bonds like the ones West Covina issued don’t have that guarantee.

“It boggles my mind that anyone would buy these bonds,” said Jessica Shewmaker, who was a member of West Covina’s City Council when an investment banker pitched the idea last year as a way to cover a $1.2 million monthly bill from the California Public Employees’ Retirement System, or CalPERS. “These are streets that haven’t been paved in 20 years.”

Around the country, towns and cities are increasingly embracing more aggressive investment strategies as they struggle to cover funding gaps in their pension programs. The total public pension shortfall nationwide is about $4.7 trillion, according to Pension Tracker, a project of the Public Policy Program at Stanford University.

Many states have been trying to beef up their pension systems, which often means telling local governments to send in a lot more money. Few towns have cash just sitting around these days, but they can borrow it long term from investors, with maturities so far in the future that it feels like free cash. West Covina's bonds, for instance, don't need to be repaid for 24 years.

When a municipality borrows money for a public project, like a new road or bridge, it typically issues a general obligation bond, often after getting voter approval. These are the backbone of municipal finance, and come with robust guarantees — courts can force borrowers to pay, even if it means raising taxes.

But it's different when a municipality borrows to cover a pension shortfall. Usually, this is done with a pension obligation bond. These also require voter approval in some states, but typically come with fewer guarantees to their buyers.

It gets murkier when municipalities use West Covina's approach. Because the bond is issued by the dummy corporation, it's often called something else — a "lease revenue bond," in West Covina's case — and doesn't necessarily need voter approval.

The consequences of this approach became clear after Detroit declared bankruptcy in 2013 and couldn't pay its creditors in full.

Like West Covina, Detroit had used dummy corporations to borrow money after it had been ordered to fund its pension. A few years later, in bankruptcy, Detroit tried to repudiate the $1.4 billion pension borrowing, calling it a sham transaction that used the dummy corporations to get around a legal debt limit. When the dust settled, the bondholders got about 14 cents on the dollar. The city's retirees took haircuts, too.

The website of the 20,000-member Government Finance Officers Association, whose stated mission is to "advance excellence in public finance," fairly screams: "State and local governments should not issue P.O.B.s."

That hasn't deterred governments. Nationwide, cities and states issued $6.1 billion in pension obligation bonds in 2020, more than in any year since 2008, according to data compiled by Municipal Market Analytics, a research firm. States with significant new pension borrowings last year included Arizona, Florida, Illinois, Michigan and Texas. In California, cities borrowed more than $3.7 billion to squirrel away at various public pension funds, breaking the old state record of $3.5 billion, set in 1994.

It's a major comeback for this type of debt, said Matt Fabian, a partner at Municipal Market Analytics who has been writing about the deals for years. "They're borrowing money and basically putting it into the market and gambling," he said.

Mr. Fabian said his firm's tally almost certainly missed the borrowing by municipalities that took West Covina's approach, because those bonds used different names. Flagstaff rented its City Hall, libraries and fire stations last year to back a pension deal marketed as "certificates of participation." In January, Tucson did the same, leasing two police helicopters, a zoo conservation center, five golf courses and the bleachers at its rodeo grounds, among other things. And a Chicago suburb, Berwyn, used "conveyed tax securitization bonds" to help fund police pensions.

The street rent that West Covina, a onetime outpost of citrus growers some 20 miles east of Los Angeles now engulfed in sprawl, pays the dummy corporation is essentially the money to service the debt. By issuing that debt, the city was able to make a lump-sum payment of about $200 million to CalPERS.

Like many city pension plans that CalPERS manages, West Covina's is only partly funded. CalPERS treats the shortfall of roughly $200 million as a loan it has made to West Covina, charging 7 percent interest. That's an extraordinary rate in today's environment, but CalPERS uses it because that's the return that the pension system projects it will, on average, earn on its investments.

By paying off most of its "loan" from CalPERS, West Covina doesn't have to worry about the 7 percent interest, at least for now. The risk: If CalPERS misses its investment target, West Covina's plan will be underfunded again, CalPERS will treat the shortfall as a new loan and the whole process will start over.

When West Covina considered its deal, the city's investment banker, Brian Whitworth of Hilltop Securities, estimated that the city would pay 4 percent to borrow. Because CalPERS was shooting for 7 percent returns, he said, the city would save an estimated $45 million.

"On a bond around $200 million, it's a pretty good savings," he said.

No one demanded a projection of what might happen if CalPERS did not achieve 7 percent. Instead, Mayor Tony Wu grilled Mr. Whitworth on why he thought West Covina would have to pay 4 percent when El Monte, next door, was paying just 3.8 percent.

The proposal passed, 4 to 1, with Ms. Shewmaker voting against it because she considered the plan a gimmick to avoid putting the matter before voters, who she believed weren't likely to approve a deal that would increase West Covina's debt sixfold.

Mr. Wu, now a city councilman, said the city had to borrow, because it was locked into unsustainable pension plans and CalPERS refused to negotiate easier terms. The longtime owner of a mortgage-lending business, he said it was "crazy" for CalPERS to base everything on 7 percent when real interest rates were much lower. But he said challenging CalPERS would be a waste of time.

"It sounds very logical, but it's not going to happen, because the ones who have power don't want to lose it," he said. "They're going to fight us big time. They're going to sue us to hell. Their attorneys will go laughing to the bank."

The New York Times

By Mary Williams Walsh

Feb. 16, 2021

Mary Williams Walsh is a reporter covering the intersection of finance, public policy and the aging population. She previously worked for The Wall Street Journal and The Los Angeles Times, mainly in foreign bureaus.

[Pension Obligation Bonds: A Prudent Investment or a Speculative Venture?]

The issuance of Pension Obligation Debt has been a topic of contention amongst various local and state government officials, municipal advisors, local politicians and their constituents.

In the recent years, the Government Finance Officers Association (GFOA) came out with a stern advisory for local and state governments to NOT issue pension obligation bonds (POBs) to meet their unfunded liabilities and made a case for them being “complex instruments that carry considerable risk.” It’s also important to note that some of the large municipalities that filed for bankruptcies in the United States had some exposure to pension obligation debt – including the City of Stockton and City of San Bernardino – in the years leading up to their insolvencies.

In this article, we will take a closer look at the composition of pension obligation debt, and how it can impact the financial picture of a local or state government.

Rising Unfunded Pension Liabilities for Local Governments

As we dive deeper into the composition of pension obligation bonds, it’s important to understand the reasoning behind their issuance by local and state governments.

In the United States, almost all of the local and state governments partake in some sort of state-sponsored pension plans, i.e., CalPers (California Public Employee Retirement System) for the State of California. These pension plans work with all participants – local and state governments – to assess and analyze their pension liabilities. Primarily, these pension liabilities are based on a few factors: retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters.

One of the biggest challenges and largest variables in the aforementioned list of factors is the investment return on the pension portfolio; this single variable is also responsible for creating the large unfunded liabilities for many of the local governments.

Let’s take a look at that in detail: when a pension fund, like CalPers, determines the annual pension liability for a local government, it makes a few assumptions in its calculations and one of them is being the pension fund’s forecasted investment return for the upcoming years. For example: a pension fund assumes an investment return of 7% for the year and bases its actuarial pension obligations for local cities and counties; however, the financial markets had a terrible year and the pension fund only generated 2% returns – this means that the 5% gets added to the unfunded liabilities portion for cities and counties – because that money, originally expected to be generated through investment returns, is still needed to fully meet the pension obligation for city and counties. Furthermore, when the pension fund decides to lower their discount rate, or the investment return projections, it adds to the pension liability for the participants. In recent years, this has been a large area of concern for many of the municipalities throughout the United States.

This is where local and state governments resort to POBs.

The Issuance of Pension Obligation Bonds

POBs are taxable forms of debt that are issued to address/meet the unfunded pension liabilities as part of the overall financial strategy for local and state governments.
The basic assumption with POBs is that a local government can access the capital markets to raise funds at a lower interest rate to meet its pension obligation, which can generate a higher investment return. This way, the pension obligations are met and investment returns are higher than the debt service required on the bonds.

“What can go wrong in this assumption?” is the key to understanding the risk with POBs:

- The first and largest risk is the inability to meet the targeted investment returns. The financial collapse of 2008 was a prime example of this risk. With the stock market’s decline, the invested POB proceeds will fail to earn more than the interest rate owed over the term of the bonds, leading

to a scenario that will double the financial strain for any local and state government. They will not only have to pledge their revenue sources to make the debt service payments on the POBs, but also get stuck with unfunded pension liabilities, because of inadequate pension fund returns generated during a stock market downturn.
- Furthermore, the taxable form of pension debt is often secured by some sort of revenue sources, like sales tax or property tax, which means that the issuance of this debt cuts into a municipality's debt capacity that could be used for other purposes. Issuing taxable debt to fund the pension's liability increases the jurisdiction's bonded debt burden, and potentially uses up debt capacity that could be used for other purposes. Also, the taxable form of debt is often issued without a call option, which makes it hard for a municipality to refund the debt at a lower interest rate in the future.
- Another important point to note here is the prolonged nature of recession. Similar to 2008, an economic downturn often takes years before financial markets start returning to a relative state of normalcy. With that, if a municipality has POB issued to meet its unfunded liabilities, a prolonged recession will exacerbate the financial strain by many folds – seen in the cases of large municipal bankruptcies in California.

The Bottom Line

The unique nature of POBs – and how they flow through a municipality's financial strategy – makes it riskier than other forms of debt, and the timing of their issuance plays a huge role in the success of their intended use. Furthermore, any decline in the financial markets will certainly increase the fiscal strain for municipalities with outstanding pension obligation debt.

For investors, it's important to understand the taxable status of these bonds and also the credit risk associated with their issuance.

municipalbonds.com

by Jayden Sangha

Feb 17, 2021

S&P Outlook And Medians For U.S. Independent Schools: Pandemic Tests All, But Weaker Credits May Need a Booster

Sector View

Although many of our rated independent schools are weathering the COVID-19 pandemic reasonably well, we expect issuers with weaker demand and less financial flexibility will face greater stress in 2021. With a growing bifurcation in credit quality, we expect more negative actions at the lower end of the rating spectrum, while higher-rated issuers will see more stability, supported by healthy demand and resources.

Continue reading.

18 Feb, 2021

The S&P ESG Pulse: 2020 Lookback

Key Takeaways

- To increase transparency, we have been explicitly referencing environmental, social, and governance (ESG) factors in our rating actions since March 30, 2020.
- In this look-back study, we show that ESG-related rating actions–comprising rating, CreditWatch, and outlook changes–totaled over 2,300 during April-December 2020. Of these, 96% stemmed from the COVID-19 pandemic (social). Governance influenced 69 actions and environmental credit factors contributed to 24.
- ESG-related downgrades totaled just over 1,000 over the period: 481 in structured finance, 335 in corporates and infrastructure, 156 in U.S. public finance, and 30 in sovereigns and international public finance.
- Lists with individual entity ESG-related rating actions are attached to this report.

Continue reading.

15 Feb, 2021

S&P 2021 Sustainable Finance Outlook: Large Growth In Green, Social, Sustainable Labels As Municipal Market Embraces ESG

Key Takeaways

- We expect the municipal sustainable debt market to grow in 2021, building on momentum and substantial growth in social and sustainability labeled bonds. We estimate municipal green-labeled debt issuance of about $18 billion and total municipal sustainable debt issuance potentially surpassing $30 billion.
- Low interest rates, increasing market embrace of ESG concepts, and the coronavirus pandemic drove robust sustainable debt issuance growth in the municipal markets during 2020.
- More municipal market issuers are adding green, social, and sustainability labels to bonds, but concentration remains: The 10 largest sustainable debt issuers accounted for more than 50% of total issuances in 2020.
- With an average par amount of $103.6 million in 2020, 2.8x the average U.S. municipal issuance, sustainable debt issuances are larger and more heavily focused on new money (75%) than the overall municipal market.
- Investor appetite for use of proceeds verification is increasing, and 2020 was the first year that most sustainable debt issuances carried some form of external review.

Continue reading.

16 Feb, 2021

S&P: U.S. Electric Cooperative Utilities' Decarbonization Initiatives Improve

Some ESG Risk Attributes

Key Takeaways

- Several carbon-intensive electric cooperative utilities are adopting decarbonization strategies.
- We believe decarbonization initiatives could reduce the environmental exposures we associate with utilities' environmental, social, and governance (ESG) attributes.
- When considering ESG risks, our view of a utility's health and safety characteristics will likely improve with decarbonization, but the costs consumers might bear could create affordability issues that add to social risks.
- We believe that adopting decarbonization strategies reflects positive governance attributes.
- Whether due to size, the composition of their generating fleets, or their customers' income levels, some utilities will face significant hurdles that could frustrate decarbonization efforts.

Continue reading.

17 Feb, 2021

Regulating Troubled or Failing Monopolies: Ordering One Public Utility to Acquire Another

One of the traditional reasons for government intervention in the marketplace is market failure. A classic example of a market failure is a natural monopoly such as a public utility. Most economists agree that government should regulate such monopolies rather than allowing competition for such services as public water and sewer.

The Pennsylvania Public Utility Code (Code) gives the Pennsylvania Public Utility Commission (PUC) extensive powers to regulate public utilities, but what can it do when the monopoly becomes troubled and starts to fail; when the public utility is no longer financially and technically capable of providing reasonable and adequate service to the public? For example, how does the PUC deal with a water utility that is not providing customers with potable water and lacks the financial resources to address the deficiencies in service?

The public utility cannot be ordered — or even permitted — to liquidate its assets and go out of business because that would leave customers without vital public utility service. Additionally, some public utilities may be unable to find a willing buyer because the system requires extensive capital improvements to address service deficiencies or to comply with increasingly strict environmental or other standards.

In Pennsylvania, the problem of troubled or failing monopolies is particularly acute in the water and wastewater industries because there are many small privately owned water and wastewater systems that struggle to remain viable. To address this problem, the Code includes a provision that gives the PUC authority to order a proximate capable public utility1 to acquire a small water or sewer utility.2 66 Pa. C.S. § 529. The PUC must make six findings about the buyer and the seller before it can issue such an order. These findings are:

1. the small water or sewer utility is in violation of statutory or regulatory standards that affect the safety, adequacy, efficiency, or reasonableness of the service provided;
2. the small water or sewer utility failed to comply, within a reasonable period of time, with any

order of the Pennsylvania Department of Environmental Protection (DEP) or the PUC concerning the safety, adequacy, efficiency, or reasonableness of service;
3. the small water or sewer utility cannot reasonably be expected to furnish and maintain adequate, efficient, safe, and reasonable service and facilities in the future;
4. alternatives to a forced acquisition (such as the reorganization of the utility under new management or a voluntary sale of the system to a public utility, municipality or municipal authority3) have been considered and the PUC has determined them to be impractical or not economically feasible;
5. the acquiring capable public utility is financially, managerially, and technically capable of acquiring and operating the small water or sewer utility in compliance with applicable statutory and regulatory standards; and
6. the rates charged by the acquiring capable public utility to its pre-acquisition customers will not increase unreasonably because of the acquisition.

If the PUC orders the small water or sewer utility to be sold to a capable public utility, the purchase price is determined by agreement between the parties (subject to a PUC determination that the purchase price is reasonable). If the parties cannot reach an agreement, or if the PUC disapproves their agreement, the acquisition price is determined through an eminent domain proceeding. 66 Pa. C.S. § 529(e).

For many years, the “typical” Section 529 proceeding began with a complaint initiated by customers, the PUC’s prosecutorial staff,4 or other public advocates5 alleging that the small utility was not providing reasonable and adequate service as required by the Code. Upon finding that the small utility was not providing reasonable and adequate service, the PUC would open an investigation to determine whether the utility should be ordered to be sold to a capable public utility pursuant to Section 529. In two relatively recent cases, however, the PUC held that a small water or sewer utility can ask the PUC to institute an investigation to determine whether that utility should be ordered to be sold to a capable public utility.6

Section 529 provides the PUC with a mechanism to deal with a troubled or failing monopoly in a limited number of situations. It gives the PUC a tool to address failing small water or sewer utilities, but does not permit the PUC to address other troubled or failing public utilities (such as small natural gas distribution companies).

These limits do not mean that the General Assembly should rush to extend Section 529 to other situations. Section 529, and its implementation, raise important legal and public policy questions. Virtually all Section 529 proceedings to date have been resolved through settlements. As a result, the appellate courts have yet to construe the provisions of Section 529 and the PUC’s application of them. Additionally, in some Section 529 cases, a receiver is appointed to operate the system pending the outcome of the Section 529 investigation. In many of these cases, the receiver is ultimately ordered to purchase the small water or sewer system. How are receivers selected, what are their duties, and how are they compensated?7 Moreover, it appears that every Section 529 case to date has resulted in the sale of a small, troubled water or sewer company to one or the other of Pennsylvania’s two largest investor-owned water and sewer utilities. Should the costs of these acquisitions (and the accompanying system remediation) be borne solely by the ratepayers of the utility that was forced to make the acquisition, or should the costs be spread more broadly? Should proximate municipalities and municipal authorities also be targeted for the forced acquisition of troubled or failing privately owned utilities? Before the General Assembly extends Section 529 to other situations, it may wish to review existing procedures and consider other approaches for addressing the problem of regulating troubled or failing monopolies.

1 A "capable public utility" is generally defined as a public utility that is not affiliated with the small water or sewer utility, provides reasonable and adequate service, and regularly provides the same type of service as the small water or sewer utility to 4,000 or more customer connections. However, a public utility that does not regularly serve 4,000 or more customer connections, and is not proximate to the small water or sewer utility, can elect to be a capable public utility. 66 Pa. C.S. § 529(m).

2 A small water utility is defined as a public utility that regularly provides water service to 1,200 or fewer customer connections. Similarly, a small wastewater utility is defined as a public utility that regularly provides wastewater service to 1,200 or fewer customer connections. 66 Pa. C.S. § 529(m).

3 The PUC generally has no authority over a utility system owned by a municipal authority. Similarly, the PUC has no authority over a utility system owned by a municipality, if the system only serves customers within the municipality's boundaries.

4 The PUC's Bureau of Investigation or Enforcement.

5 The Office of Consumer Advocate in the Office of Attorney General or the Office of Small Business Advocate in the Department of Community and Economic Development.

6 Petition of Delaware Sewer Company for the Opening of an Investigation into Whether the Public Utility Commission Should Order a Capable Public Utility to Acquire the Company Pursuant to 66 Pa. C.S. § 529, Docket No. P-2014-2404341 (opinion and order entered Jan. 28, 2016) and Petition of Twin Lakes Utilities, Inc. for a Commission Order Authorizing the Acquisition of Twin Lakes Utilities, Inc. by a Capable Public Utility Pursuant to 66 Pa. C.S. § 529, Docket No. P-2020-3020914 (opinion and order entered Sept. 17, 2020).

7 For a discussion of these issues, see our previous Alert Receivers of Public Utilities in Pennsylvania: The Need for Legislation or Regulations.

Cozen O'Connor – Jonathan Nase

February 19, 2021

The Washington Weekly: Biden Begins Work on Infrastructure

Read BDA's Washington Weekly.

Bond Dealers of America

February 19, 2021

What the Deep Freeze in Texas Means for Municipal Bonds.

In this edition of "Muni Moment," Chris Brigati, Valley Bank managing director of municipal investments, takes a look at what the deep freeze's impact on utilities means for municipal bond investors. He speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets. The Close."

[Watch video.](#)

Bloomberg Markets

February 17th, 2021

[S&P: Outages In Texas Challenge Public Power Utilities' Rate-Making Flexibility](#)

NEW YORK (S&P Global Ratings) Feb. 17, 2021–On Feb. 15 the Electric Reliability Council of Texas (ERCOT) implemented widespread rotating outages to protect the electric grid from an uncontrolled blackout after frigid temperatures and freezing moisture across Texas caused outages to 34 GW of power generation, or roughly 42% of its planned operational generation capacity in 2021. As of now, ERCOT's controlled outages continue to affect almost three million retail customers throughout the state as generation struggles to come online.

- We do not anticipate immediate credit impacts from ERCOT's recent rotating outages because we expect the effects on revenues to be modest relative to annual revenues. However, we believe the customer ire utilities might face after implementing the rotating outages (or load shedding) could challenge their rate-making flexibility;
- We understand that several public power utilities and electric cooperatives were unable to rotate their outages among their customers, which caused some customers to be without power much longer than expected and exposes the need for better market logistics;
- The scale and duration of ERCOT's generation outages due to extreme winter weather exposes the need to fund capital investments to winterize generation assets and equipment; and
- While ERCOT's rotating outage events have been infrequent to date, we believe that in the absence of additional capacity or market reforms, load shedding may become more than an isolated response to ensure grid reliability.

[Continue reading.](#)

[Failed Poisoning Attempt Shows Vulnerability of Smaller Water Systems to Hackers.](#)

While cybersecurity resources can be scarce at small agencies, there are some basics steps they can take to protect themselves.

A hacker's attempt earlier this month to poison the drinking water in a small city near Tampa, Florida may have been easily thwarted, but it was still a jolt to cybersecurity experts.

"This was the worst nightmare for a lot of people," said Meredith Ward, the director for policy and research at the National Association of State Chief Information Officers.

The incident at the Oldsmar water treatment plant underscores how there are many smaller water utilities with limited funding that need to upgrade software and facilities to better ward off cybersecurity threats. It also serves as a reminder to small utilities that there are relatively basic steps they can take to improve security without spending a lot of money.

Continue reading.

Route Fifty

By Daniel C. Vock

FEBRUARY 19, 2021

I Have Promoted Muni Bonds, But Investors Should Understand The Risks Going Forward.

Summary

- I have long been a proponent of municipal bonds, especially for working professionals and others who earn high levels of taxable income.
- As we entered the new year, I reiterated this stance. I see the potential for tax hikes and relief bills that include state and local aid as tailwinds.
- However, munis are priced quite aggressively at the moment. Essentially, there is some downside potential if 2021 does not go as planned.
- Duration levels are also high across the space, posing a significant amount of interest rate risk.

Continue reading.

Seeking Alpha

Feb. 14, 2021

The 'Quasi-Instrumentality' Question: Chapter 9, Chapter 11, or Neither? - Arnold & Porter

The pandemic has led to both private and public entities struggling to service their debt. For entities straddling the line between private and public, it is not always clear whether they can restructure debts under Chapter 9, Chapter 11, or neither, say Arnold & Porter attorneys. They look at two court decisions for guidance for these quasi-instrumentalities.

As distribution of the Covid-19 vaccine provides optimism for a return to our pre-pandemic lives, there's little doubt of the pandemic's impact on individuals, businesses, as well as state and local governments. Also impacted are quasi-governmental entities—those created by local governments to serve some public purpose, such as a convention center, hotel, stadium, or parking garage.

Due to travel and gathering restrictions, revenues supporting these quasi-governmental entities have declined, leading to unscheduled draws on reserve accounts to meet debt service obligations—a potential canary in the coal mine?

If these entities are municipalities, they may have no option of reorganizing under the Bankruptcy Code in states that have not authorized municipalities to be Chapter 9 debtors. In such states, the only option is Chapter 11, provided the entity is a "person" under the Bankruptcy Code.

Relatively few cases have analyzed whether an entity formed by a local government is a "person" eligible for Chapter 11 relief or a "municipality" (which includes instrumentalities of a state) eligible for Chapter 9. The courts' analyses in *In re Las Vegas Monorail Co.* and *In re Lombard Pub. Facilities Corp.* may provide a road map for determining whether such issuers are eligible for Chapter 11.

Las Vegas Monorail

Las Vegas Monorail (LVMC) was created as a private, nonprofit corporation to construct and operate a monorail in Las Vegas. To fund the monorail construction, Nevada issued municipal bonds and lent the proceeds to LVMC.

LVMC agreed to repay the loan and pledged its net revenues for the repayment of the loan. To obtain tax-exempt status on the bonds, LVMC certified that it was an instrumentality of the state of Nevada and controlled by the governor. Importantly, the state was not liable on the bonds.

Financial difficulty resulting from poor ridership caused LVMC to resort to Chapter 11—which was challenged by the insurer of the bonds, claiming LVMC was a municipality not eligible for Chapter 11 relief.

In considering whether LVMC was eligible to be a Chapter 11 debtor, the bankruptcy court employed a three-prong test:

- Does it have any of the powers typically associated with sovereignty, such as eminent domain, the taxing power or sovereign immunity?
- If such powers are absent or only weakly present, does it have a public purpose, and if so, what is the level of control exerted by the state or its agents?
- What is the state's own designation and treatment of the entity?

The court concluded LVMC was not a municipality, finding:

- LVMC was engaged in a public purpose, but not carrying out a public function;
- LVMC did not have the traditional governmental powers, such as the taxing power and eminent domain;
- The state was insulated from any losses arising from the bonds issued to finance the monorail; and,
- Nevada did not designate or treat LVMC as an instrumentality.

Lombard Public Facilities Corporation

The Lombard Public Facilities Corporation (LPFC) is an Illinois not-for-profit, authorized as a public facilities corporation pursuant to Illinois law to finance and construct the Westin Lombard Yorktown Center in the Village of Lombard.

LPFC financed the project by issuing tax-exempt municipal bonds, which was possible because LPFC constituted an instrumentality for federal tax purposes. These bonds were limited recourse obligations of LPFC and payable solely from revenues and other assets. The village's limited commitment to fund debt service shortfalls was subject to prior appropriation.

LPFC commenced a Chapter 11 case to implement the terms of an agreed upon restructuring necessitated by unfavorable market conditions. Like LVMC, LPFC's eligibility for Chapter 11 was challenged by two parties claiming LPFC was an instrumentality of the village.

With a focus on the village's actual control over the LPFC, the Illinois bankruptcy court determined that the LPFC:

- did not carry out a governmental function of the village (e.g., impose taxes, maintain a police force, provide water and sewage treatment);
- did not have a charter from the state recognizing it as a governmental body;
- was a commercial enterprise in competition with other hotels and convention centers; and instrumentality status for tax purposes was not dispositive.

The cash crunch caused by Covid-19 has caused LVMC to resort to Chapter 11 again, and LPFC skipped a portion of its debt payment in July 2020. But these are not isolated issues.

In the past few months, issuers, including the following, have provided notice of unscheduled draws on reserve accounts to meet current debt service obligations.

- Bayonne Local Redevelopment Authority (N.J.);
- Overland Park, Kan.;
- Clark County, Nev.;
- Franklin County Convention Facilities Authority (Ohio);
- Evergreen Park, Ill. (Senior Lien Limited Sales Tax Rev Bonds—Evergreen Plaza Development Project); and
- Economic Development Growth Engine for Memphis & Shelby County (Tenn.)

As reserve accounts continue to be drawn, the eligibility debate may not be hypothetical absent an increase in revenues and/or relief from Congress. Issuers and investors alike should evaluate Chapter 11 eligibility, especially where it is assumed that an issuer is not eligible for any relief under the Bankruptcy Code because applicable state law does not authorize Chapter 9 filings.

Bloomberg Law

Feb. 11, 2021

Author Information

Brian Lohan is a partner in Arnold & Porter's Bankruptcy and Restructuring practice in Chicago and New York. His work encompasses all aspects of corporate reorganizations, bankruptcy, and insolvency, and he represents Chapter 11 debtors, noteholders, bondholders, senior lenders, and other creditor constituencies.

Maja Zerjal Fink is a partner in Arnold & Porter's Bankruptcy and Restructuring practice in New York. She represents clients in distressed situations, corporate reorganizations, distressed investment litigation, and insolvency proceedings in the U.S. and across the globe. She has been involved in some of the largest reorganization cases in the U.S., including the restructurings of Puerto Rico, Hertz, Cineworld, Caesars, and MF Global.

Jeffrey Messina is an associate in Arnold & Porter's Bankruptcy and Restructuring practice in Chicago.

Everybody Wants Muni Paper.

If you enjoyed Detroit debt, you'll love Chicago schools bonds.

Yield-hungry investors have been piling into riskier assets, and not only speculative stocks like GameStop. For an example of how negative real interest rates are distorting prices, behold the municipal bond market.

Last month investors snapped up $560 million in bonds issued by junk-rated Chicago Public Schools (CPS). The district's 10-year bonds were priced at 1.94% and the 20-year at 2.24%—a mere 117 to 105 basis points above the AAA muni benchmark yields. As the district's finances have deteriorated, its borrowing costs have plunged. Go figure.

Five years ago Chicago schools had to pay an 8.5% yield—a 580 basis-point penalty above AAA—to sell debt amid concerns that soaring labor and pension costs would drive the district into bankruptcy. Asked at the time whether the district would be able to borrow again, then CPS CEO Forrest Claypool replied: "I don't know."

What a difference a pandemic and Federal Reserve commitment to keep rates at near zero make. Muni bonds are thinly traded and usually held in portfolio for duration. Most buyers need fixed-income assets that produce steady returns, which explains the ravenous appetite for higher-yielding muni bonds.

"Buyers are just starved for yield and the inflows into high-yield funds have been astronomical for at least the last couple of weeks," one muni-market analyst explained to Bond Buyer. Increased demand has made it cheaper than ever for state and local governments to borrow and has compressed price spreads between high- and low-rated bonds.

Some muni bonds are also tax exempt, which makes them attractive to investors expecting Democrats to raise taxes. Tax revenue has been surprisingly buoyant due to the housing and stock-market booms, so investors may be shrugging off worries about defaults.

Municipal tax revenue declined by a mere 1% on average in 2020, according to investment manager Nuveen, while states and cities have received hundreds of billions of dollars in federal cash. Chicago schools received twice as much money from the last $900 billion relief bill as its budget projected. Now Democrats want to pass another $350 billion in state and local government aid.

Financial advisers are urging municipalities to take advantage of the rock-bottom rates to refinance debt. Pension obligation bonds, which were popular amid low interest rates and the stock-market rally in the 2000s, are back in vogue. S&P Global Ratings says pension bonds more than doubled in 2020 and are sizzling now.

Not so long ago, investors were burned by these bonds. Then as now, municipalities issued debt at low rates and used the proceeds to backfill pension funds. The interest-rate arbitrage seemed to benefit muni borrowers and creditors. But when stocks tanked in 2008, taxpayers were on the hook for bond payments and increasing pension contributions to cover their pension shortfalls. Puerto Rico, Detroit, and Stockton and San Bernardino, Calif., reneged on their pension-bond debt in bankruptcy. Lucky for politicians, investors have a short memory.

While Illinois and California account for most pension bonds issued, municipalities in Arizona including Tucson, Flagstaff and Pinal County have recently turned to the bond market to cover their pension holes. Pension bonds aren't tax exempt, but yields are still attractive to investors. The city of Flagstaff's deal last summer with a 2.7% interest rate was 3.7 times oversubscribed.

Meantime, pension funds have been pouring into equities and riskier assets to cover shortfalls and make up for low yields on their fixed-income assets. "As interest rates remain low, so do bond yields, making safer investment options less attractive for pension funds needing to meet targeted returns," S&P recently warned.

How this all ends is hard to predict, but a fair guess is that some new Stocktons and Detroits are likely. The Fed has declared that the cost of borrowing is essentially nothing, government and corporate debt are soaring as a result, and eventually a price will be paid.

The Wall Street Journal

By The Editorial Board

Feb. 7, 2021 4:56 pm ET

Fitch Rtgs Updates U.S. Public Finance Structured Finance Rating Criteria.

Fitch Ratings-New York-12 February 2021: Fitch Ratings has published an updated version of its "U.S. Public Finance Structured Finance Rating Criteria". This report updates Fitch's criteria of the same title published on Feb. 28, 2020. The key elements of Fitch's public finance structured finance rating criteria remain consistent with those of its prior criteria report.

Contact:

Joseph Staffa
Senior Director
+1-212-908-0829
Fitch Ratings, Inc.
300 West 57th Street
New York, NY 10019

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

House Budget Bill Provides Needed Fiscal Aid for States, Localities, Tribal Nations, and Territories.

The sizeable revenue shortfalls and added costs that many states, localities, tribal nations, and territories face due to COVID-19 call for added federal aid that's temporary but significant. The bill that the House Committee on Oversight and Reform will consider this week to meet its reconciliation instructions under the House budget resolution would provide this essential aid and help ensure a strong recovery. Congress should act quickly to provide this aid or risk more public-sector layoffs and cuts in services for families and businesses as states and localities balance their budgets.

Forty-three states plus the District of Columbia and Puerto Rico are now holding their first full legislative sessions since COVID-19 struck. Lawmakers' primary jobs will be to balance their budget for this fiscal year (which runs through June in most states) and write next year's budget. Without more federal aid, lawmakers facing hard budget choices due to the pandemic will impose another round of cuts — the last thing the country needs right now.

States and localities have shed 1.3 million jobs since last February — far more than the 750,000 lost in the aftermath of the Great Recession — as social distancing measures have temporarily reduced the need for some jobs (like bus drivers) and as state and local spending cuts have forced layoffs. Most of these jobs were lost last spring, but states and localities lost 100,000 employees in just the last four months.

Continue reading.

CENTER ON BUDGET AND POLICY PRIORITIES

FEBRUARY 10, 2021 | BY MICHAEL LEACHMAN

Biden Stimulus Plan a 'Positive' for Munis, Says BlackRock's Carney.

Sean Carney, BlackRock Financial's head of municipal strategy, discusses the impact of the proposed Biden administration's stimulus plan on municipal bonds with Bloomberg's Taylor Riggs on "Bloomberg Markets."

Watch video.

Bloomberg Markets

February 11th, 2021

Environmental, Social and Green (Sustainable) Bonds Come Home: Ice Miller

Social impact and green bonds are a type of municipal bond issued by a governmental entity that has a social or environmental outcome attached to the project being financed through the issuance of those bonds. Though some form of social impact and green bonds have existed in the realm of governmental and utility bonds for nearly a decade, the concept is relatively new to affordable housing and mortgage-backed bond financings. At the inception of the "green" bonds, an issuer could simply designate its own bonds as "green" based on the intended use of proceeds of those bonds needing no additional certification or on-going tracking of how those proceeds would actually be spent. The primary capital market had high hopes that one day in the future, the "green" label would provide a pricing benefit as conscious investors would prefer investing in green bonds. In fact, in the United States, the Climate Bonds Initiative in its *Green Bond Pricing in the Primary Market*

(June 2020) (the "Report") reported that on average green bonds experienced a higher spread to traditional municipal bonds. Nevertheless, the United States had the highest issuance of green bonds in 2019 ($32.2 billion) among countries that track such statistics. From a global perspective as cited in the Report, in the first half of 2020, 21 out of 46 primary market green bond offerings experienced a "greenium"—meaning investors paid more for the same type of traditional municipal bond that was labeled as "green."

Juxtapose the above with Fannie Mae, Freddie Mac and Ginnie Mae's interest rate incentives to encourage landlords to retrofit older buildings for energy efficiency together with Fannie Mae's upcoming social impact bond offering[1] and the Colorado Housing Finance Authority's single-family social bond offering[2], and it appears the housing capital markets are poised to experience the same "greening" seen in the governmental and utility capital markets. Just as one example, the green revolution has found its way into affordable housing in the Midwest region; last year, the Dayton-Montgomery County Port Authority issued $16.3 million of "green" bonds to refurbish the historic former Biltmore Hotel in downtown Dayton, Ohio as an affordable senior living facility. Ostensibly, the social impact and green bond boom should be seen as a "win-win-win," as they provide opportunities for investors to participate in meaningful initiatives, diversification of investors for borrower and issuers and the hope of better interest rates. Investors can "do well by doing good."

As the popularity of social impact and green bonds continues to grow, investors are looking for independent verification that social impact and green criteria are being met and requiring more on-going disclosure from borrowers and issuers to ensure that those green bond proceeds are spent in a manner consistent with the bond's labeling as "green." Ice Miller has been at the forefront of the social impact and green trend in governmental borrowing and affordable housing space and welcomes the opportunity to consult with borrowers and issuers to navigate and evaluate accessing this growing capital market, the market trends and criteria for social impact and green bonds.

[1] Such offering is backed by mortgage loans that financed, in part, energy efficient improvements.
[2] The proceeds of such single-family mortgage revenue bonds, similar to all tax-exempt single-family mortgage revenue bonds, assist low- and moderate-income first-time homebuyers.

Ice Miller LLP – Tyler J. Kalachnik, Lindsay M. Miller, Matthew J. Miller, Kristopher ("Kip") Wahlers, Lauren E. Campbell and Christopher J. Magill

February 8 2021

Fitch: Cyber Risk Poses Increased ESG Challenges to Municipal Govts

Fitch Ratings-New York/Austin-12 February 2021: The recent cyberbreach of the Florida city of Oldsmar (not rated by Fitch Ratings) is an important moment in the evolving nature of municipal cyber risk, Fitch Ratings says. The breach was one of the first cases of the use of a municipality's cyber infrastructure for a kinetic attack with the potential for human casualties. Though unsuccessful, the attack was evidence of the increasing frequency of cyber-attacks and the significant risks they pose to public finance entities, their constituencies and management. It also highlights the critical need for robust cyber hygiene and cyber vigilance in the municipal sphere. Recognizing this risk, Fitch includes cybersecurity in its credit analysis of the municipal sector and as part of its corporate-wide environmental, social and governance (ESG) framework. In addition, we believe cyber events pose financial risk which could impact municipal credit quality. This risk is not limited to the upfront cost of responding to a cyber-attack, but the costs of recovery and realignment of systems as well, which are many times more than the initial cost.

The Oldsmar attack consisted of a yet unknown assailant breaching the control systems of the city's water treatment plant and adjusting the levels of sodium hydroxide to poisonous levels. This attack could have harmed thousands of residents without the city's manual redundancies and safeguards that limit chemical levels.

Cyber breaches pose significant social and governance risks, which are reflected in our ESG framework and which we analyze when evaluating all credits, including states and local governments. Specifically, cyber risk is both a social risk in terms of safety and security, as well as a governance risk in terms of management effectiveness. A municipality's ESG relevancy score would be elevated if cyber risk were deemed to be material to the rating. The Oldsmar incident demonstrates the critical risk that cyber intrusions pose to security in terms of public resources and trust as well as the safety of the constituency. Therefore, we believe it is important for municipal entities to have a systematic organizational approach to cyber hygiene that includes redundancies, robust policies and training that produce a cyber-conscious workforce. Without a robust cyber hygiene, governance protocols may prove inadequate in preserving the security of systems and may elevate safety risks for the community at large.

There has been a widespread proliferation of cybercrime in the municipal sphere over the past few years. Most of this crime has been in the form of large- and small-scale ransomware attacks which have dominated headlines. The potential for more frequent cyberattacks is exacerbated by the focus on remote-access systems due to the increase in remote work as a result of the coronavirus pandemic. In addition, the availability of "off the shelf" ransomware software on the dark web has allowed cybercrime to develop into a cottage industry.

The public nature of municipal entities, their limited defensive resources and direct accountability to their constituencies mark them as low-hanging fruit for cyber criminals. While the integration of operation and information technology into the daily workflow of public finance organizations has increased efficiencies and transformed the way these organizations conduct their daily business, it has also generated a new series of cyber risks and challenges. Today, local officials find themselves targets of cybercrime and cyber-attacks from an increasing list of hostile actors. Employee and management vigilance is currently the most important bulwark of any organization against cybercrime.

Contact:

Omid Rahmani
Associate Director, US Public Finance
+1 512 215-3734
Fitch Ratings, Inc.
Terrace 1
2600 Via Fortuna
Suite 330
Austin, TX 78746

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568
Fitch Ratings, Inc.
Hearst Tower

300 W. 57th Street
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+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.

Senior Living Continues to be Among Riskiest Muni Investments, Due to Pandemic.

The COVID-19 pandemic has made the senior living industry one of the riskiest segments of the $3.9 trillion municipal-bond market, according to an analysis last week by Bloomberg.

Although defaults in this market are extremely rare because states and cities can raise taxes to cover their debts, it also includes many nonprofit continuing care retirement communities, which can sell debt through local government agencies. Thanks to the pandemic, these facilities are facing increased costs for labor and personal protective equipment as well as move-in restrictions from state health agencies. As a result, many are unable to repay what they have borrowed.

Last year alone, the pandemic pushed three dozen municipal-debt issues for CCRCs into default. Another five already have missed payments in 2021 thanks to ongoing occupancy troubles.

Hillside Village, a 221-unit CCRC in Keene, NH, failed to make a Jan. 1 interest payment on $73 million bonds and has hired a chief restructuring officer, according to the media outlet. Through November, the facility collected $2.3 million less revenue than projected.

Glen Arden in Goshen, NY, defaulted because of financial difficulties that preceded the pandemic. And in Schaumburg, IL, occupancy at the CCRC Friendship Village of Schaumburg fell to 78% as of Sept. 30, from 84% at the end of March. Although the community had obtained a Paycheck Protection Program loan, it still had to spend half of its cash reserve in the past nine months to make up for lost revenue.

McKnight Senior Living

by Amy Novotney

February 8, 2021

University of Washington Joins College Bond Boom in AAA Sale.

- **Offering will refinance debt, finance university projects**

- **Colleges sold record amount of corporate, muni debt in 2020**

The University of Washington is selling $325 million of bonds for school projects and to refinance debt, joining a record borrowing spree by colleges seizing on the lowest interest rates in decades.

The sale, slated to be priced Wednesday, includes $244 million of taxable bonds and $81 million that are tax-exempt. The securities are rated AAA, reflecting the strong finances of the university system.

Colleges and universities sold more than $40 billion of bonds in the municipal- and corporate-securities markets last year, a record, as the Federal Reserve's efforts to stoke the economy sent bond yields tumbling. The pace of borrowing in the municipal-bond market has since slowed slightly even as investors continue to pour cash into mutual funds, keeping new issues heavily in demand.

"If you need to sell bonds, you're going to get phenomenal levels on those particular credits," said Jeff Timlin, head of municipal-bond investments at Sage Advisory.

The University of Washington's sale comes as its finances improve, despite the toll that the pandemic has taken on some other colleges. Its fall enrollment rose 2%, its hospitals' financial performance has improved, and Moody's Investors Service boosted the outlook on its bond rating to stable from negative, signaling no imminent risk that the bonds will be stripped of their AAA rank.

As as result, the tax-exempt portion of the securities were being offered for yields as little as 0.15% for bonds due in 2023, according to a preliminary pricing wire seen by Bloomberg. Those maturing in 2051 were offered for yields of as much as 1.64%.

Bloomberg Markets

By Anastasia Bergeron

February 10, 2021, 7:55 AM PST Updated on February 10, 2021, 8:57 AM PST

Read the February Issue of Government Finance Review Online.

This month's issue highlights equity in budgeting. Find out why it matters, practical concerns and challenges, and how it might realistically be applied to create positive change.

VIEW

GFOA: Is There Too Much Fragmentation in Local Government?

GFOA has a new research series on local government fragmentation. Each of the four papers focuses on improving coordination of resources between local governments: consolidation, networked enterprises, government as a platform, and tax base sharing.

LEARN MORE

U.S. Water Supply Has Few Protections Against Hacking.

Vulnerabilities highlighted after cyber intruder tampered with treatment plant in Florida

A Florida city whose water system was hacked last week said Friday that it completed a federally mandated security-risk assessment three months ago, but hadn't yet integrated the findings into its emergency plans.

The hacking incident—occurring after a security review—has thrown into stark relief a vulnerability of the more than 50,000 community water systems that supply most Americans with their drinking water: they don't have to meet any national standard for cybersecurity.

That is in contrast to electric utilities, which have had to meet increasingly stringent rules since 2008 for the physical and cybersecurity of key assets and, more recently, for parts of their supply chains. Rules for the electric industry are reinforced by monetary penalties for violations.

Continue reading.

The Wall Street Journal

By Rebecca Smith

Feb. 12, 2021 1:23 pm ET

Making Community Development Capital Work in Small and Midsize Cities.

Abstract

Community development investment differs from other forms of investment because community investors use financial tools explicitly to engender social good. However, community development investment can be more challenging to deploy in small and midsize cities. This report describes the challenges small and midsize cities can face in attracting and sustaining the capital needed to develop a pipeline of community development projects. In the report, we also lift up models for sustainably and successfully expanding investment in small and midsize cities. Finally, we make recommendations to improve the flow of community development capital to small and midsize cities.

Read the full article.

The Urban Institute

by Brett Theodos, Jorge González & Ananya Hariharan

February 9, 2021

Lot of People Crowding Into Munis Right Now: Kazatsky (Radio)

MUNIS IN FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, on muni markets. Hosted by Paul Sweeney and Vonnie Quinn.

[Listen to audio.]

Bloomberg Radio

February 12, 2021 — 10:48 AM PST

Municipal Bonds Look Unappealing Despite Recent Demand.

Municipal bond investors don't seem concerned about the threat of inflation or higher rates because they are accepting rock-bottom yields and record-tight yield relationships relative to U.S. Treasuries.

Benchmark 10-year munis with Triple-A ratings traded Wednesday at just 0.68%, or roughly 60% of the 10-year Treasury yield of 1.14%. At the start of the year, the yield relationship stood at 75%. It got as high as 300% during market dislocations last March, when munis yielded much more than Treasuries. That spread has averaged about 80% in recent years.

Top-grade munis offer little or no after-tax yield benefits to investors—even those in higher tax brackets. The top federal income-tax rate is now 37%.

Several factors have driven the strength in munis this year, including record monthly inflows of $12.5 billion into muni mutual funds during January and a relatively light new issuance.

"New supply underwhelmed lofty expectations in January as issuers took a wait-and-see approach on the new administration," said a February report by Peter Hayes, head of the municipal bond group at BlackRock, James Schwartz, head of municipal credit research, and Sean Carney, head of municipal strategy. "Taxable issuance remained proportionally elevated at 29% of total supply, depressing traditional tax-exempt issuance. In the tax-exempt market, reinvestment of income from maturities, calls and coupons outstripped issuance by nearly $16 billion, creating a powerful tailwind. New issues were oversubscribed by 11 times on average."

The municipal market returned 0.6% in January, besting the Treasury sector. The BlackRock muni pros wrote that the high-yield muni market was a standout in January, gaining about 2%, as investors gravitated toward lofty yields, with tobacco bonds and Puerto Rican debt showing some of the market's largest gains.

The iShares National Muni Bond exchange-traded fund (MUB), one of the larger muni ETFs, is up about 0.7% so far in 2021 and traded Thursday around $117.80. Reflecting the strength in the high-yield muni market, the Nuveen Municipal Credit Opportunities fund (NMCO), a closed-end fund, has returned 10% this year and trades at $14.20 a share, a roughly 4% discount to its net asset value.

Barron's viewed munis unfavorably in a year-end outlook for income-producing securities. BlackRock takes a more upbeat view of the sector.

"While rich valuations will cause a drag, we expect strong demand to continue outpacing an elevated but manageable level of issuance. We believe fundamentals will likely benefit from additional fiscal aid, and vaccine distribution should support longer-term revenue normalization. As the new administration lays out its agenda and tax policy comes into focus, we anticipate heightened demand for tax-advantaged assets such as muni bonds," the BlackRock group wrote.

Barron's

By Andrew Bary

Feb. 11, 2021

Snag Short or Long Muni Exposure with 2 BulletShares.

Fixed income investors have turned to municipal debt in order to extract an added dose of yield. ETF provider Invesco gives investors short or long exposure to munis with funds like the Invesco BulletShares® 2021 Municipal Bond ETF (BSML) and the Invesco BulletShares 2030 Municipal Bond ETF (BSMU).

"Yield-hungry investors have been piling into riskier assets, and not only speculative stocks like GameStop," a Wall Street Journal report said. "For an example of how negative real interest rates are distorting prices, behold the municipal bond market."

"Last month investors snapped up $560 million in bonds issued by junk-rated Chicago Public Schools (CPS)," the report added. "The district's 10-year bonds were priced at 1.94% and the 20-year at 2.24%—a mere 117 to 105 basis points above the AAA muni benchmark yields."

Municipal bonds give investors exposure to a bond market that historically has low default rates. While a company can fold, local government typically won't do so. The safety of investing in debt paid for by taxpayers adds an extra layer of assurance.

As for BSML, the fund is based on the Invesco BulletShares® USD Municipal Bond 2021 Index, which makes it ideal for short duration exposure. The Fund will invest at least 80% of its total assets in municipal bonds that comprise the index.

The Index seeks to measure the performance of a portfolio of US dollar-denominated debt issued by states, state agencies, or local governments with effective maturities in 2021. With that shorter duration, fixed income investors are less exposed to changes in interest rates.

Going Long with 'BSMU'

Long duration debt will give fixed income exposure to higher yields, but investors must be willing to trade that for higher rate risk.

BSMU is based on the Invesco BulletShares® USD Municipal Bond 2030 Index (Index). The Fund will invest at least 80% of its total assets in municipal bonds that comprise the index. The Index seeks to measure the performance of a portfolio of US dollar-denominated debt issued by states, state agencies, or local governments with effective maturities in 2030.

The fund does not purchase all of the securities in the Index; instead, the fund utilizes a 'sampling' methodology to seek to achieve its investment objective. The fund and the index are rebalanced monthly. BSMU has a designated year of maturity of 2030 and will terminate on or about Dec. 15, 2030.

ETF TRENDS

BEN HERNANDEZ

FEBRUARY 11, 2021

[Muni-Bond Downgrades Top Upgrades for First Time Since 2014.]

- **Moody's downgraded 309 municipal borrowers last year**
- **New York-related credits made up largest share of rating cuts**

Municipal-bond rating downgrades exceeded upgrades last year for the first time since 2014, according to Moody's Investors Service.

There were 309 downgrades compared with 296 upgrades in 2020, Moody's said in an emailed report. The cuts affected $215.2 billion, or about 84% of the total debt affected by rating changes last year. About $42.1 billion of debt saw higher ratings, according to the report.

New York State, New York City and their related entities accounted for the largest share of the rating cuts by dollar amount, with nearly $100 billion of downgrades combined, according to Moody's.

Borrowers that depend on tourism and commuters also suffered. New York's Metropolitan Transportation Authority had its rating cut twice and still has a negative outlook. Hawaii, which is rated Aa2 with a stable outlook, had nearly $8 billion in debt downgraded.

"Unlike the last economic cycle with a recession, where you saw the downgrades happen later than the initial economic shock, the fact that the downgrades are happening now shows how much more proactive rating agencies have gotten," said Dora Lee, director of research for Belle Haven Investments.

While investors should be mindful of risks taken with various credits, "these downgrades aren't indicative of a widespread wave of default for the investment-grade space," she said.

Many municipal governments are facing budget shortfalls because of rising costs and falling revenue amid the pandemic. President Joe Biden's proposed relief package includes $350 billion of emergency aid to states and local governments, but Republicans have outlined a stimulus package that omits that.

Federal relief could mitigate some downgrades in the future, but not necessarily prevent them, according to Belle Haven's Lee.

"These are governments under a lot of stress, and will be under stress for multiple years," she said.

Bloomberg Markets

By Anastasia Bergeron

February 1, 2021, 3:55 PM MST

[Record Muni-Bond Sales Surge Fueled by Borrowing for Budget Gaps.]

- **Over 25% of big deals had deficit financing, MMA finds**

- **Such borrowing could slow on recovery, federal aid prospects**

The federal government isn't the only one running up debt to cover its budget deficits.

As states and cities braced for pandemic-related shutdowns to batter tax collections, many turned to the municipal-bond market to soften the hit, contributing to a record-setting surge in debt sales last year.

According to an analysis by Municipal Market Analytics, at least one quarter of state and local government debt sales over $100 million included some element of deficit financing in the second half of 2020.

Such deficit borrowing is relatively rare for state and local governments, which are typically required to balance their budgets each year and often need lawmakers' approval to issue debt to cover everyday bills.

But the severity of the economic slowdown last year — combined with a steep drop in interest rates — made that a more attractive option than cutting spending deeply amid an unprecedented pandemic. Among those who sold debt to plug deficits were New Jersey, which issued $3.7 billion of bonds to ease tax-revenue shortfalls, and Illinois, which tapped the Federal Reserve's emergency credit line.

Such deficit borrowing may ebb. The budget deficits governments anticipated in the middle of last year haven't been as severe as initially projected, giving some a temporary surplus of cash. At the same time, the Democrats who control Congress are likely to include aid for local governments in the next economic stimulus package, something Republicans opposed when they held the Senate last year.

"Absent some unexpected, much more severe lockdown of the economy, which is not our base case, I think you are going to see less of that this year," James Iselin, a portfolio manager at Neuberger Berman Group LLC, said of deficit borrowing.

Bloomberg Markets

By Nic Querolo

February 3, 2021, 11:42 AM MST

[Record Muni-Bond Sales Surge Fueled By Borrowing For Budget Gaps.]

The federal government isn't the only one running up debt to cover its budget deficits.

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States, cities stepped up borrowing as pandemic raged

Such deficit borrowing is relatively rare for state and local governments, which are typically required to balance their budgets each year and often need lawmakers' approval to issue debt to cover everyday bills.

But the severity of the economic slowdown last year — combined with a steep drop in interest rates — made that a more attractive option than cutting spending deeply amid an unprecedented pandemic. Among those who sold debt to plug deficits were New Jersey, which issued $3.7 billion of bonds to ease tax-revenue shortfalls, and Illinois, which tapped the Federal Reserve's emergency credit line.

Such deficit borrowing may ebb. The budget deficits governments anticipated in the middle of last year haven't been as severe as initially projected, giving some a temporary surplus of cash. At the same time, the Democrats who control Congress are likely to include aid for local governments in the next economic stimulus package, something Republicans opposed when they held the Senate last year.

"Absent some unexpected, much more severe lockdown of the economy, which is not our base case, I think you are going to see less of that this year," James Iselin, a portfolio manager at Neuberger Berman Group LLC, said of deficit borrowing.

FINANCIAL ADVISOR

FEBRUARY 3, 2021 | NIC QUEROLO

2021 Bond Market Outlook.

Summary

- 2021 will be a challenging year for bond investors, as we are starting off with low interest rates and rising inflation, explains Marvin Appel of Signalert Asset Management.
- As a result, I believe the most productive strategy for 2021 will be to search for higher yields in the form of credit risk rather than in the form of longer duration.
- I recommend corporate and municipal high-yield bond funds, and corporate floating rate bond funds.
- In this article, I will review the inflation outlook and the historical precedent that suggests our current climate will be unfavorable for investment-grade bonds.

Continue reading.

Seeking Alpha

Feb. 02, 2021

SIFMA US Municipal Bonds Statistics.

Monthly, quarterly or annual municipal bond issuance volume, average maturity, trading volume, outstanding and holders.

February 4, 2021

Court Plunges Into Puerto Rico Defaults That Put Bond Market on Edge.

The industry warns that bait-and-switch tactics could endanger trillions of dollars in debt and push local governments “off the precipice.”

BOSTON (CN) — In a pair of cases that could send shockwaves through the multitrillion-dollar municipal bond market and dramatically increase borrowing costs for governments at all levels, the First Circuit heard arguments Thursday on whether Puerto Rico bondholders could collect on collateral for almost $4 billion worth of defaulted loans.

Puerto Rico and other parties that want the money claim the security interest of the bondholders is worthless, despite the common industry assumption that similar bonds are backed by an underlying revenue stream.

“They are asking you to believe that the bondholders lent billions of dollars with no security interest,” their lawyer, Neal Katyal, told the court in Boston on Thursday. “But even the most fly-b--night payday lenders know that if there’s no collateral, the interest rates have to go through the roof.”

Puerto Rico’s claim “makes no sense,” added Katyal, a partner at Hogan Lovells who was U.S. solicitor general in the first term of President Obama.

“I wouldn’t lend someone $3,000 on those terms, let alone $3 billion,” he said.

Another attorney, Milbank’s Atara Miller argued that Puerto Rico’s stance leaves the bondholders with “an umbrella that we can only use on sunny days.”

The cases involve so-called “revenue bonds,” which are cheaper for municipalities to issue than traditional general-obligation bonds because they’re backed by a specific revenue stream. Two-thirds of all U.S. municipal bonds are revenue bonds, representing some $2.68 trillion in outstanding debt.

One of the cases that the First Circuit tackled Thursday turns on $3 billion in bonds backed by Puerto Rico highway tolls and excise taxes; the other, $800 million in debt secured by taxes on rum paid to Puerto Rico by the federal government. In both cases the revenues were supposed to be paid into a trust fund that protected the bondholders’ interests.

When the Puerto Rico agencies that issued the bonds defaulted, the insurers for the bondholders tried to collect from the trust funds, only to discover that the government had been diverting the money away.

Ultimately a federal judge ruled that the bondholders didn’t have the security interest in the revenue streams that they thought they had but rather a security interest in the trust funds — a decision that shocked the bond market. And since the funds were nearly empty, the bondholders were out of luck.

This was a “bait and switch,” according to an amicus brief filed by the Securities Industry and Financial Markets Association.

Represented by Faegre Drinker Biddle & Reath, the association argued that allowing the Puerto Rico agencies to get away with such trickery would mean that revenue bonds would be no safer for bond buyers that general-obligation bonds. As a result, bond buyers would stop accepting lower interest rates for them and borrowing costs for municipalities across the country would go sky-high.

Moody's has already downgraded both Illinois highway bonds and Cleveland water bonds as a result of the lower court's ruling, SIFMA said, adding that the ruling "risks shoving the municipal revenue bond market off the precipice on which it is balanced — with issuers paying the price."

Katyal told the First Circuit that the bondholders are entitled to relief from the bankruptcy, namely an automatic stay, as long as they have a "colorable" claim to a secured property interest.

That argument appealed to U.S. Circuit Judge Kermit Lipez.

"We read the briefs for one side and say, 'Okay, that makes sense,' and then we read the other side's briefs and say, 'That makes sense,' so why doesn't that create at least a colorable claim?" asked Lipez, a Clinton appointee.

"We will acknowledge that the documents could have been drafted better," defense lawyer Michael Mervis answered. "They're hard to read. But just because something isn't well-written doesn't mean it's ambiguous. One reading is a lot more plausible than the other."

The defense argument is that the bonds in this case are different from standard revenue bonds because the underlying documents and statutes never obligated Puerto Rico to deposit the money in the trust funds and never said the money in the funds couldn't be removed for other uses.

The Puerto Rico highway authority issued the bonds, but the excise taxes were levied by the commonwealth, and the commonwealth never ceded its taxing authority to the highway authority, said Mervis, who practices with Proskauer in New York.

If the bondholders win, they would have to sue the commonwealth on behalf of the highway authority, which would create a "procedural morass," argued Luc Despins of Paul Hastings in New York, who represents the unsecured creditors' committee.

But the cases before the court presented their own procedural morass. The bondholders are pursuing a separate remedy in the Puerto Rico insolvency proceedings, and the judges repeatedly badgered the bondholders' lawyers about why they shouldn't decline to rule and let the other proceeding sort things out, especially since the other proceeding was more advanced and might produce a quicker result.

"Why doesn't the parallel proceeding satisfy your rights?" asked U.S. Circuit Judge O. Rogeriee Thompson, an Obama appointee. "From a practical point of view, we're trying to figure out how this advances your cause."

"The fastest way to get it resolved is to get it done in the [other] court," suggested U.S. Circuit Judge Sandra Lynch. "God knows how long it would take" in the lower court, she said.

But Katyal told the court that the judge in the other proceeding couldn't lift the automatic stay.

"Right now, every day that passes is a day that they are spending our collateral and commingling it and the other court cannot stop that," Katyal complained.

But that's "100% totally false," insisted Martin Bienenstock, because the other court "can decide every conceivable claim they have lobbed."

Bienenstock, also with Proskauer in New York, said the bondholders were just forum-shopping because the other court also seemed inclined to rule against them. "They have everything they want" in the other proceeding," he said, "other than a different judge."

Katyal said relief from the automatic stay would be simple, however, and would allow the bondholders to act immediately. "This isn't about judge-shopping," he said, "it's about seeking a court that can provide appropriate relief."

Lynch, a Clinton appointee, said the bondholders were taking a gamble in asking the First Circuit to rule.

"It strikes me that you're rolling the dice here," she said. "If you want us to reach the merits, you may regret the result you get because a ruling from us is binding on the lower courts, whereas otherwise the lower courts could change their minds."

COURTHOUSE NEWS SERVICE

by THOMAS F. HARRISON

February 4, 2021

How Climate Change Will Influence Municipal Bonds?

California's largest utility filed for Chapter 11 bankruptcy in 2019 after massive wildfires across the state created insurmountable liabilities following an extended period of drought. The Wall Street Journal called it the "first climate change bankruptcy," and it could be a sign of what's to come as temperatures rise and extreme weather events become more frequent.

Let's take a look at how climate change could affect municipal bonds and why investors should consider climate change risks when building their portfolios.

Continue reading.

municipalbonds.com

by Justin Kuepper

Feb 03, 2021

Fitch: Medicaid Enhanced Funding Extension Benefits State Budgets

Fitch Ratings-New York-01 February 2021: The recently announced extension of the emergency enhancement of the federal medical assistance percentage through 2021 by the US Department of Health and Human Services will provide a budgetary boost to state governments, the District of Columbia and US territories, says Fitch Ratings. Fitch estimates the federal medical assistance percentage (FMAP) enhancement provided approximately $34 billion in direct federal aid through the end of 2020, with a similar level anticipated for 2021.

Providing timely and direct fiscal aid to states limits their need to immediately pass on budget pressures to entities reliant on state funding, including school districts, public higher education institutions and healthcare providers. The FMAP enhancement is a part of the massive fiscal and economic stimulus which has been instrumental in supporting the economic recovery and better than expected state tax revenue performance since the coronavirus pandemic's onset in spring 2020. Overall state revenues remain below the prior-year and pre-pandemic expectations.

FMAP is the percentage of a state's Medicaid spending matched by the federal government and is generally tied to each state's wealth levels. A federal statute sets a FMAP floor of 50%, which applies to states with the highest per-capita income, and a ceiling of 83%. In April 2020, the Families First Coronavirus Response Act (FFCRA) added 6.2 percentage points (pp) to every state's FMAP percentage, providing an immediate flow of billions of dollars in direct federal aid.

FFCRA linked the enhanced FMAP to declaration of a temporary public health emergency (PHE) by the Department of Health and Human Services (HHS) Secretary, including any extensions. Importantly, the FMAP enhancement only affects states' spending on those previously eligible for Medicaid, and does not apply to Medicaid expansion spending under the Affordable Care Act, which the federal government matches at 90% for all states. Medicaid enrollment for legacy categories is between 3x and 4x larger than expansion enrollment.

On Jan. 22, 2021, HHS notified governors that the new administration anticipated the PHE would remain in place through all of 2021 and that HHS would provide states with at least 60 days' notice of termination. The prior administration made 90-day PHE extension decisions only within days or weeks of past expirations. Many states conservatively assumed limited or no extension of the PHE and enhanced FMAP in their fiscal-2021 enacted budgets. The current administration's notification provides more budget certainty for states as they evaluate their current budgets and begin their fiscal 2022 budget processes.

The relative significance of the FMAP enhancement depends on each state's total budget size and actual Medicaid spending. HHS's Centers for Medicare and Medicaid Services (CMS) released data providing a state-by-state breakout of the more than $16 billion provided nationally through the 6.2pp FMAP enhancement between Jan. 1, 2020 and June 30. In July, the Kaiser Family Foundation (KFF) estimated the extra FMAP amount at $18 billion if the PHE extended through the end of 2020 and an additional $28 billion through September 2021. For calendar-year 2020, 12 states, including Missouri, Wisconsin, New York and Pennsylvania, had Fitch-estimated enhanced FMAP receipts, combining the CMS data and KFF estimates, totaling more than 2% of fiscal 2019 total governmental funds revenues. At the other end of the distribution, Alaska, Wyoming, North Dakota and Hawaii all received less than 1%.

Enhanced FMAP funding comes with several key statutory restrictions, including restrictions on removing Medicaid enrollees that might otherwise become ineligible for the program, which offset some of the positive budget implications for states. Fitch still considers the net benefits to be meaningful for most, if not all states. This was the case during the last two recessions, when the federal government also implemented FMAP enhancements.

Contacts:
Eric Kim
Senior Director, Head of US State Ratings
+1 212 908-0241
Fitch Ratings, Inc.

300 W. 57th St.
New York, NY 10019

Sarah Repucci
Senior Director, Fitch Wire
+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.

Fitch Rtgs. Updates Report for US Public Fin. LOC-Supported Bonds and Commercial Paper Rtg Criteria.

Fitch Ratings-New York-02 February 2021: Fitch Ratings has published the following updated report: "U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria", updating an earlier report of the same title published on Feb. 18, 2020. The key elements of Fitch's LOC-supported bonds and commercial paper rating criteria remain consistent with those of its prior criteria report.

Contact:

Joseph Staffa
Senior Director
+1 212-908-0829
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Dennis Pidherny
Managing Director
+1212-908-0738

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

Additional information is available on www.fitchratings.com

SIFMA Muni Month: Advocating for Change to Fund Our Nation's Infrastructure

Municipal bonds are a critical funding source of infrastructure in America. Munis finance the bridges, roads, schools, health care facilities, water and sewer facilities, airports and seaports our communities rely on. Building, maintaining and improving our infrastructure creates jobs and facilitates economic growth.

For example, in 2020, the Colorado Housing & Finance Authority issued $878 million of municipal bonds, and the Las Vegas Valley Water District $344 million.

The total amount of municipal bonds outstanding stood at $3.9 trillion at the end of the third quarter of 2020, which represents 7.8% of the total U.S. fixed income markets. Total issuance of municipal bonds in 2020 was $475.5 billion, an increase of 10.9% over 2019, and our members forecast 2021 issuance to be $502 billion. The three-year annual issuance average is $416.2 billion, which demonstrates the current strength of the market. 45.2 % of municipal bond investors are individuals, while 26.5% are held by mutual funds, which are held by individuals or asset managers on behalf of their investors. Municipal bonds are a popular investment option for those looking to preserve capital while earning interest, and most municipal bonds are tax-free at the federal if not the state and local levels. There are many benefits to this market not the least of which is the role it plays in infrastructure investment.

After decades of underinvestment, the U.S. faces an extraordinary infrastructure deficit. State and local capital investment has fallen from three percent of GDP in the late 1960s to less than two percent in 2014. The American Society of Civil Engineers (ASCE) estimates that the U.S. needs to invest $4.6 trillion in infrastructure by 2025 to replace failing facilities and maintain the capacity needed for a growing economy and population.

The impact of aging infrastructure on the U.S. economy is significant. The ASCE also estimates that the U.S. economy is expected to lose just under $4 trillion in GDP between 2016 and 2025 if the government does not invest in our infrastructure, 2.5 million American jobs will be lost.

SIFMA has designated this February "SIFMA Muni Month" during which we plan to meet with members of Congress and work with our state and local government and industry partners to advocate for ways to address the spending shortfall and the critical need to fund the restoration and improvement of our nation's crumbling infrastructure. While we consistently engage on these issues, bringing a viewpoint which encompasses the breadth of the market with our broker-dealer, investment bank and asset manager members, the focus on infrastructure by the new Administration makes this a particularly timely topic for a concerted outreach to both newly elected and existing members of Congress.

We firmly believe that it is important to share our ideas and legislative initiatives with policy makers so that they are aware of programs which would benefit their constituents and local areas. Legislation which includes necessary financing tools is particularly needed now, when state and local governments are facing unprecedented expenses due to the COVID-19 pandemic.

Many of the legislative issues we are advocating for will reduce the cost of funding for state and local bond issuers and can result in additional bonding capacity to fund critical infrastructure, benefiting taxpayers and the local economy. Additionally, infrastructure investment and in particular tax-exempt bonds can be a key component to green finance. State and local governments are increasingly turning to municipal green bonds to finance projects which align with environmental, social and governance (ESG) goals. For example, the South Davis Sewer District in Utah issued bonds in 2017 for a project to convert organic waste into renewable natural gas for sale to power plants. The $43 million project is expected to generate enough electricity to power 25,526 average U.S. homes and reduce carbon dioxide emissions equivalent to taking 36,515 cars off the road.

President Biden has made infrastructure investment a key component of his agenda. We support these efforts and the related economic growth and job creation.

As part of SIFMA Muni Month we will advocate for changes which would allow for increased infrastructure spending:

1. Secure the passage of legislation to permit issuers to advance refund their municipal debt on a tax-exempt basis;
2. Authorize a new direct payment bond program on a permanent basis;
3. Expand the volume cap and uses for Private Activity Bonds (PABs); and
4. Increase the annual limit on the amount of tax-exempt obligations that may be issued to qualify for the small issuer exception to the tax-exempt interest expense allocation rules.

In addition, we continue to believe preserving the tax-exemption for interest earned by investors on state and local bonds, which is the financing mechanism for the clear majority of infrastructure projects that state and local governments undertake, is crucial.

Advance refunding is an important financial management tool which, prior to its elimination in the Tax Cuts and Jobs Act, allowed state and local governments to save billions in interest costs by using proceeds from one bond issuance to pay off another outstanding bond. The new bond was then be issued at a lower interest rate than the older unpaid obligation.

By reducing their debt service expenses through tax-exempt advance refundings, states and localities were able to free up their borrowing capacity for new investments in infrastructure and other important public projects, in turn boosting their local economies with the creation of new jobs and making public services more affordable—much like homeowners refinance their mortgages to lower costs. We strongly support restoring tax-exempt advance refundings to help state and local governments efficiently manage their financial obligations.

Taxable direct pay bonds may attract a significant pool of capital from long-term investors, such as pension funds and insurers who have a substantial appetite for long duration assets to match their liabilities. While traditional municipal bonds are tax-exempt, the interest on direct pay bonds is taxable, with the issuer receiving a refundable tax credit for a portion of the interest costs. For example, in 2009 and 2010, the federal government authorized the “Build America Bond” program whereby states and localities issued bonds with taxable interest instead of tax-exempt interest and received a partial reimbursement for their interest expense.

We believe that Congress should authorize a new direct pay program on a permanent basis as a supplement to, not a replacement for, tax-exempt bonds. This program should be structured such that reimbursements to borrowers are not affected by budget sequesters.

Private activity bonds are issued by state and local governments on behalf of private borrowers for a limited list of uses. We support expanding the use of private activity bonds for infrastructure. However, because this issuance comes with significant restrictions like volume limitations and application of the alternative minimum tax, which raises the cost of financing for each project, we believe that state and local governments should be able to issue tax-exempt bonds for infrastructure projects with private participation in the same manner as they issue bonds for purely public projects.

The small issuer exception program offers a proven incentive for local banks to purchase the tax-exempt debt of small local governments and borrowers, such as small colleges, health care facilities, and charities. The current limit, set at $10 million, has not been increased since 2010 and should be increased and adjusted for inflation in future years.

Our national infrastructure challenges are so complex and large that a single solution is not enough. With existing federal infrastructure programs failing to meet current demand, the U.S. is continuing the troubling trend of under-investment in this area and risks substantially adding to the financial burdens of state and local governments. This will only lead to further delays of investment in and maintenance of critical public projects, including highways, bridges, hospitals, airports, schools, water and sewer systems. SIFMA strongly supports providing incentives to rebuild our nation's infrastructure and we encourage policymakers to explore funding options to address this crisis.

February 1, 2021

Kenneth E. Bentsen, Jr. is president and CEO of SIFMA, the voice of the nation's securities industry. He is also chief executive officer of the Global Financial Markets Association (GFMA).

S&P Green Transaction Evaluation: San Francisco Municipal Transportation Agency Proposed Series C 2021 Green Bond

The San Francisco Municipal Transportation Agency (SFMTA) is responsible for the management of all ground transportation in the city of San Francisco, including the Municipal Railway (Muni) and bus public transit, as well as bicycling, paratransit, parking, traffic, walking, and taxis. SFMTA plans to issue $235 million in early 2021, with final maturity in 2051.

Download the Evaluation.

Transportation & Infrastructure: What to Expect from the Biden Administration & 117th Congress: Mintz, Levin

With Democratic majorities in the U.S. House and U.S. Senate, Congress and President Biden's new administration are working to quickly advance proposals to provide for economic relief as the nation continues to reel from the now nearly one-year pandemic. One area of emerging bipartisan focus is a long-sought measure to address the nation's crumbling and outdated infrastructure, which could be paired with a required surface transportation reauthorization bill. The face of the Administration on this effort will likely be Secretary of Transportation, Pete Buttigieg, the former South Bend, Indiana, mayor, who the full Senate confirmed yesterday by a vote of 86-13. It's worth noting that Secretary Buttigieg is the first Senate-confirmed openly LGBTQ Cabinet Member in American history. Some of the key issues we are watching on transportation and infrastructure are discussed below. We will be providing additional updates on these and other issues in this space in the near future.

Surface Transportation Reauthorization

The most recent surface transportation bill, the Fixing America's Surface Transportation (FAST) Act, was set to expire on September 30, 2020, having been signed into law by President Obama in 2015. Although the previous 116th Congress had taken steps toward enacting a new five-year surface transportation bill, those efforts stalled, leaving Congress to approve a one-year extension. The original authorization for the FAST Act provided $305 billion over fiscal years 2016 through 2020 for highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, and research, technology, and statistics programs. Despite the challenges of the previous congress in passing a new surface transportation bill, it is generally a bipartisan issue and with unified control of government by the Democrats we anticipate that we will see a new surface transportation bill approved well before the current extension expires on September 30,

2021. Whether that is as a stand-alone bill or as part of a larger infrastructure package will be determined in the coming months, but this debate will no doubt involve the usual partisan disagreements over funding levels.

Traditionally, reauthorizing the Highway Trust Fund (HTF) serves as the must-pass lynch-pin of a larger surface transportation bill. Ordinarily, various Senate committees will produce legislative titles, based on their jurisdiction, to a larger surface transportation package. The Environment & Public Works Committee contributes a legislative title that largely addresses transportation infrastructure and policy; the Commerce Committee produces a title on regulatory and innovation transportation policy, including for rail, automobiles, and commercial vehicles; and the Banking Committee traditionally contributes a title on public transit. The Finance Committee has jurisdiction over the HTF itself and produces the revenue portion of the bill. In the House, the process is largely the same, but the Transportation & Infrastructure Committee has jurisdiction over a significant majority of the surface transportation bill.

Highway Trust Fund (HTF)

With increasingly fuel efficient automobiles and no increase in the gas tax since 1993, the primary source of funding for repair and maintenance of roads and bridges, the HTF is on the verge of becoming insolvent as soon as this year but no later than 2022 unless Congress acts. Proceeds from the HTF routinely fall short of the nation's transportation infrastructure needs, and the pandemic could exacerbate this shortfall as Americans are driving less than they were pre-pandemic.

Over the past decade, the general treasury has kept the HTF afloat with infusions of funds, but there is a growing reluctance to continue this practice. There are various proposals to remedy this situation, including a federal fuel usage fee as part of the price of wholesale transportation fuels collected at the terminal rack. The fee would be phased in at five cents per year over four years, indexed to both inflation and improvements in fuel efficiency, and have a five percent annual cap.

House Transportation & Infrastructure Committee Chairman Peter DeFazio (D-OR) has previously proposed a national vehicle miles traveled (VMT) pilot program, which would allow taxpayers to opt in and then provide a refund for the estimated gas tax they would have paid. The concept of VMT is supported by many House Republicans, including Transportation & Infrastructure Committee Ranking Member Sam Graves (R-MO), as well as Secretary Buttigieg.

Many Republicans, including Senate Minority Leader Mitch McConnell (R-KY), have strongly objected to an increase in the gas tax in the past, so we will be watching to see how they react to any proposals from Democrats to raise the tax. President Biden has not stated whether he supports an increase in the gas tax, but has described the HTF as being "grossly underfunded."

Autonomous Vehicles

Although we have seen continued moves in the automotive market toward Autonomous Vehicles (AVs), and many transportation policy leaders support for AV technology as a potentially revolutionary economic and cultural development, Congress has yet to pass legislation aimed at AV regulatory policy. The closest they have come to success with AV legislation was two congresses ago when the House of Representatives approved by voice vote the SELF DRIVE Act, while the Senate Commerce Committee unanimously approved the AV START Act. With broad bipartisan support there was hope throughout the 116th Congress that there would be final enacted legislation; however, finding consensus on moving forward has proven difficult. Secretary Buttigieg has spoken favorably about advancing AV technology, and we anticipate that the Administration and Congress will again seek to enact AV legislation this congress. An AV bill could emerge as a standalone or as provisions in the automobile safety portion of a Commerce title to a surface transportation bill.

During the Obama Administration the Department of Transportation's National Highway Traffic Safety Administration (NHTSA) issued the first-ever federal guidance on AVs in September 2016 (AV Policy) focused on integrating AVs into American roadways. The Trump Administration followed up with AV Policy 2.0 in 2017, AV Policy 3.0 in 2018, and AV Policy 4.0 in 2020. With federal guidance to date being entirely voluntary, 32 states have now approved their own AV policies, creating a patchwork of polices nationwide. Last January, NHTSA issued a rule revising existing federal motor vehicle safety standards (FMVSS) to exempt AVs that do not carry passengers from crashworthiness standards. The rule further amended certain FMVSS to conform with AV features, such as the lack of a steering wheel or front row seating without passenger and diver designations. It's unclear whether the Biden Administration will continue such a regulatory trend, but as AV technology continues to see more widespread acceptance by consumers, we could well see a greater sense of urgency for Congress to codify a regulatory structure for AVs in statute.

Municipal Bonds

While Democratic control of the House and Senate makes this highly unlikely, we'll be watching closely for any proposals to end the tax-exempt status of municipal bonds, which finance 75% of the nation's infrastructure projects, including highways, ports, bridges, airports, public utilities, and water and sewer facilities.

Supporters of advance refunding (AR) bonds will be looking for opportunities to revive this option, which allows a bond issuance to be paid off with another lower-interest bond issuance. This practice was terminated by language in the 2017 Tax Cuts and Jobs Act. In the 116th Congress, Sens. Roger Wicker (R-MS) and Debbie Stabenow (D-MI) introduced legislation to reinstate advanced refunding. Similar legislation was introduced in the House by Reps. Ruppersberger (D-MD) and Stivers (R-OH), who serve as co-chairs of the Congressional Municipal Finance Caucus. Proponents of AR will be pushing for reintroduction of these bills in the 117th Congress.

There were two other bond measures introduced in the 116th Congress that did not see final passage, but which supporters will be pushing to see reintroduced in the 117th Congress. The Municipal Bond Market Support Act was introduced by Reps. Sewell (D-AL) and Reed (R-NY) and would make a permanent modification to the small borrower exception (BQ) raising the maximum from $10 to $30 million and applying the maximum at the borrower level. The American Infrastructure Bonds Act, was introduced by Sens. Wicker (R-MS) and Bennet (D-CO) and would have reinstated direct pay municipal bonds, add non-profit eligibility and require a governmental issuer.

Biden Proposal for Public Transit Agencies

Just ahead of his inauguration as the nation's 46th president, Mr. Biden unveiled a $1.9 trillion "American Rescue Plan" providing emergency COVID-relief and economic stimulus measures. While much of the proposal is related to health care and vaccinations, there are proposals directly related to transportation, including $20 billion in relief for the hardest hit public transit agencies.

Mintz – Christian T. Fjeld, R. Neal Martin and Anthony M. DeMaio

February 4 2021

Pandemic Relief? Infrastructure Is the Far Bigger Prize.

The payoff for states and localities from federal infrastructure legislation is likely to be many times more than COVID stimulus aid. Governors and local leaders need to play their cards wisely.

The first major fiscal legislation to come out of the Biden era will likely be some version of its pandemic stimulus bill, already in the congressional hopper. States and local governments are almost certain to receive some level of federal aid, though nobody will be surprised if the number gets trimmed by GOP opposition and the compromise efforts of moderates in both houses.

But while governors, mayors and other local government officials cannot help but lobby fiercely for immediate help for their 2021 budgets, those numbers are chump change compared with what is potentially coming down the pike for infrastructure funding. The federal dollars at stake for the Biden administration's forthcoming infrastructure bill are likely to be five to 10 times greater than the pending stimulus bill will provide, if intergovernmental public-finance strategists play their cards wisely.

So state and local government leaders and their policy associations will be smart to immediately lay out and buttress their lobbying and advocacy plans for the infrastructure bill. To deflect and rebut newly reborn congressional deficit hawks, a fallback tax plan to pay for the federal share will require both savvy and moxie, and the state and local lobbyists would do well to be in the room for those discussions as well.

Continue reading.

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | FEBRUARY 2, 2021 | OPINION

New Year Brings No Respite to Muni Senior Living Sector Turmoil.

- **Senior living among riskiest muni investments due to pandemic**
- **Texas non-profit issued $400 million of muni debt to buy homes**

The coronavirus pushed three dozen municipal-debt issues for senior living communities into default last year and another five have already missed payments in 2021, sowing distress in one of the nation's safest bond markets.

The securities deals that defaulted for the first time in January included one for a retirement community in the Chicago suburbs that needed to preserve cash as regulations imposed to combat the pandemic curbed move-ins and left about one quarter of it unoccupied.

"The surge in Covid-19 cases following Thanksgiving and Christmas suggests further disruption lies ahead," said Beth Burnham Mace, chief economist at the National Investment Center for Seniors Housing & Care. "That said, the recent distribution of the vaccines should soon provide some relief."

The coronavirus, especially lethal to the elderly, has made the senior-living industry the riskiest segment of the $3.9 trillion municipal-bond market, where defaults are extremely rare because states and cities have broad power to raise taxes to cover their debts. But it's also open to non-profits, including those that run retirement communities, that can sell debt through local government agencies. These facilities are facing increased costs for staff and protective equipment as well as move-in restrictions from state health agencies. As a result, many are unable to repay what they've borrowed.

Falling Occupancy

Residency at assisted and independent living facilities fell to 80.7% in the fourth quarter, a record low and an almost seven percentage point decline since the first quarter, according to data from the National Investment Center. Moreover, the data shows wide disparities geographically. The San Jose market had the highest occupancy rate of 31 metro areas at 88.5% and Houston, the lowest, at 73.5%.

The resulting financial pressure drove five senior living communities in Georgia, New York, New Hampshire and Illinois into default this year.

Hillside Village, a 221-unit continuing care retirement community in Keene, New Hampshire, failed to make a Jan. 1 interest payment on $73 million bonds and has hired a chief restructuring officer. Through November, the facility collected $2.3 million less revenue than projected. Glen Arden, Inc., in Goshen, New York defaulted because of financial difficulties that preceded the pandemic.

Preserving Cash

In Schaumburg, Illinois, about 20 miles (32 kilometers) west of of O'Hare International Airport, occupancy at Friendship Village of Schaumburg fell to 78% as of Sept. 30 from 84% at the end of March.

Despite obtaining a Paycheck Protection Program loan, the community had to spend half its cash reserve in the last nine months to make up for lost revenue. The retirement community suspended payment on $122.6 million of debt to preserve cash, its chief financial officer said in a letter to bondholders.

"The action we take today is a step toward fulfilling our goal, which is to preserve the ability of FVS to operate until the health and economic crises caused by Covid-19 have abated," wrote Michael A. Flynn, Friendship Village's CFO.

Highly Leveraged

The Emmaus Calling, a non-profit senior living owner run by an Austin, Texas family that has issued $400 million of municipal bonds to acquire two dozen communities, has 12 in the Houston area. The highly leveraged purchases — financed entirely with debt — left little room for error amid the pandemic, which forced TEC to restrict move-ins and cancel live tours.

That's threatening to tip more than a quarter of the bonds into default. About $115 million of the bonds issued by TEC affiliates are distressed and $36 million of them had their ratings withdrawn after the company needed to tap reserves to cover debt, according to data compiled by Bloomberg.

TEC's Glen Hope Harbor Inc. portfolio of nine assisted-living facilities in the Houston and San Antonio were struggling even before the pandemic. In August 2019, S&P cut the ratings on $38 million bonds issued by Glen Hope Harbor to junk after it drew on reserves to pay debt. The rating company cited "very low" occupancy rates and competition from new Alzheimer's care facilities, which forced management to discount rents to attract tenants.

Glen Hope Harbor defaulted on a $3 million portion of its bonds last February, before the virus cut occupancy to around 70% by the end of June. Some of the non-defaulted Glen Hope bonds due in 2039 are trading for about 32 cents on the dollar, down from 106 cents when they were first issued five years ago.

Mission Fees

TEC has supported and will continue to support its facilities by deferring fees and providing loans, according to an email from Jennifer Rodriguez, president of Choice Management Services, LLC, which oversees TEC's assisted living facilities. Robbie Wittner, TEC's president, didn't respond to emailed questions.

The debt burden on TEC's assisted living portfolios is even higher because it has taken upfront payments of as much as 1.4% from its bond sales as "mission contribution fees," used to help pay the salaries of Wittner, her husband Lloyd Kitchen, and son Lloyd Kitchen III.

"They've borrowed to pay themselves, which means you need to cover that borrowing in addition to what you paid for that facility so that would make things more difficult," said Lisa Washburn, a managing director at Municipal Market Analytics.

Bloomberg Markets

By Martin Z Braun

February 3, 2021, 7:30 AM MST

— With assistance by Natalia Lenkiewicz, and Laurel Brubaker Calkins

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Error Identified In S&P U.S. Local Government General Obligation Model, Review Indicates One Rating Affected

S&P Global Ratings Feb. 3, 2021 — S&P Global Ratings has identified an error in its U.S. Local Government General Obligation Model (LG CST), which it uses to assign ratings under the following criteria: "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions" (published Sept. 12, 2013).

The model error relates to the computation of budgetary and economic scores, including how metropolitan statistical areas (MSA) data may be integrated into economic score calculations.

Following the discovery of this error, we:

- Undertook a review of approximately 5,000 ratings for which we use the LG CST to determine if any might be incorrect.
- Determined that one issuer, Marysville, Calif., was affected by the model error.
- Reviewed the issuer, during which we took into account the impact of the model error as well as the particular facts and circumstances currently affecting the city's creditworthiness. As a result, S&P Global Ratings raised its long-term rating to 'A+' from 'A' on Marysville's pension obligation bonds outstanding. At the same time, S&P Global Ratings raised its long-term rating to 'A' from 'A-' on the city's outstanding certificates of participation. The outlook is stable.

Until the model error has been corrected, we are adjusting our use of the model to address the potential effect of the model error and to allow for the model's continued use in surveilling and assigning ratings consistent with our criteria.

This report does not constitute a rating action.

The reports are available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase copies of these reports 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. Members of the media may request copies of these reports by contacting the media representative provided.

Fitch: Biden's Plans for Healthcare Largely Positive for NFP Hospitals

Fitch Ratings-New York/Austin/Chicago-03 February 2021: President Joseph Biden's plans to expand healthcare coverage under the Affordable Care Act would generally improve the financial position of not-for-profit hospitals, Fitch Ratings says. Not-for-profit (NFP) hospital margins have been squeezed by high pandemic caseloads and costs, with multiple pressures on revenues and expenses as well as an uncertain regulatory environment likely to continue. Reducing the number of uninsured and shifting the payor mix towards Medicaid coverage and privately insured will help mitigate revenue pressures.

Higher unemployment and administrative weakening of the Affordable Care Act (ACA) under the prior administration contributed to the numbers of those without health insurance. However, President Biden's recent executive order to open a three-month window sign up for healthcare through the ACA federal insurance marketplace highlights his intentions to expand coverage.

Expansion of the ACA is more likely now that democrats have a narrow majority in the Senate, but not one that is filibuster-proof. Biden did not campaign on more aggressive federal expansion of healthcare, such as a public option or Medicare for All, and this is not on the table, nor is it likely to gain traction. Some members of Congress have expressed concerns over the large federal budget deficit against a backdrop of significant federal stimulus spending. Medicare is already one of the federal government's largest budget items, but Medicare spending is unlikely to receive material scrutiny before the 2022 Congressional elections.

The Biden administration is expected to focus on reducing the number of those who are uninsured by raising the upper-income eligibility limit for healthcare premium subsidies, increasing premium tax credits for those purchasing plans through the ACA marketplace, raising the Medicaid poverty-level threshold and encouraging the 12 states that have not expanded Medicaid under the ACA to adopt expanded coverage. This latter change would be credit-positive for hospitals in states where Medicaid has not been expanded, although political headwinds in key states like Texas persist. It remains to be seen whether certain Medicaid waivers such as work requirements or block grants granted by the Trump administration will be rescinded by the Biden administration.

Congress may be able to pass a bill to reduce prescription drug prices. Lowering the minimum age qualification for Medicare may also be considered, although this will face political hurdles from deficit hawks, and would have mixed results for healthcare providers if a significant number of people move to Medicare from commercial payor coverage.

The Supreme Court is expected to rule mid-2021 on the challenge to the ACA, California v. Texas. Even if the Supreme Court decided that the individual mandate penalty is unconstitutional and inseverable from the rest of the law, some form of the ACA or its components could be reinstated through 'fixes' passed by Congress. Roughly 20 million individuals could lose healthcare coverage if the ACA does not survive. This would generally reduce hospital revenues and could exert downward rating pressure on hospitals, particularly in states that expanded Medicaid coverage under the ACA.

Contacts:

Mark Pascaris
Director, US Public Finance, Not-for-Profit Healthcare
+1 312 368-3135
Fitch Ratings, Inc.
One North Wacker Drive
Chicago, IL 60606

Kevin Holloran
Senior Director, Head of Not-for-Profit Healthcare Ratings
+1 512 813-5700
2600 Via Fortuna, Suite 360
Austin, TX 78746

Sarah Repucci
Senior Director, Fitch Wire
+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.

S&P U.S. Not-For-Profit Health Care Rating Actions, December 2020 And Fourth-Quarter 2020.

S&P Global Ratings' Not-For-Profit health care rating actions for the fourth quarter of 2020 had seven downgrades and two upgrades. There were also six favorable and six unfavorable outlook revisions.

The rating activity during the fourth quarter aligns with previous commentary regarding elevated downgrades and continued unfavorable outlook revisions relative to upgrades and favorable outlook revisions. Reflecting largely pandemic related credit pressure, we affirmed our negative sector outlook shortly after the end of the fourth quarter (see "Outlook For U.S. Not-For-Profit Acute Health Care: Navigating The Bumps While Getting Back On Track," published on Jan. 12, 2021). While there were two upgrades during the fourth quarter, those upgrades were due to the merger or combination with higher rated entities. All three upgrades since we revised the sector outlook to negative from stable on March 25, 2020, were related to merger related activity and not underlying improvement in credit quality. Despite the negative outlook on the sector and industry pressures, there has also been meaningful stability among many issuers, evidenced by the 68 affirmations during the fourth quarter of 2020, representing about three-quarters of credits analyzed.

Continue reading.

Municipal Bonds - Don't Ignore With Higher Taxes And Budget Relief Ahead.

Summary

- Municipal bonds have done well since the election, since a Democratic Administration is typically good for additional state and local relief, even more badly needed this year thanks to the pandemic.
- Also, it's pretty clear higher taxes in some form or fashion are on the way, whether it's corporate tax increases, individual tax rates, or capital gains rates, or some combination of all three.
- With the 10-year Treasury closing at 1.13% today, it continues to creep higher as more fiscal stimulus and a stronger economy look likely in later 2021.

Continue reading.

Seeking Alpha

Feb. 04, 2021

BondView Releases Municipal Bond Reference Data Service.

NEW YORK, Feb. 2, 2021 /PRNewswire/ — BondView, a leading provider of bond and fund information, today launched their new Municipal Bond Reference Data Service to facilitate quick, easy and cost-effective use of muni bond data into a variety of applications.

Using BondView's Municipal Bond Reference Data means users no longer need to maintain and update expensive databases. The service includes all the descriptive data, from basic to extended security, that the majority of user applications require.

High quality reference data is available on over 1.5 million U.S. Municipal Bond issues from over 50,000 different issuers. Including:

- Bond Descriptive Data
- Evaluated Pricing & Trades
- Market Ratings & Credit Scores
- Bonds Held in Funds
- Advanced Derived Data

BondView Municipal Bond Reference Data is searchable using a variety of industry standard identifiers and can be supplied in a number of different formats:

- Viewable web search app
- Easy to use API
- Customized Delivery (CSV, Excel, etc.)

- BondView Speciality Products

Robert Kane, CEO of BondView, said, “BondView’s Municipal Bond Reference Data is a quick and cost effective way to add comprehensive high quality municipal bond data into user applications. Using our cloud-based service means there is no longer any need to negotiate complicated and expensive database subscriptions.”

More Information:

Contact Jim Walker, Press Inquiries, BondView, 290549@email4pr.com

Phone: 866-261-9533

[Nuveen Credit-Focused Muni CEFs Remain Attractive.]

Summary

- The tax-exempt sector continues to receive investor attention due to potential tailwinds of the new administration such as higher taxes and more fiscal support of municipalities.
- On the back of a new shareholder report, we take a look at a number of tax-exempt Nuveen funds with significant allocations to high-yield and unrated bonds.
- We continue to like NMCO, which is a more pure-play tax-exempt high-yield focused fund due to its strong income and coverage levels and attractive discount valuation.
- NZF is also attractive as a less aggressively positioned option with a 60% investment-grade allocation.
  We continue to hold both funds in our Municipal Income Portfolio.

[Continue reading.]

Seeking Alpha

Feb. 02, 2021

[State Street and Nuveen Teaming Up On a New Active Muni ETF.]

With yields low and some states facing fiscal challenges, active management and municipal bonds could be an ideal match for many income investors.

State Street Global Advisors and Nuveen are tapping into that theme with the SPDR Nuveen Municipal Bond ETF (MBND), which debuted yesterday.

MBND “will mainly draw its holdings from the Bloomberg Barclays 3-15 Year Blend (2-17) Municipal Bond Index, which covers investment-grade debt with two to 17 years of maturity remaining. The portfolio can hold a wide variety of types of municipal debt from a variety of entities, from states and territories drilling down to counties and districts, according to a statement.

Why Create the MBND ETF Now?

Yields on munis have been steadily falling, with bond prices rising, even before the coronavirus pandemic. After the 2017 tax law changes, demand for tax-exempt munis became more attractive in response to caps in the federal deduction for state and local taxes, especially among higher-tax states. The tax law also diminished supply due to new limits on when governments can issue tax-exempt debt.

Due to the economic shutdown, which led to a spike in unemployment rates across the country, plenty of states are facing budget woes. Some of those with the worst shortfalls are among the largest issuers of municipal bonds, meaning they're also among the biggest weights in this category's ETFs. But the muni market is proving resilient.

The new MBND "can invest in holding of any credit quality but limits its junk bond exposure to no more than 20% of the portfolio. It aims for a weighted average duration of 4.5-7 years and a weighted average maturity between five and 12 years. The fund benchmark guides the portfolio exposure, with individual securities weighted within 5% of their weight in the index and sectors deviating by no more than 10%."

State Street and Nuveen partner on three other passive municipal bond ETFs, including the $4.5 billion SPDR Nuveen Bloomberg Barclays Short Term Municipal Bond ETF (NYSEArca: SHM).

ETF TRENDS

by TOM LYDON

FEBRUARY 5, 2021

[State and Local Governments Relied on Debt for Budgetary Help In 2020.]

More borrowing likely in 2021, market analysts suggest

State and local governments have sought a variety of ways to cope with the fiscal fallout of the COVID-19 pandemic and recession, including borrowing on the municipal bond market. But municipal bonds are commonly used to pay for major, long-lasting projects, so whether—and how—to use them to borrow for immediate budgetary relief can be a challenging question for government officials.

Matt Fabian is a partner and Lisa Washburn is chief credit officer and managing director with Municipal Market Analytics (MMA), a research and consulting firm that specializes in the U.S. municipal bond market. Founded in 1995, the company—which has worked with The Pew Charitable Trusts to support Pew's research on state fiscal health—helps investment firms, banks, and financial advisers navigate the nearly $4 trillion market. This interview with Fabian and Washburn has been edited for clarity and length.

Q: We know that state and local governments cut spending and, in some cases, raised taxes to try to close their budget gaps in 2020. What else did they do?

A: State and local governments faced severe 2020 and 2021 budget crises because of the COVID-19 pandemic. So, they used the municipal bond market to reduce or postpone annual expenses, raise operating capital, and restructure otherwise damaged finances. All of these activities could, collectively, be called deficit financing—that is, paying for government expenses through borrowing.

These are not typical uses of the municipal bond market, where an overwhelming majority of financing is for long-term infrastructure projects. But last year, with state and local governments seeking as much as possible to avoid cutting spending, raising taxes, or postponing pension payments, they shifted their emphasis to short-term and temporary solutions. As the pandemic continued and federal stimulus money dried up, they increasingly took on debt for budgetary help.

We analyzed 442 municipal bond issuances over $100 million between August and mid-December of 2020, and we found that at least a quarter—and, because in some cases the ultimate use of the money wasn't clear, perhaps as many as half—involved some form of deficit financing.

Q: How did state and local governments use this borrowed money?

A: We saw clear evidence of what we'd call direct deficit refinancing, where the money from bonds or loans is used to replace money that would ordinarily have been collected from taxes to fund regular, ongoing government programs. There was also evidence of what we'd call indirect deficit refinancing, such as using money from bonds to pay for projects that previously were paid for with cash.

The most common method of direct deficit financing was "scoop and toss" refinancings, in which new bonds are sold to retire old ones and a meaningful portion of debt service payments are delayed. It's not exactly the same as what a homeowner might do with a "cash-out" refinancing of a mortgage, but the result is the same in that it frees up cash on hand.

Q: Is deficit financing a good idea?

A: That depends. Deficit financing with debt could, depending on the type of bond issues, create a longer-term budgetary liability to pay for immediate, short-term operating costs. That's generally considered an unsound practice, with potentially negative implications for a government's credit rating. In fact, some governments constitutionally or statutorily prohibit deficit financing.

But this crisis has presented such a severe and abrupt challenge to state and local finances that policymakers looked to use a range of tools to weather the storm. Any response to fiscal emergencies such as those caused by the coronavirus comes with challenges and limitations. In this case, borrowing became one part of a package of budget and policy responses, one that may have allowed governments to avoid, at least for the time being, other harsh measures—such as raising taxes or cutting services.

Q: So, have credit rating agencies in fact downgraded any state or local governments as a result of them using municipal bonds for short-term purposes?

A: So far, the impact on state and local credit ratings has been only minimal, which is a departure from how the credit rating agencies would normally respond. And a few factors may cause this to continue: There's a greater acknowledgment on the part of the agencies of the uncertainty facing governments right now; there's less concern in the current environment over the short-term impact of one-time budgetary fixes that in more normal times the rating agencies might have seen as "gimmicks"; and because state and local governments have been slow to release their financial disclosures, the agencies don't yet have, in some instances, a clear picture of state or local government finances for 2020 and 2021.

However, there's also good reason to assume that rating downgrades are coming this year and next as more governments disclose their financial information. These downgrades would make it more expensive for any entity that's been downgraded to issue bonds, resulting in further budget challenges.

Q: Given the scope of the budget challenges for states last year, did the federal government intervene in the municipal bond markets?

A: Yes. In April, Congress created a lending backstop at the Federal Reserve called the Municipal Liquidity Facility, or MLF, with $500 billion that was available to state and local issuers for deficit financing. The MLF was valuable because it increased liquidity available to state and local governments and reduced the risk that states and cities that were facing fiscal challenges would make bad policy choices (such as selling assets, drastically cutting local aid or social services, or considering debt service payment freezes) or face a cash crisis that itself could lead to market disorder.

At the end of last year, the U.S. Treasury—which is the Federal Reserve's partner in operating and overseeing the MLF—requested that the Fed return to Congress any unused cash from the original $500 billion stake and stop approving any new loans. The loss of the MLF could somewhat hamper the public finance market in 2021 because the program provided state and local governments looking to borrow with a federal assurance of immediate liquidity.

Q: Are there long-term policy implications of governments using municipal bonds for short- and mid-term budgetary needs?

A: It's too early to say for sure, but there's reason to suppose that debt incurred now is unlikely to disappear from government balance sheets for years to come. What's more, because state and local financial conditions this year are likely to be closer to the second half of last year than to 2019, we see no reason not to expect similar borrowing this year.

Last year bond issuers shelved any new projects that could be delayed; they also depended on the lending markets to offset COVID-driven budget losses. It's reasonable to assume that the same thinking could apply to the next few years. So, we expect that state and local governments, with perhaps a new respect for needing cash on hand, will continue to grow their debt balances over the medium- to long-term.

If that happens, state and local government may find themselves hindered—in particular, in times of crisis—by the lack of financial flexibility resulting from the rising expenses that come with larger debt balances. State budget writers and other officials could minimize that by more effective debt management strategies and a longer-term outlook when it comes to budget planning.

The Pew Charitable Trusts

January 28, 2021

Financial State of the Cities 2020.

Chicago, Jan. 26, 2021 (GLOBE NEWSWIRE) — The 2021 Financial State of the Cities (FSOC) surveys the fiscal health of the 75 largest municipalities in the United States. This data is released today by Truth in Accounting (TIA), a think tank that analyzes government financial reporting. TIA analysts draw their data from the fiscal year 2019 audited Comprehensive Annual Financial Reports on file in city halls across the country, which are not analyzed on this scale by any other organization. The fiscal year 2019 audited Comprehensive Annual Financial Reports show cities financial data prior to the coronavirus pandemic. This new data comes as the federal government is considering additional aid for states and cities.

The 2021 FSOC report found that 13 of the largest cities had more assets than obligations, a key indicator of long-term financial health. The remaining 62 cities carried varying levels of debt, many of them in the billions of dollars range prior to the coronavirus pandemic.

These 62 cities went into the coronavirus pandemic in poor fiscal health, and they will probably come out of the crisis worse. Even the fiscally healthiest cities are projected to lose millions of dollars in revenue as a result of the coronavirus pandemic. The uncertainty surrounding this crisis makes it impossible to determine how much will be needed to maintain government services and benefits, but these cities' overall debt will most likely increase.

Irvine, California had the best city finances in the U.S. with a $370.3 million surplus. If you were hypothetically to divide that figure by the number of Irvine taxpayers, each Irvine taxpayer's share is $4,100.

Not every city in the United States is so lucky. Many larger and older cities owe billions of dollars to unfunded retirement plans for public sector employees. New York City claimed the prize for worst municipal finances in the United States for the fifth year in a row. Every taxpayer in the Big Apple would have to pay $68,200 in order for the city to pay off all its bills. Chicago (second-worst in the nation) would need each taxpayer to pay $41,100. The average taxpayer burden across all 75 cities in the report works out to $7,355.

"The bottom line is that the majority of cities went into the pandemic in poor fiscal health and they will most likely come out of it even worse," says Sheila Weinberg, founder and CEO of Truth in Accounting.

The full Financial State of the Cities report can be found online here.

Truth in Accounting

January 26, 2021

The Financial State of the Cities report is an in-depth study of the financial condition in America's largest cities. Data for this report was derived from cities' 2019 comprehensive annual financial reports. As of January 19, 2021, Tucson, AZ and New Orleans, LA had not released their 2019 annual financial reports. Therefore, we were forced to use fiscal year 2018 information for these two cities.

Founded in 2002, Truth in Accounting is dedicated to educating and empowering citizens with understandable, reliable, and transparent government financial information. Sheila Weinberg is a Certified Public Accountant with more than 40 years of experience in the field.

MSRB 2020 Municipal Bond Market In Review.

Read the MSRB Review.

[State and City Cutbacks Stifle Broader U.S. Economic Recovery.]

- **Cuts in municipal spending similar to period after 2008 crisis**
- **'The devastating consequences will last for years' mayor says**

State and local governments are exerting the biggest drag on the U.S. economy in more than a decade as they eliminate jobs and cut spending in the wake of the pandemic, underscoring President Joe Biden's push to extend aid to make up for lost tax revenue.

Such cutbacks have contributed to a slowdown in the economy for three straight quarters, marking the longest taper since the fiscal crisis that persisted from 2009 to 2012, according to preliminary data released by the U.S. Bureau of Economic Analysis Thursday.

States and cities have been bracing for major revenue shortfalls because of shutdowns since March to contain the virus, prodding them to eliminate more than 1.3 million jobs. The speed and scale of the budget cutting surpasses what happened in the wake of the housing market crash, when such steps largely weren't enacted until it hammered tax collections after the recession had officially ended.

State and local government employment fell 6.6% last year, the steepest drop in Labor Department records since the mid-1950s. Payrolls remain barely above the 18-year low of 18.4 million in May and account for the smallest share of working Americans since 1966. During her confirmation hearing Jan. 19, Treasury Secretary Janet Yellen said budget shortfalls will beget more layoffs and have "ripple effects through the economy."

While state budget shortfalls haven't been as severe as initially estimated as higher-income workers held onto their jobs and stock prices rallied, local governments are still expected to contend with large deficits in the coming fiscal years.

Biden has proposed extending $350 billion of aid to governments as part of his $1.9 trillion stimulus plan, a sum that the Brookings Institution estimates will account for three-years of lost revenue. That plan faces opposition from some Republicans in Congress."

"State and local government economies will feel the aftereffects of the pandemic for a long time. They will continue to be a drag on national GDP for a year, if not more," said Vikram Rai, a municipal bond analyst at Citigroup Inc. "The longer the aid is put off, the worse it is for state and local governments."

On a conference call Thursday held by the U.S. Conference of Mayors, the National League of Cities and the National Association of Counties, officials warned of more job and service cuts as they contend with the increased expenses that come with battling to pandemic.

Dayton, Ohio Mayor Nan Whaley said her city cut 200 jobs and will need to delay hiring new cops or firefighters this year. Mayor Jeff Williams of Arlington, Texas also spoke to the urgency.

"The devastating consequences will last for years," Williams said of the impacts of the pandemic and the lack of aid. "This crisis is not over, and whenever it is over we are going to be digging out of it for some time."

Bloomberg Business

By Fola Akinnibi

January 28, 2021, 1:48 PM MST Updated on January 28, 2021, 2:51 PM MST

— With assistance by Jeff Kearns

S&P 2021 Credit Outlook For U.S. Public Finance: Back On Track?

Key Takeaways

- Active management has supported credit quality. Across sectors, the pandemic and associated economic and fiscal pressures have been actively managed, and that has supported credit quality, but the magnitude and duration of this crisis will contribute to credit pressure for many.
- The health and economic recoveries will continue to be uneven. Different state and local protocols to manage the pandemic and the vaccine rollout continue to influence the economy generally and consumer demand–especially for transportation and higher education—in particular.
- Federal policy will influence credit trajectory. A new administration will mean a new policy and funding priorities in key areas, which will influence sectors in different ways. In addition to general fiscal and monetary policy, issues such as stimulus funding, health care initiatives, regulatory changes, and prospects for a funded infrastructure initiative are key things we are watching for 2021.

Continue reading.

29 Jan, 2021

Fitch Ratings Updates Public Finance Interactive ESG Dashboard, Heatmap - 4Q20

Fitch Ratings-London-26 January 2021: Fitch Ratings has updated its interactive ESG dashboard for Public Finance and Global Infrastructure for 4Q20. Fitch has also enhanced its interactive ESG relevance heatmap for 4Q20, with new regional and country selection capabilities.

The dashboard shows the distribution of Fitch's ESG Relevance Scores (ESG.RS) for 2,656 issuers or transactions across the Global Infrastructure Group (Infrastructure), International Public Finance (IPF) Local and Regional Governments (LRG), IPF Government-Related Entities (GRE), and U.S. Public Finance (USPF) Tax-Supported and USPF Revenue sectors.

The dashboard shows that ESG risks influence rating decisions for 5.5% of Infrastructure issuers or transactions. Within IPF, 0.4% of GRE and 20.7% of LRG issuers had ESG risks influence rating outcomes. These risks influenced rating decisions for 3.6% of USPF Tax-Supported issuers and 5.5% of USPF Revenue issuers.

The governance and social categories have similar levels of impact for Infrastructure issuers, while environmental impact affected rating decisions less. Higher ESG risks for IPF LRGs have been identified in recent rating actions, with 13% of issuers scoring a '4' or '5' (indicating rating relevance), as several Ukraine local government defaults have affected Political Stability and Rights governance scores. IPF LRGs had higher ESG.RS for 5% of issuers in the environmental category, followed by 3% in the social category.

For USPF Tax-Supported issuers, governance impact influenced 1.7% of rating decisions, followed by social impact at 1.1% and environmental impact at 0.8%. Governance influenced more rating decisions for USPF Revenue issuers than environmental or social issues did, with 3% of entities scoring a ‘4’ on governance. There were much lower levels of ‘4’ and ‘5’ ESG.RS across the environmental and social categories for these issuers.

For more information please see www.fitchratings.com.

The American Rescue Plan.

On January 14, President Joe Biden provided an outline for his administration’s first major legislative effort.

The $1.9 trillion American Rescue Plan includes multiple provisions that have been debated on Capitol Hill throughout 2020, including $350 billion for state and local governments, as well as an additional $1,400 in direct payments to individuals.

President Biden made it clear that bi-partisan support for the plan is a priority, but also indicated the willingness to use the reconciliation process, lowering the bar to clear in the Senate from 60 votes to 51, should Republicans take a hardline stance against the plan.

Notable provisions:

- $1,400 direct payments to individuals
- Expansion of child care credits
- Expansion of Earned Income Tax Credit (EITC) for adults with no children
- $350 billion for state and local governments
- $130 billion for reopening schools
- Extension of augmented Unemployment Insurance (UI) through September 2021
- Raise the minimum wage to $15 per hour
- $20 billion for public transit
- $1 billion for Temporary Assistance for Needy Families (TANF)
- Extend eviction relief and provide $30 billion

AMERICAN RESCUE PLAN FACT SHEET

How Biden's Stimulus Plan Could Impact Municipal Bonds.

Nick Venditti, Wells Fargo Asset Management senior portfolio manager, discusses what the Biden administration’s $1.9 trillion stimulus plan means for the municipal bond market. He speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

January 22nd, 2021, 2:01 PM MST

[Unexpected Impact Of The Biden Administration? A Muni Bond Boom.]

All things considered, the municipal bond market had an exceptional 2020.

In a year in which municipalities were faced with an economic crisis that had some investors concerned about defaults, the VanEck Vectors CEF Municipal Income ETF rose 3.44% in 20201, a stunning turnaround given its sharp decline during March.

Muni bond investors have several tailwinds to thank for that rebound, according to VanEck Senior ETF Product Manager Michael Cohick: a supply-demand imbalance driven by fewer bond issuances, the realization that municipalities are in a better position than the financial crisis of 2008, and the Federal Reserve, whose municipal liquidity facility acted as a lender of last resort.

Continue reading.

Benzinga

by Spencer Israel

January 29, 2021

Largest Inflow in Tax-Exempt Munis On Record: Kazatsky (Radio)

MUNIS IN FOCUS: MUNIS in FOCUS: Eric Kazatsky, Senior U.S. Municipals Strategist for Bloomberg Intelligence, on muni valuations setting new highs. Hosted by Paul Sweeney and Vonnie Quinn.

Listen to audio.

Bloomberg Radio

January 29, 2021 — 11:40 AM MST

The Supreme Court Confirms That Passive Retention of Property Does Not Violate Section 362(a)(3): Squire Patton Boggs

On January 14, 2021, the Supreme Court unanimously held in *City of Chicago v. Fulton* that a creditor's passive retention of a debtor's property does not violate section 362(a)(3) of the Bankruptcy Code. The Court's 8-0 decision (Justice Barrett did not participate in the consideration or decision of the case) may have the unintended effect of increasing bankruptcy costs and making it more difficult for individual debtors to achieve a "fresh start".

When a bankruptcy case is filed, certain Bankruptcy Code sections take immediate effect and have a significant impact on a debtor's property. First, section 541(a)(1) creates the bankruptcy estate, which is comprised of "all legal or equitable interests of the debtor in property." This includes any property made available to the estate by other provisions of the Bankruptcy Code. One such other provision is section 542, which governs the turnover of property to the debtor's estate. Section 542 commands that, with certain exceptions, any entity in possession of a debtor's property shall deliver the property to the debtor.

Second, a bankruptcy petition operates as an automatic stay, preventing, in relevant part, "any act to obtain possession of property of the estate…or to exercise control over property of the estate." 11 U.S.C. § 362(a)(3). The automatic stay is one of the fundamental elements of the bankruptcy system: it protects the debtor's assets from unilateral creditor actions during the bankruptcy case and maintains the status quo.

II. The Facts

The Fulton case involved four individual debtors, each with the same unfortunate story: the City impounded their vehicles for nonpayment of fines and fees under the Chicago Municipal Code; they filed Chapter 13 bankruptcy in response to the impoundment; and they requested that the City return their vehicles. When the City refused, each debtor argued that failure to return their vehicle violated the automatic stay. In each case, the bankruptcy court agreed.

III. The Seventh Circuit Decision and the Circuit Split

These four cases were consolidated on appeal to the Seventh Circuit Court of Appeals, and the appellate court affirmed the bankruptcy courts' decisions. In *In re Fulton*, 926 F.3d 916, 925 (7th Cir. 2019), the court reasoned that the passive retention of estate property is "an act to…exercise control" over the property in violation of section 362(a)(3). Rather than requiring the debtors to bring an action for turnover under section 542(a), the court held that the automatic stay imposed an affirmative obligation on the City to turn the vehicles over as soon as the debtors filed their bankruptcy petitions.

With this decision, the Seventh Circuit joined the Second, Sixth, Eighth, Ninth and Eleventh Circuits in finding that failure to return property seized prepetition violates the automatic stay. Conversely, the Third, Tenth and D.C. Circuits all previously held that retention of seized property does not violate the automatic stay. This circuit split made this issue ripe for Supreme Court review and on October 13, 2020, the Court heard oral argument

IV. The Supreme Court's Decision

In a unanimous decision authored by Justice Alito, the Supreme Court vacated the Seventh Circuit judgment and held that merely retaining possession of estate property seized prepetition does not violate section 362(a)(3). The Court reached this decision based on three conclusions.

First, the Court held that reading "any act…to exercise control" in section 362(a)(3) to cover mere retention of property would make that section a blanket turnover provision, and render the "central command of section 542 largely superfluous." Since section 542 governs the turnover of property to the estate, it would be surplusage if section 362(a)(3) already required an entity to relinquish control over the property as soon as a bankruptcy petition is filed.

Second, the Court held that if the debtors' proposed reading of section 362(a)(3) was accepted, the stay would eliminate the exceptions enumerated in section 542. Section 542 lists certain property that need not be turned over to the estate. If section 362(a)(3) covered mere retention of estate property, the Court held that this would command turnover of property that is clearly excepted from turnover by section 542.

Third, Justice Alito's opinion concluded by reviewing legislative history. Sections 362(a)(3) and 542 were included in the original Bankruptcy Code. However, section 362(a)(3) originally applied the stay only to "any act to obtain possession of property of the estate"; the phrase "or to exercise control of the estate" was not added until the 1984 amendments. The Court reasoned that transforming 362(a)(3) into a blanket turnover provision would have constituted a substantive change to the Bankruptcy Code. Had Congress wanted to make such an important change, it would have done so explicitly by cross referencing 362(a)(3) to section 542 or otherwise indicating its intent to do so.

V. Takeaways

Although the future implications of this decision remain to be seen, one thing is certain: this was an incredibly narrow decision. As Justice Sotomayor's concurrence makes clear, the Court did not decide whether and when section 362(a)'s other provisions require a creditor to return a debtor's property. The City's actions here may well have violated other provisions in section 362, but the Court did not decide this issue one way or another.

Even though this case involved Chapter 13 debtors, the decision likely has implications for Chapter 7 and 11 debtors as well since at the very least, debtors will now have to bring adversary proceedings under section 542 to recover property retained by a creditor, rather than relying on section 363(a)(3). These proceedings consume time and money, reducing assets in a debtor's estate and limiting the amounts that other creditors may recover in a liquidation or plan of reorganization.

Squire Patton Boggs – Emily Shandruk

January 27 2021

[Stand Pat, Don't Act: Supreme Court Holds That Mere Retention of Debtor Property Does Not Violate Section 362(a)(3) of the Bankruptcy Code's Automatic Stay Provision - Cadwalader]

On January 14, 2021, the U.S. Supreme Court issued an opinion addressing a split among circuit courts on whether an entity violates Section 362(a)(3) of the Bankruptcy Code's automatic stay provision by passively retaining possession of a debtor's property after a bankruptcy petition is filed. Section 362(a)(3) prohibits "any act . . . to exercise control over property" of the bankruptcy estate. 11 U.S.C. § 362(a)(3).1 This "automatic stay" provision is automatically triggered once a bankruptcy case is commenced, and is intended to give the debtor a breathing spell from its creditors, including from any collection efforts, foreclosures, and other actions creditors may take against a debtor's property. The question here was whether the automatic stay provision in Section 362(a)(3) is also applicable to property already in the creditor's possession at the time of the bankruptcy filing. In a unanimous2 decision authored by Justice Samuel Alito, the Supreme Court held that mere retention of estate property after the filing of a bankruptcy petition does *not* violate Section 362(a)(3). *City of Chicago, Illinois v. Fulton*, No. 19-357, 2021 WL 125106 (U.S. Jan. 14, 2021).

The Supreme Court's decision provided at least some comfort to creditors that they are unlikely to be considered in violation of the stay under Section 362(a)(3) or incur related damages liability by merely passively retaining debtor property, including collateral, already in their possession. However, the decision did leave open the possibility that retention of debtor property could violate other provisions of the automatic stay under some circumstances, such as where retention is used as leverage to "collect . . . or recover a claim against the debtor." See 11 U.S.C. § 362(a)(6).

The decision also helped clarify the relationship between the Bankruptcy Code's automatic stay provision (Section 362) and its express "turnover" provision (Section 542) by establishing that only Section 542, and not Section 362(a)(3), imposes an obligation to turn over debtor property to the debtor's bankruptcy estate. This clarification is favorable to parties in possession of debtor property, because turnover under Section 542 includes exceptions and usually entails the commencement of an adversary proceeding and an opportunity to present defenses, which would not necessarily be available if turnover were required automatically under Section 362(a)(3).

Continue reading.

Cadwalader Wickersham & Taft LLP

January 22 2021

S&P: Five U.S. State And Local Government Pension And OPEB Trends To Watch For In 2021 And Beyond

Key Takeaways

- Pension contribution deferrals are likely to increase among some U.S. local governments experiencing severe budgetary stress.
- Declining government payrolls and early retirements will contribute to shortfalls in required plan contributions and demographic changes could increase costs.
- As interest rates remain low, safer investment options may appear less attractive for pension funds needing to meet targeted returns.
- Governments struggling with budgetary stress may find certain pension reform initiatives, like pension obligation bonds (POBs), could be helpful for long-term system health but do not necessarily solve near-term credit pressures.
- We expect governments and asset managers will be increasingly guided by environmental, social, and governance (ESG) factors in making investment decisions.

Continue reading.

25 Jan, 2021

S&P U.S. Higher Education Rating Actions, 2020

S&P Global Ratings lowered 34 ratings and raised four ratings on U.S. colleges and universities in 2020. Notably, of the ratings that were lowered, 12 had outlooks that had been revised to negative as part of S&P Global Ratings' response in April to the risks associated with the COVID-19 pandemic. In addition, only one of the four upgrades in 2020 occurred after the onset of COVID-19.

Continue reading.

28 Jan, 2021

S&P U.S. Charter Schools Rating Actions, 2020

In 2020, S&P Global Ratings' rated universe of charter schools experienced more downgrades than upgrades, reflecting the inherent risks of the sector as well as liquidity and enrollment pressures that were magnified by the COVID-19 pandemic (chart 1). However, the number of downgrades in 2020 (17) was below highs in 2014 (37) and 2017 (37; chart 2), reflecting the growth and maturity of the sector in recent years.

Continue reading.

28 Jan, 2021

Fitch: Media Revenues Anchor Stable Outlook for Sports Facilities, Leagues and Teams in 2021

Fitch Ratings-New York-28 January 2021: Immensely valuable media content will drive the Stable Outlook for sports with far fewer fans attending stadiums and arenas until well into 2021, according to Fitch Ratings in its annual Outlook report for the sector.

The sports operating environment will not be materially worse than 2020, though the coronavirus pandemic remains tough to navigate for the NBA, MLB, NFL and NHL. "With local government restrictions keeping most sports fans at home for the foreseeable future, stadiums and arenas will experience the greatest pressures from lower game-day revenues and expiring contractual sponsorship agreements along with premium seating inventory," said Senior Director Chad Lewis.

Absent widely available vaccines, sports leagues are still demonstrating the ability to play games during the pandemic and meet expectations of their media agreements. National and local media contracts are also providing significant revenues and providing strong bondholder support for sports leagues, factors that support Fitch's Stable Outlook for the year. That said, the headroom for current league ratings is shrinking.

"Sports leagues and facilities will have diminished liquidity to cover operating costs and debt obligations under no-fan or limited-fan scenarios and may, as a result, have to tap the debt markets with more frequency," said Lewis. "If de-leveraging and/or the return to pre-pandemic operating levels is slower than expected, negative ratings action may be warranted."

Fitch's "2021 Outlook: Global Sports Leagues and Facilities" report is available at 'www.fitchratings.com'.

Contact:

Chad Lewis
Senior Director

+1-212-908-0886
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

Record High Muni Prices Leave Investors Waiting to Buy the Dips.

- **Cash influx, seasonal slowdown sends valuations to record high**
- **10-year benchmark munis yielding about 70% of Treasuries**

The record high valuations in the municipal-bond market have put some investors in an unusual position: rooting for a surge in supply that would push down prices.

With new cash pouring into mutual funds and a steep slowdown in the pace of new debt sales this month, the yields on 10-year tax-exempt bonds have been hovering around 70% of those on Treasuries. That measure, a key gauge of relative value, hit about 66% in mid-January — the lowest in at least two decades — signaling that the prices of state and local bonds are unusually expensive.

That dynamic is contributing to a “lack of investor appetite,” with trading levels slowing over the past several months, strategists at Barclays Plc said in a Jan. 22 note.

That may change if the pace of bond sales picks up as expected after the end of January, a usually slow month for state and local government debt offerings. Some Wall Street banks, including Citigroup Inc., are forecasting a massive surge in debt issuance in 2021 as local governments seize on low interest rates to refinance bonds or bankroll public works projects to help jumpstart their economies after the pandemic.

“At some point, the calendar will start picking up again, which will create more opportunities,” said Susan Courtney, head of the municipal-bond team for PGIM Fixed Income. “We’re looking forward to a pickup in supply from that perspective.”

Bloomberg Markets

By Amanda Albright and Anastasia Bergeron

January 26, 2021, 11:30 AM MST

Why Investors Should Consider Taxable Municipal Bonds when Retirement Planning.

Jason Bottenfield of Steward Partners Global Advisory joined Yahoo Finance Live to discuss strategies for retirement planning amid market volatility and why it may be time to consider taxable municipal bonds.

Video Transcript

SEANA SMITH: It’s time for our retirement report here brought to you by Fidelity Investments. And for that, we want to bring in Jason Bottenfield. He’s wealth manager and partner of Stuart Partners, a global advisory.

And Jason, let’s just start with the big story of the week. And that, of course, is the action that we’ve seen a lot of these heavily shorted names. What are the conversations that you’re having with your clients? And I guess what are the biggest concerns that you have after the action that we saw this week?

JASON BOTTENFIELD: Yeah, no, Seana, there’s been a lot of action for sure. And it’s been on every news channel. So obviously, clients are focusing on it and calling a little bit. I don’t think necessarily they’re wanting to get involved as much, but, you know, some have asked that question.

A lot of what we’re trying to do is just position that look, this is an anomaly that’s happening right now. But for those that are getting involved, I think there’s some opportunities for education. I mean, this is an opportunity to where a lot of investors, whether they’re younger or millennials or whoever saying is getting in on this.

There’s an opportunity to really look at how are they positioning those trades that they’re getting into? And I think there’s a learning moment that’s happening here. But as far as our clients, I think we’re just kind of educating them on what’s happening. They don’t really get it. And so that’s really what we’ve been doing this week.

ADAM SHAPIRO: What about those clients who are 10 years from retirement? One of the things we’re hearing a lot about now are taxable muni bonds.

JASON BOTTENFIELD: Yeah, so really an opportunity in the taxable municipal bond space is a little bit of a play on, you know, if the new Biden administration is going to be putting money into infrastructure. I mean, that’s always on the table. And a lot of presidential administrations talk about it.

But as far as the taxable municipal bond space, we’re really using it as really a parking place. So if you’re 10 years from retirement or just looking at parking some of your equity gains that you had last year, we’re really putting a little bit of money there. You can make a little bit of yield, and they are taxable. So it’s not a play on the taxable equivalent yield like a regular municipal bond.

But you do get that credit quality. And if we do get some of those dollars going in, right now, the municipal market’s getting a lot of sentiment. A lot of people are pouring into it. And the prices are high. But in the taxable municipal bond space, there’s some value there and there’s some opportunity.

ADAM SHAPIRO: When you talk about munis though, I thought the attraction to munis years ago was that they weren’t taxable. So how should an investor approach that and look at them as part of their portfolio?

JASON BOTTENFIELD: Yeah, as far as the municipal bonds in their portfolio for the tax-free income, I mean, really higher net worth individuals with the Biden administration potentially pushing tax rates, not this year. We don’t think it’s going to go retroactive. But for 2020, rising taxes always provides an opportunity for municipal bonds to be a big part of a higher net worth investors portfolio just because of that tax-free income.

The problem is you've got to be a little bit of buyer beware here because the prices are pretty high. And they have been going up over the last few years. And especially now that there's a lot of focus on taxes going up, you start to see those prices go up.

But there are some value plays out there. But municipal bonds are a core place for people to park some cash just because of the fact that the risk-free nature– it's not really risk-free, but it's not as risky as equities, and it's not as risky as corporate bonds, because of the way that the nature of muni bonds are structured with municipalities.

SEANA SMITH: Jason, has your approach changed at all now with the Biden administration inside the White House?

JASON BOTTENFIELD: I don't think our approach has changed. I really look at all this. We've got to figure out where the puck's going. What's going to happen with taxes? What's going to happen with some of these regulatory mandates? But I think everybody's been kind of seeing that shift anyways, whether it's talking about where millennials are moving– where technology is moving.

But I think just in general, we've all seen a shift during the pandemic to where technology allows us to do, you know, Zoom meetings. And quite frankly in our business, it's really been an improvement to the way that we're able to operate with client. So trying to latch onto those and trying to figure out where potentially the new administration moves the puck, that's part of the call.

Is it infrastructure spending? Is it pushing more to environmentally friendly which might be looking at hydro cell technology and things of that nature. So yeah, we're trying to figure out where things are going, but I think that shift has already been made. And so we've been making some adjustments along the way.

But with the markets on a high right now, [INAUDIBLE] the new administration or an old one, we've started to look let's go into a little bit more market neutral funds and maybe park some of those gains that we had last year and just see how things play out for the next two months.

SEANA SMITH: Jason Bottenfield at Steward Partners Global Advisory. Thanks so much for joining us today.

Yahoo Finance

January 29, 2021

Fitch: New Lead and Copper Rule to Raise Costs for Water Utilities

Fitch Ratings-Austin/New York-19 January 2021: The Environmental Protection Agency's (EPA) new Lead and Copper Rule (LCR) is not expected to impact utility credit quality over the near-term, but it could have a material effect on certain water utilities' capex and credit profiles over the medium- to long-term, particularly for those utilities that serve communities with a large proportion of older homes and buildings that will likely require greater lead service line (LSL) remediation, Fitch Ratings says. The LCR is expected to raise near-term operational costs for all utilities and negatively affect capital budgets in the longer term as LSLs are identified and replaced.

Overall, the EPA expects annual costs to implement the LCR to be as much as $839 million, up to 80% more than the prior rule, with most of these costs borne by the water utilities. The increased costs of monitoring, outreach and LSL replacement may crowd out other operating costs and infrastructure projects and could lead to higher rate increases than currently anticipated by utilities, heightening concerns in the industry over service cost affordability.

Utilities will face increased operational costs under the LCR with requirements for identifying LSLs and increased water testing and outreach. If lead is detected in excess of the trigger threshold of 10 parts per billion (ppb), a utility will need to review water treatment, implement corrosion control measures and/or replace LSLs. Smaller utility systems serving fewer than 10,000 people are granted more flexibility with regard to these measures in their implementation of the LCR.

Under the new rule, utilities have three years in which to inventory LSLs, which will provide more visibility on which systems will bear greater costs for replacement. The EPA estimates that there are 6.3 million to 9.3 million homes across the country with LSLs and millions of other buildings with lead solder and/or faucets with lead. Older homes and other buildings in areas with relatively higher levels of poverty have been identified by the Government Accountability Office (GAO) in its December 2020 drinking water report as more likely to have lead pipes. Those systems serving older and poorer residences will face a greater capital burden of replacing LSLs but may also have the least flexibility to absorb increased capital costs.

After LSLs have been inventoried, the LCR requires an annual LSL replacement rate of 3% versus 7% under the old rule for communities exceeding the 15 ppb federal action level. While the required percentage replacement rate of LSLs is lower, the new LCR closes loopholes from the previous rule that led to much lower replacement rates. Further, the new rule requires full replacement of LSLs, including both the utility and privately-owned portion of the line, to count toward the replacement rate, whereas the prior rule included partial and other types of replacement in the calculation. As a result of the changes being implemented, the EPA expects annual investment in LSLs replacements to be as much as 70x higher under the new rule than the prior one.

The rule becomes effective 60 days following its publication in the Federal Register. President-Elect Joseph Biden’s administration will have the opportunity to decide whether it will allow the final rule to go into effect or if it will propose a new rule. States may pass more stringent lead water level regulations than those in the new LCR.

Contact:

Douglas Scott
Managing Director, Head of US Water and Sewer Ratings
+1 512 215 3725
Fitch Ratings, Inc.
111 Congress Ave., Suite 2010
Austin, TX 78701

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

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

Fitch: Pandemic Heightens ESG Labor Issues for NFP Hospitals

Fitch Ratings-New York/Austin-19 January 2021: Healthcare staff have faced unprecedented pressures during the coronavirus pandemic, with job dissatisfaction and nursing shortages potentially leading to longer-term staffing and expense pressures at US hospitals, Fitch Ratings says. Hospitals and healthcare systems' ability to maintain adequate staffing and provide for employee safety and well-being during the pandemic has become more critical than ever. Fitch believes the importance of these labor issues to a hospital's Environmental, Social and Governance (ESG) Relevance Score and credit has been heightened over the past year, indicating the potential for these considerations to have a greater bearing on a hospital's rating over time.

The coronavirus pandemic has implications for healthcare employee well-being, which may be affected by cost cutting, insufficient supply of personal protective equipment (PPE) at the onset of the health crisis, greater work stress and demands and environment safety. Employees in patient-facing roles are enduring difficult conditions, leading to burnout, labor strikes, demand for higher wages and loss of staff. Fitch believes these issues could negatively affect labor relations and present longer-term challenges in attracting, hiring and retaining staff at hospitals.

The pandemic has exacerbated the widespread need for nurses, particularly those working in intensive care units, resulting in staff shortages and higher costs, which is expected to continue in the near term against a backdrop of lower revenues due to reduced elective surgery volumes. Staffing is a hospital's largest expense, usually around 50% of total expenses. US hospitals have needed to ramp up staffing and supplies during the pandemic, and are competing for a limited supply of nurses, including more expensive contract nursing staff. These pressures are heightened for smaller rural hospitals that must staff up for increased caseloads, as rural areas typically do not have a significant supply of nurses from which to draw. Rural hospitals are challenged to compete for nursing staff and pay for overtime, traveling nurses and premium pay.

The longer it takes to effectively manage the pandemic, the more difficult it will become to maintain high staffing levels if there are recurring surges of infections, especially if the surges occur across multiple areas of the nation simultaneously. Under this scenario, fatigue will inevitably escalate among existing staff who could decide to retire early or leave the workforce due to fears of contracting the virus, or if they feel their health, well-being and safety have not been prioritized or are at risk.

The widespread availability of effective vaccines should accelerate the foreseeable end of the pandemic and mitigate staffing risk for hospitals, especially given that healthcare workers have been prioritized to be among the first recipients of vaccine doses. High inoculation rates will eventually reduce caseloads and ease pressures on staff. However, hospitals will have to face the longer-term challenge of attracting talent to an industry that already faces a labor shortfall and consider investing in programs that positively impact employees and reduce turnover to mitigate expense increases and improve clinical outcomes.

President-elect Joseph Biden's American Rescue Plan proposes to aid the healthcare industry's coronavirus response by providing $30 billion for supplies and PPE and investing $10 billion in domestic manufacturing of medical supplies. The plan also recommends a Covid-19 workplace protection standard that would cover a wide range of workers, including hospital staff, from unsafe working conditions and retaliation. Fitch views the healthcare priorities in the proposed plan as positive steps to help alleviate pandemic-related workplace environment challenges.

Contacts:

Richard Park
Director, US Public Finance
+1 212 908-0289
Fitch Ratings
2600 Via Fortuna, Suite 330
Austin, TX 78746

Sarah Repucci
Senior Director, Fitch Wire
+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.

Fitch: Some U.S. States Seeing Renewed Job Losses

Fitch Ratings-New York-20 January 2021: State employment improved marginally in November 2020, though Fitch Ratings' latest U.S. States Labor Markets Tracker shows renewed job losses for some states that curbed some of the ground gained over the summer.

'With economic activity slowing in the fall, several states have recovered less than 50% of the jobs lost at the peak of the pandemic,' said Senior Director Olu Sonola. Among those states are Minnesota, Oklahoma, Massachusetts, Delaware, New York, Wyoming, New Hampshire, Illinois, California, New Mexico, North Dakota and Hawaii. Additionally, Fitch Ratings-adjusted unemployment rates for Massachusetts and California are more than 5.0 percentage points (pp) higher than their respective official unemployment rates.

Employment losses are still largely dominated by the leisure and hospitality industries, representing 36% of all job losses at November 2020, despite making up only about 11% of total employment before the onset of the pandemic. These sectors continue to show significant signs of weakness, given government travel restrictions and consumer reluctance to travel. Fitch anticipates sector weakness is likely to persist for several years.

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

Contact:

Olu Sonola, CFA
Senior Director
+1 212 908 0583
Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Arthur Tildesley, CFA
Associate Director

+1 646 582 4749

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 Outlook For U.S. Water And Sewer Utilities: 2021 Provides 2020 Hindsight]

Sector View: Stable

The negative pressures from COVID-19 may take longer to present themselves, if they materialize at all. Many factors that steadied ratings in 2020 might be less of a factor in 2021, depending on both the recovery and additional federal actions; still, just enough positives exist to lend rating stability.

Continue reading.

S&P Outlook For U.S. Public Finance Housing: Sheltered From The Storm

Sector View: Stable

Our view on the sector has shifted to stable based on a demonstrated combination of organizations' credit fundamentals and direct support: the financial strength and resilience of housing issuers, near-term government support helping to stabilize at-risk households' finances and added funding for institutions. While we expect unemployment levels to remain elevated through 2021 and the evolution of the pandemic remains uncertain, we expect most housing entities will experience minimal credit pressures. Certain subsectors may even receive additional support from the new administration.

Continue reading.

21 Jan, 2021

S&P Credit FAQ: What The Latest COVID-19 Economic Relief Bill Means For U.S. Public K-12 Schools

Key Takeaways

- The COVID-19 Economic Relief Bill provides approximately 4x the amount of aid to schools that was provided in the CARES Act, providing some stabilization for local school districts' credit quality.
- We view the permissible uses of the additional aid to be flexible.
- Some of the benefit to schools could be offset by state aid cuts, given that state and local

governments have yet to receive any direct aid to offset revenue loss.

Continue reading.

21 Jan, 2021

Study Examines How Clean Air Act Affects Municipal Bond Market.

Research has studied the effects of climate risk on financial markets, but few studies have addressed the effect of environmental policy on those markets. A new study examined whether federal policy aimed at mitigating local air pollution–specifically, the Clean Air Act–affected the municipal bond market from 2005 to 2019. The study concludes that increases in regulatory stringency or uncertainty over future environmental policy increased the cost of municipal debt used to fund infrastructure and other projects. The findings have implications for policy, including the risk that environmental regulations could jeopardize local governments' ability to raise capital for critical infrastructure.

The study, by researchers at Carnegie Mellon University (CMU), appears as a National Bureau of Economic Research working paper.

"Our work provides the first empirical evidence that environmental policy affects municipal bond yields, and thus, the cost of raising funds for providing essential local public goods, such as hospitals, schools, and roads," explains Akshaya Jha, assistant professor of economics and public policy at CMU's Heinz College, who coauthored the study. Researchers selected the Clean Air Act to study, in part because it is one of the most significant federal interventions into markets in the postwar period. In 2010, annual pollution-control expenditures required to comply with the act were roughly $3 billion, with annual benefits of the act more than $200 billion.

A central part of the Clean Air Act is the National Ambient Air Quality Standards (NAAQS), through which the U.S. Environmental Protection Agency (EPA) sets maximum allowable concentrations of local air pollutants. Establishing the NAAQS is a two-pronged process. First, the EPA announces a proposed rule. Then, after a public comment period, the final NAAQS are announced.

Counties with pollution levels above the final NAAQS in any given year are deemed to be in nonattainment. While the EPA sets the standards, state and local governments are responsible for establishing plans to ensure compliance. Often, compliance mandates that polluting firms in local jurisdictions reduce emissions levels, which can be costly.

Researchers collected secondary market data on municipal bonds from the Electronic Municipal Market Access database. Municipal bonds are issued by local governments, and are typically used to finance projects like schools, roads, and infrastructure. These data comprise secondary market trades in the U.S. municipal bond market, including more than 140 million trades from 2005 to 2019. The study examined only municipal trades that could be linked to a county and focused on regulations targeting ground-level ozone, resulting in more than 81 million trades corresponding to roughly 3,000 counties.

The study concluded that:

Municipal bond yields increased in response to the announcement of the proposed rule but declined after the announcement of the final standard. This suggests that investors require higher returns to be compensated for the uncertainty induced by the announcement of the proposed rule; this uncertainty is resolved with the announcement of the final rule, lowering the returns necessary for investors to hold the bond.

Around annual compliance announcements, yields fell for counties that remained in compliance but increased for newly noncompliant counties. This suggests that investors perceived that municipalities facing nonattainment had a higher default risk.

Yields were substantially higher for bonds from counties just above the relevant ozone standard than for bonds from counties just below the standard. This suggests that increases in regulatory stringency or uncertainty over future environmental policy increased the cost of municipal debt raised.

A growing body of research has documented that climate risk has been priced into financial markets. “Our results for local air pollution regulations suggest that any cost-benefit analysis of new climate policy must consider the impacts on financial markets of both extreme weather events and the costs associated with complying with the new policy,” notes Stephen A. Karolyi, assistant professor of finance and accounting at CMU’s Tepper School of Business, who coauthored the study.

Because municipal bonds are used to finance local public goods, such as schools, infrastructure, and health care facilities, distortions to municipal bond yields might jeopardize local governments’ ability to raise capital, the authors suggest.

“Our findings should be part of a policy debate regarding the tradeoffs inherent in providing local public goods and federal-level environmental regulations,” suggests Nicholas Muller, associate professor of economics, engineering, and public policy at CMU’s Tepper School of Business, the study’s other coauthor.

CARNEGIE MELLON UNIVERSITY

22-JAN-2021

How Biden's Stimulus Plan Could Impact Municipal Bonds.

Nick Venditti, Wells Fargo Asset Management senior portfolio manager, discusses what the Biden administration’s $1.9 trillion stimulus plan means for the municipal bond market. He speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

Listen to Audio.

Bloomberg Markets

January 22nd, 2021

CUSIP Request Volume Surges in December, Driving Total 2020 Volumes for Corporate and Municipal Securities Above 2019 Totals.

Volatile 2020 Ends with Municipal Volumes Up 10% and Corporate Volumes Up 7%

NEW YORK, Jan. 19, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for December 2020. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly increase in request volume for new corporate and municipal identifiers. On a year-over-year basis, total CUSIP request volume for corporate and municipal securities surpassed those seen in 2019.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt totaled 4,177 in December, up 6.4% from last month. On a year-over-year basis, corporate CUSIP requests are up 6.9%. The December 2020 monthly volume increase was focused in U.S. corporate equity, which climbed 24.0% versus November 2020 totals.

Municipal volume also increased in December. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 12.6% versus November totals. On an annualized basis, municipal CUSIP identifier request volumes are up 10.1% through December. On a state-by-state basis, issuers in Texas requested 99 new municipal identifiers in December, followed by New York with 89 and California with 75.

"While it has clearly not been a straight path to this point, overall CUSIP request volume across nearly every major asset class ended 2020 considerably higher than last year," said Gerard Faulkner, Director of Operations for CGS. "Month-to-month results showed significant volatility throughout the year, but when the dust settled, we ended the year with a 10% increase in municipal request volume and a 7% increase in corporate request volumes, which is a real testament to the efficiency of our financial markets during a period of extreme uncertainty."

Requests for international equity and debt CUSIPs both rose in December. International equity CUSIP requests were up 3.4% versus November. International debt CUSIPs increased by 10.5% on a monthly basis. Syndicated loan requests were up 63.7% on a monthly basis and down 23.3% year over year.

To view the full CUSIP Issuance Trends report for December, click here.

Struggling Local Governments May Get Help From the Private Sector.

As their fiscal woes become worse, some government officials are looking more closely at public-private partnerships as a way to jump-start their economies.

For state and local governments, the pandemic has brought financial gloom: Tax collections are down, public health expenses are up, and their infrastructure backlog is growing. Hope for swift relief from Congress was dashed late last year when the Senate refused to go along with a House plan to bolster state treasuries.

For developers and real estate investors, it all spells opportunity.

The fiscal challenges could spur new ways for the private sector to collaborate with state and local governments, said Gabriel Silverstein, managing director of SVN Angelic, a real estate investment and advising firm in Austin, Texas.

Continue reading.

The New York Times

By Miranda S. Spivack

Jan. 19, 2021

[Treasury Nominee Voices Support for State and Local Relief Funding.]

Janet Yellen also said during a confirmation hearing that a cap on the federal deduction for state and local tax payments should be studied more before any changes are made to the policy.

The federal government will need to "act big" to address the financial fallout from the coronavirus pandemic and efforts should include funding for state and local governments, said Treasury Secretary nominee Janet Yellen during a Senate confirmation hearing Tuesday.

Acknowledging the country's growing debt burden, Yellen told the Senate Finance Committee that the benefits of funding a robust recovery plan "will far outweigh the costs." She also suggested that it would not be a good time to withhold funding from states and localities.

"Over the next few months, we are going to need more aid to distribute the vaccine; to reopen schools; to help states keep firefighters and teachers on the job," Yellen said during her opening remarks. "We'll need more funding to make sure unemployment insurance checks still go out; and to help families who are at risk of going hungry or losing the roof over their heads."

Continue reading.

Route Fifty

By Andrea Noble,
Staff Correspondent

JANUARY 19, 2021

Is Economic Rebound Certain for Local and State Governments in 2021?

The U.S. local and state economies contribute over 10% to the national GDP, and their economic recovery will certainly determine the fiscal path of our national economy

In spite of an ongoing pandemic and economic halt, local and state governments are optimistic about an economic rebound in 2021. Primarily, this optimism can be attributed to widespread vaccination efforts and, more importantly, a political shift that has awarded all three branches of government to a single party, which may be seen as an avenue to get various economic legislations passed with ease to bring the economy back on track. Furthermore, the recent talks of the new administration about additional federal stimulus involved prioritizing the fiscal health of local economies, economic recovery, and preventing further job losses.

In this article, we will take a closer look at the upcoming initiatives of the federal government and how they will likely impact local and state economies.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jan 21, 2021

Buttigieg Touts Benefits of Advance Refundings in Confirmation Hearing.

Yesterday, Transportation Secretary Nominee Pete Buttigieg touted the benefits of advance refundings Senate Committee on Commerce, Science, and Transportation confirmation hearing, a top priority for the BDA.

Senator Roger Wicker (R-MS), lead sponsor of Senate legislation last year that would reinstate municipal advance refundings, asked the former Mayor of South Bend, Indiana if he would be in support of such a measure.

Buttigieg responded by stating:

"In terms of stretching local dollars, one thing we found in past eras where interest rates were dropping is that the use of advance refunding techniques allowed state and local governments to refinance at lower interest rates, while still holding harmless the holders of the bonds. As mayor few things gave me more fiscal pleasure than to find that we could save taxpayer dollars by refunding previously existing debt especially since we do our accounting on a cash basis. This holds a lot of promise for relief to local governments."

The BDA continues to press Congress and the new Administration to reinstate municipal advance refundngs and incorporate bond provisions into any infrastructure package.

Last week, the BDA wrote to the Biden transition team, laying out priorities for the new Administration.

The letter can be viewed here.

The BDA will continue to provide updates as they become available.

Bond Dealers of America

January 22, 2021

The Best Tax-Free Municipal Bonds For 2021.

The yield on the 10-year Treasury is exhausted after its epic run to nearly 1.2%. It's due for a breather.

Anyone who buys the long bond today can still “lock in” a 1.1% yield. But remember, this bounty won’t escape the tax man. Any interest income we earn from Treasuries—no matter how sad—is subject to federal and state taxes.

So, if we’re multiplying your nest egg (let’s use $500K) by 1.1%, we must remember that the final answer is probably not $5,500 in annual income. Because if we’re raking in income from any other sources, we should lop off a chunk of this for taxes.

[Continue reading.]

Forbes

by Brett Owens

Jan 21, 2021

[Prospects Brighten for State and Local Aid from Washington.]

With Democrats in control of the Senate and the rest of Washington, further stimulus is a near-certainty. State and local aid, which has been held up by the GOP, will be part of the mix.

Washington is suddenly looking more generous. Last Tuesday’s elections in Georgia gave Democrats control of the Senate. That means, among other things, there’s new hope that Congress will provide additional aid to states and localities.

“There will be another bill,” says Patrick Murphy, vice president of public finance at Arnold Ventures, a philanthropic foundation. “I don’t question that now.”

What an aid package will look like, however, is anyone’s guess. Over the past year, congressional Republicans and Democrats have remained far apart on the issue. Back in May, House Democrats passed the Heroes Act, a COVID relief package that included $1 trillion for state and local governments. Senate Majority Leader Mitch McConnell balked, at one point suggesting that states having problems should declare bankruptcy.

But McConnell will no longer be running the Senate. That means the prospects for additional aid, which were starting to look like a dead issue, have suddenly brightened. Once Kamala Harris is sworn in as vice president, she will provide the tie-breaking vote in a chamber that will be split 50-50 after the Georgia results are certified (which will happen no later than Jan. 22).

“There are very basic things that states need to survive right now that are possible tonight that were not possible this morning,” Anne Caprara, chief of staff to Illinois Gov. J.B. Pritzker, tweeted in response to the Georgia Senate results. “These races really were that consequential.”

Struggling states, cities and counties shouldn’t count on an enormous windfall. The fact that the stock market has held up and the economy has recovered more rapidly than anticipated in the spring means that the revenue picture is now better than anticipated. “It’s not just that some states are doing better than they expected based on forecasts there were developed at the darkest point economically,” says Tracy Gordon, a senior fellow with the Urban-Brookings Tax Policy Center. “Some states are doing better than they were the previous year.”

That’s a minority of states, Gordon points out. And, even though revenues aren’t as bleak as they once appeared, expenses continue to mount, given demands on unemployment, health and other social service programs.

In December, state and local governments shed 52,000 jobs, bringing the total number they’ve lost since the pandemic to nearly 1.4 million – almost double the amount following the Great Recession.

“Even though revenues might look a little bit better, that doesn’t account for the unbudgeted expenditures that cities are making, such as buying personal protective equipment and paying for people to make sure restaurants are in compliance,” says Michael Wallace, a legislative director for the National League of Cities. “Funding for existing priorities got shifted into things like that.”

But a fiscal picture that is muddy rather than drastic has dampened congressional interest in making states and localities a priority. Economists generally agree that aid to lower levels of government is among the best ways to boost the economy during a recession, having a multiplier effect on economic activity, but members of Congress are always reluctant to raise revenues and then let someone else spend it. That’s a bipartisan reality.

Democrats will hold the Senate by the narrowest possible margin. It’s likely that they’ll have to give in to some Republican demands, assuming aid is passed as part of normal legislation that would need 60 votes to break a filibuster. “Yes, the Democrats have the Senate now, but it’s the slimmest of slim margins,” Murphy says, “and that means that compromises have to be made.”

Still, anything is better than nothing, which might have been the continuing story if Republicans had held onto the Senate.

“It’s been made pretty clear that Senate Democrats in particular are looking at ways to include state and local government aid in the next (relief) bill,” says Dan White, director of fiscal policy research with Moody’s Analytics, a financial research firm. “There are a lot of blue-state senators whose states are being badly hurt.”

Don’t Spend It All in One Place

Last month, McConnell made clear his opposition to handing governors a blank check. Particularly Democratic governors. “Democrats are acting like it’s more important to supply the governor of California with a special slush fund than to help restaurant workers in California keep their jobs,” he said last month during floor debate over the most recent stimulus bill.

McConnell is not alone in holding that kind of attitude. Xavier Becerra is Joe Biden’s pick for Health and Human Services secretary. The last time a Democratic administration took power, back in 2009, he was vice chair of the House Democratic Caucus. He warned Obama administration officials against direct aid to states. “A lot of us were saying, don’t give the governors slush funds,” Becerra said, according to Michael Grunwald’s book about the 2009 stimulus package, The New New Deal.

Becerra will no doubt be on board this time around. Biden wants to see additional aid to states and localities.

Perhaps as important, Joe Manchin supports the idea. Manchin is considered the most conservative Democratic senator, so his vote will be the chamber’s tipping point. Manchin, a former West Virginia governor, cosponsored multiple attempts to provide aid to states and localities last year, including initial provisions in the stimulus package enacted last month.

Although that package did not end up including direct aid, it did provide substantial money for state and local functions. Notably, it provides $82 billion for K-12 and higher education, as well as $20 billion for states to fund vaccine distribution.

That's $100 billion states won't have to spend on those programs. "Money's fungible," Murphy says. "That's money they can use for something else."

In addition, states and localities will benefit from additional dollars provided by the package in areas such as unemployment, small business loans, rental assistance and stimulus checks. They aren't receiving that money directly, but it will all lead to more spending and other activity that can be taxed.

How Much Do They Need?

The trillion-dollar figure in the Heroes Act didn't appear out of thin air. Last spring, there were various estimates that showed states, cities and counties were collectively looking at shortfalls of that magnitude over a three-year period.

The combination of earlier rounds of federal stimulus, the fast-recovering stock market and the fact that the pandemic's economic effects have fallen hardest on low-income workers has kept revenues from declining as steeply as initially expected.

"The economy is performing much better than people thought," Gordon says. "In July, the Congressional Budget Office forecast that personal income would be down 6 percent in the third quarter, but in the actual data it was down by about 2 points."

In December, Moody's Analytics estimated that state and local governments faced total shortfalls for fiscal 2020 through 2022 of about $170 billion, after accounting for their own reserves and the federal aid they'd already received. The money from the most recent stimulus package brings the amount needed to stave off spending cuts and tax increases below $100 billion, White says. "There's still need, but nowhere near a trillion," he says.

Not all Republicans oppose additional aid. State and local government groups stress the need to work with members of Congress from both parties. "We expect to work very closely with them on both sides, to make sure they're aware of the shortfalls cities face and what layoffs are going to mean for the broader economy," says the NLC's Wallace.

Sen. Bill Cassidy of Louisiana has probably been the leading GOP proponent of assisting states and localities. "If we do not provide stability for states, we risk wasting all the money spent to save small businesses," he wrote last May. "These small businesses need basic government services."

At the time, Cassidy was introducing a bill to provide $500 billion in state and local aid. He was part of the bipartisan group with Manchin that developed the framework for the most recent stimulus, which in their version would have provided $160 billion in aid.

The total figure may yet be revised downward. Many lawmakers, including Cassidy, will want to put guardrails on the money, to make sure that state and local governments don't use emergency aid to backfill chronic problem areas, such as pensions.

"The substance of state and local aid will be debated, but its prospects are going to depend on the menu of the various other things that are being negotiated," says Scott Pattison, deputy executive director of the Multistate Tax Commission. "With some Republicans supporting aid, they will have other demands that will be pushed."

When state and local governments were left out of the December package, it looked like they had missed the last train out of the station. Now, with Democrats controlling all of Washington, further stimulus is a near-certainty.

With a 50-50 Senate, there's no margin for error. Some money for states and localities will be part of the next package, but it will end up being a lot less than they'd hoped for last year.

"I don't think having a razor-thin Democratic majority in the Senate means we're barreling ahead and doing something like the Heroes Act," Gordon says. "Conditions have changed and a trillion dollars isn't called for now."

GOVERNING.COM

ALAN GREENBLATT, SENIOR STAFF WRITER | JANUARY 11, 2021

Biden Relief Plan Tosses $350 Billion Lifeline to States, Cities.

- **Sends $350 billion to states and cities to soften Covid hit**
- **Governments have cut nearly 1.4 million jobs amid pandemic**

President-elect Joe Biden's $1.9 trillion relief plan would provide a major financial rescue for states and cities, eliminating the need for deep budget cuts that would weigh on the recovery and easing the risk in the municipal-bond market.

The measure proposes $350 billion of emergency aid to states and local governments, enough to more than cover the immediate budget shortfalls caused by shutdowns to contain the virus. It would also extend $20 billion to public transit agencies like New York's Metropolitan Transportation Authority, the subway and bus operator whose revenues have been decimated as Americans work from home.

"The top-line number is more than enough for what states and cities would need," said Dan White, director of public sector research for Moody's Analytics.

The move to help local governments marks a sharp break from the Trump administration, which characterized such efforts as a bailout for Democratic strongholds even though the economic impacts are distributed broadly around the nation. With business shutdowns threatening to reduce tax collections, states and localities have already eliminated nearly 1.4 million jobs since the pandemic struck, far more than were cut in the years after the Great Recession.

The prospect of more aid once Biden takes office and Democrats control the Senate was welcome in the municipal-bond market, which was battered by a selloff early last year amid concern about how badly tax collections would be hurt. The extra yield that investors demand to own the bonds of some of the most financially strained borrowers — including Illinois, New Jersey and New York's MTA — has dropped, indicating that investors are pricing in less risk. In the week through Wednesday, a record amount of cash flowed into mutual funds focused on high-yield municipal bonds, according to according to Refinitiv Lipper US Fund Flows data.

The aid in Biden's plan is far less than the $1 trillion approved by House Democrats last year, and Goldman Sachs Group Inc. estimated it may be pared back to about $200 billion given that Senate rules may require it to receive some Republican support. Barclays Plc strategists also said that the

Biden plan may be difficult to pass in its current form.

“I don’t have high hopes that it’s actually included in any package that’s passed in the spring,” said White, the Moody’s analyst.

The previous federal stimulus measures have helped to prop up state and local tax revenue by jolting the economy, leaving governments facing smaller budget shortfalls than were projected early in the pandemic.

State tax revenues increased 5.6% in November compared to a year earlier, according to preliminary data from 46 states compiled by the Urban Institute.

That means even a pared back aid package may go far. Moody’s Analytics had estimated that aid of about $80 billion to $100 billion could cover the firm’s forecast for the shortfall facing states and local governments through mid-2022.

“Any direct relief for state and local governments is going to be a positive,” said Jeffrey Lipton, a managing director and municipal debt analyst for Oppenheimer & Co.

Bloomberg Politics

By Amanda Albright

January 15, 2021, 10:15 AM PST

— With assistance by Shruti Singh

American Cities See Their Luck Turn With a Biden Administration.

Local government aid in Joe Biden’s proposed stimulus bill is the latest bright spot for cities and states that were treated as adversaries during the Trump administration.

America’s states and cities are emerging from political exile.

President-elect Joe Biden’s proposed cabinet includes at least six officials who have led municipalities or states, like former South Bend Mayor Pete Buttigieg and Rhode Island Governor Gina Raimondo. That’s in sharp contrast to President Donald Trump, whose cabinet relied heavily on corporate and industry insiders.

On Thursday, state and local leaders got a glimpse of what an ally in the White House could mean. Biden outlined an economic stimulus package that would provide $350 billion in aid to municipal governments. Such help was a major roadblock in stimulus negotiations in 2020, with Trump repeatedly characterizing it as a bailout for Democratic states like Illinois.

The sea change comes after four years of political attacks by the Trump administration on what he has called “Democrat-run cities” that have had real-world impacts, from Covid-19 aid to more regional issues like stalled funding of the Gateway rail tunnel to link New York and New Jersey. Mayors have spent years sparring with the White House over its immigration policies, and after protests over police brutality and racism in 2020, his administration labeled cities like New York City “anarchist jurisdictions” and threatened to withhold federal funding.

"It's no secret that the outgoing administration did not view cities, for the most part, favorably," said South Bend Mayor James Mueller. He said he hopes Biden's cabinet picks like Buttigieg, who Biden nominated to lead the Department of Transportation, are a signal that cities "will be treated better" under the new administration.

Covid Relief

The most immediate issue that mayors and governors are pressing is budgetary relief to ease the economic fallout from the pandemic, which has crimped local tax revenue while increasing costs for services. In a Jan. 13 letter to Congress, the American Federation of State, County and Municipal Employees and other groups pushed for the passage of $1 trillion in emergency funding for states, cities, towns and schools.

Biden's plan would send $350 billion to state and local governments, more than double the $160 billion that a number of Republican members of Congress had backed late last year in a bipartisan compromise proposal.

Federal relief measures so far have supported municipal tax revenues indirectly by propping up consumer spending and small businesses, but local officials have warned that the outlook is uncertain as the pandemic continues to spread, signaling more shutdowns and economic pain to come. Tax collections also tend to lag economic conditions.

Kathy Maness, president of the National League of Cities, said she was encouraged by Biden's choice of leaders who come with an understanding of state and local issues. "They get it," said Maness, a town council member for Lexington, South Carolina. "They get what it's like to run a city."

Roads and Bridges

Mayors and governors also are looking for the Biden administration to push forward a comprehensive federal infrastructure package, something that Trump promised during his first presidential campaign but failed to deliver.

"If you listen to localities you're going to learn things," said Henry Cisneros, a former mayor of San Antonio, Texas, and former secretary of the Department of Housing and Urban Development. "And I think this administration has put people in place, like Pete Buttigieg, who understand that."

Buttigieg has already said he'll bring a "mayor's perspective" to the job and touted his focus on infrastructure as a tool to revive South Bend after the 2008 recession.

Raimondo, who Biden is nominating to lead the Commerce Department, is also seen as an infrastructure advocate. As governor of Rhode Island, she spearheaded an infrastructure plan financed by tolling commercial trucks. Boston Mayor Marty Walsh, Biden's nominee for Labor Secretary, is the focus of a new 4.5-hour Frederick Wiseman documentary that puts a spotlight on the efficacy of local government. The cabinet nominations also include U.S. Representative Marcia Fudge, former mayor of Warrensville Heights, Ohio, Tom Vilsack, former governor of Iowa, and Jennifer Granholm, former governor of Michigan.

Adie Tomer, who leads the Metropolitan Infrastructure Initiative at the Brookings Institution, said he expects that the Biden administration may foster an array of "pro-metropolitan" policies. That will also be a way for Biden to deliver benefits to his electoral base in big cities like Atlanta, he said.

It will help that Buttigieg and the other nominees with mayoral and gubernatorial experience may also have a strong network of local officials that they can draw on, Tomer said.

“There’s not going to be an adversarial relationship,” he said. “They’re going to be really excited to work with the Biden administration.”

Bloomberg CityLab

By Amanda Albright

January 15, 2021, 8:00 AM PST

[Biden Calls for $350 Billion in State and Local Aid as Part of Massive Stimulus.]

The president-elect released details on Thursday for a $1.9 trillion coronavirus relief package.

President-elect Joe Biden is urging Congress to provide state, local and territorial governments with $350 billion in emergency aid, along with billions of dollars in assistance for schools and transit, as part of a sweeping coronavirus relief package that he unveiled on Thursday.

The $1.9 trillion proposal also outlines plans for putting $20 billion towards a national vaccination program. Additionally, it would provide $1,400 one-time payments to many Americans whose earnings are below a certain amount, while also extending unemployment insurance programs adopted in response to the pandemic and boosting them with a $400 per-week supplemental payment.

“We need to move quickly, we need to move fast,” the president-elect said during a speech about his proposal on Thursday evening.

Biden also wants to see the federal minimum wage raised to $15 an hour from the current level of $7.25. Many cities and states have taken action in recent years to raise their minimum wages to that level.

On the education front, Biden is calling for $130 billion to help K-12 schools reopen safely and $35 billion for a higher education relief fund directed at public institutions, including community colleges. Biden has set a goal of reopening the majority of the nation’s kindergarten through 8th grade schools within his administration’s first 100 days.

The scale of what he is proposing is substantial compared to earlier relief packages. The law known as the CARES Act, approved in March, totaled about $2 trillion. A more recent deal that President Trump signed into law at the end of December was around $900 billion.

Some Republicans were quick to knock Biden’s proposals.

Rep. Kevin Brady, of Texas, the top Republican on the House Ways and Means Committee, called the plan an “economic blind buffalo that does nothing to save Main Street businesses, get people back to work, or strengthen our economy.”

Florida Sen. Marco Rubio said on Twitter that Biden “knows the plan he outlined tonight can’t pass ‘quickly'” and that pushing all of it together would delay the proposed $1,400 payments to individuals.

“Let’s get the extra money to people first,” added Rubio, who is among the Republicans who have backed $2,000 payments to individuals. The last round of relief legislation included payments topping out at $600.

A description of Biden’s new plan says the $350 billion in proposed emergency funding for states, localities and territories would help them keep public workers on the job, distribute the vaccine, scale up virus testing, reopen schools and maintain other services.

There’s also $20 billion in the plan for public transit agencies that have seen ridership and fare revenue plummet due to the virus outbreak.

Biden said during his remarks that he and Vice President-elect Kamala Harris have been speaking with county officials, mayors and governors of both parties on a regular basis. “We’re ready to work with them, help them get the relief they need,” he said.

The U.S. Conference of Mayors on Thursday night welcomed the president-elect’s proposal and said they were briefed on it earlier.

“Cities of all sizes must have direct, flexible assistance so that they can be a driver rather than a drag on America’s recovery,” the group’s president, Louisville, Kentucky Mayor Greg Fischer, said in a statement. “President-elect Biden has made clear he intends to solve this crisis, and mayors are grateful for his leadership,” he added.

Including the funding for the vaccination push, Biden is proposing about $160 billion of spending centered around a slate of public health efforts to battle the virus, such as expanded testing and a public health jobs program. His overall plan also calls for $30 billion in rental and utility assistance for households.

There’s a raft of other proposals as well, ranging from bolstered food assistance for struggling families, to support for child care programs, and billions in loan and grant offerings for small businesses.

Prior Stumbling Block

Disagreements between Democrats and Republicans about whether to provide state and local governments with additional direct aid was a major stumbling block in the negotiations that culminated in the coronavirus relief package Trump signed at the end of December.

Many Republicans have balked at the idea of doling out more federal cash to states and localities to help them deal with the costs and lost revenue brought on by the pandemic, arguing in some cases that it would amount to a “bailout” for states with poorly managed finances.

Democrats, on the other hand, have been supportive of providing the aid, which state and local government advocacy groups have pushed for and which some economists say will help with the nation’s financial recovery from the virus.

Biden’s term will begin as the political dynamics in Congress have changed. After two Democrats won runoff elections in Georgia this month, Democrats gained a slim advantage in the U.S. Senate. The chamber will be divided 50-50 between the two parties, but Democrats can count on a tiebreaker vote from Harris.

Democrats already controlled the House.

The most recent federal relief legislation included significant aid that will help state and local finances—for example, $54 billion for K-12 schools, $22 billion for higher education, around $14 billion for struggling transit systems, and funding for vaccine-related initiatives.

Other assistance to households and businesses included in the law is expected to boost state and local tax revenues.

But the December package did not include another big pot of money like the Coronavirus Relief Fund that was part of the CARES Act, the relief measure passed in March. That fund provided $139 billion for states and larger-sized local governments.

States and localities used the CARES Act money to help pay for a wide range of public health and economic relief programs. Officials say the aid helped them cover costs that otherwise would have been difficult to afford. At the same time, however, they have complained that the rules for how the money could be used were too rigid and that smaller communities didn't receive direct allotments.

In many cases, state and local tax revenues have exceeded the dismal projections that forecasters first issued after the coronavirus hit. But conditions vary between states, and those that rely heavily on revenues like sales taxes or whose economic fortunes are yoked tightly to tourism, gas and oil production, or parts of the service sector with high unemployment tend to be struggling more.

"States are continuing to face fiscal stress," Shelby Kerns, executive director of the National Association of State Budget Officers, said Thursday during an event held by the Volcker Alliance.

Meanwhile, there's still a great deal of uncertainty about how bad the financial fallout from the virus will be at the local government level.

ROUTE FIFTY

by BILL LUCIA

JANUARY 14, 2021

BDA Calls on Biden Administration to Support and Embolden Municipal Bonds.

Today, the BDA submitted a letter to President-Elect Joe Biden outlining the importance of the tax-exemption and discussed municipal market priorities that his administration should consider as they begin work on an infrastructure and public works plan.

The letter can be viewed here.

Beyond calling on the administration to embrace and embolden tax-exempt municipal financing, the BDA reiterated the need for the administration to support common-sense legislation that will:

- Restore the ability of state and local governments to save taxpayer dollars and generate additional funds for infrastructure and other key initiatives by restoring tax-exempt Advanced Refundings (ARs);
- Expand the use of tax-exempt Private Activity Bonds (PABs);

- Raise the Bank Qualified Debt limit from $10 million to $30 million and tie to inflation;
- Create a direct pay bond similar to the former Build America Bond (BAB) program exempt from sequestration;
- Expand the utilization of green bonds for state and local governments to invest in resilient infrastructure.

The BDA continues to advocate for these municipal market priorities on the Hill and will provide updates as they come available.

Bond Dealers of America

January 13, 2021

Higher-Yielding U.S. Muni Bonds Cheer Biden's State, City Budget Relief.

CHICAGO, Jan 15 (Reuters) – A big burst of federal aid for U.S. states and local governments in Democratic President-elect Joe Biden’s massive fiscal stimulus plan helped higher-yielding debt from lower-rated issuers in the U.S. municipal bond market on Friday.

While Municipal Market Data’s (MMD) benchmark triple-A yield scale was unchanged in the wake of the Thursday evening unveiling of Biden’s $1.9 trillion proposal, the prospect for $350 billion in new federal funding enhanced the attractiveness of debt from financially troubled issuers, according to Greg Saulnier, MMD managing analyst.

“(A stimulus plan from Biden has) pretty much been priced in. The only place you’re really seeing it is the lower credits that are tightening,” he said, pointing to issuers like Illinois and New Jersey, which are the two lowest-rated U.S. states due to their fiscal woes.

On Friday, New Jersey’s yield penalty for its 10-year bonds eased by 5 basis points to 62 basis points over MMD’s 0.790% yield for top-rated bonds, while Illinois’ penalty has contracted considerably in recent weeks to 120 basis points.

Investors have flocked to high-yield muni bond funds, which reported record-high net inflows topping $1 billion in the week ended Jan. 13.

Groups representing states, cities and counties have been clamoring for more federal aid as the economic fallout from the ongoing coronavirus pandemic led to revenue shortfalls.

“The $350 billion is definitely a breath of fresh air,” said Emily Swenson Brock, director of the Government Finance Officers Association’s Federal Liaison Center. Unlike the $150 billion states and local governments received under last year’s CARES Act, which was restricted to coronavirus-related expenses, she said legislation for Biden’s proposal is expected to permit the governments to use federal dollars to replace revenue lost due to the pandemic.

Moody’s Analytics recently reduced its projected fiscal 2020 to fiscal 2022 gross shortfall for states and local governments to $330 billion from $450 billion due to an improved economic outlook.

With New York State’s new fiscal year beginning on April 1, Governor Andrew Cuomo on Friday called on Washington to pass Biden’s plan and fill the state’s $15 billion budget gap.

"The $15 billion in the scope of things is a modest amount. New York paid a higher price for COVID than any other state," he said.

Even with Democrats' new, but narrow control of the U.S. Senate, it was unclear if direct aid, which was rejected by Republicans in Congress last year, will pass, according to Tom Kozlik, head of municipal strategy and credit at HilltopSecurities Inc.

"It should be reinforced that state and local aid received significant pushback from lawmakers in 2020 and is likely to receive pushback in 2021 as well," he said.

By Karen Pierog

January 15, 2021

(Reporting by Karen Pierog in Chicago Editing by Alden Bentley and Matthew Lewis)

S&P: Updated Activity Estimates For U.S. Transportation Infrastructure Show Public Transit And Airport Operators Still Face A Long Recovery

Key Takeaways

- U.S. public transit and airport sectors face the longest recovery relative to other U.S. transportation subsectors, with our current baseline activity estimates for 2021 compared with pre-COVID-19 levels showing annualized declines of approximately 50% for public transit, and 40% for airports; and public transit ridership recovering to approximately 15% below pre-COVID-19 levels by the end of 2023 and enplanements returning to or near pre-pandemic levels in 2024 for most airports.
- We believe there is still a relatively high degree of uncertainty regarding the demand for transportation infrastructure over the next six to 12 months, which will depend on the conquering of COVID-19 and the economic effects of the pandemic.
- Outlooks on individual debt ratings on public transit and airport-related issuers sensitive to changes in ridership and air travel demand, respectively, are likely to remain negative, although we could revise outlooks if we believe there is a sustained and sufficient recovery and stabilization in activity levels, and forward-looking financial metrics we consider achievable and aligned with current ratings.
- In 2021, we could revise the outlook to stable from negative on debt ratings on transportation infrastructure providers whose finances are less sensitive to changes in user behavior compared with pre-COVID-19 levels.

Continue reading.

13 Jan, 2021

S&P Outlook For U.S. Not-For-Profit Transportation Infrastructure: Light At Tunnel's End – But How Long Is The Tunnel?

Sector View: Mostly Negative

S&P Global Ratings' 2021 view of business conditions and credit quality across U.S. public transportation infrastructure is negative for the airport, mass transit, parking, and toll road sectors and stable for the ports and federal grant-secured sectors.

Continue reading.

13 Jan, 2021

S&P Outlook For U.S. Public Power And Electric Cooperative Utilities: Ratings Should Remain Resilient

Sector View: Stable

We expect most of the sector's ratings to remain stable in 2021. Nearly all the sector's utilities are displaying resilience in the face of the pandemic's disruptions. We expect low prices for natural gas, and cost cutting measures, will continue to temper the financial pressures on the economy and electric sales. Nevertheless, we recognize that financial performance and credit ratings could be pressured, particularly at utilities that rely on electric revenues from customers hardest hit by the pandemic, such as businesses engaged, and residential ratepayers employed, in the hospitality and travel industries, or utilities required to make transfer payments to offset declines in municipal tax revenues.

Continue reading.

14 Jan, 2021

Fitch: Downgrades Exceed Upgrades, U.S. Public Finance 2020 Annual Ratings Update Finds

Fitch Ratings-New York-11 January 2021: Annual U.S. public finance downgrades exceeded upgrades for the first time since 2013, according to Fitch Ratings in a new report.

In 2020, Fitch upgraded 100 U.S. public finance ratings and downgraded 181 ratings, compared to 173 upgrades and 105 downgrades in 2019. There were 93 Positive Rating Outlooks/Watches and 441 Negative Rating Outlooks/Watches as of year end (2.8% and 13.3% of the portfolio respectively, compared to 3.3% and 3.8% at YE 2019).

Coronavirus-related credit impacts resulted in 69 downgrades and 305 Negative Outlook/Watch changes in 2020. Among the most impacted sectors were local governments (26 downgrades, 130 Negative Outlook/Watch), not-for-profit hospitals (13 downgrades, 19 Negative Outlook/Watches), higher education and non-profits (14 downgrades, 17 Negative Outlook/Watches), and transportation (7 downgrades, 118 Negative Outlook/Watches). Coronavirus-related pressures will persist in 2021; however, most issuers will be able to maintain their credit quality.

Fitch released its 2021 sector outlooks in December 2020. Six out of eight sectors have 'Stable' sector outlooks for 2021, indicating our expectation that credit pressures will be similar to those experienced in 2020. Fitch's sector outlooks for higher education and transportation are 'worsening' and ‘improving’, respectively.

‘U.S. Public Finance Rating Actions Report and Sector Updates: 2020 Annual’ is available at ‘www.fitchratings.com’.

Contact:

Arlene Bohner
Managing Director, Head of U.S. Public Finance Ratings
+1 212-908-0554
Fitch Ratings, Inc.
300 West 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

Fitch Ratings Updates U.S. Housing Finance Agencies General Obligation (GO) Rating Criteria.

Fitch Ratings-New York/Bogota-13 January 2021: Fitch Ratings has published an updated criteria report titled ‘U.S. Housing Finance Agencies General Obligation Rating Criteria.’ The report replaces the existing criteria dated Feb. 6, 2020.

Updates to the criteria include the incorporation of a Key Rating Factors table that outlines the attribute assessments for each of the Key Rating Drivers. The Key Rating Driver headings were updated in line with the master revenue criteria, ‘Public Sector, Revenue-Supported Entities Rating Criteria.’ Additionally, the debt-to-equity ranges in the Financial Profile assessment were updated to reflect Housing Finance Agencies’ (HFAs’) average historic performance for this ratio, which distinguishes HFAs’ leverage position.

The updated criteria report also describes the assignment of Issuer Default Ratings (IDRs). Assigning IDRs aligns default risk ratings in this sector to those assigned by other groups across Fitch’s global rating platform. With the publication of the criteria, Fitch will assign an IDR to each Fitch-rated HFA with a general obligation (GO) rating. The IDR then informs issue-specific ratings for Fitch-rated securities backed by the HFA’s GO. In general, all of an issuer’s individual GO securities will be assigned the same rating as the IDR. For more information on IDRs, see Fitch’s master criteria ‘Public Sector, Revenue-Supported Entities Rating Criteria.’

No changes to the ratings of existing transactions are anticipated as a result of the application of the criteria.

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

Contact:

Mikiyon Alexander
Senior Director

+1-646-582-4796
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Kasia Reed
Director
+1-646-582-4864

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 Ratings Assigns ESG Relevance Scores for USPF Housing Credits.

Fitch Ratings-New York-13 January 2021: Fitch Ratings has assigned Environmental, Social and Governance Relevance Scores (ESG.RS) to its U.S. Public Finance housing credits. ESG.RS are observations of the extent to which Environmental, Social and Governance (ESG) risks affect credit profiles. They relate to individual rating decisions and may change when ratings are reviewed.

The scores articulate the relevance and materiality of an E, S or G factor along with positive or negative impact indicators. Currently, 42% of housing credits have a positive ESG impact indicator related to affordable housing loan programs.

Except for matters that address loan programs and Military Housing Projects (MHPs), the highest level of ESG credit relevance, if present, is generally a score of '3' indicating ESG issues are credit neutral or have only a minimal credit impact on the entity. This is either due to their nature or the way in which they are being managed. Elevated scores of '4' and '5' reflect increased relevance, with a score of '5' indicating a single identified issue that is highly relevant to the rating: a key rating driver.

For elevated scores assigned to loan programs, an ESG.RS of '4'[+] reflects the positive exposure of social impacts on the rating. Specifically, the score reflects customer welfare as it relates to fair messaging and privacy & data security given the focus on fair housing practices by state housing finance agencies (HFAs). Fair housing practices include compliance risks involving fair lending practices, mis-selling, repossession/foreclosure and consumer data protection. Since strong fair housing practices and customer protection contribute to reduced expected losses, this has a positive impact on the rating and is relevant in conjunction with other factors.

In certain cases, an elevated ESG.RS of '4'[+] was assigned to reflect the social impact of human rights, community relations, access & affordability for programs with the majority of assets secured by Government Sponsored Entity (GSE) guarantees. The GSE guarantees address access and affordability while driving strong performance. This has a positive impact on the credit and is relevant to the rating in conjunction with other factors. Social impacts are the only occurrences of elevated scores for loan programs.

MHPs with elevated scores of '4' or '5' incorporate exposure to all three ESG impacts. Elevated scores for environmental risks were driven by waste & hazardous materials management along with ecological impacts. Assignment of an ESG.RS of '5' was based on the project's level of risk exposure to these issues, which were considered key rating drivers.

Exposure to social impacts for MHPs that resulted in an ESG.RS of '4' incorporated customer welfare in the context of fair messaging, privacy & data security. The analysis of social impact for loan programs centers on fair housing practices, whereas for MHPs it addresses quality and safety of products and services, along with data security.

Governance risk for MHPs that resulted in an ESG.RS of '4' incorporated management strategy for moisture remediation issues and oversight challenges related to controlling project expenses. This has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

While it is uncommon for an ESG factor to be a main driver of credit risk or a rating action, ESG issues can often weigh on rating decisions for MHPs. We will continue to assess these factors as part of the overall credit analysis when we consider them to have an impact on the rating within the rating horizon.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Contact:

Mikiyon Alexander
Senior Director
+1 646 582 4796
Fitch Ratings, Inc.
300 W. 57th Street,
New York, NY 10019

Kasia Reed
Director
+1-646-582-4864

Teresa Galicia
Associate Director
+1-312-368-2083

Jeurys Grullon
Associate Director
+1 646 582 3605

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

Additional information is available on www.fitchratings.com

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22 Nonprofit Hospitals Hit With Credit Downgrades Last Year, Fitch Says.

Credit downgrades outpaced upgrades for U.S. public finance in 2020, and nonprofit hospitals were among the most affected sectors, according to a new report from Fitch Ratings.

In 2020, Fitch downgraded 22 nonprofit hospitals and upgraded five.

Fitch said coronavirus-related financial pressure accounted for 13 of the downgrades as well as two rating outlook revisions to negative and 17 negative credit watches.

Other top hit sectors include local governments, higher education and nonprofit companies.

Becker's Hospital Review.

Alia Paavola – Tuesday, January 12th, 2021

S&P Outlook For U.S. Not-For-Profit Acute Health Care: Navigating The Bumps While Getting Back On Track

Sector View: Negative

We believe many providers may still experience pandemic-related volume and operating challenges that could yield cash flow and margin compression throughout 2021. These challenges are compounded by industry headwinds which had been growing for several years. These factors, on balance, could continue to stress credit quality as the industry continues to evolve, and strategic investments and capital remain necessary to maintain longer-term enterprise and competitive strength. Effective leadership and balance sheet strength could provide a foundation for a return to stability post-COVID-19.

Continue reading.

Municipal Bond Market Starts the Year Strongly.

The municipal bond market is starting 2021 on a strong note amid robust demand, light supply of new issues, and expectations of fiscal relief for state and local governments as well as potentially higher income taxes with full Democratic control in Washington.

A key indicator of tax-exempt bond demand, the yield ratio of 10-year triple-A munis relative to the 10-year Treasury note, stands at 66% and is at its lowest level in 20 years. The ratio began the year at around 75% after peaking at over 200% during the market turmoil last March. It has averaged close to 100% over the past 20 years.

The current ratio means that even investors in the top 37% federal tax bracket are getting little benefit to owning munis relative to Treasuries.

Continue reading.

Barron's

By Andrew Bary

Jan. 11, 2021 9:00 am ET

MacKay Municipal Managers Announces Top Five Municipal Market Insights For 2021.

PRINCETON, N.J., Jan. 12, 2021 /PRNewswire/ — MacKay Municipal Managers™, the municipal bond team of fixed income and equity investment management firm MacKay Shields LLC, today published its top five insights for the municipal bond market in 2021.

John Loffredo and Robert DiMella, co-heads of MacKay Shields Municipal Managers, commented on the firm's outlook: "2020 brought unprecedented market turbulence and uncertainty to the municipal market, and although we anticipate 2021 will continue to present notable challenges, the resilience historically driven by the essential nature of the municipal market offers some optimism for the year ahead. We believe that through disciplined credit analysis, a relative value focus and the ability to actively adjust as market conditions shift, investors can achieve success with municipal bonds in their portfolios."

MacKay Municipal Managers – Top Five Municipal Market Insights for 2021

Policy: The Biden Administration makes an impact. The Biden Administration's policies are expected to positively impact the municipal market in multiple ways. Anticipated initiatives include infrastructure spending, increasing employment opportunities and addressing climate change. These objectives likely coalesce in a higher volume of infrastructure-related municipal issuance that will become more recognized by impact-oriented investors for its strong ESG aspects. We expect a broad array of municipal projects will be climate friendly, supportive of increased employment development and will carry the dual oversight of both federal and state governments. In addition, investor anticipation of the Biden Administration pushing taxes higher (more likely a 2022 event) increases the value of tax exemption and municipal demand.

Stamina: key sectors withstand the COVID shutdown. We expect to see excess return opportunities in the COVID-impacted healthcare, transportation and travel-related municipal sectors. COVID-induced wider credit spreads on select issuers should continue into 2021, and the risk for investors to avoid are those securities with perceived credit weakness. However, a subset of those issuers have access to a broad array of policy and financial tools that should aid them in surviving the current crisis. We believe strategies employing an active, relative value approach focused on understanding credit fundamentals, liquidity and the political landscape can better identify those bonds that represent value. However, because politics play a role and outcomes are likely uneven, investing agility is also essential.

Resurrection: Puerto Rico rises while high risk deal bond prices decline. We believe that the long-awaited final chapters in the restructuring of Puerto Rico debt will provide investors an attractive relative value opportunity in the Territory's credits. Ultimately, a combined $11 billion of Puerto Rico related debt could restructure out of default in 2021 and resume paying interest. We anticipate demand for these bonds will be strong. The opportunity in Puerto Rico credits stands out relative to much riskier, primarily single site, project finance municipal credits that are prevalent in some high yield portfolios. We anticipate those highly leveraged and illiquid bond financings could face significant spread widening as project revenues fall short of original projections and investors, facing potential restructurings, attempt to sell their positions.

Oasis: taxable municipal bonds in a global fixed income world. We believe taxable bond investors, in recognition that corporate bond yields do not adequately compensate them for their relative risk, add to their taxable municipal holdings. When compared to corporate bonds, we believe taxable municipal bonds’ stronger credit quality, higher yields, and risk benefits offer better value for investors with tax-free accounts. In 2020, corporate bonds yields fell to record lows while their interest rate risk, as measured by the duration of the ICE BofA US Corporate Index, had the largest single-year extension in over 30 years. In contrast, taxable municipal risk-adjusted yields are the cheapest they have been in more than a decade when compared to investment grade corporate bonds. 1 Tax-exempt investors will likely benefit as strong demand for taxable municipal bonds spurs issuance and reduces tax-exempt supply.

Essentiality: municipal bonds outlast the headlines. We believe that tax-exempt bonds from municipal issuers providing essential services will outperform other fixed income asset classes due to their favorable, intrinsic credit characteristics. While we understand municipal bond investor uncertainty is due to weak economic conditions, low yields and negative news coverage on the sector, investors should focus on what we believe is the inherent stability of municipal revenue streams sourced from municipal services that are essential to our everyday lives. They should find confidence in select local government bonds supported by property taxes that continue to be paid, income taxes collected and sales taxes withheld. Those revenue streams support many forms of state-level debt. Although we expect the economy to recover, thoughtful, research-driven credit selection is also essential to differentiate among issuers.

To view the full outlook, please click here.

Jan 12, 2021

About MacKay Shields LLC

MacKay Shields LLC (together with its subsidiaries, “MacKay”) *, a New York Life Investments Company, is a global asset management firm with $144 billion in assets under management as of September 30, 2020. MacKay manages fixed income and equity strategies for high-net worth individuals and institutional clients, through separately managed accounts and collective investment vehicles including private funds, CLOs, UCITS, ETFs, closed end funds and mutual funds. MacKay maintains offices in New York City, Princeton, Los Angeles, London and Dublin. For more information visit www.mackayshields.com.

*MacKay Shields is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company.

For additional information, please contact:

Allison Scott
New York Life Insurance Company
(212) 576-4517
allison_scott@nylim.com

1 As of 12/2020 – Comparing yield to worst divided by modified duration to worst for the ICE BofA Broad US Taxable Municipal Securities Index and the ICE BofA US Corporate Index over the last 10 years.

SOURCE MacKay Shields LLC

Related Links
https://www.mackayshields.com

[Covid-19 Pandemic Drives Municipal Borrowing to 10-Year High.]

Low interest rates, tight government budgets provide backdrop for muni bond boom

Municipal-bond issuance in 2020 was the highest in a decade, reflecting the collapse of interest rates and the increased costs cities and state governments are facing from Covid-19 shutdowns.

Bonds for new projects reached $252 billion last year, according to Refinitiv, a small increase from the previous year and the highest since 2010, when a federal incentive program helped push the total above $270 billion. The new borrowing drove the total amount of outstanding muni debt above $3.9 trillion for the first time since 2013, according to the Federal Reserve data from the third quarter.

The muni-issuance boom is unlikely to abate as cash-strapped local governments struggle to make up for ongoing Covid-19-related shortfalls and pay back old debts. Before the pandemic, many city and state governments had already been operating on tight budgets.

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan. 12, 2021 5:30 am ET

‘Extraordinarily Expensive’: Muni-Bond Valuations at Record High

- **Ratio of munis to U.S. Treasuries at lowest level on record**
- **Tax-exempt debt sales may continue to fall: CreditSights**

The muni-bond market has never looked more expensive.

A key measure of relative value in the $3.9 trillion market for state and local government debt, the ratio of top-rated 10-year muni yields to U.S. Treasury securities, is holding at 67%. That’s the lowest level since at least 2001 and in stark contrast to March, when the ratio stood at 215%, according to the Bloomberg BVAL index.

U.S. Treasury yields have risen recently as the market anticipates the beginning of a recovery and additional government spending and potentially higher taxes after Democrats took control of the White House and Congress during the 2020 election cycle.

However, municipal bond yields have not followed that trend, an indication of strong demand as investors look to snap up tax-exempt issuance as a buffer for potential tax increases.

“Muni outperformance has left the market extraordinarily expensive,” analysts from Ramirez & Co. wrote in a note on Monday. “We expect this low value muni paradigm to persist until new issue supply increases meaningfully.”

Tax-free debt has been in high demand partly due to low interest rates spurring state and local governments to sell taxable bonds for refinancings instead. That's because of 2017 law change preventing governments from issuing tax-exempt bonds to refinance some debt that can't be called.

Taxable issuance could drive new municipal debt sales to more than $500 billion in 2021, according to some analysts. But that's unlikely to sate the desire for tax-free debt, which could mean the high prices persist, said Patrick Luby, an analyst at CreditSights.

"It's reasonable to expect there could be some challenges finding suitable paper as we go further into the year, if you're looking for tax-exempt munis," said Luby. "The biggest deals on the calendar right now are taxable and we're seeing taxable deals in the pipeline that are going to refund tax-exempt bonds. That's going to further constrain the float in the market for tax-exempt munis."

Bloomberg Markets

By Fola Akinnibi

January 12, 2021, 10:45 AM PST

— With assistance by Amanda Albright

How To Navigate The Rocky Municipal Bond Market.

The coronavirus shock impacted all asset classes, including the generally calm world of municipal bonds.

Broad-based municipal bond exchange-traded funds such as the SPDR Nuveen Bloomberg Barclays Municipal Bond ETF (TFI) experienced plunging bond prices while yields on the highest quality issues surged to more than three times U.S. Treasuries with similar maturities.

The onset of the pandemic did something else, too: It spurred more issuer borrowing.

State and local governments scrambled to raise more capital by issuing municipal bonds to the tune of a 31.3% year-over-year increase as of last year's third quarter, according to the Securities Industry and Financial Markets Association. Meanwhile, the pandemic added a litany of unexpected costs.

With just over $20 billion, the iShares National Muni Bond ETF (MUB) is the largest municipal bond ETF by assets. The Vanguard Tax-Exempt Bond ETF (VTEB) and SPDR Nuveen Bloomberg Barclays Short Term Municipal Bond ETF (SHM), with $10.6 billion and $4.4 billion respectively, are next in line.

MUB carries an SEC yield of just 0.86%, and roughly 41% of the portfolio is in California and New York muni bonds. The fund has gained 4.3% during the past year.

Bonds backed by airports, public transit systems, stadiums and universities have been among the hardest hit municipal bond categories. Also, jurisdictions that rely heavily on tourist spending have been slammed compared to areas relying on residential property taxes.

For yield seekers, the VanEck Vectors High Yield Muni ETF (HYD) offers a higher yield for financial advisors with clients who are willing to take higher credit risk. HYD carries an SEC yield of 3.09%, and 74.6% of the portfolio contains bonds that carry a non-investment grade rating or aren't rated at all. The portfolio’s remaining portion holds investment grade debt with a BBB rating or better.

It’s worth noting municipal bonds are not included in widely held broad-market bond funds like the iShares Core U.S. Aggregate Bond ETF (AGG) or Vanguard Total Bond Market ETF (BND). Investors seeking broader fixed-income diversification beyond corporate and U.S. government debt can add a broadly diversified muni bond ETF to complete their fixed-income exposure.

From an asset allocation perspective, municipal bonds are best held in taxable accounts like an individual or joint brokerage account that can reap the benefits of tax-free income.

For clients who are already in or approaching retirement, be sure they understand the tax ramifications of municipal bond income on their Social Security taxes. While muni bond income is free from federal tax and state taxes under certain conditions, it’s still counted as provisional income by the IRS.

Provisional income is the amount of income generated that the IRS keeps track of to determine how much a person’s Social Security gets taxed. Things that count as provisional income include any 1099 or interest from investments held in taxable accounts, one-half of Social Security income, rental income, pension income, employment income and required minimum distributions.

These numbers can add up pretty fast. And if they surpass $34,000 for single filers or $44,000 for married couples, up to 85% of Social Security income gets taxed.

The municipal bond market can be perilous, particularly for those who invest in it via single bond issuers in troubled jurisdictions or sectors. For example, states with mounting liabilities may be forced to choose between paying bondholders or pension retirees. This is all the more reason to encourage clients who want to invest in muni bonds to do so in a diversified and mindful way.

FINANCIAL ADVISOR

JANUARY 14, 2021 • RON DELEGGE

[2021 Municipal Outlook: Reasons For Optimism]

Summary

- Despite 2020’s many challenges, the Bloomberg Barclays Municipal Bond Index was up 5.2%, with returns that were even more compelling for the second half of the year, across the credit spectrum.
- During the year, we expect net supply to turn negative as more bonds mature or more bonds than were issued are called away.
- Contrary to dire headlines, muni bond issuers still have the wherewithal to handle the lingering fiscal challenges of COVID-19.
- In this environment, we expect municipal credit-particularly debt rated A and BBB-to outperform higher-rated bonds.

[Continue reading.]

Seeking Alpha

Jan. 13, 2021

U.S. Muni Market Ignores Stimulus-Provoked Rise In Treasury Yields.

CHICAGO, Jan 13 (Reuters) – Expectations that more fiscal stimulus is coming under a Democratic-controlled White House and U.S. Congress are further eroding the historically close correlation between U.S. Treasury yields and those on municipal bonds.

Longer-term yields in the $20 trillion market for U.S. government debt have soared to levels last seen in March, while yields have barely budged in the $3.9 trillion market where states, cities, schools and other issuers sell bonds.

Treasury yields jumped on prospects that new stimulus will boost growth in the coronavirus-battered economy and also increase Treasury supply after Georgia runoff elections for two U.S. Senate seats last week gave Democrats narrow control of Congress.

For munis, a supply and demand imbalance along with President-elect Joe Biden's willingness to send billions of federal dollars to states and local governments dealing with pandemic-related revenue losses have kept yields in check.

Andrew Richman, senior fixed income strategist at Sterling Capital Management, said stimulus prospects have lifted prices and lowered yields for debt from financially troubled issuers like Illinois, while the muni market has grown more attractive for investors on the assumption that taxes will go up to pay for increased federal spending.

"That makes the desire for munis even greater," he said. "Even though valuations are not great, it's the one place to get tax-free income."

Muni yields are typically lower than those of comparable Treasuries because interest income earned on munis is exempt from federal and sometimes state taxation.

Municipal Market Data's (MMD) ratio of top-rated 10-year tax-exempt muni bond yields to comparable taxable Treasury yields this week neared an all-time low of 65.25% reached in 1984. It was last at 72.6%, indicating that munis are much more expensive relative to the federal government's debt.

"That's how out of whack we are right now relative value-wise," said Greg Saulnier, MMD's managing analyst.

The ratio went to the other extreme last March as the coronavirus pandemic began to upend economies, rising to as high as 369.54% when a selling frenzy hoisted muni yields dramatically until the U.S. Federal Reserve stepped in with emergency measures to backstop financial markets.

The 10-year yield on MMD's benchmark triple-A scale, which began 2021 at 0.720%, ended Wednesday at 0.790%. By contrast, the 10-year Treasury yield jumped from 0.9170% on Jan. 4 to as high as 1.187% on Tuesday before retreating a bit on Wednesday.

Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research, said a supply/demand imbalance has put a cap on muni yields.

"There's been little amount of supply coming into the market lately and there's continued inflows into bond mutual funds and (exchange-traded funds)," he said.

He added that muni yields could rise once supply increases.

After issuance hit a record $451.2 billion last year, supply has been slim so far in 2021 at the same time investors have money from January coupon and principal payments to plow back in to the market.

Saulnier said "everyone's expecting free-flowing stimulus from the Democrats," noting that states like New York and Illinois could get "a huge amount of help."

Citing a $15 billion budget gap, New York Governor Andrew Cuomo on Monday said the federal government "must deliver fairness for New York and they must do it quickly because our budget is due April 1."

In recent weeks, investors snapped up high-yielding Illinois general obligation bonds, narrowing the punishing spread for the state's 10-year bonds over MMD's scale from as wide as 314 basis points in November to 120 basis points on Wednesday.

With no new funding from Washington to address a budget gap, Illinois, the lowest-rated state at a notch above junk, was one of only two governmental entities to tap the U.S. Federal Reserve's Municipal Liquidity Facility, borrowing a total of $3.2 billion.

Reporting by Karen Pierog in Chicago Editing by Alden Bentley and Matthew Lewis

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Bond Market Outlook: Yields Likely to Stay Low in 2021

It could be a challenging year ahead for bond investors.

MARKET PARTICIPANTS AND strategists say investors should expect a challenging yield environment this year as the Federal Reserve is expected to keep rates at historically low levels – likely keeping a lid on the yields of the safest fixed-income investment, U.S. Treasurys.

It's possible that income-seeking investors may need to accept a little more risk if they want more yield. That means considering dividend-paying stocks or going outside the U.S. to tap into the global bond market, which includes emerging markets.

Bryce Doty, senior portfolio manager at Sit Investment Associates, says news related to the pandemic will dominate investor sentiment and projections for economic growth in the first part of 2021. As society moves to a post-pandemic world, the outlook for bonds will evolve, market watchers say, with hopes that economies will improve as vaccines are distributed. An improving economy could lift bond yields, but it may also spur inflation – something else for investors to watch.

Continue reading.

US News & World Report

By Debbie Carlson, Contributor   Jan. 15, 2021, at 12:08 p.m.

Guide To Tax-Exempt Bond Funds: 31 Best Buys

You can get a first-class municipal bond fund at very low cost.

Here's what you get from a portfolio of tax-exempt bonds:

—Modest risk. The potential to lose money is not as great as with stocks, but it's palpable.

—Modest returns. Yields will be in the neighborhood of 1%. That's before losses to defaults and inflation.

—A very modest tax benefit. When coupons are tiny, the exemption doesn't matter much.

Continue reading.

Forbes

Jan 15, 2021

GFOA Analysis of Latest Coronavirus Relief Legislation.

In the final days of 2020, Congress passed and the President signed into law the latest coronavirus relief package that was attached to the omnibus spending bill for the federal government. The relief package is the first action taken by Congress to enact additional coronavirus-related aid since April 2020.

Learn more.

S&P ESG Pulse: Reimagining Accounting To Measure Climate Change Risks

Key Takeaways

- ESG-related rating actions fell to about 100 per month in October and November, from a monthly average of 200 from July to September. This brings the total number of ESG-related rating actions during April-November to nearly 2,300.
- The bulk (over 98%) of ESG effects have related to health and safety (COVID-19). The most affected have been sovereign and local government ratings, air travel and mass transport, media and leisure, higher education, and retail, as well as restaurants, hotels, and conference centers, with knock-on effects on CMBS.
- As a percentage of total ESG and non-ESG rating actions over April-November, ESG-related actions accounted for as much as three-quarters of actions on sovereign/international public finance entities and one-third of U.S. public finance actions. For corporate and infrastructure entities, ESG factors contributed to one in three rating actions; bear in mind that we only treat COVID-19 as an ESG factor if it has direct health and safety effects on an entity's activities, not as a result of the economic crisis. In structured finance, ESG influenced about one in four rating actions.

Continue reading.

22 Dec, 2020

Can Parking Benefit Districts Step In as Revenue Sources Dry Up? - Nossaman

The COVID-19 pandemic, and resulting lockdowns and economic disruptions, have severely affected the usual revenue sources that local governments have used to fund public improvements and transportation services – e.g., distributions of state and federal gas tax revenue, local sales taxes, and property taxes. Local governments might consider creating parking benefit districts ("PBDs"), which can provide modest amounts of revenue. PBDs, along with other creative ways to raise revenue, can help fill in funding gaps for local improvements and services.

A PBD is a … Continue

Nossaman LLP

By Douglas Schwartz, Tina Kim on 01.07.2021

Fitch: Federal Stimulus Won't Offset Higher Ed Budget Pressures.

Fitch Ratings-New York/Chicago-07 January 2021: New federal aid for colleges and universities provided in the Consolidated Appropriations Act (CAA), the federal stimulus package and omnibus bill signed into law on Dec. 27, will provide some support for colleges and universities, but will not be sufficient to fill budget gaps caused by the pandemic, Fitch Ratings says. The law provides $22.7 billion in aid to colleges and universities, more than the $14.3 billion already provided under the Coronavirus Aid, Relief and Economic Security (CARES) Act, but is still far short of what industry leaders say is needed.

Federal funds will help provide crucial revenue, but these funds will only address a portion of short-term needs. Higher education institutions are facing challenges that will persist beyond this academic year, including declining incoming and international student enrollment, tuition affordability and discounting pressures, and flat or reduced state funding. Enrollment volatility and declines in key student-driven revenues are expected to worsen in 2021, following significant declines in new student enrollment in fall 2020 across the sector.

Continued expense reductions are expected to be necessary despite this additional federal support. Public universities may face further cuts in state funding, as state budgetary flexibility has been materially reduced since the start of the pandemic, and states did not receive direct aid in the recent stimulus package. Pandemic-related expenses and increased student financial aid needs will also continue to pressure budgets throughout the year and possibly into 2022, and may require further reductions to programs, staff, capital and other discretionary items. These reductions will reflect institutional strategies and priorities, and could have a long-term credit impact.

The new bill provides more flexibility for how funds in the Higher Education Emergency Relief Fund, including unspent CARES Act funds, can be used, such as offsetting lost revenue. Institutions must spend the same amount on emergency aid to students in need as they did with funds under the CARES Act, which, given the larger amount allocated directly to public and private higher education institutions under the CAA, gives them more funds for other purposes.

Unlike the CARES Act funding formula, the bulk of funds for higher education under the new aid package, $20.2 billion, will be distributed based on both full-time equivalent and headcount enrollment. This formula should help community colleges in particular, which serve a higher proportion of part-time students and received less aid under the CARES Act. Wealthier schools subject to the “endowment tax” will only receive 50% of funds determined under the formula, but these institutions typically have stronger financial profiles and less volatile revenue streams. Historically Black Colleges and Universities (HBCUs) and other minority-serving institutions will receive $1.7 billion, with Howard University receiving a separate allocation of $20 million. Federal loans to HBCUs totaling approximately $1.3 billion were forgiven. These funds could provide a material boost to HBCU budgets, considering their relatively smaller size and weaker financial profiles.

Other provisions included in the omnibus bill will help students apply for and receive financial aid, which is expected to support student access and retention. These reforms include a simplified Free Application for Federal Student Aid form, expanded Pell Grant eligibility for lower-income students and incarcerated students, and reinstated Pell Grant eligibility to students defrauded by educational institutions.

Additional policy has yet to be considered in the long-delayed reauthorization of the federal Higher Education Act, which expired in 2013. With Democratic control of both houses of Congress, visibility should improve on longer-term federal priorities and intended support, as key goals of Biden’s administration are considered, including federal stimulus for state and local governments, increased Pell Grant awards and student loan forgiveness.

Contacts:

Emily Wadhwani
Director, Head of Higher Education
+1 312 368-3347
Fitch Ratings
One North Wacker Dr.
Chicago, IL 60606

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726
Fitch Ratings
33 Whitehall St.
New York, NY 10004

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

S&P Outlook For Charter Schools: State Revenue Weakness May Test Credit Quality

Sector View: Negative

While there are several factors that could influence credit quality over the next year, revenue pressures caused by cuts, delays, or deferrals to per-pupil funding have the most potential to bring on credit deterioration. We do not expect all credits will weaken in 2021 and beyond, but in the current environment we still expect downgrades to outpace upgrades. Any major policy changes negatively affecting school choice could also cause disruption. Schools with relatively stronger enrollment trends and greater financial reserves are likely to fare better, while lower rated schools in challenged states will have less operating flexibility.

Continue reading.

7 Jan, 2021

Fitch Ratings 2021 Outlook Compendium: U.S. Public Finance

View the Fitch Outlook.

Wed 06 Jan, 2021

The Public Finance Outlook for 2021 in 10 Themes.

Vaccines, a new presidency, a reshuffled Congress and a pandemic-shifted economy will transfigure the state and local fiscal landscape.

In my last column closing out 2020, I identified public finance lessons from a year that "challenged and stressed our systems of public finance in ways not experienced since the Great Depression." Now, as a new year begins to unfold amid the pandemic's continuing grip, it's time to look forward to what lies ahead for leaders in state and local finance. I don't claim a crystal ball here, just a crow's-nest view of coming issues, concerns and likely trends. Here are 10 of them:

Pandemic intergovernmental aid will be on the table again, but don't expect an avalanche of cash. It's a good bet that the House and the White House will take a shot at some more COVID-19 stimulus funding for states and localities. Whether Republican resistance in the Senate can be overcome is the big unknown. If moderates in both parties can cobble together a modest compromise package, chances can improve. Look for centrist proposals for aid to offset demonstrable revenue shortfalls, reopen schools, fill public safety vacancies and fund public health expenditures over the next six months.

Even with mass vaccinations, the fiscal drag will be real in 2021. State and local revenues should recover by August, but public payrolls will keep lagging this year. While the U.S. economy should expand by this summer, public-sector layoffs and hiring freezes will remain the soft spot in national GDP. Exhaustion of rainy-day funds will be a problem for many public budgets, making the coming months the worst for some. Nonetheless, in some states the frothy stock market's capital-gains tax revenues are offsetting losses from pandemic unemployment and business closures. Households will help by spending stimulus cash.

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GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | JANUARY 5, 2021

S&P Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder

Sector View: Negative

Our view of the sector remains negative given the level of pressures brought by COVID-19 and the recession. While we expect most credits will experience only slight, if any, deterioration in 2021 and beyond, in the current environment we still expect downgrades to outpace upgrades. Credits that maintain higher reserves are better positioned to withstand revenue and expenditure pressure, but for most, active management of any shortfalls will still be critical to maintaining credit quality. Local governments that have weaker financial reserves and less flexibility, and don't proactively manage their budgets in 2021, will be most at risk for credit deterioration.

Continue reading.

6 Jan, 2021

S&P Outlook For U.S. States: Symptoms Persist, But A Shot In The Arm Could Lead To Growth

Sector View: Negative

Negative now, but potentially back on track at some point in 2021. Although signs of a recovery have begun to take hold with the approval of vaccines and the stabilizing of certain revenues, many headwinds will continue to bear down on state credit stability in 2021. The severity of the sudden-stop recession and the reintroduction of social distancing measures in the winter will have a lasting effect on local economies and thus budget stability. S&P Global Economics expects national real GDP to have contracted 3.9% in 2020 and to grow 4.2% in 2021. Should vaccinations progress smoothly and economic growth match expectations, credit pressures could wane by mid-year.

Continue reading.

5 Jan, 2021

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

View the list.

6 Jan, 2021

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

View the list.

6 Jan, 2021

S&P 'AAA' Rated U.S. School Districts: Current List

View the list.

6 Jan, 2021

A Democrat-Run Congress Would Bolster Odds of State, City Aid.

- **Biden has called last stimulus measure ‘just a down payment’**
- **Republican Senate was roadblock to helping local governments**

Democrat Raphael Warnock claimed one of the two Senate seats in Georgia’s runoff election and Jon Ossoff held a lead over his Republican opponent Wednesday morning, raising the chance that Vice President-elect Kamala Harris will wield the tie-breaking power over an evenly divided Senate.

That would allow President-elect Joe Biden to push for another stimulus bill that would extend aid to states, cities and local transit agencies whose revenue was diminished after shutdowns to contain the virus sent the economy into the worst recession since World War II. Republicans have opposed such aid, characterizing it as a bailout for Democratic strongholds even though the impacts are being felt broadly across the country.

“That would really be, in my mind, considered an upside scenario for municipal credit,” said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities, who said state and local governments may still struggle to return to pre-covid levels of stability even with aid. “But it is going to be a lot closer than what it would have been.”

Direct aid for state and cities was largely absent in the most recent stimulus legislation. Democrats included about $1 trillion in the bill that passed the House last year, only to stall in the Republican-led Senate.

It remains to be seen what a Biden relief bill would look like, though he’s made it clear that he plans to push for one. Even without a large amount of direct aid, previous stimulus bills are helping states and cities by keeping the economy afloat and preventing tax collections from being reduced as much as once anticipated.

“I have long said that the bipartisan Covid-19 relief bill passed in December was just a down payment,” Biden said in a statement Wednesday. “We need urgent action on what comes next, because the Covid-19 crisis hits red states and blue states alike.”

The outlook for U.S. states and cities has improved dramatically since the onset of the pandemic, largely due to the help provided by the first stimulus package enacted in March. That means that the Biden administration could enact much less aid than was previously approved by the House.

Dan White, director of public sector research for Moody’s Analytics, said aid of about $80 billion to $100 billion could cover the firm’s forecast for the shortfall facing states and local governments through mid-2022. He said the firm’s estimate for those deficits has declined thanks to previous federal support, including $82 billion for schools and universities in the package that lawmakers passed in December.

In the municipal-bond market, where states and cities raise money, yields may climb higher in tandem with U.S. Treasuries as investors factor in the possibility of another economic stimulus package. Ten-year benchmark municipal yields inched up two basis points on Wednesday.

But investors are likely to welcome the impact of another aid package that would ease the risk of credit-rating downgrades to governments.

New York’s Metropolitan Transportation Authority has been among those hardest hit as ridership on the city’s buses, subways and commuter trains tumbled after the pandemic struck. While the agency received $4 billion of aid in legislation approved last month, it faces an estimated $8 billion deficit through 2024 and is counting on potential help should New York Senator Chuck Schumer become Senate Majority Leader.

New York City Mayor Bill de Blasio said Schumer’s ascension as Senate leader would open “a whole new world of possibilities for this city and for this nation.”

“Make cities, counties and states whole for what they’ve been through,” de Blasio said. “Those are particularly urgent matters.”

A Democratic Congress and White House would provide a “positive tailwind” to municipal bonds because of the prospect of additional aid, said Eric Glass, a portfolio manager for fixed income impact strategies at AllianceBernstein.

“From my perspective, this is nothing but a positive for munis,” he said.

Bloomberg Markets

By Nic Querolo and Amanda Albright

January 6, 2021, 10:23 AM PST

— With assistance by Danielle Moran, Michelle Kaske, and Henry Goldman

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[Breaking Down What to Expect from Municipal Bonds in 2021.]

UBS Global Wealth Management's Head Americas Fixed Income Thomas McLoughlin joined Yahoo Finance Live to discuss what the outlook for municipal bonds is for 2021.

Video Transcript

THOMAS MCLOUGHLIN: As we head toward the closing bell, one place that investors look for yield, as well as protection sometimes, is fixed income. Let's bring in Tom McLoughlin, UBS Global Wealth Management's Head of America's Fixed Income, because in your most recent note on municipal bonds, you wrote about something that just struck me as well.

I thought that would go counter to the whole point of purchasing munis, which is that a third of them issued in 2020 actually are subject to federal tax. And I was always raised that you go to munis to get the double bang of the return, but also the non-tax prospect. So what's going on here?

THOMAS MCLOUGHLIN: Yeah, you know, it's interesting, Adam. This is probably the most pronounced new trend that we've seen in municipals since at least 2010. The Tax Cut and Jobs Act provided a change to the tax regime, which prevented state and local governments from doing what we call advanced refunding.

So if a state or local government wants to refinance their debt, similar to how a homeowner might refinance their mortgage, they used to be able to do it well in advance of the optional redemption date. And they can no longer do so by law since the end of 2017. So many are actually issuing bonds to refinance their prior taxed bonds with taxable securities. And we do expect the trend to continue.

– And we saw that there was no new aid for local and state governments as part of that new stimulus legislation that President Trump signed a week ago. How long is it going to take for municipal balance sheets to recover?

THOMAS MCLOUGHLIN: I expect it will probably take the better part of a year to another year and a half. And part of that reason is because municipal credit conditions tend to lag the real economy. A lot of that has to do with the fact that property taxes, for example, any reduction in the assessed valuation of property within a specific city or town will take the better part of a year and a half in order to basically flow through the tax rolls.

And similarly, any reduction in income tax is not likely to be felt for about a year after a recession hits. So what we expect is that municipal ratings will probably will have more downgrades in 2021 than we will see in upgrades.

And that may even persist into 2022. The good news is that the depth of the recession was more severe than it was 10 years ago. But it was shorter. And we're actually expecting to see municipals not feel quite as much pain and suffering as they did in the period of 2009, '10, and '11.

ADAM SHAPIRO: But as you point out, there are going to be a group that capture the attention of the broader market because of the downgrades. And any name recognition that, as investors, we should be aware of? I would just assume New York City. Although New York City is a good bet in the long run, it's taken a big hit.

THOMAS MCLOUGHLIN: Yeah, for sure. I mean, I should emphasize that very point, which is that New York City over a long period of time is a good bet. It's not going anywhere. It is a foundational very important part of the US economy.

At the same time, New York City has basically seen an exodus of population and of income. And a lot of that is a national trend, as people from the Northeast and the Midwest begin to migrate South and West. But the pandemic accelerated this. So New York is likely to basically be faced with two or three years of particularly difficult budgets that they have to construct.

In terms of broader sectors, it's not going to surprise our viewers to learn that things like continuing care retirement communities, privatized student housing, or local housing deals are also going to basically be subject to greater difficulties, for example, than utilities, electric utilities and water utilities, which are relatively more insulated.

– You were talking about taxes earlier. So how much of the uncertainty we're seeing in the markets right now, the sell-off, has to do with the uncertainty around which party is going to actually control the Senate and basically dictate tax policy?

THOMAS MCLOUGHLIN: Yeah, it's fair to say that the volatility we're seeing the market has, to some degree, is based on the uncertainty related to the election. But I would suggest that we basically break it up and look at it two ways, the short term volatility associated with the election uncertainty and a lot of the stuff that's going on with the president's call to the Georgia Secretary of State and things like that.

The bigger, longer term, you're going to take more of a performance we think is going to be the pattern of the pandemic and the vaccinations. And as we've seen in the last 24 hours with the heavy lockdowns first in Scotland, then in England, we're in a position where we've seen the highest infection rate on a daily basis come out in the last couple of days. That is actually the bigger long term story.

And the good news there is that as the vaccine, basically, the rollout proceeds, and we actually have a greater vaccination rate across society, then the US economy will be poised for a much stronger 2021.

ADAM SHAPIRO: You have a happy New Year. Tom McLoughlin is UBS's Global Wealth Management Head of America's Fixed Income. Good to see you. Thank you for joining us.

YAHOO FINANCE

January 4, 2021

[U.S. Municipal Bond Sales Hit Record $451.2 billion in 2020.]

CHICAGO, Jan 4 (Reuters) – U.S. states, cities, schools and other issuers sold $451.2 billion of municipal bonds last year, the highest amount on records that date back to 1980, according to Refinitiv data on Monday.

With the U.S. Federal Reserve pushing interest rates to historical lows to combat the economic fallout from the ongoing coronavirus pandemic, muni bond sales were up 11% compared to 2019.

Issuers took advantage of the low rates to refund nearly $200 billion of outstanding debt, the most since 2017. Taxable bonds accounted for 31% of issuance.

California was the top issuer with $7.47 billion of bonds, followed by New York City with $6.6 billion, and New York’s Metropolitan Transportation Authority with $6.18 billion.

BofA Securities was the top muni bond bookrunner, followed by Citi and JP Morgan Securities, according to Refinitiv.

(Reporting By Karen Pierog; Editing by Alden Bentley and Alistair Bell)

Municipal Bond Market Starts the Year Strongly.

The municipal bond market is starting 2021 on a strong note amid robust demand, light supply of new issues, and expectations of fiscal relief for state and local governments as well as potentially higher income taxes with full Democratic control in Washington.

A key indicator of tax-exempt bond demand, the yield ratio of 10-year triple-A munis relative to the 10-year Treasury note, stands at 66% and is at its lowest level in 20 years. The ratio began the year at around 75% after peaking at over 200% during the market turmoil last March. It has averaged close to 100% over the past 20 years.

The current ratio means that even investors in the top 37% federal tax bracket are getting little benefit to owning munis relative to Treasuries.

Muni yields have barely budged this year as Treasury yields have risen. The 10-year AAA muni now yields about 0.75%, against 1.11% for the 10-year Treasury, according to Bloomberg data.

New-issue volume so far in 2021 has been about $3 billion, about half the pace of the weekly pace of 2020.

One portfolio manager tells Barron’s that demand is strong as bondholders reinvest Jan. 1 interest payments and as investors anticipate relief from Washington for strapped municipal-bond issuers and the possibility of higher federal income taxes, which would increase the appeal of munis relative to Treasuries and other taxable debt.

“The Biden administration’s policies are expected to positively impact the municipal market in multiple ways,” wrote municipal-bond managers at MacKay Shields in their 2021 outlook. “Anticipated initiatives include infrastructure spending, increasing employment opportunities and addressing climate change.”

“In addition, investor anticipation of the Biden administration pushing taxes higher (more likely a 2022 event) increases the value of tax exemption and municipal demand,” the managers added.

Barron’s took a cautious view of the municipal market in our 2021 income outlook, arguing that yields were historically low on an absolute basis and relative to Treasuries. Many municipal bonds yield less than inflation running at 1.5% to 2% and with Treasury investors banking on 2% annual inflation in the coming decade.

The MacKay Shields managers are more upbeat:

“We believe that tax-exempt bonds from municipal issuers providing essential services will outperform other fixed-income asset classes due to their favorable, intrinsic credit characteristics. While we understand municipal bond investor uncertainty is due to weak economic conditions, low yields and negative news coverage on the sector, investors should focus on what we believe is the inherent stability of municipal revenue streams sourced from municipal services that are essential to our everyday lives."

Bonds issued by risky issuers like the Metropolitan Transportation Authority, which operates New York's subway system, have rallied lately as investors bet on more federal aid. The MTA's 5.25% bonds due in 2055 now yield 2.45%, down from 5% in the spring.

The MacKay Shields managers see opportunity in the potential restructuring of about $11 billion of Puerto Rican debt in 2021 following the successful restructuring of Puerto Rican sales tax revenue bonds known as Cofina.

"We believe that the long-awaited final chapters in the restructuring of Puerto Rico debt will provide investors an attractive relative value opportunity in the territory's credits," the MacKay managers wrote.

Barron's

By Andrew Bary

Jan. 11, 2021 9:00 am ET

Can 2020 Bond-Financed Projects Take Advantage of the fixed 4% Rate in the Pending COVID-19 Legislation? - Nixon Peabody

The just-signed COVID-19 legislation finally fixes the bond-financed LIHTC credit rate to be at least 4%, but there are transition rules. In this alert, we discuss how those rules apply to several deal structures, particularly projects with 2020 bonds.

By now, you are well aware that the COVID-19 legislation provides a 4% fixed low-income housing tax credit (LIHTC) rate for bond-financed affordable housing projects that meet certain requirements. As you will see from the transition rule in the next section, the fixed-rate should plainly apply to bond-financed projects that rely on 2021 bonds and are entirely placed in service after 2020. And for the sake of completeness, we'll note that for ***non-bond financed*** projects, the fixed 4% rate applies to acquisitions of used buildings ***provided*** the credits were ***allocated after 2020***.

With those general rules out of the way, this NP alert discusses (i) possible strategies for projects with 2020 bonds as well as (ii) the treatment of used projects acquired before 2021 but financed with post-2020 bonds.

The law

Under the pending COVID-19 relief legislation, for a bond–financed project to qualify for the 4% floor, the building has to:

- Be placed in service after 2020, and
- Comply with this language: "in the case of any building any portion of which is financed with an obligation described in section 42(h)(4)(A), any such building if any such obligation which so finances such building is issued after December 31, 2020."

The big picture

One question that we are getting a lot is whether projects with undisbursed 2020 bond proceeds can qualify for the new 4% floor. To answer this question, the tax credit community would genuinely benefit from a statement from the IRS or a "Blue Book" report from one of the congressional committees (which have been known to take nine months to two years) to answer the questions discussed below. Without such government guidance, whether to claim fixed 4% credits for projects relying on bonds sold in 2020 but not "drawn down" until 2021 or later is entirely about two things: (i) risk-taking and (ii) 42(m) letters.

Risk-taking

We refer to risk-taking because it is ***possible*** to write a legal opinion where the project relies on 2020 bonds, but some or all of the bonds are drawn down in 2021. As you may remember, this comes from a position taken previously by the IRS where "the shoe was on the other foot." A few years ago, the law for tax-exempt bonds got ***worse*** for bond issuances after a certain date, so everyone ran out and issued bonds ahead of the law change and sat on the proceeds. And the IRS said, "Not so fast; we're going to define issuance to mean when you draw down the proceeds!" And as a result, the bonds were now considered to be "issued" later, and they no longer escaped the new rules.

But now, when everyone wants the ***opposite*** result and for the bonds to, in fact, be delayed, it's hard to say whether the IRS will apply the same "draw-down" rule. If it did, then many 2020 bonds that still have undrawn funds would be treated as 2021 "issuances" eligible for the fixed-rate. On the other hand, the IRS might say that ***this time***, "issuance" has the traditional, common-sense meaning, and the fixed-rate only applies to bonds that are literally sold after 2020.

But truth is, it's the parties' risk anyway. Any legal opinion will be based on decent precedents and wouldn't be "wrong." It would be the parties' choice to take the chance. And, we suppose the parties ***might*** take that chance, figuring, "Come on, will the IRS really threaten the stability of a low-income project because the parties took a defensible if aggressive position?" This is really a question for the sponsors and investors. How big a risk is too big a risk? Given the uncertainty involved, NP does not currently plan to issue opinions on 2020 bonds possibly qualifying for the 4% floor without further guidance from the IRS or a congressional report.

42(m) letters

The second issue is 42(m). The state agency has to find that the project ***needs*** the credits. If the parties close a deal on 3.1% credits, and then the owners ask the agency to bless an increase to 4%, won't the parties have to revaluate the sources of financing, and the state agency revise its assessment of how much credit authority is needed? And, vice versa, if they start at 4%, and have to go downwards, won't there be similar problems? What will the parties do with a closed deal that suddenly gets 4% credits? Build a larger/better project? Reject one of the soft financing sources? Pay off the development fee faster? (If the state will allow it!) And if we go in the other direction (planning to claim 4% credits, only to have the IRS or a congressional committee issue an unfavorable notice or report), how are we going to shrink the project or bring back the soft sources that were previously dropped?

It seems that a project sponsor has to go in one direction or the other. It must either take the position that it is entitled to 4% credits, get the state to agree, and adjust sources and uses accordingly, or conclude that it is stuck at (approximately) 3.1% and leave everything alone.

Using some 2021 bonds

There's also the possibility of using ***some*** 2021 bonds. I do think that a project ***partially*** funded with 2021 bonds ***should*** work. I have heard it said that relying on partial-2021 bonds wasn't intended, but the new Code provision uses the word ***"any"*** FOUR times—the rules apply to any building if ***any*** portion is financed by volume cap bonds, provided ***any*** such building is financed by ***any*** such obligation issued after 2020. I think it will be hard for anyone in Congress to say, "We didn't mean what we plainly wrote."

So, if a $6M project has $3.1M of 2020 bonds, and it goes back to the state and asks for $100K of 2021 bonds, this looks like "any" part of the building was financed by bonds that "any" part of came from a post-2020 issuance.

One important qualifier: we're not talking about ***refunding*** bonds. The statute refers to obligations described in Section 42(h)(4)(A), which thereby incorporates the "taken into account under Section 146" language that use to trouble the IRS legal team. They thought this language meant that refundings don't qualify a project for LIHTCs. Whether or not you agree with that view, the new legislation does not give you any new ammunition. So, when we talk about an additional $100K of bonds, we're referring to a "fresh" $100K of bonds on top of what you already have (i.e., now you have $3.2M of bonds in our illustration).

Having said this with confidence, we must also say that we have heard colleagues and industry insiders express doubt about this idea as well, especially where the 2021 portion of the bonds is as small as we have suggested here.

And, even if you buy this argument, this still brings you back to the 42(m) conundrum. If you get 4% credits, you are still going to have to get state agency sign off on what you do with them. So, at this time, it's not clear whether a small issuance of 2021 bonds can enable a project to claim fixed 4% LIHTCs.

Acquisitions of used facilities in 2020 with 2021 bonds

Finally, there is one other deal structure that we have already seen, and there will undoubtedly be more.

Suppose a used building is acquired by an LIHTC partnership in 2020, and it is already occupied. It gets "official action" at the time of acquisition so that the acquisition can be bond-financed. However, the actual bond issuance is indisputably in 2021. On those facts, these seem to be two "separate buildings" for tax credit purposes. One building, the acquisition, fails the first part of the transition rule, on account of being placed in service in 2020, and, therefore, gets the floating rate. On the other hand, the rehabilitation, treated as a separate new building under Section 42, seems to pass both parts of the rule and should get a fixed-rate.

Going forward

We'll try to keep you updated as other ideas and issues are presented. On the Blue Book concept, we made a suggestion to one of the housing trade groups based on something that happened with another tax credit. A few years back, when the historic tax credit was modified, recognizing that Blue Books take a very long time to be issued, the Historic Tax Credit Coalition got a leading senator to make a statement on the floor of the Senate about how the new provision should be interpreted. It gave the investors and their lawyers comfort about writing opinions. Of course, it should be remembered that Congress could take the opposite view. Some have suggested that the statutory language was intended to keep the fiscal cost down by foreclosing the possibility of favorable treatment for pre-2021 projects and that any interpretation of the Code provisions should be made with that result in mind. In other words, it is possible that, if asked, a Congressional leader would ***not*** give the answer we are hoping for.

Nixon Peabody

by Forrest David Milder

December 29, 2020

Community Development Finance Alert

The foregoing has been prepared for the general information of clients and friends of the firm. It is not meant to provide legal advice with respect to any specific matter and should not be acted upon without professional counsel. If you have any questions or require any further information regarding these or other related matters, please contact your regular Nixon Peabody LLP representative. This material may be considered advertising under certain rules of professional conduct.

Fall 2020 Fiscal Survey of States: NASBO

With data gathered from all 50 state budget offices, this semi-annual report provides a narrative analysis of the fiscal condition of the states and data summaries of state general fund revenues, expenditures, and balances. The spring edition details governors' proposed budgets; the fall edition details enacted budgets.

Overview – Fall 2020

State general fund spending in fiscal 2021 is projected to decline for the first time since the Great Recession, based on enacted budgets. After nine consecutive years of budget growth, states saw revenue fall in fiscal 2020, and greater declines are expected in fiscal 2021. Weakening revenue projections resulting from the COVID-19 recession led states to reduce general fund spending by **1.1** percent compared to fiscal 2020 and by **5.5** percent compared to governors' budgets proposed before the pandemic.

Other key findings from the report:

- State general fund revenue is projected to decline by **4.4 percent** in fiscal 2021 compared to already depressed fiscal 2020 levels, or by **10.8 percent** compared to revenue projections in governors' pre-pandemic budget proposals, based on the most current estimates available when data were collected.
- Fiscal 2020 general fund revenues declined **1.6 percent** compared to fiscal 2019, or by as much as **2.9 percent** when only counting the **45 states** that operated on a July to June fiscal year. **35 states** reported general fund collections for fiscal 2020 from all sources came in lower than original budget projections.
- The tax deadline shift from April to July affected fiscal 2020 revenue collections in **19 states** that counted these delayed payments as fiscal 2021 revenue. Among these states, 17 were able to provide estimated deferral amounts totaling **$10.2 billion**, revenue that would have otherwise been collected in fiscal 2020.
- Rainy day fund and total balances were at record highs before the pandemic hit but are now on the decline as states turn to reserves to address budget shortfalls. Total balances are already projected to decline by **$33.3 billion** in fiscal 2021 compared to fiscal 2019 levels.

- Note: The fiscal 2021 data in this report represent a point in time, as spending and revenue projections continue to be moving targets. State-by-state data also reflect differing points in time depending on when a state enacted its budget for fiscal 2021 and how often a state revises its revenue forecast.

Downloads:

- Summary
- Full Report

2020 State Expenditure Report: NASBO

State Expenditure Report

This annual report examines spending in the functional areas of state budgets: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and all other. It also includes data on capital spending by program area, as well as information on general fund and transportation fund revenue collections.

Overview: Fiscal 2018-2020

- **Total state spending** (including general funds, other state funds, bonds, and federal funds) grew 7.8 percent in estimated fiscal 2020.
- **Federal funds** are estimated to have increased 14.1 percent in fiscal 2020, the highest annual growth rate since the Great Recession. The sizeable increase in federal funds spending is largely due to additional federal aid states received in response to the COVID-19 pandemic, including the CARES ACT and increased FMAP.
- Spending from **states' own funds** (general funds and other state funds combined, excluding bonds) rose 5.1 percent in estimated fiscal 2020.
- The "**all other**" category saw the largest gain in total state spending in fiscal 2020, at 12.6 percent. Many of the top expenditure areas for CARES Act funds fall under the "all other" category including unemployment insurance, public health programs, housing assistance, emergency management, economic relief, aid to local governments, and broadband and other technology upgrades.
- State **general fund revenue** declined 0.8 percent in fiscal 2020, the first decline since the Great Recession. The revenue data in this report are based on estimates provided over the summer and are subject to change; NASBO's Fall Fiscal Survey of States, to be released in December, will provide preliminary actual data on general fund revenues for fiscal 2020.

Download:

- Summary
- Full Report

How Small Towns Can Ride The Public-Private Partnership Wave.

Public-private partnerships offer a unique opportunity to redevelop and revitalize smaller communities around the country. A public-private partnership, also known as a P3 or PPP, is an agreement between a private company and a public body that allows for the public sector to transfer certain risks and responsibilities to the private sector. P3s, when structured properly, can provide an opportunity for small communities to develop new facilities and infrastructure, which can be a catalyst for community redevelopment. Two popular P3 delivery methods are known as a design-build-finance (DBF) and design-build-finance-operate-maintain (DBFOM). These delivery methods can be used to relieve significant burdens and risks from the public sector.

Urban communities have gotten a lot of attention in recent years for improving assets using public-private partnerships. The lack of public funding and the abundance of private capital has made P3 a popular tool for delivering public facilities and infrastructure. However, smaller underserved communities also have significant needs for improved facilities and infrastructure. The needs of smaller communities are much more pressing than those of sprawling urban centers.

Complicating the issue is the fact that many smaller communities often have not constructed new facilities or infrastructure in decades. A well-structured P3 shifts risk from the public sector to the private sector while focusing on allowing the construction activity to be executed by local contractors, subcontractors and vendors. A well-structured P3 also allows municipalities to incorporate small and minority-owned business participation requirements that can be managed in a more transparent manner. The use of national resources partnered with the local workforce creates an inherent best value proposition for the community. When the construction dollars stay within the local community, these dollars can turn over six to seven times, creating a significant impact on the bottom line for the community.

Smaller communities typically do not have the technical resources and expertise to deliver capital projects efficiently. Also, the traditional design-bid-build methodology has proven to be a time-consuming and often more costly method of delivering public projects, especially in smaller communities. The lack of sophisticated construction management experience and the lack of integration between the design, construction and finance often results in projects that are over budget and of inferior quality. However, these communities still have a substantial need for new infrastructure, public safety facilities, courthouses, healthcare facilities, parks, museums and much more. The ability to make needed improvements to public facilities and infrastructure results in a better quality of life for the citizens and increased revenues for the public agency.

A well-structured P3 should accomplish a number of important things for smaller communities. In addition to gaining technical expertise, these communities should be able to take advantage of tax-exempt financing as well as no upfront costs for attorney fees, program managers, site acquisition, architectural design, engineering, etc. The private sector is well suited and well-capitalized to carry these upfront expenses, which can be as much as 18%-20% of the total project cost.

P3s also allow the private sector the ability to structure financing for essential facilities and infrastructure in a manner that does not require a pledge of full faith and credit from the public entity. When a public entity does not pledge its full faith and credit, in most states, this eliminates the requirement of a bond referendum and also does not impact the general obligation capacity of the community.

A tax-exempt lease purchase agreement is a common structure used to deliver P3 projects quickly and efficiently and is a perfect structure for small communities. Under a tax-exempt lease purchase agreement, the private sector establishes a special purpose entity to hold the asset. At the end of the lease purchase term, which can be up to 30 years, the government purchases the asset for $1.

Using a tax-exempt lease purchase agreement to fund a P3 project ensures that the private developer is working for a fixed fee and that the community is able to fund the project with the lowest cost of capital. Under this structure, essential facilities and infrastructure can typically be financed with semi-annual payments that are subject to annual appropriations and the availability of funds. Tax-exempt financing also offers long-term fixed rates, which are a much more attractive proposition than commercial bank financing.

Forbes

by Dee Brown

Dec 29, 2020

[USDOT Launches New Regional Infrastructure Accelerators Program.]

The program will expedite delivery of transportation infrastructure projects through innovative finance and delivery methods.

A new demonstration program has been launched by the U.S. Department of Transportation (USDOT) to establish several Regional Infrastructure Accelerators (Accelerators), which aims to expedite the delivery of transportation infrastructure projects through innovative finance and delivery methods.

The department's Build America Bureau (the Bureau) issued a Notice of Funding Opportunity to solicit applications to designate Accelerators that will serve defined geographic areas, act as a resource to qualified entities within the designated areas and demonstrate the effectiveness of these Accelerators to expedite the delivery of eligible projects through federal credit assistance programs, including Transportation Infrastructure Finance and Innovation Act (TIFIA) and other innovative financing methods. A total of $5 million is available for the program.

"These Regional Infrastructure Accelerators will deliver projects more quickly to local communities through innovative financing methods," said U.S. Transportation Secretary Elaine L. Chao.

The Accelerators will assist project sponsors in project planning, evaluating innovative financing options, accessing technical assistance and best practices and developing a pipeline of projects ready for investment. The Bureau will administer the Regional Infrastructure Accelerator program. The Bureau was established as a "one-stop shop" to streamline credit opportunities while also providing technical assistance and encouraging innovative best practices in project planning, financing, delivery and operation.

During Secretary Chao's tenure at USDOT, the Bureau has closed more than $9.91 billion in TIFIA and Railroad Rehabilitation and Improvement Financing (RRIF) loans, supporting more than $33.16 billion in infrastructure investment across the country. Under Secretary Chao's leadership, the USDOT has sought to address the unique challenges rural communities face in upgrading their infrastructure. Last year, Secretary Chao announced the Rural Opportunities to Use Transportation for Economic Success (ROUTES) Initiative to address disparities in rural transportation infrastructure investment. Additionally, the department launched the TIFIA Rural Project Initiative (RPI) to assist rural communities in overcoming financial barriers that slow infrastructure investment in rural America.

U.S. Department of Transportation (DOT)

Dec 29th, 2020

[Fitch: Large U.S. Western Metros Continue Trend of Slower Recovery]

Fitch Ratings-New York-30 December 2020: Employment in U.S. metros rebounded from losses caused by the coronavirus pandemic, although the median recovery in Western metros is eight percentage points lower than the national rate. The recovery's sustainability may be vulnerable to surging COVID-19 cases and hospitalizations, according to Fitch Ratings' latest U.S. Metro Labor Markets Tracker.

The median jobs recovery rate among major MSAs improved between September and October, rising to 62% from 54%. Nationally, 81% of all metros have recovered at least 50% of their employment losses. The median Fitch-adjusted unemployment rate for major metros was 8.2% during October, a significant deviation from the median official national unemployment rate of 6.3% for major metros.

Time will tell if rising COVID-19 cases and hospitalizations present short-term challenges for metros to regain pre-pandemic employment levels. "High frequency metro data in addition to weaker national data in November and December point to the beginning of an economic slowdown," said Senior Director Olu Sonola.

Fitch foresees regional differences in the impact of surging coronavirus cases and hospitalizations given the varying policy responses across state and local governments. "Slowing employment growth or fresh declines as a result of renewed lockdowns could strain budgets even further and affect long-term tax revenue growth prospects," said Sonola.

Median job recovery rates for major metros differ by region. For instance, the 67% median recovery rate in the Northeast was the highest of the four main regions with the 54% median in the West as the lowest. However, Northeast recovery rates are in danger of reversing course or decelerating given high case counts and the possibility of further coronavirus-related restrictions.

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

Contact:

Olu Sonola, CFA
Senior Director
+1 212 908 0583

Fitch Ratings, Inc.
300 W. 57th St.
New York, NY 10019

Dylan Szeto
Analyst
+1 646 582-4048

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

Additional information is available on www.fitchratings.com

Munis Set for Seventh Straight Year of Gains Amid Record Supply.

- **State and local debt recovered from historic rout in March**
- **2020 issuance reached $457 billion, driven by taxable sales**

The $3.9 trillion U.S. municipal bond market is on track to finish 2020 with returns of about 5.2%, marking the seventh straight year of gains and showcasing the rebound from a record selloff in March as fears about the pandemic's fiscal fallout rattled investors.

Supply

State and local governments issued about $457 billion of long-term bonds in 2020 — 12.5% more than what was sold in 2019 — with the increase driven by a sharp jump in the sale of taxable bonds, according to data compiled by Bloomberg. This year's supply exceeds the previous record reached in 2016.

Continue reading.

Bloomberg Markets

By Danielle Moran

December 30, 2020, 7:42 AM PST

This Part of the Muni Sector is Surging.

Munis have long been very popular with HNW clients because of their tax exempt income. However, a new—and slightly confusing—part of the industry is increasingly becoming popular. That new niche is taxable muni bonds. According to Barron's "Taxable municipal bonds are the fastest-growing sector in U.S. fixed income. This year, issuance has totaled more than $170 billion, double the $85 billion sold in all of 2019. The total market has grown to $700 billion—sizable but still below the $3.7 trillion tax-exempt muni market". Many think the new vaccines will give a boost to munis, which have suffered under COVID.

Nasdaq

DEC 29, 2020

The Long Strange Trip Of The Muni Market In 2020.

Summary

- The bond fund outflows of March followed the downdraft in oil prices caused by the onset of the pandemic, which caused the sharp sell-off in the stock market.
- The rebound at the end of March was one of the most vigorous muni rallies ever witnessed.
- Muni yields across the board are significantly lower than they were at the start of the year, and in the short end they are MUCH LOWER.

Continue reading.

Seeking Alpha

Dec. 30, 2020

Where to Find Yield While Limiting Risk in the 2021 Bond Market.

Fixed income strategists offer their outlooks and recommendations.

The performance of the U.S. fixed income market in 2021, like most financial markets, will depend largely on the extent of the economic recovery, which in turn, depends on the trajectory of the coronavirus pandemic and the distribution and uptake of vaccines that can stem its spread.

The Federal Reserve said as much in its latest policy statement: "The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term."
In the meantime, long-term rates have been rising almost steadily higher since Pfizer first announced on on Nov. 9 that its COVID-19 vaccine was 90% effective — a number it soon raised to 95% — followed by the first vaccinations on Dec. 8 in the U.K. and Dec. 14 in the U.S.

The 10-year Treasury note was yielding 0.92% as of Dec. 25, and U.S. bond strategists expect even higher rates by year-end 2021, at or slightly above 1.5% if the recovery gathers steam.
"It will be a big move if we get to 1.6%," but not much of a surprise if the economy is growing and inflation is rising, said Kathy Jones, chief fixed income strategist at the Schwab Center for Financial Research, in an outlook webinar. Most economists expect growth will pick up in the second half of the year but not return to pre-pandemic levels for at least a year.

Short-term rates are another story. The Fed has indicated it won't raise them from their current 0-0.25% range before 2023 and has pledged to maintain that range until the economy has achieved maximum employment with inflation averaging 2% and inflation expectations "well anchored at 2%." Inflation, based on the Personal Consumption Expenditure Deflator, the Fed's favorite indicator, was up only 1.5% in November compared with a year ago.

"Finding long-term returns will be more difficult now than it was in the last decade," said David Kelly, chief global strategist at J.P. Morgan Asset Management.

Given this backdrop of potentially moderately higher long-term yields, unchanged short-term rates and an economic recovery that's vulnerable to flare-ups of the virus, more contagious strains and vaccine distribution issues, bond strategists caution investors to expect middling returns for fixed income assets in 2021.

For example, John Flahive, head of fixed income investments for BNY Mellon Wealth Management, expects the AGG — the aggregate index of investment-grade government securities, mortgage and asset-backed and corporate bonds — will return less than 3%, compared with 7% this year.

For those investors searching for yield, many strategists are recommending moving down the credit rating scale but not below B and being selective about individual issues.

"Avoid the lowest credit quality in the corporate sector," Jones said, noting that even though a lot of companies managed to refinance their debt, they don't see a strong future for earnings or cash flow. And CCC-rated bonds "don't have a lot of upside."

"The BB-rated index has a yield around 5%, and we expect default rates have already peaked," wrote BlackRock's chief investment officer of global fixed income, Rick Rieder, in his 2021 outlook.

Elaine Stokes, portfolio manager at Loomis, Sayles & Co. expects the spread between high-yield bonds and Treasurys of comparable maturities to narrow to about 300-325 basis points from their current level, which is slightly above 400 basis points, according to the St. Louis Fed.

Despite expectations for narrower spreads in 2021, many strategists advise investors to be selective in their bond choices.

"Know what you're buying," cautioned John Queen, a fixed income portfolio manager at Capital Group. Referring to the corporate, mortgage-backed and municipal bond market, he said, "There are still opportunities, but they need to be assessed security by security, issuer by issuer and active management will play an important role."

For muni bonds, Queen stressed the importance of knowing which states will continue to do well despite the pandemic and which will experience credit deterioration. More federal aid for state and local governments would help, but that possibility remains unfulfilled.

Emerging market bonds is another fixed income asset category that strategists like for 2021 because of expectations for global economic recovery and a weakening U.S. dollar. "Emerging markets, especially Asia, have proven surprisingly resilient during the COVID crisis and could do especially well in a world of ample U.S. dollar liquidity, rebounding global growth, a weaker U.S. dollar and compressing yield/risk premiums," Rieder wrote.

ThinkAdvisor

Bernice Napach By Bernice Napach | December 28, 2020 at 01:18 PM

Fitch Ratings Updates USPF Variable-Rate Demand Obligations and Commercial Paper Criteria.

Fitch Ratings-New York-23 December 2020: Fitch Ratings has updated its "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria." This report updates the report of the same name published on Jan. 10, 2020.

The key elements of Fitch's external liquidity rating criteria remain consistent with those of its prior criteria report. Fitch does not expect to take any rating actions as a result of the updated criteria.

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

Contact:

Joseph Staffa
Senior Director
+1-212-908-0829

Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

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

Fitch Ratings Updates Criteria for U.S. Public Housing Authority Capital Fund Revenue Bonds.

Fitch Ratings-New York-22 December 2020: Fitch Ratings has published an updated criteria report titled "U.S. Public Housing Authority Capital Fund Housing Revenue Bonds Rating Criteria." The report replaces the prior report of the same title published on Jan. 18, 2019.

No changes to Fitch's underlying methodology were made, and the updated criteria are not expected to result in changes to the ratings of existing transactions.

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

Contact:
Mikiyon Alexander
Senior Director
+1-646-582-4796
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Kasia Reed
Director
+1-646-582-4864

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

Additional information is available on www.fitchratings.com

Why the Surge in Taxable Municipal Bonds?

Municipal bonds – debt issued by state and local governments and some nonprofit institutions – are attractive to investors because the interest is generally exempt from federal income taxes. As a result, investors are willing to accept a lower interest rate than they would otherwise demand, and the issuers get lower borrowing costs. But recently, there has been a surge in issuance of *taxable* municipal bonds—that is, bonds whose interest is taxable to investors. Between January and November of 2020, $129.3 billion in taxable bonds were issued (31% of all municipal bonds issued over this period), up from $67.3 billion in 2019 and $25.1 billion in 2018. Here we explain the tax treatment of municipal bonds and explore what's behind the recent surge in taxable municipal bonds.

WHAT DETERMINES WHETHER INTEREST ON A BOND IS TAXABLE?

The interest on bonds issued by state and local governments is generally tax-exempt at the federal level, unless more than 10% of the proceeds are used for trade or business activities by nongovernmental entities, including leasing a public building to a private entity for business use. And nonprofits with 501(c)3 status, including colleges and hospitals, can issue tax-exempt bonds provided that no more than 5% of the proceeds are used for private business unrelated to the nonprofit's charitable purposes. Regardless of whether the bond is taxed at the federal level, states independently determine whether they tax municipal bond interest. A 2008 Supreme Court ruling cleared the way for states and localities to exempt their own municipal bonds' interest from their own taxes while taxing interest from other state and localities' municipal bonds.

Continue reading.

The Brookings Institution

by Lorena Hernandez Barcena and David Wessel

Monday, December 21, 2020

Lowest Muni Bond Yields Aided Covid-19 Recovery.

State and local governments can reap the benefits just when they need money most.

When the coronavirus pandemic struck the U.S. in early March, among the first reported casualties was the $3.9 trillion market for states and local governments.

The yield on municipal debt sold by almost 2,000 borrowers with more than 55,000 outstanding securities hovered at 1.14%, the lowest since at least 1979, when the Bloomberg Barclays U.S. Municipal Index began compiling data. But panic suddenly seized investors, and prices suffered their biggest weekly decline in 33 years, with insurers MBIA Inc. and Assured Guaranty losing more than a quarter of their value.

"This is the worst that I have seen in terms of market reaction and illiquidity in my career," Christopher Brigati, head of municipal trading at Advisors Asset Management Inc., told Bloomberg News. "It's not unlike the 2008-09 financial crisis, but worse."

That was then. During the ensuing nine months, Congress struggled to provide a second relief package amid resurgent Covid-19 cases and deaths. This was partly because President Donald Trump and Republican senators resisted giving money to the most populous Democratic-led states, such as California, Colorado, Illinois, New Jersey and New York, which they assailed as mismanaged. These governments still arranged the most tax-exempt financing in 10 years at a cost that was the lowest in at least four decades.

No doubt the bonanza for governors, mayors and bondholders during the worsening national peril was made possible by the Federal Reserve lowering its benchmark interest rate barely above zero and the Fed's Municipal Liquidity Facility (MLF), which was set up in the pandemic as a backstop to immediate municipal borrowing. Investors stampeded back into the market, pushing the borrowing cost to 1.08%, the record low.

Anyone in a 28% tax bracket who purchased municipal bonds on March 23 when the yield on the Bloomberg Barclays municipal index surged to 3.53% has a tax equivalent total return (income plus appreciation) of 19.1%. That's because the market remains close to the record-low yield of 1.08% it hit on Dec. 21. Investors who snapped up bonds sold by Illinois and New Jersey have equivalent total returns of 24.6% and 22.2%, respectively, according to data compiled by Bloomberg. A basket of all types of U.S. debt returned just 6% when benchmark U.S. Treasuries were little changed.

Recent history suggests states and local governments, with or without federal assistance, will reap the benefits of low yields at the moment when they need money most. The relative borrowing cost for Illinois, which, at $137 billion, has among the worst levels of unfunded pension liabilities in the nation, narrowed to 50 basis points at the beginning of the year compared with the rest of the U.S., continuing a decade-long trend of historically low-cost financing. The spread has since narrowed to a level that is 10 basis points below the five-year average.

Even during the March turmoil, Illinois was poised to borrow well below the 4.78% it was forced to pay in 2008. It now has 17,000 outstanding municipal securities totaling $82 billion with an average coupon of 4.3% that can be called, or refinanced, at lower rates.

Sure enough, Chicago's O'Hare International Airport in September sold $1.2 billion of revenue bonds maturing in 2039, yielding 1.9% currently. New Jersey State Transportation Trust last month sold $1.5 billion of revenue bonds due in 2050 and yielding 3%. Proceeds from the sale will be used to fund various transportation improvements. Denver City & County Airport sold $629 million of securities maturing in 2035, yielding 2.6%. Proceeds will be used refinance existing debt at lower rates.

All told, states and local governments this year will match or exceed the decade-high $478 billion of new offerings in 2016. That's because the appetite for tax-exempt securities shows no signs of abating when the yield on municipal debt remains relatively high.

The largest exchange-traded fund investing in municipal bonds, iShares National Muni Bond ETF, issued almost 170 million shares, a record since its inception in 2007. During the second quarter, when yields plummeted from the Covid-19 peak, more than $1.5 billion flowed into fund.

To be sure, some of the market's incentives are about to go away if the Trump administration gets its way. Treasury Secretary Steven Mnuchin's decision to end the Fed's MLF — approved earlier this year under the federal CARES Act — could increase risks for many borrowers.

"New Jersey knows this better than most," Elizabeth Maher Muoio, the state's treasurer, wrote earlier this month. "On the same day that Secretary Mnuchin announced his refusal to extend the deadline for this emergency lending program," the state sold general obligation bonds yielding less than 1.95% and providing $4.28 billion of proceeds. "While we ultimately did not need to use the MLF, the facility's presence served to stabilize the municipal market in the months leading up to New Jersey's bond sale, allowing us to obtain the extremely favorable rates we received."

Bloomberg Markets

By Matthew A. Winkler

December 22, 2020, 2:00 AM PST

SIFMA US Negative Interest Rates Policy Checklist.

The U.S. Negative Interest Rates Policy Checklist describes how certain capital markets products may be impacted in the event of a U.S. negative interest rate policy, followed by a checklist of considerations that can be used by firms seeking to mobilize negative interest readiness programs within their institutions. The checklist, published by SIFMA and EY, is structured across the following key themes: U.S. negative interest rate program governance and mobilization; financial exposure analysis; contract and counterparty customer analysis; portfolio strategies and profitability; technology and operations; finance, tax and accounting; and regulatory and policy considerations.

Wall Street Muni Desks End Record Year With New Deal Deep Freeze.

- **Volume of offerings in pipeline plunges to 8-year low**
- **Lull may help prices as debt payments fuel reinvestment demand**

On Wall Street, municipal-bond underwriters are winding down a record-setting year on a quiet note.

The volume of new debt offerings scheduled for the next 30 days has dwindled to just $2.29 billion, an amount that's smaller than even the single bond issue floated by New Jersey last month. It marks the smallest calendar since December 2012, signaling that the market is effectively going into hibernation until new deals start popping up in January.

The slowdown comes after a big year for bond sales, with long-term issuance increasing about 12% to $457 billion in 2020, exceeding the previous record hit in 2016, according to data compiled by Bloomberg. The surge was driven heavily by refinancing as states and cities rushed to capture savings offered by low interest rates, with much of that coming ahead of the presidential election in case the outcome upset financial markets.

The gauge of upcoming sales captures only a fraction of what will likely be sold because many deals are done on shorter notice.

The drop-off is likely to continue into January, which may help to prop up prices. The month typically sees light bond sales as investors receive a wave of debt payments that they can reinvest.

"We will soon enter one of the strongest periods of technical strength for munis in any calendar year," Nuveen said in a note last week.

Bloomberg Markets

By Amanda Albright

December 21, 2020, 10:32 AM PST

— With assistance by Joseph Mysak Jr

[End Nears for Fed's Municipal Lending Program.]

The initiative only attracted two borrowers, but experts say it helped to stabilize the municipal bond market following Covid-driven turmoil earlier this year.

The emergency lending program the Federal Reserve launched earlier this year to support short-term borrowing by state and local governments will officially close at the end of this month, and language inserted into the massive spending and coronavirus relief package Congress just passed would ensure that lawmakers will have to give their blessing for it to be revived again.

Back around the time the Municipal Liquidity Facility was announced in early April, the coronavirus outbreak had badly shaken the municipal bond market, with investors pulling out billions of dollars and interest rates soaring. Today, experts say the program played a key role in easing this market turmoil and ensuring that states and localities could go on accessing credit.

"I think it was incredibly important and I think it did help restore confidence in the market among lenders," said Matt Fabian, a partner at Municipal Market Analytics.

The facility's shutdown is a significant shift, he said. This is because while the municipal bond market is generally doing fine now, there is still a great deal of uncertainty among investors and other state and local government stakeholders about the extent of the financial fallout from the virus. It remains to be seen how bad credit downgrades could be next year and how long the budget strain many state and local governments are now under is going to last.

"Without the MLF, we're just less secure," Fabian said. "Hopefully we don't have a shock to the market. In the best case we don't. But if we do, we're just less well prepared now."

The focus of the Fed facility was not long-term bonds, like those used to finance infrastructure, but rather shorter-term "notes" governments depend on to maintain liquidity and pay their bills.

With the Fed facility, the maximum length states and local governments could borrow was three years. States and mainly larger localities were eligible for the program—counties with over 500,000 residents and cities with over 250,000. The lending facility was scheduled to expire on Dec. 31. The new spending and relief package passed by Congress this week and sent to President Trump ensures this will be the case, for now at least.

After suggesting he could veto the package, Trump signed the measure into law on Sunday.

Pennsylvania Sen. Pat Toomey, a Republican, was a leading advocate for embedding language into the legislation to end the municipal lending program, along with other emergency lending initiatives established by the Federal Reserve. The programs were funded by the CARES Act, the large coronavirus aid measure that lawmakers approved in late March.

Toomey has argued that the Fed programs were important during the earlier days of the coronavirus crisis and were effective in preventing financial markets from seizing up. But he has also emphasized that they were designed to lapse at the end of the year and that they don't need to continue now that they've achieved their initial purpose.

“The purpose was to ensure that creditworthy borrowers could access credit through the normal channels,” he said during floor remarks over the weekend. “They worked amazingly well.”

Toomey said Democratic proposals raising the possibility of continuing, or eventually reviving, the programs are part of his motivation for wanting to make clear—in law—that the initiatives should be closed. He noted that legislation House Democrats passed earlier this year called for the Fed to offer states and localities longer-term loans, up to 10 years, at low interest rates.

“The Fed wouldn’t be playing its role, its traditional role, as the lender of last resort in a financial crisis,” he said. “It’d be the lender of first resort.”

The Municipal Liquidity Facility became operational on May 26 and borrowers who wanted to participate in the program had to notify the Fed by the start of December—no later than 30 days prior to the scheduled Dec. 31 termination date for the program—to tap it.

During that roughly six month window, two borrowers emerged—the financially troubled state of Illinois and New York’s Metropolitan Transportation Authority, an agency that had already been dealing with budget problems in recent years and is now getting slammed by a steep drop in fare revenue brought on by the pandemic.

Fabian said the fact that so few issuers used the program is a sign of its success. It helped keep the municipal bond market functioning and diminished the chances major local governments would default on their financial obligations. Meanwhile, the interest rates the Fed adopted set guideposts, during an uncertain time, for where municipal borrowing costs should be.

“It was an insurance policy,” Fabian said. “It was a backstop.”

Illinois first turned to the facility in June. The MLF purchased a $1.2 billion one-year general obligation note from the state, with an interest rate of 3.36%. That rate is lower than what Illinois paid for notes it sold on the open market in May, but higher than the cost of a pre-pandemic short-term debt sale in late 2019, a Congressional Oversight Commission report explains.

Last week, the state closed on another $2 billion borrowing through the facility, according to The Bond Buyer. Illinois Comptroller Susana Mendoza said last month that her office would use federal matching dollars to “turn the $2 billion into $3 billion” and to pay down health care-related bills and avoid late-payment interest penalties.

The Municipal Liquidity Facility also purchased a roughly $450 million three-year revenue note with an interest rate of 1.93% from the New York MTA in August. The MTA borrowed again from the facility in early December—$2.9 billion that time.

With the ability to purchase up to $500 billion in notes, the MLF never came close to getting maxed out.

Tom Kozlik, head of municipal strategy and credit for HilltopSecurities Inc., explained that a reason so few states and localities turned to the facility is that, for most of them, it was expensive compared to the very low borrowing costs in the municipal market during the year. “The market normalized after April and it was not really needed,” he added.

Democratic lawmakers and state and local advocacy groups pushed during the time the facility was available to loosen some of its guidelines so it would be open to more local governments, and also to allow for longer-term loans and lower interest rates.

Sen. Elizabeth Warren and two other Democratic senators, for instance, in a letter over the summer, urged the Fed and Treasury Department to extend the maximum loan duration and adjust interest rates for the municipal program to “at least match the generosity” offered through facilities “that lend to businesses that are of even poorer credit quality than the municipal borrowers.”

In this way, the facility began to slide somewhat into the broader, ongoing and highly partisan debate about how to best assist state and local governments during the pandemic. In general, Democrats have favored providing more aid, while Republicans recoil at the idea of “bailing out” mismanaged states.

Kent Hiteshew, a deputy associate director in the division of financial stability at the Fed, earlier this year outlined some of the limits of the Fed program, and the central bank’s approach to it.

“We cannot make grants or forgivable loans, and we cannot lend to insolvent or highly distressed entities,” he told lawmakers in September. “We measure the success of the MLF based not on its volume of lending but, rather, on the condition of the municipal securities market and state and local government access to capital.”

Despite disagreements over the program’s appropriate role and scope, Kozlik said the MLF did accomplish its higher level goals. “It was supposed to be a last-ditch facility that was there in a worst case scenario,” he said, not an alternative to the general bond market.

He predicts that if markets do deteriorate badly again, lawmakers will once more step in and find a way to offer some type of support. “It could be like the programs we saw in 2020,” Kozlik said, “or a revamp of them or something new depending upon the circumstances.”

ROUTE FIFTY

by BILL LUCIA

DECEMBER 23, 2020

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7 State and Local Fiscal Lessons from a Year Like No Other.

The COVID-19 pandemic recession has revealed major cracks in our systems of public finance, from the way we tax to the limits of fiscal federalism. We need to get to work on repairs.

As 2020 winds down, it’s the time to look back on lessons learned from the unique experience we’ve all had in the COVID-19 era, which has challenged and stressed our systems of public finance in ways not experienced since the Great Depression. For state and local governments, there are some important takeaways that should be remembered for years to come:

Progressive taxation has its drawbacks when the economy tanks. Modern public finance theory typically favors progressive taxation, in which wealthier citizens pay a larger share of their incomes, as the most equitable way to raise revenues. This is a conventional credo among Democrats and moderate Republicans, and some states have reacted by shifting their income tax structures from a flat rate to a graduated schedule. California taxes its millionaires at a 13.3 percent marginal rate that takes in capital gains on investments. With movie and sports stars, corporate execs, beachfront billionaires and Silicon Valley fat cats contributing a big chunk of revenues, the state’s progressive income tax produces huge budget surpluses whenever the stock market hits new highs.

It's no surprise that each time that happens, advocacy groups and unions line up with laundry lists of spending proposals to share the budget surplus by trickling that money down to needy residents and public employees. But the downside of this tax structure, with its over-reliance on taxing income as opposed to stabler revenue sources such as property, is that revenues collapse every time there is a recession or market crash, and the state quickly plunges into a budget deficit. That shortfall in turn ignites campaigns to raise income taxes yet further to avoid layoffs and cutbacks in an endless cycle of ratcheting and spending.

[Continue reading.]

GOVERNING.COM

GIRARD MILLER, FINANCE COLUMNIST | DECEMBER 22, 2020

[Economic Boost From Stimulus Seen as States and Cities' Best Bet.]

- **Federal package has no direct aid to cities and states**
- **Municipal governments will feel the recovery unevenly**

The federal stimulus passed by Congress this week doesn't include any direct cash to states and cities, leaving them to rely on the economic boost the aid package promises to fend off some of the deep spending cuts and budget shortfalls caused by the pandemic.

That means the recovery for municipal governments will likely be felt unevenly, dragging into late 2021 or even longer for those areas hit hardest by fiscal hit from Covid-19, according to a report by the National Association of State Budget Officers.

States saw revenue drop in fiscal 2020 after nine years of growth, and anticipate further declines in the following year, according the budget officers association. Local governments with revenues tied to battered industries, such as energy, travel, and tourism, will feel the sharpest impact.

The federal stimulus package passed by Congress this week includes billions of dollars in funding for small business assistance, education, transportation and other social programs that Moody's Investors Service said would bolster the credit of government bond issuers.

"We expect the new Covid-19 relief legislation to be accretive to annualized real GDP performance in Q1 2021 sufficient to avoid a contraction," said Jeffrey Lipton, a managing director and municipal debt analyst for Oppenheimer & Co., in a research note Wednesday.

The fate of the pandemic relief legislation, however, remains in doubt after President Donald Trump late Tuesday demanded last-minute changes to the bill.

Bloomberg Markets

By Nic Querolo

December 23, 2020, 10:00 AM PST

[The State of Local Government in the Pandemic Era: Read the Survey Results]

The local government survey of U.S. cities and counties reveals trends around COVID, remote work and digital infrastructure investments.

Local governments have done commendable work addressing urgent challenges to the way they work and serve their communities during the pandemic, while nearly all face revenue shortfalls, according to analysis of over 500 responses to OpenGov's State of Local Government Survey.

The other good news is over 60 percent of local governments represented in the survey are either using or considering CARES Act funding and other grants to modernize their technology and processes and enable staff. As always, however, there is more work to be done beyond meeting first-order needs.

The goal of the survey was to learn where towns, cities and counties across the U.S. are investing now, and what gaps they perceive across their technology, processes and talent. Survey respondents represent 501 local governments, including 113 elected officials and executive-level public leaders, 238 public finance leaders and 149 public finance staffers from small and large towns and counties across the U.S.

What is clear is that, given operational needs, local governments must move quickly to align around initiatives and make critical investments if they want to take advantage of federal and state grant funding that is currently available to make needed investments.

Continue reading.

OPENGOV/AWS | DECEMBER 3, 2020

Municipal Budget Crunch Pressures Payrolls. And Direct Federal Stimulus Isn't Forthcoming.

State and local governments won't receive direct aid if the latest version of the $910 billion stimulus package is signed into law—and when it comes to employment at municipalities, there is a lot of lost ground to recover.

The bipartisan stimulus deal that Congress passed on Dec. 21 includes $600 stimulus checks, expanded unemployment aid, and $325 billion of small-business funding, as well as extra direct funding for municipal entities such as schools, transportation, and state health-care efforts. The bill doesn't make grants to states—a topic of controversy during negotiations. And while it isn't clear if the package will be signed into law, stimulus should indirectly support municipal revenue through sales and property taxes.

"Overall, we think the agreement will allow finances to muddle through. It offers a short-term lifeline for schools, mass transit, and health care, and helps avoid the benefit cliff that was soon to occur," wrote Tom Kozlik, head of municipal strategy and credit with HilltopSecurities.

A Dec. 23 report from the National Association of State Budget Officers provides a sobering view of states' fiscal situations. Revenue fell for the fiscal year ended June 30, for the first time in a decade, according to preliminary data.

Part of the reason for the decline may be the Cares Act's tax-deadline delay to July 15. Even so, states are planning to reduce general-fund spending by 1.1% in the current fiscal year, according to the report. The second-most common way states say they are cutting back, behind "targeted cuts," is hiring freezes.

In fact, after a temporary hiring rebound in April and May, state and local governments have lost workers the past few months, according to the Bureau of Labor Statistics. This year's budget crunch and pandemic have dealt a severe blow to a sector that has historically provided nearly 15% of U.S. payrolls.

Since February, there have been roughly 1.4 million state and local government jobs lost, according to the BLS, nearly 7% of the jobs that existed in that sector before the pandemic.

That 7% may not sound too severe, as it is roughly comparable to the total share of jobs lost in the U.S. But even as the job-creation trend has continued across the total labor market, it has reversed course within state and local governments. While there have been a total of 1.5 million jobs created in the U.S. since August, state and local government payrolls have fallen by 321,000.

Excluding the worst of the job losses in May and June, state and local government employment hasn't been this low any month since 2001. Those payrolls now make up slightly less than 13% of the total U.S. nonfarm payroll workforce—the lowest proportion since at least 1975, BLS data show.

To be fair, it does look like at least 9,000 additional job losses could be avoided if the bill becomes law. Congress allocated about $4 billion in funding for New York's Metropolitan Transportation Authority, and the agency says that money will allow it to "get through 2021 without devastating service cuts and layoffs."

Schools would also get some relief from the package. That and the transit relief should provide "a good chunk of money—to start," says Elizabeth Pancotti, policy adviser at Employ America. She estimates that a "plurality" of state and local jobs lost were in education, though it isn't yet clear how many are permanent.

Even if the aid arrives, 2021 may not get off to the best start—K-12 education is slated to see the largest cuts in state general-fund spending, with enacted budgets reflecting a $7.4 billion reduction. Before the pandemic, governors had recommended an aggregate $8.1 billion increase in spending.

"Schools are just facing insurmountable costs," Pancotti says. "It's likely we'll have to come back to explore more discretionary funding."

Barron's

By Alexandra Scaggs

Dec. 24, 2020 11:00 am ET

Fitch: New Federal Aid to Steady State and Local Budgets

Fitch Ratings-New York-22 December 2020: The roughly $900 billion federal stimulus package passed by Congress on Monday night will help stabilize state and local budgets in fiscal 2021 even if it does not include direct aid to most governments, according to Fitch Ratings. However, the new bill's ability to stem recent economic declines and related effects on tax revenues is not assured and depends upon increased business and consumer confidence, which is influenced by vaccination rates.

The aid to individuals, low-income communities and small businesses included in the relief package should help boost economic activity until widespread coronavirus vaccination enables more organic economic growth. Other provisions include direct aid for education, transit and pandemic response, as well as an extension of the deadline to spend earlier federal aid to state and local governments. While the total package is considerably smaller than the nearly $3 trillion in total stimulus provided last spring, it provides immediate relief and may be followed by additional stimulus early in the Biden administration.

The spring round of coronavirus legislation provided essential economic support, boosting activity and driving tax revenue performance ahead of expectations for state and local governments, as noted in our on-demand webinar US States' Path to Economic Recovery. Economic components of the new stimulus include $284 billion to restart the Paycheck Protection Program, compared with $670 billion previously authorized; $600 stimulus payments to qualifying individuals and $600 for dependents, versus $1,200 for individuals and $500 for dependents provided under the March Coronavirus Aid, Relief, and Economic Security (CARES) Act; supplemental weekly federal unemployment benefits of $300 into mid-March, less than the $600 provided under CARES; and an extension of CARES-specific unemployment programs until they are phased out beginning in March. Fitch's December Global Economic Outlook anticipated $1 trillion in stimulus in 1Q21, which would help stop erosion in economic gains, resulting in stagnation in early 2021.

The package, similarly structured to the CARES Act, includes $54.3 billion for K-12 schools and $22.7 billion for higher education, well above the respective $13.5 billion and $14.25 billion provided under the CARES Act; $14 billion in additional transit funding, less than the $25 billion provided under CARES; and $10 billion for state transportation departments hit by declines in gas tax revenues – all of which will help alleviate fiscal pressure on state and local governments. It also provides $30 billion for vaccine procurement and distribution, with nearly $9 billion going to the Centers for Disease Control and Prevention and states. This should help cover most of the initial funding needs of state and local governments with regard to vaccination efforts, as the National Governors Association and the Duke-Margolis Center for Health Policy recently estimated public health leaders have requested at least $8.4 billion in federal funds to conduct vaccination program activities.

The legislation also includes a year-long extension of the Dec. 30 deadline to spend $150 billion provided under the CARES Act Coronavirus Relief Fund (CRF) for state and local governments. Based on guidance from the U.S. Treasury, many governments have used the CRF to address budget challenges, particularly in funding public safety and health costs. Similar to CARES, the new stimulus does not explicitly address pandemic-driven revenue shortfalls, but it does provide flexibility given the still-uncertain fiscal and economic environment.

Fitch's analysis does not assume receipt of any additional direct aid for state and local governments or higher education institutions. With at least a modest economic boost from the new stimulus and widespread vaccination on the horizon, we think direct governmental aid is less critical to financial stability than it was in the early days of the crisis.

Contact:

Amy Laskey
Managing Director, US Public Finance
+1 212 908-0568
Fitch Ratings, Inc.
Heart Tower
New York NY 10019

Eric Kim
Senior Director, Head of US State Ratings
+1 212 908-0241

Michael Rinaldi
Senior Director, Head of US Local Government Ratings
+1 212 908-0833

Sarah Repucci
Senior Director, Fitch Wire
+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.

GFOA: Looking Back at 2020

"As we approach the end of the year, a time when we traditionally look back on the past year, there's no way to avoid the fact that 2020 was a period of unprecedented challenges, uncertainty, and loss. Through it all, though, state and local government employees did what they do best – serve their communities.

As CEO of an organization that represents more than 21,000 finance officers, I am proud of the way our members confronted this challenge. By being strategic, learning from each other, and employing best-practice approaches, governments have served their constituents through everything 2020 has thrown at us.

We at GFOA are proud of the ways in which we've been able to help governments be their best."

Continue reading.

SIFMA Expects Long Term Municipal Issuance to Reach $452 Billion in 2021.

New York, NY, December 22, 2020 – SIFMA today released the results its 2021 Municipal Issuance Survey. Respondents expect total long-term municipal issuance to reach $452.0 billion in 2021, a 3.2% decrease from the $466.9 billion expected to be issued in 2020. Short-term issuance is expected to increase to $50.0 billion in 2021, a 13.9% increase from $43.9 billion expected to be issued in 2020. Including short-term issuance, total municipal issuance is expected to total $502.0 billion in 2021, down 1.7% from $510.8 billion expected to be issued in 2020.

Respondents were polled as to events that would most likely have the greatest effect on the municipal market in 2021. Federal stimulus, COVID-19 vaccine and general economic weakness/slow growth were identified as factors to have the greatest effect in 2021, followed by federal government focus on infrastructure finance.

Respondents project long-term tax-exempt municipal issuance to reach $298.0 billion in 2021, slightly down from $315.1 billion expected in 2020. Projected volume for taxable municipal issuance in 2021 is $145.0 billion, a 1.9% increase from $142.2 billion expected to be issued in 2020.3 Alternative minimum tax (AMT) issuance is expected to decrease in 2021 to $9.0 billion, down 6.1% from $9.6 billion expected in 2020.

The share of refundings is expected to decrease in 2021, with 34.0% of long-term tax-exempt issuance expected as refundings compared to 44.3% expected in 2020.

Floating rate issuance is expected to total $2.0 billion in 2020, up 3.6% from $1.9 billion in 2019.

Respondents were generally unanimous that general purpose and education would be the two largest sectors for 2021, followed by utilities and public facilities. In prior years, the general-purpose sector has traditionally been the largest issuing sector by gross amount.

Respondents expect approximately 75 issuers to default in 2021 for a par value of $3.0 billion, defined for the purposes of the survey as the occurrence of a missed interest or principal payment or a bankruptcy filing.

Following the FOMC lowering the federal funds target rate to 0 to 0.25% in March 2020, the federal funds rate (mid-point) is expected to rise from 0.13% in end-September 2020 to 0.19% by end-December 2020 and then dip down as low as 0.11% in March and June 2021 and finish back at 0.25% by end-December 2021. The two-year Treasury note yield is expected to gradually rise from 0.14% end-September 2020 to 0.26% by end-December 2021. The 10-year Treasury note yield is expected to also gradually increase from 0.68% end-September 2020 to 1.18% end-December 2021. The ratio of the yield on 10-year AAA G.O. municipal securities to the 10-year Treasury benchmark is expected decrease from 122.92% at end-September 2020 to 76.0% end-December 2020 but increase back to 85.0% by end-December 2021.

December 22, 2020

SIFMA US Municipal Issuance Survey 2021.

Respondents to the 2021 SIFMA Municipal Issuance Survey expect total long-term municipal issuance to reach $452.0 billion in 2021, a 3.2% decrease from the $466.9 billion expected to be issued in 2020. Short-term issuance is expected to increase to $50.0 billion in 2021, a 13.9% increase from $43.9 billion expected to be issued in 2020. Including short-term issuance, total municipal issuance is expected to total $502.0 billion in 2021, down 1.7% from $510.8 billion expected to be issued in 2020.

View the Survey.

December 22, 2020

[Municipal Bonds Aren’t Out of Peril.]

The initial Covid-19 shock has faded, but assuming that things are back to normal in the $4 trillion municipal bond market would be a mistake.

Investors in staid municipal bonds got a shock when the U.S. went into lockdown in March: Yields on some of the highest-quality issues ballooned to more than three times that of Treasurys of similar maturity. They usually are somewhat lower than those of Treasurys due to their tax advantages.

The dislocation didn’t last long, but assuming that things are back to normal in the $4 trillion market would be a mistake. There were two reasons for the big divergence: Investors rushed to own Uncle Sam’s liabilities—the safest, most-liquid securities in the world—to the exclusion of nearly everything else. But they also fretted that the collapse in commerce, travel and employment would crush state and local revenue.

“We have no money,” said New York Governor Andrew Cuomo in a March radio interview at the height of this spring’s emergency.

New York’s situation now looks less dire, but the damage to it and other issuers is substantial. State tax collections nationwide were 6.4% lower between March and August against expected growth of 2% to 3%, according to the Center on Budget and Policy Priorities. Cities were even worse off with an average 21% revenue drop since the pandemic began, according to a survey released this month by the National League of Cities. Meanwhile, the pandemic brought unexpected expenses.

The degree to which state and local coffers were hurt depended largely on how they raise money. Jurisdictions that rely largely on income taxes took a hit and those relying on tourist spending did even worse. Cities that fund themselves mostly on property taxes could be in fairly good shape as long as they aren’t dependent on struggling malls and office buildings.

Yet most municipal bonds don’t rely directly upon the general taxing authority of state or local governments. About two thirds are revenue bonds backed by some other stream of income. Investors should take little solace in the fact that downgrades have been muted so far. They also didn’t spike during the global financial crisis, instead peaking in 2012.

This recession is different, hitting certain parts of the economy hard. Municipal bonds backed by airports, hospitals, toll roads, universities, nursing homes or stadiums could be in particular trouble. Normally these are desirable issuers because they are paid with the asset’s revenue or from special taxes. Even a city or state’s bankruptcy might not affect them.

Some bonds in this category were surprise winners. For example, those backed by payments from tobacco sales have had a great year, outperforming even Treasurys, as people smoked more than expected. An index of tobacco-backed bonds maintained by S&P Dow Jones Indices had risen by 15.3% over the past year through Dec. 18 while two backed by higher education and transportation both were up by just 4.7%.

Investors need to look past the ledgers of individual issuers and ask what the broader impact of financial strain might be. For example, New York’s Metropolitan Transportation Authority, America’s largest public transit system, can’t legally declare bankruptcy, but it faces daunting shortfalls. Half of its revenue in 2019 came from fares and tolls, which could take years to recover. If train and subway service have to be cut back, as threatened, that would harm New York's attractiveness to commuters and tourists, with all the tax revenue they bring. Although the MTA does stand to receive some stimulus aid to delay service cuts, the city and state, along with the MTA, have been downgraded recently.

New York City is still far from its predicament in 1975 when it was hours away from defaulting after a failed appeal to Washington that sparked the famous headline "Ford to City: Drop Dead." The Federal Reserve has helped push bond yields, most munis included, to near record-lows, and has bought bonds outright through the Municipal Lending Facility. Even so, a lack of direct federal assistance to struggling cities and states in the latest stimulus package, as well as a pandemic and remote-work fueled exodus to suburbs and low-tax states, could lead to service cuts and fiscal strains for already shaky borrowers in a vicious cycle.

One saving grace has been the boom in stock prices since March. That, along with low bond yields, helps to buoy the value of trillions of dollars in public pension funds and to fuel individual capital gains taxes. But even a continuing bull market won't be enough to bail out the most at-risk retirement systems. Those in Illinois, Kentucky, Connecticut and New Jersey are less than half funded according to the Pew Charitable Trusts.

The pandemic's initial effect on the muni market might be scattered defaults in categories obviously strained by its initial effect such as hospitals, but states' cash flow problems today could hasten the market's real doomsday scenario—a state being forced to choose between shortchanging bondholders or retirees.

Much like its human pathology, Covid-19's symptoms faded quickly for most in the muni market but could continue to haunt those with weakened systems.

The Wall Street Journal

By Spencer Jakab

Dec. 25, 2020 5:30 am ET

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5 Trends to Watch in 2021 Public Finance.

- Increase of large infrastructure financings funded by the federal government – The Biden Administration is expected to continue and further advance a 2019 trend that saw the federal government spend $29 billion on infrastructure and a transfer of an additional $67 billion in infrastructure spending to states. Half of this funding went to highways with air and rail being the next biggest categories.
- Corresponding decrease of Public Private Partnerships (PPP) for infrastructure projects given more federal government funding and challenges in recent partnerships – Challenges include lack of public sector capacity and experience among private businesses; dealing with the complexity of the preparation, procurement, and management of PPP contracts; and the demand for extensive resources that can characterize these projects.
- Defaults in the area of commercial real estate debt held by REITs and financial institutions – This trend is a continuation of one that started in 2020 as banks demanded more cash collateral and borrowers halted loan payments amid the Coronavirus 19 (COVID-19) pandemic.
- Continued pressure on tourism related taxes may result in defaults in convention-based hotels and

sports and entertainment facilities – Although the introduction of COVID-19 vaccines may encourage more people to travel, it is more likely that the 2020 trends will continue and cities and states will continue to struggle to collect the tourism related taxes pledged to secure the debt issued to build publicly owned convention center hotels and sports and entertainment facilities.
- Without significant federal aid, continued decreases in municipal and state services – As it appears uncertain that the federal government will assist states and municipalities with funding emergency services necessary due to COVID-19, they may be forced to devote resources to these and halt other services.

Greenberg Traurig LLP – Warren S. Bloom and Franklin D.R. Jones Jr.

December 24 2020

How Muni Bonds Fared in 2020 and What to Expect in 2021,

Municipal bonds fared better than expected throughout 2020 despite the global pandemic and subsequent impact on state and local government budgets. With record issuance and strong investor interest, muni bonds posted robust performance during the year and their yields have largely normalized since disruptions in March.

Let's take a look at how muni bonds fared over the past year and what investors can expect in the new year.

Continue reading.

municipalbonds.com

by Justin Kuepper

Dec 23, 2020

Bond Boom Comes to America's Colleges and Universities.

Eyeing low rates and financial pressure tied to Covid-19, higher-education institutions are issuing a record amount of debt this year

Faced with a rapid deterioration in their finances in 2020, America's colleges and universities issued a record amount of bonds this year.

It is a stressful time for higher education. The coronavirus pandemic worsened existing pressures on tuition and auxiliary revenue, with international students opting to study outside the U.S. and money from room and board drying up as schools keep classes online. At the same time, demand for financial aid and costs related to providing protective gear and Covid-19 testing have jumped.

Hoping to address possible shortfalls and take advantage of ultralow rates, universities have flooded the market with debt. With few places to get a return in the bond market, investors have scooped up the issues, which in some cases offer yields of 2% or 3% for debt that matures in 15 to 30 years.

The higher-education sector “becomes attractive because it’s under pressure,” said Daniel Solender, who oversees tax-free fixed-income investments at asset manager Lord Abbett & Co., referring to rising yields on higher-education bonds as schools’ ability to navigate the pandemic came into question. The firm added more than $300 million to its holdings of such bonds this year.

“There are a lot of high-quality institutions with great reputations, great balance sheets, that will find a way to make it through this environment,” he said.

For the year through November, colleges and universities issued more than $41.3 billion in taxable and tax-exempt fixed-rate debt, including refinancings, a record since Barclays began tracking the data. The data included issuance from schools with top-notch credit ratings, including Brown University and the University of Michigan, as well as lower-rated schools like Linfield University in McMinnville, Ore., and Alvernia University in Reading, Pa.

Moody’s Investors Service MCO 1.15% in March lowered its outlook on the entire sector to negative from stable, citing uncertainties and financial challenges brought on by the pandemic. S&P Global Ratings lowered its outlook on a raft of schools in May and no longer maintains a positive outlook on a single one of the schools it rates. Attempting to help alleviate some of the pressure, more than $20 billion was allotted to public and private higher education in the latest Covid-19 relief bill passed by Congress.

John Augustine, who leads the higher-education and academic medical-center finance group at Barclays, said the bond issuance came from institutions trying to reduce their fixed costs. For some, he said, borrowing money at low rates was more attractive than dipping into their endowments at a possible cost to future generations of students.

The New York Institute of Technology refinanced $17 million in debt this summer as it sought to bolster its cash holdings, extending the repayment timeline to 2030 and lowering its annual debt service to around $3 million from upwards of $7 million.

“Trustees were concerned about the market turmoil they saw going on and how that might affect our liquidity,” said Barbara Holahan, chief financial officer and treasurer of the private university.

She said freeing up cash became a bigger priority as international student enrollment fell and expenses rose.

Part of the sector’s appeal for investors stems from the long-term maturity of college and university bonds, said Jim Costello, who heads higher-education finance at J.P. Morgan. JPM -0.44% Corporate bonds rarely last more than a decade, while higher-education bonds typically have maturity dates 30 years out.

“The AAA- and AA-rated schools are pretty unique assets to own,” Mr. Costello said. “It’s very hard for these bond investors to find very highly rated, very long-duration assets.” He said many schools already had planned before the pandemic to issue bonds this year, but that they had subsequently increased the size of their borrowing.

A further boost for the asset comes from investors’ search for yield.

After the Federal Reserve cut rates to near zero in March to help stabilize the economy, investors have reset the benchmark by which they judge the relative attractiveness of various asset classes and risks. That has contributed to soaring equity markets this year, as well as appetite for municipal bonds.

Wofford College in Spartanburg, S.C., opted for a $17.5 million private placement with Synovus Bank in September. The small liberal-arts college was refinancing existing tax-exempt debt, drawn in part by low rates.

Wofford finance chief Chris Gardner said the school wound up cutting its yield on 15-year bonds to 2.1% from 3.39%, saving about $100,000 a year.

“Everybody’s looking for some kind of yield. As low as 2% is, you can compare that to sovereign debt where you’re getting negative yields on half the countries in the world,” Mr. Gardner said.

For decades, colleges and universities largely sold bonds to finance new construction of academic buildings, dorms and sports complexes, and to tackle deferred maintenance. Like many other municipal bonds, these offerings are typically tax-exempt. Some schools issue taxable bonds because they come with fewer restrictions governing use of the funds.

Tulane University in New Orleans received $1.5 billion in orders for $187 million in debt this summer. Institutions that invested include BlackRock Inc., BLK 0.50% Lord Abbett and Vanguard Group, said Tulane operating chief Patrick Norton.

Tulane had the new bonds in the works even before the pandemic to finance new construction and refinance $25 million in existing debt. The school waited until it firmed up plans to bring students back to campus for the fall, ensuring continued cash flows, Mr. Norton said.

It locked in an all-in 3.12% yield on bonds with an average life of almost 20 years, compared with the 3.31% it got on 2017 bonds with an average life of about 12 years.

The University of Wisconsin-Madison hasn’t been as fortunate.

Unlike most public universities, the flagship can’t issue debt of its own because of state statutes. It instead participates in the state’s issuance and refinancing of tax-exempt general obligation bonds. Campus administrators have been citing the pandemic in discussions with lawmakers this fall to press for the ability to issue bonds, said Laurent Heller, the school’s vice chancellor for finance and administration.

Among other pressures, the University of Wisconsin-Madison has been hit by lost revenue related to room and board and its athletics program, whose 80,000-seat football stadium has been sitting empty since March. It has furloughed staff and made other cost cuts but still expects to have a significant budget shortfall in the fiscal year ending in June, he said.

“It’s a part of the tool kit of every major university,” Mr. Heller said. Without the ability to issue debt on its own, “we face more pressure to do immediate expense reductions.”

The Wall Street Journal

By Juliet Chung and Melissa Korn

Dec. 26, 2020 5:33 am ET

—Heather Gillers contributed to this article.

[SolarWinds Cybersecurity Exploit: What Water Providers Need to Know and Do - Nossaman]

In light of the major cybersecurity breach of the SolarWinds Orion software by malicious actors, the Water Information Sharing and Analysis Center (WaterISAC) recently issued a series of advisories providing guidance for water providers across the country on how to respond and react to this unprecedented cyberattack.

As highlighted in the WaterISAC advisory issued on December 16, 2020, the Environmental Protection Agency has recommended that all water and wastewater utilities review the Cybersecurity and Infrastructure Security Agency's (CISA's) Emergency Directive 21-01 for mitigation procedures. While Emergency Directive 21-01 is specifically directed at federal agencies, it provides helpful steps that water providers can take to mitigate the potential impacts of this widespread attack that has impacted major international institutions.

The latest information about the SolarWinds cybersecurity exploit can be found on the website about this incident maintained by SolarWinds. It was first reported to the National Security Agency by cybersecurity firm FireEye, who has published a detailed blog post on this incident and shared a GitHub page with recommended detection countermeasures.

The incoming Biden Administration, echoing testimony this week on Capitol Hill from the former head of the Department of Homeland Security's CISA, stated that cybersecurity must be a top priority for the incoming Administration and Congress because America is vulnerable. We will continue to track and provide updates on this topic.

By Hon. Chris Carney, Willis Hon on 12.23.2020

Nossaman LLP

The 'Highway Boondoggles' That the Pandemic Hasn't Killed.

The U.S. Public Interest Research Group singles out seven highway projects deemed especially wasteful in a coronavirus-challenged year.

Fun fact: A century ago, the word "boondoggle" referred to the boxy lanyards that kids weave at summer camp. It gained its other meaning in the mid-1930s, after U.S. news reports revealed that a federal New Deal program was paying jobless workers to learn and teach the craft to disadvantaged youth. President Roosevelt's critics latched on, and while his administration defended and continued its policies, the term became synonymous with useless government spending.

Nearly 100 years later, arguments over what constitutes wasteful expenditures take on a more existential tenor as the U.S. faces a public health crisis and runaway global warming. Released this month, the U.S. Public Interest Research Group's sixth annual report on highway boondoggles is an example: It calls out "seven budget-eating highway projects slated to cost a total of $26 billion that will harm communities and the environment, while likely failing to achieve meaningful transportation goals."

Continue reading.

Bloomberg CityLab

By Laura Bliss

December 17, 2020, 1:05 PM PST

The Biggest Names in Municipals Reflect on an Unprecedented Year.

- **Pandemic hastened transition from rates to credit focus**
- **'It is much more exciting than ever before,' says Heppolette**

The municipal bond market's top bankers say they're worried about the continued impact of the pandemic next year, potential hiccups with vaccine distribution, a lack of federal aid to state and local governments and possible waning demand from investors.

Bloomberg News surveyed the heads of public finance at the market's top investment banks about how they fared in 2020 and their outlook for 2021. They say the $3.9 trillion market's resilience was on full display earlier this year when municipals experienced a record-setting sell-off and a quick rebound that has state and local debt returning 5%, heading for the seventh straight year of gains.

John Heppolette, Citigroup Inc.'s head of municipal markets and finance, said "the only thing more surprising than the most dramatic selloff in muni bond market history was the speed of the recovery."

Here's what the group had to say:

Continue reading.

Bloomberg Markets

By Danielle Moran

December 18, 2020

What a Joe Biden Win Means for Munis and Taxes.

Stephanie Larosiliere of Invesco talks about how a Joe Biden administration will impact municipal bonds and taxes. She spoke to Taylor Riggs on Nov. 18.

Watch.

Bloomberg Markets

December 18th, 2020

Cities Save Hotels, Arenas From Bond Defaults After Pandemic Hit.

- **Pledges to backstop debt raise new financial challenge**

- **Akron, Ohio, theater saved: 'There's a lot of history there'**

Cities across the U.S. are having to step in to keep civic projects from defaulting on bonds after months without events or public gatherings, dealing governments a fresh financial hit from the pandemic.

In Maryland Heights, Missouri, a St. Louis suburb, officials replenished the depleted reserves of an ice-skating and concert venue. San Antonio, Texas, used its hotel-tax revenue to help a Hyatt-run hotel make debt-service payments in July and plans to do so again in 2021. Akron, Ohio, in November honored its pledge to cover the debts of a nearly century-old downtown theater.

Such rescues are among the first of what may be many in the municipal-bond market, reflecting governments' decisions to guarantee bonds sold for stadiums, convention centers and other projects that promised to revitalize cities. Those businesses' revenues have dried up since March and it's unclear how soon they will recover once coronavirus vaccines allow American life to return to normal.

"It's an unprecedented crisis — these are structured to try to address that possibility," said Thomas Hazinski, a managing director at consulting firm HVS, which specializes in tourism and entertainment projects.

Debt for such projects is usually repaid by the revenue they generate or specific cash streams earmarked by cities and counties. But some local governments have also pledged to extend their own money, providing crucial support that helped increase bond ratings and drive down financing costs.

Making Good

With tourism battered by the 9-month pandemic and mass gatherings shut down, some local governments are having to make good on those pledges.

Maryland Heights, Missouri, had to step in and help even before its ice center and music arena got a chance to fully debut. Financed with $55.5 million of bonds, the ice center opened in 2019, only to close less than a year later because of Covid-19. It has since reopened. The arena, which had an agreement with events promoter Live Nation and was set to open in May 2020 with a concert featuring Kesha, had to cancel all its shows for this year.

As revenue from ticket sales and concessions disappeared, the price of some of the bonds sold for the project due in 2039 tumbled, indicating concern among investors. Then the city council transferred more than $38,300 from its general fund to a reserve account for the bonds, part of its commitment to set aside $625,000 each year to backstop the senior debt's reserve account. That buoyed confidence, with the bonds trading at nearly 92 cents on the dollar.

David Watson, the director of finance for Maryland Heights, said the payment wasn't a major challenge this year, given that the city received one-time federal aid that will help offset an estimated $6 million to $7 million shortfall. But the longer-term support for the bonds could be an issue given the uncertainty of Covid-19.

"We think it's going to be successful," Watson said. "But we certainly would like people to come out and be able to enjoy it."

Common Support

The local government guarantees are especially common among debt issued for convention centers and hotels that cities have built to lure in the type of business conferences that have since disappeared.

San Antonio, Texas, helped make debt service payments on bonds for a convention-center hotel run by Hyatt that was financed with municipal bonds in 2005. At the same time, the city had to institute a civilian pay and hiring freeze and slashed its fiscal 2021 budget by about $4.4 million compared to last year.

In July, the city used about $338,000 in hotel-tax revenue for a debt service payment, and is expecting to do so again in January and July 2021, amounting to an estimated $13.5 million. The city said it expects to be repaid.

In Myrtle Beach, South Carolina, the city in 2015 provided a “limited” guarantee to replenish withdrawals from debt-service reserve fund for $16.4 million of bonds sold for a convention-center hotel. It had to tap those reserves in October, according to regulatory filings, and if the hotel doesn’t generate enough revenue the city will be on the hook to replenish the $28,064.90 withdrawal. It may also have to provide $150,000 in the next year for an insurance reserve fund tied to the project.

Michelle Shumpert, the city’s chief financial officer, said tax revenue from short-term stays in hotels or other rental spaces were down about 35% in the first quarter of the fiscal year. Still, she said they expect a revival after vaccines are widely used, given the area’s popularity with beach-goers.

“We tend to rebound rather quickly,” she said.

More Help

Other projects will need even more help. The Washington State Convention Center, which tapped the municipal market for $1 billion in financing in 2018 for an expansion, is seeking about $300 million in loans from the state, King County and Seattle to help finish the expansion, according to Jeff Blosser, chief executive officer.

The financing district that sold bonds already used certain lodging tax revenue to pay debt service rather than send it to the state. That counted as a nearly $14.3 million loan that the district will have to repay the state.

Allison Dyer, senior counsel at Holland & Knight, said the bond guarantees are a tool that municipalities have to support the projects. “Without those, these projects do not get built,” she said.

Akron, Ohio, extended such a guarantee nearly 20 years ago to restore the Akron Civic Theatre, a landmark built in 1929 that is one of five remaining theaters of its kind in the U.S. In late November, the city received notice that it would need to step in to cover debt service for December, or $45,452.98, according to a regulatory filing.

“There’s a lot of history there,” said Steve Fricker, Akron’s director of finance.

Bloomberg Markets

By Amanda Albright

December 15, 2020, 7:00 AM PST

— With assistance by Stephen Gorin

[The Unpredictable Future of Publicly Funded Stadiums.]

Despite the positive news on the COVID-19 vaccine and the federal government's efforts to mass inoculate the American public by mid-2021, there is no foreseeable future for any large gatherings, including sporting events and business conferences in the United States – perhaps reflecting a permanent shift in this large crowd sector.

In 2020, the mass cancellation of events in sporting arenas and convention centers due to social distancing guidelines and the public fear of gathering was detrimental for their revenue streams, adding to the insurmountable pressure that already existed for local and state economies.

In this article, we will take a closer look at how publicly funded sporting areas and convention centers, once considered to have been the cash cows for local economies, are adding to the fiscal strain with no clear solution in sight.

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Dec 16, 2020

Fed's Daly Welcomes More Fiscal Aid as Stimulus Deal Nears.

- **'This support in unequivocally beneficial,' Daly says of plan**
- **San Francisco Fed chief 'bullish' on post-Covid labor market**

Another $900 billion of fiscal support would "absolutely" make a significant difference to the U.S. economy's ability to endure Covid-19, but "challenging months" lie ahead, a top Federal Reserve official said.

"This support in unequivocally beneficial," Mary Daly, president of the Federal Reserve Bank of San Francisco, said on CBS's "Face the Nation" on Sunday, after congressional negotiations cleared the last significant obstacle for pandemic relief, setting up a possible vote later in the day.

The proposal had been held up by a dispute over the future of Fed emergency lending programs, which was resolved by changing language restricting what the central bank could do in the future to make it less sweeping.

Daly said she wasn't privy to the details of the negotiations but stressed that the Fed's powers were there for the benefit of all Americans.

"I believe completely that Congress, the Federal Reserve, the Treasury Secretary, the American people, really want us to be able to deploy our full tools" to their best benefit, she said. "Remember, these are emergency too, we only bring them out in times of crisis and then we put them back away."

Republican Senator Pat Toomey of Pennsylvania has insisted the stimulus bill include a provision barring the Fed from resuscitating various lending programs, including to Main Street businesses, corporations, and municipalities.

Democrats objected that this would harm the Fed's ability to react to future economic crises and threaten its independence. A compromise was being explored and Senate Democratic leader Chuck Schumer told reporters late Saturday that negotiators were "very close."

Daly said that massive policy support from the Fed and Congress had been vital in propping up the U.S. economy since the pandemic struck in March "to ensure that the bridge through coronavirus -- over coronavirus -- is both strong enough and long enough to get Americans fully through this."

Fed officials last week forecast their benchmark lending rate would be held around zero for at least the next three years. They also revised up their economic growth forecast for next year to 4.2% from 4%, and lowered their unemployment forecast to 5% from 5.5%.

As virus cases surge again across the U.S. and new restrictions are imposed, the economic recovery risks slowing further at a time when more than 10 million are unemployed.

"I'm bullish on the job market once we get fully through coronavirus but we're not there yet," Daly said. "So our future is bright, but we've got some challenging months ahead of this."

Bloomberg Markets

By Alister Bull

December 20, 2020

[With No Federal Help Coming, Cities Cling to the Financial Cliff.]

State and local governments have been left out of a Covid stimulus deal, even as nearly 3 in 10 cities say they will be "significantly impacted" without federal relief.

No level of government has escaped harm or fiscal damage related to the coronavirus crisis. But the fluctuations in municipal revenue caused by the pandemic — left conspicuously unaddressed by the latest version of a federal stimulus bill — reflect both long-term trouble for U.S. cities and the deeply uneven state of local economies.

As of Friday, the $900 billion Covid-19 stimulus bill, negotiated in tandem with a $1.4 trillion stopgap funding package to keep the government open, includes money for vaccine distribution and schools, $300-a-week jobless benefits, roughly $330 billion in new small business loans, and a new round of $600-per-person stimulus checks. But relief for states and cities that have been hammered by revenue losses does not appear to be forthcoming.

The lack of direct aid in the deal means that Congress has "abandoned American cities," said Mayor Greg Fischer of Louisville, Kentucky, president of the U.S. Conference of Mayors, in a statement. "There is no doubt that the pandemic has wrecked the budgets of local governments from coast to coast, and Washington's unwillingness to help will cost people jobs and make communities less safe. Nearly 1.3 million state and local government employees lost their jobs over the last year — exceeding the total number of public sector jobs lost during the Great Recession. History has shown us that we cannot have a strong economy without strong cities. Congress is now making it much harder for our economy to rebound."

Continue reading.

Blooomberg CityLab

by Patrick Sisson

December 18, 2020, 1:22 PM PST

[Republicans Bind Virus Aid to Limit on Fed Lending, Risking Bill.]

- **Democrats warn move would handicap Fed crisis fighting tools**
- **Dispute could derail virus relief talks as clock ticks down**

A bid by Republicans to constrain the Federal Reserve's crisis lending programs is threatening to derail negotiations on a pandemic relief plan and has drawn the incoming administration of President-elect Joe Biden into the 11th hour fight.

Senator Pat Toomey, a Republican from Pennsylvania, wants a provision in the relief bill that would bar the Fed from restarting five programs that expire at the end of the year, or create similar ones going forward. The roughly $900 billion proposal being debated by Congress, would, among other things, extend support to out-of-work Americans and thousands of small businesses.

While Toomey said the language only would affect a "narrow universe" of Fed facilities, Democrats in Congress have accused Republicans of trying to hamstring the incoming Biden administration.

Brian Deese, whom Biden has picked to be director of his National Economic Council, said in a statement that the relief package "should not include unnecessary provisions that would hamper the Treasury Department and the Federal Reserve's ability to fight economic crises."

Democratic aides said the dispute over Fed lending powers is the biggest issue impeding final negotiations on coronavirus relief. Lawmakers are aiming to attach the aid to a bill funding the government, and a delay risks triggering a partial government shutdown after midnight Friday when current spending authority expires. Congressional leaders are trying to extend the deadline with another stopgap spending measure, but that too has become entangled in the wider debate on relief.

The Fed's aggressive action to provide liquidity and back-stop corporate America helped stem panic among investors that threatened to seize up financial markets as the pandemic took hold in March. The central bank opposed the Trump administration's Nov. 19 instruction to wind up several of those facilities but said it will comply with the request.

Fed Chair Jerome Powell and his colleagues have made plain their opposition to any measures that limit their emergency lending powers. They have repeatedly and publicly stressed the facilities played an important backstop role in supporting the economy during the pandemic.

A Fed spokesman declined to comment.

Legal exports said the prohibition on the Fed creating similar facilities could inhibit its response to future financial emergencies.

'Significant Change'

Jeremy Kress, an assistant professor of business law at the University of Michigan and a former Fed attorney, said this would be a "very significant change" in the Fed's emergency lending powers.

“I am concerned that this provision would tie the Fed’s hands not in the short term during the coronavirus pandemic, but also handcuff the Fed in the long-term when responding to unforeseen crisis in the future,” he said.

The language isn’t clear about how much any future lending facilities would have to differ from the Cares Act programs to not be considered “similar,” Kress said.

Toomey said the language will only apply to the five programs set to expire soon and wouldn’t change the Fed’s current powers.

“The language Senate Republicans are advocating for affects a very narrow universe of lending facilities and is emphatically not a broad overhaul of the Federal Reserve’s emergency lending authority,” he said in a statement.

Unusual and Exigent

Section 13(3) of the Federal Reserve Act allows the central bank to create emergency lending programs during “unusual and exigent circumstances” and with approval from the Treasury Department. It was invoked by Fed Chair Jerome Powell and his colleagues to launch a barrage of programs over the spring to shore up markets for everything from U.S. government bonds to the debt of corporates and cash-strapped municipalities.

The unprecedented scale and scope of their move was decisive in restoring order to markets that had been on the verge of seizing up.

Several of those facilities were backed with funds appropriated by Congress in the Cares Act, including support for small and medium-sized Main Street borrowers.

Democrats say that including the new language in the bill would fundamentally change the Fed’s ability to respond to the pandemic and future economic crises. Republicans say this would prevent the unused money — some $455 billion — from being used for unintended reasons.

“It would just force accountability and consensus rather than allow unilateral action,” Senator John Cornyn, a Texas Republican, said in a tweet Friday. “Shouldn’t leave it lying around so it could be used for unapproved purposes, like a back door to more state and local aid.”

The central bank has already seen its 13(3) powers narrowed after the 2008 financial crisis, when it was criticized for overstepping its authority and venturing into fiscal policy terrain. The Fed now has to seek Treasury approval before launching an emergency facility. Adding Congress to that mix might make it too cumbersome for the Fed to respond in a swift manner during a crisis, said Stephen Stanley, chief economist at Amherst Pierpont Securities.

“I don’t know that I like the notion of Congress actually stipulating when these facilities can or can’t be created or used,” Stanley said. “If it’s written in a way that makes it hard or impossible for the Fed to have the ability to engage in 13(3) lending without congressional action then I think it makes it more difficult in future crises to prompt a response.”

Bloomberg Politics

By Catarina Saraiva and Laura Davison

December 18, 2020, 11:46 AM PST

[Mayors Pessimistic About Cities' Prospects for Post-Covid Rebound.]

Concerns highlighted by the Menino Survey of Mayors include possible deep cuts to local education and the changing economic landscape for local businesses.

A new survey finds U.S. mayors are pessimistic about the ability of their cities to economically recover from the coronavirus pandemic—expressing particular concern over anticipated education budget cuts and the closure of small businesses.

Forty-five percent of mayors said they expect “dramatic” cuts to K-12 school budgets and fewer than 10% expect childcare and public schools to return to normal before next year, according to the Menino Survey of Mayors conducted by the Boston University Initiative on Cities.

The survey also highlights the concern that local government leaders have for their cities’ economies and the financial stability of residents.

Businesses like live entertainment venues, hotels and restaurants face significant financial difficulties, either unable to open at all during the pandemic or forced to significantly curtail how many people they serve at one time. In New York, for example, as many as a third of small businesses could shutter for good amid the economic turmoil.

The Menino survey found that only 36% of mayors expect new businesses to quickly replace those that permanently closed due to the pandemic, while 60% said downtown office buildings will become “less desirable” as employees continue to work remotely.

The survey collected responses from 130 mayors representing cities with more than 75,000 residents between June and August.

Researchers said mayors’ responses this year stood in stark contrast to their generally optimistic views expressed in previous surveys.

“This year, while we still hear glimmers of optimism, their pessimism in the face of a once-in-a-century pandemic is palpable,” said Graham Wilson, director of Boston University’s Initiative on Cities. “And with the pandemic still spreading and the federal government still unable to come to an agreement on additional stimulus, we suspect mayors may actually be underestimating just how much their cities will change.”

Since the CARES Act was passed in March, congressional lawmakers have struggled to come to an agreement over additional coronavirus relief funding. Negotiations between Democrats and Republicans stalled out ahead of the November election, but a bipartisan effort to restart discussions emerged this week with the introduction of a $908 billion coronavirus aid proposal.

State and local government leaders have continued to press Congress for more direct financial assistance to respond to the coronavirus. And the Menino survey found many mayors believed that the federal economic aid fell short of the needs of local businesses and economies. Only 13% of mayors said the Paycheck Protection Program, which provided forgivable loans to businesses, provided enough money to meet local needs. In their responses, several mayors highlighted the disparities in the banking system that made it more difficult for small and minority-owned businesses to obtain PPP funds.

Mayors also expressed concern over the disproportionate effect the pandemic is having on minority groups, which have faced higher Covid-19 infection rates. Two-thirds of mayors said they expect Latinos, renters, immigrants, and Black residents would continue to feel at least “a lot” of economic harm next summer. And 80% of mayors said the coronavirus pandemic is widening racial health disparities.

In the early months of the pandemic, cities explored a variety of initiatives to try and help residents and local businesses. The survey found residential eviction moratoriums were one of the most popular initiatives, with 81% of mayors supportive of moratoriums and 56% of cities enacting moratoriums shortly after the pandemic hit.

Other local initiatives that mayors reported utilizing included direct financial support, including grants (35%) or utility bill or tax forgiveness (16%), and regulatory relief (30%), including initiatives to loosen restrictions to allow outdoor dining or alcohol to-go.

ROUTE FIFTY

by ANDREA NOBLE

DECEMBER 3, 2020

Andrea Noble is a staff correspondent with Route Fifty.
