

## **The Threat of Another Government Shutdown Looms.**

**National, state and local government associations have warned their members that “fractious issues” could derail any efforts to meet a November deadline, affecting key housing and transportation funding.**

Congress may have been able to avert a government shutdown Saturday night that would have caused problems for state and local governments around the country. But many in Washington are skeptical that the House and Senate will be able to reach agreement on 12 federal funding bills—including a key one on funding for transportation and housing—in a little over a month to keep the nation from facing yet another shutdown.

The chances of reaching an agreement before the Nov. 17 deadline set in the continuing resolution that Congress passed this weekend is “low,” the National League of Cities said in a federal update to its members. “Fractious issues remain,” the update said, as House Republicans seek to reduce spending in an array of programs including funding for states and localities to build more affordable housing and for transit construction projects.

And that update was given before House Republicans voted Tuesday to oust House Speaker Kevin McCarthy.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami,  
Senior Reporter

OCT 4, 2023

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## **Climate Change Is a Fiscal Disaster for Local Governments.**

**A new study of Florida’s fiscal vulnerability to climate change finds that flooding directly threatens many local tax bases.**

Climate change is affecting communities nationwide, but Florida often seems like ground zero. In September 2022, Hurricane Ian devastated southwest Florida, killing at least 156 people and causing an estimated US\$113 billion in damages. Then Hurricane Idalia shut down the Florida Panhandle in September 2023, augmented by a blue supermoon that also increased tidal flooding in southeast Florida.

Communities can adapt to some of these effects, or at least buy time, by taking steps such as upgrading stormwater systems and raising roads and sidewalks. But climate disasters and sea-level rise also harm local governments financially by increasing costs and undercutting their property tax bases. Local reliance on property taxes also can discourage cities from steering development out of flood zones, which is essential for reducing long-term risks.

In a [newly published study](#) and supporting [online StoryMap](#), we present the first-ever municipal fiscal impact assessment of sea-level rise in Florida and combine it with a statewide survey of coastal planners and managers. We wanted to know how sea-level rise would affect municipal tax revenues and whether coastal planners and managers are accounting for these fiscal impacts.

[Continue reading.](#)

## Route Fifty

By Linda Shi, Tisha Joseph Holmes and William Butler

OCTOBER 5, 2023

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## [Data Map Reveals Local Drivers of Climate Risks.](#)

**The climate vulnerability index shows the intersection of increasing climate risks and long-term health, social, environmental and economic conditions so state and local officials can target the most effective solutions for their communities.**

No community is safe from climate change's effects. And understanding the impacts and drivers of those complex changes can be challenging for state and local governments with limited resources and staff. Without data on how climate change impacts their communities, it can be difficult for policymakers to implement effective solutions. To help ease the process, researchers developed a new web-based tool that provides hard data on local climate risks to help inform policy or funding decisions aimed at increasing climate resilience.

Developed by Texas A&M University, the Environmental Defense Fund and Darkhorse Analytics, the [climate vulnerability index](#) maps details from 184 datasets across 70,000 census tracts. It displays a range of community vulnerability data, such as health, socioeconomic, environment and infrastructure conditions and identifies existing burdens like limited access to health care or unfair housing practices that affect a community's climate resilience. The map also features data on climate change impacts, such as the number of heat-related deaths or the frequency and severity of wildfires in an area.

With the site's combined community vulnerability and climate risk data, state and local officials can better grasp the specific drivers of local climate vulnerability, said tool co-developer Weihsueh Chiu, a professor at the Texas A&M School of Veterinary Medicine and Biomedical Sciences.

[Continue reading.](#)

## Route Fifty

By Kaitlyn Levinson,  
Assistant Editor, Route Fifty

OCTOBER 4, 2023

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## **S&P: U.S. Public Finance Issuers Face Challenges In An Evolving Cyber Insurance Market**

### **Key Takeaways**

- Insurance is an important part of an organization's cyber risk management, and USPF issuers need to adapt to changing requirements and costs, or they may be unable to acquire insurance
- Premiums are rising rapidly while inflation is pressuring budgets
- Increasingly more USPF entities will consider cyber insurance to complement wider cyber risk management strategies
- However, insurance is only one element of cyber risk management and issuers will never be able to remove cyber risks entirely, nor, will insurance replace good security practices
- We view cyber insurance or similar dedicated resources to mitigate financial losses from a cyber attack as a demonstration of cyber preparedness

[Continue reading.](#) [Free registration required.]

3 Oct, 2023

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## **S&P: U.S. Social Housing Providers Have The Foundation To Insulate Against New Post-Pandemic Risks**

### **Key Takeaways**

- Despite fewer supply-chain issues and labor shortages, inflationary operating costs will persist, although HUD grant funding could partially mitigate them.
- We expect SHP's portfolio growth will accelerate as development pipelines recover and pursue property acquisitions.
- An increase in bad weather events has led to rapidly rising insurance premiums, with management addressing deferred maintenance and assessing policies and claims to offset costs.
- Amid downside risks, we expect our SHP ratings will remain stable, with most issuers maintaining a strong enterprise risk profile and solid liquidity position thanks to strategic competence and operational effectiveness.

[Continue reading.](#)

4 Oct, 2023

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## **Bank of America Forecasts \$400 Billion of Muni Sales in 2024.**

- **The bank had pared back its outlook for 2023 amid high rates**
- **State, local governments on track to sell \$350 billion in 2023**

Bank of America Corp., the largest underwriter of state and local bonds, is forecasting \$400 billion of the debt will be sold next year, up slightly from this year.

The forecast, which strategists led by Yingchen Li and Ian Rogow included in a report on Friday, would represent at least the second year of optimism from the bank about annual municipal bond issuance. Around this time last year, the strategists expected muni bond sales for 2023 to reach a new record.

Instead, states and cities have sold about \$273 billion of debt in 2023, down 8% from the same period last year, according to data compiled by Bloomberg. Sales of the securities have fallen short of many banks' forecasts, as higher interest rates and strong tax receipts spur governments to delay borrowing.

If the current pace of issuance continues - with about \$30 billion of long-term munis sold each month on average — that would put sales at around \$350 billion for the full year. That kind of a sales level would represent the second straight year of declining issuance, according to data compiled by Bloomberg.

In October 2022, Bank of America forecast muni sales for this year of \$500 billion. By spring of 2023, it cut that figure to \$400 billion. On Friday, the strategists said their prior forecasts were affected by the Federal Reserve's unexpectedly continuing to hike interest rates this year.

"The market environment and yield levels have always been important variables when we make our issuance forecast," the strategists said in the report on Friday. "Had our muni rates forecast worked out, our issuance forecast would have as well."

In 2024, the strategists expect around \$300 billion of bond sales for new projects, representing about a 4.5% increase, which is a lower growth rate compared to years before 2022. They said that reflects high interest rates during the first half of 2024 and low GDP growth next year.

The strategists also forecast \$100 billion of bond sales to refund higher interest-rate debt in 2024. They noted that refinancing volume will be impacted by the Fed, such as when the central bank starts cutting interest rates and by how much.

"A shift from tightening to easing in 2024 should induce a pretty good muni market rally that would extend throughout the year," they said in the report. "However, the strength, magnitude and timing of the rally will be very important for refundings."

## **Bloomberg Markets**

By Amanda Albright

October 6, 2023

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## **[Why Muni Bond Trading Volume Is Skyrocketing.](#)**

Stephanie Larosiliere, Invesco's head of municipal business strategies, says the fundamentals in the municipal bond market are strong despite the looming threat of a federal government shutdown. She speaks with Katie Greifeld and Romaine Bostick on "Bloomberg Markets: The Close."

[Watch video.](#)

## **Bloomberg Markets: The Close - Muni Moment**

October 4th, 2023

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### **[AllianceBernstein: How Muni Impact Investors Can Help Issuers Ace Their ESG Tests](#)**

**The degree of success of muni bonds that lift communities often stems from showing issuers how they'll be graded.**

There's no substitute for studying hard. But when the subject is expansive, it also helps to know what you'll be graded on. Issuers of municipal bonds intended to help their communities are often at this crossroad: raising their hands to lend support but less certain on which approach to take, given the many possibilities.

#### **Engagement Helps Set a Course for Impact**

Proceeds from such muni bonds are typically used for specific purposes, helping move the needle on community-based social and environmental initiatives. The bonds should have clearly stated goals, like replacing lead water pipes, broadening mental healthcare access or funding school breakfast programs.

Determining the muni bond's focus is only half the work, however, since investors also expect results. And not all such bonds work as advertised. The more transparent issuers fill out their report cards, using key performance indicators (KPIs) to help track progress and measure actual impact.

[Continue reading.](#)

PUBLISHED 10-06-23

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### **[Where Do Bonds Go After the September Jobs Report?](#)**

Meghan Swiber, Bank of America securities senior US rates strategist, and RJ Gallo, Federated Hermes head of municipal bond investment group, talk about how the bond market may react to the September jobs report that showed the US economy added 336,000 jobs. They speak on "Bloomberg Real Yield."

[Watch video.](#)

## **Bloomberg Real Yield TV Shows**

October 6th, 2023

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## **Income-Driven Returns: The Resilience of Municipal Bonds**

Historically, investors have purchased bonds for their steady coupon payments. This relationship was thrown on its head as the Fed cut rates in the wake of the Great Crisis. Price appreciation as rates fell became the name of the game. That is, until last year when the broader bond market fell.

However, according to investment manager Thornburg, that may not be such a bad thing for the municipal bond market.

Thanks to a variety of factors, price appreciation in the muni bond market may be hard to come by. But with such ample tax-equivalent yields, that might not be an issue for investors. Income will drive the bus and that will still lead to great returns.

[Continue reading.](#)

**dividend.com**

by Aaron Levitt

Oct 04, 2023

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## **The Week in Muniland: Alliance Bernstein**

[View the report.](#)

October 9, 2023

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## **Should You Tap Pricey Muni Bond ETFs Now?**

Tax-exempt municipal bonds serve not only as an investment option but also as a significant contributor to public projects like roads, schools, and hospitals. These debt instruments are issued by local or state governments, attracting investors due to their tax-advantaged income.

Usually, the interest income from munis is exempt from federal tax and may also not be taxable per state laws, making these especially attractive for investors in the high tax bracket looking to reduce their tax liability.

This is totally different from interest on Treasury and corporate bonds that are taxed as regular income. Apart from investors' desire for a tax-shelter, improving fiscal health of many municipal bond issuers make a rewarding combination.

[Continue reading.](#)

**nasdaq.com**

Written by Sanghamitra Saha

October 04, 2023

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

[View the Current List.](#)

22 Sep, 2023

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## **S&P U.S. Highway User Tax Bond Report Card: Strong Coverage Drives Rating Resiliency**

### **Key Takeaways**

- S&P Global Ratings expects that U.S. highway user tax credit quality will remain stable as a result of strong debt service coverage (DSC), active management by states in raising tax rates and fees when necessary, and a mix of pledged stable revenue sources beyond fuel taxes, such as license and registration fees.
- We also expect that pledged revenues for state highway user tax revenue bonds will recognize shifts in revenue composition over the long term as drivers continue transitioning to more fuel-efficient vehicles and electric vehicles (EVs), and that overall, the sector will remain resilient in the face of this modernization.
- Our analysis of the most recent net pledged revenue data indicates relatively strong growth over the last three years, and only positive rating changes have taken place since January 2022, driven by linkage to state general creditworthiness.

[Continue reading.](#)

28 Sep, 2023

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## **S&P U.S. Transportation Infrastructure Transit Update: End Of The Line Nears For Federal Assistance As Low Ridership Pressures Operators**

### **Key Takeaways**

- Our sector view for mass transit remains negative as many large agencies struggle to balance operating funds, given depressed passenger fare revenue, and pandemic-related federal assistance runs out beginning in 2024.
- A few transit agencies have received a combination of temporary relief and longer-term tax support amid an ongoing policy debate at the state, regional, and local levels regarding how to support operating and capital requirements with sustainable tax and revenue models.
- Year-to-date rating actions have been positive for some mass transit operators that benefit from significant tax support and are relatively less reliant on fare revenues. Specifically, sales taxes have experienced strong growth in recent years that we expect will provide ongoing financial flexibility.

- S&P Global Ratings believes the credit quality of transit operators with a historical reliance on fare revenue will depend on their long-term ability to enhance existing recurring revenue sources or establish new recurring ones, and adjust operating expenses and capital spending as needed to achieve a sustainable fiscal balance.

[Continue reading.](#)

28 Sep, 2023

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## **In Unique Approach, One County Utilizes a P3 to Build Public Schools.**

**Instead of it taking six years to build six schools, it took three. The first-of-its-kind project saved Prince George's County, Maryland, millions of dollars—and includes 30 years of maintenance.**

A suburban Maryland school district, faced with the staggering prospect of dealing with a \$8.5 billion backlog in building repairs and upgrades just a few years ago, celebrated the opening of six brand new middle schools this fall. The brightly lit, environmentally friendly buildings feature amenities like 3-D printers, performance spaces and ventilation systems that can screen out viruses. Even better, the schools come with a built-in maintenance plan for the next 30 years.

The program by the Prince George's County Public Schools used a financing tool that's more common for infrastructure projects like toll roads: a public-private partnership. By turning to the private sector, the school district was able to deliver the new schools in less than three years. Construction lasted only two years.

"It usually takes us six to seven years per school from design to construction completion," said Jason Washington, an associate superintendent who oversaw the project for the school system. But existing buildings were up to 80 years old and falling apart, and the district was running out of space for middle school students. "We had to find a way to do it faster."

[Continue reading.](#)

ROUTE FIFTY

by DANIEL C. VOCK

SEPTEMBER 28, 2023

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## **GFOA: Rethinking Revenue Diversification, Warren Buffet Style**

Billionaire Warren Buffett is famous for his blunt commentary on everything from tax policy to baseball to ukulele playing. And of course, his advice on investing has moved markets and made personal fortunes. According to some recent research, his ideas on picking stocks might also be good advice for managing local government revenues.

Local government revenue structures are front and center these days. For this we can thank GFOA's pathbreaking "Rethinking Revenue" initiative. Rethinking Revenue is a deep dive into big



questions—what local governments tax, why they tax it, and how they can build better tax structures for the future.

[DOWNLOAD](#)

Publication date: August 2023

Author: Justin Marlowe

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## **[Your Speeding Ticket is Paying for City Budgets. Scholars of Public Finance Reveal 'Policing for Profit' and How to Fix It.](#)**

When city governments spend more money than they take in, officials often search for ways to generate revenue. One increasingly [common source](#) of money is traffic tickets. And research shows police officers [issue more traffic tickets when cities are financially in a deficit](#).

But police represent only one aspect of this revenue-generating system. Judges and their courts also use traffic citations to generate money for the cities that employ them.

As scholars of public finance, we study how cities raise money to pay for their operations. Our [new research](#) indicates that judges in cities facing red ink often use their positions to maximize revenue from traffic tickets. They can do this by adding financial penalties to unpaid tickets. Judges often use the extra penalties to encourage people to pay.

[Continue reading.](#)

FORTUNE

by BYSIAN MUGHAN, AKHEIL SINGLA AND THE CONVERSATION

September 25, 2023

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## **[All of Schwab's Bond ETFs Now Cost Just Three Basis Points.](#)**

- **Average fee across 633 US-listed bond ETFs is 34 basis points**
- **Small fee cuts can fuel millions of dollars worth of inflows**

Schwab Asset Management is making an aggressive attempt to offer some of the cheapest bond exchange-traded funds on the market.

The asset manager announced Monday that will cut fees on the \$50 million Schwab High Yield Bond ETF (ticker SCYB) and the \$11.6 billion Schwab U.S. TIPS ETF (SCHP) to just three basis points, bringing all nine of its fixed-income funds below that threshold, according to a press release Monday. The average expense ratio among the 633 US-listed bond ETFs is about 35 basis points, Bloomberg data show.

Schwab's move is the latest in a series of tiny fee cuts as issuers fight for space the increasingly saturated \$7.2 trillion ETF industry. Schwab has been among the most active, joining the likes of

BlackRock Inc., Vanguard Group Inc. and State Street Global Advisors, in trimming expense ratios by just a couple of basis points over the past few years.

[Continue reading.](#)

## **Bloomberg Markets**

By Katherine Greifeld

September 25, 2023

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### **Muni Rates Selloff Impacting More Than Returns.**

Eric Kazatsky and Karen Altamirano look at various aspects of the municipal market impacted by the continued rise in rates.

[Continue reading.](#)

## **Bloomberg Markets**

September 27th, 2023

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### **There Are High Absolute Yields in Muni Market: Barber**

Ben Barber, Franklin Templeton fixed income director of municipal bonds, says there are high absolute yields in today's muni market. He's on "Bloomberg Markets: The Close."

[Watch video.](#)

## **Bloomberg Markets - Muni MomentTV Shows**

September 27th, 2023

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### **Muni Bonds Are Heading for Worst Month Since September Last Year.**

- **10-year muni yields rose nearly 50 bps since Fed's meeting**
- **Higher yields could lure investors to the asset class: UBS**

US state and local debt is headed for its worst month in a year, with the Federal Reserve's hawkish pause sending yields soaring and erasing gains from the first half of 2023.

Munis have slumped 3.33% so far in September, according to data compiled by Bloomberg, on track for its poorest performance since a 3.84% drop the same time last year.

Yields on 10-year munis jumped almost 50 basis points since Sept. 20, after investors sold bonds as they digested the Fed's message that it would keep borrowing costs higher for longer. Treasury

yields have also been climbing, with the benchmark 10-year rate rising to its highest level since 2007 this week.

[Continue reading.](#)

## **Bloomberg Markets**

By Skylar Woodhouse

September 29, 2023

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### **[States Finalize Fiscal 2024 Budgers: NASBO State Budget Blog](#)**

[View the Budget Blog.](#)

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### **[Should States and Localities Be Worried About the U.S. Downgrade?](#)**

**Or about the possibility of another one amid the budget showdown in Congress? Fitch Ratings' decision to knock the federal government's credit rating down a notch last month doesn't directly affect state and local credit quality. But it's a warning shot.**

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer, and lately I've been wondering why Fitch Ratings' downgrade of the federal government last month didn't generate much hand-wringing among state and local officials. It's a big contrast to 2011, when S&P Global Ratings knocked Uncle Sam down from AAA to AA+ following the Great Recession. That decision, the first-ever downgrade of the U.S. government, caused all sorts of questions about the downstream effect on states and localities.

"With the federal debt downgraded, it's hard to imagine that state and local bonds won't be far behind," an op-ed in The Fiscal Times reasoned at the time.

Fitch's downgrade in August to AA+ was partly due to how the federal government had handled the debt crisis, mirroring S&P's 2011 downgrade, which also followed a debt ceiling standoff in Congress. But the recent ratings cut didn't generate as much of a splash at the state and local level because it's now well-established that subnational credit quality is measured somewhat separately from the U.S. government's.

[Continue reading.](#)

ROUTE FIFTY

by LIZ FARMER

SEPTEMBER 20, 2023

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## **Muni Finance and the Federal Fiscal Food Fight.**

**With federal deficits soaring, bond issuers may face higher financing costs. State and local cash managers shine for now, but all eyes will be on the coming congressional budget battle.**

Deficit financing has caught up with Uncle Sam, as federal outlays for interest payments have surged to record levels and the nation's annual budget deficit is on track to double in this fiscal year. That's just for starters: To dampen inflation, the Federal Reserve has hiked short-term interest rates and keeps jettisoning U.S. bonds, not buying them as it had been. Meanwhile, key foreign buyers including China have recently exited the Treasury market, also driving yields a bit higher.

Those federal interest expenses appear doomed to escalate yet higher in the next year or two as older, cheaper debt rolls off the books while forthcoming budgets remain locked in deficits and ambitious prior infrastructure appropriations are spent. Beyond that, compound interest will be America's gnarlier enemy unless budget discipline is re-established on Capitol Hill. The Fitch rating service has downgraded Treasury debt, citing the partisan congressional dysfunctionality fueling this fiscal food fight.

So far, the indirect impact on the municipal bond market of these tectonic macro shifts is measured in fractions of a percentage point, so it's hardly the end of the world. In California earthquake-speak, it's a tremor, not a Big One. Meanwhile, the impact on state and local operating budgets today is arguably net-positive for most. But fiscal hawks and critics of Modern Monetary Theory are crowing that a dreary hangover of elevated and more costly interest rates seems to be here to stay — at least until the next recession, when the central bank presumably will have no choice but to once again cut rates and investors flee stocks to pile into the safety of government bonds. Bond market math is indeed a dismal science.

[Continue reading.](#)

**governing.com**

by Girard Miller

Sept. 19, 2023

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## **Why Municipal Bonds Might Not Be Protected From Climate Risk Forever.**

Three months ago, the redevelopment agency of Paradise, California—the town nearly wiped out by wildfires in 2018—missed payments for its municipal bonds issued in 2009. The funds were raised to develop the city's commercial neighborhood and backed by incremental tax revenue from the areas. As economic losses from the fire drained the agency's cash reserves and no new revenue came in, a default had been expected.

Debt default is uncommon for muni bonds, which are often viewed as a haven with steady, tax-exempt yields. Paradise's example, however, is ringing alarms for a looming long-term risk from climate change: with more frequent and severe natural disasters, municipalities in vulnerable areas could see their economy disrupted, their asset values fall, and their tax base shrink—along with a deteriorating credit outlook.

While corporations can move their supply chains to safer grounds, cities and towns are tethered to their specific locations. Extreme weather events like hurricanes and wildfires not only incur immediate property damage, they could also greatly disrupt economic activities if power outages, road closures, and other infrastructure damage drag on.

[Continue reading.](#)

## **Barron's**

By Evie Liu

Sept. 24, 2023

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### **[S&P U.S. State Ratings And Outlooks: Current List](#)**

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### **[Fitch U.S. Local Government Rating Model.](#)**

#### **U.S. Local Government Rating Model**

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Thu 21 Sep, 2023

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### **[Fitch U.S. Local Government Rating Model - User Guide](#)**

[View the Fitch Model.](#)

Thu 21 Sep, 2023

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### **[Fitch Proposed U.S. Public Finance Local Government Rating Criteria \(Exposure Draft Frequently Asked Questions \[FAQs\]\)](#)**

[View the FAQs.](#)

Thu 21 Sep, 2023

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### **[Fitch U.S. Local Government Rating Model - User Guide](#)**

[View the Fitch User Guide.](#)

Thu 21 Sep, 2023

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## **Fitch Ratings Updates USPF College and University Rating Criteria.**

Fitch Ratings-New York/Chicago-19 September 2023: 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 Sept. 22, 2022.

Fitch made minor editorial revisions to the criteria, including enhancement to the Rating Positioning Table to provide a greater range of key rating factor combinations to assist in providing guidance to the analytical rating outcome. 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 criteria report is available at '[www.fitchratings.com/criteria/us-public-finance](http://www.fitchratings.com/criteria/us-public-finance)'.

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## **S&P: U.S. Housing Finance Agencies 2022 Medians: Strong Metrics, Balance Sheets Reinforce Credit Quality**

### **Key Takeaways**

- Credit quality of rated U.S. housing finance agencies (HFAs) remained strong and positive rating actions on four HFAs reflect improved metrics.
- Despite expectations of balance-sheet contraction, average assets, debt, and equity, on average, all increased in fiscal 2022.
- Net income declined in 2022, as expected, but isn't an indication of long-term financial impairment.

- Prudent management of HFAs remains a cornerstone strength behind exceptional performance in 2022 and in the future.

[Continue reading.](#)

19 Sep, 2023

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### **Fitch: Life Plan Communities Able to Manage Nursing Staff Requirements**

Fitch Ratings-New York-20 September 2023: Nursing home minimum staffing standards proposed by the federal government will add to life plan community (LPC) staffing pressures but will not affect ratings, given the LPC sector's diverse service lines, which include independent living (IL) and assisted living (AL), and LPCs' ability to flex the number of skilled nursing beds in service, Fitch Ratings says. Private pay IL units, which are a key driver of financial performance and generally comprise the largest number of units at Fitch-rated LPCs, are not subject to the proposed staffing requirements.

Under the rule proposed by the Centers for Medicare and Medicaid Services (CMS), long-term care facilities that receive Medicare and Medicaid would need to have a registered nurse on site at all times, with facilities allowed two years to implement (three years in rural areas). At a minimum, facilities would also need to provide 0.55 registered nurse hours per resident per day (HPRD), or 33 minutes, and 2.45 certified nurse aide HPRD within three years after the publication of the final rule (five years in rural areas).

While a handful of states, such as California, have nursing home staffing standards close to or more stringent than the proposed federal regulations, many states' rules are below the proposed standards, including 15 states that currently have no minimum HPRD requirements. Many of Fitch's rated LPCs are four or five star skilled nursing centers as rated by CMS (five stars is the highest rating), which indicates good clinical staffing levels and a high quality of care. Quality skilled nursing care is an important marketing component for LPCs and a differentiating competitive characteristic on which LPC management teams focus.

[Continue reading.](#)

Wed 20 Sep, 2023

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### **Fitch: More U.S. Higher Ed Consolidation, Trimming or Closures to Come**

Fitch Ratings-Chicago/New York-20 September 2023: Fitch Ratings anticipates further closures, mergers, and significantly restructured operations are inevitable for some institutions in the face of continued challenges in the U.S. higher education sector. Enrollment declines and related pressures on tuition and student fee growth prospects have been a common thread in each of the negative rating actions Fitch has taken year to date.

We do not anticipate widespread closures or downgrades within our rated portfolio, however. While over half of our below-investment-grade ratings carry a Negative Outlook, our overall portfolio heads into fiscal 2024 from a position of relative strength in terms of liquidity and leverage. Credit

implications will continue to be informed by an institution's ability to correct structural deficits, the level of financial flexibility through this period of sector contraction, or the ability to find an effective partner. Colleges will need to proactively make decisions on what programs, departments, capital plans, and assets they believe best fit their organizational and strategic goals.

[Continue reading.](#)

Wed 20 Sep, 2023

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## **[\\$7.5 Billion Financing for Water Infrastructure Projects Announced.](#)**

**WASHINGTON** — Today, the U.S. Environmental Protection Agency (EPA) announced \$7.5 billion in available Water Infrastructure Finance and Innovation Act (WIFIA) funding. This innovative low-interest loan program helps communities invest in drinking water, wastewater, and stormwater infrastructure while saving millions of dollars and creating good-paying local jobs. To date, EPA's WIFIA program has announced \$19 billion to help finance 109 projects across the country. These projects are creating over 60,000 jobs. Today's announcement furthers the Biden-Harris Administration's commitment to ensuring all people and all communities have access to clean and safe water.

"When we invest in water, we support healthy people, economic opportunity, environmental protection, and good-paying local jobs," said EPA Administrator Michael S. Regan. "This new funding from the WIFIA program – coupled with President Biden's historic \$50 billion investment in water through the Bipartisan Infrastructure Law – bolsters EPA's efforts to ensure communities across the country have solid water infrastructure and reliable access to safe and clean water."

This announcement initiates EPA's 7th round of WIFIA financing with \$6.5 billion available through the WIFIA program and \$1 billion available through the State WIFIA (SWIFIA) program, which provides loans exclusively for State infrastructure financing authority borrowers. EPA is currently accepting letters of interest for both WIFIA and SWIFIA loans. Prospective borrowers can also receive technical assistance to develop a funding request that meets the WIFIA program's requirements. This assistance will help small and disadvantaged communities benefit from WIFIA funding.

[Continue reading.](#)

September 21, 2023

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## **[U.S. States Jump Start Electric Vehicle Charging Infrastructure.](#)**

### **Key Takeaways**

- To accelerate the development of the electric vehicle (EV) industry and encourage consumer adoption, the Bipartisan Infrastructure Law provides \$7.5 billion for U.S. state EV charging infrastructure. However, we view this as merely a down payment for potential future needs.
- S&P Global Ratings believes states are uniquely positioned to help steer the EV transition despite the complex issues involved.



- As consumer EV adoption increases, states will also need to supplement and replace motor fuel tax revenue that funds highway and bridge maintenance. However, we expect motor fuel tax revenue bonds will remain resilient in the face of this modernization.

[Continue reading.](#)

21 Sep, 2023

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## **The Digital Transformation of Small Utilities.**

### **Improving Performance of the Long Tail of the Water Industry**

According to the U.S. Environmental Protection Agency (EPA), there are more than 50,000 drinking water and wastewater utilities in operation in the United States serving a population of less than 10,000. These utilities face the same challenges of their larger counterparts and more, including lack of financial resources, economies of scale, and long-term planning; management limitations; aging infrastructure and workforce; ineffective treatment technologies for modern day pollutants (e.g., PFAS); partial digital transformation; difficulty keeping up with current and future regulations; achieving service levels; and meeting customer expectations.

One challenge of specific interest is “partial digital transformation,” because completing such a transformation could help overcome several other challenges. Unfortunately, according to Eric Bindler, senior research director at Bluefield Research overseeing its digital and municipal water research, “small utilities are in much earlier stages of their digital journeys than their larger peers.”

### **The Digital Transformation**

For perspective, the digital transformation began with the start of third phase of the industrial revolution (“Industry 3.0”) in 1969. The transformation rapidly accelerated in the 1980s and thereafter with personal computing, networking and connectivity, the Internet, mobile devices, robotics, data storage and management, etc. Industry 3.0 introduced electronics and information technology (“IT”) to automate production and data management, and to perform human tasks.

[Continue reading.](#)

### **Water Finance & Management**

By Doug Hatler

SEPTEMBER 18, 2023

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## **Munis a Harder Sell? (Bloomberg Audio)**

Eric Kazatsky, Senior Municipal Bond Strategist with Bloomberg Intelligence, joins to discuss the muni bond market. Hosted by Paul Sweeney and Matt Miller.

[Listen to audio.](#)

Sep 22, 2023

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## **Muni Bonds Slump on Federal Reserve's Higher-for-Longer Stance.**

Municipal bonds joined the rout in broader debt markets after the Federal Reserve indicated its intention to keep interest rates high for as long as necessary to contain inflation.

Prices fell across the board as benchmark yields on top-rated municipal bonds jumped as much as 16 basis points in trading on Thursday, according to Bloomberg pricing data. The 10-year yield now stands at 3.13%, the highest since November, while the shortest-dated securities yield 3.58%.

"Market participants are anxiously awaiting the Fed being able to start cutting rates and yesterday's conversation from the FOMC clearly indicates that the pause is going to be longer than the market was hoping for," said Pat Luby, a municipal strategist at CreditSights Inc.

[Continue reading.](#)

### **Bloomberg Markets**

By Maxwell Adler

September 21, 2023

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## **Hospital-Backed Municipal Bonds: A Hidden Opportunity in the Pandemic Fallout**

**It's no secret that the COVID-19 pandemic was hard on the healthcare sector. From delays on routine medical procedures to the pressures the virus put on the first responders, the healthcare sector was impacted in a variety of ways - even some that investors may not have been truly aware of.**

This includes hospital-backed municipal bonds.

But the COVID-19 crisis may finally be beginning to thaw for these municipal bonds and a new bull market could be starting. For investors looking at values in the muni sector, hospital and healthcare bonds could be a great bet.

### **Hit by COVID Crisis and Rising Rates**

While the pandemic may be in the rearview mirror in terms of the virus, the outbreak is still having some wide-reaching effects. This is particularly true when it comes to hospital construction, expansion and funding.

[Continue reading.](#)

**dividend.com**

by Aaron Levitt

Sep 19, 2023

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## **Munis Fall Short Of Seasonal Expectations In August.**

### **August update**

- Municipals posted negative total returns amid rising interest rates.
- Issuance exceeded tempered expectations, while demand waned as performance struggled.
- Late-cycle macro dynamics and fading seasonal tailwinds could create opportunity in the autumn.

### **Market overview**

Municipal bonds deviated from the seasonal trend and posted negative total returns in August. Interest rates rose on the back of resilient economic growth, elevated Treasury supply, and a hawkish tone from the Federal Reserve (Fed) at the Jackson Hole Economic Symposium. The yield on the benchmark 10-year Treasury note closed at a new cycle high of 4.34% late in the month. Rich valuations and less favorable supply-and-demand dynamics prompted municipals to underperform comparable Treasuries. The S&P Municipal Bond Index returned -1.10%, bringing the year-to-date total return to 1.65%. Shorter-duration (i.e., less sensitive to interest rate changes) and higher-rated bonds performed best.

[Continue reading.](#)

**advisorperspectives.com**

by Peter Hayes, James Schwartz, Sean Carney of BlackRock

9/16/23

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## **Infrastructure Becomes Locked Market in Muniland: Masters of the Muniverse**

Despite trillions being passed through recent bills to reduce inflation and spur infrastructure spending, neither goal has really been met. At first blush, the prospects of all that federal money being directed at much needed infrastructure improvements and repairs was music to the muni markets ears. However, that dream of being part of the funding solution has never really materialized and only added to the myriad of issues facing the tax-exempt market. Joining myself and Karen this month to discuss the many challenges the municipal market is facing is Hector Negroni, Founder and CEO of Foundation Credit. For those unfamiliar, Foundation is a leading alternative asset manager dedicated to municipal credit and infrastructure debt markets in the United States. Hector is no stranger to our markets, with a career spanning over 3 decades in investing proprietary trading, public/private financing, derivatives, and structured products. Listen to this episode on Apple Podcasts and Spotify.

[Listen to audio.](#)

Sep 22, 2023

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## **Appealing Municipal Market Indicators and Strong Economic Data is Fueling the Golden Age of Municipals Despite Near-Term Uncertainty.**

- Municipal yields have risen to some of their most attractive levels this year, and relative value indicators are also appealing.
- Housing prices turned positive in July. This, and other stronger than anticipated economic indicators are likely to extend the “Golden Age of Municipals.” Therefore, overall credit quality has the potential to be stronger for a longer period of time despite hints of near-term economic uncertainty.
- Public finance upgrades outpaced downgrades again in the second quarter of 2023. We could see a record number of public finance upgrades in 2023. Upgrades are likely to outpace downgrades in 2024 as well.

[Continue reading.](#)

**advisorhub.com**

by Tom Kozlik, Hilltop Securities

September 21, 2023

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## **S&P U.S. Mortgage Revenue Bond Program Medians: Strong Credit Quality Keeps The House In Order**

### **Key Takeaways**

- S&P Global Ratings’ median rating for U.S. housing finance agency (HFA) mortgage revenue bond (MRB) programs is AA+/Stable.
- The application of our MRB program criteria, published Oct. 10, 2022, resulted in minimal rating actions in the sector, though all were positive.
- The median minimum asset-to-liability (A/L) parity for all MRB programs is 121%.
- Single-family MRB programs strengthened in the past year as prepayments slowed and origination increased.
- Multifamily MRB program A/L parity declined in the past year but remained strong, as HFAs used program equity to help finance affordable multifamily developments.
- We expect rating stability among MRB programs, with increases in loan production and bond issuance activity despite volatile market conditions, rising interest rates, and still-elevated home prices.

[Continue reading.](#)

12 Sep, 2023

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## **S&P U.S. Not-For-Profit Acute Health Care 2022 Medians: Historically Low**

## Metrics Signify A Long Road To A New Normal

### Key Takeaways

- **Virtually all fiscal 2022 medians weakened.** Margins and coverage ratios were particularly hard hit, reflecting labor and inflationary pressure that we believe is moderating but remains stubbornly high.
- **Weaker operating performance trickled into balance-sheet metrics.** Absolute unrestricted reserves weakened but remain remarkably resilient. Inability to improve cash flow could accelerate balance-sheet deterioration and pressure credit quality. Days' cash on hand is expected to remain lower due to permanently higher salary structures.
- **Provider relief funding delivered limited respite from operating pressure.** Traditional COVID-19 stimulus funding waned while state and FEMA grants grew. Without these funds, the operating margin median was negative 1.4% compared with essentially breakeven margins including support.
- **Net patient service revenue rebounded for the second year in a row.** However, even a nearly 12.5% increase between 2021 and 2022 was insufficient to offset a 17% increase in expenses including elevated salaries and benefits as a percent of net patient service revenue.
- **Debt levels rose slightly.** Debt as a percent of capitalization ticked up due, in part, to lower unrestricted net assets but absolute debt levels increased as well because some organizations took advantage of still-low interest rates.

[Continue reading.](#)

15 Sep, 2023

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## Fitch Ratings Releases Granular Sector-Specific 2022 Transition and Default Study.

Fitch Ratings-London/New York-13 September 2023: Fitch Ratings has published an expanded sector-specific transition and default study for 2022. Transition and default rates are used by a number of participants in the debt capital markets to calibrate credit risk across their portfolios. From an investor with a mandate that includes rating level restrictions to a risk manager running complex quantitative models, reliable transition and default data act as key inputs to financial analysis. They also quantify the stability of ratings over time.

To aid with this analysis and to provide more granular information to market participants, Fitch has expanded its annual rating transition and default report to incorporate a number of key sub-sector and sub-asset-class tables. The new data includes a split out of financial and non-financial corporates including individual sector tables for emerging and developed markets. It also includes a breakdown of key structured finance sub-asset classes such as Autos, Credit Cards, Prime-RMBS and CLOs.

The full dataset includes 427 transition and default matrices, based on track record from 1990.

The dataset is available to Fitch Connect subscribers.

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## **Fitch: Recruiting Staff Remains an Uphill Battle for U.S. Life Plan Communities**

Fitch Ratings-New York/Austin-13 September 2023: Workforce recovery remains a formidable challenge for U.S. life plan communities (LPCs) with no apparent relief in sight, according to Fitch Ratings in its latest labor dashboard for the sector.

Labor challenges appear to be most daunting for LPCs with payrolls still trailing pre-pandemic levels and inflationary pressures still very much present within the broader economy. Though payrolls for skilled nursing facilities (SNFs) are also lower than before the pandemic, average hourly earnings growth has slowed to levels below the private sector. According to Director Richard Park, the disparity in wage growth appears to be a function of two factors.

"LPCs can pass through wage increases to residents and need to maintain a high level of services to keep occupancy and lead generation high," said Park. "SNFs, by comparison, often generate a large portion of revenue from governmental payors, resulting in a permanent increase in nursing costs that may be forcing providers to reduce staffing needs by lowering capacity and improving productivity."

Conversely, assisted living (AL) facilities are experiencing a favorable recovery picture. While payrolls at LPCs and SNFs remain 7% and 10% below pre-pandemic levels, respectively, AL payrolls have fully recovered to 4% above pre-pandemic levels.

Another area of concern continues to be Quit Rates, which remain high. The number of quits in the health care and social assistance sector remains high at 2.3% as of July 2023, compared to the 1.6% average from 2010 to 2019. "The tight labor market continues to be in favor of workers in search of higher wages and better work environments," said Park.

"Life Plan Communities Labor Tracker: September 2023" is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **[Transportation Is Feeling the Heat.](#)**

**As cities nationwide get hotter, addressing extreme temperatures and their effects on roads, bridges and rail is becoming a priority.**

The pavement in Phoenix was at times this summer hot enough to fry an egg on. Just this past weekend, the Arizona capital reached a record 55th day of temperatures above 110 degrees. It has been the hottest and driest summer on record. But if an approach to create "cool pavements" works, not only won't it be possible to cook an egg on the city's roadways anymore, but those roadways also won't be as likely to buckle in the extreme heat.

Cool pavements is just one of a number of approaches that David Hondula, director of Phoenix's Office of Heat Response and Mitigation, is testing in an effort to address the impact high temperatures are having on the city's transportation systems. Hondula testified Wednesday before the Senate Environment and Public Works Committee that he wants those approaches to be models for other local governments.

"All across the country, local governments like ours have begun to recognize that there are serious deficiencies in planning for, mitigating and managing extreme heat," he said.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami,  
Senior Reporter

SEP 14, 2023

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## **How Bonds Can Help Cities Manage Extreme Weather.**

***U.S. state and local governments are increasingly using bonds to raise capital for infrastructure and housing projects that mitigate and protect against extreme weather events.***

### **Key Takeaways**

- States and cities are issuing sustainability bonds to raise funds for energy-efficient affordable housing and infrastructure that protects communities against climate change.
- The market for sustainability bonds has grown, as issuers combine social projects with green financing.
- Investors are looking to sustainability bonds to protect their portfolios against climate risks and capitalize on opportunities from sustainability challenges.

[Continue reading.](#)

**Morgan Stanley**

Sep 13, 2023

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## **San Diego Airport Is Latest Snazzy Makeover Financed by Bonds.**

- **New Terminal 1 adds gates and a patio for waiting passengers**
- **Airports nationwide spruce up to compete as travel booms**

San Diego International is joining the parade of airports getting an upgrade, bringing a little life to a once-busy sector of the slowing municipal-bond market.

An offering of \$1.13 billion by the San Diego County Regional Airport Authority, its first in almost two years, will finance an overhaul that will add 11 gates to a new Terminal 1, bringing its total to 30. That's almost half of the 62 gates that will be available at the airport when the new terminal's makeover is completed.

The revamp will include new amenities that are becoming de rigueur as airports nationwide compete for customers in a post-pandemic travel boom. Over the next five years, the airport will add an outdoor patio where waiting passengers can gaze out on San Diego Bay, up to two airline or common-use lounges, plus a new 5,200-space parking plaza and a second taxiway for jets.

[Continue reading.](#)

**Bloomberg Markets**

By Skylar Woodhouse

September 15, 2023



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## **What Is Public Finance Investment Banking?**

What Is Public Finance Investment Banking?

Public finance investment banking is a specialized field within investment banking that focuses on providing financial advisory services to public sector entities such as governments, municipalities, and government agencies. These services involve managing and raising capital for public infrastructure projects, funding government operations, and structuring debt issuance.

Public finance investment banking plays a crucial role in facilitating the financing of public projects and ensuring the efficient allocation of resources within the public sector. The primary goal of public finance investment banking is to assist governments in navigating complex financial markets and raising funds at the most favorable terms possible.

Public finance investment bankers work closely with government officials to identify funding needs and develop appropriate financing strategies. They provide expertise in areas such as debt management, economic development, and financial planning. These bankers also help governments assess the feasibility of projects, analyze potential risks, and evaluate funding options.

[Continue reading.](#)

**Investor Times**

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## **September Muni Market Update (Bloomberg Audio)**

Joe Mysak, editor for the Bloomberg Municipal Brief, joins to talk about the muni bond market. Hosted by Paul Sweeney and Matt Miller.

[Listen to audio.](#)

Sep 15, 2023

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## **Using Surveillance Tech to Get Insights Into Muni Bonds.**

Rob Amodeo, Western Asset Management's head of municipals, discusses using surveillance technology for insights into the municipal bond market on "Bloomberg Markets: The Close."

[Watch video.](#)

**Muni Moment - Bloomberg Markets: The Close**

September 13th, 2023, 12:41 PM PDT

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## **Muni Bonds at a Premium: A Wise Investment Strategy**

Municipal bonds have garnered a lot of attention in recent months. Thanks to their high yields and tax advantages, many investors across various different income levels have been drawn to their benefits. With this rising demand amid slowing supplies, muni bonds have become a star performer this year as well, with many investment-grade munis now trading above par values.

But investors may want to ignore the premiums.

It turns out that buying municipal bonds at premiums is actually a very good idea. With strong cash flow and the ability to avoid key tax traps, premium muni bonds might be the only way to buy the bond sector.

[Continue reading.](#)

**dividend.com**

by Aaron Levitt

Sep 12, 2023

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## **Munis on Track to Having a Strong Year.**

Municipal bonds are on track to have a strong 2023. According to Steve McFee, a senior portfolio manager in Vanguard's Investment Management Group, 2022 was a challenging year. But that was primarily because of restrictive central bank policies. Those policies led to lower asset prices, higher yields, and wider credit spreads across the bond universe. And despite this, fundamentals for munis remained strong. The rise in real estate prices led to increased state and local tax revenues over the past few years. Additionally, many municipalities augmented their "rainy-day" funds with COVID-era stimulus money.

[Continue reading.](#)

ETFTRENDS.COM

by JAMES COMTOIS

SEPTEMBER 14, 2023

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## **How Higher Rates Could Actually Help Muni Bond ETFs.**

The widely followed ICE AMT-Free US National Municipal Index is higher by 1.17% year-to-date, indicating 20-year high interest rates aren't sapping muni bonds as they did last year.

It's not clear that the Federal Reserve is done tightening this year. Even murkier is the 2024 timeline regarding when rate cuts will arrive, if at all. However, 2023 sturdiness in municipal debt could be a signal that investors can wade back into the higher-yield portion of the pool and evaluate exchange traded funds such as the VanEck High Yield Muni ETF (HYD).

HYD, which tracks the ICE Broad High Yield Crossover Municipal Index, is sporting a modest year-to-date gain, but investors are well-compensated for embracing the ETF as highlighted by a 4.68% 30-day SEC yield – high by the standards of muni bond funds. Additionally, HYD could find other tailwinds as 2023 draws to a close.

[Continue reading.](#)

ETFTRENDS.COM

by TOM LYDON

SEPTEMBER 14, 2023

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## **[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 July) \$246.1 billion, -14.6% Y/Y
- Trading (as of July) \$14.5 billion ADV, -8.1% Y/Y
- Outstanding (as of 1Q23) \$4.0 trillion, -0.8% Y/Y

[Download xls](#)

September 5, 2023

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## **[As Cyberattacks Grow, Cyber Insurance is Increasingly Out of Reach for Many Municipalities.](#)**

**Experts caution that governments need to recalibrate their cyber risk management approaches by emphasizing employee training and taking a whole-of-state approach**

Welcome back to Route Fifty's Public Finance Update! I'm Liz Farmer and this week I'm writing about cyber insurance amid a [dramatic increase](#) in ransomware attacks on governments.

Breaches of public entities and services are up 40% in the second quarter of 2023 compared to the first, according to a threat assessment by the tech company BlackBerry.

The increase comes on the heels of a rise in cyberattacks in 2022 as well. Third party-related ransomware attacks, in particular, increased by 136% last year and accounted for 52% of incidents, according to the most recent [ForgeRock Identity Breach Report](#).

[Continue reading.](#)

ROUTE FIFTY

by LIZ FARMER

SEPTEMBER 6, 2023

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## **[How One State Pushes Cybersecurity to Local Agencies.](#)**

**Arizona's whole-of-state cybersecurity program gives local governments free access to cloud-based cybersecurity tools—an approach that extends security and helps build a problem-solving community.**

Local governments and school districts trying to defend themselves against cyberattacks have long struggled with staff shortages and tight budgets. Now, state IT offices are stepping up to help.

In Arizona, the statewide information security and privacy office known as Cyber Command offers cloud-based security services to state and local agencies free of charge—an approach known as whole-of-state cybersecurity that is gaining traction nationwide.

“We’re buying en masse cybersecurity tools for all of our agencies and then providing them back at no cost to them, which is sort of a novel concept,” said Ryan Murray, deputy director of Arizona’s Cyber Command and interim chief information security officer.

[Continue reading.](#)

### **Route Fifty**

By Stephanie Kanowitz

SEP 5, 2023

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## **[Public Debt and the Art of the Float.](#)**

**Governments need to balance expected returns on their invested cash with the costs of their bonds and other obligations. Shifting a portion of their long-term debt from fixed to floating rate is a way to hedge interest rate risk.**

It’s a cliché we hear from so many political candidates: “Government should be run like a business.” Ironically, the collapse of Silicon Valley Bank and other recent bank debacles confirm that governments do indeed have much to learn from businesses. But in this case, the lessons are what not to do.

The most obvious message to be drawn from these meltdowns is that organizations, whether businesses, not-for-profits or governments, cannot ignore the credit risk of depositing large amounts of uncollateralized cash in seemingly rock-solid banks. The more subtle, yet no less important, lesson is that governments need to carefully and consciously manage their interest rate and related liquidity risks. More specifically, they must appropriately balance expected returns on invested assets with their required payments on bonds and other debts.

For sure, this is a principle that government treasurers and other public finance officers of a certain age need not be taught. They are likely to recall the 1994 bankruptcy of Orange County, Calif. The county, one of the nation's wealthiest, borrowed short and invested long, which ultimately produced the same financial consequences as those that struck Silicon Valley Bank.

[Continue reading.](#)

**governing.com**

by Martin J. Luby and Michael H. Granof, University of Texas

Sept. 5, 2023

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## **[S&P U.S. State Pension And OPEBs: Funding Progress Is Likely To Pick Up In 2023 After Slipping In 2022](#)**

### **Key Takeaways**

- Weak investment performance dropped U.S. state pension funded ratios to 73.6% from 81.2% in fiscal 2022, although we expect marginal improvement for fiscal 2023 will blunt potential near-term pressures to states' debt and liability profiles.
- Absent plan modifications, contribution rates could inch up further to address pension funding shortfalls, leading to longer-term budget pressure for some states.
- The potential for further monetary policy tightening and slower economic growth, or equity market uncertainty could require states to exercise heightened pension funding discipline to meet assumed investment return targets.
- Retiree medical or OPEB plans remain substantially underfunded and are not likely to change without significant plan reforms or increased contributions.

[Continue reading.](#)

7 Sep, 2023

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## **[The IRA and Public Schools.](#)**

Public school buildings in the United States are crumbling. National school infrastructure received a D+ rating from the American Society of Civil Engineers in 2021, and in more serious cases, learning environments have become toxic. Given the segregated and unequal nature of public schooling, building quality is closely tied to racial and class-based inequalities, with schools in lower-income communities confronting the most serious health and safety consequences. In addition to these unsafe working environments for teachers and students, a [recent study](#) by scholars at the Harvard School of Education found that schools are one of the largest consumers of energy within the US public sector, consuming energy equivalent to eighteen coal-fired power plants or fifteen million cars each year. This is both costly and necessitates involving schools within the broader project of decarbonization.

Indeed, schools are an essential arena for the Biden administration's new green industrial policies.

While a cottage industry has formed around assessing whether Biden's industrial policies—specifically the Inflation Reduction Act (IRA)—are commensurate to the scale of the problems they set out to address, it's imperative to survey how IRA programs might look on the ground if applied to their fullest strength. How would IRA programs affect public education finance—specifically school facilities and infrastructure? And how would these financial flows challenge the present state of educational inequality and segregation?

Perhaps because the American Rescue Plan—the Biden administration's pandemic relief package—included \$122 billion in funding for schools, the IRA was not billed as a piece of education legislation, nor did schools take center stage in either the negotiating process or messaging around the policy. But the IRA holds major implications for public schools. While details on these policies are still forthcoming, I examine how two IRA flagship programs—the direct pay Investment Tax Credit (ITC) and the Greenhouse Gas Reduction Fund (GGRF)—could function within existing public-school infrastructure projects. A [report](#) from Aspen Institute's education arm summarizes thirteen policies in the IRA that school districts could benefit from, of which the ITC and GGRF stand out for their novelty and impacts.

[Continue reading.](#)

## **Phenomenal World**

by David I. Backer

September 7, 2023

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## **Nursing Home Staffing Mandates to Further Strain Troubled Sector .**

- **Rule comes amid labor shortages, uptick in payment defaults**
- **High death rates during Covid highlighted need for better care**

A proposed federal rule that would establish staffing requirements at nursing homes across the US could push the already-troubled sector further into distress, even as the pandemic highlighted their failings.

The Centers for Medicare & Medicaid Services said that “chronic under-staffing remains a concern,” in a Sept. 1 statement outlining the proposed rule, which includes requiring a registered nurse onsite 24 hours a day, seven days a week. About 75% of US facilities would need to make adjustments under the new rule, CMS said. Nursing homes could receive a hardship extension “in limited circumstances.”

Labor shortages and their associated costs still plague nursing homes, which in some cases have eliminated beds because of an absence of caretakers. That's also created a problem for hospitals, which rely on the homes to take patients who need rehabilitation services when they're ready for discharge.

[Continue reading.](#)

## **Bloomberg**

By Lauren Coleman-Lochner

September 8, 2023

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## **Fitch: Immigration-Driven Labor Supply Sustains Job Growth as Labor Market Cools; 2024 Job Losses Expected**

Fitch Ratings-New York-08 September 2023: Higher level of immigration in 2022 and 2023 has increased labor supply, driving the labor force participation rate higher, easing labor shortages and sustaining job growth, according to a new report from Fitch Ratings.

“Labor supply has increased, largely on the supply and participation of immigrants, and an uptick in the participation of prime aged workers between ages 25-54,” said Olu Sonola, Head of U.S. Regional Economics.

“Despite the resilient normalization of labor demand thus far in 2023, labor demand is expected to decelerate further. Job losses are expected in 1H24 as aggregate demand stagnates in response to the lagged effect of higher interest rates and tightening credit conditions.”

The three-month average job growth during August 2023 was 150,000, falling below the 2019 average of 164,000 jobs for the first time since the pandemic recovery began.

Catch-up industries continue to dominate job growth, with health care and leisure & hospitality contributing approximately 50% of the uptick. The information sector, which includes technology jobs, has contracted in YTD.

Job openings are fast declining to pre-pandemic levels, with 8.9 million in July of 2023, which is down from peak of 12 million in March 2022. At an average monthly decline of 340K in 2023, openings will be back to pre-pandemic levels by December 2023.

The labor demand and supply imbalance equals 1.8% of the labor force as of July 2023, a notable decline since 2.8% in April 2023.

Year-over-year wage growth for private industry employees is declining but still elevated, down from 6% in 2022 to the current 5%.

Thirteen states are below pre-pandemic employment levels, with acute labor shortages above 3.0x in twelve states, with North Dakota the highest at 4.1x.

The median unemployment rate of 3.0% at the end of July 2023 remains below the February 2020 pre-pandemic median rate of 3.6%. The unemployment rate is now below the pre-pandemic level in 36 states.

For more information, a special report titled “U.S. States — Labor Market Quarterly Tracker — 3Q23” is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Fitch: U.S. Water Utilities Hold Steady as Recession Looms**

Fitch Ratings-New York-11 September 2023: U.S. water utilities weathered a global pandemic remarkably well and appear to be on solid footing as the broader economy inches closer to recession, according to Fitch Ratings' latest annual peer review for the sector.

Slower economic growth and persistent inflation are leading Fitch economists to call for a possible recession in either late-2023 or early-2024. Nonetheless, most water utilities fared well, as evidenced by sustained operating revenue growth. "Inflationary pressures have not been as acute as expected with operating costs increasing only slightly and at a slower pace," said Senior Director Audra Dickinson.

Another sign of the sector's resiliency is evident in liquidity, which remains robust with the median for retail systems' liquidity cushion improving to over 600 days. The metric dropped for wholesale systems, but remains over 500 days.

The picture is more mixed as it pertains to leverage, which improved slightly for retail systems. Conversely, leverage jumped notably for wholesale systems. Given the 'AA+' median rating across the portfolio, most issuers still retain headroom and most ratings are not imminently pressured.

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 2023 Water and Sewer Fitch Analytical Comparative Tool (FACT), an interactive tool that provides enhanced trend analysis and peer comparison tables.

The full report, U.S. Water and Sewer 2023 Peer Review is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Summer Travel Boom Reignites Airport-Bond Sales in August.**

- **US airports need \$151 billion over 5 years, trade group says**
- **August saw bond sales for Chicago, Atlanta, DFW airports**

Cities are reviving plans to tap the \$4 trillion municipal-bond market to build and renovate runways, concourses and terminals for airports as passenger traffic rebounds to levels last seen before the



pandemic.

During the first half of 2023, sales of airport bonds dropped to roughly \$3 billion — less than a third of the amount seen in the year earlier period — as the Federal Reserve raised interest rates. But a cluster of sales totaling \$1.8 billion in August has brought the sector back to life.

Recent sales for hub airports in Chicago, Atlanta and Dallas-Fort Worth indicate a pick up of issuance given pent-up capital needs, said Mikhail Foux, head of municipal strategy at Barclays.

[Continue reading.](#)

## **Bloomberg Markets**

By Shruti Singh

September 5, 2023

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### **[Kayne Anderson's Friedrichs Sees Huge Demand for Munis,](#)**

Kim Friedrichs, Kayne Anderson Rudnick managing director of fixed income, says there's not enough supply to meet the "tremendous" demand for municipal bonds. She speaks with Romaine Bostick and Katie Greifeld on "Bloomberg Markets: The Close."

[Watch video.](#)

### **Muni Moment - Bloomberg Markets: The Close**

September 6th, 2023

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### **[Muni Market Triple Lindy \(Bloomberg Audio\)](#)**

Eric Kazatsky, Senior Muni Bond Strategist with Bloomberg Intelligence, joins to discuss the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

[Listen to audio.](#)

Sep 08, 2023

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### **[Muni Investors Risk Dismal Returns in September, Barclays Says.](#)**

- **'It is hard to be overly optimistic about municipals': note**
- **New-issue supply expected to total \$30 billion to \$35 billion**

Municipal-bond investors should heed historical trends and steer clear of the market in September if they're unsure of what to buy, according to Mikhail Foux, Clare Pickering and Mayur Patel of Barclays.

“Historically, September and, to a lesser degree, October have not been kind to municipal investors; 2015 is the last time investors were able to realize sizable returns in the autumn,” the analysts wrote in a Friday note. Over the past five years, the average return for munis in September and October has been -5.7% and -1.8%, respectively.

Rate volatility will likely persist, making it difficult to be optimistic about municipals this month, according to the note. The analysts recommend that investors “remain relatively light” on the asset class going into October, unless the muni market sell off meaningfully.

[Continue reading.](#)

## **Bloomberg Markets**

By Joseph Mysak Jr

September 8, 2023

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### **Fitch: U.S. State Budgets Prepared to Prove Mettle Headed into 2024**

Fitch Ratings-New York-30 August 2023: U.S. state budgets are ready and waiting for a slower economy in the coming months, according to Fitch Ratings in its latest report.

Slower economic growth and persistent inflation are leading Fitch’s economists to call for a possible recession in either late-2023 or early-2024. Revenue growth for most states is already slowing as a result. Fitch’s analysis of monthly tax revenue collection reports indicates at least 17 states saw yoy declines in tax collections for the 12 months ended June 30, with the sharpest declines in California and New York. Despite these declines, actual tax revenues remain well ahead of pre-pandemic levels, suggesting a higher baseline.

However, Fitch Senior Director Karen Krop believes that states are prepared. ‘State budgets are well-positioned to address economic uncertainty,’ said Krop. ‘A big reason is reserves, which states are adding to in greater numbers while paying down liabilities.’ A notable example is Illinois, with reserves at an all-time high of nearly \$2 billion and another \$138 million anticipated in fiscal 2024.

2024 state budgets far are also showing increases in spending, namely on education (especially K-12), health care, transportation, the environment and affordable housing. Almost all states are reporting tight labor markets and wage pressure that is contributing to fairly significant wage increases.

Tax policy changes remain a notable feature of enacted budgets, with many states taking advantage of strong post-pandemic growth to reduce tax burdens, temporarily or permanently. Although the pace of tax reductions is slowing, Fitch sees ongoing tax cuts as an area to watch. ‘Permanent tax reductions that rely on temporary revenue surges or draw on accumulated balances pose a potential risk to financial resilience,’ said Krop.

‘2024 U.S. State Budgets Resilient’ is available at ‘[www.fitchratings.com](http://www.fitchratings.com)’.

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## **P3 State Legislation Update and Opportunities for the Private Sector: Squire Patton Boggs**

P3 state legislation continues to expand and move forward with governors signing legislation into law and sending some bills back to legislatures for review and revision. The states have in common efforts to define the breadth and depth of projects suitable for public private partnerships and many are working to establish specific offices to manage their infrastructure projects. Suffice it to say that the infrastructure to build infrastructure is being built out through state legislation. You can find our current P3 State Legislation Tracker [here](#).

It's time for the private sector to pay attention and interact with state governments as each state is marching to the beat of its own drums when it comes to P3 legislation. The private sector is going to need eyes in the back of its head to predict where to put down stakes. While not necessarily efficient, the market is full of opportunities for the private sector in terms of procurement and financing. Even with state and federal funds, there is a huge need for private sector investment. And, of course, there is the opportunity for the private sector to engage with state government regarding its expertise and financial support for P3 projects.

On our radar this month is California which continues to expand authority for the use of P3s and progressive design build procurement. Progressive design build procurement is a project delivery method that combines elements of both design-build and traditional design-bid-build approaches. Progressive design build involves contractors early and develops project design in stages providing more flexibility and cost control during the development phase with the contractor taking responsibility for both design and construction with input from the public owner.

[Continue reading.](#)

**Squire Patton Boggs - Karol K. Denniston, Jonathan M. Taunton and Kara-Marie Urban**

August 24 2023

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## **What To Expect From S&P Global Ratings' U.S. Public Finance Rating Process.**

This publication outlines what to expect from the typical rating process when working with S&P Global Ratings' U.S. Public Finance (USPF) group and presents responses to frequently asked questions about the rating process, to provide transparency and comfort for new and frequent issuers. USPF is active in the following sectors: state and local government, transportation, utilities (water, sewer, public power), higher education, charter schools, health care, and housing. Through our ratings, we provide independent essential intelligence that investors can use to assess creditworthiness, compare different issuers and securities, supplement their own credit analysis, and meet investment guidelines. Our criteria for evaluating issuer creditworthiness and various types of debt are publicly available in the "About Ratings" section at [www.spratings.com](http://www.spratings.com) and our analysts are accessible and responsive throughout the rating process.

[Continue reading.](#)

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## **The Future Of Commercial Real Estate And Big City Budgets.**

More than three years after the beginning of the COVID-19 pandemic, the shift to remote work for many office workers has put the future of commercial real estate, and potentially city government budgets, on shaky ground.

One data and analytics group estimated that commercial property values are down 12 percent over the past 12 months, putting today's values on par with those in May 2018. In comparison, residential home values are about 50 percent higher than in mid-2018.

The divergence in commercial and residential property values makes it hard to predict the fiscal consequences for local governments broadly. Total property tax revenue accounts for 30 percent of local general revenue, but the pain from this transition will likely be concentrated in major cities with big commercial districts.

[Continue reading.](#)

### **Tax Policy Center**

by Thomas Brosy

August 22, 2023

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## **Crisis in Concrete: Navigating the Ripple Effects of Commercial Real Estate on Municipal Bonds**

**Declining commercial real estate valuations will not likely lead to a wave of defaults among muni issuers, according to Franklin Templeton Fixed Income's municipal bond team.**

**Executive summary**

A decline in commercial real estate (CRE) prices is causing some investors to worry about the potential impact on their municipal (muni) bond holdings. In this publication, we dig deeper into the issue, and share some of the factors the Franklin Templeton Fixed Income (FTFI) muni credit research team considers in our security selection process. To answer the most pressing question first: We do not currently expect declining CRE valuations will lead to a wave of defaults among muni issuers, and we still believe in the sector's fundamental strength. In our view, balance sheets currently look strong. Federal COVID-19 aid gave rainy-day funds a significant boost. Budgets significantly expanded through strong revenue increases during the post-pandemic recovery and have been maintained with conservative budgeting and fiscal discipline.

In our view, falling CRE values will not escalate into a sector-wide crisis. While we anticipate some ratings downgrades over the near to medium term, we believe they will be idiosyncratic in nature. In determining the overall impact decreased CRE valuations will likely have on specific muni issuers, our dedicated credit research team looks at a wide range of factors on a case-by-case basis.

First, revenue sources, tax bases and primary service areas differ significantly across issuer types (cities, counties, school districts, hospitals, etc.), which leads some issuers to be more sensitive than others to changes in property prices. Second, property valuation changes do not have an immediate revenue impact, but rather, trickle through into tax collections with a lag, allowing time for issuers to react and offering them a wide array of options to address declines. Fundamentally, municipalities can reshuffle expenditures in their budgets, raise revenues or tap reserves if needed to incorporate lower property tax receipts. Additionally, they can change policies to encourage development or other activities that result in more revenue to the city. Lastly, muni bonds often have additional protections, such as insurance, oversight programs and legal provisions, which can help mitigate against potential default events.

Despite the headwind CRE valuations pose on issuers, we continue to believe that attractive opportunities can be found regionally and nationally across the credit spectrum. Robust, bottom-up research and strong security selection will remain crucial in our view going forward.

[Continue reading.](#)

FRANKLIN TEMPLETON

AUGUST 24, 2023

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## **No Real Fix To the Sharp Rise in Public Debt Loads, Economists Say.**

Jackson Hole, Wyoming, Aug 26 (Reuters) – The steep jump in public debt loads over the past decade and a half, as governments borrowed large amounts of money to battle the Global Financial Crisis and the fallout from the COVID-19 pandemic, is probably irreversible.

That's the unhappy conclusion of a research paper being presented on Saturday to some of the world's most influential economic policymakers at the Kansas City Federal Reserve's annual central banking symposium in Jackson Hole, Wyoming.

Since 2007, worldwide public debt has ballooned from 40% to 60% of GDP, on average, with debt-to-GDP ratios even higher in the advanced countries. That includes the United States, the world's biggest economy, where government debt is now more than equal to the nation's yearly economic output. U.S. debt was about 70% of GDP 15 years ago.

[Continue reading.](#)

## **Reuters**

By Ann Saphir

August 26, 2023

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### **EPA Cybersecurity Rule Challenged by States and Water Systems Associations.**

On July 25, Missouri, Arkansas, and Iowa (the states), along with intervenors American Water Works Association and National Rural Water Association (the water associations), petitioned the Eighth Circuit to review the U.S. Environmental Protection Agency's (EPA) new rule requiring states to review and report cybersecurity threats to their public water systems (PWS).

In August 2022, the EPA provided a report to Congress describing its plan and prioritization framework for addressing the cybersecurity needs of the public water system. The EPA then issued an "implementation memo" in March 2023 that laid the groundwork for the EPA's plan to combat cybersecurity risk. The memorandum requires states to incorporate an evaluation of the cybersecurity of operational technology used by a PWS when conducting its sanitary surveys. A sanitary survey is a review of a PWS to assess its capability to supply safe drinking water, and the EPA is including cybersecurity as a potential deficiency. In a press release announcing the memo, EPA Assistant Administrator for Water Radhika Fox said, "Cyber-attacks against critical infrastructure facilities, including drinking water systems, are increasing, and public water systems are vulnerable. Cyber-attacks have the potential to contaminate drinking water, which threatens public health." In early July 2023, the Eighth Circuit blocked implementation of the rule while the legal challenge is ongoing.

The states' brief argues that the EPA's Cybersecurity Rule unlawfully imposes new legal requirements on states and PWSs, and that the rule exceeds the EPA's statutory authority by ignoring congressional actions limiting cybersecurity requirements to large PWSs and changing the criteria for sanitary surveys through a memorandum. The states also assert that the rule is arbitrary and capricious because the EPA (i) failed to acknowledge or explain it had changed policies relating to amending the minimum criteria or the scope of sanitary surveys and (ii) failed to consider important aspects of the rule, including that the state agencies responsible for conducting the surveys lack the level of cybersecurity expertise necessary to complete the evaluations expected by the EPA, and the frequency with which sanitary surveys occur (every three to five years) will not ensure PWSs address new threats in a timely fashion.

[Continue reading.](#)

## **Troutman Pepper**

September 1, 2023

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## **US Water Infrastructure ‘Unsustainable’ Amid Rapidly Evolving Crisis, Report Warns.**

**The United States is facing an unsustainable demand for water and lacks the security posture to defend the nation’s water systems from emerging threats, according to a new report.**

The National Infrastructure Advisory Council voted unanimously on Monday to approve a new report that describes current U.S. water infrastructure as “unsustainable” and warns that the nation is not prepared to cope with a “rapidly evolving water crisis.”

There are more than 150,000 public water systems in the U.S., and an estimated 80% are publicly owned and operated by municipalities. Water and wastewater systems have faced increased cyber threats in recent years, in addition to new security challenges posed by climate change, growing demand for fixed water supplies nationwide and a critical lack of funding.

The [report](#) attributes inadequate conditions across the water and wastewater industries to “decades of chronic underfunding and underinvestment” in the U.S. and makes several recommendations to increase water supply sustainability, from aquifer recharges to developing highly integrated water management systems.

[Continue reading.](#)

### **Route Fifty**

By Chris Riotta

AUG 29, 2023

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## **U.S. and Canadian Ports - Fitch Peer Review (Attribute Assessments, Metrics and Ratings)**

This Fitch Ratings report highlights the operating and financial performance of Fitch-rated ports in the U.S. and Canada. These benchmarks are used to determine attribute assessments. The report uses six statistics and ratios calculated from annual audited financial statements, or from supplemental data received directly from the ports, along with select forward-looking metrics reflecting Fitch’s base and rating case analyses. Financial data reflects fiscal 2022 data, the last full financial year for the majority of rated ports. Throughput data for 2019 and 2022 is also included to provide a benchmark of volume performance before and following the coronavirus pandemic. A port’s financial metrics, relative to Fitch-designated peer groups, constitute an important component of our credit analysis. This report focuses primarily on U.S. and Canadian ports with a standalone pledge of port revenue. Consolidated entities with primary business lines other than port activity, including airport and/or toll facility operation, are not included in this comparative analysis. A list of public Fitch-rated consolidated ports is included in Appendix D.

[ACCESS REPORT](#)

Tue 29 Aug, 2023

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## **Cargo Volumes Soften for U.S. and Canadian Ports; Cruise Activity Rebounds - Fitch**

Fitch Ratings-New York-29 August 2023: U.S. and Canadian ports will see cargo volumes level off in the coming months with the broader economy inching closer to a possible recession, according to Fitch Ratings in its latest peer review for the sector.

Fitch economists are calling for a mild economic recession to materialize sometime between the tail end of 2023 and early 2024. This has manifested in softening U.S. cargo volumes in the last year, with cargo volumes down 24% for West Coast ports through 1H23 and 16% lower for East and Gulf Coast ports relative to highs seen during the pandemic. Even with this year's volume declines, TTM volumes through June 2023 remain up 2.7% relative to the same period ending June 2019, reflecting continued baseline growth for the sector.

"Cargo ports will gradually revert to normalized volume trends following a volatile three years brought on by the pandemic, but the sector in general remains in a solid position fiscally," said Senior Director Emma Griffith. "From a ratings standpoint, this will likely translate to rating affirmations for ports over time."

In contrast, cruise activity is continuing to ramp up significantly in 2023, with full recovery to 2019 levels expected by 2024. This proved to be a catalyst in Fitch raising the Rating Outlook for three Florida-area cruise ports over the last year (Port Canaveral and Port Tampa Bay to Positive from Stable; PortMiami to Stable from Negative).

All three Outlook revisions reflect strength in operating performance due to the robust resumption of cruise activity and enhanced financial stability driven by resilient cargo performance indicating continued favorable metrics are likely.

The report provides a summary of the operating and financial performance of Fitch-rated ports in the U.S. and Canada, as well as an overview of rating changes since the last publication of the peer study in March 2022. Concurrently Fitch has released an update to its corresponding interactive peer study for standalone U.S. and Canadian port credits. Both Fitch's "U.S. and Canadian Ports — Peer Review" and the "U.S. and Canadian Ports - Fitch Analytical Comparative Tool" are available at [www.fitchratings.com](http://www.fitchratings.com).

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## **ESG Criticism Seen Benefiting Bonds.**

Broadly speaking, equity-based strategies fueled the initial boom in environmental, social, and governance exchange traded fund proliferation. As a result, criticism lobbed at ESG investing has focused on equity-based ESG funds.

In what could be good news for funds such as the Calvert Ultra-Short Investment Grade ETF (CVSB), bond issuers are paying attention to the vitriol aimed at the ESG/equity combination and are looking to avoid a similar fate.

One way of looking at that is the ESG bond market is maturing. In the process, it's looking to avoid some of the hoopla that recently plagued market stock-based ESG ETF expansion. That could prove wise at a time when investors and regulators are applying more scrutiny to the ESG label.

### **CVSB Right Bond ETF at the Right Time**

In addition to signs the market is maturing, criticism aimed at comparable equity strategies is paying off in another way. Debt issuers are being more thorough in evaluating whether or not upcoming issues can credibly be deemed ESG.

That's meaningful to investors considering CVSB because the Calvert ETF allocates more than 61% of its roster to investment-grade corporate debt. Whether it's junk bonds or investment-grade credit, corporate issuers are very scrutinized when it comes to ESG claims. That is to say, in this environment, they need to ensure there's substance to those claims.

"To some extent some US issuers are more trepidatious because of the pushback," said Melissa James, vice chairman of global capital markets at Morgan Stanley, in an interview with Bloomberg's Caleb Mutua. "Had things gone unfettered, it would've gotten a little too frothy. The market is maturing."

There are good reasons for bond issuers to not take liberties when it comes to applying the label. Others include the aforementioned scrutiny and increasing politicization of ESG investing. Fortunately, the CVSB methodology, including active management, steers investors clear of those potential pitfalls.

"The so-called greenium, which refers to the price advantage that companies can reap when borrowing in the ESG market, has largely evaporated amid the political pressure, hurting sales of the bonds in the US. Corporations have raised about \$31 billion in dollar-denominated ESG bonds this year through August 17, a 53% slump from the same period last year," according to Bloomberg.

by Tom Lydon of VettaFi, 8/31/23

Originally published on ETFTrends.com on August 29, 2023.

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## **A New Village Square for Public Funds Investors.**

**An online resource now being built out has the potential to become an important intellectual hub for public-sector investment practitioners. They need to articulate what they most want to find there.**

State and local government treasurers have their separate professional associations. The Government Finance Officers Association (GFOA) has its committee on treasury and investment management. There's a corporate program for certified treasury professionals that awards credentials in that niche. But never before has there been a go-to online resource aspiring to provide ongoing intellectual leadership and a timely flow of fresh ideas and professional insights to both the public-sector professionals who handle government funds and their counterparts in the boutique private-sector money management industry that serves such jurisdictions. So it's worth taking a peek at the relatively new [Public Funds Investment Institute \(PFII\)](#).

PFII is a nonprofit founded by Marty Margolis, the retired founder of one of the nation's larger firms focused on public-sector money management. It's characterized as his way to "give back" by establishing a neutral, noncommercial resource center for all the folks who have stumbled their way into the profession of managing megamillions or even billions of the nation's \$4 trillion of public funds.

There's a logic to this idea, as nobody ever enters college with the life ambition to become a county treasurer, a municipal pension staffer or an outsourced public funds money manager. Generally the incumbents have found their way into such jobs by coincidence or default, with most of their training received on the job.

[Continue reading.](#)

**governing.com**

Aug. 22, 2023 • Girard Miller

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## **[An Emerging 'Greenium'? New Research Says Green Bonds Cost Governments Less.](#)**

**Amid an ESG backlash in some states, the finding could lead to more governments seeking an ESG-related label for bonds that will fund socially or environmentally sustainable projects.**

The devastating wildfires in Maui, which has so far claimed the lives of at least 110 people, are just the latest in a series of storms made worse by global warming. On Sunday, Gov. Josh Green, appearing on CBS News' "Face The Nation," acknowledged there were critical errors by both local officials and private companies regarding the disaster that contributed to the rising death count. But he added that those mistakes were aggravated by climate change, which created conditions for the wildfire to spread rapidly and behave erratically.

"There's no excuses ever to be made," he said, "but there are finite resources sometimes in the moment."

There's no question Hawaii faces a long and expensive rebuilding process that will most likely include investing in its emergency warning systems and reservoir water diversion projects to better respond to future wildfires. But new research shows that projects like these may at least cost a little

less to finance than they did before.

[Continue reading.](#)

## **Route Fifty**

by Liz Farmer

AUGUST 23, 2023

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### **[Inside the \\$900 million 'Black Tax': Why It's So Much More Expensive for Black Towns to Borrow Money.](#)**

**A growing body of research shows that the municipal bond market is helping perpetuate systemic racism.**

When cities need to raise money for roads and water lines, they have a few options. They can raise taxes, for instance, or charge fees for city services. If that isn't enough, though, they can also issue bonds, borrowing on a \$4 trillion credit market to pay for new construction projects they can't afford otherwise. These municipal bonds function like loans that banks and investors make to local governments, and they're an essential tool for filling out city budgets.

"This is how your sewage gets funded, this is how your water gets funded, this is how public schools and public services are funded," said Matthew Wynter, a research professor of finance at Stony Brook University.

But a growing body of research shows that this credit market is also helping perpetuate systemic racism. When Black towns and cities try to borrow money on the bond market, they pay higher interest rates than their white counterparts. A [paper published earlier this month](#) in the science journal PLoS One finds that this "Black tax" amounts to as much as \$900 million per year in the United States. These higher borrowing costs can prevent towns from pursuing much-needed infrastructure upgrades, or push them toward default and bankruptcy if they fall behind on interest payments.

[Continue reading.](#)

FAST COMPANY

BY GRIST

08-23-23

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### **[GFOA: Audits and ARPA - You're Not Alone!](#)**

Three important things to keep in mind:

1. Did you know that you may qualify for an [alternative to the Single Audit](#)? For those entities that received less than \$10M in CSLFRF and spend less than \$750,000 in other federal funds may

- qualify for an “attestation” which significantly reduces the requirements of the local government under review. [Click here](#) for more details.
2. Did you know that the US Treasury has a fully-searchable excel spreadsheet of all ARPA spending? Search by state, entity type, expenditure category, budgeted-obligated-expended. Go search crazy! [Here are all the P&E reports submitted in April 2023](#) and [here is where you can find all past submitted reports](#) (scroll down, “Quarterly and Annual Reporting Data” excel documents are almost all the way to the bottom).
  3. Did you know that [GFOA’s Federal Liaison Team](#) can assist with referencing rules and conditions of the SLFRF? You’re not alone. We are ready to make connections with other governments involved in the same process—give us a call and we’re happy to assist you!

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## **[Dwindling Muni Sales Limit Pain With Market Set for Monthly Drop.](#)**

- **Muni market is on track for worst month since February**
- **Scheduled issuance for next 30 days is near lowest in months**

Sales of new US state and local-government bonds are poised to dwindle for the next few weeks, delivering a potential respite for a market that’s on track for its biggest monthly slump since February.

The issuance calendar for the next 30 days, encompassing the abbreviated trading week after the Sept. 4 US Labor Day holiday, currently shows about \$5.9 billion of municipal-bond sales, according to data compiled by Bloomberg. That’s not far off the slowest pace since February and well below the five-year average of so-called visible supply, which stands at about \$11 billion.

The slowdown, starting this week with sales slated to total about \$3.5 billion, may relieve some pressure on munis, which are posting losses this month along with other fixed-income securities as investors absorb the Federal Reserve’s signals that it will keep interest rates higher for longer to tame inflation.

[Continue reading.](#)

### **Bloomberg Markets**

By Danielle Moran

August 28, 2023

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## **[Barry Eichengreen On Living In a World of Higher Public Debt.](#)**

### **What it means for policymakers around the globe.**

In recent years, the absolute level of government debt around the world has risen dramatically. The Covid emergency unleashed a huge wave of public-sector spending in 2020 and beyond. Meanwhile, spending remains high for other reasons, including public investment on climate and energy-related issues. So what does that mean for policy going forward? What does it mean for central banks tasked with controlling inflation? University of California at Berkeley economist Barry Eichengreen presented a paper on exactly this topic at this year’s Jackson Hole Economic Symposium. On this

episode, we speak with Eichengreen about his research, why it's of importance to central bankers, and what history says about the prospects for fiscal consolidation. This transcript has been lightly edited for clarity.

[Continue reading.](#)

## **Bloomberg Markets**

By Tracy Alloway and Joe Weisenthal

August 29, 2023 at 9:22 AM PDT

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### **Muni Market Outlook for September (Bloomberg Audio)**

Joe Mysak, editor of the Bloomberg Brief: Muni Markets for Bloomberg News, joins to give us an update on the municipal bond market. Hosted by Jess Menton and John Tucker.

[Listen to audio.](#)

Sep 01, 2023

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### **Contracting Money Supply: A New Risk for Bond Investors**

**It's easy to be bullish on bonds and fixed income assets these days. Thanks to the Fed's rate hikes, bonds of all stripes are yielding the most they have in decades. Income choices are plentiful and they offer the chance for good returns versus stocks in the quarters ahead. With that, it's easy to forget about some of the risks that come with fixed income investments.**

And investment manager Putnam's latest report unveiled a big one: contracting money supply or M2.

For investors, it's a big risk waiting in the shadows that potentially could hinder a variety of bond asset classes and portfolios. For investors going gaga over bonds, it's something to consider and, perhaps, profit from.

[Continue reading.](#)

**dividend.com**

Aaron Levitt

Aug 31, 2023

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### **Muni Bonds Are Back In Fashion.**

**Finally, yields on municipal bonds have meaning. Considering all the interest rate hikes, it took time for munis to catch fire. The heat feels good.**

Just as the Treasury market has an inverted yield curve, so do munis. Municipal bond yields as a percentage of similarly maturing Treasuries are rich. Currently, there are no bargains to be had. But wait until September when the new issue market takes off.

### **Few Muni Defaults**

Muni default rates continue to be much lower than corporate bonds. Yes, we have seen some municipal bond defaults at a few small private colleges along with some small and medium size hospitals, crushed by post-Covid-19 overhead costs. Add to the short default list some sports-related centers. Nevertheless, the municipal bond market is solid with an overall low default rate.

[Continue reading.](#)

### **Forbes**

by Marilyn Cohen

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## **Muni Market's Performance Wilts in Worst Month Since February.**

- **Investors balk even as muni-bond issuance has dwindled**
- **'Munis are not cheap enough yet,' says BI's Kazatsky**

US state and city debt is poised for its worst month since February, with yields not far below multiyear highs. As the municipal market heads into a historically weak period, the worry is that it's still not attractive enough to lure buyers.

Munis have declined about 1.5% in August through Wednesday, on track for the grimmest performance since a 2.3% slide in February, according to Bloomberg index data. Fixed-income assets have declined broadly this month with the Federal Reserve signaling that it may keep hiking interest rates to muffle a still-robust economy.

The performance over the past decade argues against betting on an imminent rebound for the muni index: The gauge has dropped 0.4% in September on average in the period, the weakest return of any month. What's more, even after their August slump, munis are still on the costly side relative to alternatives like Treasuries, says Eric Kazatsky at Bloomberg Intelligence.

"Munis are not cheap enough yet," the senior US municipals strategist said in an interview. Treasuries, or "even single- or double-A corporate rates, they're much more attractive. They're much larger markets and have a lot more liquidity."

A gauge of relative value in munis has improved this month. But that measure, which compares the level of muni yields to those on Treasuries, still shows munis are costly on a historical basis. That's in part as sales of new US state and local-government bonds are poised to dwindle for a few weeks.

The ratio of benchmark 10-year muni yields to rates on 10-year Treasuries is about 70%, compared with the average of around 90% since 2000. Yields on munis, which typically offer tax-exempt income, tend to be lower than those on Treasuries.

With volatility in rates likely to be more muted going forward, it points to a better setup for

reinvestment flows into fixed income, BI's Kazatsky and colleague Karen Altamirano wrote in a research report this week. Nonetheless, they still anticipate flat muni returns in September, in part as supply likely outpaces demand.

However, Eve Lando, portfolio manager at Thornburg Investment Management, sees promise.

There is pent-up demand, she says, for issuers to borrow for routine things like deferred maintenance, so supply should eventually pick up and improve the muni market's relative value. What's more, yields are looking attractive in some areas.

"We're talking about fixed income with yields that are similar to equity returns and highlighting the kind of the stability of the sector," she said. "So far we have not seen any reasons to have a credit worry. So I think there's lots of things working for the muni market as of now."

## **Bloomberg Markets**

By Lauren Coleman-Lochner

August 31, 2023

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### **[Why Dwindling Muni Sales May Provide Opportunities.](#)**

Sales of new US state and local government bonds are poised to dwindle according to forecasts. Christopher Brigati, Valley National Bank's former managing director of municipal investments, sees opportunities in the muni market. He speaks with Romaine Bostick and Katie Greifeld on "Bloomberg Markets: The Close."

[Watch video.](#)

#### **Muni Moment - Bloomberg Markets: The Close**

August 30th, 2023

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### **[S&P Credit Trends: Improving Finances Drive U.S. Public Finance Credit Quality In The Second Quarter](#)**

#### **Key Takeaways**

- The credit quality of rated U.S. public finance (USPF) companies improved for the ninth consecutive quarter in second-quarter 2023, with 465 upgrades and 76 downgrades, compared to 186 and 56 in the first quarter, respectively.  
There were three defaults, up from zero in the first quarter.
- We raised the ratings on the debt of three states in the second quarter: New Jersey, Massachusetts, and Kentucky. There have been no state-level downgrades since June 2020.
- Improved finances were the leading reason for upgrades (285), and deteriorating finances the leading reason for downgrades (26).

[Continue reading.](#)

15 Aug, 2023

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## **[S&P U.S. Not-For-Profit Health Care Rating Actions, July 2023.](#)**

[View the rating actions.](#)

15 Aug, 2023 |

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## **[S&P U.S. Transportation Infrastructure Toll Sector Report Card: Resilient Demand And Higher Tolls Underpin Credit Strength](#)**

### **Key Takeaways**

- We expect the ratings on U.S. not-for-profit toll road operators will remain stable, given the almost-complete rebound in demand, supported by steady commercial vehicle traffic and toll-rate increases. Toll roads have been among the most resilient transportation infrastructure asset classes in recent years, with no downgrades during the pandemic.
- Revenue growth will be accompanied by increased operations and maintenance expenses, as well as capital spending for capacity expansions and continued conversions to all-electronic toll collection against a backdrop of higher financing costs.
- Our economic outlook no longer includes a recession but projects a shallower and more attenuated slowdown, which could translate into more muted transaction growth with remote work trends and a normalizing post-pandemic e-commerce trucking industry adding to uncertainty.
- Our analysis of fiscal 2022 financial metrics—including debt service coverage, debt to EBIDA, and liquidity—for U.S. not-for-profit toll road and toll bridge issuers that we rate, shows relatively stable performance that we expect will remain so.

[Continue reading.](#)

17 Aug, 2023

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## **[Opinion: How Toxic Fertilizers Create Toxic Municipal Bonds](#)**

**Spreading sewage sludge on farms is a bad environmental move. It's also a bad economic one.**

Two environmental hazards are emerging in tandem with the promise of disruptions to municipal financial markets. One, global warming, has received widespread attention; the other, toxic waste, less so.

Sea level rise due to a climate change presents an existential threat to coastal towns and cities as they experience a steady gnawing away of their land boundaries, and with it the tax revenue of washed away property and infrastructure. They also face additional costs for maintenance and renovation.



Agricultural communities, like their seaside sisters, also face an existential threat from land permanently rendered toxic because of toxic-laden industrial and urban sewage sludge, also known as biosolids, used as fertilizer.

[Continue reading.](#)

## **Environmental Health News**

by Stephen Stevick

August 16, 2023

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### **Bond Villains: How a Little-Understood Feature of Urban Finance - Municipal Bonds - Fuels Racial Inequality.**

Municipal governments today hold around \$4 trillion in outstanding debt. For many cities, the growing costs of simply servicing their debt is cannibalizing their annual budgets. When municipalities get in trouble, it's not uncommon for around a fifth of a big city budget to go to debt service alone. This is far from a new development. Since the birth of the modern city in the nineteenth century, cities have turned to the private sector to fulfill their immediate cash needs by issuing what are known as municipal bonds.

The bond market, despite its invisibility to the public, has long been the oil in the gears of our society. If a city needs a dilapidated bridge secured, a school building updated, a transit expansion funded, or, in the case of Flint, Michigan, in 2013, a new water pipeline built, they issue a bond. The bond—a kind of loan, in essence—is bought from the municipality by a bank or a syndicate of banks and bond dealers. Together they raise the money necessary for the project through a process called underwriting, offering shares to investors and in turn making money from transaction fees and interest rate spreads—the difference between the price they paid and the premium they will charge.

In most cases, the bond itself is guaranteed by the taxation of residents, or the fees they will pay to access the service. The conveyor belt of highway toll stations to get from New York to New Jersey is one such example: residents bear the financial burdens of the municipal debt taken on in the construction of the city's streets, parks, schools, and hospitals.

[Continue reading.](#)

## **Boston Review**

by Clark Randall

August 16, 2023

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### **Munis Maintain Summer Heat in July.**

#### **July update**

- Demand outpaced supply and prompted strong absolute and relative performance.

- Rich valuations and waning seasonal trends warrant some near-term caution going forward.
- Any prolonged weakness would offer the opportunity to add duration and lock in attractive yields.

## **Market Overview**

Municipal bonds maintained their seasonal strength and extended gains for the second consecutive month in July. Interest rates rose amid heightened volatility as economic data exceeded expectations, and the Federal Reserve resumed its tightening cycle and communicated a commitment to data dependence. Favorable supply-and-demand dynamics and the more stable nature of the asset class prompted outperformance versus Treasuries. The S&P Municipal Bond Index returned 0.25%, bringing the year-to-date total return to 2.78%. Triple-B-rated credits and the 15-year part of the yield curve performed best.

[Continue reading.](#)

**advisorperspectives.com**

by Peter Hayes, James Schwartz, Sean Carney of BlackRock, 8/15/23

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## **Positive Trends in the Municipal Debt Outlook.**

**With the Fed's continuous fight against inflation, the interest rate environment has been quite attractive for new municipal debt investments.**

Investors are capitalizing on high coupon offerings with the hope that when rates start to come down, their current investment may yield additional income in the form of capital gains.

In the third quarter of this year, we have witnessed several key factors behind the municipal debt performance. First, municipal bonds are likely to benefit from consistent coupon payments and reinvestment funds, as well as a slower rate of new bond issuances. While there will be more new bonds introduced compared to the first half of the year, it likely won't outweigh the impact of reinvestment funds. However, the combination of higher borrowing costs and substantial reserves means that borrowing needs are expected to remain restrained in the near future.

In this article, we will take a closer look at some positive trends we are seeing in fixed income markets and potential opportunities for municipal debt investors.

[Continue reading.](#)

**dividend.com**

by Jayden Sangha

Aug 15, 2023

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## **Muni Buyers Can Find Bargains in Unlevered Closed-End Funds.**

- **Discounts on the funds are wider than historical average**

- **Retail buyers may still be shellshocked from bond-market slide**

Investors looking for bargains in the municipal-bond market may find opportunities in closed-end funds that don't borrow to boost returns.

Unlevered municipal bond closed-end funds traded at a discount to their net asset value of as much 12.6%, according to data compiled by Bloomberg. The biggest, Nuveen LLC's \$1.9 billion Municipal Value Fund, is trading at a 7.2% discount with a tax-exempt yield of 3.97%. Over 20 years, its average discount is 2.3%.

Meanwhile, the DTF Tax-Free Income fund, which terminates in 2028, last month eliminated its leverage and is trading at a discount of 12.6%, or 87 cents on the dollar. As the fund moves closer to liquidation, the discount will disappear, said Ryan Paylor, a portfolio manager at Thomas J. Herzfeld Advisors, which focuses on the closed-end fund market.

[Continue reading.](#)

## **Bloomberg Markets**

By Martin Z Braun

August 18, 2023

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### **[Muni Market Update \(Bloomberg Audio\)](#)**

Joe Mysak, Editor of the Bloomberg Municipal Market Brief, joins to discuss the latest on the muni bond market. Hosted by Paul Sweeney and Matt Miller.

[Listen to audio.](#)

Aug 18, 2023

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### **[Neuberger's Iselin Sees Pockets of Opportunity in Munis.](#)**

Jamie Iselin, Neuberger Berman's head of municipal fixed income, says he sees investment opportunities in the municipal bond market on "Bloomberg Markets: The Close."

[Watch video.](#)

## **Bloomberg Markets: The CloseMuni Moment**

August 16th, 2023, 12:39 PM PDT

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### **[Municipal Bonds Outperform as Investors Rush to Buy Dwindling Supply.](#)**

- **July deals oversubscribed by 5.2 times on average: BlackRock**
- **New muni debt sales year-to-date are slowest since 2019**

A reluctance by states and cities to borrow is making municipal debt a star performer among credit assets and driving investors to scour the market for bonds.

Municipalities issued \$218 billion of long-term debt year to date, 9% less than at the same point last year and the slowest pace of sales since 2019, according to data compiled by Bloomberg. The Federal Reserve's interest-rate increase regime since March 2022 to fight inflation at least partly explains the dropoff.

The scarcity is fueling outperformance in the asset class. Municipal bonds returned 0.4% in July, better than a 0.35% decline in US Treasuries, according to data compiled by Bloomberg. Month to date, munis lost 0.8%, less than Treasuries and corporates, which lost 1.2% and 1.8% respectively.

[Continue reading.](#)

## **Bloomberg Markets**

By Nic Querolo and Amanda Albright

August 15, 2023

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### **Shorter Term Munis Continue to Win Over Longer Dated Munis.**

BlackRock, one of the largest muni bond managers, recently released their update on muni bond market performance for the month of July. It offers a nuanced view that combines optimism about the current strong performance with caution regarding the near future. The firm provides clear insights into strategic investment, highlighting both opportunities and potential risks, all while considering recent shifts in the credit landscape. Their guidance seems aimed at navigating the complexities of the market while recognizing the underlying stability of municipal bonds, particularly in comparison to the federal fiscal landscape.

The July update on municipal bonds paints a picture of strong performance with a warning of caution due to rich valuations and waning seasonal trends. The update emphasizes that municipal bonds maintained their seasonal strength, extending gains for the second consecutive month, driven by favorable supply-and-demand dynamics. Interest rates rose as the Federal Reserve resumed its tightening cycle, leading to a return of 0.25% for the S&P Municipal Bond Index, and a year-to-date total return of 2.78%. The performance of Triple-B rated credits and the 15-year part of the yield curve was particularly strong.

Issuance for July totaled \$27 billion, down 17% from the five-year average, while the year-to-date total reached \$198 billion, a decrease of 12% compared to the previous year. The reinvestment income outpacing issuance created a net-negative supply environment, resulting in deals being oversubscribed by 5.2 times on average. However, the report also advises a more cautious approach in the near term, suggesting that performance may soften in August, although prolonged weakness could present opportunities to lock in attractive yields.

[Continue reading.](#)

**dividend.com**

by Shauvik Haldar

## **2023 State Budget Trends.**

A look at the top trends emerging in state governments, from new taxes to planning for the next budget cycle.

[Download the eBook.](#)

### **Route Fifty**

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## **Muni Implications of Fitch Surprise Downgrade.**

**The UBS Chief Investment Office comments on the surprise downgrade by Fitch of the US' sovereign credit rating, muni market implications, and portfolio positioning ideas.**

We believe that investors should allocate some space to durable tax-exempt income to portfolios through longer-duration, high-quality municipal bonds. (UBS)

- On 1 August 2023, Fitch Ratings surprised the financial markets by downgrading its long-term foreign currency issuer rating of the United States to AA+ from AAA. The rating agency cited a “deterioration in the standards of governance” and “repeated debt-limit political standoffs and last-minute resolutions” to recurring debt ceiling stalemates as contributing factors in its decision to reduce its assessment of the credit quality of US government securities.
- Following this rating revision, Fitch also downgraded certain municipal bonds that are linked to the US government debt rating due to their reliance on the sovereign credit for repayment. The related downgrades include USD 21.5bn of power bonds issued by the Tennessee Valley Authority, USD 3.5bn of pre-refunded municipal bonds, and USD 1.8bn of municipal housing bonds, as reported by Bloomberg. We do not expect the Fitch downgrade of the muni linked credits to have a material impact on spreads. Despite the rating action, we view AA+ rated municipal bonds as high credit quality fixed income investments.
- Last week, munis sold off taking their cues from weakness witnessed in the US Treasury market. Yields on high grade munis increased by 17bps to 22bps across the curve. Despite the sell-off, tax-exempt munis (+2%) have outperformed taxable government related debt (+0.6%) on a year-to-date basis.
- In the new issue market, the largest deal expected to price this week is ~USD 1.015bn New York City general obligation bonds. Overall, net supply remains negative this month, representing a tailwind for the market.
- Short-dated tax-exempt municipal bonds have cheapened relative to their taxable fixed income counterparts. As a point of reference, the 2-year AAA muni-to-Treasury yield ratio now sits at 65%, up from only 60% in mid-July. That said, muni investors can obtain better relative values further out on the curve (12-year spot and beyond).

### **Buy high-quality munis**

We continue to favor positioning muni assets in high-quality sectors rather than lower-rated high yield munis in the face of macroeconomic uncertainty. Municipal electric utilities, state

governments, and essential service water and sewer debt are all good examples of muni sectors that we believe should exhibit credit quality resilience in an economic slowdown. By contrast, not-for-profit hospital bonds and pockets of the private higher-education sector face more challenges from a credit standpoint. That said, our credit team has identified select opportunities from larger obligors with strong credit metrics within the higher risk hospital sector.

### **Add some duration**

Rather than waiting for the Fed to confirm an end to the rate hiking cycle, we believe that investors should allocate some space to durable tax-exempt income to portfolios through longer-duration, high-quality municipal bonds. Yields on longer-dated 20-year high grade AA munis now sit at about 3.8%. By comparison, these yields are roughly 35 basis points higher than the average over the past 20 years, and 250bps higher than the all-time historical low (1.3%) witnessed in 2021 July.

**by UBS Editorial Team**

08 Aug 2023

Main contributor: Kathleen McNamara

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## **Office Exodus: Can US Cities Survive?**

**Flagging office occupancy rates have municipal bond investors concerned. But US cities have more than one card to play in the revenue game.**

From the Bay Area to Boston, shrinking office footprints have been generating gloomy headlines. With talk of downtown death spirals, some municipal bond investors fear that declining office occupancy—a side effect of increased workplace flexibility—could deplete large cities' coffers. But while office vacancies remain a concern, most US cities have mechanisms to protect their finances—and those of municipal bondholders.

### **Cities Have a Wide Range of Funding Sources**

First off, we need to address a misconception: US cities aren't nearly as dependent on commercial and office taxes as many believe. It's true that property taxes are typically the largest source of tax revenue for large cities, but they account for just 30% of total revenue, on average, according to the Urban Institute—with office contributing just a portion of that. In fact, of the largest US cities by debt outstanding, commercial or office property taxes account for just 6.8% of total revenues, on average.

[Continue reading.](#)

### **Alliance Bernstein**

by Richard Schwam, CFA| High Yield Research Analyst—Municipal Credit

AUGUST 10, 2023

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## **Regulate AI? Here's What States Need to Know.**

**A new report by the National Conference of State Legislatures provides a primer for lawmakers on how they might approach oversight of artificial intelligence.**

An increasing number of state legislatures are grappling with what to do about the rapid rise of artificial intelligence.

In the absence of federal legislation, some states have been passing laws to protect citizens from the potential harms of AI, such as assessing whether its use is leading to discrimination or requiring public disclosure when it is being used.

But the majority of AI measures passed by legislatures have simply created task forces to advise states as they get up to speed on the complex issues involved, according to a [new report](#) by the National Conference of State Legislatures released Thursday.

[Continue reading.](#)

ROUTE FIFTY

by KERY MURAKAMI

AUGUST 11, 2023

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## **Wall Street's Projected Tab on Muni Price-Fixing Suits Expected to Plunge.**

- **BI analyst Stein sees banks settling for about \$900 million**
- **Illinois settled near-decade of litigation on VRDO pricing**

Wall Street banks' potential bill to settle bond price-fixing lawsuits has been slashed, falling to around \$900 million from about \$2.5 billion penciled in just a month ago.

That's the thinking of Elliott Stein, senior litigation analyst at Bloomberg Intelligence, after Illinois settled for \$68 million, roughly 20% of damages last month, likely setting a template for other settlements of the three remaining False Claims Act lawsuits.

Stein estimates that lawsuits in California, New Jersey and New York will cost the dozen banks involved — including Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co. — around \$220 million in total. A class action case filed in New York with similar allegations could be resolved for as much as \$600 million. Before the Illinois settlement, Stein had estimated the tab on all five suits at \$2.5 billion.

[Continue reading.](#)

**Bloomberg Markets**

By Joseph Mysak Jr

August 10, 2023

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## **Analysis Suggests Municipal Bond Market Prices Race But Not Climate Risk.**

DURHAM, N.C. — The U.S. municipal bond market does not consider physical climate risks when deciding where to invest, but it generally requires higher interest payments from predominantly Black communities seeking to borrow, according to an [analysis](#) published Aug. 9.

The findings from researchers at Duke University, Northeastern University and Breckinridge Capital Advisors appear in the open-access journal PLOS ONE.

“The results of our study point to mispricing of risk in the municipal bond market — climate risk should matter to investors, but the racial makeup of communities should not,” said lead author Erika Smull, a 2022 Ph.D. graduate of the Nicholas School of the Environment who now works as a research analyst at Breckinridge Capital Advisors.

“Our analysis shows that climate risk is not priced, but that a ‘Black Tax’ exists in the market,” Smull said. “That is problematic for a country that has to grapple with both increasing climate risks and racial disparities.”

States, cities, counties and other governmental entities rely on the \$4 trillion municipal bond market to help fund essential infrastructure and services, such as schools, roads and water and sewer systems. Bond issuers repay investors through taxes or fees collected within their service areas. How much investors charge borrowers in interest depends on their perception of each service area’s unique environmental, economic or demographic risks.

Few studies have examined the relationships between municipal bond pricing and two particular factors: climate risk and race. The analysis in PLOS ONE used data from price at issue of more than 700,000 municipal bonds to better characterize those relationships. The authors focused on a measure called credit spread — the difference between a bond issuer’s interest cost to borrow and a benchmark “risk-free” municipal rate.

When adjusting for both bond structure and other service area characteristics, the analysis found that communities with majority Black residents face larger credit spreads on municipal bonds than communities with non-Black majorities. Applying this borrowing penalty to the entire municipal bond market results in Black Americans paying an estimated \$900 million in additional interest costs each year.

“There are numerous reasons that could explain why we find race to be meaningful for municipal bond spreads, including implicit and explicit biases of organizations or individual investors, statistical discrimination, where risk perceptions of decades past have proliferated, and/or circular reasoning on the part of investors who expect others to hold a bias and therefore price accordingly,” the authors write. “Regardless of any sort of explanation, race alone should not influence municipal credit spreads.”

In contrast, no statistically meaningful penalty emerged from the analysis for climate risk. All other factors being held equal, communities at higher risk from climate effects, such as sea level rise or wildfires, pay roughly the same rate as lower-risk communities to issue debt for needed infrastructure improvements.

“Municipal bonds are long-term financial liabilities, so any biases priced into the market have profound implications for communities and their residents,” said coauthor Martin Doyle, director of the Water Policy Program at Duke’s Nicholas Institute for Energy, Environment & Sustainability and



professor of river science and policy at the Nicholas School of the Environment.

“While the effects of climate change are manifesting more frequently, bond buyers are still treating cities with as wide a range of risk as Miami and Omaha the same,” Doyle said. “Meanwhile, Black communities that are often on the front lines of climate risks and disasters appear to face higher costs to make their infrastructure more resilient.”

Funding for the analysis by the Duke researchers was provided by Spring Point Partners.

[Read full paper.](#)

## **Nicholas Institute for Environmental Policy Solutions**

AUGUST 9, 2023

CITATION: “Climate, Race, and the Cost of Capital in The Municipal Bond Market,” Erika Smull, Evan Kodra, Adam Stern, Andrew Teras, Michael Bonanno, and Martin Doyle. PLOS ONE, August 9, 2023.

DOI: 10.1371/journal.pone.0288979

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## **[S&P: What U.S. CDFI Ratios’ Resilience Through Changing Economic Landscapes Means For Long-Term Credit Quality.](#)**

### **Key Takeaways**

- We expect U.S. CDFIs’ net equity will decrease modestly in the near term but remain strong and sufficient to absorb additional leverage, reducing the likelihood of widespread negative rating actions.
- CDFIs will continue to employ diligent underwriting standards to limit repayment risk, protecting their capital and supporting asset quality as a key credit strength.
- Increasing interest rates could relieve institutions of recent spreads compression, with stronger profitability expected in the near term.

[Continue reading.](#)

10 Aug, 2023 | 18:02

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## **[Revisiting WIFIA Sub-UST Interest Rates for SRFs.](#)**

The WIFIA loan program offers an interest rate derived from current U.S. Treasury (UST) yields at loan closing. Other large-scale federal infrastructure loan programs like TIFIA and CIFIA do the same. The underlying idea is that the loan should cover the government’s interest cost of funding it. The program’s appropriations can then be devoted primarily to offset expected credit losses. Since very few losses are expected from investment-grade loans to infrastructure projects, WIFIA’s surprisingly small annual appropriations can go a long way. It’s not a bad approach to federal infrastructure lending in general.

For most borrowers, a rate based on the federal government’s own cost of borrowing should be

attractive. It's a little more complicated for WIFIA because nearly all the program's borrowers so far are highly rated water agencies that can issue very cost-effectively in the tax-exempt municipal bond market where yields are often close to (or even below) the UST curve. Still, if a WIFIA loan's interest rate is at least roughly comparable to a borrower's muni bond alternatives, the loan's other features (term, flexibility, construction rate lock and reset, etc.) are highly beneficial for financing large-scale, long-lived infrastructure projects. For this class of WIFIA borrower, a sub-UST rate isn't necessary.

## **SRF-WIN Sub-UST Proposals**

WIFIA's base UST rate has worked well so far, but it's not intrinsic to the program's mission. In 2018, the proposed SRF-WIN Act included a 20 percent discount to WIFIA's base UST rate (subject to certain adjustments and limitations) for those SRFs which receive less than 2 percent of annual federal grant funding. This is a significant discount, amounting to about 10 percent of loan principal on an NPV basis. As you'd expect, there was a lot of support for the proposal among qualifying SRFs and related stakeholders. But two serious objections were raised by advocacy groups representing WIFIA's water agencies, which as noted above are by far the largest component of program borrowers to date:

[Continue reading.](#)

**waterfm.com**

By John Ryan

JULY 31, 2023

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## **EPA Announces \$50 million in Grants for Stormwater, Sewer Needs.**

The U.S. Environmental Protection Agency (EPA) recently announced the availability of nearly \$50 million in regular funding through the Sewer Overflow and Stormwater Reuse Municipal Grant program to help communities address stormwater and sewer infrastructure needs.

States may now apply for grant assistance to fund projects that will help municipalities strengthen their stormwater collection systems against increasingly intense rain events made worse by the climate crisis and prevent contaminants from polluting waterways. Thanks to program updates made by the Biden-Harris Administration's Investing in America Agenda, the Sewer Overflow and Stormwater Reuse Municipal Grant program will also ensure small and financially distressed communities receive grant assistance at no cost.

"Against the backdrop of extreme weather fueled by the climate crisis, heavy rainfall can flood communities, overload facilities that treat wastewater, and contaminate our waterways with sewage and pollution. Through President Biden's Investing in America agenda, we're providing communities with critical resources to manage stormwater and sewer overflows with resilient infrastructure to prevent these serious challenges," said EPA Assistant Administrator for Water Radhika Fox. "With \$50 million in grant funding and new requirements under the Bipartisan Infrastructure Law, the Biden-Harris Administration is helping address the threat of stormwater inundation in communities that need it most."

Stormwater management is a complex environmental challenge for communities across the country.

The cost to construct, operate, and maintain stormwater infrastructure can be significant, which can strain ratepayers, especially those in small and financially distressed communities. This investment follows changes made by the Bipartisan Infrastructure Law to prioritize projects for small and/or financially distressed communities and prevent cost share requirements from being passed on to these communities. Learn more about the [Sewer Overflow and Stormwater Reuse Municipal Grant](#) program.

## **Stormwater**

Per EPA, stormwater can be a significant source of water pollution and a public health concern. Stormwater can collect various pollutants including trash, chemicals, oils, and dirt/sediment and convey them to nearby waterways. When mixed with domestic and industrial wastewater in combined sewers, stormwater can also contribute to combined sewer overflows during heavy storm events.

EPA is working with local and state partners to leverage the resources of the federal government to meet the needs of these communities. In the past, states and communities shared a fixed portion of the costs associated with all projects funded through the Sewer Overflow and Stormwater Reuse Municipal Grant program. The Bipartisan Infrastructure Law changed the program so that 25% of Sewer Overflow and Stormwater Reuse Municipal Grant program funds go to available projects in small and/or financially distressed communities; it also limited states' abilities to pass on the burden of cost sharing to these communities.

To encourage investment in these critical projects, EPA modified the Sewer Overflow and Stormwater Reuse Municipal Grant program so that state grantees are not required to contribute cost share money for Sewer Overflow and Stormwater Reuse Municipal Grant program projects located in small or financially distressed communities. However, grant portions that go to communities other than small or financially distressed communities will include a cost share requirement.

WATER FINANCE & MANAGEMENT

BY WFM STAFF

AUGUST 14, 2023

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## **[Public Pensions: Double-Check Those 'Shadow Banker' Investments](#)**

**Private credit has gained a growing share of pension portfolios over the past decade. It's time to take a second look under the hood.**

For almost a decade leading up to 2021, bond yields were suppressed by low inflation and central bank stimulus. To make up for scanty interest rates on their bond investments, many public pension funds followed the lead of their consultants and shifted some of their portfolios into private credit funds. These "[shadow bankers](#)" have taken market share from traditional lenders, seeking higher interest rates by lending to non-prime borrowers.

Even during the pandemic, this strategy worked pretty well, but now [skeptics are warning](#) that a tipping point may be coming if double-digit borrowing costs trigger defaults. It's time for pension trustees and staff to double-check what's under the hood.

For the most part, the worst that many will find is some headline risk with private lending funds that underwrite the riskiest loans in this industry. Even for the weakest of those, however, the problem will not likely be as severe as the underwater mortgages that got sliced, diced and rolled up into worthless paper going into the global financial crisis of 2008. And until and unless the economy actually enters a full-blown recession, many of the underwater players will still have time to work out their positions.

[Continue reading.](#)

**governing.com**

Aug. 8, 2023 • Girard Miller

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## **Buying Opportunity Now in Munis: Pearce Fitts**

Appleton Partners Fixed Income Portfolio Manager Whitney Pearce Fitts discusses why there is now a buying opportunity in munis and why issuance has fallen in 2023. She speaks to Bloomberg's Romaine Bostick and Katie Greifeld on "Bloomberg Markets: The Close."

[Watch video.](#)

August 9th, 2023, 1:26 PM PDT

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## **Muni Selloff Is an Opportunity: Appleton's Pearce Fitts**

Whitney Pearce Fitts, Appleton Partners fixed income portfolio manager, discusses the decline in municipal bond issuance and the selloff in the municipal bond market with Romaine Bostick and Katie Greifeld on "Bloomberg Markets: The Close."

[Listen to audio.](#)

**Muni Moment - Bloomberg Markets: The Close**

August 9th, 2023, 12:45 PM PDT

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## **A Top-Performing Muni Fund That Ventures Where Others Don't.**

Avoiding big losses is much more important to bond investors than scoring significant wins. "They're in the market for principal preservation and tax-free income," says Lyle Fitterer, who has been a municipal bond fund manager for over 30 years.

Fitterer, the co-lead manager of the \$644.5 million Baird Strategic Municipal Bond fund (ticker: BSNSX), manages to both avoid losses and deliver wins, though his strategy might strike some as unconventional. The no-load fund's largest position is five-year U.S. Treasury note futures, for example, and it holds a significant amount of high-yield issues.

The fund saw inflows during 2022's bond rout when other muni bond funds saw outflows. That allowed Fitterer to add some higher-yielding bonds with slightly lower-quality credits, which has helped Strategic Muni outperform this year.

[Continue reading.](#)

## **Barron's**

By Debbie Carlson

Updated Aug. 9, 2023

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## **[The Mid-August Muni Bond Market \(Bloomberg Audio\)](#)**

Eric Kazatsky, Senior Municipal Bond Strategist at Bloomberg Intelligence, joins to discuss the latest on the muni bond market. Hosted by Matt Miller and Simone Foxman.

[Listen to audio.](#)

## **Bloomberg**

Aug 11, 2023

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## **[The Higher Your Tax Bracket, the More Attractive Municipal Bonds May Look.](#)**

- **The \$1 billion bond deal drew retail, institutional buyers**
- **Muni bonds' tax-exempt status promises rich yields for wealthy**

US investors looking to match the long-term returns provided by equities need look no further than the seemingly modest municipal bond market.

Case in point: the \$1 billion deal sold by New York City this week. The Big Apple — rated AA by two ratings companies — sold 30-year debt that was priced to yield 4.35%. It sounds modest, but with tax adjustments, the richest New Yorkers snapping up the securities earned yields equivalent to 10% taxable debt, an online tool from Eaton Vance Management shows.

The \$4 trillion municipal bond market, like other parts of the fixed income universe, is offering elevated yields not seen in years. But the state and local debt market has an added allure that other asset classes don't: the income is tax-exempt. That means that the yields on muni bonds are even higher after adjusting for taxes. And the higher your tax bracket, the more attractive the bonds look.

[Continue reading.](#)

## **Bloomberg Markets**

By Amanda Albright

August 11, 2023

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## **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 July) \$207.6 billion, -15.8% Y/Y
- Trading (as of July) \$12.6 billion ADV, -10.4% Y/Y
- Outstanding (as of 1Q23) \$4.0 trillion, -0.8% Y/Y

[Download xls](#)

August 2, 2023

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## **How Fitch's US Debt Downgrade Impacts Municipal Bonds.**

Arlene Bohner, Fitch Ratings head of US public finance, says most municipal bond ratings won't be affected by Fitch's downgrade of its US credit rating by one level on "Bloomberg Markets: The Close."

[Watch video.](#)

### **Muni Moment - Bloomberg Markets: The Close**

August 2nd, 2023

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## **Fitch's US Credit Downgrade Sparks Criticism Along With Unease.**

- **Decision reflects expected fiscal deterioration, Fitch says**
- **Bond market shrugs off downgrade, eyes Wednesday US refunding**

Fitch Ratings' downgrade of US government debt sparked criticism from Washington and Wall Street even amid unease that swollen fiscal deficits risk eventual turbulence in markets, the economy and next year's presidential election.

Fitch cut the US's sovereign credit grade one level from AAA to AA+. The move comes just two months after it warned the rating was under threat as lawmakers flirted with default by battling over raising the nation's debt limit.

The credit grader justified the shift by arguing the country's finances will likely deteriorate over the next three years given tax cuts, new spending initiatives, economic shocks and repeated political gridlock.

[Continue reading.](#)

## **Bloomberg Markets**

By Benjamin Purvis and Simon Kennedy

August 1, 2023

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### **US Downgrade Hits Muni Market as Fitch Cuts Billions of Debt.**

Fitch Ratings downgraded billions of dollars worth of public finance credits that are linked to the rating company's landmark decision to strip US government debt of its AAA status.

Thursday's move lowers the credit ratings of the local debt by one notch to AA+, the second-highest ranking, according to Fitch. The cut affects \$21.5 billion of the federally-owned Tennessee Valley Authority's global power bonds.

It also includes \$3.5 billion of pre-refunded municipal bonds with repayments that are wholly dependent on US government and agency obligations held in escrow as well as \$1.8 billion of municipal housing bonds that are mainly secured by mortgage-backed securities issued by Ginnie Mae, Fannie Mae or Freddie Mac, according to Fitch. The outlook is stable.

The municipal-bond downgrades weren't a surprise. In May, Fitch had warned it could downgrade some public finance credits because of their dependence on sovereign credit for repayment. About \$42.5 million of debt related to the Federal Home Loan Banks of Atlanta and Des Moines is still on watch negative, according to Fitch.

On Tuesday, Fitch lowered the US government debt rating to AA+, citing its outlook that the country's finances will likely deteriorate over the next three years given tax cuts, new spending initiatives, economic shocks and repeated political gridlock.

A spokesperson for the Tennessee Valley Authority, which provides electricity for power companies serving Tennessee and surrounding states, said in an emailed statement that the authority doesn't expect any material impact from the downgrade. "This is not driven by any TVA credit event," the statement said.

## **Bloomberg Markets**

By Nic Querolo and Amanda Albright

August 3, 2023

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### **Fitch: U.S. Downgrade Has Limited Effect on Public Finance Ratings**

Fitch Ratings-New York-04 August 2023: The recent downgrade of the U.S. sovereign Long-Term Foreign Currency Issuer Default Rating (IDR) to 'AA+' /Stable from 'AAA' /Rating Watch Negative does not directly affect the risk profile of most state, local government, and revenue-supported entities' ratings within the U.S. Public Finance (USPF) sector, Fitch Ratings says. Most USPF ratings

are not affected, except where bond repayment depends on federal agencies or instruments.

U.S. state and local governments possess significant autonomy to provide services that they believe appropriate and impose the taxes needed to fund those services. The very high ratings assigned to many states and local governments reflect their record of using these powers to balance budgets and limit leverage. While the U.S. sovereign and U.S. sub-sovereigns share certain credit characteristics, the downgrade to 'AA+' does not lead Fitch to re-evaluate state or local government 'AAA' ratings absent a direct reliance on federal agencies or instruments.

Federal budgets directly support a wide range of functions carried out by USPF entities, and broader federal spending is meaningful to the economic activity that underpins the credit quality of issuers in the USPF sector. The ability of state and local governments to respond to changes in federal funding, primarily with their own spending adjustments, reflects their significant autonomy within the U.S. federal structure. States benefit from strong legal and fiscal powers enshrined in the U.S. Constitution, and states in turn delegate substantial fiscal powers to local governments. Local governments bear the added risk of having to absorb potential state tightening, although they typically have broad budgetary tools and reserves to cushion unforeseen developments. Additionally, many states and local governments exercise prudent fiscal management and currently benefit from unusually high reserves and solid liquidity given federal economic stimulus and extraordinary tax revenue growth in recent years. Rated revenue-supported USPF entities are also generally well-positioned to adjust to federal funding fluctuations.

Bonds directly linked to the sovereign rating include municipal housing bonds primarily secured by mortgage-backed securities issued by Ginnie Mae, Fannie Mae and/or Freddie Mac, pre-refunded municipal bonds where escrowed funds deposited with a trustee to advance refund the bonds are invested in U.S. government treasuries or federal agency obligations, and bonds fully enhanced by FHLB letters of credit.

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## **The Weekly Fix: No Country Has 'God-Given' Right To AAA Rating**

Welcome to The Weekly Fix, the newsletter that's never been downgraded. I'm cross-asset reporter Katie Greifeld.

### **Your Move, Moody's**

Fitch Ratings' surprise move to strip US government debt of its top-tier rating this week sparked passionate criticism from Washington and Wall Street alike, with Treasury Secretary Janet Yellen deriding the downgrade as "arbitrary." But to David Beers, former head of S&P Global Ratings' sovereign debt scoring committee and one of the analysts behind the controversial ratings cut in 2011, it's an important reminder that the US isn't entitled to the top grade.

"The underlying fiscal position and underlying debt trajectory has picked up pace," Beers, who is now a senior fellow at the Center For Financial Stability, told Romaine Bostick and I on Bloomberg Television. "AAA is the top rating any rating agency can assign, but of course, the US and any other sovereign that's being rated has no god-given or automatic right to that."

[Continue reading.](#)

### **Bloomberg**

By Katherine Greifeld

August 4, 2023 at 2:00 AM PDT

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## **America's Credit Rating Was Just Slashed. America Should Be Worried.**

Herbert Hoover famously said that "blessed are the young for they shall inherit the national debt". However, it is doubtful that even in his darkest moments, he would have imagined that the US public debt would reach the lofty heights that it has reached today. Nor could he have imagined that there would still be no serious constituency on either side of the political aisle to address the country's large budget deficit and dangerous public debt trajectory.

It is against this background that one should welcome the Fitch rating agency's decision to be the second rating agency, after Standard and Poor's, to strip the United States of its coveted AAA credit rating. Hopefully that might serve as a wake-up call to our political class to get serious about addressing the country's chronic budget deficit with a view to getting the country's debt back on to a sustainable path.

The non-partisan Congressional Budget Office (CBO) provides us with a good picture of the dismal state of our public finances. According to their most recent estimates, our public debt presently stands at close to 100 percent of GDP. That is a level similar to that reached in the immediate aftermath of the second world war. However, given the country's aging population and rising interest rates, there is little prospect that we can somehow grow our way out of our debt problem like we did in the 1950s.

As if to underline this point, the CBO estimates that on present policies, the country's debt as a share of GDP will rise to around 120 percent by 2033 and to 170 percent by 2050. Those are levels that are more reminiscent of a country like Greece than one that is wanting to remain the world's

leading economy and to maintain the dollar as the world's dominant international reserve currency.

In citing the reasons for its decision to downgrade the US rating, Fitch pointed to the deterioration of US economic governance over the past twenty years. While to be sure, Fitch's assessment will be disputed, especially by the Biden Administration, there would seem to be much substance in Fitch's view.

The sad truth of the matter is that both political parties have become fiscally irresponsible though in different ways. The Republicans when in office are ever so keen to cut taxes but are loath to reduce public spending to finance the tax cuts. By contrast, the Democrats when in office are ever so keen to increase public spending but are loath to raise taxes to pay for their spending largesse. Meanwhile the nation's debt keeps growing.

Judging by the excessive budget stimulus policy response to the 2020 Covid-induced recession, our public finance matters seem to be going from bad to worse. Indeed, the total amount of government money thrown at the Covid problem amounted to close to a staggering \$5 trillion, or some 20 percent of GDP. Little wonder then that former Treasury Secretary Larry Summers characterized this response as the least responsible fiscal policy in the past forty years. Little wonder too that inflation surged to a multi-decade high of 9 percent by June 2022.

Although the United States is already heavily indebted to foreigners, including most notably China, it is fortunate in that it borrows in its own currency. As such, it is highly improbable that it will ever default on its debt since the Federal Reserve can always print the dollars to pay the foreigners. However, before we take too much comfort in that fact, we should spare a thought to what massive Fed money printing would do to the dollar and to inflation.

Let us hope that Washington pays heed to Fitch's timely wake-up call before the dollar tanks and inflation takes off again. However, in Washington's currently polarized state, I do not recommend that you hold your breath for that to happen anytime soon.

### **American Enterprise Institute**

By Desmond Lachman

19fortyfive.com

August 03, 2023

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## **[Ratings Firms Struggle With Climate Risk in \\$133 Trillion Market.](#)**

**Global warming is poised to increase borrowing costs for cities, countries and companies as record heat waves emerge worldwide.**

With 46 straight days of 100-degree heat and coastal waters approaching hot-tub temperatures, Miami can seem like a clear example of the costs of a warming world. But analysts at S&P Global Inc. aren't sweating it.

They recently upgraded Miami's credit rating, citing a robust tax base and labor market. The city's "elevated" environmental risks, S&P says, are offset by mitigation projects such as those designed to counter rising sea levels.

As the world reels from the mounting impact of heat waves, droughts and fiercer storms, there is growing concern that credit rating analysts are misreading climate risks in the \$133 trillion global bond market, to the detriment of creditors and borrowers alike.

[Continue reading.](#)

## **Bloomberg Green**

By Gautam Naik

July 31, 2023

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### **[Most States End Fiscal 2023 With a Budget Surplus as Revenues Exceed Forecasts: NASBO Budget Blog](#)**

Most states ended fiscal 2023 with a budget surplus as tax collections once again came in above projections. Entering fiscal 2023, states assumed smaller revenue levels following double-digit growth in tax collections in both fiscal 2021 and fiscal 2022. While year-over-year revenue collections grew at record high levels of 16.6 percent in fiscal 2021 and 16.3 percent in fiscal 2022, states forecasted fiscal 2023 revenues would decline 3.1 percent in their originally enacted budgets. States forecasted less revenue growth in fiscal 2023 due to several factors, including the high baseline established in fiscal 2022; the impact of both recurring and one-time tax policy changes; the assumption of slower economic growth, weaker capital gains, and modest declines in consumption; and consumer behavior shifting towards spending more on services (less often taxed) rather than goods. As fiscal 2023 progressed, many states saw higher than projected growth in tax collections and revised revenue forecasts upward for the remainder of fiscal 2023. Whereas original forecasts projected a 3.1 percent decline in revenue in fiscal 2023, revised forecasts assumed only a 0.3 percent annual decline, according to the [Spring 2023 Fiscal Survey of States](#).

To date, the vast majority of states who have reported full-year fiscal 2023 tax collections have come in above original forecasts, with many also seeing revenues above revised forecasts, leading to a third consecutive year of surpluses. While most states have reported budget surpluses, the amount in nearly all cases has been less than the substantial surpluses seen in fiscal 2022. States are examining the best use of these smaller surpluses, including further building up rainy day funds, reducing unfunded pension liabilities, paying down debt, investing in education and other spending priorities, and providing tax relief, while also focusing on ensuring one-time revenues are not used for ongoing obligations.

As states prepared to move into fiscal 2024, they were anticipating a small decline in tax collections partly due to economic uncertainty at the time revenue estimates were adopted. [Recommended budgets](#) for fiscal 2024 are based on general fund revenues totaling \$1.17 trillion, which would represent a slight decline of 0.7 percent compared to estimated fiscal 2023 levels. In recent years states have taken steps to prepare for a slowdown in tax collections through actions including using one-time funds for one-time purposes, paying down debt, making supplemental pension payments, and increasing the size of rainy day funds to record levels.

[Continue reading.](#)

by Brian Sigriz

## **States Finalize Fiscal 2024 Budgets: NASBO Budget Blog**

As of July 5th, 45 states have enacted a full-year budget for fiscal 2024. Overall, states remain in a strong fiscal position as they enter fiscal 2024. According to [NASBO's Spring 2023 Fiscal Survey of States](#), state general fund spending growth in fiscal 2024 is expected to slow following two consecutive years of sharp increases which were driven in part by an uptick in one-time expenditures. Similarly, revenue growth is expected to decline following double-digit percentage increases in both fiscal 2021 and fiscal 2022. While state spending and revenue growth are showing signs of returning to more normal levels, rainy day fund balances are projected to remain at or near all-time highs in fiscal 2024. As states begin fiscal 2024, they remain well positioned due to previous actions such as building up rainy day funds to record levels, paying down long-term debt, making additional pension payments, and using one-time funds for one-time purposes.

Governors in 47 states, the territories, and the District of Columbia are enacting a new budget for fiscal 2024. Thirty-one states are approving a one-year budget for fiscal 2024, while 16 states are enacting a two-year budget for fiscal 2024 and fiscal 2025. Kentucky, Virginia, and Wyoming previously enacted a biennial budget for both fiscal 2023 and fiscal 2024, with Wyoming approving revisions to its current biennial budget. Forty-six states begin their fiscal year on July 1, while New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1.

Below is additional information on states that have yet to enact a full-year budget for fiscal 2024. Additionally, Table 12 of NASBO's [Budget Processes in the States](#) has information on procedures if no budget is enacted by the start of the fiscal year.

[Continue reading.](#)

By Brian Sigritz posted 06-30-2023

NATIONAL ASSOCIATIONS OF STATE BUDGET OFFICERS

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## **Fitch: State Revenues Weakened in FY2023 but Resilience Remains High**

Fitch Ratings-New York-01 August 2023: State financial resilience remains robust despite weakening tax revenue growth or revenue declines in fiscal 2023, Fitch Ratings says. A combination of conservative revenue forecasting and large surpluses accumulated in 2021 and 2022, due to extraordinary tax revenue growth fueled by high inflation and federal pandemic stimulus, cushioned the revenue contraction. This will enable most states to maintain spending plans without threatening their improved financial positions.

Through the 12 months ending in June 2023, tax revenue was down from the prior year in 17 states, while another six states had growth of less than 1%, based on Fitch's review of 37 states with reported collections. States' monthly revenue reports vary greatly and use different presentations of tax revenue. This data is timely and indicative, but not necessarily definitive.

Revenue tracked above or close to last year for most of fiscal 2023 (July 2022-June 2023 for 46 states) until the spring, when monthly state personal income tax collections fell at a median rate of more than 30% in April 2023 from record high collections in 2022, based on data from the Urban Institute. Almost every state with an income tax had a large drop in April collections, as taxpayers reflected 2022 stock market losses and lower non-wage income on their final returns. From July 2022 through May 2023, total state tax collections were about 5% below the prior year.

[Continue reading.](#)

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## **Muni Bank Loans Top \$200 Billion to Near Record.**

- **Chicago Fed says governments tapping the debt seek flexibility**
- **Private lending attractive to borrowers facing revenue deficit**

State and local governments are increasingly turning to banks for capital during financial distress and market volatility.

Outstanding municipal bank loans are just \$1 billion away from the record \$210 billion reached in 2022, according to a Federal Reserve Bank of Chicago [working paper](#). Rather than issuing debt in the public markets to raise money, US governments are going directly to banks as they did during the Great Recession and more recently, the Covid-19 pandemic.

Private lending comes in handy during periods of big change, said Chicago Fed senior economist Ivan Ivanov, one of the authors of the working paper, in an interview. He added that bank loans give borrowers a chance to adjust terms when credit quality changes and can provide local governments money when budget strains arise from pension and health care costs.

“The major take away is that bank loans give borrowers in this case local governments such as cities, counties, school districts and special districts substantial financial flexibility that they are not able to find in the municipal bond market,” said Ivanov, who declined to comment on the future trajectory of muni bank loans.

As governments face further fiscal pressure, access to capital in a way the \$4 trillion muni bond market can't provide could be appealing. Revenue growth is expected to slow after billions in stimulus aid runs out, tax collections decline and costs rise from the Federal Reserve's historic interest-rate hiking campaign.

Bank debt is “most attractive” to government borrowers that have stable revenue but are facing shortfalls, higher borrowing costs, reduction in bond market access and credit downgrades, according to the report. During the pandemic, for instance, Chicago tapped \$450 million from a revolving line of credit from JPMorgan Chase & Co. to cover revenue losses in 2020.

The Chicago Fed research shows that higher credit risk translates to more bank loans as governments with agency ratings of AA, A, and BBB, or lower, are as much as 9 percentage points more likely to take one than AAA-rated issuers.

Muni borrowers are following corporations in fueling the broader global growth in private credit. Along with bank loans, state and local governments are also using more private placements, in which an agent sells securities directly to investors to raise capital rather than selling them in the market, especially for riskier projects. But while these tools provide options, they aren't a panacea

for fiscal pressures.

Bank loans in particular “may be costlier than municipal bonds for some governments” due to fees, costs to renegotiate contracts or covenants, according to the report.

However, more environmental, social and governance rules and financial data transparency and disclosures regulations could push governments to bank loans and private placements, said David Erdman, a managing director at Baker Tilly Municipal Advisors.

Private lending “is not a win-win situation,” for municipalities, Erdman said.

## **Bloomberg Markets**

By Shruti Singh

August 4, 2023

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### **[Bringing Local Government Budgeting Up to the Speed of Change.](#)**

**Current government budgeting processes are not up to the demands of a world where the future looks less and less like the past.**

#### **In Brief:**

- It’s been the norm for governments to make budget plans based on past decisions.
- This “backward-looking” approach is not well suited to the present speed of change in society, or the emergence of environmental and public health impacts that have not been seen before.
- Government associations and technology companies are working to develop data-driven systems that can be agile in the face of the unexpected.

[Continue reading.](#)

**governing.com**

by Carl Smith

Aug. 4, 2023

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### **[S&P U.S. Public Finance Housing Rating Actions, Second-Quarter 2023.](#)**

[View the S&P Ratings Actions.](#)

31 Jul, 2023

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### **[Illinois Feared Losing to Wall Street Banks Over Muni Price-Fixing Case.](#)**

- **Trial featuring JPMorgan, Citigroup was scheduled for Aug. 7**
- **Attorney General says no evidence of VRDO price-fixing claim**

Illinois is defending its decision to accept a \$68 million settlement from a cohort of Wall Street banks to conclude an almost decade-long lawsuit over municipal bond price-fixing by questioning the claims of the firm that filed the case on its behalf.

The lawsuit, originally filed under seal in 2014 by an entity called the Edelweiss Fund LLC, sought around \$349 million in pre-trebled damages and another \$350 million in statutory damages. Edelweiss brought the False Claims Act lawsuit as a “relator,” or someone filing a lawsuit on behalf of an injured party — in this case, the state of Illinois — in return for a portion of any recovery.

Edelweiss alleged that a group of banks inflated interest rates on bonds that finance public projects to discourage investors from returning them for cash and also colluded in setting the rates. Bank of America Corp., Barclays Capital Inc., BMO Financial Corp., William Blair & Co. LLC, Citigroup Inc., Fifth Third Bancorp, JPMorgan Chase & Co. and Morgan Stanley were expected to go to trial in Illinois on Aug. 7 for this case.

While Illinois agreed to settle on July 17, this is the first time any state has defended its decision to do so. Not settling before the case went to trial “would almost certainly have resulting in a loss,” according to a filing by Attorney General Kwame Raoul.

The motion for approval of the settlement says that “the actual language of the contracts at issue does not require Defendants to reset ‘at the lowest possible rate,’” as Edelweiss occasionally implies.

The filing also says that “testimony from State officials involved in managing and monitoring the bonds at issue would very likely rebut Relator’s claim that the State was even defrauded in this case.”

And it says that “the evidence in the record does not support any version of the Relator’s argument, including its basic assertions about the expectations issuers would have had for how the rate-reset process and liquidity facilities worked together in practice.”

Edelweiss, which represents Minnesota financial adviser Johan Rosenberg, has objected to the settlement, saying the \$15 million stipulated for expenses and attorneys’ fees is insufficient.

Daniel W. Levy, a principal with McKool Smith PC, counsel to Edelweiss, said “I will respond when able.”

Barclays, Citigroup, Morgan Stanley and William Blair & Co. all declined to comment. The other banks didn’t respond to emailed requests for comment.

### **‘Highlights Weakness of Claims’**

While it is common in motions seeking approval for a settlement to highlight the risk of not recovering, the one Illinois put forward “really seems to go beyond that in highlighting the weakness of the claims and the lack of evidence of any false claims act violations,” Elliott Stein, a senior litigation analyst with Bloomberg Intelligence, said in an email.

“This certainly explains the low settlement amount and will embolden the defendant banks to keep fighting the similar cases in other states until they win outright or get a sufficiently low settlement amount,” Stein said.

The Illinois lawsuit was the first of five such cases originally filed under seal in 2014. One of them, in Massachusetts, has been dismissed. The remaining lawsuits — in California, New Jersey and New York — seek a collective \$1.15 billion in damages and restitution of triple that amount. Another \$6.5 billion in damages is at stake in antitrust litigation in New York.

A dozen banks are defendants across the four lawsuits, which allege that from 2008 until relatively recently the banks — acting as remarketing agents for long-term bonds with periodic rate adjustments, called variable-rate demand obligations or VRDOs — failed to get issuers the lowest possible interest rates on securities where rates were typically reset on a daily or weekly basis to discourage investors from returning them for cash.

## **Bloomberg Markets**

By Joseph Mysak Jr and Shruti Singh

August 4, 2023

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### **S&P: Economic Momentum Expected To Wane For Mineral-Producing U.S. States As Tailwinds Abate**

#### **Key Takeaways**

- Oil and natural gas prices fell from a recent peak in 2022 as an economic slowdown takes hold, but many mineral-producing U.S. states are poised to lead economic (real gross state product [GSP]) growth in calendar 2023, with five ranking among the top 10 for real GSP growth nationally.
- By 2024, however, S&P Global Market Intelligence forecasts that Texas will be one of only two states forecast to remain in the top 10, and it is projected to be the only state in the top 10 by 2025, with its GSP growth ranking third among all states.
- While we do not expect a sharp pull-back in oil exploration and production, mineral producing states may need to prepare financial tools, including tighter spending controls, conservative forecasting, and upkeep of high reserves to guard against potential strain on their economies and revenues.

[Continue reading.](#)

3 Aug, 2023

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### **S&P Sustainability Insights: California's Evolving Insurance Market Has Mixed Impacts - Spotlight On U.S. Public Finance**

#### **Key Takeaways**

- The recent move by a few major insurers to discontinue writing new homeowners' business in California is not unique compared with the wider U.S. insurance market.
- Higher insurance premiums in California could exacerbate homeowner affordability pressures, potentially leading to weaker credit quality in the long term for USPF entities.
- Rising insurance premiums are unlikely to affect our credit ratings on RMBS because various



aspects in the securitization serve as adequate risk mitigants.

[Continue reading.](#)

2 Aug, 2023

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## **[As Water Reuse Expands, Proponents Battle the ‘Yuck’ Factor.](#)**

**Treated wastewater could be the answer to communities’ looming concerns over water shortages. Despite skepticism and, often, disgust at the idea, experts say reused water is a glass-half-full solution.**

When Janet Cruz lost an April election for a Tampa City Council seat, she became a political casualty of an increasingly high-stakes debate over recycled water.

During her time in the Florida Legislature, Cruz had supported a new law allowing the use of treated wastewater in local water systems. But many Tampa residents were staunchly opposed to a plan by their water utility to do just that, and Cruz was forced to backtrack, with her spokesperson asserting she had never favored the type of complete water reuse known as “toilet to tap.” She lost anyway, and the water plan has been canceled.

Tampa’s showdown may be a harbinger of things to come as climate change and drought cause water shortages in many parts of the country. With few alternatives for expanding supply, cities and states are rapidly adding recycled water to their portfolios and expanding the ways in which it can be used. Researchers say it’s safe—and that it’s essential to move past the 20th century notion that wastewater must stay flushed.

[Continue reading.](#)

### **Route Fifty**

By Jim Robbins,  
KFF Health News

AUG 4, 2023

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## **[The Risks Hidden in Public Pension Funds.](#)**

**Attracted by promises of high returns, many public pension funds have been loading up on private equity but may not fully appreciate the dangers, our columnist says.**

The Oregon Public Employees Retirement Fund prides itself on being open about its investments, publishing [monthly reports](#) that provide more timely information than most other state and local government pension plans across the country.

But like many plans, Oregon’s state pension fund is perpetually hungry for high returns on its investments — higher than it expects from stocks and bonds alone.

So Oregon's plan has been pouring money into private equity funds that are, by definition, illiquid and opaque. Those funds engage in debt-fueled takeovers of companies and promise their investors high returns. But the funds contain hidden risks that are not widely understood or clearly reported.

[Continue reading.](#)

## **The New York Times**

By Jeff Sommer

Aug. 4, 2023

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### **[Rising Yields Are Making Municipal Bonds an Attractive Option.](#)**

Fixed income investors experienced the pull of rising yields during the first half of 2023, which included attractive options within the municipal bond market.

"With the highest yields in years, the muni bond market looks increasingly attractive," an [AllianceBernstein blog post](#) noted.

With an eye on yield, investors may have also sought out munis for their tax-free income advantages. Whatever the reason, major indicators of municipal bond activity portrayed upside that could continue through the rest of the year following a bearish turn in 2022.

"After the worst showing in four decades in 2022, the muni market regained some ground in 2023," the blog added. "There was some chop along the way, but the Bloomberg Municipal Bond Index etched a 2.67% return through June 30."

The expectation that the U.S. Federal Reserve would taper its interest rate hikes certainly played a factor in the increased demand for munis. However, the underlying fundamentals of the muni bond space also propelled interest.

"Most were attracted by strong muni issuer fundamentals, the likelihood the Fed is nearing the end of its rate-hike cycle and historically high yields," the blog said further.

[Continue reading.](#)

ETF TRENDS

by BEN HERNANDEZ

AUGUST 1, 2023

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### **[Muni Market Projection for August \(Bloomberg Audio\)](#)**

Joe Myask, editor of Bloomberg Brief: Municipal Bonds with Bloomberg News joins us to discuss the muni bond market. Hosted by Paul Sweeney and Simone Foxman.

[Listen to audio.](#)

Aug 04, 2023

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## **[GFOA Accounting for Capital Assets: eBook Now Available](#)**

In addition to the softcover, you can now purchase the Accounting for Capital Assets eBook from Amazon or Apple. The book's eleven chapters cover the gamut of capital asset-related issues. Each comes with a handy "chapter in brief" summary and multiple-choice questions. The book also offers an extensive set of sample journal entries, a detailed index, and a full glossary.

[PURCHASE](#)

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## **[Subscription Supposition: A GFOA Look at Practical SBITA Examples.](#)**

The authoritative accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96), is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

[LEARN MORE](#)

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## **[S&P U.S. Not-For-Profit Public College And University Fiscal 2022 Medians And Ratios: Road To Recovery Is Paved With Federal Funding; Hazards Remain](#)**

### **Key Takeaways**

- Despite most institutions returning to full on-campus operations in fall 2021, S&P Global Ratings' rated U.S. public colleges and universities experienced a 1.9% decline in median full-time-equivalent (FTE) enrollment.
- Demand metrics softened across nearly all rating categories in fall 2021, indicative of an increasingly competitive marketplace and growing number of students questioning higher education's value proposition.
- A healthy rebound of auxiliary revenues, together with continued federal relief funding, helped offset rising expenses and slowing net tuition revenue growth, yielding a median full-accrual operating surplus of 2.9% in fiscal 2022.
- Market volatility throughout the fiscal year pared back some of the unprecedented investment gains recorded in fiscal 2021, while the return to campus and macroeconomic pressures pushed operating expenses up, softening certain financial resource metrics.
- State cash windfalls stemming from successful pandemic recoveries and significant federal relief funding have, in many cases, already bolstered support for higher education, demonstrated by a 10.2% increase in median state appropriations per FTE enrollment from fiscal 2021-2022.

[Continue reading.](#)

25 Jul, 2023

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## **S&P U.S. Not-For-Profit Private College And University Fiscal 2022 Medians And Ratios: As Pandemic Risks Abate, Enrollment Pressures Persist**

### **Key Takeaways**

- As U.S. not-for-profit private colleges and universities return to pre-pandemic operations, enrollment and demand pressures persist, except at higher-rated institutions, indicating widening divergence within the industry
- Bolstered by remaining federal pandemic relief funds, most institutions across all rating categories generated positive operating performance in fiscal 2022.
- Fiscal 2022 market volatility has weakened financial resources compared with fiscal 2021, though overall, investments are stronger than pre-pandemic levels.
- Despite rising borrowing costs, overall debt increased in fiscal 2022, specifically in the 'AA' to 'BBB' rating categories.

[Continue reading.](#)

25 Jul, 2023

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## **S&P Second Party Opinion: NHP Foundation Taxable Bonds Series 2023 (Social Bonds)**

NHPF's mission is to preserve and create sustainable, service-enriched multifamily housing that is affordable to low- and moderate-income families and seniors, as well as beneficial to their communities. It partners with various private and public stakeholders to acquire, build, and operate affordable housing projects offering deeply discounted rents that it preserves long term.

[Download](#)

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## **States Put Buying Power to Work for Local Governments.**

**When states drive cooperative procurements, local agencies can take advantage of volume discounts, experienced contracting officers and a streamlined process.**

As local governments look for ways to stretch their budgets, many are turning to cooperative purchasing, where they can take advantage of the volume discounts states negotiate for office supplies, laptops and even specialized applications. When states open their commodity purchases to local government buyers, they spread the benefits of the volume pricing, experienced procurement teams and the streamlined contracting process so communities can get the products and services they need faster and at a better price.

In Texas, for example, the Department of Information Resources, or DIR, issued a request for offer June 9 asking respondents to provide Google products and services for not only state agencies, but

local ones, too.

“While DIR is specifically charged with overseeing state government, countless local government entities—including K-12 education organizations and public colleges and universities—also depend on DIR’s services to keep their technology reliable, secure, and forward-looking,” the document states.

[Continue reading.](#)

## **Route Fifty**

By Stephanie Kanowitz

JULY 26, 2023

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### **Public Sector Slow to Respond to Cyberattacks, Report Finds.**

**It takes government agencies more than 225 days to identify a cyber threat and 92 days to contain it, but AI and automation could significantly reduce that time.**

Hackers pulled off one of the largest data breaches in Oregon’s history last month when they accessed 3.5 million drivers licenses and identification cards. State officials became aware of the breach on June 1. Oregonians learned about it two weeks later.

Initially, state officials didn’t have any information about what was stolen—that would take “days of analysis” to determine, according to Michelle Godfrey, spokesperson for the Oregon Driver and Motor Vehicle Services. It would take several more days to ready the resources that state residents would need to monitor their credit reports.

While the event is specific to Oregon, the need for a timely response from hacked agencies is not. Government agencies typically take more than 225 days to identify a cyber threat and 92 to contain that threat, according to a new report from IBM Security. By comparison, researchers found that companies in the private sector take 204 days to identify cyber threats and 73 days to contain them.

[Continue reading.](#)

## **Route Fifty**

by Chris Teale

JULY 25, 2023

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### **Jobs Sit Empty in the Public Sector, So Unions Pitch In to Recruit.**

**Shortages of state and city personnel, especially those who must work on site, are so dire that unions are helping to get people in the door.**

The State of Minnesota, like nearly every public-sector employer across the country, is in a hiring

crunch.

Not just for any job, though. The desk jobs that can be done remotely, with flexible schedules? Applicants for those positions are relatively abundant. It's the nurses, groundskeepers, plumbers, social workers and prison guards — those who are on site, sometimes at odd hours — that the state really can't find.

"It's terrifying, if I'm being honest," said Mitchell Kuhne, a sergeant with the Department of Corrections staffing a table at a state jobs fair in Minneapolis this week. "People just don't know about the opportunities that exist. It's a great work force, it's a great field to be in, but it's a really intimidating thing that isn't portrayed accurately in the movies and media."

[Continue reading.](#)

## **The New York Times**

By Lydia DePillis

July 27, 2023

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### **Muni ETF Boom Stalls After Record Gains as Investors Seek Yield.**

- **Inflows drop to \$3.9 billion year-to-date from \$14.8 billion**
- **Vanguard's Malloy calls 2023 'a pause,' not a drop in flows**

Municipal exchange-traded funds, still a relatively new and small part of the \$4 trillion state and local debt market, have seen growth stall dramatically after record inflows last year as the shift away from mutual funds slowed.

These ETFs have garnered about \$3.9 billion so far this year, down from \$14.8 billion in the year-ago period, according to data compiled by CreditSights. This marks a slowdown from last year, when a record \$29 billion flowed into the funds, which had attracted investors with lower fees and the opportunity to tamp losses in the worst muni-market rout in decades.

Since they were first introduced into the muni market about 15 years ago, assets in such ETFs have surged to roughly \$110 billion, according to data compiled by Bloomberg. Morgan Stanley expects muni ETF assets to jump to \$200 billion by 2026, one-third of the time it took to reach the \$100 billion mark.

[Continue reading.](#)

## **Bloomberg Markets**

By Shruti Singh

July 27, 2023

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## **Reasons to Fall in Love With Municipal Bonds Right Now. How to Invest.**

When a money-market fund yields more than 5%, what's so special about municipal bonds yielding 3%? A lot, it turns out. Take taxes into account and muni yields get much more appealing. And right now, it's a good time to lock in longer-term bonds.

BlackRock National Municipal, the money manager's flagship muni fund, has a current yield of 2.99%, which translates into a 5.05% taxable-equivalent yield for someone in the top federal income-tax bracket. "That gets people giddy about munis again," says Sean Carney, head of BlackRock's muni strategy team.

The effective muni yield is near 8% for people in the highest bracket in high-tax states who use a longer-term bond ladder—a rolling portfolio of bonds maturing in each of the next 10 to 20 years—in a separately managed account, according to Parametric Portfolio Associates.

[Continue reading.](#)

### **Barron's**

By Amey Stone

July 28, 2023

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## **Expensive Muni Prices Threaten Buyer Shift to Treasuries.**

- **Municipal-Treasury 10-year ratio is hovering around 62%**
- **Inside of the curve is 'a little bit too rich,' investor says**

Municipal bonds have gotten so rich that investors may be better off buying US Treasuries.

The 10-year municipal benchmark offers just 62% of the yield on similarly-dated Treasuries, well below the historical norm, according to data compiled by Bloomberg. The figure, a key gauge of relative value in the market, has averaged about 85% over the last five years, the data show.

Most municipal bonds typically offer less yield than Treasuries because the income generated on those investments is exempt from federal taxes – but that yield differential now has gotten more extreme. Shorter-term debt, which is popular with retail investors, is considered even more expensive.

[Continue reading.](#)

### **Bloomberg Markets**

By Jordan Fitzgerald and Amanda Albright

July 28, 2023

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## **Muni Bond Market Outlook (Bloomberg Audio)**

Eric Kazatsky, Senior Municipal Bond Strategist at Bloomberg Intelligence, joins to discuss the latest on the muni bond market. Hosted by Paul Sweeney and Matt Miller.

[Listen to audio.](#)

Jul 28, 2023

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## **Fitch: Labor Issues Cloud Otherwise Strong 2Q for U.S. Public Finance**

Fitch Ratings-New York-20 July 2023: Ongoing inflationary pressures did little to stunt positive rating momentum for U.S. public finance overall last quarter, though Fitch Ratings' latest quarterly update points to labor woes being a continued sore spot for hospitals and life plan communities (LPCs).

Fitch upgraded 61 U.S. public finance ratings against 20 downgrades in 2Q23 with much of the positive rating activity emanating from state and local governments. Notable state upgrades were New Jersey and Kentucky, with Nassau County (NY), Las Vegas (NV), St. Louis (MO) and Cleveland (OH) of note for local government upgrades last quarter.

"Fiscal 2024 state budgets are largely in place, though we saw more challenges this year with five states still without enacted budgets, the most since the start of the pandemic over three years ago," said Arlene Bohner, Fitch's head of U.S. public finance. "Property taxes should continue to be a source of stability for local governments, however, we expect home price growth to decelerate in many areas given continued affordability challenges."

Conversely, labor challenges are the proverbial thorn in the side for public finance, particularly with regard to Not-For-Profit hospitals (two upgrades and six downgrades in 2Q23) and, to a lesser extent, LPCs (one upgrade against two downgrades in 2Q23). "After the most operationally challenging year on record for many in 2022, we still expect operations to improve slowly, although margins will likely remain below pre-pandemic levels for 2023," said Bohner.

Fitch's "U.S. Public Finance Rating Actions Report and Sector Updates: Second-Quarter 2023" is available at [www.fitchratings.com](http://www.fitchratings.com).

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)



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## **U.S. Public Finance Long-Term Municipal Pools: Key Information And Characteristics - S&P**

### **Key Takeaways**

- The U.S. long-term municipal pool sector enjoys strong credit fundamentals.
- Infrastructure Investment and Jobs Act (IIJA) funding allocations could boost grants and loans available to borrowers through 2026 using U.S. long-term municipal pools.
- After federal stimulus and IIJA funding allocations are exhausted, we believe needs will remain significant and continue to require U.S. long-term municipal pool funding for capital and economic development projects.

[Continue reading.](#) [Free registration required.]

20 Jul, 2023

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### **Quantifying Climate Change Risks to the Cost of Municipal Borrowing.**

Climate change is, of course, a threat to the entire planet. At our recent Municipal Finance Conference, we focused on the impact that climate change has on municipal borrowing costs and the \$4 trillion muni bond market. You can read the three papers [here](#) and watch the video of the presentations [here](#). Here is a quick summary of three paper on climate.

Communities that are especially exposed to heat stress pay more to borrow on the muni bond market, according to [research](#) that Tim Johnson of the University of Illinois Urbana-Champaign [presented](#) on behalf of his co-authors. Heat stress, they argue, is the primary channel through which climate change is projected to damage the economy—increase in energy expenditures, increase in mortality, increase in wildfires, and a decrease in labor productivity. Hurricanes can be severe, but the damage is generally localized. Johnson and co-authors use county-level data on heat stress exposure from two sources and link that to measures of prices on municipal bonds, corporate bonds, and equities. For municipal bonds, they find that a one standard deviation increase in heat stress exposure is associated with a 5 basis point (0.05 percentage point) increase in borrowing costs. For the average municipality, annual heat-related damages amount to 0.83% of GDP by the end of the century. Annual heat stress-related damages equal to 1% of GDP are associated with 15 basis points (0.15 percentage point) higher borrowing costs compared to municipalities not exposed to such losses. “Our consistent finding across all three asset classes of an increasing trend in the cost of capital associated with heat stress may be attributable to a perceived increase in the risk itself, or to increasing investor awareness of the risk and of its systematic nature,” the authors write.

Investors are willing to pay more—or settle for slightly lower yields—for municipal green bonds, [according](#) to Baolian Wang of the University of Florida and his co-authors. Green bonds are defined as debt instruments designated to finance environmentally friendly projects. Looking at 1,027 pairs of bonds by the same issuer between 2013 and 2022, they find that the yield on green bonds was an average of 2.3 basis points (0.023 percentage point) lower than the yield on non-green bonds. They call the difference between the yield on a green bond and an otherwise identical conventional bond the “greenium,” short for “green premium.” They also find that before 2018, underwriters used to charge a higher fee in issuing green bonds as opposed to conventional bonds. In recent years, issuing green bonds has become cheaper.

Examining how and when natural disasters—more than 2,000 extreme weather events between 2005 and 2018—affect muni bond returns, Jun Kyung Auh of Georgetown University and his co-authors [find that](#) substantial price effects materialize in the weeks following a disaster. The average decline in returns is 31 basis points (0.31 percentage point) over the 20 weeks following a disaster. Between 1990 and 2020, the number of disaster and emergency declarations in the U.S. grew by almost 7% per year on average, and estimated physical damage from natural disasters caused by extreme weather events averaged over \$11 million per affected county—and it’s going to get worse, they say. Revenue bonds—as opposed to general obligation bonds—are hit harder. Although bigger disasters cause larger bond-price declines, federal disaster aid alleviates the negative price impacts substantially and seems to matter more than the physical damage; the largest price declines are in less-affected counties that subsequently do not receive disaster aid. “Our findings imply that, absent changes in federal aid policy, municipalities will find local financing increasingly expensive in a world where natural disasters are more frequent,” the authors conclude.

## **The Brookings Institution**

by David Wessel

July 21, 2023

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### **[In a Bad State: Responding to State and Local Budget Crises](#)**

**An authoritative review of the long history of federal responses to state and local budget crises, from Alexander Hamilton through the COVID-19 pandemic, that reveals what is at stake when a state or city can’t pay its debts and provides policy solutions to an intractable American problem.**

What should the federal government do if a state like Illinois or a city like Chicago can’t pay its debts? From Alexander Hamilton’s plan to assume state debts to Congress’s efforts to respond to the COVID-19 pandemic, many of the most important political disputes in American history have involved federal government responses to state or local fiscal crises.

In a Bad State provides the first comprehensive historical and theoretical analysis of how the federal government has addressed subnational debt crises. Tracing the long history of state and local borrowing, David Schleicher argues that federal officials want to achieve three things when a state or city nears default: prevent macroeconomic distress, encourage lending to states and cities to build infrastructure, and avoid creating incentives for reckless future state budgeting. But whether they demand state austerity, permit state defaults, or provide bailouts—and all have been tried—federal officials can only achieve two of these three goals, at best. Rather than imagining that there is a single easy federal solution, Schleicher suggests some ways the federal government could ameliorate the problem by conditioning federal aid on future state fiscal responsibility, spreading losses across governments and interests, and building resilience against crises into federal spending and tax policy.

Authoritative and accessible, In a Bad State offers a guide to understanding the pressing fiscal problems that local, state, and federal officials face, and to the policy options they possess for responding to crises.

[Click here](#) to order.

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## [\*\*S&P U.S. State Ratings And Outlooks: Current List\*\*](#)

[View the Current List.](#)

21 Jul, 2023

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## [\*\*S&P U.S. Charter Schools Rating Actions, Second-Quarter 2023.\*\*](#)

[View the Rating Actions.](#)

18 Jul, 2023

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## [\*\*Emission-Reduction Initiatives Prime City and State Agencies for Federal Grants.\*\*](#)

**Robust climate action plans are also helping governments mitigate the financial and human costs of natural disasters.**

So far in 2023, the National Oceanic and Atmospheric Administration has confirmed 12 climate-related disasters, including tornados, hailstorms, flooding and severe weather. Each event is estimated to cost the U.S. more than \$1 billion in infrastructure damages, and the total is likely to grow as climate-related events are expected to increase in frequency and severity.

To mitigate the financial and human costs of natural disasters, state and local governments are developing strategies and programs that encourage sustainable practices such as reducing greenhouse gas emissions. Climate action plans, one official says, can also set agencies up as ideal candidates for federal funding opportunities that support eco-friendly initiatives.

Like most states, Washington is pushing for a sustainable future as it faces the consequences of climate change. The Evergreen State is exploring how to financially motivate some of the state's biggest greenhouse gas producers to shrink their carbon emissions, said Claire Boyte-White, a policy relations lead at the state's Department of Ecology, during the "Funding Climate Action Planning" webinar hosted July 18 by GovExec and KPMG.

[Continue reading.](#)

### **Route Fifty**

By Kaitlyn Levinson,  
Assistant Editor, Route Fifty

JULY 20, 2023

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## **US Power Grid Faces Escalating Cyber Threats, Infrastructure Experts Warn.**

**The power grid is experiencing heightened threats from foreign adversaries and domestic extremist groups that can pose devastating consequences for the nation's supply of electricity.**

Energy infrastructure experts testified that the U.S. power grid is facing a myriad of escalating cybersecurity risks and emerging threats from both foreign adversaries and domestic extremists amid an ongoing critical modernization journey.

The latest [annual threat assessment](#) out of the Intelligence Community identifies Chinese cyber operations against the U.S. homeland as a major national security threat and warns that Beijing is “almost certainly capable of launching cyber attacks that could disrupt critical infrastructure services” nationwide, including the power grid.

Meanwhile, domestic extremists have been charged in recent months with plotting to attack energy facilities and power grids across the country, as part of an apparent effort to promote white supremacist ideologies.

[Continue reading.](#)

### **Route Fifty**

Chris Riotta  
Staff Reporter, Nextgov/FCW

JULY 20, 2023

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## **Black Colleges With Boosted Ratings to See Borrowing Costs Drop.**

- **Rise in enrollments, donations contributed to rating upgrades**
- **North Carolina A&T is seeing more demand from bond investors**

A surge in enrollment and donations at Historically Black colleges and universities is leading to credit upgrades, potentially reducing borrowing costs from a bond market that has long discriminated against the schools.

Moody's Investors Service last week upgraded North Carolina Agricultural & Technical State University to a higher credit tier and improved its outlook on Howard University. Fitch Ratings Inc. upgraded Texas Southern University in Houston last month.

Higher credit ratings could lower costs for HBCUs, which have typically paid more than other schools with similar credit profiles and have been underfunded for much of their history.

[Continue reading.](#)

### **Bloomberg**

By Janet Lorin

July 20, 2023

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## **Three Things City Leaders Should Know About the Municipal Bond Market.**

After a slow start to 2023, municipal bond sales are expected to tick upward in the second half of the year, as cities, states, school districts, and other local governments are all ramping up their investments in essential infrastructure – often in conjunction with Federal financing through the Infrastructure Investment and Jobs Act (IIJA).

Most cities' bond sales process is a well-oiled machine, drawing on the knowledge and skills of municipal finance officers, as well as outside experts like financial advisors, investment bankers, and bond counsel. Here are a few key factors for city leaders to keep in mind – and questions to ask — as communities prepare to join the ranks of municipal bond issuers.

### **Interest Rates Have Risen, But Remain Attractive**

Municipal bond yields rise and fall in connection with the overall interest-rate environment. As a result, today's municipal bond interest costs are higher than they were during the pandemic – when the economy was less active. There was less demand for capital investment, and the Federal Reserve was offering very low yields to encourage growth.

But today's rates remain relatively low in historical terms.

The Bond Buyer's index of 20 actively traded "general obligation" bonds from highly rated states and cities currently stands at 3.66% — that's higher than its pandemic-era low of 2.04% in July 2021 but only slightly above its 3.45% reading on July 18, 2019, and in line with its five-year average of 3.58% between 2015 and 2019.

### **Municipal Bonds are Widely Held by U.S. Individual Investors**

Over the last decade, the municipal bond market has provided as much as \$325 billion annually for "new money" investments. Most of that financing has come from U.S. individual investors, who can benefit the most from the fact that interest payments on most municipal bonds are exempt from Federal income taxes. Those "retail investors" have multiple options for adding munis to their portfolio: They can purchase directly in their brokerage accounts, receive professional advice through "separately managed accounts," or buy shares in municipal bond mutual funds.

Developing investor relations programs and holding dedicated "retail order periods" can be useful tools for cities to give individual buyers access to their bonds.

### **Credit Quality Remains Important**

Municipal bond investors have always been focused on the credit quality of their investments. During the pandemic, that meant focusing on short-term questions about tax revenues and extraordinary expenses. Now, with many cities' balance sheets bolstered by the extraordinary Federal aid provided through ARPA and the CARES Act, they are focusing on longer-term concerns, like the potential for falling commercial real estate values to impact property tax collections or the potential impact of lagging stock market returns on pension funds.

Municipal finance officers should prepare to address those questions when they apply for bond ratings and sell new issues. And they may want to consider bond insurance or other forms of credit enhancement to help build investor confidence. BAM bond insurance is rated AA with a Stable outlook from S&P Global Ratings, and bonds sold with insurance carry those ratings, giving

investors an added layer of protection and often delivering savings to the issuer.

### **About BAM:**

Build America Mutual is the preferred provider of bond insurance for the National League of Cities and has insured more than \$125 billion of bonds from issuers who finance essential public infrastructure in the United States since its 2012 launch. For more information, visit [www.buildamerica.com/united](http://www.buildamerica.com/united)

### **National League of Cities**

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## **Why the Next Year Is Great for Muni Investors.**

In today's high rate environment, understanding the impact of high rates on bonds, particularly municipal bonds, makes a difference between capturing alpha opportunity or simply taking on additional risk. Tom Lydon, vice chairman of VettaFi, dove into the current environment and outlook for muni investors with David Hammer of PIMCO and Matthew Norton of AllianceBernstein at VettaFi's Fixed Income Symposium.

Today's macro environment remains complex, and David Hammer, municipal bond portfolio manager at PIMCO, described all the major factors the firm continues to track. These include the directionality of monetary policy and how that plays out on the credit cycle, and inflation.

Within munis specifically, the current macro environment impacts aspects such as tax collection, while inflation benefits particular sub-sectors such as multi-family housing. Interest rates also play a specific role in volatility within bonds and munis.

"We found over that over long periods of time, interest rate volatility is actually a good predictor of inflows and outflows into the muni market," Hammer explained. Given the reduced liquidity in munis in today's markets, flows currently have an outsized impact on muni prices.

"Top-down, things look pretty good in our view for the muni market," Hammer said. The positive outlook isn't solely because of expected performance in a shallow recession, but for how "munis perform in the tails." Municipal bonds carry lower default risk than many of the broader bond asset classes. In a slowing economic environment when default risk rises, munis offer the potential of greater stability.

### **Finding the Pockets of Opportunity Within Munis**

70% of attendees believe that municipal bonds are a better choice than government bonds for taxable accounts in the next 12 months.

"We certainly agree that municipal credit is very attractive," said Matt Norton, CIO for municipal bonds at AllianceBernstein. "The balance sheets of most state and local governments are in the best shape that they've ever been."

That said, AB predicts a slowing environment which will affect municipal bond demand. Munis remain most popular with individual investors. Retail investors largely haven't come back into bonds in the rising rate environment, creating an environment of wider spreads. "We haven't seen credit spreads tighten relative to where the fundamentals should be."

Muni sectors that AB finds attractive currently are those with cash flow, such as charter schools, multi-family housing, and, increasingly, healthcare. “We think the valuations are attractive right now,” Norton explained.

Looking further afield, PIMCO believes that Puerto Rico holds high opportunity post-bankruptcy, given future credit spread tightening.

In the scenario of a soft landing, Norton believes munis still look appealing. “Municipalities... tend to not have these big debt maturity walls. They tend to have liquidity built into deals.” Most prominent is their ability to adjust tax rates that lead to lower defaults over time.

### **Mitigating and Balancing Risk in Municipal Bonds**

There are sectors of munis that currently are higher risk both now and in the coming months. Senior living facilities are less attractive currently and looking ahead, with a high likelihood of increasing defaults. Hammer believes this sector is actually the highest default sector within municipal bonds. Another sector to watch includes municipal transportation as federal COVID loans come to an end. However, Hammer anticipates releveraging as opposed to defaults in this arena.

When looking to add more interest rate or credit risk in portfolios, Norton acknowledged the changing macro environment’s impact. “If you would have asked me six months ago, I would have had a different answer. My answer right now is both.”

“The impact of the regional banking crisis creates some opportunities in the muni market,” Hammer said. The yield curve is one major way to play the current environment. PIMCO currently employs a barbell strategy with muni bonds in both short-duration and long-duration munis with the ability to roll down the curve.

### **Muni Investors Should Seize Opportunity Now**

Municipal bonds remain somewhat of an outlier in regards to flows and credit spreads within fixed income as bond prices rally. “Municipal credit remains on the wide ends of its band in terms of cheapness,” Norton said. Given that the majority of muni investors are retail investors, flows are likely to come flooding back into munis as rates fall in the next year, narrowing spreads.

Active management within munis allows for better potential capture of the pockets of opportunity while avoiding the risk pitfalls. Hammer views today’s environment as highly conducive to active management.

“It’s a target-rich environment. The lack of liquidity is pretty good for active managers. We’re excited about the future opportunities with a really positive credit fundamental backdrop,” Hammer explained.

ETFTRENDS.COM

by KARRIE GORDON

JULY 24, 2023

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## **[Unlocking the Potential of Taxable Municipal Bonds.](#)**

Municipal bonds have long been a favorite spot for investors looking to score tax-free income. Issued



by states and local governments to fund their daily activities or special projects, munis are generally free from federal taxes and sometimes state/local taxes as well. This makes them a prime stopping ground for taxable accounts and high income individuals.

But not all muni bonds are tax-free. In fact, there's a whole sector of taxable municipal bonds out there.

And right now, trends are pointing toward the taxable muni market's sector. For investors looking for income and potential appreciation, these trends make the taxable muni sector an interesting bet going forward.

[Continue reading.](#)

**dividend.com**

by Aaron Levitt

Jul 19, 2023

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## **[MSRB Q2, 2023 Municipal Securities Market Summary.](#)**

[View the Summary.](#)

7/12/23

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## **[States Finalize Fiscal 2024 Budgets: NASBO Budget Blog](#)**

As of July 5th, 45 states have enacted a full-year budget for fiscal 2024. Overall, states remain in a strong fiscal position as they enter fiscal 2024. According to [NASBO's Spring 2023 Fiscal Survey of States](#), state general fund spending growth in fiscal 2024 is expected to slow following two consecutive years of sharp increases which were driven in part by an uptick in one-time expenditures. Similarly, revenue growth is expected to decline following double-digit percentage increases in both fiscal 2021 and fiscal 2022. While state spending and revenue growth are showing signs of returning to more normal levels, rainy day fund balances are projected to remain at or near all-time highs in fiscal 2024. As states begin fiscal 2024, they remain well positioned due to previous actions such as building up rainy day funds to record levels, paying down long-term debt, making additional pension payments, and using one-time funds for one-time purposes.

Governors in 47 states, the territories, and the District of Columbia are enacting a new budget for fiscal 2024. Thirty-one states are approving a one-year budget for fiscal 2024, while 16 states are enacting a two-year budget for fiscal 2024 and fiscal 2025. Kentucky, Virginia, and Wyoming previously enacted a biennial budget for both fiscal 2023 and fiscal 2024, with Wyoming approving revisions to its current biennial budget. Forty-six states begin their fiscal year on July 1, while New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1.

[Continue reading.](#)



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## **Cities Explore Making Budgeting, Long-Term Planning Transparent.**

**Several localities are marrying up their strategic planning and budget process to be more nimble and better measure performance.**

Denton, Texas, is growing—fast. Between 2021 and 2023, the city added nearly 13,000 residents, according to the U.S. Census Bureau. The county that Denton sits in is also rapidly growing; it ranked fourth in the nation in 2022 for total population gains.

To keep up with the speed of growth, Denton needs budget dollars and a strategy to meet the infrastructure and service needs of a growing city. But the traditional budgeting process makes that difficult.

Local governments like Denton have long relied on incremental, line item budgeting where last year's budget becomes next year's budget with a few changes on the margins. The approach makes it hard for cities to quickly adapt to changing conditions. So Aimee Kaslik, Denton's chief strategy officer, has started to marry the city's budgeting process with its long-term strategic plan and overarching goals.

[Continue reading.](#)

### **Route Fifty**

By Chris Teale,  
Staff Reporter, Route Fifty

JULY 14, 2023

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## **U.S. State Debt: Lower For Now - S&P**

### **Key Takeaways**

- Total state tax-supported debt decreased 0.2% in fiscal 2022 and we expect debt levels will remain stable in fiscal 2023 as borrowing costs remain high.
- While reserves and pandemic-relief funds provide states an alternative to debt financing, inflation has significantly increased the cost of many capital projects.
- On average, state debt metrics remain moderate to low by most measures and will likely remain within that range.

[Continue reading.](#)

10 Jul, 2023

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## **How States and Cities Lost Billions Refinancing Their Debt Early.**

- Issuers would have saved more money by waiting until call date
- Massachusetts says debt managers don't have 'crystal ball'

A popular bond refinancing tactic used by US states and cities likely cost taxpayers “billions of dollars,” according to a [paper](#) to be presented July 18 at the Brookings Institution’s 12th annual municipal finance conference.

The study analyzed 14 of the more than 200 so-called advanced refundings in which tax-exempt municipal bonds were refinanced with taxable debt between 2018 and 2020. Those 14 borrowers alone, including the state of California and the New York State Thruway Authority, left about \$580 million on the table because they opted to refinance early instead of waiting until the call date when they could refund them using tax-exempt bonds, which have lower yields.

Combined, the savings lost on the more than 200 transactions is likely to amount to billions of dollars, said the study’s authors Andrew Kalotay, president of Kalotay Advisors, and Martin J. Luby, an associate professor at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin.

Issuers likely proceeded with taxable advanced refundings because of the concern that interest rates would rise, the authors wrote. Instead, rates fell even further as the Federal Reserve cut interest rates to zero to bolster the economy amid the Covid-19 pandemic.

“They speculated and lost a lot of taxpayer money,” Kalotay said in an interview.

Municipalities, for their part, said the analysis was distorted by the Federal Reserve’s response to the pandemic and omitted more favorable deals. For example, in 2020, the Massachusetts School Building Authority issued 10-year taxable bonds yielding 1.75% to advance refund debt issued in 2012. If the agency waited to refinance until the bonds were callable in Aug. 2022, 10-year tax-exempt yields would have been about 2.25%.

## **Lower Costs**

To fund roads, bridges, schools and sewers, states and cities typically issue 30-year municipal bonds with fixed coupons that are callable at par in 10 years. To lower borrowing costs or postpone debt payments, municipalities can undertake an advance refunding. They issue new bonds in advance of the date when the securities can be redeemed and use the investment income to cover the cost of the outstanding debt until it could be called back.

Until 2017, municipalities could use lower cost tax-exempt debt for advance refundings. State and local borrowers used the tactic because they frequently issued debt with premium 5% coupons — far above prevailing interest rates — and refinancing could generate savings.

(Higher coupon bonds appeal to institutional investors, like mutual funds, because their prices fall less when interest rates rise and they have better liquidity. And the higher coupons give holders the ability to reinvest larger amounts of semi-annual interest payments, particularly helpful in a rising rate environment.)

In late 2017, the Republican Tax Cuts and Jobs Act prohibited the sale of tax-exempt bonds for advanced refundings as a way to offset revenue loss from the cuts. The nonpartisan Joint Committee on Taxation estimated at the time that ending advance refundings would mean an additional \$17.3 billion in revenue to the federal government over 10 years.

## **Record Lows**

But Congress didn’t ban advance refundings using taxable bonds. With interest rates near record lows at the time, municipalities rushed to issue taxable securities to generate savings. States and

local governments issued about \$116 billion of taxable munis for advanced refundings between 2018 and 2020, according to data compiled by Bloomberg.

One of those issuers was the Massachusetts School Building Authority.

In November 2019, the authority issued taxable bonds to advance refund about \$750 million of tax-exempt debt issued in 2011, saving the state \$121.6 million, according to Kalotay and Luby. (The state pegged the savings at \$135 million, according to a December 2019 [memo](#))

After the deal, yields on benchmark 10-year tax-exempt muni bonds declined as the Federal Reserve lowered interest rates to zero to limit the economic damage of the pandemic. By the Nov. 1, 2021 call date of the 2011 bonds, yields fell to 1.22% from about 1.52%.

Had the state agency waited until Nov 2021 and called the 2011 bonds at par from investors and issued tax-exempt debt, Massachusetts would have saved more than \$221.6 million, according to the study.

## **Crystal Ball**

Andrew Napolitano, a spokesman for Massachusetts State Treasurer Deborah Goldberg, said state officials have to make decisions in real time, and couldn't have foreseen the Covid-19 pandemic or the Federal Reserve's unprecedented response.

The state's debt managers "do not have a crystal ball when considering its debt portfolio management strategies or future market conditions," Napolitano said. In addition to savings, Massachusetts also considers factors such as investor demand and impact on the current debt portfolio.

New York's Thruway Authority said its 2019 advanced refunding was part of larger plan to improve operations and debt structure. Had last year's rapid rise in interest rates come sooner, waiting to the call date to refinance its bonds would likely have produced less savings than a taxable advanced refunding.

"Any decision made in the financing arena is dependent upon market conditions at the time in conjunction with current plans or needs, as well as the ability of information," the Thruway Authority said in an emailed statement. "To simply lump together transactions to support a conclusion well after the fact may not be an accurate depiction of that conclusion."

The California Treasurer's office didn't respond to a request for comment.

Issuers would have made better decisions if they had compared the estimated savings of their advanced refundings to the value of the call options they would forfeit, Kalotay and Luby wrote. Municipalities shouldn't refinance early unless the ratio is at least 90%. The efficiency of the typical taxable refunding was barely 70%, they said.

"Nobody knows where interest rates are going, but you can use mathematics to say, ok, what's the probability they go here or there," Kalotay said.

## **Bloomberg Markets**

By Martin Z Braun

July 14, 2023

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## **States Have Broadband Money. Now They Just Have to Figure Out How to Spend It.**

**States have less than six months to submit their plans to the federal government on how they will spend their allotment of the \$42.5 billion to build out the nation's broadband.**

An intense sprint started two weeks ago when states learned how much they are each getting from the nearly \$42.5 billion investment in broadband under the bipartisan infrastructure act. In less than six months, each state has to tell the federal government how they plan to spend their allotment.

That's not an easy task when talking about hundreds of millions of dollars, or in the case of 20 states more than a billion dollars. Finding out his state will be getting \$551.5 million "triggers a lot of other things," said Jim Stritzinger, director of the South Carolina Broadband Office. "It's going to be a very complicated set of steps between now and the end of the year. Very detailed, and a heavy lift."

First up in the arduous process that the National Telecommunications and Information Administration, or NTIA, set up in a 98-page document in May of last year is for states to begin answering a wide range of questions in a five-year action plan. The questions ask how states will prioritize what to do with the money, how they'll find enough workers to get the infrastructure built, how they'll go about awarding contracts for the work, what they will be doing to make sure it gets done and how they will keep the broadband affordable for low-income people.

[Continue reading.](#)

### **Route Fifty**

By Kery Murakami,  
Senior Reporter

JULY 12, 2023

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## **S&P Biannual Rating Actions For U.S. Municipal Retail Electric, Gas, And Wholesale Utilities.**

S&P Global Ratings maintains public ratings on 212 U.S. public power retail electric and gas utilities and 55 wholesale utility projects (across 39 wholesale electric utilities). Downgrades outpaced upgrades during the first six months of 2023 across both sectors; however, we note that the downgrades represented only 2% of total outstanding public ratings. In addition to the rating changes, there was an equal amount of favorable and unfavorable outlook revisions and CreditWatch actions. During the first half of 2023, 68 ratings were unchanged after review (25% of the total combined sectors), which supports our view of the stable sector outlook.

[Continue reading.](#)

10 Jul, 2023

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## **Fitch: US Airports & Toll Roads Reach Full Recovery**

Fitch Ratings-Austin-12 July 2023: The post-Covid hangover is officially over for traffic at U.S. airports and on toll roads, according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

Average airport traffic recovery across the Fitch Traffic Monitor portfolio ended 1Q'23 at 99% of 1Q'19 levels. Most airports ended the quarter at or above their pre-pandemic levels despite operational challenges such as staffing shortages. Leisure markets carried strong momentum into 2023, while secondary hubs such as Detroit and Philadelphia ended the quarter at less than 90% of 2019 levels as they continue rebuilding connectivity. Large international gateways on the East Coast saw a resurgence in international travel as COVID-19 restrictions were lifted in foreign countries. West Coast international hubs experienced slower recoveries despite China lifting their restrictions at the beginning of 2023. San Francisco and Los Angeles had the most to gain, ending the first quarter of 2023 at 80%-83% of 2019 levels.

The toll road sector continued its strong performance relative to 2019 traffic levels, with 1Q'23 traffic reaching 103% of 1Q'19. After ending 4Q'22 at a near full recovery of traffic, many toll roads have now surpassed 2019 levels in 1Q'23. The recovery is driven by solid demand for travel across the country and across both mature turnpikes, as well as urban expressway and bridge systems. Lagging traffic recovery of 80%-90% on some facilities is potentially due to longer-term shifts in driving trends for work, leisure, and shopping activities.

Fitch's 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-project-finance/traffic-monitor>.

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## **Fitch: More Pressure Likely for U.S. Higher Education As Federal Aid Runs Out**

Fitch Ratings-Chicago-13 July 2023: U.S. colleges and universities will face more operating pressure in the coming year once the supportive impact of Federal pandemic stimulus rolls off, according to Fitch Ratings in its annual median report for public and private institutions.

With 2022 representing the last fiscal year of meaningful stimulus funding, core credit factors will be challenged across the higher education sector by macro headwinds in labor and wage pressure, mixed enrollment, and limited revenue growth prospects.

“Support remains relatively favorable for most public colleges, though states are opting for one-time funding programs in lieu of increases in baseline support in order to maintain their budget flexibility,” said Senior Director Emily Wadhwani. “Conversely, private colleges will be further constrained by rising borrowing, supply and other operating costs with overall net tuition and fee revenue down for the second straight year.”

What this means over time from a ratings perspective appears to be rating performance skewing negative. Fitch has upgraded 10 colleges and downgraded five others (through June) since its last medians update. Looking ahead, Fitch has revised Rating Outlooks for seven colleges to either Negative (from Stable) or Stable (from Positive) compared against three favorable revisions. What’s more, Negative Rating Outlooks outnumber Positive Rating Outlooks for colleges overall (as of June).

“Capital spending is likely to accelerate for many public colleges, though many institutions are looking to reprioritize asset ownership needs and explore numerous ways to fund non-core capital assets,” said Wadhwani. “Expense savings continue to mirror softer revenue growth for private colleges, though these efforts will have diminishing returns as federal aid rolls off in subsequent years.”

Fitch’s “Fiscal 2022 Median Ratios Report for U.S. Public and Private Colleges and Universities” is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **S&P U.S. Not-For-Profit Public College And University Fiscal 2022 Medians**

## **And Ratios: Road To Recovery Is Paved With Federal Funding; Hazards Remain**

### **Key Takeaways**

- Despite most institutions returning to full on-campus operations in fall 2021, S&P Global Ratings' rated U.S. public colleges and universities experienced a 1.9% decline in median full-time-equivalent (FTE) enrollment.
- Demand metrics softened across nearly all rating categories in fall 2021, indicative of an increasingly competitive marketplace and growing number of students questioning higher education's value proposition.
- A healthy rebound of auxiliary revenues, together with continued federal relief funding, helped offset rising expenses and slowing net tuition revenue growth, yielding a median full-accrual operating surplus of 2.9% in fiscal 2022.
- Market volatility throughout the fiscal year pared back some of the unprecedented investment gains recorded in fiscal 2021, while the return to campus and macroeconomic pressures pushed operating expenses up, softening certain financial resource metrics.
- State cash windfalls stemming from successful pandemic recoveries and significant federal relief funding have, in many cases, already bolstered support for higher education, demonstrated by a 10.2% increase in median state appropriations per FTE enrollment from fiscal 2021-2022.

[Continue reading.](#)

12 Jul, 2023

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## **S&P U.S. Not-For-Profit Private College And University Fiscal 2022 Medians And Ratios: As Pandemic Risks Abate, Enrollment Pressures Persist**

### **Key Takeaways**

- As U.S. not-for-profit private colleges and universities return to pre-pandemic operations, enrollment and demand pressures persist, except at higher-rated institutions, indicating widening divergence within the industry
- Bolstered by remaining federal pandemic relief funds, most institutions across all rating categories generated positive operating performance in fiscal 2022.
- Fiscal 2022 market volatility has weakened financial resources compared with fiscal 2021, though overall, investments are stronger than pre-pandemic levels.
- Despite rising borrowing costs, overall debt increased in fiscal 2022, specifically in the 'AA' to 'BBB' rating categories.

[Continue reading.](#)

12 Jul, 2023

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## **Fitch: U.S. Children's Hospitals Medians Stumble Amid Inflation and**

## **Investment Pressures**

Fitch Ratings-Austin-10 July 2023: The resiliency of U.S. children's hospitals medians is being put to the test due to labor, inflation and investment portfolio pressures, according to Fitch Ratings' latest medians report.

On top of investment losses and crippling staffing shortages, children's hospitals have had to contend with a 'tridemic' of increased COVID-19, RSV and flu cases in late 2022/early 2023 that caused providers to experience capacity challenges, a decline in patient acuity and a temporary increase in contract labor utilization. Not surprisingly, 2023 children's hospital medians show operational deterioration and liquidity dilution with median cash flow metrics falling to the lowest level in a decade.

Despite these formidable challenges, the stand-alone children's hospitals' median rating remains strong at 'AA-'. "Children's hospitals continue to be able to drive positive operating results as a result of favorable reimbursement for higher acuity services and distinct market positions that provide for more consistent volumes compared to the overall acute care sector," said Director Richard Park.

Standalone pediatric facilities remain well positioned through their key market roles as the only providers of highly specialized pediatric tertiary and quaternary services in their respective service area. That said, children's hospitals face a laundry list of challenges longer term. "The sector will continue to be faced with the pediatric mental health crisis that was exacerbated by the COVID-19 pandemic," said Park. "Additionally, children's hospitals will have to be prepared for the downstream effects of declining births in the nation."

Fitch's "2023 Median Ratios for Not-for-Profit Children's Hospitals" is available at [www.fitchratings.com](http://www.fitchratings.com).

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## **Short on Cash, Some Hospitals Now Face Debt Defaults.**

While many hospitals are seeing their margins slowly recover, some are still struggling and may



soon default on their debts. In an attempt to avoid default, hospitals are choosing to close unprofitable services, sell assets, cut jobs, and more.

### **Short on cash, some hospitals struggle to avoid debt defaults**

According to a new report from Kaufman Hall, nationwide hospital operating margins are still below pre-pandemic levels, but are slowly inching back up, particularly as labor expenses decline and revenues increase due to higher patient utilization, especially in outpatient settings.

However, some hospitals, particularly those that operate alone or are part of small systems, are still struggling financially. Some hospitals are currently reporting that they do not have enough cash to satisfy lenders, who typically require them to meet periodic financial targets.

“Failures to meet such obligations to lenders can technically count as default, putting hospitals at risk of credit downgrades and higher interest rates,” the Wall Street Journal writes.

[Continue reading.](#)

**advisory.com**

July 11, 2023

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## **[S&P U.S. Public Pension Fiscal 2023 Update: Funded Ratios Stable, Inflation Retreats, And POB Issuance Stops](#)**

### **Key Takeaways**

- U.S. pension funded ratios are likely to remain stable or slightly improve for fiscal 2023, as the market recovers from earlier losses.
- High inflation continues to ease toward previous lows, though volatility could affect pension funding if sponsors experience budgetary stress.
- Pension obligation bond (POB) issuances have completely dropped off this year on the expectation that volatile interest rates may come down in the near future.

[Continue reading.](#)

11 Jul, 2023

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## **[Why Municipal Pensions Should Kick-Start an Innovation Fund.](#)**

**Attractive investment returns could accompany economic development if local public pension systems join forces with angel investors to capitalize on a marketplace void.**

Most of the media coverage of the collapse of Silicon Valley Bank was focused on the long lines of depositors who feared losing their money and the eventual bailout by the FDIC. The sequel to that story is that the failure of that bank and several others left a gaping void in the nation's entrepreneurial economy — the place where new jobs spring out of the innovators' alchemy of novel technologies, management skill and risk capital.

As a result, many early-stage growth companies in America are now stranded in a financing no man's land between the highest-risk seed capital stage funded by individual angel investors and the multibillion-dollar private equity sector that still looks for eight- and nine-figure deals featuring companies already making sales on their way to a stock exchange listing. The startups' cash cliff has been cited as the cause of a "mass extinction event" — a dead cylinder in the U.S. economy's growth engine.

That's where the idea of an "innovation fund" partnering with a dozen or so midsize local government pension funds could fill the void in this still-risky growth stage. Pension trustees could harvest lush investment returns on a nationally diversified portfolio with lower fees than the venture capital industry typically exploits. As a bonus, they could collectively fuel the engines of economic growth nationwide. Emergent businesses based in a state where a pension fund participates would have a fair shot at some of that capital if they could pass stringent due diligence reviews and fiduciary governance oversight by angel investment experts in their industries.

[Continue reading.](#)

**governing.com**

by Girard Miller

July 11, 2023

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## **[Muni Market Update \(Bloomberg Audio\)](#)**

Joe Mysak, editor of Bloomberg Brief: Municipal Bonds with Bloomberg News, joins to discuss the muni bond market. Hosted by Jess Menton and Simone Foxman.

[Listent to audio.](#)

Jul 14, 2023

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## **[Muni Investors With \\$250,000 to Spend Want Individual Attention.](#)**

- **Separately managed accounts are becoming popular among them**
- **Lowering investment minimum has opened these up to more people**

Investors with \$250,000 or more to spend on municipal bonds are increasingly seeking opportunities to pick and choose what goes into their portfolios.

They're flocking to investment vehicles called separately managed accounts that allow them to select individual securities with the help of a professional.

Assets under management for such accounts that invested in municipal bonds stood at \$987 billion as of the first quarter, according to a JPMorgan Chase & Co. survey of 74 firms. Mutual funds held about \$769.7 billion of municipals as of that period, Federal Reserve data showed.

[Continue reading.](#)

## **Bloomberg Markets**

By Amanda Albright

July 17, 2023

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### **[Taking Advantage of an Anomaly in the Municipal Yield Curve.](#)**

**An unusual inversion in the municipal-bond yield curve has resulted in attractive yields in short-dated issues. One compelling opportunity in this environment: municipal bond ladders.**

The shape of the U.S. Treasury curve gets a lot of attention. Since yields on two-year notes moved above those of 10-year notes in early 2022, it has been hard to miss the deluge of headlines regarding the relevance and various implications of the inverted Treasury yield curve. What rarely gets much attention, however, is the municipal-bond yield curve.

A distinguishing characteristic of the municipal yield curve has been its consistent upward slope, with 30-year bonds always offering higher yields than short-term bonds. Several factors have contributed to this enduring steepness (as discussed in this Market View), especially certain behavioral biases among bond issuers and muni buyers. Much of municipal bond supply is in longer maturities, while a significant portion of the demand gravitates toward the shorter and intermediate parts of the curve, especially from individual investors, who are the predominant buyers of municipals. This tends to result in excess demand on the short end and higher yields at the long end. Over longer-term holding periods, those higher yields have translated to higher total returns in longer-maturity bonds.

Despite some flattening over the last year, the municipal curve has retained its upward slope between the two-year and 30-year maturity range — a stark contrast to the Treasury curve, which is inverted by roughly 100 basis points when measured both between the two-to-10-year, and the two-to-30-year maturity range. What is unique about today's environment, however, is that the two-to-0-year segment of the municipal yield curve inverted for the first time in history and has remained so for several months.

[Continue reading.](#)

## **Lord Abbett**

By Stephen Hillebrecht, Nicholas Bragdon

July 17, 2023

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### **[BlackRock's Carney: Munis Might Lag If Treasuries Rally](#)**

Sean Carney, BlackRock's head of municipal strategy, says strong technicals and weak Treasuries are responsible for the current success of municipal bonds, but if Treasuries keep rallying munis may not be able to keep up. He speaks on "Bloomberg Markets: The Close."

[Watch video.](#)

## **Bloomberg Markets: The Close**

July 12th, 2023

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### **JPMorgan Launches 2 New Municipal Bond ETFs.**

JPMorgan Asset Management has launched two new municipal bond ETFs on the New York Stock Exchange.

The JPMorgan High Yield Municipal ETF (NYSE Arca: JMHI) invests in high yield munis exempt from federal income taxes. The JPMorgan Sustainable Municipal Income ETF (NYSE Arca: JMSI), meanwhile, seeks to deliver current income exempt from federal income taxes by investing in munis with use of proceeds that provide positive social or environmental benefits.

JMHI may invest in securities rated below investment-grade, which offer a higher yield than investment-grade securities but involve a greater degree of risk. It currently has 384 holdings and carries an expense ratio of 0.35%.

JMSI uses a value-oriented approach to invest in a core fixed income portfolio of municipal bonds. It conducts an extensive risk/reward analysis of factors such as income, interest rate risk, credit risk, and the transaction's legal/technical structure. It had 436 holdings at the time of its inception and carries an expense ratio of 0.18%.

JPMorgan continues to expand its ETF suite at a rapid pace. In May, the investment firm launched the JP Morgan BetaBuilders Emerging Markets Equity ETF (BBEM) and the JP Morgan BetaBuilders U.S. TIPS 0-5 Year ETF (BBIP). JMHI and JMSI bring the full JPMorgan suite of U.S. ETFs to 54 products with more than \$118 billion in AUM, as of July 17.

"JPMorgan has emerged as one of the fastest-growing fixed income ETF providers," said VettaFi's head of research Todd Rosenbluth. "It is great to see them expand their municipal bond suite."

ETFTRENDS.COM

by JAMES COMTOIS

JULY 17, 2023

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### **Municipal Midyear Outlook: Come on In, the Water's Fine**

With the highest yields in years, the muni bond market looks increasingly attractive.

After the worst showing in four decades in 2022, the muni market regained some ground in 2023. There was some chop along the way, but the Bloomberg Municipal Bond Index etched a 2.67% return through June 30.

As anxieties tempered toward midyear, investors gradually returned to the market. Most were

attracted by strong muni issuer fundamentals, the likelihood the Fed is nearing the end of its rate-hike cycle, and historically high yields (Display).

[Continue reading.](#)

**advisorperspectives.com**

by Matthew Norton, Daryl Clements of AllianceBernstein, 7/17/23

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## **Municipals Deliver on Seasonal Expectations.**

### **June update**

- Municipal bonds posted positive absolute and relative performance in June.
- Modest primary and secondary supply was outpaced by improved demand.
- While July has historically been a top-performing month, we maintain some near-term caution.

### **Market Overview**

Municipal bonds delivered on expectations for the summer strength and posted positive absolute and relative performance in June. Despite a mid-month pause by the Federal Reserve at the June FOMC meeting, interest rates rose in the front and intermediate part of the yield curve as strong economic data, persistent inflation, and hawkish Fed guidance prompted the market to reprice for a longer tightening cycle. However, improved supply-and-demand technical helped municipals to significantly outperform comparable Treasuries. The S&P Municipal Bond Index returned 0.89%, bringing the year-to-date total return to 2.52%. Longer duration (i.e., more sensitive to interest rate changes) and lower-rated bonds performed best.

[Continue reading.](#)

**advisorperspectives.com**

by Peter Hayes, James Schwartz, Sean Carney of BlackRock, 7/13/23

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## **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 June) \$178.5 billion, -18.2% Y/Y
- Trading (as of June) \$12.6 billion ADV, -9.6% Y/Y
- Outstanding (as of 1Q23) \$4.0 trillion, -0.8% Y/Y

[Download xls](#)

July 5, 2023

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## **Fitch Global Cross-Sector Mid-Year Outlook 2023.**

Fitch Ratings' 2023 sector outlooks have shown positive momentum since the beginning of the year, reflecting stronger-than-expected economic growth in 1H23. The US labour market and consumption has held up despite monetary policy tightening and the March banking liquidity scare. The end to Zero-Covid resulted in a consumption-driven bounce in China in 1Q23 and several other large emerging markets have had substantive improvements to their 2023 macro outlook. Forecasts for the eurozone have also improved relative to our earlier expectations. A total of 20 sector outlooks were changed since they were first published in December. Of these, 17 were in a positive direction, with 15 changing to 'neutral' from 'deteriorating' and the remaining two to "improving" from 'neutral'. The trends in our sector outlooks have been rooted in updates to our economic base case. Our June Global Economic Outlook includes a 2023 global growth forecast of 2.4%, up from 1.4% at the beginning of the year. This includes a material increase in our China growth forecast to 5.6% from 4.1% as well as positive changes to our US and eurozone growth forecasts to 1.2% and 0.8%, from 0.2% for both at end-2022.

### **ACCESS REPORT**

Tue 27 Jun, 2023 - 11:55 AM ET

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## **Fitch: Most North American Sectors Retain Deteriorating Outlook**

Fitch Ratings-New York-30 June 2023: Nearly three quarters of North American sectors maintain a deteriorating outlook for 2023, reflecting Fitch Ratings' expectation for weaker core credit drivers relative to 2022. Inflation, rising rates, and tightening lending conditions remain key considerations for North American sector outlooks.

There are no mid-year changes to our sector outlooks except for U.S. REITs, for which we changed the sector outlook to deteriorating from neutral, taking into account further tightening of commercial real estate (CRE) lending conditions amid ongoing valuation pressure and macro headwinds.

Economic growth in 1H23 was stronger than expected, supported by robust employment and consumption, which have been mostly resilient to rising rates. We have raised our 2023 economic growth forecasts for the U.S. to 1.2% from 1.0% and Canada to 1.3% from 0.8%.

However, demand indicators are showing signs of slowing, according to our latest Global Economic Outlook. We forecast a shallow U.S. recession in 4Q23-1Q24, driven by tighter credit conditions, lower savings, reduced business investment and expected negative job growth. The effects of these factors on the consumer are key considerations underlying our deteriorating outlooks for financial institutions, consumer securitizations, the retail sector and sectors tied to residential real estate. For some corporations and infrastructure projects, demand erosion may weaken pricing power, and still-high operating costs and capex could pose challenges to cost recovery and contribute to margin

pressures.

Anticipated regulatory changes as a result of the March banking sector crisis, combined with recession concerns and lower banking system liquidity from monetary tightening, will continue to impair credit availability. Financial sector tightening has been most evident in refinancing risk for CRE loans, but leveraged loans are also starting to feel its effects. Weak demand and higher vacancies have caused certain office and retail property values to drop, which may have material negative implications for REITs, CMBS, municipalities and financial institutions.

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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](http://www.fitchratings.com). All opinions expressed are those of Fitch Ratings.

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## **[What Puerto Rico's Prepa Bankruptcy Means for Munis.](#)**

Craig Brandon, Eaton Vance's co-head of municipals, discusses what the bankruptcy of Puerto Rico's main source of electricity means for muni investors. Speaking on "Bloomberg Markets: The Close," Brandon also explains why he finds municipal bonds attractive right now.

[Watch video.](#)

### **Bloomberg Markets: The Close - Muni Moment**

June 28th, 2023

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## **[Fitch: SCOTUS College Rulings Have No Immediate Rating Impacts but May Affect Future Enrollment](#)**

Fitch Ratings-Chicago/New York-30 June 2023: Fitch Ratings does not expect any immediate rating impacts on Fitch-rated colleges and universities stemming from the U.S. Supreme Court rulings on June 29, 2023 to ban the express consideration of applicants' race in college admissions. However, long-term effects on the sector are possible.

The court's decisions will apply to all U.S. public and private institutions (except the U.S. military academies), but the heightened scrutiny of college admissions following the decisions is expected to be focused on selective colleges such as the University of North Carolina at Chapel Hill ('AAA'/Stable) and Harvard University, the named subjects of the cases. Fitch does not expect the impact of the rulings to impair enrollment numbers or demand at these or other selective schools.

Fitch believes colleges and universities have been preparing for this possible court outcome and will continue to develop their enrollment pipelines to meet their strategic aims around diversity and access, short of explicit admission policies around race. The use of race in admissions has already been banned in nine states. While some institutions in these states cite negative effects on the diversity of their student bodies, overall demand and enrollment (key revenue and ratings factors for many institutions) have not been directly impacted.

Over the longer term, however, the impact on student demand and enrollment in the sector could vary. In the year following California's ban on race-conscious admissions, the number of Black and Hispanic students fell sharply at the University of California ('AA'/Stable) and California State University systems, according to a recent Chronicle of Education analysis. Federal government data shows that college enrollment rates were lowest among Black, Hispanic and Native American racial/ethnic groups. This data also shows that over the last decade, the only group with meaningful growth in undergraduate enrollment was Hispanics, with 2.6 million enrolled in 2010 and 3.3 million enrolled in 2021.

Based on demographic data, Fitch expects that high school graduating classes will become more diverse while shrinking in absolute number of students. Minority and underrepresented groups will become an increasingly important pipeline of growth in an overall dwindling domestic enrollment pool of high school graduates. A 'chilling effect' that discourages college applications from these vulnerable groups of students could have implications for the sector overall. In particular, smaller, less selective institutions that rely on growth in these populations to maintain viable enrollment levels may be further challenged.

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### **3 Tips for Public Sector Leaders Looking to Take Advantage of Federal Funding for Infrastructure.**

State and local government agencies have come to love some of the recent alphabet soup cooked up on Capitol Hill. There was the Coronavirus Aid, Relief and Economic Securities (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) and the American Rescue Plan Act of 2021 (ARP) to aid communities with pandemic response and recovery. ARP included \$122 billion in Elementary and Secondary School Emergency Relief (ESSER) funds, giving K-12 districts access to critical funding that can be used for updating, renovating and reopening schools. More recently, the passage of the Infrastructure Investment and Jobs Act (IIJA) promises much-needed financial support and relief to strained communities.

Thanks to these pieces of Congressional legislation, there has been a historic outpouring of federal funding into states, counties, cities, towns, school districts and other public entities over the past two years.

While the legislation may at times seem like it's a gift with a shiny red bow on top, it can also feel like a gift wrapped in nothing but layers of red tape. This influx of federal funds has resurfaced a major challenge that public sector procurement officials must navigate to be good stewards of taxpayer dollars. With typically short cycle times to distribute the funds, government professionals must stay on their toes and position themselves to take advantage of every opportunity.

[Continue reading.](#)

**americancityandcounty.com**

Written by Bill Symon

7th July 2023

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### **How Cities Can Navigate Their State's Broadband Preemption Laws.**

**The National League of Cities takes a look at how municipalities can expand broadband even when state authority may limit their ability to do so.**

When state preemption laws on municipal broadband expansion are too restrictive, local leaders should learn how to work around bureaucratic red tape so they can deliver critical internet access to their communities, one expert says.

State-level legislative restrictions can exacerbate local digital divides and resident burdens, said Christy Baker-Smith, a director of research and data at the National League of Cities. Plus, they can cause cities to lose out on federal funding such as the recently announced \$42 billion available under the bipartisan infrastructure law meant to support states' efforts to improve broadband for under- and unserved communities.

A brief released last week by NLC found that 44% of states limit local decision-making on issues related to broadband services and programs in some way. NLC's findings are based on data from 2019 to 2022 gathered by the Center for Public Health Law Research at Temple University's Beasley

School of Law.

[Continue reading.](#)

ROUTE FIFTY

by KAITLYN LEVINSON

JULY 6, 2023

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## **'Reconnecting Communities' Grant Applications Expanded.**

**The federal Transportation Department announced \$3.35 billion in grant opportunities to reconnect communities divided by highways, rail lines and other infrastructure.**

State and local agencies could get a slice of up to \$3.35 billion to repair problems created by highways, rail lines and other infrastructure that divides communities, the Biden administration announced this week.

The U.S. Department of Transportation said it will combine the application process for two similar grant programs that Congress created in recent years to make things easier for potential applicants. The joint application will allow communities to get a portion of \$198 million through the Reconnecting Communities pilot program or \$3.155 billion for the Neighborhood Access and Equity Program. Submissions are due by Sept. 28.

"Transportation should never divide communities. Its purpose is to connect people to jobs, schools, housing, groceries, family, places of worship and more," said U.S. Transportation Secretary Pete Buttigieg in a statement. "By combining these two grant programs into a single application, we are making it easier for communities to seek and receive the funding they need to build better, safer, inclusive infrastructure for the future."

[Continue reading.](#)

### **Route Fifty**

By Daniel C. Vock,  
Senior Reporter, Route Fifty

JULY 6, 2023

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## **Some Hospitals That Spent Big on Nurses During Pandemic Are Now Short on Cash.**

**Distressed institutions are closing unprofitable services, selling assets to avoid default on debts**

Kaweah Health paid more than \$200 an hour for nurses during the worst of the pandemic's upheaval. Pay rates have eased, but the Visalia, Calif., health system's financial struggles persist.

High labor costs and financial losses have put Kaweah afoul of lenders, who demanded \$18 million of its dwindling reserves as a guarantee for bondholders. To preserve cash, Kaweah closed a diabetes clinic and a nursing home that lost money. It hasn't been enough to recover. Kaweah plans to ask the state for a loan. "We'll get what we get," Chief Executive Gary Herbst said.

Distressed hospitals are reporting they don't have enough cash to satisfy lenders, which typically require borrowers to meet periodic profit and other financial targets. Lenders are demanding that hospitals hire consultants to help turn around their operations or set aside cash for repayment. Failures to meet such obligations to lenders can technically count as default, putting hospitals at risk of credit downgrades and higher interest rates.

[Continue reading.](#)

## **The Wall Street Journal**

By Heather Gillers and Melanie Evans

July 5, 2023 5:30 am ET

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### **[Munis Wrap the First Half of 2023 \(Bloomberg Audio\)](#)**

Joe Mysak, Editor of the Bloomberg Brief: Municipal Bonds for Bloomberg News, joins us to discuss the municipal bond market. Hosted by Paul Sweeney and Madison Mills.

[Listen to audio.](#)

Jun 30, 2023

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### **[Muni Market Second Half Outlook \(Bloomberg Audio\)](#)**

Eric Kazatsky, Senior Municipal Strategist with Bloomberg Intelligence, updates us on the muni bond market. Hosted by Madison Mills and John Tucker.

[Listen to audio.](#)

Jul 07, 2023

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### **[Stay Defensive With Intermediate Municipal Bonds.](#)**

While it appears to be safe to add duration to investors' fixed income portfolios, there's still reason to be cautious. Or at least, defensive. So, for advisors looking to defensively construct their portfolios, intermediate municipal bonds may be just what they're looking for.

Despite industry observers saying that bonds are back, fixed income markets and interest rates have still been volatile this year. And while the Federal Reserve paused its rate hikes in June, the Fed is

unlikely to lower rates anytime soon. While having dropped from its 9% peak last June, inflation could be stickier than it's been in a long time.

While many advisors are becoming a little more risk-on with duration, they're not ready to go full long duration. That's where the Vanguard Tax-Exempt Bond ETF (VTEB) can come into play.

[Continue reading.](#)

ETFTRENDS.COM

by JAMES COMTOIS

JUNE 28, 2023

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## **Thoughts From The Municipal Bond Desk (June Edition)**

### **Summary**

- The municipal market has been able to post positive performance thus far in 2023 despite negative net mutual fund flows.
- Negative fund flows have been manageable as issuance has remained muted, and flows are expected to turn as funds from coupons and maturing bonds reenter the market.
- Elevated inflation has hampered the profitability of not-for-profit health care systems. We believe bottom-up fundamental credit research will be the key to investing in the sector going forward.

[Continue reading.](#)

### **Seeking Alpha**

Jun. 30, 2023

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## **First Half Public Finance Primary Issuance Down 20%, Foreshadows Potential Scarcity of Municipal Investment Options.**

- Issuance was 20% lower in the first half of 2023 compared to the first six months of 2022.
- Activity averaged \$29 billion a month, matching our expectation.
- Municipal mutual fund flows are turning, tells us municipal investor sentiment is strengthening.
- A scarcity of municipal bonds could develop because of the supply and demand dynamic in the near term, and because of federal tax policy in the medium term.
- The above dynamic, along with historically attractive municipals yields, reinforces the case we have been making to investors about the appealing nature of the municipal bond market.

[Continue reading.](#)

**advisorhub.com**

by Tom Kozlik, HilltopSecurities

July 5, 2023

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