# Bond Case Briefs

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## Inflation-Resistant Municipal Bond Sectors.

**Sectors such as public power and toll roads have characteristics that may alleviate the pressure from high inflation.**

Consumers have felt the impacts of higher inflation in their daily lives, from the gas pump to grocery stores. Investors have also felt the impacts of higher inflation in basically every asset class. Municipal bonds have not been an exception, but despite recent market underperformance, municipal credit has remained generally strong. In this article, we discuss several municipal sectors with built-in credit protections, which help offset the pressures of higher inflation.

Countering the Effects of Inflation

Public power is one of the municipal sectors with protections in place that help to mitigate the impact of inflation. First, public power utilities have rate covenants, which are legal requirements to set electric rates at levels that generate revenues that provide a minimum cushion over expenditures. For example, the City of San Antonio has legally covenanted to always maintain electric rates that produce revenues that exceed all electric operating expenditures and debt service. In addition to rate covenants, public power utilities can increase rates as high as needed without third party approval, and utilities typically have provisions in place that allow them to pass on higher commodity prices to ultimate ratepayers, automatically and without much delay. It is important, however, to monitor ratepayer affordability in this environment. In theory, all higher costs can be passed through to ratepayers, but in practice, the utility may feel pressure to not pass on all additional costs, especially if the utility serves a lower-income population. Nevertheless, public power utilities generally have credit protections, which make them resilient in all types of market cycles and environments.

Continue reading.

**Lord Abbett**

By Derek A. Gabrish, Gary M. Huang

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