Bond Case Briefs

Municipal Finance Law Since 1971

Finance

How Civic Tech Got a Pandemic Upgrade.

For many cities, Covid-19 was a catalyst for boosting their digital presence and shifting services online. Here's what's driving municipal technology's much-needed reboot.

Cyd Harrell was driving through San Francisco's Golden Gate Park on a chilly day in June 2011, when her seven-year-old daughter asked why the sprinklers were on. It was a waste of water, she said, and they had to do something.

"You can't say no to your kid," Harrell says. "But I had no idea at that time who I would call about that."

So she tweeted the city's 311 line, for reporting non-emergency situations. Shortly after, the sprinklers were turned off.

Continue reading.

Bloomberg CityLab

By Jennah Haque

November 17, 2022

Muni Market Getting Better: Kayne Anderson's Friedricks

Kim Friedricks, Kayne Anderson Rudnick managing director of fixed income, says she's finding attractive opportunities in the municipal bond market. She speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

November 16th, 2022

Managing Social Risks and Addressing Racial Inequities in the Muni Bond Market.

ImpactAlpha, Nov. 14 – "Elevate and Rise" bonds in Denver. ESG-labeled bonds in Chicago. Social

bonds in New York.

Cities that issue hundreds of billions of dollars in municipal bonds each year are trying to identify how the proceeds address longstanding racial inequities. It reflects the growing sophistication of bond issuers in managing social risks – and reducing their cost of capital.

There's at least anecdotal evidence that markets are rewarding efforts to build more affordable housing, stimulate equitable post-pandemic growth and fund greater access to healthcare.

Case in point: New York City, one of the largest issuers of municipal debt in the country. The city in September attracted more than $1.8 billion in investor interest for the city's first bond with a 'social' label, a $400 million issue for affordable housing.

Continue reading.

Why Munis Could Become a Lot More Attractive in 2023.

The Federal Reserve's efforts to contain inflation have taken a toll on the bond markets in recent months. Since the beginning of the year, the iShares Core U.S. Aggregate Bond ETF (AGG) is down more than 16%. While that's better than the S&P 500 Index, it's significantly worse than simply holding cash in a high-yield bank account.

With the economy heading into a recession, the central bank's interest rate hikes could slow over the coming quarters. The slowdown in interest rate hikes could help stabilize interest rates, making the bond market more attractive, particularly as a safe haven. And, thanks to its unique characteristics, the municipal bond market looks especially attractive.

Let's examine why the muni bond market looks so inviting and where investors can seek out the best opportunities.

Continue reading.

municipalbonds.com

by Justin Kuepper

Nov 09, 2022

High Yield Muni Bonds Present New Opportunities.

With aggregate bond indexes flailing this year at the hands of rising interest rates, fixed income investors are understandably frustrated and wary about the asset class at large.

However, this year's turbulence could be giving way to opportunities in the bond market, including with municipal bonds. Some experts might argue that sentiment extends to high yield munis, which are accessible via exchange traded funds such as the VanEck High Yield Muni ETF (HYD A-) and the VanEck Short High Yield Muni ETF (SHYD C+).

Helped by its short duration, SHYD is outpacing the Bloomberg US Aggregate Bond Index this year. With yields elevated across the muni spectrum, both HYD and SHYD could be worthy of consideration by income investors.

“The yield on the Bloomberg U.S. Aggregate Bond Index stood at about 5.0% as of the end of October. Yields for the Bloomberg Municipal Bond Index edged up to 4.1%, while the high-yield municipal benchmark yielded 6.3%,” noted Morningstar analyst Amy Arnott.

For its part, the $3 billion HYD sports a 30-day SEC yield of 4.81%, while SHYD features a 30-day SEC yield of 4.23% — impressive considering the ETF’s effective duration of 4.46 years. On a standalone basis, these yields are impressive, but there’s more to the story.

Historically, the higher a bond’s starting yield is when an investor purchases it, the better the investor’s odds are of positive outcomes. Second, the yields currently found in the municipal bond segment are unusual relative to historical norms.

“Munis haven’t always offered such a generous yield advantage. As of December 2019, for example, the gap between taxable and tax-equivalent yields for funds in the muni-national intermediate category was only 3 basis points for investors in the 32% bracket and 10 basis points for investors in the 35% tax bracket. Investors in the top 37% bracket could eke out 20 additional basis points versus the average intermediate-term core bond fund,” added Arnott.

Of course, “high-yield” could give some investors pause, but when it comes to HYD and SHYD the credit quality found within the ETFs isn’t alarmingly “junky” and municipal bonds across the ratings spectrum are backed by strong fundamentals, indicating default rates are likely to remain low for the foreseeable future.

“With unemployment still running at historically low rates, state and local governments have also been collecting more revenue from income taxes and property taxes. Many municipalities have used this extra cash to build up their reserves, which should help cushion the blow if a weaker economy leads to lower tax revenue,” wrote Arnott.

etfdb.com

by Tom Lydon

Nov 18, 2022

U.S. States — Revenue and Economic Monitor 4Q22 (Economic and Revenue Moderation Anticipated Amidst Inflation Headwinds) - Fitch Special Report

Fitch Ratings has made sharp cuts to U.S. GDP growth forecasts for 2022 and 2023 on weak incoming data, much more aggressive than anticipated Fed monetary tightening and the downturn in Europe. A mild recession is now expected in mid-2023. State tax collections expanded 14.8% yoy in the last 12 months ending (LTME) in June 2022, which, although impressive by historical measures, represented a notable deceleration from the 24.3% yoy tax revenue expansion of the prior year. Importantly, this deceleration does not account for the shift in income tax filing deadlines, which inflated LTME June 2021 numbers considerably. Both years were well above the pre-pandemic average of 4.4% yoy growth. Furthermore, elevated wage and goods price inflation likely contributed to growth in tax collections.

ACCESS REPORT

Tue 08 Nov, 2022 – 2:00 PM ET

Fitch: US State Tax Collections, GDP, and Job Recoveries Still Strong Despite Looming Recession

Fitch Ratings-New York-08 November 2022: U.S. state tax collections expanded 14.8% yoy in the LTM ending in June 2022, with all states experiencing revenue gains, according to Fitch Ratings.

“The surge in consumer spending and personal income that powered fiscal 2021 state tax revenues out of the deep, but short-lived, 2020 ‘pandemic recession’ is showing early signs of moderating,” said Olu Sonola, Head of US Regional Economics. “Although impressive by historical measures, the 2022 gain is a deceleration from the 24.3% yoy tax revenue growth of the prior year (which was also supported by delayed income tax payments carried over from fiscal 2020 into fiscal 2021).”

States with some of the slowest growth in 2021 rebounded to be among the fastest growing in LTM ending June 2022. Alaska stands out as the top performer in LTM ending June 2022, with tax collections up over 160% yoy after a 19% drop in LTM ending June 2021. Elevated wage and goods price inflation likely contributed to growth in tax collections.

Yoy real GDP growth for states was mixed at the end of 2Q22. Idaho, Tennessee and Florida were the top three fastest growing states in this period, with New York, Nevada and North Carolina close behind. Nine states realized declines in real GDP yoy in 2Q22. Alaska, Louisiana and Iowa were the hardest hit states, with Oklahoma, North Dakota and Wyoming following closely.

Through September, the median jobs recovery rate for states was 98%, up nine percentage points from 1Q22. Twenty-three states have now recovered all job losses connected to the pandemic’s onset. Several deserve special note, including recoveries in Utah at 172%; Idaho at 168%; Texas at 142%; North Carolina at 136%; and Florida at 133%. The states with the weakest employment recoveries are Hawaii at 69%; Alaska at 71%; Vermont at 79%; and Louisiana at 80%.

Notably, LTM ending June 2022 tax collections continued to outstrip both GDP and personal income growth, suggesting that the cessation of direct federal stimulus to taxpayers by late 2021 had little effect on consumer behavior.

For more information, a special report titled “U.S. States — Revenue and Economic Monitor 4Q22” is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Fitch: U.S. Job Recovery Maintains Remarkable Pace Despite Inflation and Recession Risk

Fitch Ratings-New York-10 November 2022: Most states reported solid employment growth in 3Q22, with the state median jobs recovery rate at 98 percent – up six percentage points from 2Q22, according to Fitch Ratings.

Indiana, Nebraska, Missouri, New Jersey, Alabama, Arkansas, Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Texas, Virginia, Arizona, Colorado, Idaho, Montana, Nevada, Oregon, South Dakota, Utah and Washington have all achieved full job recovery, while recovery lagged in Alaska, Hawaii, Louisiana and Vermont.

“The full post-pandemic employment recovery milestone was reached in July 2022. The latest U.S. unemployment rate is at 3.7 percent, just shy of the 50-year low of 3.5 percent,” said Olu Sonola, Head of U.S. Regional Economics. “The demand and supply imbalance is very significant, equal to approximately 2.9 percent of the labor force, or roughly 5 million workers.”

Job growth in Florida, Georgia, North Carolina and Texas has seen a marked shift in recovery toward high wage sectors. Forty states have fully recovered all high wage jobs lost to the pandemic; 16 states have recovered all mid-wage jobs; and 20 states have recovered all low wage jobs.

Wage growth, particularly in the lowest wage quartile where labor market shortages are most chronic, has surged since 2021. Elevated job openings-to-unemployed and quit rates further point to a very tight labor market.

The median unemployment rate of 3.4 percent at the end of 3Q22 remains below the February 2020 pre-pandemic median rate of 3.6 percent, and below pre-pandemic levels in 30 states.

For more information, Fitch’s report “U.S. States Labor Markets Tracker” is available at www.fitchratings.com.

S&P US Municipal Bond ESG Recap - Q3 2022

View the S&P report.

GFOA Capital Planning Resources.

GFOA's Executive Board recently approved a revision to the Multi-Year Capital Planning best practice. View updated guidance as well as other best practices, resources, and case studies related to capital planning and infrastructure.

CLICK HERE

Black Tax: Evidence of Racial Discrimination in Municipal Borrowing Costs

Municipalities with higher proportions of Black residents pay higher borrowing costs to issue bonds rated by credit rating agencies compared to other cities and counties that issue within the same state and year. These higher costs are unexplained by credit risk, more pronounced in states with higher levels of racial resentment, and robust to state-tax incentives to hold municipal bonds. The findings illustrate that racial bias can increase borrowing costs, particularly in states where racial resentment is severe. In time-series tests using presidential and gubernatorial election periods during which racial resentment has been shown to intensify, we find that the differences in borrowing costs also increase. Collectively, the findings illustrate that racial bias can increase borrowing costs, especially where racial resentment is severe.

We focus on rated bonds offered directly by U.S. cities and counties from 1990 to 2019. Controlling for credit risk, our main finding is that a one-percentage point increase in the total proportion of Black residents in a municipality is associated with a 0.44 basis point increase in total annualized costs. For example, in 2019 the municipalities in our sample raised a total of $77 billion from rated municipal offers. When we take the product of our cost estimate (0.44 basis points), each municipality's percentage of Black residents, and each offer's issue amount and maturity, we find that the Black Tax costs these communities a total of $110 million. This is notable since the sample is national and therefore includes cities and counties with relatively little racial diversity as well as those with higher concentrations of Black residents. Regional analysis suggests that there are areas, such as the Western states, in which municipalities pay a penalty as high as two basis points. We also find some evidence that cities and counties with higher proportions of Hispanics pay higher borrowing costs.

Download the full paper.

The Brookings Institution

by Ashleigh Eldemire, Kimberly Luchtenberg, and Matthew Wynter

Wednesday, November 9, 2022

The 'Black Tax' Plagues Small Municipalities. Can Bond Banks Help?

An old idea is finding new life in the municipal bond market, where a stubborn complacency with conventional ways of doing things is being challenged by a fresh crop of market participants.

The status quo has long meant that smaller, poorer, public entities – often communities of color – face hurdles when they try to borrow in the muni market. What's sometimes called the "Black Tax" can add nearly half a percentage point to borrowing costs for municipalities with higher proportions of Black residents, recent research shows.

Bundling bond deals from multiple municipalities through state agencies known as bond banks is a time-tested way of achieving economies of scale, with benefits for both issuers and investors. Now, bond banks are getting a new look as a possible tool for not just mitigating inequities, but tackling them proactively.

Continue reading.

impactalpha.com

by Andrea Riquier

November 9, 2022

Voters Approve Tens of Billions of Dollars in Muni Projects.

The resulting bond sales are poised to fund roads, schools and other local projects while offering a new supply of debt for muni investors

U.S. voters said yes to tens of billions of dollars for road-paving, school-building and other local projects last Tuesday, promising a new wave of bonds for eager investors.

The voters approved $57 billion out of the $63 billion in ballot measures for which results are available, according to data from S&P Global Market Intelligence. If that 90% approval rate holds steady, the total amount of new municipal debt authorized Tuesday will come to about $90 billion, the most from any election day in the data, which goes back to 2012.

State and local governments have pulled back on borrowing this year, issuing $257 billion in tax-exempt debt through October, down 7.5% from the same period last year. Higher interest rates and inflation are driving up construction costs, leaving some public officials wary of new projects. Others still have pandemic aid and elevated tax revenue from last year's stimulus-fueled economy to draw on.

Continue reading.

The Wall Street Journal

By Heather Gillers

Nov. 13, 2022

It's Been a Good Election Year for Transportation Funding.

Nationwide, voters approved most of the proposals on the ballot to fund roads and transit,

unlocking billions in new revenue for projects.

Transit advocates scored a big victory in suburban Detroit Tuesday, when Oakland County, Michigan voters approved a plan to raise property taxes and institute countywide bus service for the first time.

It was one of many victories that transportation groups hailed after this week's election, when the vast majority of ballot questions to fund roads and transit sailed to victory.

Across the country, 14 out of 19 measures to back public transit passed. More broadly, voters approved 88% of state and local proposals to boost or maintain spending on roads and other transportation infrastructure, according to the American Road & Transportation Builders Association. Those 380 approved ballot questions will generate $19.6 billion in revenue in 18 states, the group said.Transit advocates scored a big victory in suburban Detroit Tuesday, when Oakland County, Michigan voters approved a plan to raise property taxes and institute countywide bus service for the first time.

Continue reading.

Route Fifty

By Daniel C. Vock

NOV 10, 2022

Voters Approve at Least $37 Billion of US Muni-Bond Propositions.

- **Early results show most bond measures headed for passage**
- **Some $66 billion of debt was up for approval nationwide**

US voters look likely to pass at least $37 billion of the state and local-government debt sales that were up for consideration in Tuesday's elections, led by measures that will finance work on schools and other infrastructure projects.

Officials asked for approval of at least $66 billion of bond measures in total, according to a Bloomberg analysis of data compiled by IHS Markit that excludes referendums by Texas's utility and water districts. An early tally shows that the preponderance are heading for acceptance.

The largest measures that have passed include a $4.2 billion statewide climate measure in New York and a $2.3 billion school bond in Austin, Texas, according to a preliminary Bloomberg tally of unofficial results.

Continue reading.

Bloomberg Markets

By Nic Querolo and Danielle Moran

November 9, 2022 at 10:35 AM PST

How the Midterm Elections Impact Municipal Bonds.

Jennifer Johnston, Franklin Templeton's director of municipal bond research, discusses the impact of the midterm elections on municipal bonds with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

November 9th, 2022, 12:11 PM PST

ARPA Funds Help County Build, Track Broadband.

Washtenaw County, Mich. mapped its broadband capacity and illustrated its needs for expansion.

As it gears up to meet a goal of full broadband connectivity by 2025, Washtenaw County, Mich. has launched a digital map that tracks its progress, thanks to American Rescue Plan Act dollars and general county funds.

Lack of broadband is a huge detriment to any county and its residents, particularly in the sectors of education, healthcare, employment and business development, said Washtenaw County Commissioner Jason Maciejewski.

"This goes way beyond simply trying to stream movies and music online — these are really things that impact people's everyday lives, their ability to get broadband level internet service," Maciejewski said.

Continue reading.

NATIONAL ASSOCIATION OF COUNTIES

by MEREDITH MORAN

NOVEMBER 7, 2022

The Municipal Bond Ladder: A Timely Response to Rising Rates

Tax-free income and the opportunity to realize higher income as interest rates rise are among the potential benefits of a managed municipal bond ladder.

In a previous Market View, our experts detailed how today's higher yields have enhanced the appeal of municipal bonds for long-term investors seeking attractive tax-free income. But what might be a good approach for those who wish to take advantage of current yields while helping shield their portfolio from the effect of further interest-rate increases? One approach may allow investors to take

advantage of higher income by extending maturity, while protecting from potential rising rates: a professionally managed muni-bond ladder.

How might this work? Let's look at Figure 1.

Continue reading.

Lord Abbett

By Stephen Hillebrecht, Nicholas Bragdon

November 8, 2022

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of October) $339.6 billion, -15.9% Y/Y
- Trading (as of October) $13.8 billion ADV, +56.3% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

Download xls

November 2, 2022

Fitch: Federal Broadband Funds to Drive US Digital Infrastructure Projects

Fitch Ratings-New York/San Francisco-02 November 2022: Substantial, dedicated broadband funding included in the Infrastructure Investment and Jobs Act (IIJA) is expected to be a significant catalyst for U.S. digital infrastructure projects, with an increase in public-private partnerships (P3s), Fitch Ratings says.

The $65 billion federal investment in broadband under the IIJA is the largest ever earmarked for the sector and aims to increase accessibility, affordability, speed and quality of broadband nationally. IIJA funding, together with grants and loans provided through the US Department of Agriculture's ReConnect Program that benefits rural communities, underscores the federal government's commitment to extending digital infrastructure to underserved areas.

Most allocations under the IIJA will be made to states, although local governments may apply directly for competitive grants through the Middle Mile Broadband Infrastructure Grant Program. We anticipate an increase in P3s to achieve broadband buildout goals, as funds provide an incentive for private internet service providers (ISPs) to construct and deploy broadband networks. Potential

funding structures include state-owned networks that are leased to ISPs, direct capital funding to ISPs and private activity bonds.

The Commerce Department's National Telecommunications and Information Administration will establish six broadband programs to distribute $48.2 billion of the IIJA broadband funds. The largest program, Broadband Equity, Access and Deployment (BEAD), will provide $42.45 billion to broadband projects focused on unserved and underserved areas.

Last August, all states and territories submitted applications for initial planning funds under the BEAD program, indicating strong interest. All eligible entities will receive a $100 million minimum initial allocation under BEAD, with additional allocations depending on the Federal Communication Commission's final broadband data maps, which indicate areas with no or lower quality broadband access that are targeted under the program.

There were 16 telecom P3 projects at YE 2021, according to HuschBlackwell, and this number is expected to significantly increase with the federal disbursements. However, inflation pressures from higher construction costs and semiconductor and other component shortages could increase project costs and/or potentially delay project timing.

Governments have typically turned to P3s for broadband network projects given the private sector's greater expertise. Broadband projects have high barriers to entry and employ established technology. Although construction costs may be high depending on the terrain, these projects are not complex and maintenance costs are low. There is a high level of cost predictability due to limited scope and relatively low project complexity, and technology is not expected to outpace the investment horizon. Projects with stronger credit attributes have revenues that are supported by fully indexed availability payments from a strong counterparty.

Fitch Ratings Releases State Revolving Fund and Municipal Finance Pool Program 2022 Peer Review.

Fitch Ratings-Austin-04 November 2022: All but one of the State Revolving Funds and Municipal Finance Pool Programs in the Fitch-rated portfolio are rated 'AAA', according to a new Fitch Ratings report. The high credit quality of the sector reflects the programs' robust financial structures and generally sound credit quality of the underlying pool participants.

The overall median Program Asset Strength Ratio (PASR), a measure of financial strength for the sector, was 1.9x in 2022, which is in line with the historical range of 1.9x-2.1x registered since 2015. The PASR, an asset-to-liability ratio, is calculated by dividing the amount of aggregate pledged assets, including scheduled obligor repayments, reserve funds and account earnings, by aggregate outstanding debt service. The median 'AAA' liability stress hurdle, a measure of aggregate portfolio credit quality as produced using Fitch's Portfolio Stress Model, was 31.0% in 2022, and also tracks within the historical range of 29.7-32.6% since 2015.

For more information, the full report 'State Revolving Fund and Municipal Finance Pool Program Peer Review: 2022' is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

S&P: Cyber Risk Management Is Credit Risk Management, Says Seminar

Key Takeaways

- Cyber risk is integral to wider risk management and a factor in credit risk assessment.
- There is a growing, though still small, list of issuers that have had a rating affected by cyber incidents.
- The cyber insurance market is still maturing to a position that can be considered beneficial for all stakeholders.

Continue reading.

1 Nov, 2022

Navigating the ESG Nine-Lane Highway: A Roadmap for Public Sector Entities

Environmental, social and governance (ESG) discussions have become more prevalent in recent years and the topic continues to be an evolving subject in the public sector. In the public sector space, a comprehensive approach to ESG may address a spectrum of topics, ranging from day-to-day operations to policy initiatives to capital borrowings. The ESG journey summarized below focuses on capital or other projects that may require long-term borrowing, which projects can relate to a typical annual capital improvement plan, ensured continuity of utility operations or specifically addressing ESG or sustainable initiatives.

With respect to capital borrowings and the municipal marketplace, it is important for all participants in the public finance arena (governments/issuers, municipal advisors, counsels and bankers) to recognize the numerous ESG-related interactions in a municipal financing transaction. Placing an over-emphasis on certain aspects of ESG could result in additional costs or lost opportunities from other ESG components.

To help organize and ensure every ESG aspect is addressed, consider looking at ESG as a “nine-lane highway,” with the likelihood that an organization will spend time in multiple lanes while planning for and completing projects and financings in the municipal marketplace. Also keep in mind that, as

with any voyage, an organization's ESG journey will involve crossing lanes at various times to ensure ongoing progress.

Lane 1
Review and define goals, objectives and requirements that involve ESG and your organization.
Is a thorough ESG-related assessment or plan needed to review ESG-related strategies, develop sustainability initiatives, identify and address any perceived risks or understand all the ways ESG affects your organization? Proactive organizations that complete and act upon the findings of this assessment can benefit from ESG-risk awareness, opportunities and strategies.

Lanes 2 and 3
Designation or labeling determinations on bond issues for ESG-related projects may both attract investors looking for certain investments that produce social or environmental benefits and display leadership of your organization with ESG-related initiatives.

Lane 2: Does the financed project address energy or environmental matters and are there any environmental-related designations (such as green, climate or sustainable) applicable to the bond issue? Are the overall costs (verification and any reports) and benefits (reduced borrowing rates from increased investor interest) of such designation understood by the issuer?

Lane 3: Does the financed project address social matters and are there any social-related designations (such as social, housing or sustainable) applicable to the bond issue? Are the overall costs and benefits of such designation understood by the issuer?

Lanes 4-6
Disclosure and rating agency considerations of an issuer will relate to all credits and all financings, even if no designation or label are added to a bond issue.

Lane 4: Are there any environmental risk factors for disclosure and rating agencies? Examples will vary with geographic location but may include extreme weather events, significant impacts of climate change (wildfires, hurricanes, flooding) and the cost and reliability issues associated with energy transition, such as power generation sources and diversity/transition plans. Are there environmental considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lane 5: Are there any social risk factors for disclosure and rating agencies? Examples include a lack of housing for vulnerable populations, significant demographic and population trends/changes affecting services and the tax base, increased income disparities, labor-related issues, availability and access of health services, public education and infrastructure. Are there social-related considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lane 6: Are there any governmental risk factors for disclosure and rating agencies? Examples include organizational structure, debt and reserve policies, management oversight, internal controls and financial reporting, risk mitigation (such as cybersecurity), federal and state funding streams, pension and other post-employment benefits (OPEB) liabilities, internet availability and affordability and deferred maintenance. Are there governance-related considerations or initiatives of the issuer or related to the project that may be of interest to investors?

Lanes 7-9: Identify cross-over topics and considerations that relate to ESG, with some specific to determination of adding a designation or label to a bond issue.

Lane 7: Are there additional verifications or reports/assessments needed to support the designation/label assigned to bond issue? One option for consideration is self-designation versus verification or second-party opinion. In addition, does the issuer understand what standards must be adhered to related to any designation/label and how these standards relate to the financed project?

Lane 8: How does primary market disclosure need to change to address information required at time of issuance to support the designation/label? Examples include use and management of proceeds, project selection and evaluation criteria, and any project performance measures. Is there a requirement to verify actual use of bond proceeds? It is important to clearly identify if the issuer is committing to any ongoing project performance monitoring and reporting.

Lane 9: How do post-issuance compliance and secondary market continuing disclosure need to change for any covenants made to support the designation/label or generally addressing ESG-related disclosures? Who is responsible for preparation and what are the deadlines?

Public sector entities need to consider all lanes on the ESG highway, but they don't need to navigate it alone. Municipal advisors/consultants can assist with managing all ESG interactions and offer ESG-related services with rating preparation and disclosure strategy; assessments, reports and investor outreach; designated/labeled bonds and post-issuance compliance.

American City & County

Written by David Erdman

1st November 2022

David Erdman, managing director of Baker Tilly Municipal Advisors LLC, has more than 30 years of public finance experience at a major state-level issuer and is an active advocate and leader for municipalities in the municipal bond market. Erdman is a part of the national large issuer team supporting the Midwest.

City Imposed Penalty of One-Year Building Moratorium Does Not Constitute a Taking: Nossaman

Local government agencies sometimes enact short-term building moratoriums for certain areas to further assess changes in land use patterns or slow growth. Those moratoriums imposed across a large area usually do not constitute a taking. But what if a moratorium is imposed solely and specifically as to a singled-out property? Does that moratorium give rise to a taking? According to a recent court of appeal opinion, the answer is no, at least when that moratorium is imposed as a penalty against the property owner for violating local building codes.

Background

In *Lemons v. City of Los Angeles*, 2022 Cal. App. Unpub. LEXIS 6541, the plaintiffs owned a single family residence located in a Historic Preservation Overlay Zone (HPOZ), and their property was designated as a "contributing element", meaning the residence contributed to the historic significance of the area. The owners sought and secured permits to undertake rehabilitation and repair of the property from the Historic Preservation Board and Cultural Heritage Commission, but they vastly exceeded what was allowed under their permit and mostly demolished the residence, leaving only a small portion of the first story wood flood and foundation. Under the City's municipal

code, one of the penalties for engaging in work without a permit is the imposition of a moratorium on the issuance of any permits for new development on the property. The City ordered a one-year moratorium on plaintiffs' property.

Lawsuit for Violation of Eighth Amendment (Excessive Fine) and Inverse Condemnation

The property owners filed a lawsuit against the City, claiming that the moratorium was an excessive fine in violation of the Eighth Amendment, and also constituted a taking resulting in inverse condemnation liability. The trial court denied the excessive fine claim, concluding that a moratorium did not constitute a fine. The court also denied the takings claim, finding that the moratorium was not a taking, but instead a government action imposing a penalty under the municipal code. The owners appealed.

Appellate Decision – Moratorium is Not a Fine and Does Not Constitute a Taking

On appeal, the Court explained that the Eighth Amendment only limits the government's power to "extract payments" as punishment for an offense; a one-year moratorium on new development permits did not require the owners to pay the City a fine. The Court likewise explained that the government "need not provide compensation when it diminishes or destroys the value of property by stopping illegal activity or abating a public nuisance." The one-year moratorium on new development permits did not constitute a taking because it was a punitive measure imposed for violating the municipal code. Moreover, the concept of inverse condemnation is that the costs of a public improvement benefitting the community should be spread among those benefited rather than allocated to a single member of the community. In contrast, the purpose of a penalty such as the moratorium at issue here is to impose particular burdens on the violators — there is no benefit transferred to the public at large. The court also rejected the owners' argument that they were constitutionally entitled to a jury trial on the inverse condemnation claim, explaining that there is no right to a jury trial on the issue of whether there has been a taking in the first instance; the right is limited to the question of damages.

Take-Aways

The case serves as an important reminder that a property owner's failure to comply with local municipal codes can result in significant penalties, including the potential forfeiture of the right to secure new permits for a significant period of time. The case also demonstrates that the imposition of penalties, even if they result in a diminution of value of the property, do not give rise to a claim for inverse condemnation, as there is no "taking" as a matter of law. Finally, the right to a jury trial in an inverse condemnation action only applies to the issue of just compensation or damages – it does not apply to the determination of whether there was a taking.

Nossaman LLP – Bradford B. Kuhn

October 31 2022

Voters Will Weigh $66 Billion of Bond Measures in Midterm Elections.

- **New York state, school districts lead bond ballot measures**
- **This year's tally is above what US voters considered in 2021**

Voters on Tuesday will weigh at least $66 billion of bond measures put forth by states and

municipalities across the US that seek to finance projects like new schools and climate resiliency efforts.

The proposed borrowing is more than double the $27 billion on ballots at this time last year and among the highest volume of bonds up for a vote since at least 2009, according to a Bloomberg analysis of a preliminary tally of bond measures compiled by IHS Markit. The total excludes referendums by Texas's utility and water districts.

The increase comes as states and cities have been collecting better than expected revenue in the last fiscal year, shoring up the budgets after a period of financial uncertainty at the onset of the coronavirus pandemic. New York, for example, was supposed to ask voters to approve $3 billion of environmental bonds in 2020 but took the measure off the ballot after the pandemic clouded the state's fiscal picture. That referendum was subsequently upsized and placed on this year's ballot.

Continue reading.

Bloomberg Markets

Nic Querolo

November 7, 2022

Why Buy Municipal Bonds if the World Is Ending?

States and cities seem much less sure about climate change in their disclosures than in their lawsuits against energy companies.

From electric vehicle initial public offerings to environmental, social and governance funds, opportunities in climate-related investments appear endless. Yet a troubling trend is emerging involving state and local governments' general-obligation bonds and their judicial climate activism. The same jurisdictions that are suing energy companies for alleged climate-change damages are also stating in their own bond disclosures that they can't attest to the effects of climate change.

New Jersey became the latest plaintiff with a new lawsuit on Oct. 18. But New Jersey's most recent GO bond offering indicates the state can't account for climate risk having a material effect. According to its bond disclosure, the state warrants that it "cannot predict the impact that these climate events may have on its financial condition."

New Jersey reverses its position with specific language in its legal complaint. Among many allegations, the state claims that "oceans are acidifying at an alarming rate because of fossil-fuel burning, endangering New Jersey's coastal ecosystems and economy." An especially shrill line reads, "As a result of the fossil fuel industry's lies and deceit, the State has paid billions of dollars to clean up climate change-induced disasters like Superstorm Sandy."

The disclosure for the city and county of Honolulu GO Bond Series 2022A states: "No assurances can be given as to the frequency or severity of any future natural disasters, nor what impact, individually or in the aggregate, such disasters may have on the State, the City and County, their residents or their overall financial condition." But Honolulu and its Board of Water Supply filed a state court case in 2020 with allegations that specifically contradict this uncertainty. According to the lawsuit, the "defendants' individual and collective conduct is a substantial factor in causing global warming and

consequent sea level rise and attendant flooding, erosion, and beach loss in the City."

San Francisco, one of the earliest plaintiffs to file suit, asserted on issuing its GO Refunding Bonds Series 2022-R1: "The scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast when . . . adverse effects of climate change . . . will occur. In particular, the City cannot predict the timing or precise magnitude of adverse economic effects . . . during the term of the Bonds," which mature after 12 years.

That's contrary to what San Francisco stated in court in 2017. The case asks the court to order energy companies to pay for sea walls and other infrastructure because the city faced "imminent risk of catastrophic storm surge flooding." In addition, the city claimed, the defendants' "production will intensify future warming and San Francisco's injuries from sea level rise."

Baltimore's GO bond disclosure asserts that the city adopted a Disaster Preparedness and Planning Project. The city admits that "due to the uncertainty of climate conditions, and thus of relative sea level rise projections, it can be difficult to assign quantitative probabilities to projections of sea level increases." If it is difficult to assign probabilities to such sea level increases, then on what grounds did the city file a 2018 lawsuit against 26 energy companies with differing claims? Baltimore's complaint specifically alleges "the City has already incurred, and will foreseeably continue to incur, injuries, and damages due to anthropogenic global warming, including sea level rise."

In neighboring Annapolis, the city's disclosure doesn't highlight any dire reports of past climate-related injuries or threats. The bond offering's only reference to climate notes "city management is also developing a plan to make Annapolis resilient against the effects of climate change and other factors by joining Anne Arundel County's efforts to establish a Resiliency Authority." So why sue 26 energy companies in February 2021 for the costs and consequence of past climate damages? The lawsuit alleges that "as actual and proximate results of Defendants' conduct, which caused . . . environmental changes"—tidal flooding in Annapolis—"the City has suffered and will continue to suffer severe harms and losses."

Even a novice investor can see that the information contained in these bond disclosures directly contradicts the premise of the issuers' legal claims. In light of the above contradictions, these lawsuits are unfounded. At the same time, officials issuing these bonds should be transparent in acknowledging such discrepancies. They'd be well served by not only distancing themselves from the cases, but also urging their withdrawal. This flawed legal strategy doesn't help the climate. It's a disservice to muni investors and the residents of these states and cities.

The Wall Street Journal

By R.A. Moss

Nov. 2, 2022

Mr. Moss is founder and former president of RAM Management Group Ltd.

Why Are U.S. Transit Projects So Costly? This Group Is on the Case.

The U.S. is one of the most expensive countries in the world for building transit, according to the Transit Costs Project. A research group at the NYU Marron Institute of Urban Management is working to understand why.

For the last two years, a group of researchers at the New York University Marron Institute of Urban Management has been building a big database of public transit projects around the world. Their goal: To understand what drives the costs of transit projects, what makes some places more expensive than others, and how costs can be brought down.

The Transit Costs Project is led by Eric Goldwyn, an assistant professor and program director in the Transportation and Land Use Program at the NYU Marron Institute, along with research scholars Alon Levy, Elif Ensari, Marco Chitti and a group of international contributors. To date, the group has built a database with details on hundreds of projects, sourced from popular media, trade publications and official plans. And they've begun publishing in-depth case studies on a handful of individual cities, including projects in Boston and New York in the high-cost category, and Stockholm, Italy and Istanbul in the low-cost category, based on additional data gathering and hundreds of interviews.

This month, the Transit Costs Project is planning to publish an overview of its findings. Among them: The United States is the sixth most expensive country in the world when it comes to building rapid rail projects. The reasons why range from the politicization of project management to the expanding role of consultants, the costs of labor, and efforts to limit disruption to normal traffic flow during construction. In this Q&A, Goldwyn speaks with Governing about what makes transit building so expensive in the U.S., and what might be done to improve costs. The conversation has been edited.

Continue reading.

governing.com

by Jared Brey

Nov. 1, 2022

The Scary Big Picture of Having Less Water.

The Future of Water in the West is Both Complex, and a Hard Issue to Face

s a society we constantly hear the "drought warning." Then we endure some water conservation efforts and a couple of years later everything seems to go back to normal. As a result, we have become numb to the word "drought." Wildfires are brutal and get our immediate attention, but we expect they will also burn out.

Sounding alarms can get immediate attention, maybe some awareness and even short duration actions. But most of the time, real fundamental changes, policy reversals or epic infrastructure planning shifts that are focused on long-term objectives are never achieved. As a society, we seem to only want to pay up once the damage occurs, a quick and easy monetary policy fix as we continue to put ourselves on a course of catastrophic failure.

So, what is the bigger picture? What is the holistic viewpoint of having less water?

Continue reading.

WATER FINANCE & MANAGEMENT

BY GREG BAIRD

NOVEMBER 7, 2022

Hilltop Securities: Anticipating Municipal Issuance Will Remain Challenged Again in 2023: Our Forecast

Read the HilltopSecurities forecast.

by Tom Kozlik, HilltopSecurities

November 2, 2022

Municipal Market Performance Update.

In October, munis faced further headwinds from volatility in the rates markets. Tax-equivalent yields (TEYs) on AA munis with longer term maturity dates have climbed to now exceed 8%. And, for investors that reside in states that impose high personal income taxes, TEYs move even higher (CA, NY, and NJ, as some examples). The UBS Chief Investment Office (CIO) explains.

Continue reading.

by UBS Editorial Team

04 Nov 2022

MBNE Might Be Marvelous Muni Bond Option.

Municipal bonds have been dragged lower with the broader fixed income market this year thanks to the Federal Reserve's scorched earth campaign of raising interest rates. However, some market observers believe munis are offering value and tempting levels of income, indicating the segment could figure prominently in a bond market rebound. Investors can get into the game while embracing environmental, social, and governance (ESG) principles with the SPDR Nuveen Municipal Bond ESG ETF (MBNE).

MBNE currently sports a 30-day SEC yield of 3.25%, which is an impressive level of income considering the fund's high credit quality. That's also within the 3% to 5% range that investors can find on a slew of municipal bond funds today, but there's even more to the MBNE story.

"The benefits after taxes are even greater. A 5% muni offers a tax-equivalent yield of almost 8% for individuals in the top 37% federal tax bracket—5% divided by 0.63—roughly equal to the rate on junk bonds. The tax edge can be greater for affluent residents of high-tax states like California and New York, because in-state bonds are exempt from state and local taxes," reported Andrew Bary for Barron's.

In a normal fixed income environment, MBNE sporting a yield of 3.25% might seem too good to be true or signal cause for concern. However, 2022 is anything but normal for bonds, and MBNE's yield is delivered with about 86% of its holdings rated AAA, AA, or A.

"High yields often signal credit risk, but that's not the case now. The selloff in munis was exacerbated by historically low yields at the start of the year, before the Federal Reserve began raising interest rates. A 5% muni still yields less than the trailing 12-month 8.2% inflation rate, but the markets are discounting sub-3% inflation over the next five and 10 years," added Barron's.

History is also on MBNE's side. While the fund itself isn't old — it's actually new, having debuted in April — history indicates that when municipals tumble, impressive rebounds often follow. The exchange traded fund is actively managed, indicating it could position for a recovery more rapidly than passive rivals.

"Even better, the high yields aren't a sign of financial stress. State and local governments are flush with tax revenue, while credit-rating upgrades have exceeded downgrades by a 3 to 1 margin this year. A recession could dampen the outlook, but, historically, less than 1% of munis have defaulted each year," according to Barron's.

etfdb.com

by Tom Lydon

Nov 03, 2022

Bonds Most Attractive in Over a Decade: Vanguard's Davis

"High-quality munis and Treasuries are actually starting to look very compelling here," Joe Davis, Vanguard's global chief economist and head of investment strategy, says during an interview on "Bloomberg Markets."

Watch video.

Bloomberg Markets: The Close

November 4th, 2022

State Budget Processes Spotlight: New NASBO Issue Brief on Spending Federal Funds

In an issue brief released today entitled State Budget Processes & Spending Federal Funds, NASBO describes the various nuances around states' and territories' legislative session and budget calendars, how they appropriate and spend federal funds, how they handle unanticipated funding – especially outside of legislative session, and recent changes to these processes in some states in response to the pandemic. States are better positioned to meet goals for federally-funded programs when federal granting agencies consider these aspects of their budget processes as they issue program guidance and set deadlines. While there is variation across the states, the following general

statements summarize certain key relevant aspects, further detailed in the issue brief:

The Calendar

- Most state legislatures meet in session annually for a limited period (typically convening in early to mid-January and adjourning sometime between March and June).
- A number of states budget on a biennial (two-year) basis, and a few of these states only meet in regular session once every two years.
- The most common month for governors to submit their budget proposals is January, and most legislatures adopt budgets for the next fiscal year or two-year budget cycle (biennium) sometime between April and June.
- If federal funds for some programs are in question or if funding levels are uncertain at the time the governor's budget is prepared for release or by the time the legislature passes appropriation bills, this can complicate state budgeting and planning processes.

Authorizing the Use of Federal Funds

- Some or all federal funds are subject to appropriation by the legislature in 43 states.
- In most states, the executive branch has some power to spend unanticipated federal funds without requiring full legislative approval, but this authority is typically restricted.
- Depending on the state and type of funding, state legislatures may need to sign off before accepting, allocating or spending federal funds – and this is often not possible outside of a state's legislative session. This is especially the case for federal grant programs with state matching or maintenance of effort requirements.
- In response to states' experiences with federal COVID-19 assistance, some state legislatures have taken steps to curtail executive authority to spend federal funds without legislative approval.

For more state-by-state comparative information and details on budget processes, see NASBO's Budget Processes in the States report.

By Kathryn White

National Association of State Budget Officers

Private Lending Takes Root in Muni Market.

Private sales of debt from state and local governments spiked during pandemic's market stress and have grown over past decade

A pandemic surge in privately sold municipal bonds is highlighting how private deals have become a mainstay of the $4 trillion market for state and local debt—and a go-to in times of stress.

During the three months ended in May 2020, the amount of municipal debt sold privately spiked to 13.4%, the highest share in 13 years on record, according to a report this week by the Municipal Securities Rulemaking Board. It has since retreated to about 8%, or around $36 billion—up from 4% in 2012 but in line with its average for the past decade, according to data from the board and Refinitiv.

"We're fielding more and more calls from nonprofit traditional public-markets issuers who are looking into borrowing in the private markets," said Jonathan Mondillo, head of North American

fixed income at Edinburgh-based Abrdn, with $1.5 billion in muni debt under management.

Mr. Mondillo said his firm has considered or bid on privately placed deals with a combined total value of more than $1 billion, often for utilities or healthcare- or higher-education-related projects. He said Abrdn typically purchases investment-grade debt issuances ranging from $50 million to $400 million for clients such as insurance companies and pension funds.

In so-called private placements, borrowers bypass public markets where individuals, mutual funds, insurers and others compete for bonds. Instead, they sell debt straight to banks or money managers.

In rocky markets, towns, universities and other small borrowers like not having to worry about how retail buyers will behave on the day of a public bond sale. At the same time, broker-dealers may want to avoid holding bonds they have purchased from borrowers in case investors don't feel like buying. Privately placed debt goes straight to the buyer, without an intermediary putting capital at risk.

One possible explanation for the increase in private placements early in the pandemic could be that "underwriters didn't want to take a principal position during the market volatility," said Municipal Securities Rulemaking Board chief economist Simon Wu, the lead author of the board's report.

Before the Covid-19 pandemic, the biggest uptick in private placements occurred in 2013, when bond prices tanked following Detroit's bankruptcy and amid fears that the Federal Reserve would start dialing back easy-money policies.

Some investors and analysts worry that private placements put investors at a disadvantage by keeping them in the dark about the full scope of a borrower's debt. Though a 2019 rule generally requires issuers to disclose private placements, a January study by two scholars from the Federal Reserve and one from the University of Cologne concluded that compliance is poor and "private debt disclosure remains largely voluntary."

Private placements generally fall into two categories, according to borrowers and their attorneys and advisers. Banks typically buy tax- or fee-backed debt from small school districts or towns in quantities that can be as little as a few million dollars. In contrast, money managers often purchase more risky higher-yielding debt from nonprofits or one-off economic-development projects.

"They want 7% to 8%, so they're not buying [the debt of a large city]; they're buying this weird private placement that's been designed for them," said Amanda Stephens, a public-finance partner at Orrick, Herrington & Sutcliffe LLP.

Competition can be fierce for muni debt, which pays interest that is typically exempt from federal taxes, and often state taxes too. For a household or company in the top tax bracket, a 7% tax-exempt yield is equivalent to a taxable yield of 11.8%, according to data from Nuveen LLC.

One draw for both banks and asset managers is the ability to purchase a large chunk of debt wholesale, without competing with other buyers. Another perk: They don't have to negotiate with other creditors if the deal goes sour.

Borrowers, for their part, avoid the labor and cost typically involved in bringing a deal to market, including seeking an opinion from a credit-rating firm. They also may have reduced disclosure requirements over the life of the bond.

The repayment period for private debt also tends to be much shorter than the 30-year period standard in public markets, typically around five to 10 years, reducing the amount of time borrowers

are locked into current interest rates, according to attorneys and advisers.

Contra Costa County, Calif., built an emergency-services center and an administrative building and refinanced old debt with about $200 million in muni debt sold privately to a bank in 2017.

“We were seeing rate proposals very close to what we thought we would get in the public market, and the cost of issuance is substantially less,” said chief assistant county administrator Timothy Ewell.

Still, guidance on direct sales to banks from the Government Finance Officers Association trade group notes that borrowers may lose the opportunity to find out whether they could get lower interest rates in the open market. The group hasn’t taken a position on placements with asset managers.

The Wall Street Journal

By Heather Gillers

Updated Oct. 26, 2022

Write to Heather Gillers at heather.gillers@wsj.com

S&P Cyber Risk In A New Era: U.S. Transportation Infrastructure Providers Remain Vigilant On The Road To Cyber Preparedness

Key Takeaways

- We expect U.S. transportation infrastructure enterprises will be targeted more frequently for cyberattacks given their role as providers of critical infrastructure for the movement of people and goods. Overall, we view risks as moderate, although there are lower-probability, high-impact risks within the sector.
- Across the transportation subsectors, particularly for ports, mass transit operators, and airports that have federal cyber oversight and regulation, management teams have implemented cyber security policies and procedures to mitigate long-term credit risk, supported by ample liquidity to buffer a disruption in operations.
- S&P Global Ratings evaluates cyber risks for transportation providers within our management and governance assessment and they are viewed as a component of governance within our environmental, social, and governance credit factors.
- To date, cyberattacks affecting transportation infrastructure providers have typically been short in duration with minimal lasting effects on operations and key financial metrics; consequently, we have not seen any longer-term effect on entity creditworthiness within the sector yet.

Continue reading. [Free registration required.]

26 Oct, 2022

Fitch: Labor Strife to Continue for U.S. NFP Hospitals Despite Reprieve

Fitch Ratings-Austin-25 October 2022: Despite some relief of late, U.S. not-for-profit hospitals are in for several challenging months with healthcare and social assistance job vacancies still high against a backdrop of low unemployment, according to Fitch Ratings in its labor dashboard for the sector.

Job openings for health care and social assistance have fallen for two straight months to 7.7% as of August 2022. While this news is positive, the number of openings remains above the highest level recorded prior to the pandemic.

Another encouraging sign is the slowly declining number of quits at 2.3 (486,000 quits) in August 2022 compared to a peak of 3.1 (626,000 quits) in November 2021. That said, current quit rates are still high and on pace to exceed last year. “NFP hospital quits will need to normalize to well below pre-pandemic levels in order to reduce staffing shortages and a reliance on contract/temporary labor,” said Director Richard Park.

The labor shortage has led to a spike in average weekly earnings for hospital employees to 21.1% since February 2020, well above the 13.6% earnings growth of overall private sector employees. However, ambulatory health care services employees’ earnings grew by only 12.6% over the same period. “Wage increases and employee recruitment challenges may amplify the role of ambulatory care in the overall healthcare sector and continue the acceleration of inpatient care to outpatient settings,” said Park.

Fitch’s ‘Hospitals and Healthcare Systems Labor Dashboard: October 2022’ is available at ‘www.fitchratings.com’.

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Fitch: U.S. Life Plan Communities Experiencing Significant Labor Shortages and Wage Growth

Fitch Ratings-Austin/New York-25 October 2022: Healthcare and social assistance job vacancies remain high against a backdrop of a tight labor market; however, U.S. life plan communities have more flexibility relative to hospitals in responding to labor pressures, according to Fitch Ratings.

Fitch's analysis shows that roughly 8% of nursing facilities are reporting a reduction in beds as of Oct. 2, 2022 compared to May 24, 2020. More glaring are staff shortages, with 18.6% of nursing homes seeing a shortage of nurses and 19.6% reporting a shortage of aides. However, "LPCs have some flexibility in responding to these labor pressures as they are able to redesign the delivery of dining services and other amenities, and are able to adjust the number of skilled nursing beds in service to match its current staffing levels,' said Richard Park, Director at Fitch Ratings.

The continuing labor shortage has resulted in significant wage growth ranging from 18%-21% for LPCs, assisted living facilities and nursing facilities through August 2022 since the eve of the pandemic. These levels are well above the 13%-15% wage growth of the overall private and health care sectors during the same period. "LPCs and nursing facilities will need to continue to raise wages, revaluate service delivery and grow the workforce pipeline to alleviate current staffing challenges," said Park.

Nonetheless, with the U.S. economy headed towards a mild recession early next year (per Fitch's broader economic outlook), life plan communities may respond by rightsizing skilled nursing beds to accommodate better available staff and internal residents and investing more money in renovations to alleviate profitability and staffing issues and take advantage of national demographic shifts.

Fitch's "Life Plan Communities Labor Dashboard: October 2022" is available at www.fitchratings.com.

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A New Federal Ruling Outlines Limits to Short Term Rental Regulation.

A new ruling out of the Fifth Circuit is likely to have significant impacts on the ways that municipalities may regulate short term rental properties ("STR's"). In *Hignell-Stark v. City of New Orleans*, 46 F.4th 317 (5th Cir. 2022), the court reviewed a New Orleans ordinance which limited the right to use a residence as an STR to only people whose primary residence was in New Orleans.

In its holding, the court made two noteworthy determinations. First, it ruled that the City of New Orleans's regulation of STR's was not a "Taking", and therefore New Orleans was not required to provide compensation to people who alleged their property value was decreased by the ordinance.

Second, the court determined that the ordinance violated the Commerce Clause because it discriminated against people who were not residents of the state of Louisiana.

This is one of the first substantial federal holdings related to STR ordinances, and while its application is technically limited to the Fifth Circuit, it still provides insight into what other rulings on this issue are likely to look like.

On the one hand, in determining that the ordinance was not a "Taking", the court gave the green light to some level of STR regulation by municipalities. In its ruling, the court determined that, at least based on the New Orleans licensing scheme, the ability to use a residence as an STR was a privilege, not a right. Further, the court was sympathetic to the impact that STR's can have on the full-time residents of a neighborhood and a city's cost of living, and generally agreed that keeping these negative aspects of STR's in check was a reasonable goal of a municipality's government. On the other hand, a municipality cannot restrict interstate commerce unless no more reasonable means of regulation are available. In this case, there were other means to address STR's that were not as sweeping as a blanket ban on non-resident ownership. In other words, while municipalities may regulate STR's, such regulations must be carefully considered and not overreach the municipality's authority.

To understand the potential impact of this ruling, it is useful to look at the effect it has already had on a town in Colorado. Frisco, a town of just under 3,000 people in the mountains of Summit County, is wrestling with an issue that is becoming increasingly common in many areas of the state, how to effectively and equitably regulate STR's. In June of 2022, Frisco's Housing Program Manager reported that of the city's roughly 3,600 residential units, 20% were being used as STR's and 45% were largely vacant second homes. This has contributed to a relative lack of affordable housing options, making it difficult for people working lower paying service jobs to live in the town where they are employed.

In order to combat this issue, Frisco's town councilors had been considering a new plan where they would (i) cap the number of STR licenses granted in the town based on the number of total residential units available and (ii) implement a two tier STR licensing system. One tier of STR license would be available for people whose primary residence was in Frisco, and another tier of license would be available to people whose primary residence was elsewhere. The STR cap would only be applied to those holding the non-residential tier of STR license.

However, in light of the Fifth Circuit's ruling in *Hignell-Stark v. City of New Orleans* Frisco has decided to change course. Frisco will proceed with the proportional cap on STR licenses, but will forgo the two-tier licensing scheme which would have exempted residents from the STR cap. In this manner, Frisco hopes to shoot the gap between acceptable regulation and municipal overreach. It is likely that other cities will use the *Hignell-Stark* ruling as a touchstone to determine how much they can regulate STR's going forward. We will be following this development with interest to see how it plays out.

Otten Johnson Robinson Neff + Ragonetti PC – Mike Davidson

Rocky Mountain Real Estate Law

October 27 2022

Social Impact Bonds for Affordable Housing Gain Popularity Among Cities.

New York City, Philadelphia and San Francisco are among the cities getting in on the trend.

For decades, local governments have financed affordable housing construction with municipal bonds to address the nationwide shortage of affordable housing. Now communities are turning to environmental, social and governance bonds — meant to finance socially- or environmentally-responsible projects such as renewable energy — to fund affordable housing.

Some recent city experiences suggest their predictability can attract investors. The fastest growing segment of ESG bonds is those funding affordable housing. In 2021, these bond issuances rose 288%, or $14.5 billion, accounting for more than three-quarters of the growth of the entire sustainable debt market, according to S&P Global Ratings.

Last year, Philadelphia sold $100 million in social bonds, a type of ESG bond, to fund an affordable housing initiative. San Francisco has sold millions in social bonds for affordable housing projects since at least 2019.

Continue reading.

smartcitiesdive.com

Oct. 26, 2022

By Kalena Thomhave

Fresh Ideas for Borrowers in an Unstable, Two-Faced Muni Bond Market.

Tax-exempt issuers' costs have shifted upward dramatically this year as the Federal Reserve has pushed interest rates higher to fight inflation. It's time to re-strategize debt management programs.

Bond and stock market pundits just can't stop talking about this past year's rapid escalation of interest rates from the artificially low levels that prevailed through most of the COVID-19 pandemic. It seems most traders have amnesia and cannot remember a time when prevailing interest rates were anything close to previous, historically higher inflation rates. The talking heads keep reacting as if the trough in interest rates during the 2020-2021 pandemic period was timeless. That's called "recency bias."

Although the Federal Reserve's "tightening" actions have pushed money market rates higher, short-term municipal bond and note yields — returns to investors — still remain far below prevailing inflation rates. Yet tax-exempt munis with maturities over five years continue to yield more than taxable Treasury bonds and the market's expected rates of future inflation, making their after-tax returns to investors — and their inflation-adjusted costs to borrowers — higher than public-finance textbooks would predict. It's a two-faced market in muni-land.

Clearly, the muni market faces an unstable period for the next 12 to 24 months, first as Fed tightening continues, then while inflation rates hopefully subside, and then as the U.S. economy teeters between a soft landing and a recession scenario that could compel another round of lower

interest rates. Once again, debt managers and financial advisers face novel market and economic uncertainty as they map out their plans for capital projects, cash-flow borrowing and long-term debt management.

Continue reading.

governing.com

by Girard Miller

Oct. 25, 2022

Environmental Insurance Litigation A State By State Case Law Survey - Morrison Mahoney

View the survey.

Morrison Mahoney LLP

October 25 2022

How to Boost Climate Resilience: Fill in Infrastructure Law Funding Gaps.

When President Biden signed the Inflation Reduction Act (IRA) into law in August, advocates for climate action cheered its unprecedented support for measures to reduce greenhouse gas emissions. With more than $369 billion in climate-friendly incentives for electric vehicles and more, the IRA is a historic legislative achievement on its own. But the legislation also pairs with the earlier Infrastructure Investment and Jobs Act (IIJA) to turbocharge climate adaptation and resilience.

Since the IIJA became law last November, the Biden administration and congressional leaders have said the act contains $50 billion for climate resilience. But, as Georgetown Climate Center has previously noted, every dollar of the IIJA's $1.2 trillion represents an opportunity to improve climate resilience across the United States. Given the clear and present danger posed by the impacts of a changing climate, every investment funded by the bill can — and should — be designed to make our communities better prepared to withstand the increasingly severe weather and other impacts climate change is already fueling.

IIJA has created numerous opportunities for states, tribes and local governments to invest in equitable, climate-smart infrastructure. And now, IRA provides still more funding for climate change adaptation efforts that can further leverage IIJA's reach — particularly in disadvantaged communities.

Continue reading.

THE HILL

BY MARK W. RUPP, OPINION CONTRIBUTOR – 10/27/22

Muni-Bond Sales to See Slowdown After November's Midterms.

- **Total GO bond sales fall 51% in 1Q when state has new governor**
- **About $320 billion of new long-term munis issued this year**

The results of the Nov. 8 midterm elections will make waves in the $4 trillion municipal bond market, one of the most politically exposed asset classes.

With 36 governor seats up for re-election, states and localities will likely issue less debt through early 2023, which is already a typically quiet time for the market, according to Vikram Rai, the head of Citigroup Inc.'s municipal-bond strategy group.

"Issuance gets delayed slightly, issuance doesn't go away it just gets pushed out a bit," Rai said in an interview. "When the new administration takes over it takes them some time to get used to the office and get their act together."

Continue reading.

Bloomberg Markets

By Skylar Woodhouse

October 28, 2022

Trends in Muni Bonds (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Oct 28, 2022

Munis Are on 'Very Solid Footing': BlackRock's Carney

Sean Carney, BlackRock's head of municipal strategy, says he sees signs of optimism in the municipal bond market. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

October 26th, 2022

BlackRock Is Getting Used to Being in the ESG Crossfire.

Republicans have been ramping up their attacks on the money manager—but so have progressives.

Since the beginning of the year, Republican politicians in the US have been ramping up their anti-ESG messaging.

The strategy started gaining real attention in May after former Vice President Mike Pence criticized investor-activist campaigns aimed at forcing fossil-fuel giant Exxon Mobil Corp. to follow socially conscious investing principles. The potential 2024 presidential candidate said they elevate "left-wing" goals over the interests of businesses.

Pence's position has received support from numerous other Republicans, including far-right governors of two of the biggest states—Greg Abbott of Texas and Ron DeSantis of Florida—who have threatened to take state business away from corporations that support initiatives or regulations aimed at fighting things like global warming.

Continue reading.

Bloomberg Green

By Tim Quinson

October 25, 2022

Municipal Bond Fundamentals Show They Can Withstand a Recession.

The current market environment fraught with unknowns emphasizes the need to weatherproof a portfolio, especially with the threat of a potential recession circulating the capital market news. One way is via municipal bonds, which show strong fundamentals in the wake of a battered bond market.

It's no secret the bond market has been trending downward with stocks, but their status as a safe haven asset could come to the forefront. This is certainly the case should a recession hit the U.S. economy.

"With signs, we may be heading towards a recession, munis–particularly those in the high-quality space–appear ready to weather the storm," a Fortune article explained. "A recession will inevitably lead to some revenue drop-offs, but many municipalities will face those headwinds from a strong fundamental position."

The magic combination appears to lack debt servicing and ample cash. Currently, municipal bonds have this combo in spades.

"The combination of low debt and sufficient cash can act as a buttress against a downturn," the article added.

The severity of a forthcoming recession has many market experts wondering whether it will be comparable to the financial crisis in 2008. Whether it matches that level of severity is anybody's

guess, but municipal bonds appear primed and ready.

“In fact, munis are in much better shape than they were in 2008 before the global financial crisis,” the article noted. “Back then, many U.S. states faced budget shortfalls, some of them quite severe.”

Getting Low-Cost Access to Municipal Bonds
For easy access to the vast municipal bond space, consider the Vanguard Tax-Exempt Bond ETF (VTEB). With a 0.06% expense ratio, the fund offers low-cost exposure to municipal debt.

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

The fund also features a 30-day SEC yield of 3.69% with an average debt duration of six years, giving fixed income investors the median between yield and minimizing rate risk. Ideally, the fund is for:

- investors with a medium-term investment horizons (4 to 10 years),
- those seeking an investment that emphasizes income rather than growth,
- investors who have a low tolerance for the risk of short-term price fluctuations.

For more news, information, and strategy, visit the Fixed Income Channel.

ETF TRENDS

by BEN HERNANDEZ

OCTOBER 25, 2022

It’s Time to Scoop Up Muni Bonds. They Offer Yields You Won’t Want to Miss.

A historic rout in the bond market this year has resulted in the highest yields on municipal bonds in 15 years—and what looks like an excellent buying opportunity.

At midweek, the muni market, as measured by the Bloomberg Municipal Bond Index, was down 13%, its worst showing in at least 40 years, as the yield has jumped to 4.2% from 1.1%. Long-term bond mutual funds have done even worse, off about 15%.

Falling prices, however, mean higher yields, and munis’ are now in the 3% to 5% range, up from 1% to 2% at the start of the year. That’s similar—or even higher—than yields on U.S. Treasuries, particularly for long-term issues maturing in about 30 years.

Continue reading.

Barron’s

By Andrew Bary

Oct. 29, 2022

Fitch: Recession Expected 2Q23, Strength of U.S. Consumer Will Mitigate Severity

Fitch Ratings-New York-18 October 2022: Robust U.S. consumer finances will help cushion the impact of a likely recession starting in second-quarter 2023 (2Q23), according to Fitch Ratings.

“Fitch expects the U.S. economy to enter genuine recession territory — albeit relatively mild by historical standards — in 2Q23. The projected recession is quite similar to that of 1990–1991, which followed similarly rapid Fed tightening in 1989–1990. Nevertheless, downside risks stem from nonfinancial debt-to-GDP ratios, which are much higher now than in the 1990s,” said Olu Sonola, head of U.S. regional economics.

Household debt service and leverage continue to be relatively low compared with historical standards. Delinquencies across all household liabilities have also remained muted, in contrast to the elevated risks associated with consumer liabilities entering the Great Recession.

Excluding government transfers, real household income is 1% higher as of August 2022 yoy, with the growth underpinned by 1% growth in real labor income.

The aggregate household balance sheet is resilient despite the recent equity market correction, with real estate wealth offsetting some losses in equity holdings.

Estimated excess savings remain high at $1.5 trillion in July 2022, down from the $2.2 trillion peak in August 2021.

Any weakness in consumer sentiment appears to be more tied to gasoline prices than consumer spending.

The latest U.S. unemployment rate of 3.5 percent is the same as pre-pandemic levels — a 50-year low.
The demand and supply imbalance is very significant, equal to approximately 2.4 percent of the labor force.

For more information, a special report titled “U.S. Consumer Health Monitor — 4Q22” is available at www.fitchratings.com.

S&P Health Care Credit Beat: Highlights From Our 2022 Conference

Key Takeaways

- As the health care industry continues recovering from the COVID-19 pandemic, organizations aim to move past short-term reactionary adjustments in strategy to evolve the industry itself through foundational, sustainable innovations in care delivery models.
- As headwinds force the industry to manage more efficiently while still providing high-quality care, investors and payors are looking to new metrics to measure growth as employers and insurance companies offer different avenues of what a successful model of care can look like in “the new normal.”
- Lack of affordability and labor shortages, particularly in direct care staffing, are limiting access to

health care. However, the industry is working to increase access by expanding care networks, creating partnerships, integrating new technologies like telehealth, and collaborating across the industry to promote innovation.

Continue reading.

18 Oct, 2022

S&P U.S. Not-For-Profit Health Care Outstanding Ratings And Outlooks As Of Sept. 30, 2022

View the Ratings and Outlooks.

18 Oct, 2022

S&P: U.S. Not-For-Profit Health Care Rating Actions, September 2022 And Third-Quarter 2022

S&P Global Ratings' not-for-profit health care rating actions for the third quarter of 2022 skewed negative with 11 downgrades and four upgrades. In comparison, upgrades and downgrades in the third quarter of 2021 and the first two quarters of 2022 were essentially even. The heightened level of downgrades stems from relentless operating pressures affecting financial performance, that along with investment market volatility, has caused balance sheet deterioration. These pressures remain sector wide with operating headwinds concentrated around staffing and supply challenges. For further sector insight see "U.S. Not-For-Profit Acute Health Care Midyear 2022 Update: Providers Face Mounting Pressures From Inflation And Labor Costs," published June 27, 2022, on RatingsDirect.

As a percent of rating actions, upgrades and downgrades were higher during the third quarter of 2022 compared with the second quarter of 2022 resulting in fewer affirmations. That said, affirmations still make up most of our rating actions with 81% of our rated acute-care providers carrying stable outlooks as of Sept. 30, 2022.

Unfavorable outlook revisions in the third quarter outnumbered favorable outlook revisions by a ratio of 10 to one, which is accelerated compared with the trends in the second quarter where the ratio was three to one. This trend largely reflects materially higher staffing expense including elevated agency nursing costs as well as inflationary pressures that we believe could lead to future downgrades for certain providers. That said, balance sheet flexibility remains important and for many providers, offers a near-term cushion to volatile operations (see "U.S. Not-For-Profit Acute Health Care Medians: Peak Performance Highlights Cushion As Sector Encounters A Challenging Period" published Aug. 24, 2022, on RatingsDirect.)

Continue reading.

19 Oct, 2022

Fitch: U.S. Airport Traffic Spikes in 2Q22; Toll Roads Now Near Pre-COVID Levels

Fitch Ratings-New York-17 October 2022: Traffic at U.S. airports and on toll roads continued its gradual recovery over the second quarter of 2022 (2Q22), according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

U.S. airports ended 2Q22 at 92% of 2Q19 levels, a significant increase from the 83% levels in 1Q22. Airports such as Miami and Las Vegas are now exceeding pre-pandemic traffic levels, benefiting from an increase in leisure travel. Large hub airports, including New York, D.C., and Boston, showed an increased recovery in 2Q22 compared to 1Q22 levels. However, many large hub airports reliant on domestic O&D business travel and international travel, such as Los Angeles, fell short of pre-pandemic levels due to persisting effects of the pandemic.

The toll road sector remains effectively fully recovered through the first six months of 2022 relative to 2019 levels. Average toll road traffic recovery for 2Q22 was 99% of 2Q19 levels, an increase from 1Q22 levels. Some regional variations in performance persist. Traffic on most facilities located in Florida, Texas and Oklahoma along with the California managed lanes along the SR-91 corridor, have exceeded pre-pandemic levels since last year. In contrast, ongoing travel restrictions at the U.S./Canada border resulted in lower traffic at the Buffalo Peace Bridge facility.

The traffic monitor is a web-based interactive platform that provides traffic volume information for more than 50 U.S. issuers. It compares current traffic levels as a percentage of 2019 traffic levels, to allow tracking of the sector's recovery to pre-pandemic levels. It provides several ways to sort data and produces charts to allow for visual comparisons between issuers.

To access the Traffic Monitor, visit: https://www.fitchratings.com/infrastructure-projec--finance/traffic-monitor.

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Additional information is available on www.fitchratings.com

S&P: U.S. Housing Finance Agency Programs Have The Resilience To Navigate The Uncertain Economic Landscape

Key Takeaways

- The median rating for U.S. housing finance authority single and multifamily programs remains 'AA+' with a stable outlook, reflecting the strength and resilience of these programs
- Single-family program current median opening parity levels rose slightly year over year to 118.0% from 117.8%, and for multifamily programs they fell to 133.3% from 143.1%
- As prepayments slow, single-family programs are likely to see slightly improving parity and profitability ratios
- While rental demand remains high, escalating costs of materials, labor, and interest rates could slow multifamily production in the near term

Continue reading.

20 Oct, 2022

Fitch: U.S. State Housing Finance Agencies To Hold Firm Against Recessionary Tide

Fitch Ratings-San Francisco/New York/Chicago-24 October 2022: State housing finance agencies (HFAs) throughout the country will head into a likely broader recession in 2023 on firm fiscal footing, according to Fitch Ratings in its peer review for the sector.

HFA equity growth is still strong, though it leveled off in the last year. Aggregated equity rose 6% in fiscal 2021 and is up 31% since fiscal 2017. Driving the consistent rate of growth has been a favorable operating environment driven by strategic investment and prudent management to offset low interest rates and higher delinquencies. With Fitch economists calling for a broader recession in early-2023, this judicious approach will serve the sector well according to Karen Fitzgerald, Senior Director and Fitch's Sector Head for Community Development & Social Lending.

"That housing finance agencies were able to maintain modest profitability and stable equity despite the pandemic hangover, rising mortgage rates and elevated home prices speaks to the strength of the sector,' said Fitzgerald. 'While challenges in responding to growing affordable housing needs lie ahead, HFAs remain well positioned to respond while maintaining solid financial profiles.'

Though it rose slightly over the last year, leverage remains stable as the median adjusted DTE ratio was 2.6x in fiscal 2021. This is below the five-year average median of 2.9x, and now solidifies a trend where the ratio is equal to or below the median DTE ratio experienced for the last five fiscals.

Fitch's 'State Housing Finance Agencies Peer Review' is available at 'www.fitchratings.com'.

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S&P: U.S. Privatized Student Housing Occupancy Rebounds; Ratings Will Take Longer To Recover As Projects Recoup Losses

Key Takeaways

- The return of students to university campuses in fall 2021 resulted in some stabilization for privatized student housing projects, with further occupancy improvements, on average, in fall 2022.
- Three rated projects defaulted on their debt service payments since March 2020, all of which were rated in the 'B' category or below prior to the pandemic.
- Three rated projects drew from their debt service reserve funds, all of which are currently in the 'B' category.
- More than 75% of currently rated projects received some form of university support or used reserves to meet their debt service requirements during the pandemic.

Continue reading.

17 Oct, 2022

S&P U.S. Charter School Rating Actions, Third-Quarter 2022.

View the Rating Actions.

18 Oct, 2022

S&P U.S. Higher Education Rating Actions, Third-Quarter 2022.

View the Rating Actions.

20 Oct, 2022

Arizona Sports Park Defaults in New Sign of Muni Stress.

A 320-acre sports park in Mesa, Ariz., has defaulted on its bonds eight months after opening, a fresh

sign of stress in the often-sleepy world of municipal finance.

A notice of default filed late Tuesday by trustee UMB Bank said the sports park project has failed to make payments to the trustee on its debt, which are due monthly. The notice said the borrower also failed to file audited financial statements, and that a lien or other encumbrances has been filed against the park, a violation of the loan agreement.

The borrower, a nonprofit called Legacy Cares that had no experience owning a sports park, sold $280 million in muni debt to Vanguard Group and other mutual funds in 2020 and 2021 amid a frenzied hunt for tax-exempt yield. Legacy Cares President Douglas Moss could not immediately be reached for comment.

Another speculative muni-financed project, the Rutherford, N.J., American Dream mall and theme park, defaulted in August.

The Wall Street Journal

By Heather Gillers

Oct 18, 2022

Munis May Be Cheap Enough to Lure Crossover Buyers, Vanguard Says.

- **Yield of 30-year muni index hits 3.8%, near eight-year high**
- **Credit strength adds to munis' allure, says Vanguard's Malloy**

The battering of bonds this year from inflation and higher rates has made long-term municipal securities so cheap that investors who usually shun them may be buyers.

The yield on tax-exempt municipal debt maturing in 30 years reached 3.8% on Thursday, near its highest since March 2014, according to data compiled by Bloomberg.

That's almost 92% of the rate on 30-year US Treasuries, higher than the usual ratio for tax-exempt to taxable debt, meaning the municipal bonds are relatively cheap. And the creditworthiness of state and city securities has benefited from robust tax receipts and federal pandemic relief, making them more compelling to a wider range of investors, said Paul Malloy, head of municipal investment at Vanguard Group Inc.

"Together it really does make municipals look to be one of the most attractive parts of the fixed-income market currently, particularly at the long end," Malloy said.

Yields on both new and old muni bonds have risen as the Federal Reserve raised interest rates to slow the fastest inflation in decades. Prices in the secondary market dropped, generating a loss of 11.5% so far this year for the broader municipal-bond market, according to Bloomberg Barclays Indexes.

Tax-exempt securities maturing in 22 years or longer are the worst-performing part of the muni curve, losing 18.9% through Oct. 19, according to the indexes.

But Vanguard's Malloy anticipates a bounce back, with demand from so-called crossover buyers who focus on corporate and US Treasury securities helping to raise muni bond prices, which move

inversely from yields.

“One of the main characteristics of the muni market is it will snap back and it will snap back hard when it does,” Malloy said.

Some municipal market participants also see support coming from the Fed down the road, when the central bank inevitably slows its rate-rise regime. Investors in longer-dated securities should extend their portfolio duration, but in a disciplined fashion, according to a Bank of America Corp. municipal research report dated Oct. 14.

“We see that the strongest returns tend to come on long maturity indexes between the second-to-last and last rate hike,” according to the Bank of America report.

Bloomberg Markets

By Michelle Kaske

October 21, 2022

Munis Are a Safe Haven, Valley Bank's Brigati Says.

Chris Brigati, Valley Bank managing director of municipal investments, says municipal bonds are providing an opportunity for investors. He speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets.

Watch video.

Bloomberg Markets: The Close

October 20th, 2022, 12:02 PM PDT

Munis Offer ‘Oasis’ as Debt Beats Bond Peers in Volatile Stretch.

- **BofA attributes outperformance in part to light muni issuance**
- **October muni gain of 0.9% comes as Treasuries post decline**

The debt of US states and cities is proving to be a haven from the turbulence roiling fixed income lately, say analysts at the municipal-bond market’s largest underwriter.

“While macro market liquidity is growing more acute, it doesn’t appear to be for munis,” Bank of America Corp. strategists led by Yingchen Li and Ian Rogow wrote in a research note published Friday. “Light issuance and growing retail interest make munis an oasis.”

Munis have gained about 0.9% this month, while US Treasuries have lost 1.2% and investment-grade corporate bonds are down 1.5%, according to Bloomberg Index data through Friday. That outperformance holds for all of 2022, amid a brutal year for the bond market as the Federal Reserve hikes interest rates to tame inflation.

Continue reading.

Bloomberg

By Danielle Moran

October 17, 2022

The Municipal Bond Market's Strong Fundamentals Could Prevent a Repeat of 2008.

Investors have found few safe havens amid 2022's rocky economic ride. The flow of COVID-era stimulus programs–which buoyed economic growth for the better part of the last two years–are now being withdrawn.

In the wake of that ebb, most asset class returns have eroded. And yet, many state and local governments used the growing tax revenues and fiscal stimulus from the past few years to shore up fiscal positions. The result? A municipal bond market whose strong fundamentals appear to have left it prepared for the uncertain market to come.

The yin to the muni market's yang

There's no doubt that 2021 was an exceptional year for muni investors. Interest rates were low, credit spreads were tight, and bonds rallied. Nevertheless, that result was far from the expectation at the start of the cycle. Back at the outset of 2021, many municipalities expected major revenue declines. In preparation, they battened down the hatches and slashed expenses.

The revenue declines never materialized.

Instead, federal government-funded relief–in the form of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and the American Rescue Plan Act (ARPA)–helped fill local coffers. At the same time, home prices and wages continued to rise, lifting revenues from property taxes and wages.

Then 2022 swept in, bringing with it a flurry of financial turbulence that brought financial markets back from their extreme valuations. Munis faltered, along with most asset classes. Still, markets move in cycles. This year's turnaround, when viewed through a wide-angle lens, reflects that cyclical nature. COVID-era monetary policy and fiscal stimulus programs are reversing. Subsequently, interest rates are rising toward historical norms. In short, the economic snapback of 2022 is carrying muni bonds into a period of normalization.

Still, municipalities are fiscally fit

Many state and local governments deployed COVID-era stimulus to fortify themselves against future downturns by building rainy day funds and funding pension obligations. Going forward, tax revenues are likely to remain stable, as real estate assessment values won't fall at the same rate or extent as a slowing housing market.

The combination of those previous and future revenue sources isn't just good for municipalities—they're also positive for their investors. As autumn gets underway, average

municipal yields are at their highest levels in 10 years. It's a high-quality asset class (more than 85% of the market is rated A or higher, according to our analysis of market data) with a strong fundamental risk profile, particularly compared with corporate bonds.

Current valuations, particularly among longer-term issues, are close to those of Treasuries, which are generally subject to federal income taxes. Muni bond interest, by contrast, isn't taxed at the federal level. And states don't tax the interest on bonds they issue to their residents. That means that today's munis are paying investors a more elevated tax-exempt income than taxable equivalents.

Note that although the income from a municipal bond fund is exempt from federal tax, you may owe taxes on any capital gains realized through the fund's trading or through your own redemption of shares. For some investors, a portion of the fund's income may be subject to state and local taxes, as well as to the federal Alternative Minimum Tax.

Despite talk of a downturn, the muni market future's is still bright

With signs we may be heading towards a recession, munis–particularly those in the high-quality space–appear ready to weather the storm. A recession will inevitably lead to some revenue drop-offs, but many municipalities will face those headwinds from a strong fundamental position. The combination of low debt and sufficient cash can act as a buttress against a downturn.

In fact, munis are in much better shape than they were in 2008 before the global financial crisis. Back then, many U.S. states were facing budget shortfalls, some of them quite severe.

That's far from the case for many of today's local governments, which is great for investors. At Vanguard, for example, we're actively upgrading the quality of our muni portfolios while repositioning for the higher interest rate regime we appear to have entered.

Despite widespread financial turbulence, muni observers are witnessing a market that's as attractive as it's been for decades. Rates are up and high-quality credit is readily available. At the same time, municipal bonds are relatively inexpensive on the basis of both fundamentals and historical norms. It could be a great time to get in on this attractive asset class—but only if you intend to stay for the long haul.

FORTUNE

BY PAUL MALLOY

October 12, 2022

Paul Malloy is the head of municipal investment and credit research at Vanguard.

Fitch: Inflation To Pressure U.S. Public Finance Before Long

Fitch Ratings-New York-10 October 2022: Positive rating momentum continued for U.S. public finance last quarter; however, it is only a matter of time before rising inflation makes its presence more resoundingly felt, according to Fitch Ratings' latest quarterly report.

Against high inflation, higher energy costs and persistent supply chain headwinds, Fitch upgraded 47 public finance ratings and downgraded 15 in 3Q22 (compared to 36 and 13, respectively, in

2Q22).

State governments, in particular, had a strong quarter as seen by upgrades to Michigan, Ohio and New Jersey. However, “Rapid Federal Reserve monetary policy tightening could lead to state revenue growth weakening and possibly swinging negative in time,” said Arlene Bohner, Fitch’s head of U.S. public finance. “Sustained inflation also could add to states’ fiscal risks by dampening consumer demand and business activity while raising costs for capital spending.”

U.S. not-for-profit (NPF) hospitals held steady last quarter with six upgrades and four downgrades in 3Q22 (compared to five hospital upgrades and four downgrades for 1H22). That said, “high costs and inability to retain medical staff are pointing to tighter operating margins, which in turn will lead to higher downgrades and negative outlooks in the coming months,” said Bohner. Conversely, finances of life plan communities (LPC) appear to be on more stable footing heading into 2023 despite a stumbling block last quarter (four LPC downgrades in 3Q22 against no upgrades).

Another sector taking a hit from higher inflation is higher education (three downgrades and no upgrades in 3Q22) with stagnant enrollment the chief reason for last quarter’s downgrades. “There are some signs of improvement, including modest prospects for enrollment stabilization from incoming students, though controlling expenses will be challenging in an inflationary cost environment,” said Bohner.

Fitch’s “U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2022” is available at www.fitchratings.com.

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City Finances Are Stronger, but Uncertainty Lies Ahead.

In its annual survey of the fiscal condition of U.S. cities, the National League of Cities finds cause for both hope and concern. Federal funds have improved municipal fiscal health, but inflation and recession fears are on the horizon.

After suffering historic blows to their fiscal stability from the COVID-19 pandemic, municipal governments appear to be on the path to recovery for fiscal year 2022, according to a City Fiscal Conditions report just released by the National League of Cities (NLC).

Though it’s not the only factor, this is largely attributable to the funds available to them through the American Rescue Plan Act (ARPA) and the Bipartisan Infrastructure Law (BIL). While these will

continue to be available for several years, other forces currently in play could bring financial turbulence in coming years.

The 2022 report from NLC is the latest in a series that began 37 years ago. “The overarching theme for this year’s report was cautious optimism,” says lead author Farhad Omeyr, program director, research and data, at NLC’s Center for City Solutions.

Continue reading.

governing.com

by Carl Smith

Oct. 17, 2022

US Cities Are Preparing for an Impending Recession, Survey Shows.

- **Governments are grappling wtih supply-chain issues, inflation**
- **Cities anticipate a decline in their sales and income tax**

Optimism among US city finance officers is waning as they expect to contend with a drop in tax revenue and a looming recession, according to a new survey by the National League of Cities.

Nearly a third of the city officials from 395 cities surveyed for the 2022 City Fiscal Conditions report said they are less able to meet their financial needs in fiscal year 2023 as the economy slows. Just 11% felt that way about fiscal year 2022, as federal funds set aside for pandemic relief helped buoy their finances.

Concerns about an impending recession have forced many municipalities to budget conservatively, the report said. Cities have already been grappling with supply-chain issues, which have impacted their cost of operations and made infrastructure projects challenging. These disruptions pushed prices higher, threatening to eat into tax revenues that local governments gained as the economy rebounded in 2021.

Cities expect a 2.5% year-over-year decline in sales-tax receipts for the fiscal year 2022, with nearly no income tax revenue growth over the period, the report said. They’re also budgeting a more than 4% year-over-year drop in property taxes in 2022, as the Federal Reserve’s aggressive policy-tightening regime lead to a housing-market slowdown.

“While the fiscal impacts of abnormally high inflation rates remain to be seen, America’s cities are bracing for stagflation and possible economic downturn,” Clarence Anthony, the league’s chief executive officer, said in the report.

Bloomberg CityLab

By Marvis Gutierrez

October 12, 2022

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

View the Current List.

[Free registration required.]

13 Oct, 2022

S&P Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs.

OVERVIEW AND SCOPE

1. U.S. mortgage revenue bond (MRB) programs are backed by pools of mortgage loans on residential property. They are typically established and overseen by a state or local housing finance agency (HFA) for the purpose of improving housing affordability by financing mortgage lending to low- and moderate-income households or borrowers developing or preserving affordable rental housing.

2. MRBs are typically backed by pools of:

- Single-family first and second mortgage whole loans;
- Mortgage loans secured by rental housing that meet the qualifications of residential rental property as set forth in IRS Code Section 142(d);
- Single-family and multifamily mortgage loans or MBS where the loans or MBS benefit from full credit enhancement via a guarantee, insurance, or credit enhancement instrument from U.S. federal agencies; and
- Hybrid programs composed of a mix of the above.

3. We refer throughout this article to MRB programs issued by HFAs, but the criteria could be applied to MRB programs issued by other U.S. financing organizations, if the public policy mission, the legal structure, the degree of program management, and the underlying asset types are similar.

4. The criteria apply only to managed MRB programs where the issuing HFA (or other financing organization) has an active role in the general oversight of the program, as well as in the ongoing management of specific risks, such as asset-liability matching, debt profile and investment management, or liquidity and counterparty risks (see the Program Management And Operational Risk Analysis section for more details). The degree of such management (including both support and risks brought about by such involvement) is addressed directly in these criteria. MRB programs in scope of these criteria are generally active issuance vehicles used by the issuing HFA to fund its ongoing lending (although an MRB program would remain in scope if the HFA decides to amortize it down, for example, and fund its lending under a different program).

5. Conversely, the criteria don’t apply to transactions that don’t possess such program risk management characteristics (although the issuing organization may be involved in the servicing of securitized assets and the administrative operation of the transaction). In particular, non-managed

transactions backed by static mortgage pools are generally rated under “U.S. Federally Enhanced Housing Bonds Rating Methodology,” or “Methodology For Rating U.S. Public Finance Rental Housing Bonds,” as applicable.

6. We also apply the “Credit Quality Of The Asset Pool” section of these criteria to determine loss assumptions used in our capital adequacy analysis under our criteria for rating HFAs (“Methodology And Assumptions: Housing Finance Agencies And Social Enterprise Lending Organizations”).

Continue reading. [Free Registration Required.]

10 Oct, 2022

S&P RFC Process Summary: Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs

On Dec. 1, 2021, S&P Global Ratings published a request for comment (RFC) on its proposed criteria, “Request For Comment: Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs.” Following feedback from market participants, we finalized and published our criteria on Oct. 10, 2022 (see “Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs”).

We’d like to thank market participants who provided feedback. This RFC Process Summary provides an overview of the external written comments and certain other feedback we received from the market on the proposed criteria, the significant analytical changes, if any, we made following the RFC period, and the rationale for those changes.

Continue reading.

10 Oct, 2022

S&P: Certain U.S. Public Finance Mortgage Revenue Bond Program Ratings Placed Under Criteria Observation

SAN FRANCISCO (S&P Global Ratings) Oct. 10, 2022–S&P Global Ratings said today that it placed some of its ratings on U.S. public finance mortgage revenue bond programs under criteria observation (UCO). The UCO placement follows the publication of our criteria “Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs,” on Oct. 10, 2022, on RatingsDirect.

Following changes in rating methodology, credit rating agencies regulated under Regulation (EC) No. 1060/2009, as amended, are required to immediately place credit ratings potentially affected by such changes under criteria observation. (See “Standard & Poor’s Announces ‘Under Criteria Observation’ Identifier For Ratings Potentially Affected By Criteria Changes,” published May 7, 2013.)

As a result of the updated criteria, we placed our various credit ratings on these programs under criteria observation. See the table for a list of the affected programs. Ratings under these programs have the “UCO” label in the Regulatory Identifier column on the individual transaction pages of S&P

Global Ratings' online credit rating products. The UCO identifier does not modify any credit rating definition, and is not equivalent to a CreditWatch placement. The UCO identifier does not indicate the likelihood of a credit rating change or the timeline for which any change might occur. The UCO identifier will remain in place on these ratings until the conclusion of the review under the changed criteria, at which time the ratings may be affirmed, changed, or placed on CreditWatch.

We expect to review the ratings identified as UCO no later than six months from the effective date of the new criteria. Any rating changes prompted by the new criteria will be published in compliance with the regulation.

Continue reading.

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S&P: U.S. Housing Finance Agencies Build Strength Ahead Of New Challenges, Report Says

DENVER (S&P Global Ratings) Oct. 12, 2022–U.S. state housing finance agency (HFA) credit quality remained strong and stable with nearly all of our issuer credit ratings on the 23 rated state HFAs 'AA-' or higher. HFAs are well-positioned for the rising interest rate environment and potential recession of 2023 and beyond, according to the report "U.S. Housing Finance Agency Issuer Credit Ratings Build Strength Ahead Of New Challenges," published Oct. 12, 2022, on RatingsDirect.

"Ratios in fiscal 2021 show new strengths, improving on the mixed performance in 2020, with equity and assets at again-record highs and profitability and asset quality bouncing back," said S&P Global Ratings credit analyst Joan Monaghan. "Sizable funding from federal stimulus programs aided the return to pre-pandemic trends, but new challenges lie ahead," Ms. Monaghan added.

This report does not constitute a rating action.

The report is available to subscribers of RatingsDirect at www.capitaliq.com. If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to research_request@spglobal.com. Ratings information can also be found on S&P Global Ratings' public website by using the Ratings search box located in the left column at www.standardandpoors.com. Members of the media may request a copy of this report by contacting the media representative provided.

Fitch: US Life Plan Community Fees Buffered from Home Price Declines, Sales May Slow

Fitch Ratings-New York-11 October 2022: Fitch-rated life plan communities' (LPCs) pricing will hold up to home price declines in local real estate markets, as entrance fees have grown by just a fraction of home price appreciation over the last few years, Fitch Ratings says. Home sales are typically the main source of revenue that allow residents to pay the LPC entrance fee. However, slowing home sales could also weigh on independent living (IL) sales, delaying the sector's robust revenue recovery.

A slowdown in IL sales and net entrance fee receipts could constrain LPC's near-term financial flexibility in addressing near-term inflation. Stellar net entrance fee receipts for many Fitch-rated LPCs have allowed them to rebuild IL occupancies from pandemic-related lows. Strong entrance fee receipts blunt some negative inflation effects on operations and support stable debt service coverage.

LPCs should not need to make material adjustments to current entrance fee pricing, as fees have only increased by 2%-4% per year even as home values grew roughly 40% since March 2020. As a result, entrance fee pricing has some cushion and need not decline along with housing prices.

Fitch's latest U.S. RMBS Sustainable Home Price Report notes that national home prices grew by 15.8% yoy and are overvalued by 12.2%. While we anticipate home price corrections, a housing market crash, as was seen during 2008-2009, is highly unlikely. Home prices are expected to moderate further with elevated mortgage rates. Even if home prices decline beyond our overvaluation estimates, we believe LPC entrance fee pricing can remain stable. Fitch-rated LPCs are generally located in more affluent areas, with residents who generally have greater economic resiliency and may be better able to cover LPC entrance fees without relying on the proceeds from the sale of their homes.

However, a decline in housing prices may slow the current strong pace of independent living (IL) sales. A prospective resident's decision to move into an LPC can be sensitive to recessionary pressures, including declines in home values, inflation concerns and weaker investment performance. A slowdown in IL sales would lengthen the time for an LPC to refill turned-over IL units, thus reducing IL occupancy.

Inflation remains the main variable that could negatively affect margins. LPCs continue to boost revenue and alleviate costs, namely by delaying capex (including expansion plans), keeping skilled nursing beds offline, raising monthly service fees and reconfiguring services, such as dining.

Our rated LPCs experienced stress on both IL occupancy and net entrance fee receipts during 2008-2009 as prospective residents delayed decisions to move as a result of the economic uncertainty. This was the case even as their net worth, including home values, qualified them for entry into LPCs.

Judicious use of marketing and sales strategies can sustain sales and ease the move into an LPC, as happened in 2008-2009. These include real estate sale and moving services, promissory note programs and other incentives, such as apartment upgrades or service fees waivers for the first month or two of residency. Additionally, the IL lifestyle is a significant draw of the LPC product, and there is a practical time constraint on decisions to move into an LPC before health issues may disqualify prospective residents from IL.

Fitch: Improved Medians Prep U.S. NFP Children's Hospitals for Inflationary Pain

Fitch Ratings-Austin-11 October 2022: U.S. NFP children's hospitals staged a remarkable comeback following a challenging pandemic environment and are now bracing for a different kind of pain in the coming months, according to Fitch Ratings in its latest annual medians report for the sector.

2022 medians (using audited 2021 data) showed a 31% increase in cash to adjusted debt to 325% for the 23 children's hospitals reviewed for Fitch's report. That said, balance sheet metrics will be under

pressure over the next year and possibly beyond, according to Director Richard Park. Like the broader NFP hospital sector, the biggest impediment will be labor.

“Children’s hospitals have not been immune to the staffing shortages pressuring the overall healthcare industry,” said Park. “That said, children’s hospitals generally experience lower turnover levels and have more balance sheet and margin flexibility to recruit and retain staff.”

The higher median rating for children’s hospitals, compared to adult providers, demonstrates the subsector’s robust liquidity, solid operating profitability, unique market positions, strong philanthropic support and highly specialized clinical services. Nonetheless, Fitch expects labor shortages to continue well into 2023 and likely longer in some markets, with high growth markets being better able to mitigate labor issues.

“The pandemic has exposed the sector’s need for additional investment and better care models for behavioral health,” said Park. “The potential end of the COVID-19 public health emergency declaration will likely lead to significant Medicaid disenrollments, which along with an increasing likelihood of recession further muddies what is already an unpredictable post-pandemic future.”

Fitch’s “2022 Median Ratios for Not-for-Profit Children’s Hospitals” is available at www.fitchratings.com.

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Municipal CUSIP Request Volumes Fall for Third Straight Month in September.

NORWALK, Conn., Oct. 13, 2022 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 2022. 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 decrease in request volume for new municipal identifiers, while corporate request volume increased.

North American corporate requests totaled 5,174 in September 2022, which is up 2.1% on a monthly basis. September volumes were driven by a 31.9% increase in requests for medium-term notes and a

13.1% increase in requests for short-term certificates of deposit (CDs) identifiers. On a year-ove--year basis CUSIP request volume for short-term CDs is up 215.0%, extending a nine-month growth streak. U.S. corporate equity requests fell 15.1% and U.S. corporate debt requests declined 17.8% this month.

Municipal request volume declined for the third straight month in September. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 7.7% versus August totals. On a year-over-year basis, overall municipal volumes were down 19.6%. Texas led state-level municipal request volume with a total of 132 new CUSIP requests in September, followed by New York with 114 and California with 65.

“Despite a fair amount of volatility, overall corporate request volumes have increased this year, with year-over-year volume currently up 8% as we head into the fourth quarter,” said Gerard Faulkner, Director of Operations for CGS. “The same cannot be said for the muni market, where we’re seeing a third straight monthly decline in requests for new CUSIP identifiers and a year-over-year decline of 19.6%. It will be interesting to see how these trends are influenced as interest rates continue to rise.”

Requests for international equity CUSIPs fell 0.6% in September while international debt CUSIP requests rose 51.9%. On an annualized basis, international equity CUSIP requests were down 36.9% and international debt CUSIP requests were down 35.9%.

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

Fitch: US Public Pensions Unlikely to Face UK Pension-Style Crisis

Fitch Ratings-New York-14 October 2022: U.S. state and local pensions are unlikely to face the sudden liquidity crisis that U.K. corporate pensions are confronting given their different approaches to valuing liabilities and the resulting differences in investment strategies, Fitch Ratings says. However, U.S. public pension funds’ investment return assumptions incentivize higher yielding asset investments, posing the risk of deeper losses in a market downturn.

State and local government pensions discount their liabilities using the same fixed long-term investment return rate that they assume for their assets, whereas U.K. corporate pensions discount their liabilities using variable, market-based rates. To avoid having market rate variability affect U.K. pension liabilities, and thus their parent corporations’ balance sheets, U.K. pensions engage in liability-driven investing (LDI) strategies that use leverage, an approach not commonly used by U.S. plans. LDI strategies typically rely on interest rate derivatives that involve long-dated U.K. bonds to match their long-term obligations.

The rapid spike in gilt yields following the U.K.’s ‘mini-budget’ on Sept. 23 led to sharp declines in the notional value of these interest rate derivatives, requiring collateral calls on U.K. pensions. The scale of the collateral requirements triggered a rapid liquidation of assets as pension funds scrambled to find the necessary cash, creating fears that pension assets intended to support benefits could be at risk or that plans would need liquidity injections from their parent corporations.

The investment return assumption used by U.S. state and local government pensions is a fixed rate, but this presents its own set of risks, most notably incentivizing the search for higher yield, exposing assets to higher volatility. Fitch views this as a central concern for state and local pensions, particularly as investment return assumptions remained unrealistically high, despite incremental

decreases during a decade of low inflation and variable returns.

U.S. state and local pensions will see weaker asset performance as higher inflation, geopolitical uncertainty, and higher interest rates are priced into asset values. Fitch's latest Global Economic Outlook anticipates a mild U.S. recession next year, with deeper recessions in some parts of the globe.

U.S. public pension assets are dominated by public equities and alternatives, which constituted 47% and 19% of holdings in 2021, respectively, according to the Public Plan Database, leaving plans vulnerable to sharper swings in value. Fixed income holdings, which have historically produced more stable returns, stood at 21.4% of pension holdings in 2021.

As asset weakness weighs on funded ratios and gets smoothed into funded ratios, it will ultimately put upward pressure on pension contributions. The period since the pandemic began illustrates the asset volatility that plans face. Milliman, the actuarial firm, reports in its Public Pension Funding Index that the ratio of public pension assets to liabilities rose to 85% as of June 2021 from 70.7% a year earlier and fell back to 74% as of June 2022.

While they do not appear to employ derivatives on the scale seen in UK pensions, U.S. state and local plan assets often have direct derivatives exposure, typically used for hedging foreign currency and interest rate risks and reported at fair value. While plans disclosure of asset allocations, derivatives exposure and related risks has improved in recent years, details on allocations vary widely.

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

The US Cities Rebounding the Fastest Are Benefiting From Tourism, Not Business Travel.

- **Revenue per available room lags in commercial metro markets**

- **Leisure travel continues to outperform business travel**

Tourist havens like Orlando and Oahu are seeing more revenue from taxes levied on overnight hotel stays than their counterparts who rely on business-focused travel.

Cities that depend heavily on commercial travel have seen a larger decline in their revenue per available room since the onset of the pandemic, University of Chicago Harris School of Public Policy professor Justin Marlowe and HVS Consultant Tom Hazinski co-wrote in a draft research paper the duo provided to Bloomberg.

For example, Boston, which is considered a commercial city, saw a 70% drop in revenue per available room, compared to leisure-focused Phoenix, which saw a 39% decline. The metric the researchers use is an industry standard to measure the strength of revenues across the lodging market.

Continue reading.

Bloomberg CityLab

By Hadriana Lowenkron and Marvis Gutierrez

October 14, 2022

Between Cornell and Colgate, a Hard Lesson in College Economics.

- **NY's Cazenovia College defaulted on $25 million bond payment**
- **School's struggles are emblematic of strains across higher-ed**

Since 1824, it's sat at a quiet crossroads of American higher education, surrounded by richer, more prestigious institutions like Cornell University and Colgate University.

Now, tiny Cazenovia College, in rural upstate New York, is fast becoming a case study for the financial pressures driving scores of small, not-so-famous colleges to the brink. At a time when even some big, well-known universities are feeling pinched — and the cost and value of a college degree are in question — the long-feared shakeout in American higher-ed finally appears at hand.

Cazenovia, home to ZAC the Wildcat and a 240-acre equine facility, is smack in the middle of it. Three years ago, when it was already struggling with declining enrollment, the college borrowed $25 million in the municipal-bond market, in part to update its campus.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 14, 2022

Bill To Help Expedite Airport Projects Clears Congress.

The U.S. Senate approved a measure to permit the use of Airport Improvement Program (AIP) funds to provide incentives for the early completion of airport projects. Passed by unanimous consent on September 28, the Expedited Delivery of Airport Infrastructure Act of 2021, H.R.468, now heads to the White House for President Joe Biden's signature. Introduced by the House Transportation and Infrastructure Committee and aviation subcommittee Republican leaders Reps. Sam Graves (Missouri) and Garret Graves (Louisiana), respectively, the Airport Infrastructure Act was approved by the House in June 2021.

Under the bill, AIP grants can be awarded to public agencies and other entities to plan, develop, and execute infrastructure projects at public-use airports, such as runways and taxiways, in a timely manner.

"This proven, smart reform is already in use for road and bridge construction, and it's just common sense to make this same incentivization tool available for the construction of aviation infrastructure projects," said Sam Graves. "Delivering airport projects ahead of schedule will save money and essentially provide a similar impact as increasing investment without requiring any additional federal resources."

Garret Graves agreed: "This bill will help change the way we facilitate airport construction. Every day an airport project isn't completed, project costs go up and opportunities for economic activity via tourism and business development are missed."

National Air Transportation Association (NATA) president and CEO Curt Castagna praised the bill saying it will support "critical upkeep and modernization of our airport infrastructure."

The bill is among a "flurry of legislative activity" that Congress undertook before the break for the midterm elections, NATA noted, including the passage of a continuing resolution to continue funding of the federal government through December 16, as well as House passage of the National Center for the Advancement of Aviation Act of 2022, H.R. 3482, to establish a federally chartered, private center to support the aviation workforce.

ainonline.com

by Kerry Lynch

October 3, 2022

The Infrastructure Law: 'Hitting Timelines Without Cutting Corners'

Biden administration officials are pushing for projects to move quickly, while also meeting goals like benefiting disadvantaged neighborhoods and strengthening the nation's workforce.

State and local officials can build ambitious projects paid for with the federal government's $1.2 trillion infrastructure law while containing costs, keeping on schedule and delivering other benefits to the public, Biden administration officials assured industry experts Thursday.

Transportation Secretary Pete Buttigieg and several other administration officials hosted the White

House event, sharing ways to keep projects “on time, on task and on budget.”

But federal officials, along with state and city leaders, also stressed that they could accomplish those tasks while training new workers, empowering people in disadvantaged neighborhoods, improving safety and consulting with the public about the design of projects before moving any dirt.

Continue reading.

Route Fifty

By Daniel C. Vock

OCTOBER 13, 2022

As Warehouses Multiply, Some Cities Say: Enough

Several municipalities in California’s Inland Empire have halted new projects to study their impact on pollution and congestion, but labor and business groups have warned that moratoriums could cost the region tax revenue and jobs.

From the front yard of her ranch-style home, Pam Lemos peered out on the vast valley of her childhood.

She can still picture the way it looked back in the 1980s — citrus groves blanketing hillsides, dairy farms stretching for acres and horses grazing under a bright blue sky. These days, when she looks toward the horizon, she mainly sees the metal roofs of hulking warehouses.

“Now it’s all industrial,” said Ms. Lemos, 55, who has lived in Colton, 60 miles east of Los Angeles, her entire life. “We are working to change that and starting with these warehouses.”

Continue reading.

The New York Times

By Kurtis Lee

Oct. 10, 2022

Muni Market Is Worrying About Credit Again.

The number of ratings sought by state and local government borrowers is creeping upward after falling steadily since the financial crisis, a sign that credit concerns are creeping back into the $4 trillion municipal market.

The percentage of debt issued without an opinion from a credit ratings firm fell to 6.8% in 2022 from 9.7% last year, according to Municipal Market Analytics data. Meanwhile, there were increases of about two percentage points in the shares of debt issued with two and three ratings.

Borrowers typically shell out for additional ratings when they believe the extra reassurance will enable them to raise money as they plan.

Credit concerns had abated over the past two years as cash from tax collections and stimulus payments filled state and local government coffers. Investors fretted instead about how rising yields were driving down the market value of their bonds.

Rates are still rising, with benchmark 10-year triple-A munis yielding 3.15% Thursday afternoon, up from 3.11% Wednesday, according to Refinitiv MMD, after Labor Department data showed one measure of inflation has reached a four-decade high. Now investors are worried about repayment trouble too.

The Wall Street Journal

By Heather Gillers

Oct 14, 2022

How Rate Volatility Is Impacting the Muni Market.

Appleton Partners Senior Vice President Whitney Fitts discusses how inflation is impacting the municipal bond market. She spoke with Taylor Riggs on the Oct. 12 episode of “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

October 13th, 2022, 11:14 AM PDT

Public-Private Partnerships: A Muni Bond Investor’s Guide

Also known as P3s, these entities are used to finance projects such as bridge construction, airport expansion, and toll roads.

A public-private partnership (P3) is generally an arrangement between a government agency and a private corporation that finances a large infrastructure project. P3 projects have come in many shapes and sizes, and in a wide array of sectors such as student housing, toll roads, airport terminals, water & sewer, and city street lighting.

Although P3s are less common in the United States than in the rest of the world, the recent passage of the Infrastructure Investment and Jobs Act provides some incentives for local governments to pursue P3s.1 There may be increasing issuance of P3 bonds that would offer an opportunity for tax-exempt bond investors to finance infrastructure projects and be compensated for the construction and operating risk.

P3 bond deals are typically structured in two categories: revenue risk or availability risk. With revenue-risk projects, after construction, an investor would be paid from the net revenues of the

project after operating expenses. So, for example, if the project is a toll road, investors would be taking on the operating risk of that toll road. Revenues would not only need to cover operating and maintenance costs, but also the debt service owed to investors. The P3 operator would then be paid from excess revenue. The I-95 Express Lanes in Virginia are an example of this type of project.

Availability-risk projects are different in that bondholders do not take on the risk of the project generating revenue but instead take on the risk of the assets being utilized properly. A good example of this would be Denver Transit Partners, a joint venture that built three commuter rail lines in the Denver area. The P3 is paid by the authorizer, Regional Transportation District, a Colorado state entity, based on the performance metrics of the rail lines and rail cars. These projects incentivize the private operator to keep the lines and railcars in good condition to maximize compensation.

In all cases, construction risk is passed on to the private entity. This is done typically via a fixed-price, design-build contract that keeps the construction costs to a minimum. Given their lack of expertise with certain types of infrastructure projects, municipalities are incentivized to use P3s to create public savings overall on projects, as well as better consumer experiences. Having an experienced builder and operator is an important investment factor to consider for the success of P3 projects.

Major P3 Projects

Large urban areas have typically favored P3 projects. The New York City area has multiple such projects, with the Port Authority of New York and New Jersey being an early adopter of P3 structures in the United States.

One example is the Goethals Bridge. The Port Authority of New York and New Jersey made an agreement with the developer, a joint venture between Macquarie and Kiewit Developments called NYNJ Link that built a replacement bridge for the Goethals Bridge, which was first opened in 1928. The project was successfully built in 2018, and although it was completed behind schedule, bondholder payments continued to flow during construction, and now, in the operating phase of the concession agreement. Goethals is considered an availability-payment P3 as the Port Authority takes on revenue risk, while NYNJ Link is required to maintain the availability of the bridge.

Other Port Authority P3s include airport terminal projects at LaGuardia and JFK. LaGuardia Airport issued bonds in 2016 to construct a new Terminal B and demolish the old terminal. Construction was completed in July 2022. Revenue for the bonds will be paid from lease payments from airlines including American Airlines, Southwest Airlines, and United Airlines. JFK Terminal 4 issued bonds earlier this year to add gates, construct new lounges, and upgrade self-check-in and flight-info display systems. Delta Air Lines, which is responsible for most of the construction, plans to consolidate all its gates at Terminal 4. Delta lease payments would provide cash flow for debt service payments. For airports in New York, there is strong demand for a finite number of gates. The gates could be easily leased to other parties if any airline is unable to pay its lease.

A Final Word

P3 bond projects typically carry more risk than a standard municipality since they aren’t backed by a tax base or a wide array of projects. Instead, they have project-specific risk, and it is quite typical for rating agencies to give low investment-grade ratings to the projects initially. This could make P3 bond investments more attractive for investors seeking elevated tax-free income. For example, Goethals was originally issued at BBB- by both Fitch and S&P but has been upgraded to A- and BBB+ over time as construction risk subsided. Municipal bond investment teams with advanced credit research capabilities may be best positioned to identify those P3 credits with the potential to

strengthen their credit profiles.

1https://bipartisanpolicy.org/blog/five-reasons-public-private-partnerships-could-see-bi-
-growth-under-the-bipartisan-infrastructure-bill/

By Derek A. Gabrish, Wells Chen

October 10, 2022

lordabbet.com

The Time Is Now For Muni CEFs.

A bargain hunter's dream. That could be the best way to describe the current fixed income market. Yes, the Fed has been raising rates and that has sent many varieties of bonds and securities lower as yields readjust to the current rate environment. But in that readjustment, some fixed income securities have now been reset to more historical norms when it comes to yields and pricing. A few, perhaps, have even moved into bargain territory when considering their other benefits.

In this case, we are talking about municipal bond closed-end funds (CEFs).

By combining the tax-free nature of munis with the power of already buying at discount/higher yields of a CEF, investors are looking at a very interesting package. And it could see serious benefits down the road.

CEFs & Munis: A Match Made in Heaven

With exchange traded funds (ETFs) taking the world by storm, a variety of other investment vehicles have been placed on the backburner. One of them continues to be the humble closed-end fund (CEF). CEFs are a throwback to the early days of investing, with the fund type being older than mutual funds. Some of the earliest days of the CEF date back to the beginning of the 1900s.

These quirky investment vehicles blend mutual funds and ETFs into one asset class. CEFs trade on major exchanges just like ETFs and can be bought/sold throughout the day. However, the kicker is that, unlike an ETF, their value is dictated by supply/demand. They have a fixed number of issued shares, so it is the whims of investors that determine how much people pay for a share of the CEF. That means they can and often trade at discounts to their underlying net asset values. For example, investors can buy one dollar worth of assets for 80 cents or so.

Because they trade on an exchange, managers of the funds do not have to worry about redemptions or money flowing out of the fund. Therefore, they can buy long-term or more illiquid asset classes. This fact has made them a haven for certain kinds of fixed income securities—in this case, municipal bonds.

Muni bonds generally have long-term timelines until maturity. By placing it in a CEF, managers can hold the bond until it comes due without having to worry about selling bonds—potentially at a loss—to meet investor redemptions. The added bonus is that CEFs are allowed to use some leverage to boost their returns. This provides higher yields than a mutual fund or ETF. Because of muni's tax-free nature, when placed in a CEF, this can provide tax-advantage yield north of 5 to 7%.

An Interesting Time to Buy

Currently, this match made in heaven has a lot of appeal for investors. Thanks to the Fed's monetary policy of raising rates, many fixed income securities have begun to drop. Bonds have an inverse relationship with rates. The longer the maturity of the bond, the bigger the drop. And munis have been hit hard.

For the first half of the year, muni bonds posted one of the worst drawdowns in history. According to Bloomberg data, the sector is on track to post a loss of 9.5%, the worst year since 1981. However, in recent months, the pain has begun to stabilize. So-called yield tourists are now gone and more serious long-term investors—like insurance companies, pension funds, and high,net,worth investors—have begun buying.

The reason for buying?

Munis currently offer tax-evident yields north of 5%. That's currently higher than any other bond category, even Treasuries. That tax-equivalent yield is particularly attractive considering the stability and financial backing of these bonds. Why buy a junk bond issued by a tech startup and get a lower yield, when you could buy a muni issued by a state with the ability to raise taxes to keep interest payments going.

Moreover, the long-term tax-benefits could be greatly underestimated by the markets. The Biden Administration has made higher taxes for high-income earners a cornerstone of his fiscal policy. While it remains to be seen if those tax hikes come true, the potential is there. And that could make munis very much in demand for the long haul.

Considering all of this, CEFs holding munis may be the best bet for investors. Thanks to the sell-off, muni bonds have already been discounted by the market as evident by their sky-high yields. The win is that the average muni CEF is now trading at discounts to NAV not seen since the Great Recession. For example, the Nuveen Municipal Value Fund (NUV) —which is one of the largest CEFs in the sector—can be had for a 5% discount to its NAV. Meanwhile, the $1.16 billion BlackRock MuniHoldings California Quality Fund (MUC) can be had for a nearly 9% discount to NAV. And they are not alone in their big discounts to their underlying values.

Buying Some Muni CEFs

Given the high yields, major tax benefits, and the huge discounts available on their shares, investors may want to consider adding muni closed-end funds to their income portfolios. Just like ETFs and mutual funds, there are a variety of CEFs to choose from. Investors in high tax states like New York or California may want to choose state-specific funds to save even more on taxes. Others focus on 'values' within the sector. The key may be to buy a few different funds to meet income objectives.

The thing to focus on is buying at a discount and making sure the fund has decent volume/using limit orders for purchases. This will ensure you're actually getting the best price and that the fund won't merge away, something that happens to many CEFs when assets/volume are low.

The Bottom Line

Munis are offering a huge opportunity right now and closed-end funds remain the best way to access that prospect.

dividend.com

by Aaron Levitt

Oct 12, 2022

Bond Expert Warns Cities of Potential Financial Decline.

As costs rise, the economy slows and federal grants decline, Tom Kozlik warns that cities, including Philadelphia, may have to adjust the way they manage their finances to prepare for tough times ahead.

(TNS) — With low interest rates, a growing U.S. economy, and all the federal money Washington sent local governments during the late pandemic, the past few years have marked a "Golden Age of public finance" for Philadelphia and other big cities, says Tom Kozlik, who's been raising money for cities since he started as a financial analyst for city agencies under Mayor Ed Rendell.

But conditions are changing in a hurry. Costs are rising fast, the economy is slowing, federal grants are down. Cities will have to adjust the way they tax, borrow, and spend quickly, or brace for tough times in the near future, he warned city officials and investors who buy the bonds communities use to fund buildings and other long-term projects, on a recent trip home.

After leaving City Hall at the end of the 1990s, Kozlik worked in municipal finance on Wall Street until Bear Stearns blew up. He moved back here as municipal-bond managing director at Janney Capital Markets and PNC, then to Texas in 2019 as head of municipal research and analytics at HilltopSecurities, which competes with Philadelphia-based PFM as an adviser to local governments raising cash.

He's often quoted in national media — and has lately had to throw much of his past advice out the window, as interest rates rise faster than most municipal-finance pros have ever seen, he told members of the Philadelphia Area Municipal Analyst Society (PhAMAS) recently.

The years of cheap borrowing are over: Higher rates have forced cities, like other bond issuers, to promise investors far higher bond yields to get them to buy municipal bonds. The more money spent on debt service, the less is available to pay staff and other daily bills.

It's not just that money is getting more expensive. The pandemic chased office workers out of downtown towers, and fewer commuters are spending money or paying taxes. The federal money that eased the pandemic during mass shutdowns is drying up, and it's not clear that a recession will convince a divided Congress to spend a lot more.

"Things aren't going back. This is normal," and cities should plan to cut costs or find new revenues fast, Kozlik concluded.

Here are Kozlik's observations on threats to city finance, many of which fell on his audience like a door slamming shut:

Scared borrowers. As recently as last spring, Kozlik and other analysts were predicting municipalities would borrow a record $500 billion this year by selling bonds to pension funds and other investors. But as interest rates have spiked, cities have been delaying commitments to long-term funding, and bond sales are unlikely to reach $400 billion, this year, or next, either. That translates into fewer jobs and business contracts, and a slower economy.

Rising interest rates. Pension funding, which has cost Philadelphia more than law enforcement in recent years, is no longer Wall Street's main worry about local governments. Even though public pensions have been drained by the financial markets' fall and many are badly underfunded, a recent survey shows analysts are even more concerned about rising interest rates and prices, the shrinking U.S. labor force, and divisive politics that prevents decisive policy, as causes for concern that cities will go broke.

Empty offices. Workers aren't returning to office centers, including Philadelphia's Center City. Nationally, restaurants, air travel, and apartment rentals have recovered, post-pandemic, but only half of workers have returned to office locations; in Philadelphia and San Francisco, it's more like 40 percent.

Lower revenue. With offices shutting, property valuations and taxes are heading down, too.

Crime. Polls show Americans are more worried about crime, and less confident police will protect them.

Construction challenges. Labor and material shortages and cost increases have crimped construction to the point where, even if the federal government resumes billions in funding to cities, city managers have told Kozlik they would have a hard time spending it on projects in the near future.

Politics. Politicization of public policy, which has stalled Congress on immigration and other key issues since the 1980s, has been spreading among state and local governments. States like Texas are banning East Coast investment banks that have adopted anti-oil and anti-gun policies; in California, activists are pressing to punish banks that finance fossil fuels and weapons makers. What that means, in practical terms, is fewer banks available to sell public debt in those restrictive states, and, therefore, higher borrowing costs for taxpayers.

"The speed and magnitude of change, and the number of variables that are evolving is not being recognized by most people," Kozlik said later in summary. "Most people across various industries are reacting to one or two changes in the landscape. Very few recognize the major transformation going on across the board with labor, technology, education, demographics, and politics."

The Philadelphia Inquirer

by Joseph N. DiStefano

Oct. 6, 2022

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Muni Borrowing Stays Strong as Local Governments Build More, Refinance Less.

Municipal borrowing for new projects has reached a 10-year high so far in 2022 while refinancing has fallen to a 10-year low.

State and local governments sold a total of $292 billion in muni bonds through Sept. 30, above the ten-year average of $281 billion, according to data from Refinitiv. About $234 billion of the debt this

year was tax-exempt, exactly the ten-year average.

Flush with cash from last year's tax revenues and Covid-19 stimulus payments, cities and school districts are digging sewers and building high schools despite higher borrowing costs. Municipal bond issuance for new projects rose to $238 billion in the first nine months of the year up from $227 billion for the same period in 2021.

Refinancing deals have fallen by roughly half from last year to $55 billion, however, as rising rates make the math unappealing. A benchmark ten-year triple-A bond carries a yield of 3.24% as of Oct. 3, compared to 1.14% a year earlier, according to Refinitiv MMD.

The Wall Street Journal

By Heather Gillers

Oct 4, 2022

S&P: U.S. Pension Obligation Bond Issuance Recedes In 2022 As Interest Rates Rise

Key Takeaways

- We project 2022 pension obligation bond issuances will decrease 60% year over year.
- Persistently higher interest rates are a driving factor as perceived profit opportunities fade. Continued pension obligation bond issuance is primarily due to issuers' desire to control contribution volatility and escalation.
- Recent issuances face a steep climb to recover because fiscal 2022 market returns fell far short of expectations, and this could lead to pension contribution increases and pressured budgets.

Continue reading.

10 Oct, 2022

Hurricane Ian: What Comes Next For Government And Related Credits In The Storm's Broad Path?

Key Takeaways

- It is too soon to determine how Hurricane Ian will affect the credit quality of issuers that suffered storm damage, but we will continue to monitor impacts as cleanup and rebuilding progress.
- Issuers with cash on hand to cover initial cleanup costs and advanced planning practices for emergency events tend to fare best in the aftermath of major storms. FEMA reimbursements are also an important part of rebuilding.
- Historically, many communities hit by storms see a temporary bump in sales taxes during rebuilding. While this provides revenue enhancement during a challenging time, rebuilding generally replaces what was lost rather than creating net growth in the economy.
- Florida's vast coastline makes it is especially susceptible to weather disasters. Over time, the

impact of these major storms could influence the growth and stability of local governments and other issuers.

Continue reading.

3 Oct, 2022

Fitch: US Public Finance Credits Largely Able to Withstand Hurricane Ian Effects

Fitch Ratings-New York-03 October 2022: The ratings of US public finance issuers affected by Hurricane Ian will largely remain stable, although the credit quality of some issuers with lesser resources and financial flexibility could weaken, says Fitch Ratings. While the full extent of property damage in Florida, Georgia and the Carolinas will not be known for weeks, Fitch is monitoring a range of US public finance credits in the wake of Hurricane Ian, one of the largest storms to hit the US.

Private insurance and federal and state relief funds will support rebuilding and drive post-disaster economic activity. However, we expect a slower pace of recovery compared with previous hurricanes due to the greater numbers of uninsured homeowners and businesses as a result of the higher cost of insurance coverage/policy non-renewals, tight labor market conditions, inflationary pressures and supply chain issues.

We expect local government ratings in Florida affected by Hurricane Ian to remain stable as most of Fitch's rated municipalities have a high degree of fiscal resilience and robust reserves to manage storm expenses as they await reimbursement from federal and state disaster aid programs. Certain issuers in southwest Florida will be more challenged as recovery costs could weaken reserves, and extensive property damage could lead to higher property tax delinquencies, ultimately lowering tax base values. Fitch expects rebuilding to occur due to the historical desirability of the region, but building code compliance and increased insurance costs could slow the recovery.

Homeowner insurance coverage, or lack thereof, may play a greater role in community recovery than in prior hurricanes. Blanket homeowner policies do not cover flood damage, and many homeowners do not carry flood insurance. With increasing hurricane risk, property insurers have left the Florida market, and remaining insurers have raised premiums or are not renewing policies as they expire.

Tax base growth in high-risk areas could be tempered if hurricane damage leads to permanent relocations or if homeowners and businesses decide not rebuild with exorbitant insurance costs or insurance unavailability. Homeowners and businesses may obtain insurance from Florida's state-owned Citizens Property Insurance Corporation (AA/Stable) as an insurer of last resort.

Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, have ample liquidity to address initial claims or reimbursements. They can also issue debt and levy emergency assessments on nearly every property and casualty insurance policy in the state for as long as debt is outstanding to cover what is expected to be significant claims volume. However, the potential for significant leverage on the assessed base could weigh on residents and businesses.

While we are still assessing our rated not-for-profit hospital and life plan community (LPC) exposure,

it appears that facilities in the hurricane zone have generally avoided significant damage. Nevertheless, we expect some business disruption with any necessary clean up or repair efforts. Hospitals and LPCs will benefit from Federal Emergency Management Agency aid and business interruption insurance, although receipt of these funds could take time.

Hospitals and LPCs in hurricane-prone areas are generally built to withstand storms and most are located back from the shoreline to mitigate flood risk. Affected hospitals or LPCs may need to temporarily evacuate all or a subset of residents until damage from the storm can be addressed. Fitch has observed that in prior storms, independent living residents continued to pay their LPC fees and LPCs were eventually able to resume normal operations, even in communities that sustained significant flood damage.

Of the over 50 Fitch-rated water and sewer utilities in Florida, most should be able to absorb initial storm costs due to generally well-maintained systems, comprehensive emergency planning and robust liquidity. Florida credits in particular often have additional emergency reserves. However, storm surges and flooding can often overwhelm systems resulting in sewer overflows, which could result in water quality issues, and the full impact on utilities is still being assessed.

Fitch: US Transportation Infrastructure Resilient Following Hurricane Ian

Fitch Ratings-New York/Austin-06 October 2022: Damage from Hurricane Ian on Fitch-rated toll roads, ports and airports is expected to be minimal and short-lived, Fitch Ratings says. None of the Fitch-rated transportation credits sustained long-term damage to facilities and nearly all opened shortly after the storm left. Projects have strong cash reserves to manage any short-term cost spikes and revenues will see little disruption, with key financial metrics unaffected. Fitch will monitor operations and traffic volume for any indications of hurricane disruptions affecting usage.

None of the toll roads we rate suffered material damage, although in some cases, such as the Florida Turnpike, sections of road remain closed due to flooding. Tolls remain temporarily suspended on Alligator Alley, the Central Florida Expressway, Florida's Turnpike in the Orlando and Tampa regions, the Osceola Parkway and the Sunshine Skyway. Mid-Bay Bridge tolls have been reinstated. Toll suspensions due to hurricanes is typical for Florida, potentially occurring a few days a year, but historically this has had a negligible effect on toll road revenues. The Miami-Dade Expressway and Rickenbacker Causeway were not in the path of the storm.

Fitch-rated Florida airports have reopened, with the exception of the Lee County/Southwest Florida International Airport (RSW), which is awaiting the restoration of potable water but does not appear to have structural damage. RSW opened with limited service on Oct. 5, but the resumption of full operations may take more time given potential staffing or materials/stock shortages. Tampa International Airport was closed for almost three days but did not sustain any serious damage during the storm. Myrtle Beach International Airport remained open, but the majority of flights on Friday were cancelled. Similarly, other rated airports in Georgia, Virginia and the Carolinas did not suffer any material disruptions or closures.

The three Fitch-rated ports nearest to Hurricane Ian's path, Port Tampa Bay, Port Canaveral and Jacksonville Port, reopened to maritime traffic and resumed cruise operations on Oct. 1. These ports did not report any significant structural damage and operations have resumed or will resume later this week. With the reopenings, several cruise ships that had been at sea have returned to port and disembarked passengers. Schedule changes related to the hurricane may delay the return to normal

operations.

The potential for additional severe storms in the remaining months of the hurricane season means that transportation facilities are still vulnerable, though these assets are built to largely withstand weather-related risks. Transportation assets in Florida have historically demonstrated quick recoveries following hurricanes as they have cash reserves to apply toward repairs while they await insurance reimbursement and Federal Emergency Management Agency assistance. Previously, the return to normal volumes has occurred within weeks. However, large-scale damage would be more disruptive and could negatively affect credit profiles.

U.S. DOT Expands Financing Program to Move Infrastructure Projects Forward.

The U.S. Department of Transportation's (DOT) Build America Bureau will offer low-cost, flexible financing for transit and Transit-oriented Development (TOD) projects at the maximum level allowable, U.S. Transportation Secretary Pete Buttigieg said Tuesday.

The new initiative "TIFIA 49" – part of the DOT's Transportation Infrastructure Finance and Innovation Act (TIFIA) program – would authorize the borrowing of up to 49 percent of eligible project costs for projects that meet certain eligibility requirements. Previously, TIFIA loans have been capped at 33 percent of eligible project costs.

"There are countless promising transportation projects with the potential to better connect people to housing, jobs, schools, and more, but that never get off the ground because of a lack of financing," U.S. Transportation Secretary Pete Buttigieg said. "The Department of Transportation has long offered flexible, low-cost financing to help bring some of those ideas to life, and now, with TIFIA 49, we'll be able to support more of them than ever, and lower costs for taxpayers."

Projects eligible to apply for the TIFIA 49 loans include transit projects that construct or improve public transportation systems; and transit-oriented development that involves coordinating the improvement of transit infrastructure and non-transit facilities.

Until now, the only projects eligible for financing up to 49 percent of the project costs were rural projects, as well as INFRA, Mega and Rural Grant "Extra" projects – highly-rated projects not granted discretionary funds due to limited resources.

"With its significant lending capacity, USDOT can play an integral role in supporting projects that make our transportation system more accessible, resilient and sustainable," Build America Bureau Executive Director Morteza Farajian said. "The Bureau team is ready to partner with project sponsors on effective and efficient concepts, provide technical assistance on innovative approaches, and support them through the loan approval process."

BY LIZ CAREY | OCTOBER 6, 2022

What Can the World Learn From 100 Resilient Cities?

The splashy initiative was meant to help urban areas cope with climate change. When it

went under in 2019, its members got an unexpected lesson in resilience.

Before it was abruptly shuttered in August 2019, the nonprofit 100 Resilient Cities (or 100RC) had helped turn “urban resilience” — broadly defined as a city’s ability to survive, adapt and grow in the face of stresses — into a global movement. Launched just six years earlier with funding from the Rockefeller Foundation, it was one of the largest initiatives to help cities cope with intensifying climate disasters and other emergencies, and to tackle the chronic challenges that stand in their way.

The nonprofit supported municipal efforts to hire chief resilience officers, provided grants and technical assistance, and — crucially — offered a forum in which its 100 member cities could share ideas and best practices.

By several measures, the program was making progress. So when Rockefeller’s president pulled its funding — which had amounted to $164 million by April 2019 — citing a “a shift in the foundation’s focus to delivering measurable results for vulnerable people,” cities were left wondering how they would continue and what would become of the movement.

Continue reading.

Bloomberg CityLab

By Linda Poon

October 6, 2022 at 7:34 AM PDT

How Cryptocurrency Could Help to 'Crowdfund' Public Projects.

The idea of leaning on the emerging technology to issue municipal bonds in small denominations has the potential to benefit governments and investors alike. But can the muni market adapt?

Welcome back to *Route Fifty’s* Public Finance Update! I’m Liz Farmer and this week I’m writing about the use of blockchain technology in the municipal bond market. Ever since the mid-2010s when blockchain and cryptocurrency really started catching on, people have been talking about the implications for government debt issuance. These include the possibility of local governments “crowdfunding” smaller and medium projects, like parks upgrades, by giving people a chance to buy municipal debt in amounts under $100, rather than the $5,000 floor that is the current standard.

The idea of “democratizing” the municipal market—i.e., making it more accessible to regular folks—has pretty wide appeal. In fact, in late 2021, the city of Berkeley announced it was set to become one of the first cities in the nation to incorporate blockchain technology in its bond offerings. Very exciting, except for one small thing: for years now, headlines have been saying the city is poised to issue “microbonds.” I even wrote a feature article in 2018, saying that later that year, Berkeley expected to pilot its microbonds idea by issuing them to buy a firetruck.

But, it turns out, fundamentally changing muni bond issuance takes a while. It begs the question, is drastically altering access to the municipal market—which has historically been pretty resistant to change—even possible?

Continue reading.

Route Fifty

By Liz Farmer

OCTOBER 4, 2022

Green Bonds Defy September Sales Slowdown to Hit Four-Month High.

- **BofA's Andrew Karp says issuers capitalizing on strong demand**
- **Global sales of social and sustainability-linked debt fell**

Global sales of green bonds, the largest category of sustainable debt by amount issued, rose for a second straight month in September to the highest since May, even as heightened volatility roiled the broader market.

Companies and governments around the world raised more than $54 billion in green bonds last month, compared with more than $35 billion raised in August, data compiled by Bloomberg show. That's despite overall bond issuance in the US and Europe dropping significantly in September as central banks across the globe stepped up their battle against inflation.

Concerns that an overtightening by the Federal Reserve could tip the economy into a recession sent risk assets in a tailspin last month, making it harder to sell new bonds. The number of postponed deals jumped to at least 10 last month — the highest since June — from just one in August, according to data compiled by Bloomberg. In the US investment-grade market, sales missed estimates by 47% and top underwriters for the debt expect $75 billion in new bond sales in October.

Continue reading.

Bloomberg Green

By David Caleb Mutua

October 4, 2022

The Muni Market Enters Q4 (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Oct 07, 2022

Short-Term Munis Are Paying Highest Yields Since December 2007.

- **One-year muni yields topped 3% last week, highest since 2007**
- **Flat curve reduces benefit to investors of investing longer**

The last time one-year municipal bond yields were this high, Alicia Keys was at the top of the Billboard charts, the New England Patriots were on their way to a perfect regular season and George W. Bush was president.

The Federal Reserve's campaign to stamp out inflation has driven yields on top-rated one-year munis to around 3%, close to the highest since December 2007, and investors should take notice, according to Western Asset Management Co.

Not only are absolute yields close to 15-year highs, the muni yield curve is relatively flat, meaning investors on the short-end can reap the benefits of higher-yields without taking much duration risk. Investors buying longer-maturity debt have to deal with bigger price swings if the central bank keeps raising rates and the yield curve moves higher.

Continue reading.

Bloomberg

By Martin Z Braun

October 7, 2022

Muni Bonds Rally for Three Straight Days in Rare 2022 Reprieve.

- **Yields on muni bonds slip for third day amid risk-on mood**
- **Goldman Sachs sees 'pleasant interruption' in painful year**

After months of anguish, municipal bond investors are finally seeing a moment of reprieve.

State- and local-government debt extended a rally Tuesday, with 30-year maturities heading for their biggest one-day gain since June as traders weighed the odds the Federal Reserve will moderate the pace of its policy tightening. Yields on the municipal bonds tumbled as much as 7 basis points Tuesday, according to data compiled by Bloomberg, with a key index fresh off its biggest jump in three months.

"The market feels firm," said Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management LP, though she warned that the rally "feels more like a pleasant interruption" than a trend.

While she said demand for bonds has picked up and new issue supply is unusually light for October, there are still signs that Fed officials will overlook economic softness in their fight against inflation.

It's a question being asked across global markets, which have rallied this week amid speculation that central banks could moderate their hawkish stance to prevent a hard landing. The S&P 500 Index is on course for its best two-day surge since April 2020, while yields on 10-year Treasuries edged lower

after falling nearly 20 basis points on Monday.

For municipals, though, it's a "fake rally" driven by a lack of new bond sales, said Vikram Rai, the head of Citigroup Inc.'s municipal-bond strategy group. "We will only see a legitimate rally when the rate market stabilizes and when mutual funds have cash to put to work."

Municipal bonds have lost nearly 12% in 2022, on track for the worst yearly performance since at least the 1980s, driven by the Fed's aggressive rate hikes. Yields on benchmark 10-year municipal bonds had jumped as high as 3.24% in late September, the highest since early 2011 — and more than 200 basis points from where they started the year.

'Attractive Levels'

"Municipal bond yields have reached attractive levels with strong credit fundamentals right now," said Dan Solender, head of municipals at Lord Abbett & Co. "A lot of investors have interest but just want to see stability in rates, which might be finally happening."

Dennis Derby, a portfolio manager at Allspring Global Investments LLC, said the rally would need to be sustained to reverse the mutual-fund outflows that have persisted for much of 2022. Investors yanked about $3.6 billion from municipal-bond mutual funds during the week ended Sept. 28, the eighth straight week of withdrawals, according to Refinitiv Lipper data.

"While there is still apprehension in the space, we are certainly seeing more client interest in moving into the asset class," he said.

Bloomberg

By Danielle Moran

October 4, 2022

— With assistance by Mackenzie Hawkins

Buy Short-Term Quality Bonds as Stocks Fall, Pimco's Browne Says.

- **Prepare for the S&P 500 to drop 10% more by the end of 2022**
- **Treasuries, investment-grade and muni bonds are safe havens**

Investors can make money owning short-term high-quality bonds as a refuge from stocks, which are likely to keep falling, according Erin Browne, a portfolio manager at Pacific Investment Management Co.

Two-year Treasuries, investment-grade corporate bonds and tax-advantaged municipal bonds offer higher returns than cash while avoiding the downside that stocks likely still face, Browne, who oversees multi-asset strategies at Pimco, said on Bloomberg Television's Wall Street Week on Friday.

"What we're looking at is fixed-income investments that we think are going to be able to stand the test of time," Browne told host David Westin. "It's a challenging time for investors where you have to skew more toward fixed-income in order to have stability of returns."

Stock and bond prices fell Friday after the Labor Department reported US non-farm payrolls

increased 263,000 in September, reinforcing expectations that the Federal Reserve will continue aggressively raising interest rates to cool inflation. For the week, the S&P 500 Index eked out a 1.5% gain. Yields on 2-year Treasuries closed Friday above 4.3% while 10-year bonds ended the week at 3.88%.

Other potentially appealing investments include government-backed mortgage securities and stocks of companies with high cash flow and dividend growth, Browne said. She predicted the S&P 500 — already down 24% so far in 2022 — will drop a further 10% to about 3,250 by year-end.

A better option than bonds for qualified investors is putting money into private equity, real estate and other less liquid markets, Chris Ailman, chief investment officer of the California State Teachers' Retirement System, told Westin.

"It's going to have write-downs but its value is more stable than what we see in the public markets," said Ailman, whose pension funds held $304.9 billion as of Aug. 31.

For average investors, the best advice is to cautiously keep putting money into the market, because it's impossible to call the bottom, according to Ailman.

"You want return of your money rather than return on your money," he said.

Bloomberg Markets

By John Gittelsohn

October 7, 2022

Municipal Markets Continue To Feel The Pressure This Year, Yet Fundamentals Remain Stable.

The municipal bond market has not been immune to bouts of volatility hitting the markets this year, but there are still pockets of opportunity, according to Franklin Templeton Fixed Income's Director of Municipal Bonds, Ben Barber. He points to improving technical conditions, stable fundamentals and inexpensive valuations that make the asset class look compelling.

Historic levels of volatility in the municipal (muni) bond market so far this year has caused investor concerns over market conditions. A more hawkish sentiment from the US Federal Reserve has led to higher yields across fixed income sectors, causing many retail investors to reduce their muni holdings in search of shelter from anticipated higher volatility.

As in previous updates, we wanted to provide an outlook and review on three major components of the muni markets that continue to create opportunities for active managers within the muni market, despite the challenging environment.

Technical conditions in the market have improved for tax-exempt investors as the year has progressed, yet outflows of funds from the sector persist. Primary issuance has slowed through the summer. Reinvestment of dividends and refundings have caused increased demand for new bond issuance. The market typically witnesses additional new supply in September and October, which can provide investors with new opportunities to put cash balances to work.

Total net flows of funds were negative in the month of August, driven by a selloff from exchange traded funds (ETFs) toward the end of the period.1 Additionally, mutual funds saw outflows during the month, although to a lesser extent.

- Outflows have been concentrated in longer-duration, investment-grade products. In contrast, there have been positive monthly net flows into intermediate investment-grade products.2

As of the end of August 2022, year-to-date (YTD) total issuance was down 14% relative to 2021. This is primarily due to a 42% decline in taxable muni issuance, as higher interest rates have made taxable refundings uneconomical for most issuers.3 In contrast, tax-exempt issuance is only lower by 5% YTD.4

Fundamentals across the muni market are generally stable. However, there are some sectors, such as certain segments of transportation and health care, that have been affected by operating cost pressures including from labor challenges. We continue to monitor the impact of rising interest rates, inflation, the end of federal COVID-related aid, as well as labor market and wage concerns on muni issuers' financial conditions.

Taking a deeper dive into the market, multifamily housing has traditionally performed well in a rising rate environment. As purchasing single-family homes become less affordable, more households are forced to rent with increasing rental payments. From mid-2006 to mid-2009, the average single-family home price nationwide plummeted nearly 24%.5 Over the same period, the median national rental rates increased 5.6% annually on average.6 However, vacancy rates did not materially increase helping to support property values of multifamily housing units.

Meanwhile, high levels of Inflation and higher wage demands continue to increase labor costs for hospitals and Continued Care Retirement Communities (CCRCs), pressuring operating margins to levels not seen since the height of the pandemic. However, elective surgeries are rebounding, which is providing support to hospital bottom lines.

- Fees from airports, ports, and toll roads are steadily increasing, while public transit systems are still experiencing lulls in ridership. Increased traffic and higher fares due to inflation have benefitted toll roads, airports and ports, which have been performing well.
- Underwhelming farebox revenues from public transit continues to pressure operating margins. Fortunately, many public transit systems have alternative funding streams such as receiving revenue from a portion of state sales taxes.

Security selection will remain critical to relative performance in the current market environment. Historically, our muni bond team has been very active in periods of volatility, and this period is no different. As shifting credit fundamentals begin to cause stress in certain areas of the market, we believe our research and portfolio management teams are well positioned to identify potential winners and losers.

Valuations on the long end of the muni-bond maturity curve remain reasonable to us, while the short end has become relatively expensive compared to earlier in the year.

- The 10-year muni-to-Treasury yield ratio was relatively flat over the month, ending August at 82%, while the 30-year ratio increased to 102%.7
- Muni taxable-equivalent yields remain attractive compared to other options available to retail investors. Considering the lower default characteristics and higher after-tax income, we believe the municipal sector remains a compelling choice for clients seeking risk-adjusted returns.

Given the combination of strong fundamentals, cheaper valuations, and the potential of improved technicals, the Franklin Templeton Municipal Bond team feels that the sector can provide strong risk-adjusted returns moving forward. Our team remains active in the market, finding pockets of opportunity that we think will allow our portfolios to be positioned for a strong recovery.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Because municipal bonds are sensitive to interest rate movements, a municipal bond portfolio's yield and value will fluctuate with market conditions. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in an investment portfolio adjust to a rise in interest rates, the portfolio's value may decline. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value.

by Ben Barber of Franklin Templeton, 9/27/22

Intensifying Storms Are Fueling a Record $17 Billion Bond Barrage.

- **BlackRock, Citadel Advisors, Pimco have been among buyers**
- **Appeal seen in top ratings, strong backing, attractive yields**

Bonds sold to help US utilities recoup losses from natural disasters are seeing an unprecedented boom, with the latest burst of issuance generated by the deadly February 2021 storm that paralyzed Texas as it struck a large swath of the country.

A record $17 billion of the debt, known as recovery bonds, has been sold this year, with the total likely to soon surpass $20 billion, data compiled by Bloomberg show.

Buy-and-hold investors such as insurers have been key purchasers, and the deals have also drawn money managers including BlackRock Inc., Citadel Advisors LLC and Pimco, according to bond documents seen by Bloomberg.

The deals are landing in a slumping bond market that has left some of the debt sold this year underwater. But investors with a long horizon like the securities for their attractive yields, sterling credit and robust backing: fees that are approved by state legislation and added to customers' bills. For utilities grappling with financial strains triggered by extreme weather, it's a way to reduce the monthly hit they'd need to pass on to ratepayers, by spreading repayment out over decades.

"The state would have to break contract law to make the bonds stop paying out," said Dave Goodson, head of securitized credit at Voya Investment Management, which has bought recovery bonds. "That's a risk we're comfortable taking."

Texas Plan

The next big chunk of issuance is expected from a Texas agency — the Texas Natural Gas Securitization Finance Corp. — which plans to sell about $3.4 billion of taxable municipal debt, in the largest muni offering ever for the state. The proceeds will help bail out utilities that incurred enormous losses from Winter Storm Uri in 2021, when bitter cold crippled Texas's energy infrastructure and power firms faced soaring charges.

Kansas and Missouri are also lining up bonds for that storm, and Oklahoma as soon as next month will wrap up sales totaling more than $2.8 billion for the same event.

The bonds are luring investors with their top ratings and long duration, which suits buyers with liabilities that stretch out for decades.

They also give an appealing amount of extra yield over Treasuries. Take the Oklahoma bonds. Securities offered in August by the Oklahoma Development Finance Authority included debt due in 2052 that yielded about 4.7%, or 135 basis points above Treasuries, data compiled by Bloomberg show. In trades this month, the yield had risen to about 5%.

The spread was fatter than on other debt with top credit. For example, a Microsoft Corp. bond maturing in 2052 traded in late August at around 80 basis points above Treasuries, according to Trace pricing data. Some analysts compare recovery bonds to securitizations. American Express Co. credit-card debt sold in August offered 57 basis points above Treasuries on a top-rated three-year tranche.

'Rock Solid'

"If you want something that's rock solid, where you don't have too much to worry about over long periods, there's really nothing else," said Weili Chen, head of commercial asset-backed securities at Standard Chartered, who formerly analyzed recovery debt at S&P Global Ratings.

"There's the credit protection, there's the absence of political interference, there's the obligation of all ratepayers, and finally there's this superior return over long time periods," he said.

In addition to BlackRock, Citadel Advisors and Pimco, State Farm Insurance Co. and Travelers bought the Oklahoma debt, according to deal documents given to Bloomberg by Bob Anthony, a member of the Oklahoma Corporation Commission, which approved the financing order for the bonds.

BlackRock, Pimco and Citadel declined to comment, as did State Farm and Travelers.

The securities do carry some risk. Moody's Investors Service cited the possibility of a severe drop in the ratepayer base, although it called that a "low probability" threat.

And while the lack of a deep market may help explain the relatively wide spreads, this year's issuance surge may alleviate some of that risk, by expanding secondary trading.

"Greater volume gives investors comfort that this is an asset class that's going to be active for the foreseeable future," said Isaac Sine, a managing director on the public-finance team at JPMorgan Chase & Co., which managed one of the Oklahoma sales.

This year's issuance jolt is about more than Uri. In May, utility PG&E sold a $3.6 billion bond to recover losses caused by the wildfires that devastated California in 2017. Other issuers are planning recovery bonds unrelated to natural disasters. A CenterPoint Energy unit in Indiana, for example, has been seeking a securitization to recoup the costs of retiring a coal plant and invest in renewables.

In a world confronting the threat of climate change, it's a corner of the bond market that may keep expanding.

Bloomberg Markets

By Scott Carpenter

September 28, 2022 at 8:19 AM PDT

— With assistance by Carmen Arroyo, and Charles E Williams

S&P Hurricane Ian: Most Municipal Utility Ratings, Bolstered By Significant Liquidity, Are Expected To Be Unaffected

Initial Assessment Is That No Material Rating Impact Is Likely

S&P Global Ratings rates approximately 70 utility credits in Florida, 31 of which have been affected by Hurricane Ian with main breaks, power outages, and system reliability issues including lack of water and boil notices. As the deadly storm progresses, we will continue to monitor potential impacts in Georgia and the Carolinas.

Since the rebuild and recovery in the hardest hit areas could take months, and some communities may be displaced, substantial liquidity will be necessary to cushion reduced collections and to bridge the period until Federal Emergency Management Agency (FEMA) loans are available. Given the robust liquidity available and sophisticated emergency response, which is assessed in our Operational Management Assessment (OMA), we do not believe near-term rating impact is likely. Our OMA assessment considers the breadth of each credit's resiliency planning, particularly those in coastal or low-lying areas, including whether the utility has prioritized its assets under a range of climate scenarios, and identified or completed potential adaptive measures, such as sea wall construction, pump station hardening, manhole rehabilitation, energy redundancy, and other flood mitigation decisions.

Based on the most recent data available (see table), most of the utilities within the affected portfolio have significant liquidity and prudent OMAs, which includes emergency preparation and response. None of the credits within the affected area have vulnerable OMA scores or cash positions below five months of operations. The average water/sewer credit in Florida maintains more than 700 days of cash on hand, driven by a recognition that the region has heightened exposure to storm-related risks.

Continue reading.

30 Sep, 2022

Fitch: FACT Shows U.S. NFP LPCs in Recovery, But Challenges Lie Ahead

Fitch Ratings-New York-27 September 2022: Fitch Ratings' medians for U.S. not-for-profit (NFP) life plan communities (LPCs) show a sector that broadly recovered from pandemic-related pressures in 2021, but facing a number of headwinds, according to the latest Fitch Analytical Comparative Tool (FACT) for the sector.

"Fiscal 2021 was a recovery year for LPCs," says Margaret Johnson, Fitch Senior Director and Sector Lead for LPCs. "Performance during the year featured across-the-board improvement in all

ratio categories. Liquidity, operating and capital-related metrics all reflected recovery within the LPC sector from the pressures of the coronavirus pandemic, which included higher expenses, lower revenues and pressured cash flows."

"But challenges lie ahead for the sector," says Johnson. "Pandemic-related pressures have evolved from healthcare and demand risk to risks involving expense inflation and staffing shortages." Should these inflationary pressures persist beyond 2022, LPCs may encounter resistance to the substantial rate increases that may be required to offset the added cost pressure, which could pressure operating performance and future demand.

Fitch is also keeping a close eye on potential financial market slowdowns, in particular slowing real estate price growth.

The FACT contains financial data for 158 LPCs that can be benchmarked against peers, medians and self-defined peer groups along with historical statistics and metrics going back to 2017. The report is a follow up to Fitch's 2022 Median Ratios for Not-for-Profit Life Plan Communities that was published Sept. 6.

"Not-for-Profit Life Plan Communities 2022 FACT" is available at 'www.fitchratings.com'.

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S&P Cyber Risk In A New Era: U.S. Colleges And Universities Go Back To School On Cyber Security Preparedness

Key Takeaways

- Higher education is among the higher-risk industries for cyber crime due to the vast amounts of personal information used for enrollment, philanthropic support, and medical research.
- Although strong credit quality does not make an institution immune to a cyber intrusion, it can mitigate the credit risk related to a potential cyberattack due to stronger management and governance that employ multiple levels of cyber protection and have greater liquidity to buffer a disruption in operations.
- S&P Global Ratings' views cybersecurity as an aspect of U.S. public finance issuers' comprehensive risk-mitigation strategies. We consider risk management and mitigation a governance factor under environmental, social, and governance (ESG).
- Assessing cyber risk in higher education is part of our ongoing surveillance of all of our private and public college and university ratings.

Continue reading.

29 Sep, 2022

S&P: Recent Pension Funding Gains For Largest U.S. Cities Are Expected To Be Short-Lived

Key Takeaways

- Outsized fiscal 2021 investment returns increased funded ratios for the 20 largest U.S. cities, to a median of 78.5% from a median of 71.5%, though much of these funding gains will likely be negated in fiscal 2022.
- Increasing inflation pressures in the near term could lead to less budgetary flexibility for these cities to address rising contributions.
- Available reserve levels might indicate an ability to absorb increasing current and future pension and other postemployment benefits (OPEB) costs.
- Fourteen of the 20 cities met our minimum funding progress (MFP) metric for at least one of their two largest pensions in fiscal 2021, indicating they made meaningful contributions toward achieving full funding for those plans. Fifteen cities achieved at least static funding.

Continue reading.

26 Sep, 2022

A 'Black Tax' Costs US Cities Millions They Can't Afford.

Places like Memphis, where schools are crumbling, pay more when they borrow on Wall Street.

Althea Greene walks under exposed pipes and into an auditorium, where the chairs are broken and splintering. Treadwell Middle School, built in 1943, looked pretty shabby when Greene was a student here in Memphis 50 years ago. On this August morning, Greene laments that little, if anything, has changed. "We're lucky it's still standing," she says.

No doubt. That same month, a library's ceiling collapsed in another Memphis school. It had been built 90 years ago. Greene is touring Treadwell because she's vice chair of the school board, responsible for the 110,000 Memphis children in Tennessee's largest school system. At another building she visits later that day, water leaks through the ceiling, seeping under the tiles of a classroom and rendering it unfit for students. Not far away, a burst water pipe overflowed into a high school football field, leaving the team to practice in the mud.

There's a familiar reason the Memphis-Shelby County schools are in sorry shape: Lacking basics such as air conditioning, locks, intercoms, and outdoor lighting, they face $400 million in deferred maintenance. The system relies partly on local property taxes, and its students tend to come from poor families.

Continue reading.

Bloomberg Markets

By Nic Querolo

September 29, 2022

State and Local Public Finance Offices Face Talent Shortage.

The report, *Meeting Demand for State and Local Public Finance Jobs*, from GFOA and Lightcast, studied the worker shortage for public finance workers at state and local governments. The analysis revealed that demand for state and local public finance workers is far outstripping the incumbent supply and straining familiar talent pipelines.

LEARN MORE

The Crazy Junk-Muni Market Makes More Sense Than Ever.

There will always be risky projects looking for money, but today's investors are better equipped to handle losses.

When I hear complaints about some of the riskier municipal bond deals in the market today, I think back to my "map talk" in 1999.

I was the lunchtime speaker at the National Federation of Municipal Analysts advanced seminar on high-yield bonds in Santa Monica, Calif. Without any props or projections, I took the roomful of bankers, analysts, and investors on a virtual tour of many of the interesting—even fabulous—transactions I'd written about in *Grant's Municipal Bond Observer* over the previous few years.

We visited a de-inker (which recycles old newspaper into new rolls of paper) in Massachusetts and a 1938 vintage aquarium in Florida. We stopped in Alabama to see VisionLand, a water theme park showcasing the history of Birmingham's steel-smelting business, then took a side trip to a nearby recycler of dead poultry (the backers used the term "broiler mortality") into chicken feed. Then we went to a museum, the Great Platte River Road Memorial Archway, which the backers expected "virtually every Nebraska resident [to] eventually visit in his or her lifetime." We saw a series of golf course housing developments in the California desert. And much more.

Continue reading.

Bloomberg Markets

by Joe Mysak

September 30, 2022

Muni-Bond Sales Collapse 40% in September as Issuance Slumps.

- **State and local debt sales set to fall about 40% in September**
- **Bank of America cuts 2022 issuance forecast to $420 billion**

Municipal-bond investors aren't the only ones getting hurt by the bear market. Cities and Wall Street bankers alike are also feeling the pinch as the volume of deals in the $4 trillion market tumbles.

State and local debt sales are poised for a monthly decline of roughly 40% to about $24 billion in September, according to data compiled by Bloomberg. It would be the lowest monthly volume of debt sales since November 2020, the data show, even though September is typically a busy month for debt sales.

Rising interest rates are making it less attractive for municipalities to borrow for new projects or refinance existing debt. Plus, a volatile Treasury market, which the muni market tends to follow, also has cities sitting on the sidelines.

Continue reading.

Bloomberg Markets

By Amanda Albright and Marvis Gutierrez

September 29, 2022

Matriculate to MBNE for Muni, ESG Pairing.

As advisors and investors demand more environmental, social and governance (ESG) fixed income strategies, some issuers of exchange traded funds are meeting that demand with municipal bonds proving to be fertile territory for ESG bond ETF innovation.

An example of that trend is the SPDR Nuveen Municipal Bond ESG ETF (MBNE), which debuted in April. The rookie ETF is actively managed and sub-advised by Nuveen – a firm with deep roots in actively managed municipal bond strategies. Nuveen's DNA makes it an ideal partner in the still emerging ESG/municipal bond space.

That's an important consideration because municipal bonds – ESG and otherwise – are offering an attractive credit quality today.

"The fundamentals of the muni market are very strong. Strong economic growth over the past couple of years has produced solid revenue growth. While inflation is undesirable, inflation has translated into even higher nominal growth in tax revenues. Many states and local municipalities have successfully managed expenditure growth and have increased their rainy day funds and reserves," said David Blaire, portfolio manager for Nuveen's municipal fixed income team, in a Q&A with Anqi Dong of State Street Global Advisors (SSGA).

Over 86% of MBNE's 96 holdings are rated AAA, AA, or A. That's a testament to the value of active management when it comes to municipal bonds. Adding to the allure of MBNE in the current environment is the point that municipal debt upgrades are far outpacing downgrades this year.

“Active managers can add value in several ways. The first would be staying ahead of the credit cycle and anticipating difficulties that some credits may experience, resulting in downgrades and a cheapening of their bonds. We believe that credit research is essential as part of the municipal investment process. Nuveen has a large, seasoned credit research and investment team, and we’re constantly reviewing what we own to ensure that those credits are positioned well going forward,” added Blaire.

Another point in MBNE’s favor as an actively managed ETF is a growing concern among asset allocators that bonds – municipal and otherwise – with credible ESG traits are hard to locate on an individual basis. That hurdle highlights the benefits of MBNE’s active basket approach.

“Most municipal issuers are public purpose entities that support critical infrastructure and services to promote the health, safety, and general well-being of their communities — and that provides a good opportunity set for ESG focused investing,” concluded Nuveen’s Blaire.

ETF TRENDS

by TOM LYDON

SEPTEMBER 28, 2022

There’s Value to Be Had in Municipal Bonds.

Municipal bonds are participating in the 2022 fixed income market tale of woe, but broad-based municipal muni bond benchmarks are outperforming aggregate bond counterparts and some experts see opportunity in municipal debt.

Much of the current case for exchange traded funds such as the IQ MacKay Municipal Intermediate ETF (MMIT) revolves around value and robust fundamentals. MMIT, which turns five years old next month, is actively managed and looks to outperform the Bloomberg Municipal Bond Index 1-15 Year Blend Index.

MMIT’s status as an actively managed ETF is particularly relevant at a time when munis are dealing with interest rate pressure and while the credit outlook in this asset class is sturdy.

“The muni market has taken a beating this year, with net weekly inflows into muni mutual and exchange-traded funds negative for most of 2022, according to Refinitiv Lipper data. Yet their yields and tax benefits can make them an attractive investment,” reports Michelle Fox for CNBC.

The $300.2 million MMIT holds 411 municipal bonds with local general obligation bonds accounting for 27.1% of the fund’s portfolio. Education and water/sewer debt combine for 19.6% of the roster.

Amid faltering bond prices of nearly all stripes this year, advisors and experts recently stirred talk of considering municipal bonds and ETFs like MMIT as buy ideas after tax-loss harvesting. Speaking of taxes, that’s one of the primary benefits of muni debt.

“The tax benefits make munis particularly attractive to high-earners in high-income tax states. Those tax savings are even more critical in a time when stock returns are scarce. The market took a nosedive Friday, with the Dow setting a new low for the year,” according to CNBC.

As noted above, MMIT is an active fund, so there's bound to be turnover. Its annual turnover rate is 43%, according to issuer data. Still, the ETF's annual fee of 0.30% (after waivers) compares favorably with active mutual fund rivals.

"You can also get muni bond exposure through a mutual fund or ETF. Those who want a wide range of bond exposure, such as maturities, sectors, and credit, and have limited funds could look at investing in a mutual fund or ETF, according to the Municipal Securities Rulemaking Board," noted CNBC.

As for credit concerns, those are minimal with MMIT because the fund devotes 88.2% of its weight to muni bonds rated A, AA, or AAA.

ETF TRENDS

SEP 27, 2022

This Muni Fund Holds Overlooked Winners for Long-Term Success.

Karl Zeile planned to work for a nonprofit after getting a master's degree in public policy from Harvard University.

He changed his mind after meeting municipal-bond analysts during an internship. "It was very clear to me that that's exactly what I wanted to do, because to me, it was the perfect combination of investment analysis, research, and public policy," says the 55-year-old Zeile.

He is now the principal investment officer at Capital Group's $22.9 billion American Funds Tax-Exempt Bond Fund of America (ticker: AFTEX). The fund finds value in under-trafficked parts of the muni market, such as single-family housing bonds in Illinois, affordable-housing bonds in California, and medical-center bonds in Wisconsin.

Continue reading.

Barron's

By Debbie Carlson

Sept. 28, 2022

Schwab Undercuts Vanguard With Launch of Muni ETF Offering 0.03% Fee.

- **Schwab Asset Management announces launch of new muni ETF**
- **Fund's expense ratio is just 0.03%, lower than large rivals**

Charles Schwab Corp.'s asset management arm is launching a new municipal-bond exchange-traded fund with an ultra-low fee that will compete with giants in the space.

The new fund, the Schwab Municipal Bond ETF, will be the cheapest in the municipal-bond market with an expense ratio of just 0.03%, according to a statement by Schwab Asset Management on

Wednesday. That's lower than even The Vanguard Group's $17 billion muni ETF, which charges 0.05%.

Muni ETFs, which offer a cheap way for investors to access the market, have been able to lure investor cash this year despite a steep selloff. The funds have seen more than $13 billion in inflows year-to-date, while mutual funds have recorded steep outflows, according to Bloomberg Intelligence data.

"Schwab woke up this morning and chose expense ratio violence as they undercut the current market leader, Vanguard," said Eric Kazatsky, muni strategist for Bloomberg Intelligence. "With cheap beta leading all asset growth in the passive municipal ETF space, the aggressive move is sure to garner a response by other firms."

Schwab's statement notes that the ETF will be cheaper than comparable funds. The median fee charged by muni ETFs is 0.25%, according to data compiled by Bloomberg.

"Schwab Asset Management's pricing objective in broad market ETFs has been and continues to be among the lowest cost providers," said John Sturiale, head of product management and innovation at Schwab Asset Management, in an emailed response. "Our scale as the fifth largest ETF provider enables us to price our new municipal bond ETF at 3 bps and take a leadership position in bringing down costs for investors."

Schwab's announcement also points to the rise in yields this year. The yield on the 30-year muni benchmark is inching closer to 4%, a level last breached in 2014, according to Bloomberg BVAL.

"As bond yields have risen, fixed income investing is more attractive than it has been in years, making this an opportune moment to introduce a new choice for investors seeking a low-cost, straightforward approach to income, diversification and risk management in their portfolios," Sturiale said in the announcement.

The fund, which is expected to begin trading Oct. 12, will invest only in investment-grade rated securities, the statement reads.

Bloomberg Business

By Amanda Albright

September 28, 2022

Sky-High Yields and Stellar Credit Make Muni Bonds a Buy, Investors Say.

- **Ten-year benchmark munis yield 3.23%, highest since 2011**
- **Government credit supported by federal aid and tax receipts**

In the midst of a historically rough year in the $4 trillion municipal bond market, investment managers see ample opportunity as surging yields provide a compelling entry point.

Ten-year benchmark municipal bond yields are hovering around 3.23%, the highest since 2011, while 30-year munis are yielding more than comparable US Treasury debt. Those prices open the door for investors looking for income in a market where many state and local governments are flush with cash, said Sylvia Yeh, co-head of municipal fixed income at Goldman Sachs Asset Management

and Brian Barney, managing director for institutional portfolio management and trading at Parametric Portfolio Associates, at a Bloomberg muni market panel discussion on Tuesday.

Conversations with clients now are “almost entirely opportunistic,” Barney said. “During times of volatility and attractive rates would be a good time to enter.”

Continue reading.

Bloomberg

By Hadriana Lowenkron

September 28, 2022

Vanguard’s Malloy Says Crossover Buyers Are Key to Muni Recovery.

- **Muni market on track for worst performance in decades**
- **Banks, insurance companies helped drive rally in spring 2022**

Paul Malloy, who oversees roughly $211 billion of municipals at the Vanguard Group Inc., says conditions are ripe for a recovery from this year’s steep muni selloff.

Buyers known as “crossover investors” that usually acquire taxable securities could jump in to take advantage of cheap valuations, once again aiding in the securities’ recovery, Malloy said. The muni market has tumbled 12% year-to-date, and if that drop holds it would be the worst performance since at least the 1980s, according to Bloomberg indexes.

Crossover investors, including banks and insurers, drove a short-lived municipal-bond market rally in late May and early June, and another similar recovery is possible. “They haven’t come back in force yet, but they are interested,” Malloy said in an interview Tuesday. “All the preconditions are there for a snapback.”

Despite the rout, the financial health of municipal-bond issuers remains strong after tax revenue beat expectations and the federal government stepped in with aid after the pandemic.

The ratio of muni yields compared to Treasuries for long-dated securities is above 100%, which Malloy says is “pretty attractive” for investors. The yield on the 30-year AAA benchmark offers about 102% of the yield on similar-dated Treasuries, according to Bloomberg data.

A less volatile Treasury market would embolden crossover buyers to start wading back into the muni market, he said.

Crossover buyers’ participation is key as they’re often first movers, driving recovery from selloffs while retail investors — the major buying force in the state and local debt market — often follow, according to Malloy, who is based in Malvern, Pennsylvania.

“They’ll put a bid to the market, and retail will come in on top of that,” he said.

Bloomberg Markets

By Amanda Albright

September 28, 2022

— With assistance by Marvis Gutierrez, and Jennah Haque

Munis a Great Spot to Invest Now, Vanguard's Malloy Says.

Paul Malloy, Vanguard's head of municipals, says municipal bonds are in the best fundamental shape they've been in decades. He speaks with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

September 27th, 2022

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of August) $279.5 billion, -11.9% Y/Y
- Trading (as of August) $13.6 billion ADV, +54.1% Y/Y
- Outstanding (as of 2Q22) $4.0 trillion, +0.2% Y/Y

Download xls

September 12, 2022

NEW - NASBO National Overview & Summaries of FY2023 Enacted Budgets

View the NASBO budgets.

Fitch: Corrective Action Taken on 2021 Transition & Default Studies

Fitch Ratings-New York-23 September 2022: Fitch Ratings has revised the average cumulative default rates for sovereigns in its 2021 Transition & Default Studies (the Studies) that were initially published on March 31, 2022.

A system error in reporting software resulted in average cumulative default rates that were too low being calculated for sovereigns in 'BB' and below categories and included on the "Sovereign Default Rates" tab of the initial version of the Studies. To correct for the understated default rates, Fitch has published a revised version of the Studies. No other figures in the Studies were affected.

The revised version of the Studies can be found at https://www.fitchratings.com/research/corporate-finance/2021-transition-default-studies-31-03-2022

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Fitch: FACT Shows U.S. NFP Hospitals in a Calm Before the Storm

Fitch Ratings-New York-22 September 2022: Fitch Ratings' medians for U.S. not-for-profit (NFP) hospitals show a sector currently at a highpoint with notable declines on the horizon, according to the latest Fitch Analytical Comparative Tool (FACT) for the sector.

'2022 medians show deceptively strong numerical improvements that are pointing to a cautionary calm before the storm,' according to Fitch Senior Director Kevin Holloran. Hospital medians are likely to reverse course this time next year due to inflation, a very challenged operational start to calendar 2022, and, most notably, staffing shortages to persist well into 2023 and likely longer in some markets.

The FACT contains financial data for 218 hospitals and health systems that can be benchmarked against peers, medians and self-defined peer groups along with historical statistics and metrics going back to 2011. This report is the third in a recent series of reports Fitch has published in recent weeks, the most recent one being Fitch's sector outlook revision for U.S. NFP hospitals to Deteriorating.

The FACT includes a dashboard feature to graphically plot annual issuer metrics and median performance, a peer analysis tool that allows users to review and compare metrics of two issuers, and a charting tool that generates a comparison of issuer metrics against rating category medians.

'Not-for-Profit Hospitals and Healthcare Systems 2022 FACT' is available at 'www.fitchratings.com'.

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

S&P Global Ratings affirmed 23 ratings without revising the outlooks, took eight rating actions, and revised six outlooks without changing the ratings in the U.S. not-for-profit health care sector in August 2022. We also placed ProMedica Healthcare Obligated Group on CreditWatch with negative implications in addition to lowering the rating and revised the outlook on Princeton Community Hospital in West Virginia from negative to developing. There was one new sale in August. The 14 rating and outlook actions consist of the following:

- Seven downgrades, on six stand-alone hospitals and one system;
- One upgrade, on one standalone hospital;
- Five unfavorable outlook revisions on one standalone hospital, three systems, and one long-term care provider (all to negative from stable); and
- One favorable outlook revision on one standalone hospital (from stable to positive).

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

Continue reading.

19 Sep, 2022

Small-Town Sewers Are Getting Tech-Like Premiums.

The money to be had for selling water systems to private operators can seem too good to ignore. But these deals often have unintended consequences for taxpayers.

Biotech, social media and cryptocurrencies are the usual hotspots for crazy asset prices. This year, though, one of the highest valuations offered in any US acquisition is for the sewer system of a tiny township in Pennsylvania.

NextEra Energy Inc., the world's biggest utility by market capitalization, announced in June it was

buying the wastewater system of Towamencin township, a community of some 18,000 people about 30 miles north of Philadelphia. The price, $115 million, made it pocket change for a company valued at $169 billion. But at 21 times revenue, NextEra offered a higher multiple than all but two US deals announced this year, both of which were in biotech. 1

This raises questions. Why is an electricity and renewables powerhouse paying a tech-like premium for roughly 8,000 sewer accounts in some patch of Pennsylvania? And why is this township selling its biggest asset in the first place? The answers blend strategy, state privatization laws and small-town politics — and the profits to be made in water.

Continue reading.

Bloomberg Opinion

By Liam Denning

September 19, 2022

The Emerging Concerns Over the Infrastructure Law Rollout.

State and local leaders are happy to have the money. But state transportation officials are flagging issues they're worried about, as Republican lawmakers chafe over Biden administration rules.

Republican lawmakers in Congress and some state highway officials are criticizing a proposal by the Transportation Department that would require states to set goals for reducing greenhouse gas emissions on their roads.

State officials are also pressing for federal agencies to grant their departments greater flexibility in deciding how to spend funding from the new infrastructure law. And they're warning that they could run into problems trying to meet requirements for buying American-made materials for projects—including with the nationwide buildout of electric vehicle charging stations.

The Transportation Department's rules for giving out discretionary grants under the $1.2 trillion Infrastructure Investment and Jobs Act tend to be so complicated that West Virginia Transportation Secretary Jimmy Wriston said he can "confidently predict" the administration of that money will be seen as an "abject failure" a year from now.

Continue reading.

Route Fifty

By Kery Murakami

SEP 21, 2022

ARPA Impact Report: An Analysis of How Counties are Addressing National

Issues with Local Investments

America's nearly 40,000 county elected officials and 3.6 million county employees are on the frontlines of the nation's response to the coronavirus pandemic. As the country emerges from the pandemic and grapples with the toll it has taken on our citizens, counties are responding and rebuilding. At the same time, many counties are still confronting significant workforce shortage pressures at a time with growing, critical resident needs.

With American Rescue Plan funds, counties are strengthening America's workforce, addressing the nation's behavioral health crisis, expanding broadband access, improving housing affordability and building prosperous communities for the next generation.

Continue reading.

NATIONAL ASSOCIATION OF COUNTIES

by TERYN ZMUDA, SARAH EDWARDS, JONATHAN HARRIS

JULY 18, 2022

Stuck With The Bill: Local Governments Deluged With Rising Climate Damage Costs

Who's stuck with the bill for climate impacts? Too often, local governments.

Much of Columbus, Ohio, was without power for days this past June as the local electric utility struggled to manage simultaneous impacts of powerful storms and a heat wave. Many buildings lost air conditioning, and the city faced a potential public health crisis. Officials directed residents to several cooling centers, including a museum that was paid $60,000 per day to open its doors to the public.

According to Columbus City Council member Rob Dorans, this fee is just one of the many expenses added to the municipal books as rising temperatures and changing rainfall patterns have strained the infrastructure in the Ohio capital. Since 2019, Columbus has spent more than $62 million on flood mitigation projects and $21 million on a flood tunnel designed to prevent stormwater runoff from overpowering the sewer system.

"The biggest variable that we're dealing with now when you talk about these sorts of infrastructure investments is being caused by a changing climate," Dorans said. "That is the driving force behind these investments."

Continue reading.

YALE CLIIMATE CONNECTIONS

by SARAH WESSELER

SEPTEMBER 21, 2022

Fitch: Weak Enrollment Pressures US Higher Education

Fitch Ratings-Chicago/New York-19 September 2022: Enrollment pressures are expected to continue to weigh on US higher education even as the pandemic effects recede, with less selective institutions facing credit pressure, Fitch Ratings says. While freshmen matriculation and international student enrollment have rebounded somewhat from 2021 and 2020, unfavorable demographics and shifting employment qualifications in the broader economy may negatively affect long-term enrollment.

Enrollment pressures will be felt unevenly. The most selective universities, few of which saw any significant enrollment declines during the pandemic, are expected to see steady student demand. Enrollment at less selective, typically smaller, four-year degree institutions is unlikely to rebound to pre-pandemic levels this fall, further straining budgets given their higher dependence on student-generated revenues.

Total enrollment at four-year colleges and universities declined by roughly 3% in fall 2021 compared with fall 2020, according to preliminary estimates from the National Student Clearinghouse. This is a deviation from projected growth expectations from the National Center for Education Statistics (NCES). Enrollment is projected to decline a further 1.6% yoy in fall 2022, according to NCES, which would reflect an improvement against declines in both prior-year and spring 2022 enrollment, which fell 4.1% yoy. Some states, such as Texas and Illinois, have acted to combat these pressures by implementing mandatory Free Application for Federal Student Aid completion for all high school graduates, which helped boost applications in 2021-2022 from pandemic lows.

Continue reading.

Fitch Ratings Updates USPF College and University Rating Criteria.

Fitch Ratings-Chicago-22 September 2022: Fitch Ratings has published an updated criteria report titled ‘U.S. Public Finance College and University Rating Criteria’. The report replaces the existing criteria dated Nov. 4, 2021.

Fitch made minor editorial revisions to the criteria. There have been no material changes to Fitch’s underlying methodology, and no rating actions are expected as a result of the application of the updated criteria.

The updated criteria report is available at ‘www.fitchratings.com/criteria/us-public-finance’.

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Municipal Bonds Face ‘Challenging Time Ahead,’ Strategist Says.

Jason Appleson, PGIM Fixed Income Head of Municipal Bonds, joins Yahoo Finance Live anchors Akiko Fujita and Ines Ferre to explain the outlook for munis.

Watch video.

Where Are Munis Headed This Fall? (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Sep 23, 2022

Whither the Yield Curve Now? Vanishing Muni Issuance (Bloomberg Podcast)

Listent to audio.

Bloomberg

Sep 23, 2022

How to Invest in ESG-Focused Muni Bonds.

State and local governments naturally spend large amounts on environmental and social causes. For example, a local government may issue a bond to add solar panels to government-owned buildings or construct a non-profit hospital. As a result, these bonds are an excellent way for investors to align their portfolios with their values.

Let’s take a closer look at ESG-focused muni bonds and how you can add them to your portfolio.

What Are ESG Muni Bonds?

ESG-focused municipal bonds come in many different flavors.

Continue reading.

municipalbonds.com

by Justin Kuepper

Sep 21, 2022

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3 Municipal Bond Funds That Should Be on Your Radar.

The debt securities category will always be the first choice for risk-averse investors because this class of instruments provides a regular income flow at low levels of risk. Income from regular dividends helps to ease the pain caused by plunging stock prices.

When considering the safety of capital invested, municipal bond mutual funds are second only to those investing in government securities. In addition, interest income earned from these securities is exempt from federal taxes and, in many cases, from state taxes.

Below, we share with you three top-ranked municipal bond funds, viz., Vanguard Short Term Tax Exempt Fund VWSTX, Colorado Bond Shares A Tax Exempt Fund HICOX and AB Municipal Bond Inflation Strategy AUNAX. Each has a Zacks Mutual Fund Rank #1 (Strong Buy) and is expected to outperform its peers in the future. Investors can click here to see the complete list of municipal bond funds.

Vanguard Short Term Tax Exempt Fund usually maintains a dollar-weighted average maturity of 1 to 2 years. VWSTX invests the majority of its assets in municipal bonds that are in the top three credit-rating categories as determined by a nationally recognized statistical rating organization or, if unrated, determined to be of comparable quality by the advisor.

Vanguard Short Term Tax Exempt Fund has three-year annualized returns of 0.4%. VWSTX has an expense ratio of 0.17% compared with the category average of 0.60%.

Colorado Bond Shares A Tax Exempt Fund invests the majority of its net assets in tax-exempt bonds and other tax-exempt securities. HICOX declares dividends daily and distributes them monthly.

Colorado Bond Shares A Tax Exempt Fund has three-year annualized returns of 1.7%. Fred R. Kelly Jr.has been one of the fund managers of HICOX since 1990.

AB Municipal Bond Inflation Strategy invests the majority of its net assets in high-quality investment-grade municipal fixed-income securities that pay interest exempt from federal tax, and are rated A or better by one or more recognized rating agencies. AUNAX also invests a small portion of its assets in below-investment-grade fixed-income securities or junk bonds.

AB Municipal Bond Inflation Strategy has three-year annualized returns of 2.8%. As of April 2022, AUNAX had 63.6% of its assets invested in Total Misc. Bonds.

To view the Zacks Rank and the past performance of all municipal bond funds, investors can click here to see the complete list of municipal bond funds.

Zacks Equity Research

September 23, 2022

Fitch Updates USPF Variable-Rate Demand Obligations and Commercial Paper Criteria.

Fitch Ratings-New York-16 September 2022: Fitch Ratings has published an updated version of its "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". It replaces the report of the same name published on Dec. 23, 2020.

Fitch has revised the scope of the criteria to apply to non-bank entities providing external liquidity. The key elements of Fitch's external liquidity rating criteria remain consistent with those from the prior criteria report.

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

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Return-to-Office Push Does Little to Solve Transit Agency Problems.

- **Farebox revenue less reliable than taxes during pandemic: S&P**
- **Recent ridership boost won't help agencies recover just yet**

Schoolchildren are piling into morning buses and office workers are jostling for space in the subway on their way home. But as crowded as the urban commute is beginning to seem, stricter return-t--office policies and the start of the academic year won't be enough to rescue beleaguered public transit agencies from the financial woes of the pandemic.

In New York City, for example, the first day of school last week marked a pandemic subway ridership record, with numbers up 35% from the comparable day a year ago. But that boost brought ridership to just 63% of pre-pandemic levels, around the national trend as of late August. Most fare-dependent transit agencies predict a 70% to 90% recovery over the next few years, according to Fitch Ratings.

Transit systems that rely heavily on farebox revenues hoped that relief would come when bosses

clamped down on workers returning to their desks, as many have promised to do after the US Labor Day holiday in early September. But for agencies that count on riders to return, the bigger test will be whether they can come up with alternative revenue sources to buoy their finances, said Andy Shin, senior municipal research analyst at Insight Investment.

Continue reading.

Bloomberg CityLab

By Marvis Gutierrez and Mackenzie Hawkins

September 14, 2022

Water Sector Coalition Supports Lead Replacement Funding Using Tax-Exempt Bonds.

Last week, eight drinking water and municipal sector organizations wrote to Sen. Michal Bennet (D-Colo.) in support of his anticipated introduction of legislation to make it easier for water systems to finance full lead service line replacements with tax-exempt bonds.

Sen. Bennet's Financing Lead Out of Water (FLOW Act) is expected to mirror a House bill of the same name that was introduced in March with similar support from prominent industry organizations including the American Water Works Association and Association of Metropolitan Water Agencies (AMWA).

The letter explains how the task of fully replacing a lead service line is often complicated by the fact that ownership is split between the utility and individual homeowners. But when an AMWA member attempted to fully replace public and privately owned lead service lines, and pay for the project with tax exempt bonds, it had to navigate IRS rules that required documentation of how many private businesses operated out of homes where a private lead service line was to be replaced.

"The longer the IRS administrative process, the longer homeowners will have to live with lead service lines," AMWA and the other associations wrote. "If the complete elimination of lead service lines is the goal, then putting time-consuming administrative obstacles in the path of water systems is not the right approach."

In response, the FLOW Act would specify that "qualified lead service line replacement" projects are not subject to these IRS rules, thereby allowing water systems to pay for them more easily and efficiently with tax-exempt bonds. The bill would not require any water system to cover the cost of replacing a privately-owned lead service line but would merely ease administrative burdens on water systems that elect to do so.

Senator Bennet is expected to introduce the bill in the Senate as early as this week. While passage of the measure, as well as its House companion, is not certain before the end of the year, AMWA plans to enlist its members to help build support for the proposal on Capitol Hill and position it for inclusion in a future package of tax legislation.

WATER FINANCE & MANAGEMENT

BY WFM STAFF

SEPTEMBER 12, 2022

Fitch: Airport Credit Profiles Stable as Capital Projects Move Ahead

Fitch Ratings-Chicago/Austin/New York-16 September 2022: US airports have committed to multi-year, billion-dollar capital improvement plans that will increase airport debt, but financial profiles should only be modestly affected due to cost recovery in airline operating agreements, Fitch Ratings says in its report U.S. Airport Capital Spending Ramps Up.

The 12 major large-hub airports' plans covered in the report, which include new terminals or terminal expansions, have strong airline support and are expected to continue uninterrupted, despite recession risks, as they are considered critical to address aging infrastructure and capacity constraints. The vast majority of these airports came to market in 2022 with new money issuances to support capital programs.

Airline use and lease agreements (AULAs) often include provisions to ensure collaboration between the airport and airlines, which provide for an airport's ability to recover costs. Airlines may be more willing to sign on for longer terms if they believe the capital investments will enhance the efficiency of operations.

Many airports will see airline cost per enplanement surge higher, in some cases to 2x or more above current charges. Federal funding will help cover a portion of project costs but to address the billion dollar needs of airport modernization and expansion, airport projects will still require a majority of debt financing. Some airports are able to use passenger facility charge (PFC) funds and PFC-pay go or other airport revenues to lower the need for borrowing and the burden on charges to the airlines to cover debt service.

Project cost escalation is a concern given inflationary pressures. This risk is typically addressed through pre-determined cost indexes in AULAs or budget contingencies. Longer-dated capital programs could introduce more cost risk but allow for shifting scheduling depending on modularity and rate of passenger growth. Fitch focuses on bids and percent under contract, relative to the total plan, to assess the remaining cost risk in an airport's capital improvement plans.

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

Climate Change and Financial Policy: A Literature Review

Read the Federal Reserve Literature Review.

A Sneaky Form of Climate Obstruction Hurts Pension Funds.

In several Republican-led states, the officials who oversee pension funds for millions of state workers are being told, or may soon be told, to ignore the financial risks associated with a warming world. There's something distinctly anti-free market about policymakers limiting investment professionals' choices — and it's putting the retirement savings of millions at risk.

The Texas comptroller, Glenn Hegar, recently announced that 10 financial firms and 348 funds could be barred from doing business with the state's pension plans because they appeared to consider environmental risks in their investment decisions regarding the fossil fuel industry. The day before, Gov. Ron DeSantis of Florida announced a similar move. Other states, including Idaho, Louisiana and West Virginia, have either taken or are thinking of taking similar actions, which amount to ideological litmus tests that will likely result in lower returns for pensioners.

These are short-sighted political moves from a party that typically champions the free market, and that is why 12 other state treasurers and New York City's comptroller recently joined me to urge that these policies be reversed. The people who will likely suffer are the public servants whose retirement money won't be managed for a world being disrupted by a rapidly changing climate.

Continue reading.

The New York Times

By Tobias Read
Mr. Read is the Oregon state treasurer.

Sept. 17, 2022

Pensions Push Back at 'Ridiculous' DeSantis-Led Attacks on ESG.

The decision by numerous US Republicans to ignore environmental and societal investment risks imperils $57 trillion of savings, according to industry executives.

After watching key GOP figures launch an all-out political attack on ESG, senior officials from the $57 trillion global pension industry are speaking out against the risks such an agenda poses to long-term savings.

Matti Leppala, chief executive at PensionsEurope, said efforts to lambaste ESG based on an assessment of short-term returns are "ridiculous" and "meaningless."

"We would argue that not taking ESG into consideration is in fact the real risk factor that will have an impact on long-term, sustainable returns," Leppala, whose association represents firms overseeing a combined $7 trillion in assets, said in an interview.

Continue reading.

Bloomberg Markets

By Anchalee Worrachate and Frances Schwartzkopff

September 16, 2022 at 3:00 AM PDT

Muni Bond Market Sags to Eight-Year Low.

The market value of outstanding municipal debt has dropped below $4 trillion for the first time since 2014, according to Federal Reserve data released last week.

Bond prices, falling for much of 2022, have dropped by an average of 11 cents on the dollar, according to research firm Municipal Market Analytics.

Outstanding municipal bond debt now has a market value of $3.97 trillion, less than at the beginning of 2014. Muni prices tanked in 2013 after Detroit declared bankruptcy and the Federal Reserve signaled that it would start dialing back easy-money policies.

The Wall Street Journal

By Heather Gillers

Sep 14, 2022

Muni Market Shrinks Below $4 Trillion as Bond Prices Fall.

After six months of falling bond prices, the market value of all outstanding municipal debt ended June at $3.97 trillion, according to Federal Reserve data released last week.

The last time the value of outstanding muni debt stood below $4 trillion was in 2014. The previous year, bond prices had tanked following Detroit's bankruptcy and amid fears that the Fed would start dialing back easy-money policies.

Municipal bond prices have dropped by an average of 11 cents on the dollar since the beginning of 2022, according to research firm Municipal Market Analytics.

The Wall Street Journal

By Heather Gillers

Sep 15, 2022

Bonds Could Bounce Back — Consider Munis as a Way to Play Rebound.

As fixed income investors know, 2022 has been unkind to bonds. The double-digit year-to-date loss by the Bloomberg US Aggregate Bond Index confirms as much.

Even with that ominous data point and the likelihood the Federal Reserve will raise interest rates again at its next meeting, some market observers are bullish on bonds, including municipal debt. That could be a sign that exchange traded funds, including the VanEck Muni Allocation ETF (MAAX), are worth considering.

"Our preferred strategy is to gradually increase duration of bonds in portfolios at these higher yields. However, we favor higher-credit-quality core bonds, such as Treasuries and investment-grade corporate and investment-grade municipal bonds," according to Charles Schwab research. "In most cycles, yields tend to converge near the peak of the federal funds rate for the cycle. In the 3% region, yields have already discounted Fed tightening beyond the neutral rate."

An attractive point regarding MAAX is that its 20 holdings are other ETFs or closed-end municipal bond funds, meaning the VanEck ETF spans a variety of durations and credit profiles. As such, MAAX's income profile, as highlighted by a 30-day SEC yield of 2.91%, exceeds those offered by many dedicated investment-grade ETFs in this category.

"After years of low yields that drove investors to allocate more to risky investments, income investors can find attractive yields in higher credit quality fixed income. Investment-grade corporate and municipal bonds are offering higher yields than we have seen in several years, and can help investors earn income without excessive risk-taking," added Schwab.

The actively managed MAAX, which turned three years old in May, does feature some high yield exposure, but the ETF's overall credit quality is strong, as 68.51% of its holdings carry investment-grade ratings compared to just 9.66% with junk grades, according to issuer data.

Given that compelling credit breakdown and an impressive yield, MAAX is a credible idea for income

investors as the third quarter comes to a close.

“Overall, we look for returns in the second half of the year to be better for fixed income investors now that the market has reset interest rates higher. However, we still look for volatility to remain high as central banks shift away from their easy-money policies,” concluded Schwab.

ETF TRENDS

by TOM LYDON

SEPTEMBER 16, 2022

BlackRock Says It Prefers Short-Term Muni Bonds Amid High Rates.

- **One-year munis down 1.6% this year, while benchmark fell 9.7%**
- **‘More defensive stance is warranted’ due to seasonal trends**

BlackRock Inc. says it now prefers short-term municipal bonds as a way to protect against rising interest rates and a hawkish Federal Reserve.

Short-dated notes have been among the best-performing segments of the $4 trillion municipal debt market in 2022, as rising interest rates left longer-dated securities deep in the red. An index of one-year munis has lost about 1.6% since January, outperforming the market’s benchmark and long-term debt, which has lost 9.7% and 16.7%, respectively, data compiled by Bloomberg show.

“We have shifted to a short-duration stance on municipal positioning and have increased cash balances,” a note by Peter Hayes, James Schwartz and Sean Carney emailed on Wednesday said. “We favor the intermediate part of the yield curve to maximize income, while avoiding significant duration risk, and are targeting bonds with defensive structures.”

Autumn in the US is traditionally a tough period for munis partly because it’s when sales of new bonds tend to pick up after a summer lull. And rising interest rates will likely put more pressure on the asset class.

“A more defensive stance is warranted as seasonal trends typically turn less favorable,” the note said.

The municipal bond market typically sees increased demand from an uptick in principal and interest payments in the middle of the year, which investors channel back into the market. But come September, those payments tend to decline. CreditSights Inc. estimated that principal and interest payments will total about $31 billion in September, down from about $55 billion the prior month.

Overall, the muni market is on track for its worst year in decades with US state and city debt posting an average return of -0.53% in September — the worst performance of any month over the past six years, according to Bloomberg data.

As such, the asset manager prefers higher-quality bonds overall, with a neutral allocation to non-investment grade bonds.

Bloomberg Markets

By Hadriana Lowenkron

September 14, 2022

The Muni Bounce Back in 2022 (Bloomberg Audio)

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

Listen to audio.

Bloomberg

Sep 16, 2022

Muni Yields Getting Interesting, Neuberger's Iselin Says.

Jamie Iselin, Neuberger Berman's head of municipal fixed income, discusses his strategy for investing in muni bonds amid the stock market selloff with Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

September 14th, 2022

The Municipal Bond Market Is Primed for Bargain Hunting.

A summer rally in the bond market could be fizzling out, making way for municipal bonds to offer fixed income investors a bargain as the threat of rising interest rates continue in the back half of 2022.

"When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully," a Wall Street Journal report warned potential investors.

With the capital markets expecting another 75-basis point rate hike, it could already be priced into the bond markets. As such, it presents a potential buying opportunity for those looking at municipal bonds.

"Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income," the WSJ report added. "Their prices have been falling this year as interest rates rise and bonds overall have entered a bear market."

WSJ noted, based on Refinitiv Lipper data, that in the first eight months of 2022, an estimated $83 billion have come out of municipal bond funds. It represents the largest exit recorded, and there are

still over a few months left in 2022 as inflation fears have plagued bond markets for much of the year.

As mentioned, it presents an opportune time to get municipal bond exposure at cheap prices. It's also an ideal opportunity to get cheaper high-yielding municipal debt.

"People are perking up and getting excited about having the opportunity to earn that higher income," says Alexa Gordon, a municipal-bond portfolio manager at Goldman Sachs Asset Management.

An All-Inclusive Muni ETF Option
As opposed to holding various municipal bonds, exchange-traded funds (ETFs) offer an all-inclusive approach. They include various debt holdings in one position at a low cost.

One place to get tax-free municipal bond exposure is via an ETF wrapper with funds like the Vanguard Tax-Exempt Bond ETF (VTEB A+). With a 0.05% expense ratio, the fund offers low-cost exposure to municipal debt.

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

etfdb.com

by Ben Hernandez

Sep 15, 2022

Muni ETFs Could Be Just What Frustrated Bond Investors Need.

With the widely observed Bloomberg US Aggregate Bond Index down 11.55% year-to-date, it's easy to understand why fixed income investors are frustrated and why many are departing the related funds, including exchange traded funds.

Those scenarios could get worse before improving because the August reading of the Consumer Price Index (CPI) was worse than expected, indicating that the Federal Reserve likely has no choice but to continue raising interest rates, potentially in aggressive fashion.

To that end, it's not surprising that investors yanked $156 billion from taxable bonds this year, as of July 31, but those moves could be hasty, particularly when considering the utility of municipal bonds and ETFs such as the VanEck Vectors High Yield Muni ETF (HYD).

One of the reasons to consider HYD today is that with bonds, just like with any other asset class, timing matters, and selling low and buying higher is a strategy that adversely affects a portfolio's returns.

"For taxable-bond funds, we found that investor returns lagged total returns by 117 basis points, on average, for the 10 years ended Dec. 31, 2021," noted Morningstar analyst Amy Arnott. "On the

surface, that's actually better than the 1.7-percentage-point return gap across all category groups. But the low level of returns for taxable-bond funds makes this return gap particularly damaging. Over the trailing 10-year period, total returns averaged only about 3.6% per year, and investors missed out on about a third of those returns, earning only 2.4% per year in dollar-weighted terms."

In favor of HYD are the points that municipal bonds offer credible recession protection and that state and local finances are currently strong, indicating defaults and downgrades are likely to be few and far between.

Additionally, amid a coming wave of folks entering retirement, some investors may be compelled to return bond ETFs such as HYD over the near term.

"Fixed-income holdings also play an increasingly important role as millions of investors transition into retirement. Based on data from the U.S. census bureau, 20.3 million Americans (or 6.2% of the population) are between age 60 and 64 and will reach retirement age within the next several years. An additional 52.4 million individuals (or 16.8% of the U.S. population) were already 65 or older as of mid-2021," added Arnott.

To top it off, HYD offers the benefits of a 30-day SEC yield of 4.24%, which is well above what investors earn with 10-year Treasuries.

ETF TRENDS

by TOM LYDON

SEPTEMBER 14, 2022

For more news, information, and strategy, visit the Beyond Basic Beta Channel.

The opinions and forecasts expressed herein are solely those of Tom Lydon, and may not actually come to pass. Information on this site should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any product.

Audited Financial Transparency for Public Sector Utilities and Credit Rating Decisions.

When looking at either the historic performance or the forecasted outlook by many of the credit rating agencies, public utilities including water & sewer have been stable and weathered the COVID-19 pandemic with relatively little impact to their financial standings.

A portion of the credit for this positive news goes to the early preparedness undertaken by the management teams on their rate setting initiatives that included building up liquidity for the future capital needs and/or building reserves for a rainy day. These initiatives are looked upon very favorably by the rating agencies, hence earning a stable outlook for this sector. Along the same lines, the need for timely completion and reporting of their audited financials adds to the comprehensive assessment picture.

In this article, we will take a look at the future of public utilities in the wake of natural disasters, aging infrastructure, cyber security, experienced workforce scarcity, and federal push to enhance the public utilities.

Continue reading.

municipalbonds.com

by Jayden Sangha

Sep 07, 2022

S&P U.S. Transportation Infrastructure Transit Sector Update And Medians: Long-Term Funding Decisions Loom For Many Mass Transit Operators

Key Takeaways

- Many mass transit operators that depend on fare revenue face uncertainty as pandemic-related federal aid runs out over the next few years. We expect providers will have to make tough decisions about sustainable tax and revenue models.
- S&P Global Ratings does not expect a full recovery to pre-pandemic ridership in the foreseeable future. We thus believe the credit quality of many transit operators will depend on their ability to adjust operations and align financial performance to achieve structural balance after federal aid is depleted.
- Our mass transit sector median analysis shows only modest erosion of credit quality, which highlights the significance of $71.7 billion in federal aid. The Infrastructure Investment and Jobs Act will provide another $108 billion for the sector to fund capital projects and environmental, social, and governance (ESG) initiatives over the next five years.
- Our data suggest mass transit operators receiving significant tax support will continue to demonstrate relative credit stability, with those in the ‘AAA’ and ‘AA’ category that generally derive more than 60% of revenues from taxes maintaining debt service coverage (DSC) and debt-to-net revenue metrics near pre-pandemic levels.

Continue reading.

8 Sep, 2022

S&P: U.S. Public Power Rates Can Withstand Inflation, Rising Commodity Prices, And Higher Borrowing Costs--For Now

Key Takeaways

- Persistent high inflation and reduced affordability can create resistance to retail utility rate increases that are necessary to recover higher electricity production, capital, and borrowing costs, potentially eroding debt service coverage and liquidity.
- Where available, automatic or formulaic pass-through mechanisms can position utilities for stable financial performance in the face of service interruptions, price shocks, or other unforeseen events.
- Utilities that maintain strong liquidity, including rate stabilization funds (RSFs), can use these reserves to partially offset spikes in energy costs, unforeseen service interruptions, exogenous shock events, or severe weather events.

- For many utilities and their customers, hedging arrangements and robust liquidity are forestalling financial pressures associated with inflation.
- Continued federal support for low-income households and clean energy initiatives can help underscore electric utilities' revenue certainty and reduce their capital costs that together can mitigate the financial vulnerability electric utilities and their customers face from inflationary pressures and energy transition capital costs.

Continue reading.

7 Sep, 2022

Fitch 2022 LPC Medians: Inflationary Challenges Await U.S. Life Plan Communities

Fitch Ratings-Austin/New York-06 September 2022: U.S. life plan communities (LPCs) are bracing for inflationary and other macro pressures following a comeback year in fiscal 2021, according to Fitch Ratings in its latest medians report for the sector.

LPCs improved across-the-board in all median ratios. Liquidity, operating and capital-related metrics all reflected recovery within the LPC sector from the pressures of the coronavirus pandemic, which included higher expenses, lower revenues and pressured cash flows. Challenges lie ahead for the sector according to Senior Director and U.S. LPC group head Margaret Johnson.

"Pandemic-related pressures have evolved from healthcare and demand risk to risks involving expense inflation and staffing shortages," said Johnson. "LPCs with a significant skilled nursing component, which tend to have lower ratings, are disproportionately exposed to wage and staffing pressures versus those that are predominantly independent living units."

Fitch maintains a neutral outlook on the LPC sector. However, should these inflationary pressures persist beyond 2022, LPCs may encounter resistance to the substantial rate increases that may be required to offset the added cost pressure, which could pressure operating performance and future demand. Fitch is also keeping a close eye on potential financial market slowdowns, in particular slowing real estate price growth.

Fitch maintained public ratings on 158 LPC Providers as of Aug. 5, 2022. The median rating is 'BBB' and the number of ratings in the 'BBB' rating category remains the most numerous at 81 (or about 51%) versus 31 (20%) in the 'A' rating category. Within Fitch's median portfolio, Type A contract providers remain the plurality with 57 (about 36% of the portfolio), followed by Type C contract providers and Type B contract providers.

Fitch's U.S. LPCs' "2022 Median Ratios" is available at www.fitchratings.com.

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‘Perverse’ GOP Rules Risk Alienating Big Finance: ESG Regulation.

As key GOP figures ban banks and investors in their states from taking environmental, social and governance risks into account, the global finance industry has mounted a surprisingly united counter-attack.

BlackRock Inc. has called the strategy “bad for the business climate,” Wall Street titans including Goldman Sachs Group Inc. have withdrawn from the Texas muni market rather than abandon ESG, and countless umbrella groups representing big finance have warned that efforts to put the ESG genie back in the bottle are futile.

Nathan Fabian, chief responsible investment officer at the United Nations-backed Principles for Responsible Investment, whose members include well over 5,000 financial firms across the world, called the Republican attack on ESG “perverse.”

Taking ESG risks into account is “part of the fiduciary role” of a financial firm, he said in an interview. “To say that they shouldn’t be thought about is a basic breach of a duty of care and diligence.”

US savers seem to agree. According to the Schroders 2021 US Retirement Survey, nine of every 10 defined-contribution plan participants who were aware of their plan’s ESG options invested in those funds.

Lawyers also are following the GOP’s anti-ESG campaign. Heather Wyckoff, partner at Schulte, Roth & Zabel who advises institutional investors and asset managers on fund formation, said ignoring ESG removes a tool designed to protect returns.

“I don’t see how they can do so without dialing up the risk,” she said in an interview. ESG “is inextricably tied to a profitability analysis.”

In Florida, Governor Ron DeSantis has ordered state pension funds to ignore ESG risks, while Texas last year passed a law that cut off Wall Street banks from its municipal debt market because of their refusal to renounce ESG. Several other Republican states are planning similar measures.

“It’s a very perverse set of outcomes potentially for those states that are actually banning, restricting, using anti-market approaches in some way, to try and protect industries that we all know have to transition,” said Fabian.

The US Department of Labor has proposed removing barriers to considering ESG in pensions management. Morningstar Inc. estimates that 97% of respondents support the DOL's proposal. The American Retirement Association says it expects a final decision by the end of the year.

Bloomberg Markets

By Tasneem Hanfi Brogger and Frances Schwartzkopff

September 6, 2022

Infowars Investing Invades "Anti-Competitive" Texas.

Something's rotten in the State of Texas. Once self-styled as a bastion of free markets and friendly regulation, a down-ballot politician now wields the power of the State purse to whack companies into submission for not toeing the party line.

Texas Comptroller Glenn Hegar recently announced an "initial" list of 10 financial services firms, along with 350 investment funds, whose environmental, social & governance (ESG) sins were so egregious that the firms are now listed next to known terrorist organizations on the State's Divestment Statute. Hegar's 10 Most Naughty included nine European and UK-based firms, but one US asset manager sat conspicuously atop – BlackRock. The charge? "Boycotting Energy Companies."

Now state government agencies must notify Hegar personally of the listed financial companies in which they may have direct or indirect holdings. The Comptroller may be surprised at the push back from State pension funds who take their fiduciary duty seriously and on average voted 90% of the time in favor of ESG resolutions – more often than BlackRock.

Continue reading.

Impact Alpha

by Ryon Harms

September 5, 2022

Wall Street Hits Back at GOP in ESG War.

Wall Street giants are defending a widespread initiative to invest in companies with environmentally friendly policies, moving away from investment in the fossil fuel industry following attacks on the practice from GOP leaders.

Asset management giant BlackRock wrote a letter to GOP states that are trying to curtail a social movement in the financial sector known as Environmental and Social Corporate Governance (ESG), which seeks to move the U.S. economy away from the fossil fuels that contribute to global temperature rise.

Nineteen attorneys general, from mostly Republican-led states, penned a letter to BlackRock in August inquiring about its investment practices.

Continue reading.

THE HILL

BY TOBIAS BURNS – 09/09/22

ESG Bans Cost Texas.

SYLVIE DOUGLIS, BYLINE: NPR.

DARIAN WOODS, HOST:

This is THE INDICATOR FROM PLANET MONEY. I'm Darian Woods.

WAILIN WONG, HOST:

And I'm Wailin Wong. And I hope everyone packed their galoshes today because we have to wade into the culture wars.

WOODS: Oh yeah, it is thick and deep, this morass. But don't worry, there is an economic lesson here.

WONG: And we're going to find it. Now, there's been a lot of public rhetoric from government officials who have attacked companies over their ESG policies. ESG stands for environmental, social and governance, and it's a broad term to describe business decisions around things like climate change and workplace diversity.

WOODS: And some states have gone a step beyond anti-ESG rhetoric. Last year, Texas banned local governments from working with certain banks. These were banks that the state leaders said were discriminating against things like oil and gas and guns. Here's how one state legislator, Republican Phil King, put it.

Continue reading.

npr.org

September 8, 2022

Bet on Muni Rebound With ESG Benefits.

Predictably, rising interest rates are proving punitive for various segments of the broader fixed income market. Municipal bonds haven't been immune to that pressure.

More recently, however, municipal bonds are outperforming aggregate bonds strategies, indicating there could be opportunities afoot with exchange traded funds, such as the SPDR Nuveen Municipal Bond ESG ETF (MBNE).

The actively managed MBNE debuted in April and is part of a growing group of municipal bond ETFs

tapping into green bonds or the environmental, social, and governance (ESG) investing boom. MBNE could also be well-timed because municipal bonds are ideal assets for adding recession protection to portfolios.

“A recession is characterized by a slowdown in consumer spending and an increase in unemployment. This may lead some to believe that at the onset of a recession, tax revenues for state and local governments fall, but this hasn’t been the case. Historically, tax revenues have declined following a recession, but the negative impact is usually long after the recession has already started,” noted Cooper Howard of Charles Schwab.

Despite the ongoing debate about the status of the U.S., MBNE offers investors other favorable attributes, including income potential without significant risk owing to the rookie ETF’s stout credit quality. Over 84% of MBNE’s holdings are rated AAA, AA, or A, according to issuer data.

Importantly, municipal bond fundamentals are strong, indicating downgrades aren’t imminent in this corner of the bond market.

“Conditions for most state and local governments are strong, in our view, due to the substantial fiscal support after the start of the COVID-19 crisis. Tax revenues also have been surging, which has helped bolster state and local government’s coffers. To illustrate, rainy-day fund balances, which is money that states have set aside and can use during unexpected deficits, are at near-record levels. Even Illinois, the lowest-rated state, has a rainy-day fund balance in excess of $1 billion. That’s a substantial improvement from February 2020 when it was only $60,000,” concluded Howard.

Municipal bonds issued by California and New York, which are two states that are among the biggest adopters of ESG principles, account for about 22% of the MBNE portfolio. Economies in both states are bouncing back from the COVID-19 pandemic, and tax collections in both are soaring, providing support for municipal bond obligations.

ETF TRENDS

by TOM LYDON

SEPTEMBER 9, 2022

Jackson’s Water and the Crisis of Municipal Governance.

Is privatization a solution?

“Jackson’s Water Woes Explained” (Review & Outlook, Sept. 6) gets to the core conflict of interest for municipally owned utilities. We’ve seen it across the country and now in Jackson, Miss. Utilities, as natural monopolies, are generators of cash and a convenient bank for other municipal activity. When they set rates and terms of operation, free of supervision by independent regulators, they maximize revenue and minimize investment in maintenance and upgrades.

It’s time to consider the privatization of water. In the end, it costs less.

Both Jackson and Flint, Mich., are shrinking cities with high poverty rates, but the poor infrastructure condition in both was caused by years of neglect. The water industry knows how to address the neglect, and money is needed, but experience shows that leadership and workforce

capacity go far even when money is scarce. Building this capacity starts with local elected officials who pay attention to public services, not just trendy politics.

Continue reading.

The Wall Street Journal

Sept. 9, 2022

Why Green Investors Should Think Thematically.

Jack Bogle, founder of Vanguard, revolutionized the investment management industry when he created index funds back in 1975, bringing to market price competitive strategies that allowed retail investors to follow broad indices like the S&P 500 or Dow Jones. Besides being an inexpensive product, funds tracking these benchmarks have added diversification to portfolios. Since then, passive investments have increased in popularity and in the past 40 years have competed for capital flow with the active strategies that try to beat the market and deliver excess returns. Index funds following broad markets have been a very popular strategy.

After the oil shocks of 1973 and 1979, fossil fuels became inexpensive and used extensively in industries from electricity to transportation and fertilizers to plastics. This also enabled a rapid increase in the mass-produced materials like cement and steel, to the great benefit of the new equity indices that represented a broad range of companies. However, what worked in the past now poses a lot of risk, as global economies begin to transition at differing speeds towards Net Zero.

For example, the S&P500 currently has about 20% of its weight represented by companies that are heavy carbon emitters, predominantly names in oil & gas, plastic packaging, automakers, gas utilities, trucking, gas distribution, and air freight.

Continue reading.

nasdaq.com

by Gabriela Herculano

SEP 6, 2022

Hilltop's Kozlik Sees Opportunities in Mass Transit.

Tom Kozlik, head of municipal research and analytics at Hilltop Securities, doesn’t expect a record amount of volume in munis this year. He speaks with Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

September 7th, 2022

Municipal Bonds Suddenly Look Cheap. Some Are Tax Traps.

Investors are bailing out of municipal bond funds at a record pace, but bargain hunters should beware of some potential pitfalls

When the investing herd stampedes in one direction, it can pay to go the opposite way—but only if you step carefully.

Consider municipal bonds, long cherished by individuals looking to earn tax-free investment income. Their prices have been falling this year as interest-rates rise and bonds overall have entered a bear market.

That has many investors on the run. In the first eight months of 2022, investors have pulled an estimated $83 billion from mutual and exchange-traded funds specializing in municipal debt, according to Refinitiv Lipper. That's more than in any full year on record.

Continue reading.

The Wall Street Journal

By Jason Zweig

Sept. 9, 2022

Mitigate Your Tax Bill With This Muni ETF.

While the key benefits of exchange traded funds such as lower costs, trading flexibility, transparency, and tax efficiency are known to many investors, not everyone is aware that ETFs also may help reduce tax bills through a strategy called tax-loss harvesting. Tax-loss harvesting is a strategy that can be employed with taxable accounts to sell losing positions to offset capital gains.

This can come in handy during volatile markets. Market turbulence can be a perfect time to reassess a portfolio. Capitalizing on losses can help offset future gains while also offering the chance for rebalancing.

"Investment losses can be hard to swallow, but tax-loss harvesting lets you take the losses of one investment to offset the gains of another," according to American Century Investments. "Of course, taxes alone shouldn't drive investment decisions. But harvesting losses in concert with your overall investment plan could help with tax planning when you are rebalancing your portfolio."

In addition to adopting this strategy, investors worried about paying higher taxes may also want to consider the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF), which seeks to provide consistent tax-free income by employing an active, research-driven process that draws from across the municipal bond universe and adjusts exposure depending on prevailing market conditions. As with local government bonds in the U.S., credit risk is minimized with close to 80% of the fund ranging in debt rated at AAA to A (as of May 31).

The fund attempts to top the S&P National AMT-Free Municipal Bond Index, and by way of being actively managed, it can capitalize on credit opportunities by allocating up to 35% of its lineup to

high-yield munis. While junk-rated municipal bonds reward investors with higher yields due to elevated credit risk, these bonds are usually less volatile than high-yield corporates.

TAXF also features a low expense ratio of 29 basis points.

ETF TRENDS

by JAMES COMTOIS

SEPTEMBER 6, 2022

DMB: Municipal Rated Bond CEF With A Low But Steady Yield

Summary

- DMB provides investors a monthly federal tax-exempt dividend by investing in high-yielding municipal bonds, with an emphasis on infrastructure projects.
- Due to a looming recession, many investors find municipal bond funds like DMB attractive due to their local government appeal and tax-exempt status.
- DMB's steady monthly yield generated for the past few years is almost certain to stay constant as it is covered by the average coupon earned on its portfolio.

Continue reading.

Seeking Alpha

Sep. 06, 2022

Top 4 Municipal New York City Bond Funds.

KEY TAKEAWAYS

- New York City bond funds primarily invest in municipal districts and are used to build public projects such as highways, hospitals, and parks.
- These municipal bonds provide long-term, steady capital appreciation with a low degree of volatility.
- Generally, interest income earned on these bonds are also tax-exempt on local, state, and federal levels.

Continue reading.

INVESTOPEDIA

By STEVEN NICKOLAS Updated September 05, 2022

New Ways to Finance Your Renewable Energy Projects Thanks to the U.S. Government: Procopio

Two forthcoming changes to U.S. law have the potential to significantly change how renewable energy projects are financed. Both changes are part of the Inflation Reduction Act signed into law by President Joe Biden on August 11, 2022, which along with provisions for business taxes, health care and Internal Revenue Service enforcement efforts contains incentive programs to combat climate change.

Specifically, the new law monetizes renewable energy credits through the *direct pay election* (under new Internal Revenue Code ("Code") §6417) and the *credit transfer election* (under new Code §6418). Both elections are effective for tax years beginning after December 31, 2022.

Let's look at each, one at a time.

Direct Pay Election
The direct pay election was predominantly designed to provide the below-listed refundable tax credits to tax-exempt entities, state and local governments and political subdivisions, the Tennessee Valley Authority, tribal governments, Alaska Native Corporations, and cooperatives that furnish electricity to rural areas (the forgoing collectively referred to as "Tax-Exempt Entities"). New Code §6417 also provides a narrow allowance for refundable tax credits to taxable partnerships and S corporations in respect to the clean hydrogen production credit, the carbon capture credit, and the advanced manufacturing credit.

In spite of the fact Tax-Exempt Entities do not typically pay tax under the Code, new Code §6417 treats Tax-Exempt Entities as having made tax payments equal to the amount of the credits listed below. Whether paid by taxable entities or deemed paid by Tax-Exempt Entities, new Code §6417 treats the payments of tax or deemed payments of tax as having been made as of the later of the date of filing, the due date of the entity's tax return or the date a return would be due if required in the case of Tax-Exempt Entities that are government entities that do not file tax returns. Entities that make the election can then claim a refund of the excess taxes paid or deemed paid. The direct pay election applies to the following renewable energy credits:

- So much of the credit for alternative fuel vehicle refueling property as is treated as a business credit under Code § 38;
- So much of the credit for renewable electricity production attributable to qualified facilities originally placed in service after December 31, 2022;
- So much of the carbon oxide sequestration credit attributable to carbon capture equipment originally placed in service after December 31, 2022;
- The zero-emission nuclear power production credit;
- So much of the credit for clean hydrogen production credit attributable to qualified clean hydrogen facilities originally placed in service after December 31, 2012;
- For the U.S., states and political subdivisions, U.S. possessions, tax-exempt organizations other than cooperatives under Code §521, and tribal governments, the credit for qualified commercial clean vehicles determined under Code §45W(d)(3);
- The credit for advanced manufacturing production;
- The credit for clean electricity production;
- The credit for clean fuel production;
- The credit for energy investment determined under Code §48;
- The credit for qualifying advanced energy project investment; and
- The credit for clean electricity investment determined under Code §48E.

Credit Transfer Election
All taxpayers, *excluding* Tax-Exempt Entities, may transfer all or a portion of their eligible credits to an unrelated taxpayer (again, excluding Tax-Exempt entities). Eligible credits include all credits listed above minus the credit for qualified commercial clean vehicles. The transfer consideration must be paid in cash, is not deductible to the transferee nor includible in the income of the transferor.

After the transfer, the transferee will be treated as the taxpayer entitled to the credit for all purposes under the Code. Applicable credits belong to a partnership, not its partners, which means the partnership must elect to transfer the credits.

The Monetization Impact on Project Funding
Both of the above options have the potential to change the financing models of renewable energy projects.

- The direct pay option allows pension funds, universities, municipalities, and investment funds with such tax-exempt investors to make direct investments in renewable energy products under certain conditions.
- The credit transfer provision expands the pool of available investors for renewable energy projects by allowing project developers to monetize applicable credits through third party sales without requiring those third-party transferees to be directly involved in the project, thereby mitigating development, construction and operational risks for the transferee assuming the transfer is properly negotiated and documented.

Both the direct pay and transfer elections will require planning as related to the amount of cash received and the timing of receipt. The direct pay option requires alternative financing to gap the bridge in time between the date of project funding the date the applicable entity receives the refundable tax credit after filing its federal tax return the following year. Similarly, the transferee of a credit transfer may require a discount on the purchase price of the credit due to the fact the transferee cannot claim the credit and receive its benefit until it files its tax return the year after the credit is generated.

We expect forthcoming guidance from the U.S. Department of Treasury to clarify the manner and timing of the elections.

Outside counsel can provide guidance on the appropriate choices to make when considering taking advantage of the benefits of the Inflation Reduction Act of 2022.

Procopio, Cory, Hargreaves & Savitch LLP

by John Pedro Dombrowski

August 31, 2022

Infrastructure Investment and Jobs Act: Department of Energy - Faegre Drinker

Loan Programs Summary

The Loan Programs Office (LPO) within the Department of Energy (DOE) provides a variety of

different loans and loan guarantees for energy-related projects, with over $40 billion in total funding available for such programs. This report summarizes these programs. The LPO provides access to debt capital, flexible financing, close partnerships throughout the loan term, and specialized financial, legal, technical and environmental expertise to all of the programs listed below. These programs also focus on projects which aim to reduce, avoid or sequester greenhouse gas emissions.

Advanced Fossil Energy Projects Loan Guarantees
The LPO has $8.5 billion in loan guarantee authority for Advanced Fossil Energy projects under the Title 17 Innovative Energy Loan Guarantee Program (Title 17), authorized by the Energy Policy Act of 2005. This program helps finance projects in four broad technology categories: advanced resource development, low-carbon power systems, carbon capture and efficiency improvements.

Advanced Nuclear Energy Projects Loan Guarantees
The LPO has $10.9 billion in loan guarantee authority for Advanced Nuclear Energy Projects, including $2 billion for front-end projects, under Title 17 Innovative Energy Loan Guarantee Program (Title 17), authorized by the Energy Policy Act of 2005. This program helps finance projects in four broad technology categories: advanced nuclear reactors, small modular reactors, uprates and upgrades at existing facilities, and front-end nuclear technology (uranium conversion or enrichment, and/or nuclear fuel fabrication).

Continue reading.

by Juan Reyes III

August 30, 2022

Faegre Drinker Biddle & Reath LLP

Fitch: Rising Fuel Costs and Inflationary Trends Pressure Public Power

Fitch Ratings-New York/Austin-30 August 2022: Inflationary pressures and rising fuel costs could weaken credit quality across the public power sector if costs are not recovered in a timely manner, Fitch Ratings says. The US Energy Information Administration (EIA) forecasts power prices could double in 2022 from 2021 across the US as a result of higher commodity prices and capacity constraints that reduce available supplies of wholesale power. While increased fuel and purchased power costs are largely being passed through to retail and wholesale customers, broader inflationary pressures, including supply chain delays and capital investment escalation, could require additional rate increases to support credit quality, particularly if current trends persist in 2023.

Fitch's base case natural gas price expectations for 2022 and 2023 were recently raised by 47% and 23%, to $6.25/mcf and $4.00/mcf, respectively. However, Fitch expects natural gas prices to trend lower in 2024 and stabilize at $2.75/mcf by 2025, with heightened fuel cost pressures also declining over the next two years.

Increases in coal commodity and transportation costs, although less than those for natural gas, and higher replacement power costs for drought-related reductions in hydropower are also contributing to higher electric prices. US power markets remain reliant on natural gas-fired and coal-fired generation for over 57% of the energy supply.

Continue reading.

Two Tools for Tracking the American Rescue Plan's Local and National Impacts.

The 2021 American Rescue Plan Act (ARPA), particularly the flexible dollars it made available to state and local governments through State and Local Fiscal Recovery Funds (SLFRF), marked a generational experiment in fiscal federalism. Not since the late 1980s has Washington engaged in general revenue sharing with state and local governments. And this time, the scale of investment—$350 billion distributed over two years—was far greater.

The context for ARPA was also far different. Congress appropriated substantial aid to help counteract potentially devastating fiscal, economic, and health impacts of the COVID-19 pandemic at the state and local levels. Under the regulations implementing SLFRF, recipient governments must report information to the Treasury Department on how they are planning to use these funds, consistent with a set of broad categories of eligible spending under ARPA. However, much of that information varies in quality, consistency, coverage, and comparability, hampering efforts to understand spending priorities and better coordinate investment across places and time in support of a broad-based economic recovery.

These factors motivated our respective organizations—Brookings Metro and GREATER MSP—to create tools that gather, summarize, and visualize how local governments are putting SLFRF dollars to work. Brookings Metro partnered with the National League of Cities and the National Association of Counties to produce the Local Government ARPA Investment Tracker, which tracks data on SLFRF-supported projects in more than 300 large cities and counties around the country. And as part of its MSP Federal Funding Hub project, GREATER MSP partnered with 12 cities and 17 counties in the Minneapolis-Saint Paul region to generate the MSP ARPA Tracker, which tracks those jurisdictions' spending plans using the same categories as the Local Government ARPA Investment Tracker. Our organizations have used these tools to assess the rate at which local governments are committing SLFRF dollars to specific projects, the broad spending priorities they are identifying, and how these vary across cities and counties and by jurisdiction size.

Continue reading.

The Brookings Institution

by Alan Berube, Peter Frosch, and Allison Bell

August 30, 2022

EPA Will Propose to Designate PFOA and PFOS as CERCLA Hazardous Substances.

The U.S. Environmental Protection Agency (EPA) announced on August 26, 2022, that it will propose to designate perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), "two of the most widely used per- and polyfluoroalkyl substances (PFAS)," as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The proposal will include the salts and structural isomers of PFOA and PFOS. The rulemaking would require entities to report immediately releases of PFOA and PFOS that meet or exceed the reportable quantity (RQ). EPA will publish a notice of proposed rulemaking (NPRM) in the Federal Register "in

the next several weeks," beginning a 60-day comment period. EPA has posted a prepublication version of the NPRM.

The NPRM proposes to designate PFOA and PFOS, including their salts and structural isomers, as hazardous substances under CERCLA Section 102(a). Upon designation, any person in charge of a vessel or an offshore or onshore facility, as soon as they have knowledge of any release of such substances at or above the RQ, must immediately report such releases to the federal, state, Tribal, and local authorities. The proposed RQ for these designations is one pound or more in a 24-hour period. According to the NPRM, once EPA has collected more data on the size of releases and the resulting risks to human health and the environment, it may consider issuing a regulation adjusting the RQs for these substances.

The five broad categories of entities potentially affected by this action include:

- PFOA and/or PFOS manufacturers (including importers and importers of articles);
- PFOA and/or PFOS processors;
- Manufacturers of products containing PFOA and/or PFOS;
- Downstream product manufacturers and users of PFOA and/or PFOS products; and
- Waste management and wastewater treatment facilities.

In addition, when selling or transferring federally-owned real property, federal agencies would be required to meet all of the property transfer requirements in CERCLA Section 120(h), including providing notice when any hazardous substance "was stored for one year or more, known to have been released, or disposed of" and providing a covenant warranting that "all remedial action necessary to protect human health and the environment with respect to any [hazardous substances] remaining on the property has been taken before the date of such transfer, and any additional remedial action found to be necessary after the date of such transfer shall be conducted by the United States." EPA notes that there would also be an obligation for the Department of Transportation (DOT) to list and regulate PFOA and PFOS as hazardous materials under the Hazardous Materials Transportation Act (HMTA).

According to the NPRM, the final designations would provide additional tools that the government and others could use to address PFOA/PFOS contamination and, thus, could facilitate an increase in the pace of cleanups of PFOA/PFOS contaminated sites. The indirect, downstream effects of these designations could include the following:

- EPA and other agencies exercising delegated CERCLA authority could respond to PFOA and PFOS releases and threatened releases without making the imminent and substantial danger finding that is required for responses now;
- EPA and delegated agencies could require potentially responsible parties to address PFOA or PFOS releases that pose an imminent and substantial endangerment to public health or welfare or the environment;
- EPA and delegated agencies could recover PFOA and PFOS cleanup costs from potentially responsible parties, to facilitate having polluters and other potentially responsible parties, rather than taxpayers, pay for these cleanups; and
- Private parties that conduct cleanups that are consistent with the National Oil and Hazardous Substances Contingency Plan (NCP) could also recover PFOA and PFOS cleanup costs from potentially responsible parties.

According to the NPRM, in addition to this action, in 2022, EPA will be developing an advance notice of proposed rulemaking (ANPR) seeking comments and data to assist in the development of potential future regulations pertaining to other PFAS designation as hazardous substances under CERCLA.

Commentary

The proposal comes as no surprise and it is part of EPA's broad PFAS Action Plan. The designation of these chemicals, found everywhere in contaminated media, would mean that CERCLA's liability and cost recovery scheme would apply to the cleanup of contaminated media once the rule is issued in final, as is expected. Reporting requirements would also apply to releases of one pound or more of PFOA and PFOS within a 24-hour period that are not otherwise exempt from reporting.

Not everyone is thrilled with the initiative. Senator Capito (R-WV) expressed concern with the "uncertainty and unintended consequences" of the proposal and urged EPA to prioritize the development of technologies to detect, remove, and destroy PFAS at the government's expanse, not manufacturers. The Environmental Working Group, on the other hand, has identified some 42,000 industrial and municipal sites in the United States known or suspected still to be using PFAS, although how many are known or suspected of using PFOA and PFOS is unclear.

The remediation implications of the proposal are staggering. Given the ubiquity of the substances and their many uses, few entities will be spared CERCLA and related cleanup liability in cases where PFOA and PFOS contamination is found. Many are expected to comment on the proposal.

Bergeson & Campbell PC

August 29 2022

Will One PFAS Consequence Be Cities and Towns Getting Out of the Water Business? - Mintz

Now that EPA has designated as "hazardous substances" at least two of the hundreds of "forever chemicals" known collectively as PFAS, does it make sense for the hundreds if not thousands of cities and towns across the country whose water supplies have been contaminated by PFAS to remain in the water business?

Here in the northeastern United States, the provision of drinking water has remained a municipal function in many municipalities even though regional drinking water and wastewater treatment providers are available. But perhaps PFAS will finally drive the regionalization of this critically important service?

The Boston Globe reports that at least for now the City of Cambridge will be getting its drinking water from the Massachusetts Water Resources Authority after hundreds of years providing its own water from reservoirs in Cambridge and nearby towns.

Given the level of treatment necessary to reduce PFAS concentrations to the infinitesimally small (parts per quadrillion or thousandths of a trillion) concentrations EPA will say (and Massachusetts DEP has already said) is safe, and the cost of that treatment, perhaps regional treatment of drinking water is an idea whose idea has come. And perhaps moving to regional supplying of drinking water might be a step on the path toward regional wastewater treatment?

> In Cambridge, Owen O'Riordan, the acting city manager, said the city's move to the MWRA "reflects our commitment" to provide safe water to residents, including pregnant or nursing women, infants, and people with compromised immune systems — all of

whom are among those most impacted by increased PFAS levels.

Mintz – Jeffrey R. Porter

August 29 2022

S&P: U.S. Convention Center Authorities Make Their Comeback As Big Events Lift Revenue

Key Takeaways

- Large-scale events have returned to U.S. convention centers as vaccination rates, health measures, and audience comfort levels improve
- Many convention center authorities are managing event schedules in the summer and fall of 2022 that mirror the number of 2019 bookings
- During the shutdown some issuers restructured their debt, which extended maturities. While this didn't have a material impact on the credit quality of most issuers, if not managed well, extending maturities can create more fixed-cost pressure over the long term.

Continue reading.

29 Aug, 2022

Federal Grants for Broadband Expansion Begin to Flow.

Louisiana is the first state to receive planning dollars from a pair of high-speed internet programs in the infrastructure law. Funding is expected to reach other states soon.

The federal government is cracking open the spigot on billions of dollars available to states for expanding high-speed internet access.

The Commerce Department's National Telecommunications and Information Administration said this week Louisiana was the first state to receive planning grants under two programs that are part of the bipartisan infrastructure law President Biden signed last year. All 50 states and six territories applied for funding from these programs and grants will be awarded on a rolling basis, according to Commerce.

"The Internet for All initiative is on track and on schedule," Secretary of Commerce Gina Raimondo said in a statement, referencing the name the Biden administration is using for a slate of broadband programs in the infrastructure law. "Over the coming weeks, every state and territory will have funding in hand."

Continue reading.

Route Fifty

By Bill Lucia

SEPTEMBER 1, 2022

Fitch: Cyber Risk Mitigation Adds to Cost Pressures for Not-for-Profit Hospitals

Fitch Ratings-New York/Chicago/Austin-29 August 2022: Cyber risk mitigation is becoming more expensive for not-for-profit hospitals and healthcare systems, which are subject to increasing frequency and severity of attacks, Fitch Ratings says in its report Cyber Risk Continues to Grow for U.S. Not-For-Profit Hospital and Health Systems. Increasing risk requires greater investment in hardware, software and internal controls in order to prevent and address cyber breaches. However, not-for-profit hospitals are reporting thinner margins amid ongoing cost pressures, necessitating cost containment and revenue-raising measures, and cyber security spending may not be prioritized.

Both quantitative and qualitative factors, including the persistence of effects on operations and management responses, influence the effects of cyber breaches on ratings. Fitch has not downgraded any hospitals or health systems due to a cyberattack to date.

However, the credit effects of a cyberattack could be amplified due to labor pressures and inflation compressing not-for-profit hospital margins. Operating metrics are down significantly in interim 2022 for most health systems compared with 2021. Issuers with weaker financial profiles would have fewer resources available to prevent or recover from a cyberattack, potentially leading to quality of care and reputational risks, and further margin erosion.

Cyber breaches that disclose patient information carry the risk of loss of consumer confidence, litigation costs and federal regulatory enforcement actions, all of which could negatively affect financial performance. Cyberattacks also have the potential to affect quality of care by affecting medical devices or denying access to patient data.

Cyber insurance remains a key risk mitigant. However, the rapid pace of cyber insurance premium growth and a tightening underwriting environment may result in the policies becoming cost prohibitive to less financially flexible organizations. Fitch considers cybersecurity in its analysis as part of its Environmental, Social and Governance (ESG) framework. A hospital's ESG Relevance Score would be elevated if cyber risk were deemed to be material to the rating.

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

The Inflation Reduction Act: How Will its Provisions Impact Offshore Wind Development? - Day Pitney

The Inflation Reduction Act of 2022 (IRA or the act) was signed into law on August 16, 2022. Among the hundreds of pages of this legislation, the IRA contains some significant provisions geared toward the development of clean energy, including from offshore wind. In this advisory, we focus on four main areas of the IRA that could impact the development of offshore wind: (1) planning for the transmission infrastructure needed for the development of offshore wind; (2) support for state siting and other permitting authorities to do their review and approval work in siting offshore wind transmission, including through potentially more certainty in the timing of such approvals; (3) expansion of the potential lease areas for offshore wind offered by the Bureau of Ocean Energy Management (BOEM); and (4) beneficial changes to the tax credits available for renewable energy developers, including offshore wind developers.

Regional transmission planning: funding to study transmission solutions

Part 5 of the IRA relates to electric transmission. In particular, §§ 50152 and 50153 provide funding in various forms for activities related to the development of offshore wind transmission. Section 50153 specifically appropriates $100 million for expenses associated with planning, modeling and analysis regarding interregional electric transmission and, particularly, transmission of electricity generated by offshore wind. The studies conducted pursuant to § 50153(b)(2) must specifically take into account the local, regional, and national economic, reliability, resilience, security, public policy and environmental benefits of, among other things, transmission of electricity generated by offshore wind.

Potential impact: The issuance of funds to convene stakeholders to discuss interregional and offshore wind transmission and perform studies on interregional and offshore wind transmission planning could move needed transmission infrastructure development forward. This initiative will dovetail with efforts already underway at the state level, with the Regional Transmission Organizations and Independent System Operators, and at the Federal Energy Regulatory Commission (FERC) to plan and build the transmission needed to support the clean energy grid.

These efforts, collectively, could significantly improve the ability of the large amounts of offshore wind generation being developed to be interconnected and transmitted to populous load centers.

Continue reading.

Day Pitney Advisory

Day Pitney Co-author(s) Paul N. Belval, Eric K. Runge, Margaret Czepiel

August 30, 2022

New Mass. Law a Step Forward for Offshore Wind: Day Pitney

Day Pitney Energy Attorneys Eric Runge, Margaret Czepiel and Paul Belval authored the article, "New Mass. Law a Step Forward for Offshore Wind," for Law360. The article discusses a significant piece of legislation aimed at moving Massachusetts toward its goal of net-zero greenhouse gas emissions by 2050, with a focus on offshore wind development.

Read the full article here.

Day Pitney Co-author(s) Paul N. Belval, Eric K. Runge, Margaret Czepiel

August 29, 2022

Investors Snap Up Airport Munis.

$1.8 BILLION

That's the amount of municipal debt Chicago's O'Hare International Airport sold Tuesday, in the largest airport bond sale this year. The sale reflects strong investor demand, driven by expectations that air travel will continue to bounce back from the Covid-19 pandemic.

S&P Global Ratings this year raised O'Hare and the Dallas-Fort Worth airport to a rating of A+ from A and upgraded aviation revenue bonds issued by Miami-Dade County to A from A-.

Mutual funds and other investors this week submitted orders for four times as much debt as Chicago had to sell, allowing the city to trim interest rates, said finance chief Jennie Huang Bennett. Ten-year securities ultimately carried a tax-exempt yield of 2.94%.

The Wall Street Journal

By Heather Gillers

Aug 31, 2022

Chicago O'Hare Sells $1.8 Billion of Debt in Year's Largest Airport Deal.

- **January 2031 bonds priced with a 5% coupon and 3.69% yield**
- **City plans annual issuance for next decade to fund revamp**

Chicago has sold the largest municipal airport transaction this year amid swirling volatility in fixed-income markets, pricing $1.8 billion of debt that will partially fund improvements at O'Hare International Airport.

The $1.1 billion Series 2022A includes bonds due in January 2031 which priced with a 5% coupon and 3.69% yield, while debt due 2055 with a 5% coupon yielded 4.74%, according to data collected by Bloomberg.

"We are very happy with where the pricing ended up," said Jennie Huang Bennett, Chicago's chief financial officer, in an interview. She said the deal drew more than 100 investors and received about $6.3 billion of orders, making it at least four-times oversubscribed. Bennett attributed part of that investor interest to recent upgrades on the credit from both S&P Global Ratings and Fitch Ratings.

The O'Hare deal, which is the third-largest bond issue in Chicago history, priced into a weak market which saw benchmark municipal bond yields rise so far this week. Thirty-year top-rated municipals are yielding 3.29% — a five-basis point increase from where the market closed last Friday. Municipal market returns have been negative for much of the year, as an aggressive Federal Reserve rate hike schedule roils fixed-income assets. The market more broadly has lost about 8.6% since January, with a 2.2% loss so far in August.

"We garnered a lot of market attention over the course of the last few days, just given our relative size," said Bennett. "Ultimately we were able to command a lot of attention on this transaction."

The $1.8 billion deal will both refinance existing debt and fund $1.1 billion of new capital investments as the city embarks on its O'Hare 21 project, which encompasses runway extensions, the expansion of Terminal 5, and the terminal area plan, which includes construction of two satellite concourses as well as a revamped global hub that doubles the size of Terminal 2.

Another $1.5 billion sale in about a year's time is in the works, said Bennett. She anticipates annual issuance to the tune of $1 billion as the airport completes its terminal area plan over the next decade.

It's been a busy year for airport bonds with issuance up 70.2% year-to-date, according to data compiled by Bloomberg, even as overall municipal bond issuance has contracted by about 12%. Much of that volume comes from deferred maintenance projects as airport activity shrank at terminals and across the market during the pandemic.

Bloomberg Markets

By Mackenzie Hawkins and Danielle Moran

August 31, 2022

Some GOP States Push Back Against ESG Investing Trend.

Republicans are stepping up their efforts to prevent investors from considering environmental and other factors in their decisions. They are running up against the trillions of dollars in investments committed to funds addressing such concerns.

In the past week, Florida Gov. Ron DeSantis and other officials banned state pension fund managers from incorporating environmental, social and governance—or ESG—factors into investments. Texas Comptroller Glenn Hegar barred BlackRock Inc., BNP Paribas SA, Credit Suisse Group AG and others from doing business there because they "boycott energy companies." West Virginia in July took a similar step, kicking out BlackRock, JPMorgan Chase & Co. and others while saying ESG hurts its economy.

The criticism focuses on the belief that Wall Street and investors are cutting off fossil-fuel producers from lending and investment. Republicans have also accused investors of trying to force companies to follow a liberal agenda at the expense of a pursuit of profit.

Continue reading.

The Wall Street Journal

By Amrith Ramkumar

Aug. 30, 2022

Red State Republicans' War on ESG Will Have Losses on Both Sides.

GOP lawmakers in some of the most conservative US states are trying to ban banks and asset managers that consider ESG criteria from their pension funds and municipal markets, but the move might backfire.

The financial consequences for most asset managers and banks from all the anti-ESG rhetoric coming out of the mouths of Republican politicians in the US is almost certain to be minimal—at least for now.

Even if money managers who consider ESG criteria were banned from handling public pension funds in states such as Florida, Texas, Oklahoma, and West Virginia—where ESG skepticism is high—a back of the envelope review supports the notion that any business losses would be insignificant relative to the firms' overall bottom line.

Take Florida for example. Governor Ron DeSantis has arguably been the most outspoken basher of environmental, social and governance investing. He said last week that the state's pension funds will no longer consider ESG criteria when seeking to generate the highest returns possible.

While DeSantis didn't single out any companies, BlackRock Inc., the world's largest asset manager, has received criticisms from several GOP-run states who contend the New York-based firm is pursuing ESG investment policies to the detriment of their state pension funds.

BlackRock oversaw about $7.2 billion for the Florida Retirement System Pension Plan as recently as June. Given BlackRock's business model, it's safe to assume that most of those assets were in index-tracking funds that charge fees equal to less than 10 basis points, said Jon Hale, director of sustainability research for the Americas at Morningstar Inc.'s Sustainalytics unit.

Presuming these figures are accurate, BlackRock would be earning about $7.2 million of annual fees from the Florida pension. That's a tiny amount when compared with the firm's total net revenue of $19.4 billion in 2021. In other words, Florida's business probably isn't enough to cause BlackRock to rethink its ESG policies.

And BlackRock isn't alone. Examples like this indicate that the financial repercussions from the GOP's prognostications about other large asset managers and banks will be very little, Hale said.

"And I doubt these efforts will have much long-term impact," he said. "For now, they're mostly being used as political talking points."

Hale said the Florida rule simply reflects DeSantis's rage at corporations for becoming more focused on issues such as climate change and societal inequities.

Still, there is business beyond state pension plans to consider. Financial firms also provide municipal bond underwriting and other services—and states may want to think twice before blocking these companies from offering their expertise. It could end up backfiring.

One example where this already may be the case is Texas. The state introduced two laws last year that bar banks that "boycott" oil and gas companies or "discriminate" against firearms entities from government contracts. The gun ruling resulted in lower municipal bond market share for banks such as Goldman Sachs Group Inc., JPMorgan Chase & Co., Bank of America Corp. and Citigroup Inc. that sought to limit financing for certain retailers and manufacturers, said Rob Du Boff, senior ESG analyst at Bloomberg Intelligence.

However, the decision to exclude major banks on the basis of their ESG policies also made the market less competitive and probably led to higher coupon payments for Texas entities in the order of $303 million to $532 million in the first eight months under the new laws, Du Boff said, citing a study from Daniel Garrett of the University of Pennsylvania and Ivan Ivanov of the Federal Reserve Board of Governors.

Still, what if politics outweigh the financial downsides for states and all this anti-ESG bluster leads to more boycotts? Andrew Poreda, senior ESG research analyst at Sage Advisory Services, said the longer-term effects for the financial-services industry may be greater than generally perceived.

What's happening in states like Florida and Texas highlights "a bigger fear that appears to be playing out," he said in a telephone interview from his office in Austin, Texas. "Are asset managers ultimately going to be forced to pick a side and be 'red' or 'blue' managers? If you asked us six months ago, we would have thought that very notion to be far-fetched. Now, it sure looks like we are headed that way."

This may end up having serious implications for asset managers, municipal bond underwriters and investment bankers in the country's biggest states, Poreda said. It never used to be the requirement of a fiduciary to align ideologically in lockstep with their client, "but that appears to be our new future, unless cooler heads prevail," he said.

Bloomberg Green

By Tim Quinson

August 31, 2022

To ESG or Not: "Damned If You Do, Damned If You Don't," at Least in Some US States - Mayer Brown

On July 28, 2022, the West Virginia State Treasurer named five banks as the first-listed Restricted Financial Institutions under West Virginia's Senate Bill 262 for having engaged in boycotts of energy companies and thus effectively has banned these banks from future banking contracts with the state.

Apparently not to be outdone, on August 24, 2022, the comptroller of public accounts for the State of Texas (Comptroller) released the list of financial companies that boycott energy companies, a list required under the Texas statute (Tex. Gov't Code sec. 809.051) prohibiting investment in financial companies that boycott certain energy companies (the Texas Boycott Code). The list includes 10 financial firms (mostly non-US banks) and 348 registered investment companies.

The criteria initially used by the Comptroller to screen financial firms for the list included public pledges to Climate Action 100+ and membership in the United Nations-convened Net-Zero Banking Alliance or the Net Zero Asset Managers Initiative, as well as ESG rating information provided by MSCI. Requests for verification were apparently also sent to the firms.

Continue reading.

Mayer Brown – J. Paul Forrester, Erin K. Cho, Leslie S. Cruz and Adam D. Kanter

August 29 2022

The Cost of Mixing Culture Wars With Public Finance.

As with pension fund divestment policies, it's tempting for states and local governments to blacklist companies over their public policy stances. But it's the taxpayers who are likely to be the collateral damage losers.

Given the nation's deep political divisions nowadays, it should come as no surprise that some state and local politicians from both sides of the aisle would seek to leverage their governments' purchasing power to send messages to corporate America and play to their base by doing so. After all, it's not their own money — it's the public's — so why not exploit political power to advance one's partisan posturing?

The most common manifestations of these impulses to make political statements through public funds have historically been public pensions' divestment campaigns, starting with South Africa in the 1960s, then with Sudan in the early 2000s and continuing up to this year's Russia divestment wave. Critics would say that pension policies focused on corporations' environmental, social and governance (ESG) profiles are liberals' playbook strategy to pressure companies into bending to their political will. The same might be said about pension funds that avoid investing in firearms manufacturers.

The complaint — and it's a valid one in my view — has always been that these political statements rarely work to the benefit of the pension funds and that the employers' taxpayers are ultimately obligated to foot the bill for investment underperformance. That grievance is now popular with 19 Republican attorneys general. However, many ESG advocates would counterclaim that more-

sustainable and farsighted corporate policies will produce better investment returns over the long term. That debate in pension-land doesn't look likely to end any time soon; we really can't properly evaluate investment efficacy in less than a decade or even two.

Continue reading.

governing.com

by Girard Miller

Aug. 30, 2022

Texas' Answer to 'Woke' Investing Looks Kind of Woke.

The state's anti-ESG plan to punish financial firms deemed hostile to fossil-fuel producers is the same values-based approach it claims it is retaliating against.

One of the more surprising aspects of Texas' anti-ESG law, just unleashed on the likes of BlackRock Inc., is that it turns out to offer a great lesson on environmental, social and governance investing's cousin, socially responsible investing, or SRI. Not intentionally, of course.

ESG investing is often conflated with SRI. Both get lumped together as financial piety or under that term now so overused and abused your dad probably says it, "woke." They are not the same thing. SRI is based on values and most commonly exclusionary: "I don't want to fund X undesirable sector, so I won't give it my money." ESG is based on risk and more nuanced: "I foresee risks related to ESG issues that may either impair or enhance a security's value, take account of measures to address those, and then under or overweight it accordingly." SRI is about maximizing virtuousness; ESG is about maximizing wealth.

Can ESG labels be used to mask other intentions? Of course; as with any other investing theme, there is ample potential for hucksterism or simple sloppiness. Even Larry Fink, BlackRock's chief executive officer, has been known to mix up ESG with SRI.

Continue reading.

Bloomberg Opinion

By Liam Denning

August 29, 2022

Urban Migration Slows in 2022 for Many Major US Cities.

New data suggests that the pandemic-spurred flight from big coastal metros is reversing as employers push workers to return to the office.

Several major US cities that saw increased out-migration during the pandemic are starting to see the trend reverse, according to a new report from Markerr, a real estate insights company that uses

United States Postal Service change-of-address data, census information, and its own data-science methods to estimate population change.

New York City, Los Angeles, Chicago, San Francisco and Washington, D.C., all continued to see more people leave than move to their metro areas in the first half of 2022. But the flight is less dramatic than before. As of July, all those cities lost fewer people this year than they did through July of 2021, 2020 or even 2019 — before pandemic disruptions began.

Continue reading.

Bloomberg CityLab

By Sarah Holder

September 3, 2022

Pension Funds Are Selling Their Office Buildings.

Big investors unwind bets on office space as changing work environment raises prospect many downtown buildings will be less used

Major U.S. and Canadian pension funds are cutting back investments in office buildings, betting that prices will likely fall as the five-day office workweek becomes a thing of the past.

Retirement funds are still buying property, partly in a bid to reduce the impact of inflation. But those investments are more focused on warehouses, lab space, housing and infrastructure such as airports.

The shift is part of a broader transition away from traditional real estate holdings in offices and shopping centers as the Covid-19 pandemic has accelerated the rise of e-commerce and remote work.

Continue reading.

The Wall Street Journal

By Heather Gillers

Aug. 25, 2022

Banks Keep Buying Hard-Hit Muni Bonds.

Banks are buying lots of municipal debt at a time when that is not a hugely popular thing to do.

The par value of municipal bonds held by banks reached a 10-year record of $430 billion, according to FDIC data compiled by BankRegData and Municipal Market Analytics. But falling bond prices have reduced the market value of those holdings to $405 billion.

Banks are also making more private loans to state and local governments, including more than $9 billion in the second quarter, the most in a decade. That brings the total amount of so-called privately placed municipal debt to a record $204 billion, according to the data.

State and local governments sometimes choose to borrow directly from banks when they need a relatively small amount and want to avoid the costs and administrative work associated with selling securities on the public market.

The banks are buying up the debt at low prices as many investors flee bonds in response to rising rates. In a market dominated by mutual funds, where prices can drop quickly when household investors freak out, this means bondholders cashing out may have another potential buyer they count on.

“Banks love state and local borrowers,” said Municipal Market Analytics partner Matt Fabian. “When regular muni investors are selling, banks may well be buying.”

The Wall Street Journal

By Heather Gillers

Aug 24, 2022

BDA Bonding Time Podcast.

The latest episode of BDA’s Bonding Time podcast featuring the BDA’s Brett Bolton with Hilltop Securities’ Tom Kozlik on Municipal Bond Provisions and the Congressional agenda.

Listen to audio.

Bond Dealers of America

Mike Nicholas

August 31, 2022

Munis And Vegas (Bloomberg Audio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, breaks down the muni market across the country. Hosted by Paul Sweeney and Kriti Gupta.

Listen to audio.

Bloomberg Audio

Sep 02, 2022

The Key Risks Facing the Muni Bond Market.

S&P Global Ratings Managing Director Robin Prunty discusses the key risks facing the municipal bond market with Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video

Bloomberg Markets: The Close

August 31st, 2022

Two Options for ESG and Muni Exposure.

2 Bond ETF Options as ESG Growth Proliferates in Munis

Environmental, social, and governance (ESG) continues to grow, and this year, the space is seeing expansion into municipal bonds. Real estate prices have climbed in the last few years, creating the need for affordable housing, which is feeding into ESG and muni growth.

“ESG is poised for another record-breaking year of new issuance in the $4 trillion municipal-bond market as state and local agencies look to Wall Street for help addressing the affordable housing crisis,” a Bloomberg Law article noted.

“Sales of municipal bonds that are branded with a green, social or sustainability label are up 2.6% this year — bucking the roughly 12% decline in the overall market, according to data compiled by Bloomberg. Total ESG muni issuance could surpass last year’s record to reach over $60 billion by the end of 2022, per S&P Global Ratings projections released in February.

One option for ESG muni exposure is the Vanguard ESG U.S. Corporate Bond ETF (VCEB). Additionally, the fund doesn’t command a high premium with its low expense ratio of 0.12%.

VCEB seeks to track the performance of the Bloomberg MSCI US Corporate SRI Select Index, which excludes bonds with maturities of one year or less and with less than $750 million outstanding, and it is screened for certain ESG criteria by the index provider, which is independent of Vanguard.

VCEB highlights:

- Provides debt issues screened for certain ESG criteria.
- Specifically excludes bonds of companies that the index sponsor determines are involved in and/or derive threshold amounts of revenue from certain activities or business segments related to adult entertainment, alcohol, gambling, tobacco, nuclear weapons, controversial weapons, conventional weapons, civilian firearms, nuclear power, genetically modified organisms, or thermal coal, oil, or gas.
- Excludes bonds of companies that, as determined by the index sponsor, do not meet certain standards defined by the index sponsor’s ESG controversies assessment framework, as well as firms that fail to have at least one woman on their boards.

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

exposure to municipal debt.

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

ETF TRENDS

by BEN HERNANDEZ

SEPTEMBER 1, 2022

Embracing Muni Bonds for Recession Protection.

Debate lingers regarding whether or not the U.S. economy is in a recession, but recent GDP data are discouraging, indicating market participants may want to evaluate recession-buffering assets.

Traditionally, investors turn to fixed income assets when recessions set in, but that strategy is imperiled this year due to rising interest rates. Speaking of which, Federal Reserve Chairman Jerome Powell last Friday spooked markets, signaling the central bank will remain aggressive with its rate hikes in a bid to cool inflation. Some traders believe there's at least a 60% chance the Fed raises rates by 75 basis points following its September meeting.

Logically, some investors are skittish about bonds in the current environment, but some experts see opportunities in municipal bonds for recession protection. On that note, the VanEck Vectors High Yield Muni ETF (HYD) is an exchange traded fund to consider.

"A recession is characterized by a slowdown in consumer spending and an increase in unemployment. This may lead some to believe that at the onset of a recession, tax revenues for state and local governments fall, but this hasn't been the case. Historically, tax revenues have declined following a recession, but the negative impact is usually long after the recession has already started," noted Cooper Howard of Charles Schwab.

Tax collection is a primary concern for investors with any municipal bond ETF. Although HYD is a high-yield fund, the ability of its component states to collect taxes, broadly speaking, isn't a major concern as of yet. For example, California is the ETF's largest state allocation at 12.6% and revenue in the Golden State is soaring.

Another point in favor of HYD, particularly given its status as a high-yield ETF, is that credit quality across the municipal landscape is improving. That could support HYD's status as a recession-buffering asset for investors to consider.

"Conditions for most state and local governments are strong, in our view, due to the substantial fiscal support after the start of the COVID-19 crisis. Tax revenues also have been surging, as illustrated in the chart above, which has helped bolster state and local governments' coffers. To illustrate, rainy-day fund balances, which is money that states have set aside and can use during unexpected deficits, are at near-record levels. Even Illinois, the lowest-rated state, has a rainy-day fund balance in excess of $1 billion. That's a substantial improvement from February 2020 when it

was only $60,000," concluded Howard.

Illinois is HYD's second-largest state exposure at 12%.

ETF TRENDS

TOM LYDON

AUGUST 29, 2022

Muni Bond Funds Finish Another Rough Month.

$3.4 BILLION

That's the amount investors withdrew from municipal bond funds in the week ended Aug. 31, closing out another rough month for bonds in general and munis in particular. Of the 10 weeks with the highest muni bond outflows since 1992, five occurred this year.

Rising rates remain a key culprit, but credit concerns are popping up as well. Some analysts believe public transportation ridership will never rebound to pre-pandemic levels, weakening transit bonds in cities like New York and San Francisco. Barclays Credit Research recommended earlier this month that defensive investors seek out insured munis.

The Wall Street Journal

By Heather Gillers

Sep 1, 2022

S&P Mid-Year Review: Tender Option Bond Activity Reaches New Highs As Interest Rates Rise

S&P Global Ratings is providing a recap of rated tender option bond (TOB) activity in the first half of 2022.

New Issuance Soars As Interest Rates Rise

TOB issuance surged during the first six months of 2022, largely due to rising interest rates. Some issuers took advantage of the higher rates by collapsing existing low-yield TOB trusts and creating new ones. Add-on activity also increased as issuers added more underlying bonds and issued more TOB certificates to existing trusts.

New issuance increased approximately 307% year over year to 273 new trusts rated by S&P Global Ratings as of June 2022, compared with 67 new TOBs rated as of June 2021 (see chart 1a). We rated 101 new trusts in May–a new monthly high. The top four liquidity providers for the 273 new trusts were JPMorgan Chase Bank N.A. (76 TOBs), Barclays Bank PLC (67), Bank of America N.A. (35), and Royal Bank of Canada (32).

Par issuance reached a high of approximately $5.5 billion in June, primarily due to the dramatic rise in second-quarter issuance. Total issuance tripled to $4.2 billion in second-quarter 2022 from $1.3 billion in the previous quarter, versus $1.6 billion in second-quarter 2021 and $1.0 billion in first-quarter 2021 (see chart 1b).

Continue reading. **[Free registration required.]**

22 Aug, 2022

Cities Brace for This Season's Colliding Climate Disasters.

May to October has become known as the "danger season" — when the US is most at risk of experiencing back-to-back climate disasters like heat waves, wildfires, drought and storms.

As summer in the US approaches peak wildfire and hurricane seasons, with above-normal activity predicted for the latter, experts worry that persistent heat waves can pack a deadly one-two punch as they coincide with extreme storms and severe droughts.

Such a threat played out in August 2020, when a heat wave blanketed Louisiana right after Hurricane Laura hit, leaving residents in 100-degree Fahrenheit weather without power. Of the 31 storm-related deaths reported, eight were "heat-related" and nine were due to carbon monoxide poisoning, likely from a generator. Then in October, as parishes were barely recovering in the sweltering heat, Hurricane Delta came barreling up the Gulf Coast.

These days, disasters seldom happen in isolation, even as most response and aid programs still treat them as one-off events. Events are overlapping, and hitting cities one right after another. The period between May and October, dubbed "danger season" by the Union of Concerned Scientists (UCS), is when extreme weather hazards are most likely to collide. Senior scientist Juan Declet-Barreto at UCS worries that the slow start to this year's Atlantic hurricane season could mean a pile-up of severe storms over the next two months.

Continue reading.

Bloomberg CityLab

By Linda Poon

August 25, 2022

S&P Credit FAQ: How Do U.S. Pension/OPEB Credit Analysis Guidelines Stand Up Amid High Inflation And Lower 2022 Market Returns?

Table of Contents

Pension and other postemployment benefit (OPEB) obligations remain a focus of S&P Global Ratings' U.S. public finance (USPF) credit analysis, and with the recent equity market returns widely missing target rates of return, volatility within pension assumptions is on investors' minds in 2022.

Since S&P Global Ratings published “Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Benefit Obligations For GO Debt, Local Government GO Ratings, And State Ratings,” on Oct. 7, 2019, its guidance is materially unchanged. However, amid the current high inflation and low market returns, we answers the most frequently asked questions from investors and other market participants about this guidance.

Continue reading.

23 Aug, 2022

Bond Sales Get Too Expensive Just When Public Pensions Need Them.

- **Municipal pension debt sales fall 70% from 2021 pace**
- **Returns hit by stock drop as rate rises make borrowing costly**

US cities and states have backed away from selling bonds to cover pension obligations because of rising borrowing costs, increasing their long-term burden of unfunded pension gaps.

So far this year, municipal governments sold just $2.7 billion of bonds in which proceeds would at least in part help finance retirement systems, an almost 70% drop from the same period a year ago, according to data compiled by Bloomberg. At the same time, an index of 10-year, AAA benchmark yields has risen to about 2.5% from near 1% in January.

“The market now makes it more difficult to justify” selling pension bonds, Pat Luby, municipal strategist at Creditsights Inc., said in an interview. “It’s not impossible, but it’s definitely more difficult to do.”

Continue reading.

Bloomberg Markets

By Hadriana Lowenkron

August 23, 2022

Fitch: US Water Utilities Withstanding Inflationary Pressures

Fitch Ratings-New York-23 August 2022: U.S. water utilities have fared remarkably well post-coronavirus and are withstanding the effects of inflation on operations and capital spending, according to Fitch Ratings’ latest annual peer review for the sector.

Operating costs are up across the board after a decline in fiscal 2020, but year-over-year operating revenue growth largely kept pace in fiscal 2021. Capex-to-depreciation also increased for retail and wholesale issuers in 2021, likely as a result of greater needs and higher pricing for labor and materials. The five-year average median ratios for retail systems are above 150% for the third year in a row, whereas the ratio for wholesale systems totaled 170% in 2021. Leverage also fell slightly for retail systems and increased for wholesale systems.

Liquidity for water utilities remains robust with solid COFO levels and current days cash on hand well over 550 days, which should buffer the effects of even higher inflation through 2022 year-end. “Despite some minor bumps, water utilities are positioned quite well to absorb higher costs in 2022 and rebound heading into 2023 as the rate of inflation shows signs of slowing,” said Managing Director Dennis Pidherny.

Fitch’s U.S. Water and Sewer: Peer Review is a point-in-time assessment of Fitch-rated public water and sewer utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail water and sewer systems. It is accompanied by the 2022 Water and Sewer Fitch Analytical Comparative Tool (FACT), an interactive tool that provides enhanced trend analysis and peer comparison tables. The statistics reflect rating actions taken through July 2022 and historical financial data through Dec. 31, 2021.

The full report, “2022 U.S. Water and Sewer: Peer Review,” is available at www.fitchratings.com

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Implementing Federal Funding for Utilities.

Why It’s Important to Think Strategically, Creatively and Holistically When Working with ARPA, IIJA Funds

Utilities are faced with a rare and remarkable opportunity to impact the present-day situation of their users and rate payers while also altering the long-term future of their entire communities.

With the American Rescue Plan (ARP) and the Infrastructure, Investment and Jobs Act (Infrastructure Act) allocating billions of dollars to upgrade aging utility infrastructure and improve utility system resilience (as well as various grant programs that create additional funding opportunities), utilities simply cannot afford to sit this one out.

The ARP was enacted in March 2021 and allocated $350 billion of non-competitive funding to states, counties, cities, tribes and territories for economic relief in the wake of the COVID-19 pandemic. In early 2022, the U.S. Treasury issued the Final Rule for state and local governments to address their pandemic response needs and promote long-term recovery.

The Final Rule, in essence, set the wheels in motion for utilities to begin planning, preparing and spending, if they haven’t already.

The Infrastructure Act which was signed into law in November 2021 created $1.2 trillion of both reauthorized spending as well as new spending programs specifically to address much needed upgrades to our nation's infrastructure grid. Although more than 65 percent of these funds will go towards addressing public transportation needs, almost $30 billion will go towards water and wastewater needs, which will be passed down to the states to provide funding at the local level over the next five years.

However, when you consider that we're looking at the largest investment in infrastructure in U.S. history — and that so much contradictory information is available online — it is understandable that some utility leaders find themselves confused, overwhelmed, or even paralyzed by the endless possibilities.

What Should Utilities Be Doing?

Advice regarding how to manage and spend ARP funds combined with Infrastructure Act dollars could lead this conversation down a very nuanced and complicated path, and certainly recommendations would vary from company to company. But in general, we recommend three simple strategies: Think creatively, think regionally and think holistically.

Creatively speaking, if money were no object, how would you spend that money? Where would you want your community to be in the future? And not just in three years, but in 15, 20 or even 50 years? Think in terms of economic growth and aging infrastructure and allow your brain to think creatively, almost as if money was a non-factor. This is a once-in-a-lifetime opportunity — or at least we hope it is! You need to treat this process as if you may never have a better chance to solve utility issues that have lingered in your community for years.

In terms of thinking regionally, speak with (and perhaps even partner with) governments from neighboring cities and counties. Engage in dialogue around everyone's plans for the region, as the impact of the money in this case could easily spread beyond the walls of your town. The long-term wellness of regional utilities and the economy of the entire region can both be positively impacted by these funds. Seek input from business stakeholders, property owners, taxpayers, utility customers, economic developers and other governmental officials. Having a diverse group of decision-makers and a far-reaching vision for the money will allow you to ensure you spend the funds in a way that has a broad, forward-thinking, regional impact.

Finally, it is important to approach this process holistically. Even though you may be focused on water on a day-to-day basis, look at things from the perspective of your entire community. Awareness of other projects will save time, energy and money. Perhaps the streets department is going to be redoing several roads in a particular neighborhood. To avoid a re-dig, that would be the best time to replace those water, sewer and stormwater lines and perhaps consider installing broadband in an area that is in need of expanded broadband services.

Confusion is Understandable; Hesitation is Not

Although it's been well over a year since the ARP was passed and more than six months since the Final Rule was released, many entities still do not know how to spend their available funds — and there is nothing wrong with that. For starters, many entities waited until the release of the Final Rule to fully explore how to spend their money.

Municipalities generally are aware of the non-competitive funds available from the ARP. However, competitive money is often a different story. Sometimes municipalities don't believe they can qualify for certain available competitive funds or may be intimidated by the task. In other cases, entities

simply cannot devote the necessary time or personnel to research the opportunity and prepare a competitive grant application. There are even cases where they don't even know about the available opportunities.
In the larger picture, the spending of ARP funds is a process that requires significant planning, budgeting and collaboration. Additionally, some of the competitive funds available are still being created and rolled out. When you add that all up, it makes sense that an entity would not want to rush into applying for ARP funds.

That said, the time has arrived for action.

Regarding the ARP funding, Infrastructure Investment and Jobs Act funding and additional competitive dollars, there needs to be a "measured urgency." These programs are highly competitive and will not be around forever, so as soon as you're ready, act quickly and purposefully. Ensure in advance you can meet the deadlines and other requirements associated with the grant program.

Additionally, from a timing standpoint, these federal dollars likely will have a real financial impact on rate payers. With water utilities, the more immediately you can access these dollars — the "free money" if you will — the greater and quicker direct impact it could have on what your customers pay in monthly user rates.

Next Steps You Can Take

As a first step, assess your local infrastructure to determine your needs and the extent of the required solutions. One effective way to do this is to create an asset management plan to identify all the existing infrastructure – both above and below ground – as well as the condition it is in and the estimated cost to replace it. Oftentimes state and federal competitive programs require a preliminary engineering report or asset management plan as part of the application process.

Additionally, consider your economic development strategy — where and how your community is growing, where and how you want it to grow and what kind of infrastructure is needed to attract businesses and industries. You will want to identify and align resources and develop a strategic spending plan. Convene a core group of specialists across all areas. That way when you secure the funding, you are "shovel ready" to act promptly, rather than waiting six months to design the project.

Finally, monitor and evaluate progress. Ongoing compliance should be a continued focus throughout every stage of the process. Communities with limited time, resources or knowledge may find it helpful to connect with a professional services firm that can help them think strategically, regionally and holistically about their ARP funds and assist with grant applications for competitive dollars.

Water Finance & Management

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