A Benign Year in Public Finance: Will We Be Nostalgic for Normality?

The taming of inflation was the main financial story. Bond and capital markets were cooperative, even if voters upset about property taxes were not. Governors, mayors, finance directors and pension pros may soon look back wistfully at 2024's business-as-usual atmosphere.

It started out as "a year of stability and quiet optimism." The Federal Reserve actually pulled off a soft landing, avoiding a frequently predicted recession. Inflation subsided and short-term interest rates finally drifted down a bit. The U.S. economy continued to grow at a Goldilocks rate. It was the most benign and manageable year for state and local financiers since COVID-19 hit. Then the voters came along on Nov. 5.

The election was clearly a seismic political event that portends big political changes in the year to come, but most of the year was actually a reflection of the Federal Reserve's success in (essentially) taming the inflation monster and stabilizing interest rates. State and local government budgets and finances were affected most of all by the Fed this year, not by the national election. So let's reflect now on those developments in retrospect and save the noisy future-facing political-economic outlook and fiscal analyses for the new year.

Continue reading.

governing.com

OPINION | Dec. 17, 2024 • Girard Miller

Fitch: U.S. Community Development and Social Lending Outlook 2025

Strong consumer spending, resilient employment, rising household income and robust savings underpin Fitch Ratings' economic outlook for 2025. Fitch has revised its prior GDP growth forecast upward to 2.7% for 2024 and to 2.1% for 2025, reflecting stronger-than-expected momentum in the U.S. economy, albeit at slower rates than the recent, above-trend pace. Inflation risks are rising as consumer spending proves stronger than expected and impending tariff increases push up U.S. import prices. Despite the adverse impacts of higher tariffs, the U.S. Federal Reserve is expected to gradually reduce rates, with a total of 125bps in cuts by the end of 2025.

Access Report

Mon 16 Dec, 2024

5 NLC Resources to Help You With the Upcoming ARPA SLFRF Deadline.

As the **December 31, 2024** obligation deadline for the American Rescue Plan Act's (ARPA) State and Local Fiscal Recovery Funds (SLFRF) rapidly approaches, cities must act quickly to ensure compliance and maximize the impact of these critical resources. Municipalities are required to obligate all of their funds by the end of the year and will report these obligations to the Department of Treasury in January (quarterly reporters) or April (annual reporters) 2025. An "obligation" includes a signed contract, a purchasing agreement or an interagency agreement.

To support cities, towns and villages, the National League of Cities (NLC) has compiled its extensive library of ARPA-related resources to help municipalities obligate funds. Below is a roundup of our most recent and essential tools and guidance to help you navigate this critical deadline.

1. Countdown to the Obligation Deadline

In our latest blog post, we highlight the top five insights for local governments as they prepare to meet the SLFRF obligation deadline. From strategic planning tips to compliance considerations, this piece offers actionable advice for leaders at all levels.

Continue reading.

National League of Cities

By: Dante Moreno

December 23, 2024

Fitch: Labor Picture Continues to Stabilize for U.S. Hospitals

Fitch Ratings-Austin/Chicago-16 December 2024: Labor cost inflation is cooling while the success rate of holding on to U.S. NFP hospital jobs continues to improve, according to Fitch Ratings in its year-end quarterly labor tracker.

Labor expenses are still elevated and above pre-pandemic levels, though year-over-year average hourly earnings growth for hospitals has been consistently treading below 4% through the first 10 months of 2024. Both the lower inflation and the growth in payrolls are positive signs for hospitals managing labor costs, the largest single expense for health care providers.

"For many providers, patient volumes have rebounded to above pre-pandemic levels, especially in high-growth markets. Even systems in stagnant areas are seeing volume increases, making a reduction in clinical staff unfeasible," said Director Richard Park. "Effective labor cost management remains essential for long-term financial stability, as recent healthy investment returns cannot be relied upon long-term to overcome profitability challenges."

Through November, hospital and ambulatory healthcare services (AHS) payrolls have risen for 35 and 46 consecutive months, respectively, resulting in hospital and AHS payrolls being 7.6% and 13.9% above the February 2020 level. The quits rate in the health care and social assistance sector has decreased (favorably) from a recent peak of 2.9% in May 2023 to 2.3% as of October 2024, but remains high compared to the 1.6% average from 2010 to 2019.

Fitch's 'Hospitals and Healthcare Systems Labor Tracker: December 2024' is available at www.fitchratings.com.

How Cities Are Reinventing the Public-Private Partnership.

Cities tackle a vast array of responsibilities – from building transit networks to running schools – and sometimes they can use a little help. That's why local governments have long teamed up with businesses in so-called public-private partnerships. Historically, these arrangements have helped cities fund big infrastructure projects such as bridges and hospitals.

However, our analysis and research show an emerging trend with local governments engaged in private-sector collaborations – what we have come to describe as "community-centered, public-private partnerships," or CP3s. Unlike traditional public-private partnerships, CP3s aren't just about financial investments; they leverage relationships and trust. And they're about more than just building infrastructure; they're about building resilient and inclusive communities.

As the founding executive director of the Partnership for Inclusive Innovation, based out of the Georgia Institute of Technology, I'm fascinated with CP3s. And while not all CP3s are successful, when done right they offer local governments a powerful tool to navigate the complexities of modern urban life.

Continue reading.

gatech.com

Dec 16, 2024

A Trifecta of Tailwinds Are Benefiting Municipal Bonds.

Right now, the municipal bond space has a trifecta of tailwinds blowing in its favor. That said, the time is right for investors who have not yet considered adding munis to their existing bond portfolio.

Investors looking to park their cash in a high-quality, high-yielding asset should certainly take notice of munis. The backdrop of a strong economy heading into 2025 should make munis even more attractive.

When it comes to credit quality, munis are situated in between corporate bonds and safe haven Treasuries. Fundamentally, munis have improved over the past few years, making them an ideal option for fixed income investors looking to balance credit risk and yield.

"All of those things make for a trifecta for the muni market," said Paul Malloy, head of U.S. municipals at Vanguard Group.

Of course, the prime feature offered by munis is their tax-free income at the federal level, while certain state-issued bonds can also provide tax-free income benefits in the case of state-specific funds. Given the higher yields, it's no surprise that the muni market is seeing strong inflows, as reported by Barron's, who noted that research firm EPFR recorded net monthly inflows of $42 billion into funds with muni exposure from the beginning of the year through November.

2 Options for Muni Exposure

Investors who want to add munis, but don't want to pore over data and build their own portfolio of single bond issues, can opt for a broad-based option such as the Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor's National AMT-Free Municipal Bond Index. This index measures the performance of the investment-grade segment of the U.S. municipal bond market, giving investors only the highest quality issues.

The fund is heavily diversified with the index including debt issues from state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax. Furthermore, for the cost conscious, VTEB also features a low 0.05% expense ratio.

Investors might consider the Vanguard Short-Term Tax-Exempt Bond ETF (VTES) if they're looking to shorten duration on their muni exposure. Like VTEB, exposure comes with a low 0.07% expense ratio.

The fund tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index aims to balance tax efficiency with tax-exempt yield. For an appropriate level of duration risk, this balance can translate to potentially higher yields than those afforded by competing strategies.

etftrends.com

by Ben Hernandez

December 23, 2024

Fitch: Public Finance Credit Resilient to Short-Term U.S. Government Shutdown

Fitch Ratings-New York-20 December 2024: A short-term U.S. government shutdown is unlikely to affect most U.S. public finance credits, Fitch Ratings says. However, a prolonged shutdown could have negative credit ramifications for USPF issuers, especially those that rely on federal funding for healthcare services, housing subsidies and grants, higher education grants and student loans, and other programs. Federal budgets directly support a wide range of functions carried out by states, local governments, and not-for-profit entities, and broader federal spending is meaningful to the economic activity that underpins the credit quality of USPF issuers.

Medicaid, which comprises roughly one-third of total state budgets, and Medicare are not funded through annual appropriations and therefore their funding is unaffected. These programs are more than one-half of the payor mix for not-for-profit hospitals.

Similarly, the Federal Highway Administration's Highway Trust Fund (HTF), a dedicated funding source for federal highway and transit programs, is funded by gasoline and fuel taxes and is not subject to annual appropriations. GARVEE bond issuers have indicated that HTF funds are expected to continue to flow to the states as usual. In addition, the bonds benefit from structural safeguards, and many issuers pre-pay GARVEE debt service a year in advance.

Most federal employees, including Defense and the US Postal Service, which together make up almost half of the total of employees, would not see changes to their employment or pay status. Other employees could be furloughed or required to work without pay. Localities with the highest proportion of federal employment are unlikely to see long-lasting effects on economically sensitive tax revenues as the Government Employment Fair Treatment Act (GEFTA) of 2019 ensures payment of federal salaries deferred during a shutdown. The District of Columbia's operations are largely protected by the fiscal 2024 D.C. Appropriations bill, which exempts the district government from a shutdown in fiscal 2025. Similar provisions have been in place since 2014.

While Fitch's USPF ratings anticipate normal economic cycles, a prolonged federal budget impasse could potentially be a marginal drag on growth, with state economies still likely to see continued economic growth. The Congressional Budget Office estimates discretionary federal spending will be 6.3% of GDP in FY24, near the historical low, down slightly from 6.4% in FY23).

Most state and local government ratings assume sufficient flexibility to respond to reduced federal funding, primarily with their own spending cuts, reflecting their significant autonomy within the U.S. federal structure. Local governments bear the added risk of absorbing potential state tightening that could follow federal cuts, although they typically have broad budgetary tools and reserves to cushion unforeseen developments. Many states and local governments currently benefit from historically high reserves and solid liquidity given multiple rounds of pandemic-related federal economic stimulus and generally prudent fiscal management. Nevertheless, weaker public finances and spending cuts could diminish the reach and effectiveness of countercyclical actions, leaving USPF issuers vulnerable to a protracted slowdown.

Revenue-supported entities are also generally well-positioned to absorb the effects of reduced federal funding. However, an extended pause in spending could negatively affect USPF credits that rely on federal funding for certain programs, including housing subsidies and grants, higher education grants, and public transit. Backfilling lost federal funds with own-source resources could affect operating performance over time.

The shutdown could also cause non-material operational disruptions at airports with non-essential FAA and TSA worker furloughed, although the risk to finances is very low. Airport capital projects could be delayed if federal grant funding is held up.

How Big Banks See 2025 Muni Outlook: Bloomberg Masters of the Muniverse

A new administration and the specter of inflation are among the levers for municipal bonds moving into next year. On this month's Masters of the Muniverse, Eric Kazatsky and co-host Karen Altamirano are joined by three bank strategists with differing takes on the municipal landscape for 2025. Peter Degroot, head of municipal research and strategy at JPMorgan; Vikram Rai, who leads municipal-markets strategy at Wells Fargo; and Mikhail Foux, chief of municipal research at Barclays reflect on this year's muni performance and discuss their calls for the year ahead.

Listen to audio.

Dec 18, 2024

Munis Plummet After Fed Dials Back Expectations for Rate Cuts.

- **Benchmark muni yields climb as much as 19 basis points**

- **Rout could ‘make or break’ investors total returns for 2024**

Municipal bonds are plunging the most in weeks after Federal Reserve Chair Jerome Powell took a more cautious view on interest-rate cuts in 2025, stunning investors and leading to a global bond-market rout.

Benchmark, top-rated state and local government bond yields rose as much as 19 basis points on Thursday, in a rout that threatens to pare back the 1.56% gain for municipal debt so far this year.

“This could make or break a lot of people’s years as far as total returns,” said Eric Kazatsky, senior US municipals strategist for Bloomberg Intelligence. “If rates meaningfully spike higher, sure you could actually end up in the red when it comes to returns for the year,”

Continue reading.

Bloomberg Markets

By Aashna Shah and Elizabeth Rembert

December 19, 2024

Muni Market’s Record Year for Mega Deals Gives Bankers a Win.

- **There were over 60 muni deals of $1 billion or more in 2024**
- **State and local governments rushed to raise cash for projects**

It’s been a banner year for mega-municipal bond deals and Wall Street bankers only see it continuing through 2025.

There have been a record of more than 60 outsized muni-bond sales $1 billion or more in 2024, according to data compiled by Bloomberg. The issuance has amounted to above $90 billion, the data shows. State and local governments rushed to raise huge sums of money as pandemic relief dwindled and inflation remained sticky, forcing them to sell debt for big infrastructure projects.

“It is a business opportunity for us and if our clients are going to be looking to bring larger deals and more deals at scale, that tends to benefit the more diversified, larger players,” said Matthew McQueen, who leads global municipal banking and markets for Bank of America Corp., the top-ranked underwriter of US state and local debt.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 20, 2024

How Did BlackRock's ETF Acquire the First Blockchain Municipal Bond? – Details

- **BlackRock's ETF has made history by acquiring the first blockchain-issued municipal bond—a $15 million milestone that redefines finance.**
- **This revolutionary move showcases blockchain's ability to streamline and enhance municipal bond processes.**

In a groundbreaking move, BlackRock's ETF has purchased the first-ever municipal bond issued through blockchain technology. This marks a significant milestone for both traditional finance and the cryptocurrency industry.

This development could reshape how bonds are issued and traded. It showcases blockchain's growing potential in mainstream financial markets.

A historic bond purchase

BlackRock's Municipal Income Bond ETF acquired the inaugural blockchain-issued bond from the Franklin Township in Ohio. The bond was created using Provenance Blockchain, an open-source platform designed for financial assets. This transaction sets a precedent for leveraging decentralized technology in municipal finance.

"This transaction demonstrates the transformative potential of blockchain technology in improving efficiency and transparency in bond issuance," said Franklin Township Treasurer, Amy Parker.

The $15 million municipal bond will fund infrastructure projects within the township, including road and public works upgrades. The bond eliminates intermediaries by using blockchain, reducing issuance costs and increasing transaction speed.

The broader impact on crypto

The acquisition by BlackRock, the world's largest asset manager, highlights blockchain's increasing adoption in institutional finance. Historically, municipal bonds were issued through traditional financial intermediaries, which often added complexity and costs. Blockchain streamlines this process by enabling direct peer-to-peer transactions.

"Blockchain's integration into municipal bonds opens the door for a more efficient and secure financial ecosystem," said Larry Fink, BlackRock CEO.

This move could encourage more institutions to explore blockchain for financial instruments, bridging the gap between traditional finance and decentralized systems.

Implications for the industry

Adopting blockchain in municipal bonds could redefine the financial landscape, making it more accessible and transparent. Analysts believe this innovation could encourage smaller municipalities to consider blockchain-based bonds, especially since reduced costs make it more viable for low-budget projects.

Additionally, investors stand to benefit from greater transparency. Blockchain's immutable ledger ensures real-time tracking of bond transactions, enhancing accountability.

"This technology democratizes access to investments while ensuring greater security and compliance," noted David Treat, blockchain lead at Accenture.

The road ahead

While this transaction is a significant step forward, adopting blockchain-based bonds will require further regulatory clarity and infrastructure development.

BlackRock's involvement provides credibility, signaling that blockchain is now integral to traditional finance rather than being confined to cryptocurrencies.

As more institutional players recognize blockchain's value, the divide between conventional finance and crypto continues to narrow. This convergence could pave the way for a future where blockchain underpins a broader range of financial products.

In the words of Amy Parker, "This is just the beginning of a new era in finance where technology drives inclusivity and efficiency."

By reducing costs and increasing transaction speed, BlackRock ETF's adoption marks a pivotal step toward integrating blockchain into mainstream finance

AMBCrypto Team

Edited By: Jacob Thomas

Posted: December 19, 2024

[BlackRock ETF Purchases First Blockchain-Issued Municipal Bond: Details Inside]

- **BlackRock's ETF is reported to have made a purchase of a municipal bond via the blockchain for the first time.**
- **BlackRock's interest in blockchain technology has been evident since the earlier launch of its first tokenized fund on the Ethereum blockchain.**

BlackRock's ETF makes a historic acquisition of the first-ever municipal bond issued via the blockchain. According to the report, the bond purchased from Franklin Township in Ohio was designed using open source platform Provenance Blockchain.

Speaking on this, Franklin Township Treasurer Amy Parker disclosed that this initiative underscores the power of blockchain technology to improve efficiency and transparency. Additionally, the use of the technology eliminated intermediaries and reduced Issuance costs while improving transaction speed.

> **This transaction demonstrates the transformative potential of blockchain technology in improving efficiency and transparency in bond issuance.**

BlackRock's CEO Larry Fink also lauded the development by highlighting how blockchain integration into municipal bonds improves efficiency and security in the financial system.

According to reports, this bond would be used to fund major infrastructure projects in the township, including roads. Meanwhile, this initiative aligns with BlackRock's broader vision, which is focused on digital finance and innovation. Its integration into blockchain is also reported to mark a proactive approach to bridging the gap between emerging technologies and traditional finance.

BlackRock's Municipal Bond Conversion and Previous Involvement in Blockchain

In September, BlackRock announced that it is converting a municipal bond mutual fund into an ETF. According to reports, this decision was in response to the growing trend of issuers taking advantage of the growing demand for ETFs. At that time, it was reported that the $1.7 billion BlackRock High Yield Municipal Fund would be used for this purpose while revamping its $195.84 million BlackRock High Yield Muni Income Bond ETF into an iShares-branded product.

According to CFRA head of ETF data and analytics Aniket Ullal, 85 funds with assets of $139 billion have so far converted to ETF.

Further delving into BlackRock's deep interest in the blockchain, we discovered that the asset manager announced its first tokenized fund on the Ethereum blockchain in the first quarter of the year. Just like the recent acquisition of Municipal bonds on the blockchain, this significant move is reported to integrate traditional financial assets with blockchain technology. According to an expert called Hannah Pham, the interest in blockchain is based on its:

- Transparency and crypto-native clientele.
- Multi-chain compatibility.
- Not permissionless.

> **BlackRock's decision to launch BUIDL on the Ethereum blockchain to cater to the needs of crypto-native clients. Investors holding BUIDL tokens can use them for treasury management, building derivative products, and serving as collateral on exchanges. With the public blockchain, BUIDLs tokens, which can serve as the underlying assets, reserves, or collaterals, can be seen on-chain by anyone and live 24/7.**

Meanwhile, its recent initiatives have positioned its Asset Under Management (AUM) at $11 trillion. Fink believes that the momentum will continue to year-end and into 2025.

crypto-news-flash.com

By John Kumi

19 December 2024

BlackRock Pioneers Blockchain-Based Municipal Bonds Purchase.

A Major Step Toward Digitizing Public Finance

BlackRock's iShares Short Maturity Municipal Bond ETF (MEAR) has become the first major financial entity to purchase municipal bonds issued and settled entirely on a blockchain platform. The milestone transaction involved $6.5 million in municipal debt issued by Quincy, Massachusetts, and facilitated through JPMorgan Chase's Digital Debt Service blockchain platform. This development marks a significant transformation in municipal bond issuance and settlement, signaling the growing role of blockchain technology in traditional finance.

A New Era for Municipal Bonds

Municipal bonds, typically known for slow and paper-heavy processes, are now undergoing a shift toward digitization. Quincy's blockchain-based bond issuance signifies a departure from conventional methods by streamlining the entire process from issuance to settlement. JPMorgan's blockchain platform enabled the transaction to bypass intermediaries and significantly reduce the time required to complete it.

BlackRock's MEAR, an actively managed exchange-traded fund (ETF) with approximately $750 million in assets, updated its investment strategy to accommodate blockchain-based bonds. To ensure compliance, the ETF filed disclosures with the U.S. Securities and Exchange Commission (SEC), outlining potential risks such as liquidity challenges and technological vulnerabilities inherent in blockchain systems.

The move highlights the growing opportunities blockchain offers in simplifying bond issuance, settlement, and ownership tracking, which could ultimately reduce operational costs and improve transparency.

BlackRock's Strategic Push into Blockchain Finance

The purchase of blockchain-based municipal bonds aligns with BlackRock's broader vision for digital finance and innovation. Earlier this year, the firm launched the iShares Bitcoin Trust (IBIT), which attracted significant investor interest, drawing $740 million in a single day. BlackRock's participation in blockchain-related financial products showcases its proactive approach to integrating emerging technologies into traditional finance.

Industry experts believe this shift could profoundly reshape the $4 trillion U.S. municipal bond market. Traditionally considered a conservative investment option, the market is now positioned to benefit from blockchain's ability to eliminate intermediaries, accelerate settlement timelines, and enhance cost efficiency. These improvements may encourage broader adoption among issuers seeking a faster and more transparent alternative.

Blockchain's role in municipal bond markets could not only reduce administrative burdens but also foster increased investor confidence through verifiable, real-time transactions. Quincy's successful issuance serves as a potential blueprint for other municipalities aiming to modernize their financing operations.

Transforming Public Finance with Blockchain

As the world's largest asset manager, overseeing $11.5 trillion in assets, BlackRock's involvement in blockchain-based municipal bonds represents a major validation of blockchain's potential in public finance. The firm's proactive steps toward incorporating blockchain solutions reflect an increasing institutional interest in the technology's practical applications.

Furthermore, BlackRock has reportedly recommended allocating a small percentage—ranging from 1% to 2%—of investment portfolios to Bitcoin for specific investor profiles. This recommendation underscores BlackRock's confidence in blockchain and cryptocurrency assets as viable components of modern portfolio strategies.

The Road Ahead for Blockchain in Municipal Bonds

BlackRock's move into blockchain-based bonds highlights a broader trend of digital transformation within traditional markets. By removing intermediaries, reducing transaction costs, and enhancing speed, blockchain technology addresses longstanding inefficiencies in municipal bond processes. With financial giants like BlackRock leading the way, the integration of blockchain solutions into public finance could accelerate significantly in the coming years.

The success of Quincy's blockchain issuance sets a precedent for municipalities nationwide, demonstrating how blockchain platforms can deliver faster, safer, and more cost-effective bond issuance. As the technology evolves, its adoption could expand further, offering governments and investors a streamlined approach to bond markets.

In conclusion, BlackRock's latest initiative not only reflects its commitment to blockchain innovation but also paves the way for broader acceptance of digital solutions in public finance. The transaction represents a major step toward modernizing municipal bond markets, ultimately benefiting issuers, investors, and the broader financial ecosystem.

cointrust.com

by Kelly Cromley Dec 19, 2024 in Market News

BlackRock Muni ETF Used Blockchain to Buy Bonds.

iShares' MEAR was first to use JPMorgan system, buying Quincy, Mass. debt in April.

BlackRock Inc., whose iShares unit is the world's biggest ETF issuer, has purchased bonds for its municipal bond exchange-traded fund using a blockchain system, the first firm to do so using JPMorgan Chase & Co.'s platform.

The BlackRock Short Maturity Municipal Bond ETF (MEAR) bought debt from Quincy, Massachusetts, which issued $10 million in bonds in April. The sale was done through Digital Debt Service, part of JPMorgan's Kinexys Digital Assets blockchain platform.

The sale was the first municipal bond issuance in the United States to settle on a blockchain-based platform, and according to BlackRock's MEAR page, the firm bought $6.5 million in Quincy debt.

BlackRock, which manages $3.04 trillion in 438 exchange-traded funds, is among firms embracing the efficiency and speed touted by blockchain technologies. The New York-based firm has repeated its commitment to so-called tokenization, in which assets like cash and U.S. Treasury bills are rendered as electronic copies and transferred to a blockchain ledger.

Earlier this year, the firm, which operates the biggest bitcoin and Ethereum cryptocurrency ETFs, started the BlackRock USD Institutional Digital Liquidity Fund, which "tokenizes" cash and treasury bills.

The blockchain platform use in the sale was first reported by Bloomberg News, which said that other issuers and underwriters are probing whether or not the muni market has demand for blockchain technology.

“The use of blockchain throughout the lifecycle of bonds is just one example of the potential for this technology to transform capital markets,” Pat Haskell, head of BlackRock’s municipal bond group, told Bloomberg.

BlackRock had not long ago been a digital skeptic, with CEO Larry Fink at one point saying cryptocurrency was “an index of money laundering.” The firm’s iShares Bitcoin Trust (IBIT) is the largest crypto ETF, with $57.7 billion in assets and $43.3 billion in inflows since it began trading in January. It’s doubled in price since its launch.

etf.com

by Ron Day | Contributing Editor

Dec 19, 2024

Edited by: Kiran Aditham

[BlackRock ETF Takes First Bite of Blockchain-Based Muni Debt.]

The world’s largest asset manager claims leadership as the first investor to buy a piece of the first-of-its-kind municipal bond issuance.

A BlackRock Inc. fund has bought municipal debt issued earlier this year in a first-of-its-kind deal that relies exclusively on blockchain technology.

BlackRock purchased the bonds through an actively-managed exchange-traded fund called the iShares Short Maturity Municipal Bond Active ETF or MEAR, according to a spokesperson for the firm. The fund was founded in 2015 and has roughly $750 million in client assets.

The securities were issued by the city of Quincy, Massachusetts, in April and underwriter JPMorgan Chase & Co. used an application on its private, permissioned blockchain-based platform to facilitate the sale. It was first deal where muni debt was purchased, settled and held all in blockchain on the platform.

BlackRock is the first investor to purchase a portion of the deal, the company said. The ETF lists holdings including a total position of $6.5 million in the Quincy deal, according to data compiled by Bloomberg.

“The use of blockchain throughout the lifecycle of bonds is just one example of the potential for this technology to transform capital markets,” said Pat Haskell, head of the municipal bond group at BlackRock. “This transaction marks a significant moment for the municipal bond market and is a testament to BlackRock’s dedication to innovation.”

The prospectus for MEAR was updated to allow the fund to invest in muni bonds settled on JPMorgan’s application Digital Debt Service, according to US Securities and Exchange Commission filing dated Dec. 17. Risks disclosed to investors include lack of liquidity and the potential for errors, bugs or limitations in the application’s underlying computer code.

A handful of issuers and underwriters have been testing the muni market’s appetite for using blockchain technology in recent years. The Michigan State University board of trustees also considered a deal that would have been registered on a proprietary digital assets platform provided by Goldman Sachs.

investmentnews.com

By Bloomberg

DEC 18, 2024

BlackRock ETF Buys First Muni Bonds Issued Through Blockchain.

- **Firm is buying debt sold by Quincy, Massachusetts, in April**
- **Debt was brought to market through JPMorgan's digital platform**

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Bloomberg Markets

By Erin Hudson

December 18, 2024

Silver Point Challenges SEC Lawsuit.

Silver Point Capital is preparing to challenge a lawsuit filed by the US Securities and Exchange Commission (SEC), which accuses the hedge fund of failing to implement proper policies to prevent a consultant from sharing confidential information about Puerto Rico bonds, according to a report by BNN Bloomberg.

The consultant, a now-deceased attorney, was a member of a creditors' committee that helped restructure Puerto Rico's municipal bonds on behalf of Silver Point.

According to the SEC's complaint, filed in federal court in Connecticut, the attorney had multiple opportunities to pass material nonpublic information to the firm's trading arm.

The SEC claims Silver Point's failure to monitor the attorney's communications created a risk of insider trading.

However, Silver Point has refuted the allegations, stating that a four-year investigation and a review of approximately 350,000 documents revealed no evidence of the attorney sharing confidential information or the firm engaging in illegal trading activities.

"We have refused to settle a matter in which there was neither any wrongdoing nor any deficiency in our information barrier policies or our compliance program," the firm said in the statement. "Silver Point has, at all times, behaved legally and ethically."

The case stems from Puerto Rico's 2015 economic collapse, which led the territory to default on much of its debt. The attorney was involved in the creditors' committee from September 2019 to February 2020, during which time he had numerous communications with Silver Point's public trading desk without consulting the firm's compliance team.

The SEC alleges that Silver Point purchased $260m in Puerto Rico bonds during this period, creating a "substantial risk" that nonpublic information was used in trading decisions. The firm reportedly generated over $29m in profits from these trades.

Allowing individuals with material nonpublic information "unfettered access to those making trading decisions presents an enhanced risk of misuse," Sanjay Wadhwa, Acting Director of the SEC's enforcement division, said in a statement cited by the report.

"The resulting risks to market integrity and investors are compounded when investment advisers fail to enforce their compliance policies and procedures."

hedgeweek.com

December 23, 2024

Five Reasons Why Municipal Bonds are Compelling Post-Election.

Key takeaways

- **Monetary easing**

A macroeconomic environment with potentially lower interest rates is supportive of municipal bonds.

- **Attractive yields**
  Muni yields are still near their 10-year historical highs following two years of Federal Reserve (Fed) rate hikes.
- **Supportive fundamentals**
  Fiscal stimulus and strong revenue collections have helped maintain robust muni credit fundamentals.

Continue reading.

invesco.com

Mark Paris
Chief Investment Officer, Head of Municipal Strategies, Invesco Fixed Income

Tim Spitz
Head of Municipal Business Strategy and Development

December 20, 2024

Taxable Municipal Bonds: A High-Yield Opportunity to De-Risk Portfolios

One of the biggest draws to the municipal bond market is their tax-free status. Issued by states and local governments, Uncle Sam cuts muni investors a break and allows their interest payments to be tax-free. And in many cases, they are also exempt from state and local taxes. As such, municipal bonds are often a popular choice for taxable accounts and high-income individuals.

However, not all municipal bonds are the same.

There is a growing ecosystem of taxable municipal bonds. While this may seem counterintuitive, these taxable munis offer a variety of benefits to investors, including increased income and reduced portfolio risk. In many cases, taxable munis could be a better buy than corporate bonds with similar durations. With that in mind, taxable munis could be a great addition to a fixed-income portfolio.

Continue reading.

dividend.com

by Aaron Levitt

Dec 24, 2024

Municipal Bonds and Infrastructure: A High-Yield Match Made for Investors

Municipal bonds are issued by state and local governments for various purposes, making the sector quite diverse. As a result, many investors tend to group all municipal bonds together. Whether through active or passive investment strategies, munis are munis.

However, for investors willing to dig a bit deeper, opportunities can emerge.

One of them is municipal bonds earmarked for infrastructure opportunities. Infrastructure bonds are a wonderful way for investors to fund public assets and benefit from their cash flows. Offering inflation protection, stability, and potential tax savings, these infrastructure bonds could be a great holding in your portfolio.

Continue reading.

dividend.com

by Aaron Levitt

Dec 17, 2024

Now's the Time to Park Cash in Muni Funds. How to Play It.

Investors who are still sitting on a mountain of cash can find some of the best yield opportunities in years in municipal-bond funds.

The muni market has a lot going for it right now, with yields solid even on high-credit-quality issues. Municipalities are generally in good fiscal shape, and the economy looks to remain solid going into 2025, says Paul Malloy, head of U.S. municipals at Vanguard Group.

"All of those things make for a trifecta for the muni market," he says.

Current pretax yields on muni bond funds in the intermediate part of the curve for AA credit quality are hovering anywhere from 3% to 3.5%, which is shy of the current 4.25% and 4.3% offered by U.S. Treasury five- and 10-year notes, respectively.

Continue reading.

barrons.com

By Debbie Carlson

Dec 18, 2024, 2:00 am EST

John Miller's New High-Yield Muni Fund Dominates Market in 2024.

- **Miller's First Eagle fund gains 11.4%, outpacing all peers**
- **Miller joined firm in January after three decades at Nuveen**

It's been a banner year for high-yield municipal bonds, and in particular the category's star money manager, John Miller, who joined First Eagle Investments in January after nearly three decades at Nuveen.

Investors have plowed almost $4.4 billion into his First Eagle High Yield Municipal Fund this year through November, or almost a third of the cash that they added to riskier muni-bond funds, according to Morningstar Direct data. The open-end fund's 11.4% return for 2024 is also better than all of its peers, data compiled by Bloomberg show, and superior to the 5.9% gain for the Bloomberg Muni High-Yield Index.

"The fund is certainly announcing its arrival in the high-yield space with a splash," said Eric Kazatsky, senior US municipals strategist at Bloomberg Intelligence. "Its returns this year really speak volumes about the ability to replicate a model that was so successful for so long somewhere completely different."

Continue reading.

Bloomberg Markets

By Martin Z Braun

December 23, 2024

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 November) $475.2 billion, +33.0% Y/Y
- Trading (as of November) $13.2 billion ADV, -0.3% Y/Y
- Outstanding (as of 3Q24) $4.2 trillion, +2.9% Y/Y

Download xls

December 12, 2024

Fitch: U.S. State & Local Governments Positioned for Return to Normal in 2025

Fitch Ratings-New York-11 December 2024: Robust reserves, significant liability reductions and prudent budget management position U.S. state and local governments well for 2025 as pre-pandemic fiscal conditions take hold again, according to Fitch Ratings in its annual outlook report for both sectors.

Fitch has a neutral sector outlook in place for both sectors. Against the possibility of economic growth tailing off somewhat in 2025, credit quality will be stable given governments' ability to manage a weaker, but normalized, revenue environment with strong financial resilience.

The incoming presidential administration will be an area to watch for states. Of note is the imposition of a broad tariff regime as proposed by the president-elect which could in turn trigger retaliatory tariffs and increase the likelihood of a sharp downturn beyond Fitch's expectations, according to Senior Director Eric Kim. "Louisiana and Texas have the highest amount of international trade exports as a percentage of state GDP, with oil and gas exports being a primary driver," said Kim.

Outside of wage pressures, local government spending is largely tethered to affordable housing, homeless assistance, mental health, and community safety, according to Senior Director Michael Rinaldi. "Identifying sustainable revenue to support these programs may prove challenging, crowding out resources for other critical needs and/or increasing dependence on non-structural solutions that could weaken financial resilience and overall credit quality," said Rinaldi

Working in favor of local governments are budget contingencies, which remain an important safeguard against unanticipated spending, such as migrant shelter costs which have affected many large cities over the last several years, given limited capacity to adjust revenue mid-year.

Fitch's 'U.S. State and Local Governments Outlook 2025' report is available at www.fitchratings.com.

Fitch: U.S. State and Local Governments Outlook 2025

Although economic growth will slow in 2025, overall core credit conditions will remain neutral for U.S. state and local governments. Additionally, credit quality will be stable and strong given governments' ability to manage a weaker but normalized revenue environment with strong financial resilience. Labor market conditions, income and GDP growth will all weaken but remain positive next year, driven by a fading federal fiscal impulse and a gradual slowdown in consumption as household income growth cools. The vast majority of state and local government Rating Outlooks are Stable in 2024, consistent with the prior year. Fitch took a significant number of rating actions in 2024, driven by implementation of the new local governments criteria.

Access Report

Wed 11 Dec, 2024

How AI Is Leading To The Netflixafication Of The Municipal Bond Market.

I like Netflix.

The plethora of films and documentaries across numerous categories offer a seemingly limitless array of entertainment choices available to stream any time and any place. From sports to obscure indy films to UFO documentaries—if those can even be called documentaries—I can indulge in an occasional Sunday afternoon binge. All I need is an internet connection.

What I find most intriguing about Netflix are its algorithms. Lord knows what or how many variables the algorithms use to assess my eclectic viewing habits in making those "if-you-liked-that-yo--may-like-this" recommendations. Yet, and often with uncanny accuracy, the algorithm finds a film or series that I never heard of or much less likely I would have found on my own, yet I enjoyed watching.

Applying real-time streaming and algorithmic analysis to the municipal bond market only takes a short mental leap. It's the technology of the Alternative Trading Platform that's getting the market there. And at breakneck speed.

Follow The Money

But why is this all happening now? There is an old saying: if you want to get to the core of an issue, follow the money.

In the municipal bond market, the money to follow is investor inflows and outflows. Recently, these flows revealed a marked change. It's increasingly clear many investors are pulling their money out of mutual funds and putting it with separately managed account advisors.

Follow along. In 2021, the Federal Reserve Z Report showed open end municipal bond mutual funds hit an all-time high, totaling over $1,089 billion. But by Q-2 2024 that number was $775.1 billion—a 22% decline. It wasn't just from falling valuations to reflect rising rates.

Over that same time period, SMA advisors saw a very different landscape. In 2021, assets were $332.9 billion. Fast forward to 2023, assets were $494.6 billion—a 48.5% increase.

Quick aside: Note that the $495 billion SMA AUM figure reported here is based on voluntary disclosures to asset-trackers Morningstar and Cerulli & Associates. Screening numbers directly from the SEC ADV filings required of every registered investment advisor, ADVDB put the total of municipal bond SMA assets at roughly double that, even after accounting for possible duplication by counting subadvisors.

Shifting Trade Tides

This $161.7 billion dollar shift and the response of SMA managers to this sudden largess is profoundly affecting the market, the immediate impact most visible in trading patterns.

Here's how. Municipal bond mutual funds tend to invest in the long end of the yield curve, 20 year to 30 year to longer maturities and trade in big $1M+ blocks. In contrast, SMA portfolios are generally structured with bonds in one year to 10 year maturities and trade in odd lot blocks under $1 million, usually $100,000 or smaller.

Going back through the Municipal Securities Rulemaking Board (MSRB) Annual Reports from 2021 to 2023, customer bought and sold trades in odd lots of $100,000 or smaller increased a stunning 74%, from 14,983 trades per day to 26,068 trades per day. In 2024, at the end of Q3, the odd lot volume of 28,074 trades per day already exceeded 2023 totals. The MSRB is the market's chief regulator.

The number of bonds traded is one thing, the par amount of average daily odd lot trades is even more stunning. Remember, in bonds, par equals $1,000 face value so, for example, a 50-bond par trade is $50,000. In 2021, the daily average total par traded was $468.4 million. By the end of 2023, trades totaled $836.8 million, an 83% increase. At the close of Q3-2024, the $858 million average daily odd lot trade volume exceeded that of the entire prior year.

Real Dollars

Graphs and tables of trade statistics in annual reports is one thing. Actually managing those trades in real dollars is another. That job falls to senior management at SMA advisors, such as Matt Buscone, Co-CIO at Breckinridge Capital Advisors. Over the last decade, the firm saw its AUM more than double, from$20.8 billion to $51.1 billion (10/31/24). Currently, Breckinridge is one of the municipal bond market's top 10 SMA advisors.

To scale the internal operations necessary to oversee this growth of thousands of accounts and their accompanying mandates, technology is essential, he noted. No part of the process, be it valuations, allocations, or compliance, is possible without it.

Correspondingly, wherever he can apply technology to optimize workflow, analyze data, or automate a process, he does. In a competitive marketplace with intense pressure on expenses, fees, and top performance, the reliability, efficiency, and speed automation brings is critical.

That particularly applies to the core of his business— buying and selling millions of dollars of bonds for the clients' portfolios. Matt acknowledged the challenge of trading bonds, particularly in the odd lot sizes often required by SMA portfolios, demands connecting to end-to-end solutions offered by electronic trading platforms. Be it through traditional brokers or independent third parties, it is essential to running the business, he adds. Increasingly, it can't be done without them.

Netflixification

Enter the Alternative Trading System. As the MSRB puts it, "an ATS is an electronic trading system that is not regulated as an exchange but is instead a venue for matching the buy and sell orders of its participants."

Like movies on Netflix, an ATS streams thousands of bond offerings in real time. Money managers and broker-dealers alike can, with AI driven protocols in place, screen bonds being offered, list bonds to sell, bid, counter, and execute a trade. All it takes is an API (application programming interface) to a trading platform.

In the circle of trading life, all this digitized trade and pricing data also gets up-streamed nearly instantaneously into algorithm driven AI analytic models. As Netflix analyzes viewer choices, these models analyze the market to generate updated trading protocols set by fresh market levels. One aspect includes finding relationships between bonds—including a "if-you-liked-that-you-ma- -like-this" bond recommendation service.

While the various ATS platforms were reluctant to give actual trading volumes, each noted that volumes were up considerably, particularly in odd-lot blocks. This was after adjusting for bonds listed across multiple platforms.

ICE was understandably quick to link the numerous benefits of an ATS with the massive rate of acceleration of electronification in the municipal bond market. Add the increase in SMA assets and AI driven algorithmic trading into the mix, it was no shock that muni market participants were fast ATS adopters. From ICE's perspective, for years munis lagged the corporate market by at least seven years in technology. Now, the lag was under one year and closing rapidly.

Equally, Tradeweb Direct noted while institutional and investment professional participation was not totally surprising, the firm also saw an increase in self-directed individual investor trading. By one estimate, around 15% to 20% of platform trading was from what is described as the "retail retail" sector. This reinforced the firm's view that while trading is the central function they provide, the real role of the firm is as a distribution network. Fair point.

Moreover, as some broker/dealers exit the market (Citigroup, UBS), not only do ATS fill the liquidity gap but also mitigate supply risk. No investor, from individuals to institutions, wants to be dependent on a dwindling number of brokers for bonds. An ATS connection offers supply diversification.

Liquidity
All well and good, but if you combine the laundry list of benefits the ATS platforms eagerly offered up—automation, distribution, speed, counterparty anonymity, accessibility, connectivity, best execution, trade data, efficiency, low cost, and price transparency—the overarching benefit can be summed up in one word: Liquidity

As in any market, liquidity means better pricing and tighter spreads—a fact that should be warmly welcomed by individual investors and their professional surrogates, denizens of the notoriously inefficient municipal bond odd lot market.

Trendsetter

The MSRB hasn't missed any of this. Tracking ATS trading data and periodically updating this information in quarterly and annual market summaries, most recently through Q2 of 2024, their reports show at the close of the first quarter of 2024, almost 15% of all customer trades were executed with dealers associated with an ATS. In 2015, it was a mere 2.9%.

A review of ATS trading data is likely coming in 2025 in order to identify trends and changes in the market. The regulator's first report on the topic, Customer Trading with Alternative Trading Systems (8/2022) may be updated if changes are discovered. It's a safe bet changes will be discovered.

One more thing. Given the billions of dollars of bonds now traded annually on these platforms, perhaps an update of the term "Alternative" is in order. Maybe it should be replaced with the more appropriate and forward looking "Automated".

Just a thought.

A Platform of Platforms

A fintech firm before fintech was a word, Investortools was founded in 1983, offering portfolio management tools to the then burgeoning mutual fund industry.

Seeing the asset growth in SMAs over the last decade, the company began offering portfolio management solutions for larger asset money managers in that space as well. Also noting that as more ATS platforms entered the market, separate connections to each ATS meant multiple processes for broker dealers and money managers. Costly and inefficient, it was the opposite of the desired outcome.

To provide their institutional-sized SMA clients savings on costly multiple ATS API connections, the firm launched its Investortools Dealer Network to offer better access to bonds and trading. It's a platform of platforms, an end to end solution where brokers, money managers, and ATS interact in real time directly, either with the ATS intermediating the trade or trading directly between dealer and money manager. With a simple, single API, the bond world is opened.

However, it is only a platform, just providing access between buyers and sellers. It does not execute any trades and does not act as a broker dealer (an ATS does). This structure wisely sidesteps the Securities and Exchange Commission ATS compliance regulations.

The Other Guys

All this automation is great for the multibillion-dollar SMA managers, but as you might imagine, it isn't cheap. So how does the more bespoke independent registered investment advisor find bonds?

Jeff Watkinson, a partner at Watkinson Capital Advisors (AUM: $107.89M) a family owned and run investment advisor focused on fixed income, finds value for clients by creating carefully curated bond portfolios. It's not easy. To fulfill some customized investment strategies, Jeff noted it can take two to three months to get the bonds he needs at the price he wants to completely build out a client portfolio.

Where do the smaller AUM firms with lower trading volumes such as Watkinson's go? Jeff finds it more economical to use aggregation platforms like BondNAV. With a keen understanding of their client's needs as well as the nuances and complexities of the municipal bond market, BondNAV has the goal to make it simple for advisors to find the right bonds quickly and efficiently. Gone is the laborious task of sifting through hundreds of bond offering messages from bond dealers. Sure, BondNAV has frequently traded bonds on their platform, but there are also bonds you'll never see on a brokerage firm listing.

A New Bloom of ATS Entrants

However, it isn't just regulators and established ATS platforms noting the rise in municipal bond trading volumes. Jonathan Birnbaum founded OpenYield, an automated bond marketplace designed for algorithmic processes. Established in corporates and govies, the firm is expanding into the municipal bond market. Not a muni veteran, Jon combines his fintech experience at several start-ups with his U.S. credit and emerging markets trading experience at Morgan Stanley for a welcome fresh take. Uniting retail brokerages, investment advisors, asset managers, and market makers, OpenYield strives to create for each a readily accessible, navigable, and dynamic liquidity environment.

Jon summarizes OpenYield's perspective in one word: connection. Designing and applying protocols through a flexible API connection, he sees the opportunity for execution management systems that can aggregate and route orders in the municipal bond market. With a technology enabled process, programmatic rules can be created for portfolio allocation and best execution. What advisor or fund manager wouldn't want that?

In his big picture view, it's technology enabling low cost scalability as the key to greater market adoption. Making the municipal bond market more efficient and less costly in turn increases accessibility. That potentially brings new investors to the market—investors who may have previously eschewed it because of the market's historically cumbersome and archaic structure. With more entrants comes more capital and with that, more data, more liquidity, and better pricing. It's a grand positive feedback loop.

Primary Market

But where do all those secondary traded bonds come from originally? The primary market. No bond trades in the secondary until it was offered first in the primary.

As 2024 comes to a close, new issuance is shaping up to be a blockbuster year. With over 10,000 new bond issues having come to market through November 2024, issuance is on track to top $500 billion in 2024, potentially besting the $510 billion mark set in 2020. It could be the highest in a decade.

But when it comes to technology, the primary market has been largely overlooked. Maybe it's the process. Almost the opposite of the blinding speed of tech-enabled trading, bond underwritings—competitive or negotiated—are time consuming and cumbersome. Filled with issuers, advisors, underwriters, and attorneys, a bond issue can sometimes take months to years to get to market. Perhaps because of all that, to date there hasn't been much technology to aid and abet that process.

Until now. Enter Munichain.

Offering deal management and analytics providing clear and smooth communications between and among the deal team's many members, Munichain also serves as a record keeper of the transaction. As anyone who has worked on a bond issue has experienced, as soon as the financing closes, deal amnesia sets in almost before the electronic signature ink is dry. Having the transaction memorialized is a sure-fire antidote to that memory loss. Additionally, there is a lot of bond reference data (i.e., price, coupon, maturity) being collected along the way as well. Where there is data, there is opportunity for AI, efficiency, and process automation.

The firm is cautious to coy about its future plans. The firm may be the leader in the field simply because, as one wag put it, there isn't anyone else doing it. Yes, the room is empty—for now. But with 500 billion reasons for others to pay attention, the firm's close-to-the-vest approach on its plans is well warranted.

The Muni Channel: 24/7 Streaming

While the municipal bond market is still over the counter, a sometimes overlooked outcome of all this ATS electronification and digitization is the creation of a 24-hour marketplace. As ATS platforms continue to grow and merge (for example, note the acquisition of MuniBrokers by MarketAxess in 2021), it is not hard to imagine these platforms coming together to resemble a quasi-municipal bond exchange in the not-so-distant future.

UFO Documentary

Now, that all said, can I please get back to watching this carefully researched documentary explaining the important correlations between crop circles, Stonehenge, alien abductions, and the Easter Island heads?

Oh, and Big Foot. Can't leave out Big Foot.

Forbes.com

by Barnet Sherman
Contributor
Intelligent Investing

Dec 11, 2024

S&P: US Voters Approve Nearly $96B in New Local Government Bonds in November

US voters on Election Day approved a flurry of new spending for states, cities, counties, schools and special government districts.

As of Dec. 9, voters officially approved ballot measures allowing the issuance of $95.71 billion in new government bonds across 583 ballot measures, according to the latest data compiled by S&P Global Market Intelligence. Another $15.25 billion across 25 measures may be approved, though official results from those elections were still outstanding.

Continue reading.

13 Dec, 2024

NASBO State Expenditure Report.

This edition of the State Expenditure Report includes data from estimated fiscal 2024, actual fiscal 2023, and actual fiscal 2022. The report includes 50-state data broken down by fund source and program area, as well as data from three U.S. territories and the District of Columbia.

View the Report.

Time Is Running Out for State and Local Governments to Protect Pandemic Funds.

State and local governments will be forced to return pandemic relief funds if they aren't properly obligated by the end of December.

In Brief:

- State and local governments received $350 billion to help them recover from pandemic impacts through the State and Local Fiscal Recovery Fund, a program of the American Rescue Plan.
- They have until 2026 to spend this money, but any that is not obligated by the end of this year will have to be returned.
- Some jurisdictions are finding last-minute strategies to protect their awards.

State and local governments are scrambling to ensure they don't lose any of the federal funds they received through the State and Local Fiscal Recovery Fund. They have a Dec. 31 deadline to obligate these dollars; anything unobligated at that time must be returned to the Department of the Treasury.

Continue reading.

governing.com

by Carl Smith

Dec.13, 2024

Fitch: Outlook Stays Neutral for U.S. Public Power in 2025

Fitch Ratings-New York/Austin-12 December 2024: Operating performance appears to be on solid footing for U.S. public power headed into 2025 as utilities address growing electric demand for the first time in over a decade, according to Fitch Ratings in its annual outlook report. Fitch's outlook for the sector is neutral.

Lower interest rates coupled with slow but steady economic growth and manageably higher natural gas costs should support stable credit quality. "Moderate inflationary pressures will help utilities meet load growth needs, including new generation capacity investment," said Senior Director Kathy Masterson. "Conversely, significant capital cost pressures or resurgent supply chain constraints could dampen sector performance."

As demand grows, so does the risk of capacity concerns that could lead to market imbalances, higher wholesale energy prices, and regional shortages. "Increased data and AI-related loads, combined with extreme temperatures, are likely to drive record peak electricity demand," said Masterson. "Regional droughts, plant retirements, stricter market capacity requirements, and wildfire risks could challenge resource availability."

Potentially mitigating capacity concerns are the incoming Trump adminstration's likely plan to roll back EPA rules now in place to limit carbon dioxide emissions. This will facilitate the sector's ability to meet growing demand and provide utilities not subject to state and local government mandates with a more relaxed timetable to reduce emissions. The absence of federal legislation, however, will allow other systems to alter resource strategies, delay asset retirements, and reassess capital spending plans.

Fitch's 'U.S. Public Power and Electric Cooperatives Outlook 2025' report is available at www.fitchratings.com.

Fitch: Updated Report for Variable-Rate Demand Obligations and Commercial Paper

Fitch Ratings has published the following updated report: "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". This report updates the report published on Sept. 16, 2022 entitled "U.S. Public Finance Variable-Rate Demand Obligations and Commercial Paper Issued with External Liquidity Support Rating Criteria". The key elements of Fitch's external liquidity rating criteria remain largely consistent with those of its prior criteria report.

The updated report can be viewed at www.fitchratings.com

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

Dennis Pidherny

Managing Director
+1 212-908-0738

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

Additional information is available on www.fitchratings.com

Fitch U.S. Public Power and Electric Cooperatives Outlook.

Fitch Ratings has a 'neutral' outlook for the public power and electric cooperatives sector in 2025. We expect economic and business conditions to remain relatively stable. Lower general inflationary pressures and interest rates, together with slow but steady economic growth and manageably higher natural gas costs, should support stable operating performance as utilities address growing electric demand for the first time in over a decade. Credit quality across the sector should remain stable as utilities manage operating costs and increase rates to preserve margins and support higher capital spending.

Access Report

Thu 12 Dec, 2024

Fitch Updates Report for U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria.

Fitch Ratings has published the following updated report: 'U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria'. This report replaces the report entitled 'U.S. Public Finance Letter of Credit Supported Bonds and Commercial Paper Rating Criteria' published on Feb. 2, 2021. The key elements of Fitch's letter of credit supported rating criteria remain consistent with those of its prior criteria report.

The report can be viewed at www.fitchratings.com

Fri 13 Dec, 2024

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

Dennis Pidherny
Managing Director
+1-212-908-0738

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email:

sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

Stadiums Don’t Have to Be a Drain on Taxpayer Dollars.

St. Louis voters rejected a $60 million proposal for a new soccer stadium, but the city got one anyway. Here’s how it did that with minimal public funding.

The world of professional sports is flush with cash, thanks to multibillion-dollar TV deals, sponsorships and ticket sales. Yet some of the biggest investments in major franchises come from taxpayers. Between 1970 and 2020, state and local governments spent $33 billion in public funds on sports arenas, including nearly $20 billion since 2000, at an average cost of $330 million per project.

Lawmakers often justify those subsidies by saying they’ll create jobs, boost local businesses and attract tourists. But economists are skeptical. A 2017 survey found that 80 percent of economists think the costs of stadium subsidies outweigh their benefits. One analysis even compared the local economic impact of a sports franchise with that of a midsize department store.

As professors who study stadium financing, we wanted to dig deeper into the impact of ownership strategy in sports and economic development goals. So, in partnership with former MBA student and now graduate Jessica Timerman, we recently wrote a case study focused on our hometown’s foray into Major League Soccer. Starting in 2022, St. Louis welcomed a new team, City SC, and a new stadium, CityPark, both of which received significant family funding.

Continue reading.

governing.com

OPINION | Dec. 12, 2024 • Peter Boumgarden and Nathan Jensen

Signs Point to Strength for Muni Bonds in 2025.

Advisors and investors evaluating areas of 2025 opportunity in the fixed income market might do well to consider muni bonds and the related ETFs.

That thesis could be bolstered with the benefits of active management, accessible via the ALPS Intermediate Municipal Bond ETF (MNBD). MNBD is showing there are perks at the intersection of municipal debt and active management. The ALPs fund is outperforming some of the largest passive ETFs in the category on a year-to-date basis.

Past performance isn’t a promise of what comes next. Still, heading into 2025, the fundamental outlook for municipal bonds is appealing. That could be constructive for ETFs such as MNBD. Additionally, munis are underpinned by multiple fundamental catalysts, not just one.

Stars Aligning for MNBD Rally
Broadly speaking, the U.S. economy is sturdy enough that most states are seeing strong revenue collection. This indicates credit downgrades aren’t likely over the near-term – two factors that could

be supportive of muni bonds.

“Robust reserves, significant liability reductions and prudent budget management position U.S. state and local governments well for 2025 as pre-pandemic fiscal conditions take hold again,” noted Fitch Ratings.

Cities, towns and municipal entities are also major muni bond issuers. Many have the resources to support strong credit ratings, which could be a positive for income investors in 2025.

“Working in favor of local governments are budget contingencies, which remain an important safeguard against unanticipated spending, such as migrant shelter costs which have affected many large cities over the last several years, given limited capacity to adjust revenue mid-year,” added Fitch.

As an actively managed ETF, MNBD has the flexibility to allocate to bonds issued by the states and cities with the most attractive credit and revenue profiles, which could mitigate risk.

Regarding risk, experienced market participants know that there can be regional risks with municipal bonds. That’s something to consider should President-elect Trump actively use tariffs against U.S. trading partners. Those levies could harm more states than others, further underscoring utility vis a vis MNBD being actively managed.

“The incoming presidential administration will be an area to watch for states. Of note is the imposition of a broad tariff regime as proposed by the president-elect which could in turn trigger retaliatory tariffs and increase the likelihood of a sharp downturn beyond Fitch’s expectations,” added the ratings agency.

etftrends.com

by Todd Shriber

December 12, 2024

Golden State Munis: Opportunity in Uncertainty?

As one of the largest states in terms of economic prowess and population, California also happens to be one of the largest issuers of municipal bonds. As such, the state’s bonds can be found predominately in several national municipal bond funds. At the same, as a high-tax state, California munis are a top draw for investors living within the Golden State’s borders. So, when concerns about California’s finances creep into the news, it makes sense for investors to get nervous.

These days, investors are getting nervous: California is facing a big budget deficit.

The question is whether investors should be losing sleep over the news. California has long been a boom or bust economy, and that dynamic is playing out today. Given the state’s history of solving its budget woes, the budget deficit may not be a massive concern — but caution may be warranted.

Growing Budget Woes

California is one of the largest issuers of municipal bonds in the nation, with nearly $675 billion in debt outstanding. With such a huge amount of debt issued, concerns about the state’s fiscal health affect not only Californians but also investors looking at national municipal bond funds. For example, the $41 billion iShares National Muni Bond ETF (MUB) has about 17% of its portfolio in California bonds.

Continue reading.

dividend.com

by Aaron Levitt

Dec 10, 2024

An Update on California's Fiscal Picture for Muni-Bond Investors.

Revenue collections have been outperforming forecasts, while credit fundamentals for key California municipal bond sectors continue to improve.

While recent headlines about California have focused on office vacancies and homelessness, state revenues have been quietly outperforming budgetary forecasts for the past several months. Tax collections through the first four months of the current fiscal year are $5.25 billion above expectations, tracking 11% ahead of forecast.

Cutting through the budgetary noise of the pandemic period, state revenues thus far in fiscal 2025 (ending June 30) have grown at a 6.4% compounded annual growth rate over the last five years, above the 6.1% annual growth experienced in the five years leading up to the pandemic.1 Based on a July 2024 report from the California Department of Finance, revenues totaled roughly $209 billion in fiscal 2024.

Surging stock prices, especially for the largest California-based tech companies, and optimism for the potential of artificial intelligence have helped drive large increases in compensation for California residents. In the first quarter of calendar 2024, total pay grew at a 17% annualized rate, one of the highest quarterly growth rates observed in the past 40 years.2 These gains are translating into strong growth in personal income tax collections, which typically account for about two-thirds of the state's revenue.

The picture is improving from the expense side as well, with the state budgeting for a second consecutive year of expenditure declines in fiscal 2025—down 5.2% to $211 billion from the $223 billion budgeted for fiscal 2024. Part of the decline represents a return to normalcy following the extraordinary one-time spending of federal relief grants in prior years, and part is due to belt-tightening measures passed through an agreement between the governor and the legislature in June. Both drivers of spending reductions demonstrate the state's commitment to long-term fiscal sustainability.

Favorable Credit Fundamentals

Local municipal credit in California is in historically strong shape as well. Coffers remain full as the billions in federal relief awarded during the pandemic are still being carefully spent, and recurring revenues continue to rise. Property taxes, the largest revenue source for California cities and counties, are insulated from fluctuations in market values by a decades-old state law known as Proposition 13. The experience of San Francisco during the global financial crisis highlights just how insulated this revenue source is—while median home prices fell by 20% between 2007 and 2011, the city's property tax revenues were up 23% over that period.3

We think healthcare systems in California will benefit greatly from a permanent extension of the Managed Care Organization (MCO) tax that was approved by voters on the November 2024 ballot. This tax generates between $7-8 billion annually, which will now be restricted solely for Medi-Cal expenses and other health programs.4

Conditions for California water utilities have improved dramatically over the last 18 months as well. High levels of precipitation and snow accumulation in the Sierra Nevada mountains have refilled state reservoirs, the largest of which is currently sitting at 111% of its historical average.5

Impact of Federal Tax and Policy Developments

Tax cut extensions and deregulation, two hallmarks of president-elect Trump's campaign and previous administration, stand to benefit a state economy fueled in large part by high-income earners and large tech companies. Trump's proposed removal of the State and Local Tax (SALT) deduction cap would disproportionately benefit California residents, given how high the state's top income tax rates are.6

While, in theory, higher tariffs on Chinese goods would hurt container volumes at the West Coast ports that handle them, in practice, we saw volumes decline only marginally the last time tariffs were imposed—a cumulative 2.7% decline at the Port of Los Angeles between 2018, when the first tariffs were announced, and 2020.7 Volumes did not decline as much as expected as importers were able to pass higher prices on to consumers.

Looking ahead to 2025, we expect to see a continued uptick in bond issuance driven by large bond authorizations approved by voters in November 2024: $10 billion for construction and modernization of public education facilities and $10 billion for various water, energy, and environmental projects.8 This increased bond issuance at the state level could also result in more school district and water utility debt issuance as those downstream entities accelerate their capital plans to take advantage of cheap state loans and/or grants.

These issuances will give investors in California municipal bonds plenty of opportunities to generate tax-free income backed by high-grade issuers with strong and improving credit fundamentals.

1California Department of Finance, Finance Bulletin, November 2024.

2"The 2025–26 Budget: California's Fiscal Outlook," California Legislative Analyst's Office, November 20, 2024.

3Source: Metropolitan Transportation Corp. (Bay Area, Calif.) via Zillow.

4"Proposition 35," California Legislative Analyst's Office, November 5, 2024.

5"Current Conditions: Major Water Supply Reservoirs," California Department of Water Resources, December 3, 2024.

6Howard Gleckman, "Repealing the SALT Cap Would Overwhelmingly Benefit Those With High Incomes," Tax Policy Center, Urban Institute and Brookings Institution, September 24, 2024.

7"Monthly Container Statistics," The Port of Los Angeles, October 2024.

8”Unofficial Election Results,” California Secretary of State, November 5, 2024

lordabbett.com

by Roman Schuster
Research Analyst

Dec 13, 2024

About the Author

Roman Schuster is a Research Analyst for Lord Abbett’s Municipal Bond Research team, which supports all the tax free fixed-income capabilities.

High Yield Muni Bonds in Focus.

During this week’s VettaFi Market Outlook Symposium, we learned that the advisor community is moderately positive on the outlook for fixed income heading into 2025. In a response to a kick-off poll, 56% described themselves as bullish on the asset class. We believe one often overlooked investment style is high yield muni bonds.

Muni Bonds: Appealing Reward With Manageable Risk
High yield municipal bonds sport relatively appealing tax-equivalent yields. As of early December, the taxable equivalent yield for high yield municipal bonds was 8.3%. This was more than 100 basis points higher than the yield for corporate high yield bonds and was currently wider than the five year average per Bloomberg data. The spread relative to corporates was even wider for health care high yield municipal bonds.

Meanwhile, the risk of default is lower than many likely appreciate. Moody’s Investor Services published a review in 2023 comparing the risks for global corporate bonds and municipal bonds. In the ten-year period ended 2022, 30% of speculative grade- corporate bonds defaulted. This is significantly higher than 7% for speculative-grade municipal bonds in the same period. Bonds rated Ba by Moody’s (the highest rating for speculative bonds were five times more likely to have defaulted.

Should You Turn to Active Management?
While the backdrop for high-yield municipal bonds appears to be favorable, investors likely are uncertain about how to navigate the bond market. Heading into 2025, the macroeconomic and fiscal policies are likely shifting.

On December 12, VettaFi is hosting a one-hour virtual event in partnership with abrdn. The firm has a broad lineup of actively managed strategies. This includes mutual funds, closed-end funds and separately managed accounts. Advisors that join us will not only receive continuing education credits but get to leverage the expertise of Jonathan Mondillo. Mondillo is abrdn’s global head of fixed income.

etftrends.com

by Todd Rosenbluth

December 10, 2024

Why Active Management is Thriving in the Municipal Bond ETF Market

Active ETF adoption and launches have hit critical mass this year as investors both big and small have started to understand their benefits. Low-cost and tax-efficient active ETFs have plenty of potential to outperform passive funds. And as such, Wall Street has delivered torrid growth in the number of new products on the market.

But it turns out many of those products center around a few sectors.

One of the hottest places for new launches happens to be boring municipal bonds. The number of active muni ETFs has grown exponentially over many other fixed income and equity sectors. And there are plenty of reasons why investors can and should be excited. Municipal bonds happen to be one of the best places where active managers can add real alpha to a portfolio.

The Number of Active Muni ETFs Surge

Truth be told, municipal bonds are a boring subsector of the boring bond market. These bonds are issued by state/local governments and feature tax-advantage/tax-free income potential. The generally conservative nature of these bonds attracts conservative investors, pension funds, and insurance firms, among others. We're talking about a very buy-and-hold crowd.

Continue reading.

dividend.com

by Aaron Levitt

Dec 13, 2024

Muni Bond ETFs Can Capitalize on Infrastructure Spending Gaps.

Fixed income investors may wish to consider opting for amplified municipal bond exposure in their portfolios through muni bond ETFs.

A recent article from members of the Eaton Vance team breaks down some of the upcoming opportunities for muni bond ETFs. In the article, Craig R. Brandon, CFA, Co-Head of Municipal Investments, and Marc Savaria, Co-Director of Municipal Credit Research, discuss how upcoming infrastructure spending can bode very well for muni bonds.

This Eaton Vance article breaks down potential funding gaps in federal infrastructure spending down the line. In particular, the article highlights a report from the American Society of Civil Engineers, which projects a funding gap of roughly $2.9 trillion across the next 10 years.

Brandon and Savaria add that the majority of funds used to cover this gap will come from local governments. As such, they assert that this spending gap will largely be covered through municipal bond issues.

“The municipal market is nearing record issuance so far this year, and given the aforementioned funding gap, as well as a plethora of ancillary factors from climate change to more stringent Environmental Protection Agency (EPA) regulations for water systems, we expect heightened issuance to continue in the coming years,” the Eaton Vance team adds.

Tap Into Eaton Vance’s Expertise With EVIM
Advisors and Investors alike can turn to Eaton Vance’s ETF library to gain experienced management in muni bond strategies. One such fund is the Eaton Vance Intermediate Municipal Income ETF (EVIM).

EVIM gives investors access to a low-cost selection of intermediate duration municipal bonds. Despite the fund’s active management, the fund’s net expense ratio currently sits at only 0.10%.

The fund offers access to a core portfolio of munis with very diverse sector weightings. EVIM also aims to provide investors with yield that is exempt from regular federal income tax.

For those looking to build up their muni bond exposure, opting for an intermediate duration makes a great deal of sense. As of October 31st, 2024, EVIM’s average portfolio duration sits at a little above 7 years.

Traditionally, intermediate-duration bonds offer the benefit of mitigating reinvestment risk and long-term interest rate concerns. Additionally, a 7-year duration can let EVIM really benefit from the projected increases in infrastructure spending down the line.

etftrends.com

by Nick Wodeshick

December 13, 2024

For more news, information, and analysis visit The ETF Yield Channel.

[Prudential's PGIM Launches Two Active Muni Bond ETFs.]

PGIM, the $1.34T investment management business of Prudential Financial (NYSE:PRU), has rolled out two exchange-traded funds tied to municipal bonds, it said on Friday.

The new funds — PGIM Ultra Short Municipal Bond ETF (PUSH) and PGIM Municipal Income Opportunities ETF (PMIO) — will trade on NYSE Arca.

Both actively-managed ETFs invest at least 80% of their respective portfolios in municipal obligations whose income is exempt from federal income taxes.

PUSH, in particular, will mainly invest in investment-grade muni bonds and up to 10% in high-yield muni debt obligations. The fund seeks to maintain a weighted average portfolio duration of two years or less.

PMIO, by comparison, will invest at least 70% of its portfolio in investment-grade muni debt obligations and up to 30% in high yield muni debt obligations. It seeks to maintain a weighted average portfolio duration of two to eight years.

"In addition to their diversification benefits, muni bond ETFs offer an attractive opportunity for investors, particularly high-net-worth investors, who may be looking to maximize tax efficiency within their portfolios," said Stuart Parker, president and CEO of PGIM Investments.

msn.com

Muni Managers Launch Record ETFs to Build on $142 Billion Market.

- **Firms launched 27 muni ETFs to capitalize on growth in arena**
- **Many muni-bond ETFs have less than $50 million of assets**

Wall Street's biggest money managers are zeroing in on a $142 billion segment of the municipal-bond market.

There have been 27 muni exchange-traded fund launches this year, marking an annual record as firms like PGIM and Rockefeller Asset Management muscle into the space. That momentum represents a longer-term bet on ETFs that cater to state and local-government debt investors, given it can take years for the products to garner substantive inflows.

"If they're currently in the mutual fund business, they need to have a presence in the ETF market," said Patrick Luby, a strategist at CreditSights Inc. The launches are indicative of the direction asset managers see the market going, he said. "Where is the muni puck going to be in three or five or 10 years? It's going toward the ETF."

Continue reading.

Bloomberg Markets

By Amanda Albright

December 10, 2024

Rockefeller Wades Further Into High-Yield Munis With New Fund.

Rockefeller Asset Management launched a closed-end interval fund focused on higher-yielding municipal bonds, in yet another sign of the firm's ambitions to grow its footprint in riskier state and local debt.

The new offering comes after the company hired a trio of former Invesco Ltd. portfolio managers — Scott Cottier, Mark DeMitry, and Michael Camarella, who will manage the fund.

Rockefeller Asset Management is the New York-based division of Rockefeller Capital Management and had $16.3 billion of assets under supervision at the end of September. Earlier this year, the asset manager waded into the growing municipal ETF space with three new vehicles that also focus on lower-rated bonds.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 12, 2024

S&P's Five Takeaways From U.S. Public Finance In 2024: Uneven Credit Trends Emerge Amid Rising Uncertainty

U.S. public finance started 2024 with a mixed credit view that was largely realized. As the page turns on 2024, S&P Global Ratings recaps five major themes that underpinned the U.S. public finance credit landscape this year while we wait for how the incoming Presidential administration's policy implementation details could affect credit quality in 2025.

Our Five Takeaways

1. Better-than-expected growth stabilized ratings across most sectors. Our economic forecast indicates that the U.S. economy may expand 2.0% in each of the next two years following 2.7% growth this year (see table below). Real GDP growth in 2024 is nearly 2x our economists' forecast at the beginning of the year. A relatively resilient labor market and the gradual decline in inflation led to robust revenue and demand activity that supported operations and debt service obligations across most U.S. public finance asset classes. Meanwhile, the final year of federal pandemic stimulus contributed to revenue strength across sectors. For example, most states saw surplus operating results and record reserves. (See "States' Median Reports: Our New Methodology Highlights Rating Consistency," published Nov. 20, 2024, on RatingsDirect.)

In addition, U.S. not-for-profit transportation infrastructure enterprise financial medians improved in fiscal 2023 across asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves, resulting in rating actions that were overwhelmingly positive (32 positive to just one negative rating action) from Sept. 1, 2023, through Sept. 1, 2024. (See "U.S. Not-Fo--Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs," published Nov. 12, 2024).

Continue reading.

[Free registration required.]

9 Dec, 2024

S&P U.S. Public Finance Rating Activity, November 2024

Monthly rating activity

Download the Report.

Countdown to ARPA's SLFRF Obligation Deadline: Top 5 Insights for Local Governments

The December 31, 2024 deadline for obligating funds under the American Rescue Plan Act (ARPA) State and Local Fiscal Recovery Funds (SLFRF) program is rapidly approaching. With over $350 billion allocated to state and local governments, ensuring these funds are effectively obligated can make or break the recovery and prosperity of our communities. Here, we detail the top five insights from the recent Listening Session that the National League of Cities (NLC) and National Association of Counties (NACo) held in partnership with the U.S. Department of Treasury to help local governments meet their goals, with a key focus on the critical area of revenue replacement.

You can find a recording for the webinar here and the slideshow presented here.

1. Revenue Replacement Is Not Automatic

While revenue replacement is the quickest, simplest and most flexible funding available to municipalities through ARPA SLFRF, there have nevertheless been issues around reporting. All SLFRF recipients can classify at least $10 million of their allocations as revenue replacement or use a formula the Treasury provides to calculate their actual revenue lost because of the pandemic to classify a larger amount.

However, a common misconception is that claiming funds under the revenue loss category automatically fulfills the obligation requirement. Treasury clarified that revenue loss dollars must be obligated through a two-step process. Moving funds to a general fund without further action does not meet the criteria.

Step One: Report claimed revenue loss: Elect either the $10 million Standard Allowance, up to the award amount, or calculate revenue loss according to the formula provided by Treasury.

Step Two: Report projects under expenditure category 6. These projects must include:

- Amount of SLFRF funds budgeted, obligated and expended (when applicable) for that specific project.
- Project description that summarizes the project in sufficient detail to provide an understanding of the major activities that will occur.

Continue reading.

National League of Cities

By Dante Moreno

December 9, 2024

FAQs: Navigating the ARPA SLFRF Obligation Deadline

As the December 31, 2024, obligation deadline for ARPA's State and Local Fiscal Recovery Funds (SLFRF) approaches, many local governments have questions about what constitutes an obligation, how to use funds effectively and how to stay compliant. Below, we provide guidance on some of the most frequently asked questions (FAQs) highlighted during a recent Treasury webinar co-hosted by the National League of Cities (NLC) and National Association of Counties (NACo).

You can find a recording for the webinar here and the slideshow presented here.

1. What is the obligation deadline, and what does it mean for local governments?

The obligation deadline is December 31, 2024. By this date, all SLFRF funds must be obligated, meaning committed through contracts, subawards, interagency agreements, or similar transactions.

Local governments will report its obligations during the next reporting period:
January 31, 2025 – Quarterly reporters.
April 30, 2025 – Annual reporters.

Funds must be spent by **December 31, 2026**.

2. What qualifies as an obligation?

An obligation is:

- A contract, subaward, purchase orders for goods or services, or interagency agreement (e.g., MOU, MOA). You can find a template for an interagency agreement here.
- Certain payroll expenses for eligible employees if the positions are established by December 31, 2024.

An obligation is **NOT**:

- A budget allocation or amendment.
- An intention to enter a contract.
- Moving funds into a general fund but not further establishing an obligation with those funds by 12/31/24.

Continue reading.

National League of Cities

By Dante Moreno

December 6, 2024

Maximizing Renewable Energy Financing with Taxable Municipal Bonds and IRA Credits: Frost Brown Todd

The Inflation Reduction Act of 2022 (IRA) incentivizes investment in clean energy projects by offering income tax credits for entities seeking to finance facilities that produce or use certain clean energy resources. Tax-exempt municipal bonds are issued by states, local governments, and other governmental entities to benefit the public, for instance, by funding energy-efficient improvements to existing structures. Such tax-exempt municipal bonds allow the interest income derived therefrom to be exempt from federal and potentially state income taxes. Alternatively, taxable municipal bonds frequently involve projects that do not qualify for tax-exempt status under Section 103 of the Internal Revenue Code,[1] generally offering higher yields but subjecting the interest income to taxes.

By introducing new incentives and enhancing existing tax credits, the IRA expands opportunities for entities involved in renewable energy development, particularly in how they can leverage both taxable and tax-exempt municipal bonds. For stakeholders, including state and local governments, public utilities, developers, and investors, the IRA offers new strategies to lower the costs of clean energy projects through a combination of tax credits and bond financing. In this article, we explore how the IRA impacts municipal bond financing, the types of tax credits available, and the key opportunities and considerations when evaluating the use of taxable and tax-exempt bonds.

IRA Incentives

The IRA brings significant updates to two critical tax credits for renewable energy projects:

Continue reading.

Frost Brown Todd LLP – Beau F. Zoeller, Alexandra Just, Raghav Agnihotri and Brian D. Zoeller

Dec. 5, 2024

Why Climate Change Will Wreck the Municipal Bond Market.

It's going to be worse than 2008.

Unpriced risk undermined the global economy during the financial crisis of 2008. Today, researchers say unpriced physical climate risk will lead to rapid declines in property values — and point out that this is already happening in some Florida markets. They often compare what's happening now to the run-up to 2008. If the analogy holds, we will likely see disruption in other related financial structures. In particular, as the physical reality of climate change begins to have an effect on the attractiveness of bonds in risky areas, the ability of local governments to raise money to adapt to rapidly changing climate conditions may be undercut.

But comparing the effect of the 2008 unpriced risk on the municipal bond market with the potential effects of physical climate risk shows the suffering will likely be much greater this time. Today, there's a direct, rather than indirect, connection between risk and public finance markets.

The solution? Last week, Tom Doe, CEO and founder of Municipal Market Analytics, said cities should act now to raise as much money as possible for adaptation before the municipal bond market starts pricing in physical climate risk. It's only going to get more expensive later, in his view.

Continue reading.

HEATMAP

by Susan Crawford

December 05, 2024

BlackRock Sees Retail Traders Snapping Up Muni Bonds in 2025.

- **Pat Haskell, firm's muni head, sees another supply record**
- **Investor is in wait-and-see mode on Trump policy, tax changes**

By most accounts 2025 will be another blockbuster year for bond sales from local and state governments. And BlackRock Inc.'s head of municipal bonds Pat Haskell expects retail buyers to be eager to help digest that flood of new issuance.

The more than $500 billion in new muni deals Haskell is expecting in 2025 "should provide opportunities and dislocations where you can really find good bonds at good levels," he said in an interview at BlackRock's New York office. He took over the muni desk at the world's largest asset manager earlier this year.

Mom and pop traders often invest in munis via separately-managed accounts or exchange-traded funds — like BlackRock's $41 billion MUB, the largest muni ETF in the market — which are overseen by professional portfolio managers. Haskell expects demand for munis from smaller investors will be a key factor next year.

Continue reading.

Bloomberg Markets

By Erin Hudson

December 6, 2024

Muni Sales Set to Jump Past $500 Billion in 2025, Analysts Say.

- **Infrastructure needs, refinancing deals to spur more sales**
- **State and local borrowers sold a record sum of debt in 2024**

Municipal bond bankers should prepare for a bigger onslaught of sales in 2025, even after a blockbuster year of supply.

States, cities, school districts, colleges, hospitals and other borrowers in the $4 trillion muni-bond market are poised to issue a record sum next year, according to annual supply forecasts collected by Bloomberg.

"We see even more supply on the table – refunding candidates are up and spending for capital projects will have to stay at a brisk pace to ensure infrastructure keeps up with first-world standards," Abigail Urtz and Ryan Henry, strategists at FHN Financial, said in a research note on Wednesday.

The volume will be fueled by lingering infrastructure needs, a surge in refinancing deals as interest rates drop as well as less federal aid — which had reduced the need to take on more debt in the years following the pandemic.

"Certain local governments will get less federal help because of the cost cutting initiatives that is suppose to be planned next year," said Vikram Rai, head of municipal strategy at Wells Fargo & Co., in an interview. The cuts "will mean that the state and local governments will have to issue more debt to make up their financial needs." Rai has called for $500 billion of muni issuance next year.

Muni Analysts Expect Supply Increase in 2025

Projections for the volume of municipal bond sales by firm

That forecast is in line with most expectations for 2025 sales, according to ten projections collected by Bloomberg. The majority of analysts expect issuance to total between $460 billion and $540 billion — with Hilltop Securities as the sole outlier, calling for a whopping $745 billion. On average, the analysts expect about $524 billion of new bond sales, the data shows.

Alice Cheng, a municipal credit analyst at Janney Montgomery Scott LLC who foresees $520 billion in supply, is anticipating growth across the housing, health care, and education sectors.

"Issuers still have a lot of needs that need to be addressed," she said.

Excerpts from the analysts' forecasts are included below:

- Nathan Will, head of municipal credit at The Vanguard Group Inc. expects issuance to total $460 billion. That is the smallest of the projections collected by Bloomberg and less than this year's volume. "Once we get past the uncertainty of tax policy changes, the issuers will come back to the market," Will said.
- Mikhail Foux, head of municipal research and strategy at Barclays Plc. sees supply between $475 billion and $485 billion in 2025. "Reasons for robust supply next year include concerns about the future of tax exemption in some sectors, refunding activity, and issuers' realization that rates might remain elevated, coupled with their increased funding needs," the group said in a research note.
- JPMorgan Chase & Co., in a note led by Peter DeGroot, expects issuance to be $490 billion. "If the market begins to factor in limitations to tax-exempt financing early in the year, there could be a pull forward of supply — particularly in vulnerable sectors such as higher ed, hospital, and private activity (PAB) issuance, to front-run potential legislation," DeGroot wrote in a research note.
- Strategists at Ramirez & Co. are expecting historic new money supply growth due to inflation, infrastructure demands and the lack of American Rescue Plan Act funding that supported local budgets after the pandemic. "Refunding supply should increase materially as interest rates likely grind lower throughout the course of the year, producing greater targeted debt service savings," Peter Block, managing director at Ramirez, said in a research report.
- Analysts at Bank of America Corp — the market's largest underwriter — anticipate state and local governments will sell $520 billion of debt in 2025, a record sum. The group led by Yingchen Li and Ian Rogow said that "available cash in 2025 will exceed record new issuance" which means the surge in sales should be well absorbed.
- Tom Kozlik at Hilltop had the largest forecast in the group, estimating $745 billion worth of sales. He said that Congress may propose legislation to curtail the muni-bond tax exemption which would lead borrowers to accelerate their sales before the changes take effect.

Bloomberg Markets

By Lily Meier

December 4, 2024

[How to Ensure Sustainability for State and Local Budgets Without Pandemic Funding.]

Officials from all levels of government outline collaborative approaches to complex challenges

As federal pandemic aid winds down and state and local budgets normalize, government policymakers face an inflection point: Some issues—such as housing affordability and infrastructure investment—are familiar. Others, such as political polarization, are more recent developments that make it more difficult for leaders to make sound, long-term decisions about the public purse. Though the challenges seem daunting, the last four years also pushed leaders at all levels of government to collaborate and communicate in unprecedented ways.

Their experiences have yielded lessons about intergovernmental collaboration that can help guide policymakers in the coming years. To capture those lessons, the Volcker Alliance, with support from The Pew Charitable Trusts, held a symposium in September in which federal, state, and local officials examined how all levels of government can use these lessons to more effectively address shared challenges. The event was part of the alliance's Richard Ravitch Public Finance Initiative, which highlights promising practices for building sound, sustainable budgets that enable residents and communities to thrive.

The day featured open conversation about the challenges and successes that government officials have experienced with federal funding and how that affects state and local budgeting, fiscal planning, and infrastructure investing. Attendees discussed strategies, policy tools, and responses in three main areas: managing federal funds effectively, building capacity at the state and local level, and future-proofing with innovative financing. The Ravitch Initiative's recently released report, Resilient State and Local Finance, outlines actions that policymakers can take to advance goals in these areas.

Continue reading.

pewtrusts.org

By: Liz Farmer

December 6, 2024

Muni Bond Boom Fuels Growth in Electronic Trading.

Strong retail demand for municipal bonds and expectations for a steady flow of new issues in 2025 are helping drive long-overdue technology upgrades in one of America's most important markets.

After years of limited growth, electronic trading volumes have started to climb in the municipal bond market. E-trading accounted for just over 18% of notional volume traded in 2024 (YTD October), up from 16% in 2022 and an estimated 12–15% in 2019.

Dealers expect this momentum to continue. The majority of the 35 municipal bond dealers participating in an October 2024 study from Coalition Greenwich expect e-trading levels to rise in the coming year, with two-thirds predicting an increase of 5% or more. Nearly 70% of that same group agreed that e-trading allows them to scale their business more efficiently.

"Thanks in large part to technology enhancements and the growth in electronic trading, nearly half of sell-side municipal bond traders say market liquidity improved in 2024," says Kevin McPartland, Head of Research at Coalition Greenwich Market Structure & Technology and author of *Muni Bond Market Structure 2025: The Dealer View*.

Dealers Focus on E-Trading and Automation

The rapid evolution in market structure has been fueled by a boom in municipal bond activity, with new issuance up 40% YTD October in 2024 and average daily trading volumes topping $13 billion, well above pre-pandemic levels. Amid this growth, municipal bond dealers are investing in technology to handle growing volumes and to compete for trading share by enhancing client service. Nearly half of study respondents said automating parts of the trading process was their top technology priority heading into 2025.

"Municipal bond dealers are fully focused on automation when laying out 2025 technology investment budgets and on e-trading skills when hiring for trading desks," says Kevin McPartland.

Muni Bond Market Structure 2025: The Dealer View includes a detailed examination of the impact of changes in market structure on client needs and sell-side priorities, and insights into where the municipal bond market is headed next.

marketsmedia.com

12/9/24

S&P U.S. Not-For-Profit Acute Health Care 2025 Outlook: Stable But Shaky For Many Amid Uneven Recovery And Regulatory Challenges

Sector View: Stable

- Good revenue and demand for services, easing of certain labor-related and inflationary expenses, and generally sound balance sheets support S&P Global Ratings' stable outlook on U.S. not-fo--profit acute health care providers. This is translating to outlook trends that show signs of stabilization following a period of increased rating activity.
- Our stable outlook also incorporates a meaningful reduction in organizations with negative outlooks and far fewer negative outlooks among higher-rated categories. Although we will likely continue to see some negative bias related to credit activity in 2025, we expect the pace of rating changes will slow and could be more concentrated among lower-rated categories.
- That said, sector uncertainty persists as a subset of providers continues to work toward improved and stable cash flow, with likely increased capital investments in coming years. Industry headwinds and an incoming new federal administration could set new priorities and policies that may alter our view of credit quality for the sector.

Continue reading.

4 Dec, 2024

S&P U.S. Not-For-Profit Higher Education Outlook 2025: The Credit Quality Divide Widens

Sector View: Bifurcated/Mixed

- S&P Global Ratings' view of the higher education sector in the U.S. remains mixed for the third consecutive year. Our outlook is negative for highly regional, less-selective institutions that lack financial flexibility, but it is stable for institutions with broad geographic reach, steady demand, and sufficient liquidity and financial resources to navigate operating pressures.
- While enrollment declines and financial stresses likely will continue, these problems are not affecting all schools equally. Competition for students and operating expenses remain elevated, sustaining budget pressures for many, but these issues are most pronounced at the lower end of the ratings scale.
- Credit quality bifurcation has widened. Strong institutions hold their market position, excel at fundraising, and have healthy balance sheets while working to improve operating margins; struggling schools face enrollment declines, leading to strained operations and, often, liquidity issues. Industry headwinds and a new federal administration with different priorities could create additional obstacles.

Continue reading.

5 Dec, 2024

S&P U.S. Rated Not-For-Profit Retail Electric And Natural Gas Utilities - Sector Update And 2023 Medians

S&P Global Ratings rates 189 NFP retail electric utilities (including combined utilities) and 23 NFP retail gas utilities under its "U.S. Municipal Retail Electric And Gas Utilities: Methodology And Assumptions." The 'A+' median and modal ratings of U.S. not-for-profit (NFP) retail electric utilities reflect generally healthy operations and finances amid utility-specific and industrywide challenges.

Download

Fitch U.S. Public Finance Rating Action Report 2024 Year to Date (1 January to 6 December)

Access Report

Mon 09 Dec, 2024

Fitch U.S. Not-For-Profit Hospitals and Health Systems Outlook 2025.

Fitch Ratings Sector Outlook for U.S. Not-for-Profit Hospitals and Health Systems has been revised to neutral from deteriorating. While operating headwinds remain, the sector has shown steady improvement following considerable margin compression in 2022-2023. The rate of labor expense escalation in particular continues to attenuate, as well as a moderation of general inflation. Balance sheets remain robust, benefiting from improving cash flows and equity market returns.

Access Report

Mon 09 Dec, 2024

Fitch Revises Sector Outlook for U.S. NFP Hospitals to Neutral

Fitch Ratings-Austin/Chicago-09 December 2024: U.S. not-for-profit hospitals have made enough meaningful strides over the last several months to lead Fitch Ratings to revise its sector outlook to Neutral from Deteriorating, according to the rating agency's 2025 outlook report.

While headwinds are still formidable, the sector has shown steady and notable improvement in operating margins following considerable margin compression over the last three years. "The rate of labor expense escalation in particular continues to attenuate as inflationary pressures subside, while balance sheets are benefiting from improving operating cash flows and strong equity market returns," said Senior Director and Sector Head Kevin Holloran.

Improving operating margins should translate to continued slow yet steady improvement for core credit drivers in 2025. Fitch forecasts a median operating margin of between 1% and 2%, barring any unforeseen shocks to the system. Volumes remain very healthy, particularly in growth markets, leading to a renewed focus on access and capacity. Labor shortages remain a preeminent struggle for hospitals, though the staffing picture has stabilized compared to the pronounced challenges that reached a peak in 2022.

As for potential headwinds for health systems in the coming year, major policy shifts that resulted in a considerable decline in health insurance coverage for a broad segment of the population or a material decline in net cash flows from supplemental funding streams could shift the sector outlook to Deteriorating. In addition, "a macroeconomic disruption leading to a combination of payor mix deterioration, volume softening, or equity market losses could lead to Fitch revising the sector outlook back to Deteriorating," said Senior Director Mark Pascaris.

Fitch's "U.S. Not-For-Profit Hospitals and Health Systems Outlook 2025" report is available at www.fitchratings.com.

Contacts:

Kevin Holloran
Senior Director, Sector Head for U.S. NFP Hospitals
+1 512 813 5700
kevin.holloran@fitchratings.com
Fitch Ratings, Inc.
2600 Via Fortuna, Suite 330
Austin, TX 78746

Mark Pascaris
Senior Director

+1 312 368-3135
mark.pascaris@fitchratings.com

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

Additional information is available on www.fitchratings.com

Munis Join Treasury Rally After Bessent Chosen for Trump Cabinet.

Municipal bonds jumped on Monday, following gains in the US Treasury market after Scott Bessent was named as President-elect Donald Trump's nominee for Treasury secretary, with traders betting the hedge fund manager will bring a Wall Street mindset to the role.

Benchmark state and local government yields fell by as much as 7 basis points as of 4:00 p.m. New York time. Tax-exempt yields on 10-year, top-rated benchmark bonds fell 5 basis points to 2.89%, according to data compiled by Bloomberg. That gauge is hovering near the lowest since late October, the data shows.

Bessent — who runs macro hedge fund Key Square Group — has called for a gradual approach to implementing trade restrictions, and has appeared open to negotiating the exact size of tariffs proposed by Trump. Treasuries traded up on the news with yields falling more than 10 basis points across five- to 30-year maturities.

Continue reading.

Bloomberg Markets

By Aashna Shah

November 25, 2024

Incoming Administration Puts Municipal Bonds in Play.

With an incoming presidential administration in 2025, municipal bonds are in play as infrastructure plans and other project initiatives could shape the muni debt space in the new year. On that note, Vanguard has a pair of muni bond-focused exchange-traded funds (ETFs) to consider.

Furthermore, a new administration typically brings its own policy agendas that could impact the current muni market. As Alliance Bernstein noted, tax policy could be a hot topic for the incoming administration, which could affect the tax-exempt status of municipal bonds.

Alliance Bernstein in particular cited the Tax Cuts and Jobs Act (TCJA) that will expire at the end of 2025. An extension of this act could increase the federal budget, unless other revenue streams are generated to keep muni bonds tax-exempt. It's a topic that's been discussed in the past in order to prevent the federal budget deficit from getting out of hand. Thankfully, it hasn't come to fruition just yet. The tax-exempt feature is an obvious draw to munis, which simultaneously allows governments to fund their infrastructure projects.

“Tax-exempt municipal bonds are critical to America’s infrastructure and to a functioning US economy,” explained Alliance Bernstein. “Muni bonds’ tax exemption dates back to the earliest federal income tax in 1913 and has been a pillar of state and local project funding ever since.”

In the meantime, interest in muni bonds expand as the market itself experiences expansive growth. Whether for tax-exempt income, solid credit quality, or yield, munis offer a variety of benefits to fixed income investors.

“According to the National League of Cities, municipal bonds are a $4 trillion market and have financed approximately 75% of US infrastructure—with hospitals, schools, airports, water and sewer systems, public power facilities and toll roads among the many beneficiaries,” Alliance Bernstein added.

2 Muni Options to Ponder

Fixed income investors considering muni exposure can ponder a pair of options from Vanguard. One offers broad-based exposure via the Vanguard Tax-Exempt Bond ETF (VTEB) and another tailormade exposure to short-term munis via the Vanguard Short-Term Tax-Exempt Bond ETF (VTES).

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

VTES is a viable option for fixed income investors concerned about rate risk. VTES tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index seeks to balance the need for tax efficiency with the need for tax-exempt yield. This balance can translate to potentially higher yields than those afforded by competing strategies, for an appropriate level of duration risk.

etftrends.com

by Ben Hernandez

December 4, 2024

Municipal Bonds Win: Why Smart Investors Focus on Tax-Equivalent Yield

One of the best pieces of investment advice could be, “It’s not what you earn, it’s what you keep that matters.” As such, active tax management is a key piece of portfolio management. And many investors use a variety of techniques and strategies to keep Uncle Sam out of their pockets. But one strategy is often underappreciated by many investors no matter what their tax bracket is.

And that’s the taxable equivalent yield on municipal bonds.

Munis provide many tax advantages over taxable bonds such as U.S. Treasuries and corporates, chief of which is their ability to provide tax-advantaged and tax-free income. Often, investors ignore the real after-tax yield when building their fixed income portfolios. And that’s a shame as, more often than not, munis win out on yield.

Continue reading.

dividend.com

by Aaron Levitt

Dec 05, 2024

Implications for Public Finance in a Trump II Era.

His second presidency could recolor the landscape for federal spending, with ramifications for states, local governments, schools and public pensions. Governors and mayors will need to try to discern where the political wind is blowing — and what to watch out for.

The re-election of Donald Trump and the Republican takeover in the Senate portend the very real possibility of a seismic shift in federal tax and budget policies. It's premature to make predictions of what will ultimately pass in Congress, of course, so the magnitude of fallout at the state and local level is a guessing game at this point. But experience from the first Trump presidency and the ground rules for passing fiscal legislation without a Senate filibuster do shed light on the playing field and how the game will likely be played next year.

During the campaign, neither Trump's team nor Kamala Harris' had much to say about public finance beyond the issues of tariffs and tax cuts. Neither candidate addressed the federal deficit or the bond market in a meaningful way. The closest they got to public finance was the way each side portrayed the benefits vs. the inflationary impact of COVID-19 recovery legislation, and neither campaign team made reference to state and local budget consequences. Inflation was the issue: Egg prices were more important than intergovernmental fiscal policy.

So while it remains to be seen as to what exactly the new political team in the White House will propose on Capitol Hill, it is pretty clear that the first orders of business will be to extend the 2017 tax cuts, push for lower corporate taxes for domestic manufacturers, fulfill some of candidate Trump's promises for idiosyncratic tax exemptions and cut government spending. The big unknown, as explained below, will be whether there are enough votes in both houses of Congress to sustain the wild card of dramatic budget cuts of the magnitude ballyhooed by billionaire/influencer Elon Musk.

Continue reading.

governing.com

OPINION | Nov. 19, 2024 • Girard Miller

Munis Join Treasury Rally After Bessent Chosen for Trump Cabinet.

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Bessent — who runs macro hedge fund Key Square Group — has called for a gradual approach to implementing trade restrictions, and has appeared open to negotiating the exact size of tariffs proposed by Trump. Treasuries traded up on the news with yields falling more than 10 basis points across five- to 30-year maturities.

“He’ll be a little bit more mindful of both sides of the respective balance sheets of the government,” said Chris Brigati, director of strategic planning at SWBC. “To me, that means lower deficits and a little bit of stability in the market.”

Municipals have gained 0.88% so far this month, headed for its seventh-straight November of gains, according to data compiled by Bloomberg.

Bloomberg Markets

By Aashna Shah

November 25, 2024

S&P States' Median Reports: Our New Methodology Highlights Rating Consistency

Key Takeaways

- S&P Global Ratings notes positive momentum in state ratings in calendar 2024 with three upgrades, six with positive outlooks, and only one with a negative outlook.
- U.S. states’ economic metrics reflect stability in the near term despite expectations of more tepid growth.
- States’ financial performance and institutional frameworks are largely clustered around our highest assessments across rating levels within the portfolio, while fixed-cost liabilities and management practices are more distinctive indicators of a state’s rating level.
- The recent strong revenue environment has led to surplus operating results and historical reserve levels for most states across rating levels.

Continue reading.

20 Nov, 2024

S&P: How Proposed Immigration Policy Could Affect U.S. Public Finance Issuers' Creditworthiness

Despite considerable uncertainty about President-elect Donald Trump’s policy proposals for immigration reform, S&P Global Ratings believes it could be helpful to provide its preliminary views on how a stricter approach to immigration could affect certain sectors in U.S. public finance.

What's Happening
The incoming administration hasn't released details on how proposed immigration policies would be structured or enforced, and the timing and extent of any policy changes remain unclear. Nevertheless, Trump's first term, campaign priorities, and early cabinet appointments serve as a preliminary guide for gauging potential areas of credit impact.

Why It Matters
In addition to potential economic and workforce impacts, a proposed change in federal immigration policy could put financial pressure on some public finance sectors, although significant uncertainty remains around the timing, magnitude, and implementation that complicate making cost or economic projections. Tighter border policies could relieve some costs for governments that experienced higher social service expenditures to support new arrivals entering the U.S. during the past few years, even as they potentially raise costs for labor and construction.

[Continue reading.]

20 Nov, 2024

[Fitch: U.S. States Sector Monitor (2024 State Liability Report)]

State long-term liability (LTL) burdens rose as of their fiscal 2023 audits, as the previous year's surge in pension asset market values reversed, unwinding part of the temporary improvement in LTL burdens reported in state fiscal 2022 audits. Despite variability in the LTL metric, stronger state contribution practices are supporting the sustainability of pensions and could lower net pension liabilities over time.

[Access Report]

Wed 20 Nov, 2024

[Fitch: U.S. Pension Liability Burdens Rebound Even as More States Contribute]

Fitch Ratings-New York-20 November 2024: Overall long-term liability burdens rose among U.S. states in fiscal 2023, reflecting a rebound in pension liabilities, even as outstanding direct debt fell, according to Fitch Ratings in its latest annual report.

Coming off of the very strong market rebound following the pandemic, less robust pension asset returns in 2022 resulted in the median ratio of state pension assets to Fitch-adjusted liabilities falling significantly in fiscal 2023, to 66% from 73.5% the previous year based on data from states' annual comprehensive financial reports (ACFRs, or audits). Pension data in state ACFRs generally lags actual pension system results by one year. The decline in pension asset values did not erase all of the improvement reported in fiscal 2022, with the median ratio in fiscal 2023 still above the 60.2% fiscal 2021 level. "Additionally, stronger market performance reported by pensions in their own fiscal 2023 audits will result in improved ratios and steady or lower pension burdens in upcoming state fiscal 2024 audits," said Senior Director Doug Offerman.

Despite reporting weaker ratios of assets to liabilities in fiscal 2023, U.S. states continued to improve their pension contribution practices, with 40 states making at least full actuarially determined contributions (ADCs) in fiscal 2023, up from 37 states in fiscal 2022 and 25 in fiscal 2016. Continued improvement in fiscal 2023 reflected favorable state fiscal conditions, with reserve balances at historically high levels, even as the post-pandemic revenue surge began to slow. State liability burdens remained unevenly distributed, with only nine states having burdens above 10% of personal income.

At the state level, there were few material changes to rankings in fiscal 2023. Tennessee's long-term liability burden metric, which measures direct debt plus Fitch-adjusted net pension liabilities from 2023 state audits to calendar year 2023 personal income, remains the lowest, at just 1% of personal income, followed by Nebraska, South Dakota, Florida and Arizona. The rankings remain unchanged at the opposite end with Connecticut carrying the highest long-term liability burden, at 23% of personal income, and Illinois, Hawaii, New Jersey and Kentucky rounding out the top five.

Fitch's 'U.S. States Sector Monitor (2024 State Liability Report)' and a supplementary data file are available at www.fitchratings.com.

[Fitch: Expiration of Home Healthcare Program Threatens US NFP Hospital Recovery]()

Fitch Ratings-New York-21 November 2024: Congressional failure to extend the Acute Hospital Care at Home program and certain features of telehealth policy could threaten the U.S. not-for-profit (NFP) hospital sector's nascent financial recovery, Fitch Ratings says.

The Acute Hospital Care at Home (hospitals at home) and certain Medicare telehealth services that were extended under the 2023 Consolidated Appropriations Act (CAA) will expire on Dec. 31, 2024, unless Congress acts to renew the programs. Hospitals have increasingly incorporated these services into their operations, which has helped to alleviate revenue and expense pressures. Hospital financials have shown signs of improvement, although challenges lurk with increased Medicare payors as the U.S. population ages, shifts from inpatient to outpatient services, and achieving sustainable levels of cash flow given high costs and fixed revenues.

The hospitals at home program was implemented by the Centers for Medicare and Medicaid Services (CMS) during the pandemic to allow Medicare-certified hospitals to provide in-patient care at home. Length of stay (LOS) increased during the pandemic, as staffing challenges in post-acute care settings, particularly at skilled nursing facilities (SNF), limited hospitals' ability to discharge patients. Employment at SNFs remains below pre-pandemic levels, and the program has helped hospitals reduce LOS by allowing certain lower acuity patients to recover at home. Hospital at home patient quality indicators and patient/caregiver satisfaction data have been positive for the program, according to a study conducted by the CMS as required under the CAA.

Telehealth, which was essential in providing access to care during the pandemic, has become a normal part of healthcare and hospital operations. The key provision that will expire in December allows Medicare patients to receive broad telehealth services at home. Telehealth reduces hospital costs and provides critical, additional revenue by increasing patient volumes and broadening access, especially in rural areas, where physician coverage is limited.

Not-for-profit hospital and health systems are slowly recovering from their worst year financially in 2022 due to high labor costs that contributed to operating margin pressure. The overall median operating margin improved to 0.4% in 2023 from 0.2% in 2022, but we expect ongoing stresses will keep margins compressed relative to pre-pandemic levels of 2%-3%, even as volumes remain strong. Labor costs, which have abated from pandemic peaks, remain elevated, and NFP hospitals have limited flexibility to raise rates.

We anticipate hospital Medicare volumes will increase over time, absent service line and catchment area expansion, as the baby boom generation ages. In addition, given the strong patient volumes, capacity constraints are re-emerging, with the need for capital spending and a corresponding increase in debt issuance.

U.S. CDFIs Take On More Debt To Grow Their Lending Capacity: Ratings Will Likely Remain Stable - S&P

Key Takeaways

- U.S. CDFIs are looking to grow by attracting new capital to expand their lending capacity in underserved communities.
- Capital adequacy is weakening but remains at levels commensurate with current ratings.
- Diligent underwriting and effective portfolio oversight underpin the rated sector's asset quality, but delayed project stabilization or take-out financing could impair loan performance for certain organizations.
- Lending strategies and funding sources vary among rated CDFIs, which is reflected in our view of their individual financial strength.

Continue reading.

19 Nov, 2024

Data Centers: U.S. Not-For-Profit Electric Utilities Explore Ways To Mitigate Risks From Load Growth - S&P{

Key Takeaways

- In our view, prospects for load growth from data centers and beneficial electrification mandates have the potential to expose U.S. not-for-profit electric utilities to negative credit pressures due to the substantial investment requirements to serve load growth.
- For those electric utilities with surplus power generation resources, load growth might strengthen credit metrics as utilities spread fixed costs over more megawatt hours.
- S&P Global Ratings' base case assumes annual electricity sales growth of about 1% for the next several decades, which is a significant rise following nearly flat sales growth in the past two decades.
- Preserving credit quality among not-for-profit electric utilities will require mitigating customer nonpayment, avoiding cost shifting among new and existing customers, and developing rate structures that provide for the timely and sufficient recovery of the costs of adding resources to support new loads.

Continue reading.

21 Nov, 2024

Fitch: Spirit Airlines' Bankruptcy Will Not Affect Airport Ratings

Fitch Ratings-New York-21 November 2024: Spirit Airlines' bankruptcy filing is unlikely to have a material impact on U.S. airport operations, finances, or ratings, Fitch Ratings says. In the near term, Spirit plans to continue operating normally during the bankruptcy process, which it expects to complete in 1Q25.

As a low-cost carrier Spirit is focused is on leisure travel, servicing predominately origin and destination markets. Spirit has a small share of flights and passenger levels at most airports it serves. However, Spirit does have a meaningful share of enplanements at Myrtle Beach Airport and Fort Lauderdale-Hollywood Airport, both of which have strong financial profiles, and a more modest share of traffic at Orlando Airport (Greater Orlando Aviation Authority) and Las Vegas (Harry Reid International) Airport, with both airports demonstrating positive financial trends.

Continue reading.

Fitch: US Airports and Toll Roads Maintain Strong Momentum in 1H2024

Fitch Ratings-Austin-22 November 2024: Traffic at U.S. airports and on toll roads continued to grow year-over-year in 1H2024, according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

Average airport traffic growth for 1H2024 across the Fitch Traffic Monitor portfolio was 6.5% higher than the same period in 2023. Leisure markets continued to perform well, and a new top performer emerged, with Charlotte Douglass International Airport experiencing strong year-over-year growth.

The toll road sector began the year with modest year-over-year growth across the Fitch Traffic Monitor portfolio compared to 1H2023. Southern California toll roads performed exceptionally well in 1H2024 due to rapid growth in the corridor. Only two toll roads are still below 90% of pre-pandemic levels.

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

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

State and Local Officials Urge Congress to Fund Lead Pipe Removal.

New federal rules require localities to get rid of all their lead water pipes in the next 10 years. Officials say they need help – and money.

A new federal rule will require water utilities across the country to pull millions of lead drinking water pipes out of the ground and replace them, at a cost of billions of dollars.

States, cities and water utilities agree that the lead pipes need to go to ensure safe water for residents. But they say they may struggle to do so in the 10-year window required under the rule, and they fear some ratepayers will be hit with massive cost increases to pay for the work.

State officials are urging Congress to provide ongoing funding for the lead replacement effort. Local leaders say they'll need lots of help to meet the deadline. And environmental advocates are calling on states to issue bonds or provide other financial support to water utilities.

Continue reading.

governing.com

Nov. 22, 2024 • Alex Brown, Stateline, TNS

APPA Earns DOE Grant to Draft Elective Pay "Blueprint" for Public Power.

The Department of Energy's Office of Policy announced this week that the American Public Power Association is one of five organizations that will receive funding to develop "blueprints" for developing projects making use of elective pay energy tax credits.

APPA submitted its request to DOE in August and has been working through the fall with the department to finalize details of the agreement.

Under the agreement, APPA will develop a "blueprint" specifically designed to guide public power utilities through the process of developing elective pay tax credit projects.

The goal is a step-by-step review of project development – from assembling your project team to filing for elective pay once the project is in service. The blueprint will focus at each stage on issues of specific concern as a result of elective payment, while also providing direction to readers as to where additional resources can be found for issues that fall outside the blueprint's scope.

The document is scheduled to be completed in May and will be drafted relying on in-house staff and outside experts in project development, tax law, accounting, and municipal finance.

In addition, APPA has obtained commitments from public power utilities that have already gone through the elective pay process to "stress test" the document to ensure that it provides the breadth and depth of guidance needed.

American Public Power Association

by Paul Ciampoli

November 21, 2024

[States Are Exploring Paths to Finance Climate Resilient Infrastructure.]

Recent programs and legislative proposals highlight diverse approaches

As extreme weather events become more intense and more common, states already face an estimated backlog of nearly $1 trillion for deferred maintenance and needed upgrades to public infrastructure. To finance long-overdue repairs and ensure that America's roads, bridges, and water systems can withstand future climate impacts, states are turning to new strategies and adapting existing approaches to address the substantial work needed to boost the resilience of these vital systems.

Doing so is critical as aging and often undermaintained systems are increasingly vulnerable to the rising frequency and intensity of natural disasters, extreme heat, heavy rainfalls, drought, and other shifting environmental impacts—all of which increase maintenance costs.

In recent years, policymakers have been exploring approaches to manage these rising costs and address emerging financial challenges while also attending to other essential public spending priorities such as health care and education.

Continue reading.

The Pew Charitable Trusts

By Fatima Yousofi & Eli Gullett

November 21, 2024

Intersection of AI and Muniland: Bloomberg Masters of the Muniverse

In this months episode we take a break from the discussing nuts and bolts of asset management and instead focus on the bits and bytes of how technology is applied to and even changing the municipal landscape. Joining us this month is Issac Kuo from Parametric portfolio associates. Issac is a portfolio manager, technologist and painfully shy scratch golfer.

Listen to the podcast

Bloomberg Intelligence

Nov 20, 2024

Muni Market Heads for Seven-Year Streak of November Gains.

- **Seasonal slowdown in municipal bond sales provides tailwind**
- **30-year munis most expensive to Treasuries since January 2022**

The municipal bond market is headed for its seventh-straight November of gains, with the US presidential election and a Federal Reserve meeting keeping issuers on the sidelines, while strong investor demand has boosted prices.

Municipal issuance, usually slow in the 11th month, was more muted than usual because state and local governments sought to avoid election-related volatility. Long-term muni bond issuance through Nov. 22 was $23.4 billion, down 6% year-over-year.

Meanwhile, investors typically have more cash on hand from principal and coupon payments than available debt to purchase. This November, demand exceeds supply by $12 billion, according to PGIM. The upshot is that over the past decade, November has tended to be the strongest month of the year, returning 1.1% on average, data compiled by Bloomberg show.

Continue reading.

Bloomberg Markets

By Martin Z Braun

November 22, 2024

Invesco Muni Spotlight: Our Approach to Evaluating Housing Finance Authorities

Key Takeaways

- **Our approach** – Given the uniqueness of the Housing Finance Authority (HFA) sector among municipal bond issuers, we updated the way they're evaluated under our ratings methodology.
- **More opportunities** – This change makes it possible to take advantage of more opportunities that support positive social outcomes, specifically affordable housing and poverty reduction.
- **Case study** – The Statewide Communities Development Authority joined our list of eligible HFAs, thanks to this approach.

Housing Finance Authorities are a fundamentally different sector than other municipal sectors. The purpose of an HFA is to provide affordable housing to low- and middle-income individuals and households. How effective an HFA is varies depending on local and state regulations, availability of funding/financial support, and management. Even if an HFA is providing less affordable housing than one of its peers, it's better that some affordable housing is being provided versus none, in our view.

Given the uniqueness of this sector, we updated the way HFAs are evaluated under our ratings methodology. Headline risk now determines whether an HFA is eligible or ineligible for inclusion in our funds.

What do we mean by headline risk?
Headline risk is the risk of negative environmental, social, and governance (ESG) events that call into question an issuer's ESG bona fides. What constitutes a negative ESG event varies by sector. For utilities, for example, it would most likely be a significant environmental accident that could have been prevented through better management or climate resilient infrastructure.

For HFAs, headline risk events include possible corruption, poor or dangerous living conditions, and misuse of resources. Examples we've encountered in our credit research include extreme heat conditions, possible mishandling of complaints, maggot infestations, possible corruption by preventing federal funds from being distributed properly, delayed or bungled distribution of federal funds, and others.

All of the above issues are significant and concerning; they call into question the management of these HFAs and their ability to make good on their mission of providing affordable housing.

What did this change mean?
This change made it possible for us to take advantage of more opportunities that support positive social outcomes, specifically affordable housing and poverty reduction.

HFAs continue to be scrutinized as carefully as before. We continue to monitor headline risk, as well as whether an HFA provides reasonable affordable housing opportunities. When possible, we engage with problematic issuers to understand their perspective on headline risk events and how they plan to address these risks and events in the future.

Issuer case study: Statewide Communities Development Authority
This Statewide Communities Development Authority joined our list of eligible HFAs, thanks to our present approach. Based on our previous approach to the sector, this Authority likely wouldn't have been eligible, since it doesn't conform to the typical HFA structure.

This Authority was established in the 1980s for the purpose of supporting community-based programs for public benefit. The Authority currently serves as a conduit issuer for more than $530 cities, counties, and special districts. As a conduit, it has issued more than $70 billion in tax-exempt bonds and supported community infrastructure, education accessibility, health care accessibility, affordable housing, and job creation projects.

The Authority's finance programs include the following:

- **Public Agency Program**s are low-cost, pooled finance programs designed to address short-term borrowing needs and budget shortfalls and provide capital for critical infrastructure improvements.
- **Property Assessed Clean Energy Programs** provide financing to residential and commercial property owners for water conservation, seismic improvement, energy efficiency, and renewable energy projects.
- Through the issuance of government bonds, the **Community Improvement Authority Workforce Housing Program** acquires market-rate apartment buildings that are then converted to income and rent-restricted affordable housing units for moderate/middle-income households. It's the largest workforce housing program in its state, having converted more than 7,700 units for low- and middle-income tenants.
- The **New Markets Tax Credit Program** encourages and supports businesses and real estate projects in low-income communities through Community Development Entities.
- The **Statewide Community Infrastructure Program** provides financing to enable developers to pay impact fees and finance public infrastructure projects.
- **Private Activity Programs** finance high quality public benefit projects, including qualified non-profit organizations; housing bonds for low-income multifamily and senior housing; tax-exempt bonds for the rehabilitation or acquisition of equipment for exempt and solid waste facilities; and taxable bonds for public benefit projects by both public and private entities.

November 20, 2024

Vanguard Launches Two Active Municipal ETFs.

VALLEY FORGE, PA (November 21, 2024)—Vanguard today launched Vanguard Core Tax-Exempt Bond ETF (VCRM) and Vanguard Short Duration Tax-Exempt Bond ETF (VSDM), two active municipal ETFs managed by Vanguard Fixed Income Group. The new ETFs offer diversified exposure to municipal bonds across sectors, states, and credit quality with the potential to outperform their benchmarks over the long term.

"These new ETFs combine our top-tier active fixed income capabilities with our expert municipal bond team, all within an actively managed ETF wrapper that's becoming an essential for many investors," said Sara Devereux, Global Head of Vanguard Fixed Income Group. "We envision these ETFs playing an integral role in investors' portfolios; with Vanguard Core Tax-Exempt sitting centrally as part of their tax-exempt allocation and Vanguard Short Duration Tax-Exempt leveraging our expert active capabilities, helping investors to get the most out of their short-term allocation."

Vanguard Core Tax-Exempt Bond ETF offers broad exposure to high-quality municipal bonds with an expense ratio of just 0.12% compared with the average expense ratio for competing funds of 0.36%.1 It will be managed by industry veteran Stephen McFee. With two decades of experience at Vanguard, McFee has successfully managed several active mutual funds and indexed ETFs in our fixed income offerings.

Vanguard Short Duration Tax-Exempt Bond ETF is designed for investors seeking tax-exempt municipal income at the short end of the yield curve. Investors in the ETF can expect a portfolio of short-duration and primarily high-quality, investment-grade municipal bonds that generates tax-exempt income with lower interest rate sensitivity. Adam Ferguson, who has successfully managed Vanguard municipal funds for more than 20 years, will oversee management for this fund. It has an estimated expense ratio of 0.12%, compared with the average of 0.27%1 for competing funds.

Vanguard Core Tax-Exempt Bond ETF and Vanguard Short Duration Tax-Exempt Bond ETF provide an active counterpart to Vanguard's existing suite of index municipal ETFs and build on Vanguard's growing active fixed income ETFs alongside the recently launched Vanguard Core Bond ETF (VCRB) and Vanguard Core-Plus Bond ETF (VPLS).

Vanguard Fixed Income Group

With more than $2.4 trillion globally in fixed income assets under management, Vanguard Fixed Income Group is one of the world's largest managers of bond mutual funds and ETFs,2 overseeing the full spectrum of fixed income asset classes and sectors. The new ETFs will be managed by Vanguard Fixed Income Group's municipal team, which has proven expertise and a track record of producing strong client outcomes across Vanguard's extensive municipal bond fund lineup. The municipal team includes 40 tenured portfolio managers, traders, and analysts, who leverage their deep experience, scale, and sophisticated processes to navigate this complex segment of the fixed income market.

Vanguard's track record as an investment manager remains unparalleled—95% of Vanguard active fixed income funds outperformed their peer group averages over the past ten years ended September 30, 2024.3

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About Vanguard

Founded in 1975, Vanguard is one of the world's leading investment management companies. The firm offers investments, advice, and retirement services to individual investors, institutions, and financial professionals. Vanguard operates under a unique, investor-owned structure where Vanguard's fund shareholder clients own the funds, which in turn own Vanguard. As such, Vanguard adheres to a simple purpose: To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success. For more information, visit vanguard.com.

All figures as of September 30, 2024, unless stated otherwise.

1 Morningstar data as of September 30, 2024.

2 Assets under management figures as of September 30, 2024

3 For the ten-year period ended September 30, 42 of 44 Vanguard active bond funds outperformed their peer group averages; results will vary for other time periods. Only funds with a minimum ten-year history were included in the comparisons. (Source: Lipper, a Thomson Reuters Company.)

[Freddie Mac To Bring Tax-Exempt Loan CMBS Product to Municipal Investors.]

New Approach Will Increase Liquidity in CMBS and Municipal Markets and Support Affordable Multifamily Housing

MCLEAN, Va., Nov. 21, 2024 (GLOBE NEWSWIRE) — Freddie Mac (OTCQB: FMCC) Multifamily today announced a new CUSIP registration capability to better align its ML-Deal offerings for both commercial mortgage-backed securities and municipal bond investors, increasing liquidity across both markets and advancing Freddie Mac's mission.

The new CUSIP registration capability will allow investors to choose their preferred CUSIP identifier, Mortgage or Municipal, at deal settlement and subsequently exchange their certificates between either of the two CUSIPs through a Freddie Mac approved Broker Dealer.

"This new registration capability streamlines our product to both mortgage and municipal bond investors, which is important to meet market needs and deliver on Freddie Mac's mission to support affordability, liquidity and stability in the multifamily housing market," said Robert Koontz, SVP of Multifamily Capital Markets at Freddie Mac. "We look forward to continuing to innovate and advance our offerings to respond to market changes while keeping a clear focus on our mission."

Continue reading.

Fixed-Income Investors: Look for 'Shock Absorbers' Like Corporate Debt or Muni Bonds

Investors looking to build their fixed-income portfolio should look for high-quality corporate debt, mortgage-backed securities and municipal bonds, one head of fixed income said.

Gene Tannuzzo, the head of fixed income at asset manager Columbia Threadneedle, said as interest rates fall, "Inevitably we will have some volatility and I think high-quality bonds, whether they be taxable or muni, are well positioned to be a shock absorber," he said. That's why he likes debt in sectors such as healthcare, financials and utilities.

Tannuzzo believes inflation will continue to fall toward the Federal Reserve's 2% target and that the central bank will push interest rates below 3% by the end of 2025.

However, his forecast isn't necessarily in line with consensus.

Continue reading.

marketwatch.com

By Paulo Trevisani

Nov. 25, 2024

[Fitch Takes Various Rating Actions on U.S. Enhanced Municipal Bonds and TOBs.]

Fitch Ratings – New York – 13 Nov 2024: Fitch Ratings has taken various conforming rating actions on U.S. enhanced municipal bonds and tender option bonds (TOBs) corresponding to actions taken on their associated enhancement providers, liquidity providers or underlying bonds.

Key Rating Drivers

The U.S. enhanced municipal bonds and TOB ratings addressed in this rating action commentary (RAC) are dependent ratings, being the subject of pre-existing rating dependencies. A list of the U.S. enhanced municipal bond and TOB ratings actions can be seen via the "View Additional Rating Details" link below.

All rating actions announced in this RAC are directly driven by separately announced rating actions on associated enhancement providers, liquidity providers or underlying bonds. The most recent RAC with respect to the credit rating of each associated enhancement provider, liquidity provider or underlying bonds referenced herein sets out the key rating drivers and names and contact details of the relevant primary and secondary analysts and committee chair in relation to the credit ratings of such enhancement providers, liquidity providers or underlying bonds.

Continue reading.

[S&P U.S. Social Housing Providers: Laying The Groundwork To Address Affordable Housing Needs]

Key Takeaways

- S&P Global Ratings expects affordable housing funding gaps will continue to widen as U.S. Department of Housing and Urban Development support had remained stagnant from political deadlock and budgetary impasses in 2024. Future budgetary cuts could occur as part of Congress'

proposed spending.
- However, social housing provider ratings will remain stable as a result of strategic competence and operational effectiveness of management teams, as many issuers seek to increase revenue amid inflationary expenditure pressures, including rising insurance costs.
- Debt profiles could weaken in the short term as many issuers execute aggressive growth strategies, including preservation of affordable units with Section 8 conversions under the Rental Assistance Demonstration program.
- Opportunities to increase funding for affordable housing may occur through local ballot measures and proposed federal fiscal policy, but ultimately partisan dynamics could shape outcomes.

Continue reading.

14 Nov, 2024

S&P U.S. Not-For-Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs

Key Takeaways

- U.S. not-for-profit transportation infrastructure enterprise (TIE) financial medians improved in fiscal 2023 across the asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves.
- S&P Global Ratings expects that stable-to-improving demand and revenue trends and proactive management practices will continue to mitigate the impact of higher debt for larger issuers and of rising operations-and-maintenance (O&M) costs to support financial medians into fiscal 2024.
- Despite 14% median growth in operating expenses attributable to inflationary pressures combined with higher debt outstanding, virtually all TIE medians improved as S&P Global Ratings-calculated median net revenue available for debt service increased, resulting in improved overall coverage, debt capacity, and cash reserves.
- Improved financial metrics contributed to overwhelmingly positive rating actions with 32 upgrades and one downgrade from Sept. 1, 2023, through Sept. 1, 2024.

Continue reading.

12 Nov, 2024

S&P: Strong Financial Resources And Innovation Are Paving A Path Forward For U.S. Not-For-Profit Cultural Institutions

Key Takeaways

- Most U.S. cultural institutions have emerged on solid footing from one of the most operationally challenging periods in recent history
- Annual attendance has increased from record lows but very few institutions have seen it recover to pre-pandemic levels

- Greater philanthropic support and heightened endowment draws have helped several institutions ease their reliance on federal support and stabilize operations
- Although financial resources remain a key driver of credit strength, most institutions are cautiously anticipating further market volatility

Continue reading.

12 Nov, 2024

Resource Explores Local Government AI Use, Offers Advice.

The National League of Cities released a report this week outlining strategic ways municipalities are using artificial intelligence to better serve constituents. An accompanying toolkit aims to facilitate analysis.

The National League of Cities' (NLC) new AI in Cities report and toolkit illustrates various use cases of artificial intelligence in local government.

Amidst the rise of AI use, local governments are expected to quickly adapt in order to successfully implement the technologies. Some resources already exist to support local government in this work, like a toolkit from the National Association of Counties.

NLC's report was created in partnership with Google, with the input of local leaders serving on the NLC AI Advisory Committee. It includes expertise from elected officials, technology innovators and state municipal league staff.

Continue reading.

govtech.com

November 14, 2024 • News Staff

NLC Releases New Report on Local Governments & AI Use.

Washington D.C. – A new report from the National League of Cities in partnership with Google highlights practical ways that local governments are maximizing the use of Artificial Intelligence (AI) to optimize city services. From improving traffic systems to enhancing public safety, the AI in Cities report profiles innovative use of AI in municipalities and includes a toolkit to help local leaders adopt the use of AI effectively and efficiently.

Drafted with input from local leaders serving on NLC's AI Advisory Committee, the report showcases the strategic way that local governments are exploring opportunities to use technology like AI in its many forms to better serve their communities.

"Technology has always been an essential tool to help local governments respond to the changing needs of their residents," said National League of Cities CEO and Executive Director Clarence E. Anthony. "Our Artificial Intelligence report is a collection of both the potential pitfalls and the overwhelming opportunities that exist for our local communities with AI. As part of NLC's centennial celebration, we are focused on helping local officials prepare for the next chapter in local governance."

"We are excited to partner with the National League of Cities, providing tools, resources and expertise to help its members leverage AI in ways that meet the unique needs of their communities," said Karan Bhatia, Vice President & Global Head Government Affairs & Public Policy at Google. "We believe that by working together, we can unlock the transformative power of AI to build a better future for everyone."

NLC was proud to partner with Google and to have them share their expertise with our members who are eager to learn how to navigate this technology and leverage it, where valuable, to make their communities stronger.

National League of Cities

November 13, 2024

Report Details How States Can Implement Reliable, Effective Generative AI.

For generative AI initiatives to be successful, a new report suggests a slow and steady approach to the technology.

A new report highlights how generative AI could impact state operations and offers insights to effectively implement the burgeoning technology.

The explosive debut of generative AI following the 2022 launch of the popular ChatGPT chatbot catapulted the technology into the public sector's eyes, and state officials have since explored its potential to streamline workflows and boost productivity.

Over the next few years, generative AI is expected to take over routine government functions — such as program eligibility determination or policy assessments — and improve employee and customer experience, according to a report released this week from the National Association of State Chief Information Officers.

Continue reading.

Route Fifty

By Kaitlyn Levinson,
Reporter, Route Fifty

November 15, 2024

State and Local Security Adjusting to Shifting Cyber Threats, Insurance Requirements.

State and local governments are under the radar no more. Although security has always been taken seriously, many governments didn't consider going as far as taking out cybersecurity insurance because they didn't feel they were lucrative enough targets to attract the persistent attention of cyber threat actors.

But any added sense of security from being perceived as relatively inconsequential targets is quickly eroding. The attacks this summer on the City of Columbus, Ohio, and the New Mexico public defender's office were notable on their own, but they also continued a trend. Malware attacks and ransomware incidents targeting state and local governments increased by 148% and 51%, respectively, from 2022 to 2023, and show no signs of slowing down.

At the state level, CISOs are facing this increasingly pernicious threat, with nearly 40% of them saying they don't have the IT budgets or resources to protect systems that are heavy with legacy equipment, according to a report released Sept. 30 by Deloitte and the National Association of State Chief Information Officers (NASCIO).

Continue reading.

Route Fifty

By Paul Underwood,
VP of Security, Neovera

November 12, 2024

What the 2024 Election Could Mean for Transportation Policy.

Local taxes to fund public transit fared well on Election Day. But state and federal election results could alter the outlook for infrastructure investment long term.

In Brief:

- Voters backed most of the local transportation funding measures on ballots last week, approving around $25 billion in revenue for public transit.
- Other election results could signal potential shifts in policies related to electric vehicles and transportation emissions.
- Congress faces longer-term challenges over the solvency of the Highway Trust Fund, which pays for most transportation infrastructure.

Continue reading.

governing.com

Nov. 13, 2024 • Jared Brey

Subways, Buses and Bike Lanes Scored Billions in Local Ballot Wins.

Voters overwhelmingly supported local measures to improve mass transit from Arizona to Tennessee.

While most of the country was transfixed by the presidential vote earlier this month, voters in Nashville quietly supported a major transit plan by a 2-to-1 margin after roundly rejecting a similar one in 2018 by the same margin.

It was part of a wave of mass transit-oriented measures that passed this election season, even as Republicans — who tend to oppose mass transit — won many up-ballot races. Of the 26 transit initiatives, 19 passed for communities including Columbus, Ohio; Maricopa County, Arizona; and metro Denver, Colorado. All told, the initiatives along with other wins earlier this year will raise roughly $25 billion, according to the American Public Transportation Association. The widespread support reflects the broader reality that “people want to have good transit, they want alternatives, they want their workers to be able to get to their jobs reliably,” said Beth Osborne, vice president for transportation and thriving communities at Smart Growth America.

Continue reading.

Bloomberg Green

By Kendra Pierre-Louis

November 16, 2024

Munis Tumble Under Republican Regime.

Municipal bonds have taken a significant hit after Donald Trump’s election as president, following a sharp selloff in U.S. Treasuries amid concerns over potential deficit-expanding policies and inflationary effects.

Benchmark municipal yields spiked, echoing the Treasury market’s movements as investors reacted to the likelihood of Trump’s economic plans impacting inflation. Many state and local governments had already rushed to issue bonds before the election, leading to high issuance in October, but new sales were sparse this week.

Despite the volatility, analysts like Lyle Fitterer of Baird predict bond issuance will recover in time, driven by the U.S.’s substantial infrastructure needs. A Republican victory also stirs concerns that tax cuts could reduce demand for tax-exempt municipal bonds, with JPMorgan analysts highlighting the risk to the tax-exemption status itself.

Finsum: It’s also worth noting how inflation is going to potentially affect these assets, because there is strong chance inflation will increase under the new regime.

Nasdaq

November 14, 2024

Written by dkorth@finsum.com (FINSUM) for FINSUM ->

An Almost Imminent Threat to the Municipal Bond Tax-Exemption is Here.

Act Now to Preserve This Vital Infrastructure Financing Tool

The Urgent Need to Preserve the Tax-Exemption

The preservation of the municipal bond tax-exemption should be considered a crucial priority for lawmakers in 2025. Tax-exempt bonds serve as a vital infrastructure financing tool for states, local governments, and public entities nationwide.

Continue reading.

advisorhub.com

by Tom Kozlik, HilltopSecurities

November 13, 2024

BlackRock, Once Wary of Muni Bonds, Says It's Time to Buy Again.

- **Strategists cite backup in yields, end of election uncertainty**
- **Back a barbell strategy focused on short-, longer-term debt**

BlackRock Inc.'s strategists, who three months ago advised investors to pull back from municipal bonds, now say it's time to shift back in.

The selloff that raced through fixed-income markets last month drove state and local government debt to the steepest loss in over a year, pushing yields higher as strong economic data and the presidential election cast uncertainty over how deeply the Federal Reserve will cut interest rates.

But with yields still elevated — and prices settling from the turbulence set off by Donald Trump's victory last week — BlackRock strategists led by Patrick Haskell said in a note Thursday that it's a good time to lock in the higher yields before the central bank starts nudging rates down further. They suggest a so-called barbell strategy focused on holding both short-dated debt and those with maturities in 15 to 20 years.

Continue reading.

Bloomberg Markets

By Nic Querolo

November 14, 2024 at 11:37 AM PST

S&P U.S. Municipal Water And Sewer Utilities Navigate A New Environment As Performance Drops.

Key Takeaways

- U.S. water and wastewater utilities' median financial performance diminished in fiscal 2023, while

downgrades outpaced upgrades in 2024, consistent with S&P Global Ratings' negative sector view.
- Flat-to-declining median financial metrics reflect tightening margins as most utilities were operating in a new-baseline environment, with higher cost-of-service requirements. Balance-sheet metrics were mostly stable, but expense growth continued to pressure operating performance.
- Accelerating capital spending could further pressure margins as utilities address aging infrastructure, asset hardening, investing in new sources of supply, and complying with increasingly stringent regulations.
- Asset resiliency and long-term environmental-risk mitigation will continue to be integral to assessing utilities' financial outlook.

Continue reading.

5 Nov, 2024

Public Pensions and a Chance to Damp Down the ESG Wars.

After a decade of increasing popularity among endowment funds and pensions, its use in investment decisions is coming under increasing political attack. Financial analysts — and perhaps AI — may be able to point the way to a safer middle ground.

The culture wars have invaded public pension boardrooms. What began as a somewhat benign but unproven concept of thinking long-term about the sustainability of portfolio companies' business models in light of environmental, social and governance concerns has hit a brick wall across a swath of red states. A hardball backlash against so-called "woke" ESG investing that ostensibly ignores economic fundamentals and free-market securities valuations has taken hold in conservative corners of many state capitals, with impacts on pension funds and even the otherwise unrelated municipal bond market.

It's increasingly dangerous terrain for pension professionals and muni bond underwriters, although there is now a glimmer of hope on the horizon that a defensible screening process is achievable. And maybe artificial intelligence models can someday help replace doctrinaire belief systems with expert statistical forecasts. But first, some historical context.

Ever since the 1970s' political movements for pension and endowment funds to divest from companies doing business in apartheid South Africa, the concept of social investing has been contentious. In addition to ideological disputes, there was uncomfortable end-game evidence that many public pension funds undertaking "Free South Africa" divesting shot themselves in the foot: When the regime changed, those divestiture stock prices recovered faster than the pension funds were able to reverse their policies, resulting in underperformance relative to their benchmark indexes.

Continue reading.

governing.com

OPINION | Nov. 5, 2024 • Girard Miller

[WSJ: Trump Win Dents Muni Bonds]

Prices fell Wednesday on bonds sold by state and local governments as investors prepared for a world of lower taxes and higher federal deficits.

Benchmark 10-year municipal bonds were yielding 3.12% in midday trading, compared with 2.96% yesterday before Republican Donald Trump won a second term, according to ICE Data Services. Prices fall as yields rise.

Treasury prices, which often drive moves in munis, fell Wednesday as investors anticipated more inflation and more federal debt. But muni bondholders likely also expect tax cuts could lessen the appeal of munis' tax-exempt interest. Trump has pledged to cut taxes on U.S. manufacturers, for example.

Such promises "could have a considerable impact on the municipal market," Abby Urtz, senior vice president at FHN Financial , wrote Wednesday.

One looming question for the $4 trillion market: The fate of the the $10,000 limit on state and local tax deductions created in 2017 to pay for other Trump tax cuts. That policy supercharged demand for New York and California munis.

The Wall Street Journal

By Heather Gillers

[US Voters Back $52 Billion of Borrowing for Schools and Roads.]

- **Approvals include California measures for climate, schools**
- **Passage comes as muni-bond sales increased this year**

Americans are poised to approve at least $52 billion of state and local government borrowing measures, according to preliminary vote tallies of S&P Global Market Intelligence data analyzed by Bloomberg.

Measures that appeared to pass include a $238.3 million transportation referendum for Charlotte, North Carolina, and a $240 million authorization for a school district near Columbia, South Carolina, that will finance the construction of a new school and expand several others. Two of the largest measures on the ballot, a pair of $10 billion statewide referendums to finance climate change programs and education improvements in California, also passed.

The referendums come as state and local government borrowers are approaching a record year for municipal bonds sales. Issuers have sold over $442 billion of long-term debt so far, a more than 42% increase from the same period in 2023, according to data compiled by Bloomberg.

Continue reading.

Bloomberg Markets

By Aashna Shah and Nic Querolo

November 7, 2024

WSJ: Falling Rates, Rising Tax Risk Give Some Shine to Muni Bonds.

State and municipal governments and agencies have increased issuance of debt by 39% this year

Municipal bond issuance in the U.S. is heating up as local governments ramp up borrowing and investors gobble up the low-risk securities.

Industry experts said local governments have needed to borrow more as the massive federal stimulus received during the pandemic wears off. Issuances also are increasing in size, as the cost of projects become more expensive due to rising prices for materials, labor and services. Meanwhile, as the Federal Reserve cuts interest rates, yield-seeking investors have more reason to park their cash in munis.

"We were looking for a decent pick up year over year, the magnitude of the increase is what is a bit surprising," said Sean Carney, chief investment officer of municipal bond funds at BlackRock, which manages about $188.4 billion in the asset class. municipal bonds. "I think we're heading back to kind of the pre-Covid time frame where…we're going to see a period of elevated supply."

State and municipal governments and agencies have issued $447 billion of debt in the first ten months of this year to finance everything from affordable homes to airports to water and power supplies, according to Refinitiv data via the Securities Industry and Financial Markets Association. That is a 39% increase from a year earlier, even as borrowing costs in the period held at a multi-decades high. Sifma data also shows a higher volume of municipal bond trading this year.

Demand has outpaced supply in recent auctions by substantial margins, Carney said. The performance is attracting wider attention to a part of fixed-income markets mostly tapped by deep-pocket investors. "Sometimes we feel like the lost asset class," Carney said.

He estimates this year's issuance will total $475 billion, or around $105 billion above the total of bonds retired or refunded.

Having to pay higher interest rates hasn't been much of a deterrent for local governments. "You can't ask your failing roadway or water system to hang in there until rates fall," Carney said.

Issuers may also have been trying to get ahead of the election, said Chad Farrington, co-head of U.S. municipal bonds at DWS. In fact, some analysts expect issuance to ease after Tuesday's vote, before rebounding next year once markets have a clearer view of government policies.

On the demand side, flows into municipal-bond funds increased to $26.5 billion this year through August, from $8 billion in the same period last year, according to the Investment Company Institute via FactSet.

Fund managers say that munis, like other fixed-income instruments, are increasingly becoming the new destination of funds parked for years in cash-like options such as certificates of deposit, which have lost appeal as the Fed cuts rates.

Then there is the tax factor. Municipal bonds' returns are often exempt from income tax. That feature is getting more relevant as certain provisions enacted in 2017 that benefited wealthy taxpayers are set to expire late next year.

"My clients are looking toward the Tax Cut Job Act expiration in 2025," said Kathleen Grace, chief executive officer of the Fiduciary Family Office. The boutique investment firm has $600 million of assets under management for clients who have an average net worth of $20 million. She said it makes sense for them to increase their holdings of assets offering tax-free returns to minimize the potential increase in federal taxation.

"We think those two factors are causing investors to get into the muni market, you know, [returns in] cash equivalents being lower and the prospects for higher taxes," said Dan Close, who heads Nuveen's $190 billion municipals division.

"If you're of the opinion that there is higher taxes in the future, one of the best ways to position your client's portfolio is to buy these state and local government bonds that finance infrastructure locally" and are exempt from federal and often state and local taxes as well, Close said.

The Wall Street Journal

By Paulo Trevisani

Nov. 5, 2024 12:21 pm ET

Muni Rally Accelerates Prompting Calls for Year-End Return Surge.

- **After election selloff, munis are rallying for a second day**
- **Strategists advise investors to buy-the-dip for long positions**

Municipal bonds rallied the most in three months on Friday, continuing a recovery that began Thursday after a sharp selloff following the US presidential election.

Benchmark state and local government yields fell by as much as 13 basis points as of 2:00 p.m. New York time. Those on 10-year, top-rated securities fell 10 basis points to 2.98% — the biggest daily decline since August, according to data compiled by Bloomberg. When muni rates climbed after the election —- trading in tandem with a rout in US Treasury securities — investors saw it as an opportunity to put cash to work, strategists said.

"A bullish reversal is underway for the muni market," wrote municipal strategists at Bank of America Corp. in a research note published Friday. "Current levels for all investment-grade munis are good entries for new long positions," according to the group led by Yingchen Li.

Continue reading.

Bloomberg Markets

By Erin Hudson, Sri Taylor, and Aashna Shah

November 8, 2024

Munis Tumble After Trump Victory Ignites Deficit Concerns.

- **Yields on muni bonds jumped as much as 16 basis points**

- **Investors of muni debt tend to take cues from Treasury market**

Municipal bonds plummeted on Wednesday after voters elected Donald Trump as US president. The move followed a rout in US Treasuries, which sold off over concerns that Trump's policies will widen an already bloated budget deficit and cause inflation to surge.

Benchmark municipal-bond yields jumped as much as 16 basis points as of 4 p.m. New York time.

"A Trump win signals to the market that some proposed policies have a chance at sunlight, many of which could re-ignite inflation," said Eric Kazatsky, senior US municipals strategist for Bloomberg Intelligence. "US Treasuries are speaking that fact to the market and dragging munis along for the ride."

Continue reading.

Bloomberg Markets

By Danielle Moran and Lily Meier

November 6, 2024

Economic Outlook Supportive of Municipal Bonds.

The October jobs report, released last Friday, coupled with more downward revisions to monthly employment numbers, spooked some market participants. It also reignited talk about a looming recession. However, some experts believe economic contraction won't come to pass. That could bode well for risk assets as well as lower-risk fare, such as municipal bonds. That indicates ETFs like the ALPS Intermediate Municipal Bond ETF (MNBD) could appeal for income investors.

"Recession fears were triggered when last Friday's (early August) U.S. jobs report for July showed a rise in the unemployment rate to 4.3% from 4.1% and much weaker-than-expected monthly job creation. Those fears have exacerbated a global risk-asset selloff that began last [month. That was driven] by concerns over tech valuations and heightened geopolitical risks," according to BlackRock.

Why It Matters to MNBD

The U.S. economy avoiding a recession is important to municipal bonds and ETFs such as MNBD. That's because periods of economic contraction can weigh on states' and cities' abilities to collect tax revenue. That revenue is the primary source repaying municipal debt obligations.

Fortunately for municipal bond investors, the October jobs report appears to be more of a bump in the road than a harbinger of a recession. Jobs are still being created and other economic indicators are sturdy. That potentially signals opportunity remains with ETFs such as MNBD.

"The unemployment rate is rising, but unlike ahead of past recessions, the main driver is not [layoffs. It] is an immigration-driven increase in labor supply. Job creation is slowing, but averaged a robust 170,000 over the past three months (ending July). Consumer spending, while cooling, remains relatively healthy and Q2 corporate earnings have so far topped expectations," added BlackRock.

However, some investors may not be able to shake the feeling that the U.S. economy could be heading for a pullback. That remains to be seen. But if that scenario arrives, MNBD could hold up well relative to other muni bond ETFs. That's because the ALPS fund is actively managed. That implies MNBD managers can more swiftly react to changing economic conditions and adjust the portfolio to feature allocations to bonds from the sturdiest issuers.

MNBD could also come into focus following Election Day. Depending upon the outcome of the presidential race, the U.S. tax code could be in for significant changes next year. Assuming previous tax cuts expire, investors could flock to tax-advantaged asset classes, including municipal bonds.

etftrends.com

by Todd Shriber

November 5, 2024

Muni Rally Accelerates Prompting Calls for Year-End Return Surge.

- **After election selloff, munis are rallying for a second day**
- **Strategists advise investors to buy-the-dip for long positions**

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Continue reading.

Bloomberg Markets

By Erin Hudson, Sri Taylor, and Aashna Shah

November 8, 2024

More Wealth Managers Recommending Muni Bonds.

In a changing bond market landscape, more wealth managers are recommending municipal bonds. The Federal Reserve is set to ease monetary policy and a new president will take office in 2025. So munis are an ideal option in the event of market volatility.

Regarding duration, advisors are looking to short-term and intermediate options as ideal in a rate-cutting environment. Furthermore, advisors are tipping the bond portfolio scales in favor of munis.

"Advisors are expected to accelerate their extension into short-term and intermediate-term bond portfolios as the Fed continues to cut rates, allocating a greater percentage of their fixed income exposure towards municipal bonds," said Eric Golden, founder and CEO of fixed-income-focused fintech Canopy Capital Group, in Investment News.

Anticipating a 'Notable Uptick'
"While exact figures on allocation increases can vary by advisor and client needs, we anticipate a notable uptick in interest and investment as the 2025 deadline approaches," added Golden.

"We prefer to maintain our fixed income exposure on the short end of the curve," said Stash Graham, managing director & chief investment officer of Graham Capital Wealth Management, also via Investment News. ["And we] do this to limit our interest rate or duration risk. We still believe present and future risks with the long end of the yield curve could rise."

Those looking for broad exposure to munis can consider the Vanguard Tax-Exempt Bond ETF (VTEB). The fund tracks the Standard & Poor's National AMT-Free Municipal Bond Index. This index measures the performance of the investment-grade segment of the U.S. municipal bond market. Overall, this index includes municipal bonds from issuers. Those issuers are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes, and the federal alternative minimum tax. It also features a low 0.05% expense ratio.

In terms of credit quality, munis are situated right between Treasury yields and corporate bonds. The fundamentals of munis have improved over the past few years. That makes them an ideal option for fixed income investors looking to balance credit risk and yield.

"Municipal-related credit risks have been mitigated over the last few years, as they were significant beneficiaries of the federal government's COVID-era fiscal policies," said Graham. He added that he tends to focus more on general obligation bonds than revenue bonds back by hospitals.

Shortening Duration on Munis
Given advisors' skew towards short-term bonds, investors may want to opt for the Vanguard Short-Term Tax-Exempt Bond ETF (VTES) if they're looking to shorten duration on their muni exposure. Like VTEB, exposure comes by way of via a low 0.07% expense ratio.

The fund tracks the S&P 0-7 Year National AMT-Free Municipal Bond Index. That index is designed to balance the need for tax efficiency with the need for tax-exempt yield. This balance can translate to potentially higher yields than those afforded by competing strategies, for an appropriate level of duration risk.

etftrends.com

by Ben Hernandez

November 6, 2024

[SIFMA US Municipal Bonds Statistics.]

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

YTD statistics include:

- Issuance (as of October) $446.5 billion, +39.3% Y/Y
- Trading (as of October) $13.2 billion ADV, +2.0% Y/Y
- Outstanding (as of 2Q24) $4.1 trillion, +1.8% Y/Y

Download xls

November 1, 2024

S&P U.S. Public Finance Annual Reviews Processed.

S&P Global Ratings has performed annual reviews of the credit ratings of the issuers/issues listed below.

In an annual review, S&P Global Ratings reviews current credit ratings against the latest issuers/issues performance data as well as any recent market developments. Annual reviews may, depending on their outcome, result in a referral of a credit rating for a committee review, which may result in a credit rating action. The below list is not an indication of whether or not a credit rating action is likely in the near future.

The key elements underlying the credit rating can be found in the issuer's latest related publication, which can be accessed by clicking on links below. Additionally, for each issuers/issues listed below, S&P Global Rating's regulatory disclosures (PCRs) can be accessed on the relevant page on www.spglobal.com/ratings by clicking on Regulatory Disclosures underneath the current credit ratings.

Continue reading.

29-Oct-2024 | 07:02 EDT

S&P U.S. Municipal Water And Sewer Utilities Rating Actions, Third Quarter 2024

Overview

S&P Global Ratings took 48 rating actions, revised 22 outlooks, and took four CreditWatch actions within the U.S. municipal water and sewer utilities sector in third-quarter 2024. One hundred and three ratings were maintained with no outlook revisions. Two were removed from CreditWatch, and two were placed on CreditWatch with negative implications.

Negative rating actions exceeded positive actions by two to one. Unfavorable outlook revisions exceeded favorable revisions by thirteen to eight. Bond issuance increased relative to second-quarter 2024 and is stronger compared to the same quarter in 2023.

Continue reading.

29 Oct, 2024

S&P Sustainability Insights: Rising Insurance Costs And Mounting Affordability Challenges Could Weigh On Some U.S. Governments' Creditworthiness

Key Takeaways

- With economic losses from Hurricanes Helene and Milton estimated to exceed $60 billion, S&P Global Ratings expects homeowners' insurance premiums will continue to rise in many regions of the U.S.
- Higher insurance premiums and diminishing coverage and availability could exacerbate existing U.S. housing affordability issues.
- Regions experiencing a spike in the cost of living could be susceptible to demographic and demand shifts that pressure long-term tax base growth and credit stability.

Higher Housing And Insurance Costs Could Constrain Economic Growth And Weigh On Government Credit

Why it matters: By 2022, more than 55% of households earning the median income or lower were spending over 30% of disposal income on housing costs (also known as housing burdened), according to the U.S. Census Bureau's American Community Survey data. Existing affordability challenges are amplified when combined with costs from increasingly frequent and damaging storms and flooding. And weaker economic growth and property value decreases could occur in the long term without offsetting tax-base growth. This confluence of events could lead to a downward credit trend for some U.S. governments.

What we think and why: When higher insurance premiums compound existing housing affordability problems, it can affect location and purchase decisions for homebuyers and employers. If these conditions persist, it could lead to lower taxable property values, affecting local government revenues and long-term growth. Playing catch-up to replace losses keeps governments from pursuing new economic growth and can affect long-term financial stability.

Continue reading.

[FREE REGISTRATION REQUIRED]

31 Oct, 2024

Presidential Election Puts Muni Bonds in Focus.

It's not yet clear who will occupy the White House in 2025. It's also not known what the makeup of the two chambers of Congress will look like. With the Tax Cut & Jobs Act (TCJA) set to expire next year, changes in the tax code are likely afoot. The mere specter of higher taxes could be an impetus for advisors and investors to more closely examine muni bonds and ETFs like the ALPS Intermediate

Municipal Bond ETF (MNBD).

In any environment, muni bonds offer tax benefits. And those perks could be amplified should various TJCA provisions be eliminated next year.

Muni bonds, including those held by MNBD, could be further supported by additional interest rate cuts by the Federal Reserve. That's expected to happen over the course of 2025. Plus, state- and city-level tax collections should remain sturdy, further bolstering the case for munis.

Politics Could Benefit MNBD
Bonds have disappointed following the Fed's September rate cuts as Treasury yields remained stubbornly high,. But MNBD has traded mostly sideways since then. And muni bonds may have found support from money managers looking to prepare for 2025 tax changes.

"Eric Golden, founder and CEO of fixed income-focused fintech Canopy Capital Group, says advisors on his platform are likely to increase their allocations to municipal bonds as the TCJA approaches its sunset in 2025. The rationale behind this shift is rooted in the potential for higher taxes, which would turn up the spotlight on the tax-exempt nature of municipal bonds," reported Gregg Greenberg for Investment News.

Some advisors are already boosting exposure to munis. And that buying, particularly if it increases, could boost passive muni ETFs and active funds such as MNBD. Additionally, some advisors are hinting their pre-election buying of muni bonds and funds won't stop after Election Day. Rather, they expect to continue embracing the asset class over the course of next year.

"Similarly, Stash Graham, managing director & chief investment officer of Graham Capital Wealth Management, foresees increasing his allocation to tax-free municipal bonds. Still, he is waiting on a host of factors before making a [move. Those include] the result of the Presidential Election, the yield curve's shape, credit quality, and the direction of interest rates are in general," added Greenberg in his Investment News piece.

etftrends.com

by Todd Shriber

November 1, 2024

When to Consider Munis From Outside Your Home State.

A major benefit of municipal bonds, or "munis," is that the interest they pay is generally exempt from federal income taxes. They're also generally exempt from state income taxes if the issuer is from the investor's home state. That may seem like a compelling argument for sticking with in-state munis. However, many muni investors may benefit by diversifying outside of their home state, even if it results in a higher state tax bill.

We've identified five factors when it could make sense to consider munis from other states. After considering all five, we think that muni investors in all states, with the exception of two high-tax states—California and New York—could benefit from investing in a national, not state-specific, portfolio of muni bonds. Even investors in California who are not in a high state tax bracket could achieve higher after-tax yields by diversifying nationally.

1. You live in a state with low or no state income tax.

If you live in a state with low or no state income tax, you will likely benefit from diversifying your muni portfolio with munis from issuers outside your home state.

Continue reading.

advisorperspectives.com

by Cooper Howard of Charles Schwab, 10/31/24

Bloomberg: JPMorgan, Baird Keen on Muni Bonds Ahead of Election Sale Dip.

- **Munis are attractive as yields have climbed after a selloff**
- **Supply expected to drop in the first two weeks of November**

Some investors are eager to buy municipal bonds before supply tapers off because of the elections.

Supply is expected to drop next month: JPMorgan Chase & Co. strategists see tax-exempt issuance declining 70% to $7 billion in the first two weeks of November from the last two weeks of October.

Since muni bonds have been offering higher yields after a recent selloff, investors may want to take advantage of the elevated issuance this week, the strategists led by Peter DeGroot said. Municipal benchmark bond yields inched up again on Tuesday, rising as much as four basis points. The JPMorgan strategists expect yields to drop by the end of 2024 — making this week a good time to buy.

Continue reading.

Bloomberg Markets

By Lily Meier

October 29, 2024

Passive Indexing Takes a Backset to Active: Bloomberg Masters of the Muniverse

Not a new theme but a continual one in that passive strategy start ups seem to be taking a back seat to sexier active strategies. In the latest Masters of the Muniverse episode of our FICC Focus podcast, Eric Kazatsky and Karen Altamirano are joined by Alex Petrone, Managing Director and Director of Fixed Income for Rockefeller Asset Management. We discuss Rockefellers views on the municipal marketpkace, how quickly the fixed income asset management space is changing and what 2025 may bring us.

Watch video.

Bloomberg

Oct 29, 2024

NLC City Fiscal Conditions 2024.

In its 39th year, City Fiscal Conditions provides a comprehensive analysis of the financial health of municipalities across the United States. This year's report underscores the adaptability of cities during significant economic shifts. Explore how cities shifted during the pandemic, strengthening their resilience to major economic disruptions, and emerging strong and ready for the post-pandemic economy.

Executive Summary

This year's report reveals that municipalities are making the necessary shifts to continue to meet the fiscal needs of their community. This includes maintaining historical investments and managing revenue streams.

Local governments are ensuring that their communities remain resilient, even in the face of declining federal aid through the American Rescue Plan Act. Analysis shows strong growth in revenues and reliable expenditures resulted in a 6.7 percent increase in spending and a 4.9 percent increase in general fund revenues.

Revenue & Spending Trends

In reviewing fiscal trends, compared to FY 2022, average spending by cities in 2023 saw a 6.7 percent increase. FY2024 spending levels continue to increase but at a lower level than between 2022 and 2023.

Continue reading.

National League of Cities

October 17, 2024

GFOA Disaster Finance Resource Center.

Responding to emergencies and disasters might not be part of a financial professional's official job description, but many GFOA members find themselves playing this type of role for the communities they serve, especially right now in the aftermath of hurricanes Helene and Milton. GFOA is in the early stages of compiling resources, including best practices, relevant research, and ways you can volunteer to help.

Read more

S&P U.S. Brief: Hurricane Milton And Extraordinary Optional Municipal Bond

Redemptions

Florida municipal bonds face risks from recent hurricanes. Municipal bonds backed by Florida-based obligors are facing optional redemption risk following two recent Category 3 and above hurricanes in the state.

What's Happening

Within the span of two weeks, two hurricanes, Helene and Milton, struck Florida's coast as Category 4 and Category 3 storms, respectively. S&P Global Ratings currently rates 90 variable-rate municipal bonds that are supported by Florida-based obligors (see chart). Although the damages are still being assessed, some issuers have early redemption options for projects that were severely affected by the hurricanes.

Why It Matters

Severe damages could lead to early redemptions

- Municipal bond issuers have the option to redeem bonds if the projects that support them have been severely damaged or destroyed, according to extraordinary optional redemption.
- Bonds are subject to extraordinary optional redemption in whole at a redemption price of 100% of the outstanding principal plus accrued interest to the redemption date.
- The variable-rate bonds are supported by credit facilities provided by rated financial institutions. On the redemption dates, the bond trustees will draw on these facilities for the amounts due.
- Our ratings on the bonds reflect the likelihood that the credit facility will honor a draw upon an extraordinary optional redemption.

What Comes Next

Downgrades may affect jointly applied ratings. We currently rate nine Florida-based variable-rate municipal bonds that benefit from joint support between the bond obligor and the credit facility. We will continue to monitor the credit impact the hurricanes have had on these obligors, including the jointly applied ratings on the variable-rate municipal bonds, and take rating actions as we deem necessary, which may include downgrades.

21 Oct, 2024

Public Finance Impact of Hurricanes' One-Two Punch is Still Taking Shape.

As the people in the path of Hurricanes Helene and Milton continue to dig out from the damage, the municipal bond market continues to assess the storms' impact on public finance in the Southeast.

Hurricane Helene made landfall on the Florida Panhandle Sept. 26 and tracked north, where it did its worst damage in the Appalachian Mountains of western North Carolina and eastern Tennessee.

Milton hit Florida Oct. 9 in Sarasota County on Florida's Gulf coast, moving east across the peninsula. It spawned tornadoes far from the center of the storm itself, doing extensive damage on the state's Atlantic seaboard.

S&P Global Ratings put three utilities' ratings on credit watch negative Tuesday citing Helene's impact. The action affects Asheville, North Carolina's AA-plus-rated water system bonds; Greeneville, Tennessee's A-rated water system revenue and sewer system revenue bonds; and Erwin Utilities Authority, Tennessee's A-rated water and sewer system revenue bonds.

"We will resolve the CreditWatch placement when there is greater clarity regarding the extent of the utilities' infrastructure damage, how federal and state support is deployed, the projected pace of the rebuild, and the influence of these factors on each utility's operational integrity and financial health," said S&P Global Ratings Credit Analyst Jenny Poree.

"While FEMA and other agencies are doing the best they can with the resources they have, multiple co-occurring disasters are straining resources and increasing program debt," said Sadie Frank, co-founder and CEO of ENES, which develops and uses prediction models for solutions to climate risks to supply.

"Local governments in Hurricane Milton's path, despite having considerable financial resources, will face significant credit challenges because of the heavy reliance on state and federal disaster recovery assistance and the high costs of public infrastructure repairs," said Moody's Senior Analyst Valentina Gomez.

"The issue of flooding becomes even more prominent," said Joseph Krist, publisher of Muni Credit News. "The lack of flood insurance in the case of these storms is likely the biggest obstacle to rebuilding ? Will it drive people away?"

"Clearly there will be short term pressures but much of the work done to clear roads and remove debris will be reimbursable," Krist said.

"I would anticipate that few ratings will change barring some catastrophic impacts from the events," said John Hallacy, president of John Hallacy Consulting LLC, in a LinkedIn post.

In a just-released report, S&P said the North Carolina state government had set aside $273 million to help recovery from Helene. The agency says the government, which it rates AAA, had been projected to increase its rainy-day fund to $4.88 billion in fiscal 2025. The state has a "consistent record of replenishing reserves after one-time use."

Asheville and the surrounding area still feel the impacts of Helene almost three weeks later. The city utility is still working to restore water to its entire service area, and most customers who are getting water are under orders or advisories to boil it before drinking.

"In the short term, ironically, the hurricanes will generate some economic boosts – from rebuilding and the flood of disaster relief funds," said David Victor, professor of innovation and public policy at the University of California, San Diego.

The inflow of federal and private relief funds after disasters can cause municipal revenues to spike, Frank said.

Moody's RMS Event Response, a catastrophe modeling firm, estimated U.S. private market insured losses from the two hurricanes to be $35 billion to $55 billion. Morningstar DBRS said insured losses range from $45 billion to $60 billion and Fitch Ratings put Milton's insured losses alone from $30 billion to $50 billion.

These impacts would make the combined storms' insured property damage somewhere from the seventh, if $35 billion, to the second, if $60 billion, largest in U.S. hurricane history, adjusted for inflation, according to Insurance Business and J.P.Morgan.

The inflow of "private relief funds" means private insurance money, and this can have negative as well as positive impacts on local municipal bonds in the short and long term.

In the short term some of these losses will be picked up by reinsurers, Morningstar (MORN) said. Since one of those reinsurers is Florida Hurricane Catastrophe Fund, which is partly funded through municipal catastrophe bonds, this could hypothetically hit bondholders in the near term. However, Florida Division of Bond Finance Director Ben Watkins said Oct. 10 the fund was in a "very good position."

Watkins said he thought Helene might cost the fund about $100 million. He expects to have a preliminary estimate of Milton's draw on the fund in the next few days. But the hurricanes' impact on the fund would have to exceed $6 billion before any municipal bondholders would lose any money and as of last week, he thought that very unlikely.

"Extensive damage to transportation and utility infrastructure from Hurricane Helene could complicate local government's recovery efforts in some of the hardest-hit area, potentially delaying the restoration of services and recovery of economic activity. This creates uncertainty about the storm's impact on long-term credit quality for some local governments,"
S&P said in a report.

"Helene and Milton are another wake-up call for Southeast states that climate change is and will radically reshape individual lives and the economy of the entire region," Frank said. "We're currently seeing the impacts of this most acutely on insurance markets."

Victor said the storms' most important long-term impact on Florida would be their potentially negative impact on property values, particularly because of increasing property and casualty insurance costs. These insurance "markets are already driving costs higher; a big loss year will amplify that trend."

Such a prospective decline in property values, and/or declines in the tax base and emigration from the state potentially "adds up to a public finance problem since debt repayment is variously linked to tax revenue potential," Victor said.

As yet that has not materialized; Florida's population rose 4.7% from 2020 to 2023, reaching 22.6 million according to the U.S. Census, as the nation's population grew 1%.

"Stress in the home insurance market ? which is particularly acute in Florida, is already becoming a national issue," Frank said. "If insurance markets are forced to full price risk, which the National Flood Insurance Program has made baby steps towards, this will likely lead to (1) individuals dropping coverage and therefore requiring additional post-hoc assistance and/or (2) negative impacts to city and county finances as tax bases are hollowed out from climate mitigation."

S&P said less than 1% of households in path of Helene had flood insurance through the National Flood Insurance Program.

In the long run, climate change means Florida communities will face higher costs, which will lead residents to debate whether money should be used for infrastructure or operating expenses, Victor said.

The hurricanes will convince participants in the municipal bond market to pay closer attention to climate change, Victor said.

Helene was unusual in wreaking substantial damage well away from the Atlantic Ocean or the Gulf of Mexico, S&P said in a report. “A shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region’s need for storm hardening.” That could bring additional debt and pressure issuers’ fixed costs, the rating agency said.

“Where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation,” S&P continued in the report.

While FEMA has historically provided 75% to 90% of the coverage for disaster-related costs, this may change in the future because of the federal government’s “ongoing budget issues and the escalating costs of disaster relief,” S&P said.

FEMA’s post-disaster aid is one of the factors that “prevent municipal bond markets from fully internalizing the impacts of climate change on cities and counties, which can ? leave communities actually more vulnerable to future risk,” Frank said.

“Over the long term, this pattern of destroy, rebuild, repeat will become unsustainable, from a human and a financial cost perspective. We’re already seeing cracks that indicate this cycle is breaking,” Frank said.

“Over the course of the past 50 years, the tendency of Americans to move from the coldest places (“snow belt”), which have become warmer, to the hottest places (“sun belt”), which have become hotter, has steadily declined,” the Federal Reserve Bank of San Francisco said in a working paper published in July.

“The first question that needs to be asked is whether building should be permitted in flood zones or in areas where natural hazards are likely to have a greater incidence of adverse events,” Hallacy said.

“Changes in the composition of the municipal market, the more modest use of bond insurance, and more frequent and severe climate related events suggest that climate-related bond impairments and defaults are likely to rise,” Municipal Market Analytics said in its Weekly Outlook Monday. “In the near-to-medium term, bonds reliant upon the revenues of a single-site project or a narrow revenue stream are more likely to face longer lasting stress and an increase in impairments and defaults.”

Issuance of debt backed by single-site projects and other complex structures has increased in 2024 compared to 2005, MMA said.

By Robert Slavin

BY SourceMedia | MUNICIPAL | 10/17/24 08:27 AM EDT

Climate Change Reshapes Cities, Both Environmentally and Financially.

In thousands of U.S. towns and cities, worsening climate threats — largely due to fossil fuels — trap cities in a paradox.

Big cities like Houston and Tampa, Fla., and smaller ones like Port Arthur, Texas, and New Bedford, Mass., require proactive, ambitious investment to survive rising seas and temperatures.

But just as adaptation becomes urgent, climate change is undermining the financial and built infrastructure needed for such changes, risking a financial death spiral for communities housing tens of millions of Americans.

Continue reading.

thehill.com

by Saul Elbein

10/25/24

Catastrophe-Bond Funds Suffered Virtually No Losses From Hurricane Milton.

- **The bonds continue to deliver market-beating returns**
- **Performance follows big insured losses from two US hurricanes**

After two weeks of number-crunching, it now seems clear that investors in catastrophe bonds emerged from Hurricane Milton relatively unscathed.

In fact, holders of the bonds may be looking at returns of as much as 12%, according to Zurich-based asset manager and catastrophe-bond specialist Plenum Investments AG.

Before Milton struck just south of Tampa on Oct. 9 as a Category 3 hurricane, the market for catastrophe bonds had been bracing for losses as steep as 15%, dwarfing those triggered by Hurricane Ian two years earlier. In the event, losses from Milton will likely be closer to 1%, possibly even less.

“The underlying dynamic means that spreads stay at high levels,” said Dirk Schmelzer, managing partner at Plenum, which oversees more than $1.2 billion in insurance-linked securities and insurance debt, including about $900 million of catastrophe bonds.

And with this year’s hurricane season now unlikely to deliver more losses, the outlook is for “very attractive returns over the next 12 months,” he said during a webinar on Thursday. November hurricanes tend to hit in the lower latitudes and the chances of a major storm making landfall in the US “is next to zero,” Schmelzer said.

Catastrophe bonds, or cat bonds as they’re often called, are issued by insurers and reinsurers in order to hand some of their risk over to the capital markets. Investors in the bonds make money if a predefined disaster doesn’t occur, but can lose much of their capital if it does.

So far this year, the Swiss Re global cat-bond index is up more than 13%, as investors emerge largely unscathed after what meteorologists had warned would be one of the most active hurricane seasons in recent memory.

Market-beating returns are a recurring theme in the market for cat bonds. Last year, the instruments underpinned the most profitable hedge fund strategy of them all, namely insurance-linked securities, according to Preqin, which provides data on the alternative-asset management industry.

The parameters that determine cat-bond payouts are unlikely to become softer in the future, according to analysts monitoring the market. Morgan Stanley analysts said earlier this year that they expect cat bonds "to adjust the triggering criteria for a payout to cover only the most severe types of storms."

Bloomberg Green

by Gautam Naik

Thu, October 24, 2024

S&P U.S. Not-For-Profit Health Care Outstanding Ratings and Outlooks as of Sept. 30, 2024

View the S&P Ratings and Outlooks.

S&P U.S. States' Fiscal 2023 Liabilities: Stable Debt, With Pension And OPEB Funding Trending Favorably

Key Takeaways

- Based on our 50-state survey, total U.S. state net direct debt decreased 1.3% in fiscal 2023, while the combined state share of net pension and OPEB liabilities declined 8.8% compared with fiscal 2022.
- On average, state debt metrics remain low to moderate compared with most economic and state budgetary measures and will likely remain so as states took advantage of federal funding and pursue paygo funding for capital needs that have traditionally been debt-funded.
- Pension funded ratios improved slightly in fiscal 2023 relative to fiscal 2022 and we expect continued improvement in fiscal years 2024 and 2025.

Continue reading.

23 Oct, 2024 | 17:51

More States are Planning for the Coming Retirement Surge.

Increasingly, states are turning to automated savings programs to help their constituents—and budgets.

A record number of Americans are reaching retirement age this year, marking the start of an unprecedented surge in Americans turning 65 that will last through roughly 2027, and bringing issues related to life after work to the forefront for individuals and policymakers. Financial security is of particular concern. Although the retirement savings gap—the difference between what workers have set aside for retirement and what they will need—has improved in recent years, studies have consistently found that most Baby Boomers haven't saved enough and will probably have to rely primarily on Social Security and Medicare as they age.

The wave of people leaving the workforce also affects the public sector, with the associated fiscal and policy strains increasingly viewed as a present-day crisis. The Pew Charitable Trusts estimates that by the end of 2040, insufficient retirement savings will have cost states and the federal government a combined $1.3 trillion since 2021 in increased public assistance spending, administrative costs and reduced tax revenue. Meanwhile, the working-age population, which provides most of the tax revenue needed to pay for such costs, is unlikely to keep pace with the workforce losses, growing only modestly over time.

Continue reading.

Route Fifty

By Alexandre Fall

October 23, 2024

[Fitch: Reversal of Pension Benefit Actions Could Pressure State Liabilities]

Fitch Ratings-New York-21 October 2024: Recently adopted and proposed modifications to state pension benefits could slow pension funding progress and pressure long-term liability burdens over time, according to Fitch Ratings. Enacted and proposed actions that offer more generous benefits will lead to higher required contributions and liabilities in the short term and could affect long-term credit stability if states adopt additional rollbacks to the early 2010s pension benefit revisions over the next few years.

Many states revised government pension benefits following the Global Financial Crisis, which saw average state pension fund returns plummet 7.7% in 2008 and 17.9% in 2009. Changes included higher employee contributions, increased retirement eligibility age and service requirements, modifications to benefit calculations, shifts to defined-contribution or hybrid plans, and reductions or suspensions of cost-of-living adjustments (COLAs). These measures have resulted in compounded savings, improving pension funded ratios and reducing growth of actuarially determined employer contributions.

Recent events prompted the reconsideration of these decade-old pension actions. Pandemic disruptions and an aging workforce led to a surge in public sector retirements, and a sharp rise in inflation in 2021 and 2022 eroded retirees' purchasing power, particularly for plans that had curtailed COLA-linked automatic benefit increases. A tight labor market and flexible remote and hybrid working arrangements in the private sector have challenged public sector job recruitment and retention. Pension funded statuses have improved due in part to healthy long-term investment returns and, in some states, substantial supplemental pension contributions.

New York rolled back several changes over the past three budgets for workers hired after April 1, 2012, known as Tier 6. The legislature reduced the minimum vesting period from 10 years to five, costing the state and local governments $61 million annually, and changed the final average salary calculation period from five years to three, increasing annual contributions by $377 million. These changes increase the net present value of state and local pension benefits by over $4.3 billion, but Fitch expects that New York's long-term liability burden will remain low due to the state's history of conservative pension funding practices.

Rhode Island's fiscal 2025 budget included enhancements to retiree benefits to counteract inflation. Pension benefits are now based on the highest three consecutive years of earnings instead of five. The state also repealed the suspension of full annual COLAs for state employees who retired before 2012 and lowered the funding threshold for reinstating COLAs to 75% from 80% for those who retired after July 1, 2012. These changes will increase Rhode Island's required state pension contributions by $27.5 million in fiscal 2025 and add about $434 million to the state and local unfunded pension liability, increasing the state's long-term liability metrics in the near term. However, we expect the long-term liability burden to resume a general downward trend, absent additional legislative actions.

In Illinois, pension changes have been proposed over concerns about whether Tier 2 benefits meet IRS safe harbor requirements for a Federal Insurance Contributions Act tax exemption. While policies addressing this issue might not affect Illinois' credit quality, broader enhancements to Tier 2 benefits, applicable to employees hired after Jan. 1, 2011, could raise liabilities and negatively affect the state's credit rating.

Benefit enhancements have been proposed in at least two states where past reforms have meaningfully supported credit quality. New Jersey's legislature has repeatedly introduced bills in recent years that would revisit the 2011 suspension of COLAs until an 80% funded ratio is achieved. In Alaska, legislative proposals would reopen its long-closed pension plans. Both states have elevated pension liability burdens relative to state medians, but credit concerns have been partly mitigated by state policy actions to curtail liability growth.

Municipal Bond Infrastructure Sales Near $250 Billion to Smash Record.

- **New money municipal-bond sales surged so far this year**
- **Economic confidence, interest-rate stability help boost sales**

A new bridge in Lake Charles, Louisiana, a 26-story patient tower for the Children's Hospital of Philadelphia and two high schools in the heart of Texas' oil country are just a handful of projects financed by what's poised to be a record year of municipal bond sales.

Since January, state and local government borrowers have tapped investors for nearly $250 billion of debt sold exclusively for new infrastructure developments, the most since at least 2013, according to data compiled by Bloomberg. The sum is up 30% over the same period last year, the data shows.

"We have major infrastructure repair needs and growth needs," said Elaine Brennan, executive vice president of the public finance department at Roosevelt & Cross Inc., a broker-dealer specializing in municipal finance. Governments have more confidence in the economy and the trajectory of interest rates these days, she said.

Continue reading

Bloomberg Markets

By Lily Meier

October 21, 2024

Municipal Utilities and the Persistent Push to Privatize.

Given tax-exempt financing and other advantages, continued municipal ownership would seem the way to go. But other pressing public needs can make cashing out these valuable assets seem attractive. A new wave of privatization efforts will give localities a lot to think about.

Economics textbooks always have a subchapter on “natural monopolies,” situations where the owner of a business or a service has essentially captured the market and nobody else can effectively compete. In local government, these are most commonly associated with utility operations that were set up long ago to provide water, sewerage and electric service. Some of these operations are run better than others, but in general they reliably provide essential services at a fair cost, and often the lowest possible sustainable cost.

Nevertheless, there have always been advocates for privatizing these assets. Sometimes the motives involve local politics, sometimes operating efficiency, and sometimes financial desperation. Putting aside sheer anti-government ideology that private owners are inherently better operators, the most common justifications for private ownership are economies of scale — spreading fixed and overhead costs over a large customer base — or raising cash to pay for replacement facilities or unrelated costs like unfunded pensions. Look for these arguments to come up time and time again.

Continue reading.

governing.com

by Girard Miller

Oct. 22, 2024

Biden Administration Doles Out $4.2 Billion for Big-Ticket Infrastructure Projects.

A new Boston rail bridge, a California high-speed rail station, electric dock equipment in Miami and a safer highway interchange in Iowa are among the 44 projects selected for funding.

Boston’s transit agency will receive $472 million from the federal government to replace a century-old rail bridge, as part of $4.2 billion for 44 major infrastructure improvements announced by the Biden administration Monday.

Other projects that received awards include replacing a two-mile bridge in the Florida Keys, untangling a busy intersection in Arizona, electrifying port equipment in Miami, and replacing a highway bridge that collapsed in Providence, Rhode Island.

The federal money, which comes as a result of the 2021 infrastructure funding law, comes from two grant programs that fund large projects, the so-called “Mega” grants for outsized projects that are too complex for most federal grant programs, and the INFRA program, which go to highway and multimodal projects that speed freight delivery and promote other economic benefits.

Continue reading.

Route Fifty

By Daniel C. Vock,
Senior Reporter,

October 21, 2024

Muni Bankers Shrug Off Citi’s Exit and Celebrate Deal Bonanza.

In San Francisco this week, municipal-bond bankers weren’t fretting about industry concerns or the departure of giant Citigroup Inc. earlier this year.

Instead, they were celebrating the deals they’ve picked up amid a record pace of new state and local government bond sales this year.

“We have new players coming into the industry with fresh eyes and fresh ideas,” said Leonard Jones, head of public finance at Blaylock Van LLC, in a panel discussion at the Bond Buyer’s California Public Finance Conference in San Francisco on Friday. “We have a lot of regional and minority firms that are growing, and I don’t see much to be negative about.”

Issuers have sold $423 billion of long-term municipal bonds so far this year, a more than 40% increase from the same period in 2023, according to data compiled by Bloomberg. If that pace holds for the rest of the year, the market would post an annual record, the data shows.

The tone was upbeat throughout the conference. At a panel Thursday, some panelists estimated more than $500 billion worth of muni-bond sales in 2025.

The surge in supply indicates Citigroup may have pulled out of the market at the wrong time, said Cameron Parks, managing director at Truist Financial Corp. and a former Citi banker. “Citi exits and this becomes a record volume year. Their timing on that part wasn’t that great,” he said on the panel.

Smaller firms have been making inroads in the muni market after Citigroup and UBS Group AG largely pulled out of the market. Truist, for example, has surged in the muni underwriting rankings this year.

Jones said the remaining firms in the industry have increased resources to help bridge the gap. He detailed that Blaylock doubled the size of its sales and trading desk after Citi left, increasing the bank’s secondary market trading and competitive bidding capacity from “pretty much zero.”

“That’s us stepping up and trying to provide some liquidity to the market,” Jones said.

Still, borrowers remain concerned about fewer liquidity providers and banking relationships. Bankers often pitch issuers on potential financings or new structures.

"As an issuer, this has been an area of concern, we're concerned about liquidity," said Nikolai Sklaroff, capital finance director at the San Francisco Public Utilities Commission. "My most important concern is the liquidity of ideas."

Bloomberg Markets

By Danielle Moran and Maxwell Adler

October 25, 2024

Jefferies, Truist Surge on Competitive Muni Bond Deals.

- **Jefferies reaches third in competitive sales from 12th in 2021**
- **Truist ranks seventh after winning 37 muni auctions this year**

Jefferies Financial Group Inc. and Truist Financial Corp. are winning a larger number of muni bond sales up for auction this year, the latest evidence of the shake up in the market after large banks like Citigroup Inc. pulled back.

So far this year, Jefferies was third among competitive managers, up from twelfth three years ago, according to data compiled by Bloomberg. Truist has jumped to seventh after winning more than three dozen deals this year.

In competitive auctions, state and local governments sell their bonds to the lowest bidder. That's in contrast to so-called negotiated transactions where a manager is selected ahead of time. In an era of shrinking margins, underwriters are scrutinizing which types of deals to manage.

Continue reading.

Bloomberg Markets

By Shruti Singh

October 23, 2024

Barclays, JPMorgan Say Munis' Worst Week in 2024 Is Time to Buy.

This week's muni market selloff has opened a window to buy, according to strategists at Wall Street firms.

Muni yields surged dramatically earlier this week, following a selloff in US Treasuries as signs of a strong economy caused investors to pare back expectations for interest-rate cuts. On Thursday, muni bonds rallied.

But as of Friday morning, the 10-year benchmark yield was still 26 basis points higher than where it started this week. Muni bonds are poised for their worst week of performance in a year, according to Bloomberg indexes.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 25, 2024

Muni Rout Sends Prices Plunging With Worst Day in Two Years.

Municipal bonds are dropping for a fourth straight day as bets on less aggressive Federal Reserve rate cuts are causing a rout that is reverberating throughout fixed income markets.

Top-rated 10-year municipal bond yields climbed 18 basis points on Wednesday, their worst day in over two years. The unusually strong selloff in the typically staid state and local government debt market comes after rates on 10-year benchmark debt climbed 8 basis points on Tuesday. That index now stands at 3.02%, the highest since June, according to data compiled by Bloomberg.

Ryan Henry, a municipal strategist at FHN Financial, said that buyers stepped away in the last few days as muni bonds became expensive compared to Treasuries. “I think everyone was a bit blindsided by the treasury move,” he said. “Munis were outperforming and today was the tipping point.”

Continue reading.

Bloomberg Markets

By Aashna Shah and Amanda Albright

October 23, 2024

Barclays, JPMorgan Say Munis’ Worst Week in 2024 Is Time to Buy.

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“Similar to last October, and obviously influenced by election year dynamics, we believe that investors can find value at current adjusted market levels this week and next, particularly given strong market technicals in November and through the new year,” JPMorgan Chase & Co. strategists led by Peter DeGroot wrote in a note on Friday.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 25, 2024

Why Muni Bond ETFs Make Sense in 2025.

The Internal Revenue Service has announced new tax brackets for 2025. This makes now an ideal time to revisit the benefits of muni bond ETFs.

The IRS on Tuesday announced it raised the income thresholds for each bracket, which applies to returns filed in 2026 for tax year 2025. Additionally, the IRS increased figures for other provisions including long-term capital gains brackets and eligibility for the earned income tax credit.

Investors in high tax brackets are positioned to benefit most from the tax advantages of muni bond ETFs. However, investors in lower tax brackets may also benefit from an allocation to muni bonds. The primary reason that people invest in munis is for tax-free income.

As their name suggests, muni bonds are issued by municipalities. Their interest payments are generally exempt from federal taxes and potentially state and local income taxes too.

It’s important to note that muni bonds generally come with a low risk of default. Additionally, they tend to have less volatility than corporate bonds, which may be considered riskier.

Muni Bond ETFs

The five largest muni bond ETFs, as measured by assets under management, include the $39.2 billion iShares National Muni Bond ETF (MUB), the $34.9 billion Vanguard Tax-Exempt Bond ETF (VTEB), the $8.7 billion iShares Short-Term National Muni Bond ETF (SUB), the $3.7 billion SPDR Nuveen Bloomberg Short Term Municipal Bond ETF (SHM), and the $3.6 billion SPDR Nuveen Bloomberg Municipal Bond ETF (TFI).

Muni bond ETFs have seen strong flows in 2024. VTEB and MUB have taken in $3.2 billion and $2.3 billion, respectively, in net flows in 2024 through Oct. 22. VTEB and MUB’s success in garnering significant investor assets may be due to the fact that the funds are the cheapest offerings in the category. Each fund charges just 5 basis points.

In comparison, SUB charges 7 basis points, SHM charges 20, and TFI charges 23.

For more news, information, and analysis, visit VettaFi | ETF Trends.

etftrends.com

by Elle Caruso

October 23, 2024

The Fed Is Cutting Rates: It's Bonds' Time To Shine - J.P. Morgan

Investors often employ bonds to play the role of income generators and diversifiers against equity market volatility. After more than a decade of low base rates that kept all-in yields fairly uninspiring following the Global Financial Crisis, many investors have renewed their interest in the asset class following the pandemic-era rate hiking cycle. But now that central banks are embarking on rate cutting paths, here are three reasons to consider core bonds today:

- **All-in yields look attractive.** Yields on bonds with duration of one year or longer have bounced off of their lows over the past month, refreshing bond investors' entry point for the better. The investment grade corporate bond Index and municipal bond index (on a tax-equivalent basis) have starting yields that beat that of 3-month Treasury Bills, which we use to proxy the yield on cash.
- **As an investment asset, bonds tend to beat cash.** Federal Reserve rate cuts are underway, and history suggests that core bonds tend to outperform cash when that's the case. Over the past 12 cutting cycles, core bonds have generated an average return of 17% versus 7% for cash. We have been advocating for investors to right-size their liquidity positions all year, and it's not too late – if you're holding onto more cash than you need to cover day-to-day expenses, three to six months' worth of emergency savings and expenditures expected over the next year or so, consider if it makes sense to extend duration on the excess.
- **If things go awry, the Fed might cut faster.** Given resilience in economic data, markets are currently pricing in a gradual path of rate cuts (i.e., just about 1% point of rate cuts over the next four meetings, or less than 25 basis points per meeting). It's important to note, however, that the Fed's focus has started to shift away from inflation and towards keeping the labor market healthy. Therefore, if employment data comes in weaker than expected going forward due to disruptions from recent hurricanes and labor strikes, the Fed is likely to cut faster. Decreases in yields translate to increases in prices of bonds, supporting a bond investor's total return.

Continue reading.

J.P. Morgan

Elyse Ausenbaugh
Head of Investment Strategy, J.P. Morgan Wealth Management

Published Oct 16, 2024

Maximizing Returns With Long-Dated Municipal Bonds in a Normalizing Yield Curve.

After what feels like forever, the yield curve has reverted to its normal direction, with longer-dated bonds now yielding more than shorter-dated ones. For income seekers, this is significant, as it means the days of finding 5%+ yields in short-term securities are now.

But that doesn't mean that there aren't good income opportunities out there — especially when you factor in taxes.

Right now, and thanks to the yield curve returning to normal, long-dated municipal securities could offer some of the best total return elements of any fixed-income asset class around. The ability to generate high tax-free yields alongside capital gains makes them a compelling choice for investors.

Continue reading.

dividend.com

by Aaron Levitt

Oct 28, 2024

NASBO: Key Differences Between State and Federal Fiscal Processes

What are the key characteristics of state budgeting and how do they contrast with federal budget practices? How do the fiscal roles of federal, state, and local governments vary and interact in our federalism system, and what are the implications for budget processes? Why is it important for the federal government to understand how state governments manage their finances and what can they learn from states? These questions and others are addressed in a recently released paper, Fiscal Contrast: An Analysis of State and Federal Fiscal Processes, a joint project of the Kem C. Gardner Policy Institute and NASBO published this month in the Gardner Business Review.

State and Federal Practices Differ

Under the U.S. Constitution, states and the federal government both hold sovereign fiscal powers to spend, tax, and borrow. However, the processes they follow for employing these powers differ in fundamental ways. States typically balance their budgets over a one- or two-year cycle, adopt budgets on a predictable schedule with most spending subject to standard appropriation processes, and practice proactive planning to prepare for an economic downturn or other contingencies, such as building up rainy day funds and conducting stress testing. States' use of debt is generally limited to capital purposes. Meanwhile, the federal government practices routine annual deficit spending using a ten-year budget window, with most spending happening outside of a regular annual appropriations process, and primarily relies on debt as its contingency management tool.

Continue reading

Going into 2025, Cities Plan for Leaner Budgets.

A survey of city finance officials found that at least half are wary of the coming year and are forecasting more conservative revenue estimates.

A new report from the National League of Cities shows that city officials are preparing for a tougher budget situation, despite many indicators that local governments are in good financial health.

Nearly two-thirds of city finance officials surveyed by the group last year said they were in better shape going into 2024 than they had been entering 2023. But going into 2025, only half of the financial officers surveyed reported a similar improvement.

That wariness has led cities to use more conservative revenue estimates for the coming year, as inflation-adjusted revenue increases have started to level off after booming in the immediate aftermath of the COVID-induced recession.

Continue reading.

Route Fifty

by Daniel C. Vock

October 18, 2024

Fitch Community Development Financial Institution Sector Monitor.

Fitch Ratings' second annual Community Development Financial Institution (CDFI) Sector Monitor summarizes the results of comparative financial information and ratios for a group of 40 CDFI loan funds (see the Participating CDFIs section for the full list). This report covers financial information for fiscal 2023 and the previous four fiscal years. The financial information included in this report was compiled based on Fitch's review of CDFI audited financial statements.

Access Report

Wed 16 Oct, 2024

Fitch: U.S. CDFIs Set for Headwinds as Pandemic Aid Fades Away

Fitch Ratings-Chicago/San Francisco/New York-16 October 2024: Balance sheets for U.S. community development financial institutions (CDFIs) will continue to grow while leverage is kept largely in check as sources of funding change and pandemic stimulus runs out, according to Fitch Ratings in its latest annual report for the sector.

CDFI balance sheets have demonstrated substantial growth in equity over the past five years, with an average annual increase of 8.8% in loans outstanding outpacing the smaller increase in outstanding debt. Pandemic-related aid has helped keep growth strong, though Senior Director Karen Fitzgerald expects the trajectory to slow. "The end of federal stimulus programs, higher interest rates, and reduced private funding will cause growth to slow, though the solid financial profiles of CDFIs equip them to handle current economic pressures," said Fitzgerald.

Similar to last year's update, Fitch anticipates that CDFIs will increasingly turn to bond markets to raise capital as philanthropic funds are less readily available and interest rates remain high for private sources of funding. What is likely to change is sources of funding, which have shifted following the end of pandemic aid. Additionally, federal regulators issued a final ruling to modernize Community Reinvestment Act (CRA) regulations, which, once it goes into effect, could result in more favorable treatment of loans to and investments in CDFI loan funds by banks.

CDFIs' balance sheets will change as the sector works through the impacts of diminishing stimulus funding and higher interest rates. "While loan performance may deteriorate from current levels, loan losses will remain manageable as CDFIs maintain strong asset quality," said Fitzgerald.

Fitch's latest 'CDFI Sector Monitor' is available at www.fitchratings.com.

Wed 16 Oct, 2024

[Fitch: 2024 Election’s Impact on U.S. Healthcare Ratings]

Fitch Ratings does not foresee immediate credit implications from the November 2024 elections despite the wide-reaching nature of federal policy within healthcare. The policies being discussed are less dramatic than those in 2016 when Republicans were focused on repealing the Affordable Care Act (ACA) and in 2020 when Democrats focused on universal healthcare. Social Policies’ Important First-Order Effects Healthcare could be affected by potential social policy reforms, though meaningful changes are less likely absent Republicans sweeping Congress. More Republican control increases the chance of changes to entitlement programs, the ACA and the Inflation Reduction Act (IRA). The latter would be a moderate credit positive for pharmaceutical manufacturers should the drug price elements be repealed whereas changes to Medicaid and the ACA could pressure provider margins. Protectionism’s Second-Order Effects Loom Fitch believes the responses by countries adversely affected by heightened protectionist policies could have a larger impact on the credit profiles of U.S. healthcare companies than the direct effects. Insurers and providers are the most insulated from geopolitical disputes whereas pharmaceutical manufacturers, medical device manufacturers, diagnostics companies and the healthcare supply chain have significant upstream and downstream exposure. Fitch believes companies in these sectors could be adversely affected by countries’ responses to tariffs and legislation.

Access Report

Wed 16 Oct, 2024

[Fitch: U.S. Healthcare Credits Likely Unaffected by Upcoming Elections]

Fitch Ratings-Austin/New York/Toronto/Chicago-16 October 2024: Fitch Ratings expects limited immediate credit implications for the U.S. healthcare sector from the outcome of the November 2024 elections, as proposed healthcare policies are narrower in scope than those in 2016 and 2020. Longer-term changes are incrementally more likely if either party sweeps the White House and Congress.

The policies of and leadership at agencies such as the Federal Trade Commission (FTC), Food and Drug Administration, and Centers for Medicare and Medicaid Services will influence near-term credit fundamentals more than legislative changes. For example, the FTC has been focused on competition in healthcare. This could shift in the event of a leadership change, reducing the time and uncertainty currently associated with mergers and acquisitions.

The most important legislative items impacting U.S. healthcare credit profiles that will result from the election are protectionism, immigration, expiring subsidies related to the Affordable Care Act, and potential changes to the Inflation Reduction Act.

Pharmaceutical and medical device manufacturers and the associated supply chain are exposed to trade protectionism and potential retaliation by affected countries, given certain markets’ importance upstream and downstream. Healthcare providers are also exposed to immigration policies that would affect availability of foreign-educated nurses.

Healthcare providers' volumes and margins could be negatively affected should expanded insurance subsidy premiums expire at the end of 2025. Fitch views this risk to be material, given the size of the expenditure and limited bipartisan efforts in the past, unless there is a Democratic sweep.

If the Inflation Reduction Act were repealed in its entirety, this would be a modest credit positive for pharmaceutical manufacturers given the first cohort of drugs subject to the price negotiations are set to go into effect in 2026. However, drug pricing has bipartisan voter support, making significant changes to this element of the law less likely.

Fitch U.S. and Canadian Ports - 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. This is an annual, point-in-time assessment of these ports. Ratios for each issuer are determined using audited information or additional information received from the issuer and circumstances unique to the credit.

Access Report

Fri 18 Oct, 2024

Fitch: US and Canadian Ports Able to Withstand Recent Disruptions

Fitch Ratings-New York-18 October 2024: Ratings and medians for U.S. & Canadian ports remain steady heading into next year despite sector disruptions, according to Fitch Ratings in its latest sector peer review.

As cargo volumes began to revert to more normalized levels relative to pandemic highs, East Coast ports were hit by the March 2024 collapse of Baltimore's Francis Scott Key Bridge. The collapse triggered an uptick in volumes and short-term rerouting congestion for neighboring ports. However, the ports withstood fallout from the bridge crash with little impact on their ratings or operating performance.

The outcome of ongoing labor contract negotiations between the International Longshoremen's Association and United States Maritime Alliance remains to be seen. The January 2025 deadline for extended negotiations is approaching, raising the possibility of resumed port strikes.

"Despite a few months of breathing room, East and Gulf Coast ports will face increased focus. A resumption of the strike could slow volume growth or force shippers to reroute cargo to West Coast ports," said Associate Director Jennie Mu.

Fitch's latest medians show continued stability for the sector. During its 2024 review cycle, Fitch upgraded two ports (Florida's Port Canaveral and Port Tampa Bay), revised the Rating Outlook for one to Positive from Stable (Texas' Port of Galveston) and did not take any negative rating actions. Fitch also affirmed the rating for Canada's Montreal Gateway Terminals with a Stable Outlook. This is good news for the Quebec and Ontario markets serviced by the terminal operator at the Port of Montreal.

The report summarizes 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 2023. Fitch has also released a corresponding data comparator tool for standalone U.S. and Canadian port credits. Both are available at www.fitchratings.com.

Fri 18 Oct, 2024

S&P: Hurricanes Helene And Milton Add To U.S. Public Finance Issuers' Climate And Financial Challenges

Why this matters. Less than two weeks after Hurricane Helene made landfall along Florida's Big Bend as a Category 4 storm, Hurricane Milton came ashore near Sarasota, Fla., on Oct. 9, 2024, as a Category 3. While coastal residents in the Southeastern U.S. are accustomed to major storms during hurricane season, Helene in particular resulted in inland devastation that was significantly different. In some parts of Western North Carolina and Eastern Tennessee the effects of Helene from damaging winds and flooding are still being assessed weeks after the storm, and some local governments remain unable to quantify both the damage and repairs necessary. Hurricane Milton continued across Florida, leading to flooding and nearly 120 tornadoes that destroyed properties along the state's east coast.

What we think and why. In S&P Global Ratings' view, a shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region's need for storm hardening. Although federal and state disaster relief funds may partly offset the expenditures, costs for infrastructure investments could require additional debt and pressure issuers' fixed costs. Furthermore, where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation.

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[Free registration required]

15 Oct, 2024 | United States of America

Is Flooding Protection Infrastructure Worth It?

When Hurricane Francine hit Louisiana last month, much of Terrebonne Parish lost power and some roads and houses flooded, but most flood-protection measures held strong.

When Hurricane Francine hit Louisiana last month, about 60,000 homes and businesses in Terrebonne Parish lost power.

But other damage was far less than anticipated — largely because of flood-protection projects.

Francine struck with 100-mile-per-hour winds and an 11-foot storm surge. Some roads flooded but few houses did, according to officials. The only overtopped levee in Terrebonne was near Montegut, a town on a narrow road that strings into the coastal marshes, separating land from the Gulf of Mexico.

Continue reading.

governing.com

Oct. 18, 2024 • Mark Ballard, The Advocate, TNS

Ensuring Resilient Water Infrastructure Requires Creative Financing.

Meeting the water challenges of today and the future will require federal spending as well as new financial models and revenue streams to ensure equity, climate change adaptation and sustainability.

Lawmakers in Congress are currently negotiating spending levels on water systems, and some proposals would include significant cuts. As communities around the U.S. confront aging drinking water infrastructure often unprepared for climate change and population growth, federal sources of financing are more critical than ever.

Building and maintaining water infrastructure, including pipelines, treatment plants, and stormwater and wastewater systems, require substantial financial outlays. Emerging contaminants like per- and polyfluoroalkyl substances, also known as forever chemicals, present additional burdens. Addressing these pollutants requires advanced treatment technologies and comprehensive monitoring, which are expensive to implement and maintain.

Continue reading.

Route Fifty

By Chelsea Kolb, Sara Stullken and Sara Hughes

October 18, 2024

Muni-Bond Sales Surge by the Most Since Last US Election Rush.

- **Activity driven by borrowers avoiding post-election volatility**
- **Sales this year at a record-setting pace at about $400 billion**

With the US elections less than three weeks away, the sale of local and state government debt is surging.

The 30-day supply of municipal bonds rose to about $22.9 billion as of Wednesday, the highest since October 2020, another period when sales was elevated due to looming elections, according to a Bloomberg index of scheduled sales over the next month.

That figure could be even higher since the data represents a fraction of what comes to market. Many muni-bond sales are announced with less than a month’s notice.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 16, 2024

Brave New World of Active Muni ETFs: Bloomberg Masters of the Muniverse

While muni ETFs still only make up a small portion of the overall muni market holdings, record growth in the muni-focused funds and more specifically, actively managed ETFs, has led to more innovative alternative strategies. In the latest Masters of the Muniverse episode of our FICC Focus podcast, Eric Kazatsky and Karen Altamirano are joined by Harley Bassman, Managing Partner at Simplify Asset Management. We discuss Simplify's alternative strategies in ETFs and how option selling can improve portfolio risk-adjusted returns.

Continue reading.

Bloomberg MuniMoments

Oct 18, 2024

Corporate and Municipal CUSIP Request Volumes Slow in September.

NORWALK, Conn., Oct. 11, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for September 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a decrease in request volume for new corporate and municipal identifiers.

North American corporate CUSIP requests totaled 7,160 in September, which is down 5.8% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 4.3%. The monthly decline in volume was driven by a 7.7% decrease in request volume for U.S. corporate equity identifiers and a 10.0% decrease in request volume for Canadian corporate identifiers. Request volumes for short-term certificates of deposit (-5.4%) and longer-term certificates of deposit (-19.1%) also fell in September.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 10.2% versus August totals. On a year-over-year basis, overall municipal volumes are up 7.2%. Texas led state-level municipal request volume with a total of 167 new CUSIP requests in September, followed by New York (134) and California (69).

"While CUSIP request volume is down across most asset classes, this month, that is largely a reflection of difficult comparisons to last month, where we saw a significant surge in new issuance activity," said Gerard Faulkner, Director of Operations for CGS. "On an annualized basis, we're seeing a positive trend in CUSIP request volume as we turn the corner to the fourth quarter."

Requests for international equity CUSIPs fell 9.5% in September and international debt CUSIP requests rose 13.2%. On an annualized basis, international equity CUSIP requests are down 2.4% and international debt CUSIP requests are up 100.3%.

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

GFOA: Stand-Alone Financial Reporting for Government Departments

Recent GFR articles have examined primary government reporting, including component units. However, stand-alone departmental reports can improve transparency by providing detailed insights into specific services and resource use. This article explores the factors influencing these reports' selection and content.

Read more.

Fitch: Pressure Mounts for U.S. Colleges As Students Head Back to School

Fitch Ratings-Chicago-11 October 2024: A modest uptick in fall enrollment will not be enough to stem intensifying pressure for many U.S. colleges heading into next year and likely beyond, according to Fitch Ratings analysts during a webinar yesterday.

A closer look at overall steady enrollment expectations for 2024-2025 reveals clears winners and losers, according to Senior Director Emily Wadhwani and Head of Fitch's U.S. Public Finance Higher Education and Nonprofit group. "For example, some flagship public institutions, selective private institutions, and HBCUs are achieving record enrollment numbers," said Wadhwani. "Conversely, many smaller, less selective colleges continue to see their enrollment decline."

Demand for college is pressured from a rising number of high school and traditional college students questioning the value of pursuing a four-year college degree. Lower demand will also keep tuition increases in check, with more colleges carefully weighing the pros and cons of raising prices. Of note, institutional discounting levels have ticked up. "Discounting is at its steepest for every incoming freshman class, which then becomes a trailing reference point as those students head towards gradutation," said Wadhwani.

Institutions are also devoting more attention to recruiting non-traditional college populations, such as older adults and international students, who have different cost and value expectations. These schools are also shoring up retention of existing students.

Macroeconomic factors are also at play. Fitch forecasts that consumer spending growth is likely to slow next year, while noting that debt levels are on the rise. This environment has mixed implications for the sector, according to Wadhwani. The most acute of the sector's expense challenges continue to center around labor cost pressures. While cooling wage and employment growth could be a plus, slowing consumer spending and rising debt-to-income levels could squeeze household tolerance and capacity for additional student loans. Investment portfolio performance, and energy cost volatility in an era of increasing energy needs and geopolitical instability are other macroeconomic pressures the sector faces.

While most Fitch-rated colleges maintain Stable Outlooks, downward Outlook revisions have risen over the last several quarters. This could indicate more downgrades are ahead, particularly for colleges unable to maintain positive operating performance, as well as erode financial resources. Rating Outlooks vary by geographic region, with far less stress evident in the South compared to the Midwest and Northeast.

A Recipe for Getting the Finances Right.

COMMENTARY | Cities across the country are currently finalizing their budgets. But budgeting is just one ingredient in a city's financial success.

In a 1957 speech, Dwight D. Eisenhower shared a lesson he'd learned in the Army that he said worked for the whole of government. "Plans are worthless," the president said, "but planning is everything."

Like so much about Ike, there was a lightness to what he was saying that made the central paradox a little easier to digest. The fact is governments often have to change their plans on the fly. And that means long-range plans tend to fall by the wayside, putting leaders in a reactive position rather than the driver's seat.

You can see this indirectly in the way arguments over city budgets seem to suck up all the oxygen in the room. For the past several months, mayors and city councils have been going back and forth over budgets. Right now, in Minneapolis, Mayor Jacob Frey and the city council are butting heads over a $1.5 million grant for a homeless advocacy group. In Houston, policymakers are debating whether to raise property taxes to help close a $129 million deficit. And in Seattle, Mayor Bruce Harrell has released his proposed budget to close a $250 million budget gap.

Continue reading.

Route Fifty

By Mark Funkhouser

October 9, 2024

S&P: Interconnection Queue Backlog Adds Risks For U.S. Not-For-Profit Power Sector

Key Takeaways

- The not-for-profit power sector is currently in flux as a result of the phasing out of fossil-fuel-based generation, changing demand, and growing delays in interconnection approvals as small-scale renewable generators seek to enter the market.
- Growing credit risks for not-for-profit electric utilities related to approval and buildout delays compound escalating costs, including capital plan investments, which could pressure rate-making flexibility, cost recovery, and financial metrics.
- Delays also complicate power-supply planning for load-serving not-for-profit electric utilities and

challenge their ability to achieve timely decarbonization goals and meet their obligations of energy reliability.
- Replacing generation retirement to meet demand growth is uniquely challenging to the not-fo--profit power sector, which maintains heightened responsibility to procure sufficient power for the end-use customers.
- S&P Global Ratings believes that reliability will remain a prominent concern for policymakers, who have already shown an inclination to extend the operating lives of aging units slated for retirement.

Continue reading.

8 Oct, 2024

Short-Dated Muni Bonds Swoon as Fed Rate-Cut Bets Revised.

- **State-, local-debt market usually takes its cues from US bonds**
- **Uptick in muni supply expected ahead of presidential election**

The shortest-dated municipal bonds sold off after a blowout jobs report caused investors to recalibrate the odds of another big interest-rate cut from the Federal Reserve.

On Friday, yields on three-month AAA municipals shot up 29 basis points — the biggest one-day jump since 2022 — after labor data showed a still strong US economy. That puts yields on the ultra-short securities higher than AAA municipal bonds maturing in 16 years — deepening once again, an already pronounced inversion of the muni curve.

Short-term state and local debt yields have been elevated compared to longer term debt for over two years. The muni curve inverted after the Federal Reserve started on its rate hiking regime in 2022. That relationship was just starting to return to normal — until the too hot jobs data shook traders' conviction in the scope of the Fed's future policy easing.

Continue reading.

Bloomberg Markets

By Lily Meier and Sri Taylor

October 7, 2024

Municipal Revenue Bonds Offer Low Cost Way to Fund Fiber Networks.

- **Incumbents don't like municipal networks and claim they shouldn't use taxpayer money to compete**
- **But municipal revenue bonds don't require any taxpayer investment**
- **And they offer a low-cost way to fund new fiber broadband networks**

At this week's Broadband Nation Expo, a panel will discuss financing fiber networks. And Fletcher Kittredge, chief strategy officer at the service provider GWI, plans to share his expertise, more specifically, on financing public networks with municipal revenue bonds.

“No taxpayer money is involved in municipal revenue bonds, and it’s a really low-cost way for munis to fund networks,” he said.

Whereas a general obligation bond is secured by and paid for by taxes, a municipal revenue bond is secured by and paid for by the revenue of the network. And while incumbents may complain and even sue towns and cities that try to fund a broadband network with taxpayer money, incumbents don’t have that argument when it comes to municipal revenue bonds.

Continue reading.

fierce-network.com

By Linda Hardesty

Oct 9, 2024

Munis on the Rise: Better State Finances and High Yields Offer a Bond Market Win

Municipal bonds have long been seen as a safe haven in the bond market. After all, their credit quality and repayment are driven by the state’s and the local government’s ability to raise taxes and/or support from the underwritten projects. This cash flow pays investors and provides the steady returns of muni bonds.

And it looks like municipal bond investors have something to cheer about heading into next year.

State tax revenues are set to increase, while rainy day funds remain plump. At the same time, budget and spending cuts even in the worst-off states have less cash flow risks for many municipalities. For investors, it’s just another sign that munis are a top bond variety for their portfolios.

Taxes, Taxes, Taxes

Municipal bonds are issued by state and local governments to fund their operations, launch special projects, and provide their citizens with various programs. To pay for those bonds, it’s often taxes–payroll, sales, and property–that help pay the interest and pay off debt. This is where some problems have emerged over the last year.

Continue reading.

dividend.com

by Aaron Levitt

Oct 08, 2024

Morgan Stanley On How Natural Disasters Could Impact the US Municipal Bond Market.

Craig Brandon of Morgan Stanley discusses the U.S. municipal bond market as the market is experiencing a record issuance year and the natural disasters are adding uncertainties to the market.

Watch video.

cnbc.com

Wed, Oct 9 2024

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of August) $381.2 billion, +35.5% Y/Y
- Trading (as of August) $13.0 billion ADV, +3.6% Y/Y
- Outstanding (as of 2Q24) $4.1 trillion, +1.8% Y/Y

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October 2, 2024

Obligate It or Lose It! Preparing for the Upcoming ARPA SLFRF Obligation Deadline.

The passage of the American Rescue Plan Act (ARPA) in 2021 provided a lifeline for local governments through its State and Local Fiscal Recovery Funds (SLFRF) program, which awarded every municipality a portion of $65.1 billion in funding. June 2024 marked three years since initial disbursement, and the next three months are the home stretch for cities, towns and villages to obligate the funding they received under the SLFRF program. ARPA regulations require local governments to return grant funding that remains unobligated beyond the end-of-year deadline to the U.S. Department of Treasury, rendering this deadline one of the most important for cities, towns and villages. With three months left until the Dec. 31, 2024 obligation deadline, local governments must obligate funding now or risk potential clawbacks of these funds.

To assist municipal government with remaining unobligated fiscal recovery funds, NLC and the U.S. Treasury hosted a webinar to clarify and answer questions related to the obligation deadline. Local leaders and grant administrators can watch the webinar here. Other resources include the Obligation Interim Final Rule (IFR), the U.S. Treasury's FAQ with updated obligation answers and Obligation IFR Quick Reference Guide.

How do you know if you've obligated your funds?

The US Code of Federal Regulations defines "obligation" as "an order placed for property and services and entering into contracts, subawards, and similar transactions that require payment." The U.S. Treasury has further clarified that "similar transactions that require payment" may include certain interagency agreements and, under certain circumstances, payroll expenses for recipients' employees. Consequently, municipalities must do more than budget their SLFRF dollars — they must allow extra time to place orders and negotiate contracts. Finalizing obligations, including funds used for revenue replacement, includes reporting the obligation through the normal reporting process. Subrecipients are not subject to the Dec. 31, 2024 obligation deadline. Subrecipients and contractors do not need to take additional steps to obligate funds after entering a subaward or contract with the recipient.

Continue reading.

National League of Cities

By: Patrick Rochford, Julia Bauer & Michael Wallace

October 1, 2024

Fitch Ratings Updates Criteria for U.S. Public Finance Prerefunded Bonds.

Fitch Ratings-New York/Chicago-04 October 2024: Fitch Ratings has published an updated criteria report titled "U.S. Public Finance Prerefunded Bonds Rating Criteria." It updates the prior report published on Dec. 14, 2020.

No changes to Fitch's underlying methodology were made, and the key elements of Fitch's prerefunded bonds rating criteria remain consistent with those of its prior criteria report.

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

Fitch: US Public Finance Credits Resilient Amid Hurricane Helene Recovery

Fitch Ratings-New York-03 October 2024: U.S. public finance issuers affected by Hurricane Helene will require time to recover from severe flooding, substantial property damage and the tragic loss of life, Fitch Ratings says. However, these issuers' ratings should largely remain stable amid challenges posed by the devastation. While the full extent of property damage in the Southeast will not be known for weeks, Fitch is monitoring various U.S. public finance credits affected by the hurricane, which was one of the largest storms to ever hit the U.S.

Federal relief funds, state support, insurance claims and private resources will help rebuild and drive post-disaster economic activity. We expect the pace of recovery to be slow due to the extensive devastation, compounded by uncertainty related to uninsured homeowners and businesses. Standard homeowners’ insurance does not typically cover flood damage.

We expect state and local government ratings to remain stable throughout the recovery. Timely federal intervention, primarily through the Federal Emergency Management Agency (FEMA), is key to supporting fiscal stability for governments affected by the storm. The most affected states (Florida, Georgia, Tennessee, North and South Carolina) all have ample dedicated operating reserves totalling over several billion dollars each, as well substantial additional resources to cover short-term recovery and rebuilding costs.

Most Fitch-rated local municipalities have a high degree of fiscal resilience and robust reserves to manage storm expenses as they await reimbursement from federal and state disaster aid programs. Certain issuers will be more challenged as recovery costs could weaken reserves, and extensive property damage could lead to higher property tax delinquencies. Tax bases could also be affected if hurricane damage leads to permanent relocations or if increased insurance costs or insurance unavailability discourage homeowners and businesses from rebuilding.

Our insurance team has initially estimated an insured loss range from $5 billion to $10 billion. Florida’s state-owned property insurer Citizens Property Insurance Corporation (AA/Stable), the insurer of last resort, has leading market share in both personal and commercial lines. Both Citizens and the Florida Hurricane Catastrophe Fund (AA/Stable), the state-sponsored reinsurer, have ample liquidity to address initial claims or reimbursements. They can also issue debt and levy emergency assessments on nearly every property and casualty insurance policy in the state for as long as debt is outstanding to cover claims volume. However, the potential for significant leverage on the assessed base could weigh on residents and businesses.

Power utility lines were heavily damaged in areas across the Southeast, and there are still nearly one million customers without power. Extensive mutual aid agreements among utilities outline the framework for assistance and cooperation to get power restored as quickly and safely as possible, but it will likely take time in areas with extensive damage. Power utilities typically manage costs associated with extreme weather events through robust cash reserves and liquidity facilities designed to bridge the timing between restoration costs and reimbursement by FEMA. FEMA typically reimburses around 75% of restoration costs.

Most Fitch-rated water and sewer utilities affected by the hurricane have robust liquidity and should be able to absorb initial storm costs. However, storm surges and flooding can overwhelm systems, causing sewer overflows that may result in water quality issues. Fitch is still assessing the full impact of the storm on utilities.

While we are still monitoring our rated not-for-profit hospital and life plan community (LPC) portfolio, most facilities appear to have avoided significant damage. Nevertheless, necessary repairs or clean up could cause business interruption. Hospitals and LPCs will benefit from FEMA aid and business interruption insurance, although receipt of these funds could take time.

S&P U.S. And Canadian Public Port Facilities Ratings And Outlooks As Of Oct. 1, 2024

View the S&P Ratings and Outlooks.

[S&P U.S. Community College District Fiscal 2023 Medians: A Reason For Optimism As A New School Year Gets Under Way]

Key Takeaways

- U.S. community college demand metrics are showing signs of rebounding following material declines in recent years, spurred by the impact of the pandemic.
- Despite the exhaustion of federal relief funds, community colleges posted relatively consistent margins for fiscal 2023 compared with pre-pandemic levels, while strengthening liquidity in the same year due to improved state funding and prudent management.
- Financial resource ratios have remained relatively consistent over the past three years while debt levels and leverage ratios indicated modest increases likely due to higher construction costs and market conditions over the same time horizon.

Continue reading.

1 Oct, 2024

Small Water Utilities Cannot Achieve PFAS Cleanup On Their Own.

COMMENTARY | Limited budgets, smaller customer bases and skeleton crews put a heavier PFAS burden on rural systems; polluters should be held accountable.

In the United States, 95% of all public water systems have less than 10,000 customers (79% serve fewer than 500 people), and nearly 85% of those systems have three or fewer full-time employees. With such small staffs, many historically have suffered from “management limitations, lack of long-term planning, and difficulty understanding current and future regulations.”

The Environmental Protection Agency has now released final Maximum Contaminant Levels (MCLs) for PFAS (per- and polyfluoroalkyl substances, aka “forever chemicals”) in drinking water. The regulation targets six specific compounds and has two key deadlines: initial monitoring for these PFAS by April 2027 and mitigation of these PFAS, if detected above the MCLs, by April 2029.

The costs of meeting these two deadlines may include: monitoring and testing; piloting, designing and installing a treatment system; operator training; operation and maintenance of the treatment system; disposal and/or destruction of PFAS-contaminated filter media; and public notification regarding PFAS levels and violations. The EPA has estimated that the costs of monitoring, communication and treatment alone could reach as high as $1.5 billion per year. The costs of not meeting these deadlines may include penalties and liability.

Continue reading.

Route Fifty

By Mike DiGiannantonio,
SL Environmental Law Group

September 30, 2024

[WSJ: Why Investors Are Putting More Money in State-Specific Muni ETFs]

These exchange-traded funds could be especially attractive if tax cuts aren't extended at the end of 2025

Against a backdrop of falling interest rates and tax uncertainty with 2017's tax law set to expire next year, individual investors are turning to state-specific muni ETFs.

ETFs offer investors lower taxes than mutual funds or individual munis because they rebalance and reinvest with the goal of keeping taxable events at a minimum. ETFs also allow investors to get started in municipal bonds at a low cost and exit relatively easily if they wish. Mutual funds, by contrast, tend to have higher minimum investments and trade only once a day.

"We are seeing a significant shift in preference among investors," says Alex Petrone, director of fixed income for Rockefeller Asset Management, which issues state-specific muni ETFs.

State-specific ETFs

ETFs' tax efficiency and investment flexibility could come in handy if certain provisions of 2017's Tax Cuts and Jobs Act expire at the end of 2025, as is currently set.

Historically, tax-exempt municipal bonds become more popular if personal income taxes increase. If the current tax cuts fully expire at the end of 2025 and personal income-tax rates revert to pre-2017 levels, taxes will increase across all tax brackets. Interest payments from tax-exempt municipal bonds are tax-free at the federal level, which can help offset increases in income tax.

What's more, the fate of the $10,000 cap on state and local tax deductions—the so-called SALT deduction—could stoke more demand for state-specific muni ETFs. Democrats have indicated they will let the cap expire if it can be offset by increases in other tax revenue. The Republican position is less clear; former President Donald Trump said recently he is open to eliminating the cap, marking a shift from his previous position to keep it. Congressional Republicans have supported keeping the cap in place in the past as well.

If the SALT cap is retained or lowered, muni pros say that could make in-state bond investments more attractive over the long term as interest payments from in-state bonds are generally tax-exempt if the investor is local. The cap is already giving a boost to these bonds, but they could look better on a relative basis if personal income-tax rates rise but the SALT cap is retained.

While passive state-specific muni ETFs have been around since at least 2007, issuers have been launching more of them thanks to increased investor interest. Since 2023, at least eight new funds have launched, bringing in more than $500 million in investments.

So far these funds focus on California and New York, which along with Texas, are the largest issuers of municipal bonds, accounting for about 40% of total issuance.

These funds are actively managed, which tends to make them more expensive than passive funds. They have expense ratios ranging from 0.35% to 0.55% compared with 0.05% to 0.10% for passive funds.

Timeline matters

Investing in state-specific ETFs may also be one way to diversify a municipal-bond portfolio. These ETFs have bonds that when considered together are of intermediate time to maturity—about 10 years. Longer-term bonds have different risk profiles than short-term bonds. If interest rates continue to go down and bond prices rise, investing in bonds with a longer time to maturity means that investors could lock in the higher prices for longer if they start to adjust their portfolios now.

Matthew Hage, municipal-bonds portfolio manager at investment manager MacKay Shields, says that as interest rates rose in recent years, both taxable and tax-exempt bonds had higher yields with shorter maturities because they were trading at a higher price. Now that interest rates are falling again, it may be time for investors to change how they invest in bonds. Hage says if investors are willing to invest in longer-term bonds, those bonds will have higher yields, which means higher income.

"The reinvestment window sneaks up on you pretty quickly if you are reaching it every three to six months with short-dated maturities," he says. "There is an opportunity now to lock in higher yields for a longer duration and protect against downside risk."

The Wall Street Journal

By Bailey McCann

Oct. 4, 2024 10:00 am ET

What State Hiring Trends, Fed Rate Cuts Mean for Munis.

Cooper Howard, Schwab Center for Financial Research's director of fixed income strategy, discusses recent trends in state and local government hiring and what Federal Reserve rate cuts means for municipal bond issuance in 2025. He speaks on "Bloomberg The Close."

Watch video.

Bloomberg Markets: The Close – Muni Moment

October 4th, 2024, 10:19 AM PDT

Examining the Rally in Both the Treasury and Municipal Bond Markets.

The third quarter of 2024 saw a rally in both the Treasury bond market and the municipal bond market.

The Treasury bond market saw the 10-year U.S. Treasury bond yield move from 4.479 at the beginning of the quarter to 3.797 on Sept. 26. The move in munis was more muted, with 10-year AAA munis going from 2.84 to 2.63 over the course of the quarter.

To wit, the end of the second quarter saw the 10-year bond yield move from a 4.28% on the eve of the June 27 Biden-Trump debate to 4.47% by July 1. We believe this change was a direct result of President Biden's poor debate performance and a market assumption that we were looking at a sweep of both houses of Congress as well as the White House by Republicans. The thought process is that undivided government tends to produce unchecked spending and that the markets view this outcome as potentially inflationary.

Continue reading.

Cumberland Advisors

by John R. Mousseau

Mon, October 7, 2024

Fidelity Plans Latest Mutual Fund-to-ETF Flip in Muni Market.

- **The Boston-based asset manager isn't new to this trend**
- **Conversion shows the growing popularity of muni ETFs**

Fidelity Investments is looking to convert two of its municipal-bond mutual funds into exchange-traded funds, a move that underscores the popularity of the $10 trillion US arena.

The two funds impacted are the $170 million Fidelity Municipal Bond Index Fund and the Fidelity Municipal Core Plus Bond Fund, which has less than $70 million in assets. Both are expected to be converted next year, according to two separate regulatory filings.

"These conversions can deliver new opportunities and value for our existing shareholders, while also expanding our solutions to help meet demand for access to innovative strategies in an ETF wrapper," said Greg Friedman, Fidelity's head of ETF management and strategy, in an emailed statement.

Continue reading.

Bloomberg Markets

By Amanda Albright

October 3, 2024

S&P U.S. Not-For-Profit Transportation Infrastructure 2023 Medians: Demand And Revenue Growth Improved Financial Medians To Post-Pandemic Highs

Key Takeaways

- U.S. not-for-profit transportation infrastructure enterprise (TIE) financial medians improved in fiscal 2023 across the asset classes given continued revenue and activity growth (passengers, tolled transactions, and tonnage) and a combination of management actions such as increasing rates, fees, and charges and reserves.
- S&P Global Ratings expects that stable-to-improving demand and revenue trends and proactive management practices will continue to mitigate the impact of higher debt for larger issuers and of

rising operations-and-maintenance (O&M) costs to support financial medians into fiscal 2024.
- Despite 14% median growth in operating expenses attributable to inflationary pressures combined with higher debt outstanding, virtually all TIE medians improved as S&P Global Ratings-calculated median net revenue available for debt service increased, resulting in improved overall coverage, debt capacity, and cash reserves.
- Improved financial metrics contributed to overwhelmingly positive rating actions with 32 upgrades and one downgrade from Sept. 1, 2023, through Sept. 1, 2024.

Continue reading.

25 Sep, 2024

Fitch State Housing Finance Agencies Sector Monitor: 2024

Fitch Ratings' State Housing Finance Agencies Sector Monitor provides annual comparative financial information and ratios for state housing finance agencies (HFAs). This report, covering 51 HFAs, contains aggregated financial ratios for fiscal year (FY) 2023 and the previous four fiscal years and is an update to Fitch's October 2023 publication, "State Housing Finance Agencies — Peer Review," which provided updated FY 2022 financial information for 51 HFAs. Also provided are survey results from the HFAs and a full comparison of individual financial results across the sector.

Access Report

Thu 26 Sep, 2024

The New "New Normal": Trends In U.S. Higher Education Post-Pandemic Versus Post-Recession - S&P

Key Takeaways

- The U.S. higher education sector is struggling with student demographic pressures and affordability considerations on one hand and rising expenses on the other, though ample financial resources and brand recognition buoy the top institutions.
- In a trend reversal, inflation outpaced tuition increases in the past five years, while instruction expenses lagged even further behind as universities cut costs.
- Although interest rate trends inform debt issuance across the sector, we see the greatest correlation at the lowest-rated private schools.

Continue reading.

25 Sep, 2024

Fitch: Fed Rate Cut Primes U.S. State Housing Agencies to Build Off

Resurgent 2023

Fitch Ratings-New York/Chicago/San Francisco-26 September 2024: The Federal Reserve's 50-bp rate cut last week will help to spur stronger asset growth for U.S. state housing finance agencies (HFAs) after a year of renewed activity, according to a new Fitch Ratings report.

In fiscal year 2023, HFAs significantly increased their aggregate assets and debt. The rebound in debt issuance for affordable housing lending, coupled with competitive mortgage rates and down payment assistance, led to a notable 10.4% rise in total loans.

"Despite pressures from heightened operating expenses and bond rates, HFAs maintained stable net operating revenues and leveraged their strong financial positions to support ongoing affordable housing needs," said Senior Director Karen Fitzgerald. "The trend towards fixed-rate debt issuance over variable-rate debt further highlights their prudent financial management, demonstrating stability and profitability in a fluctuating economic landscape."

More restrictive bank lending standards has also helped precipitate stronger demand for loans as HFAs are able to underwrite loans to borrowers who may not currently qualify for loans from conventional lenders. However, the increase in demand for HFA loan products is somewhat tempered by the continued deterioration in housing affordability, especially for first-time homebuyers, according to Fitch Director, Kasia Reed.

"While lower rates make home purchases more affordable, supply remains an issue and constrains the demand unless more sellers enter the market in a lower rate environment," said Reed. "Additionally, lower rates may begin to increase prepayment speeds under more recent HFA bond programs as homeowners with higher mortgage rates look to refinance at lower rates."

Fitch's "State HFAs Sector Monitor: 2024" is available at www.fitchratings.com.

NFMA Releases Final State Revolving Fund Paper.

The Disclosure Committee is pleased to announce that it has released the final version of the Best Practices in Disclosure for State Revolving Fund Revenue Bonds.

Click here for the press release. Click here to read the paper.

Muni Bond Refinancing Wave Bolstered by Fed Interest Rate Cuts.

- **Muni refunding bond volume is up more than 70% since 2023**
- **MTA, Chicago have plans to refinance debt in the coming months**

States and local governments are refinancing more debt than in years, seizing on lower borrowing costs and signaling a wave of such bond sales as the Federal Reserve prepares to cut interest rates even further.

Municipal bonds sold only to refund existing debt have topped $66 billion so far this year, an increase of nearly three-quarters from the same pace in 2023. Those deals represent nearly 20% of all state and local government debt sales, the largest share since 2021 — a year when 10-year municipal bond yields dropped below 1%, according to data compiled by Bloomberg.

"The refunding surge started around the beginning of the summer when there were more clear indications of where the interest-rate direction is going," said Alice Cheng, vice president and municipal credit analyst at Janney Montgomery Scott. "Working with issuers and bankers, I know that everybody is looking at any opportunities for refunding."

The reopened window is a win for governments who have had limited refinancing opportunities since the Fed started raising interest rates in 2022. And such sales can save cities, states and towns major cash. Chicago, for example, estimates it can reclaim about $70 million of debt-service costs through a proposed $1.5 billion refunding sale to help close its budget deficit.

Refunding Sales Increase on Rate Picture
Share of muni bond sales sold to refinance existing debt

Some of the biggest issuers in the $4 trillion municipal bond market are taking advantage of the window to refinance. The Metropolitan Transportation Authority plans to sell $872 million of new bonds to raise funds to retire and refund existing debt in a competitive sale on Oct. 1, according to preliminary offering documents dated Wednesday.

The Chicago Transit Authority — which runs bus and train service in the Windy City — is also among issuers looking to refinance for savings. The agency is considering issuing a new deal in the next several months to refund $555 million of bonds sold in 2014, said Tom McKone, chief financial officer of the CTA. Most municipal transactions have a 10-year call option, meaning debt sold a decade ago is now able to be refinanced.

"We do see rates coming down and rates are attractive," McKone said.

Despite the elevated amount of refinancing sales this year, issuance is expected to continue climbing into 2025, said Drew Gurley, managing director of municipal underwriting at Siebert Williams Shank.

"There's a lot of callable bonds that are available, so I'm expecting a lot of refundings," he said. "I don't see that issuance will fall off a cliff."

Bloomberg Markets

By Shruti Singh and Lily Meier

September 26, 2024

— With assistance from Erin Hudson

[Muni Bonds Set for Best Third Quarter Since 2011 on Surprise Rally.]

- **Record new issue supply continues as investor demand keeps up**
- **Muni market is set for a gain of 0.9% during September**

The municipal market is set for its best third quarter since 2011, with a return of about 2.6% during the three-month period.

As the Federal Reserve begins cutting interest rates, investors are snapping up the bonds to lock in the higher yields offered by the securities while they still last.

The rally comes despite a surge in new bond sales, an instance that would typically pressure prices. Issuance in September totaled nearly $46 billion, the second-highest total for the month since at least 2013, according to data compiled by Bloomberg. Despite that, the muni market is poised to see a gain of 0.9% during the month, marking the best performance for a September since 2013.

Continue reading.

Bloomberg Markets

By Erin Hudson and Amanda Albright

September 27, 2024

The Coming Policy Backwash from the COVID Revenue Wave.

As a recent study documents, federal fiscal stimulus created a budget windfall for states. Most cut taxes, and some now must scramble to make up for shortfalls. Congress is likely to impose tighter restrictions on future countercyclical aid, so it's a time for all levels of government to get their acts together.

Those of us who live near the ocean understand wave action. A surging wall of water approaches the shore, then crests and retreats. Often there's an undertow that follows. That's pretty much the story for state revenues over the period from 2020, when the COVID-19 pandemic began, to the present. States received massive amounts of federal countercyclical aid from Congress, while at the same time their sales tax receipts surged as homebound residents spent a substantial portion of their own federal helicopter money on everything from Pelotons to designer handbags.

In ways never seen before in the annals of public finance, a good number of states actually made money on the pandemic — for a year, anyway. Flush with this unanticipated windfall, 48 states and the District of Columbia cut taxes or issued one-time rebates. Even though Congress had enacted rules to discourage use of the federal money for state-level tax cuts, governors and legislators quickly found ways around that by pointing to their good fortune from locally collected revenues.

Now that the economy has normalized and their federal money has largely been spent, a number of states are struggling to make ends meet. Three dozen of them experienced a revenue drop in the past year, and at least five now have serious budget shortfalls. Nonetheless, most states reportedly met their fiscal 2024 budget projections, which had anticipated lower revenues. For most, the problem now is what to do to balance their budgets after all those high-tide tax cuts.

Continue reading.

governing.com

OPINION | Sept. 24, 2024 • Girard Miller

[Vanguard, AllianceBernstein Sue Over Sports Park That Failed.]

- **Vanguard, AllianceBernstein accuse BC Ziegler of fraud**
- **Phoenix-area venue collapsed 17 months after opening**

Municipal bond funds that lost more than $200 million after a sprawling Arizona sports complex collapsed into bankruptcy sued the investment bank that underwrote the debt for the project and the father-and-son team that developed and managed it.

The Vanguard Group Inc., AllianceBernstein Holding LP and Macquarie Group's Delaware Funds allege in a lawsuit filed earlier this month that they were defrauded by Chicago-based bond dealer BC Ziegler, the underwriter of $280 million of municipal securities for the project, and by Randy and Chad Miller.

The lawsuit in Arizona Superior Court in Maricopa County also named law firm Gust Rosenfeld, which acted as counsel on the securities that were issued through the Arizona Industrial Development Authority in 2020 and 2021. The three asset management companies owned about 70% of the debt.

The bond offerings for the Phoenix-area complex, known as Legacy Park, were based on sham financial projections and failed to inform investors that millions of dollars of bond proceeds were diverted to pay the Millers and support operations, the funds alleged.

Contracts

At least seven organizations the Millers said were lined up to use the park, including English soccer giants Manchester United and a youth affiliate of Major League Soccer's Real Salt Lake, have said they never signed "pre-contracts" or "letters of intent" cited in the bond prospectus circulated among investors who purchased the bonds, Bloomberg previously reported.

Related Story: Muni Bond Blowup Exposes Flaws in $600 Billion Corner of Market

"Defendants falsely inflated the purported demand for Legacy Sports Park, evidenced by so-called letters of intent, many of which turned out to be fabricated," the funds said in the complaint. The mutual funds "relied on the materially false and misleading information in the offering memorandum, including the materially false financial projections and the risks related to to the project."

Michael Grimm, a spokesman for Ziegler, said the allegations in the suit had no merit and the investment bank intends to vigorously defend itself. Randy Miller declined to comment as did his attorney. An attorney for Chad Miller didn't respond to a request and neither did Gust Rosenfeld.

Representatives for AllianceBernstein and Delaware Funds didn't provide a comment. A spokesperson for Vanguard declined to comment.

Ziegler was paid about $5.7 million to underwrite the two bond offerings. Gust made about $340,000. The lawsuit is the second brought by bondholders against Ziegler. An entity formed by Saybrook Fund Advisors, an investor in distressed municipal debt, sued the bank in November 2023.

Legacy Cares, a nonprofit set up by the Millers to own the 320-acre complex, filed bankruptcy in May 2023, saying construction setbacks, labor shortages and supply-chain delays amid the pandemic delayed the park's opening, resulting in lost revenue. The facility, with a set of fields and courts for soccer, football, baseball, basketball and other sports, was sold last October for $26 million. Bondholders received $2.4 million in cash and an 11% equity stake in the new owners.

While offering documents for the bonds said the complex would bring in $100 million in its first year, by the time the park opened it generated about $30 million and operated at a $15 million loss.

Financial Projections

In addition to basing their financial projections, in part, on allegedly fraudulent commitments to use Legacy Sports Park, the bond offering said that the Oak View Group, a firm hired to manage non-sport operations like food and beverage and parking, would contribute $10 million to the development. OVG never made the investment, according to the lawsuit.

"Defendants never updated the offering memorandum or otherwise informed investors about the material change in cash flows," the lawsuit said.

Ziegler and the Millers also failed to update their initial financial projections for a June 2021 bond sale even though numerous teams canceled their booking because of the Covid-19 pandemic.

The more than 1,000-page offering prospectus for the 2020 bond offering characterized Randy Miller, a former minor—league baseball player, as a successful businessman with wide-ranging connections to the sports industry, citing his associations with the United States Football League's Arizona Outlaws and the Phoenix Giants, which last played in the '80s.

But it omitted the elder Miller's three personal bankruptcy filings and connections to a Texas investment fraud involving a business entity he controlled. Miller was never charged in the Texas case.

Randy Miller was paid $1 million when the 2020 bond issue closed and both he and Chad Miller received $40,000 per month as operators of the park, the funds' lawsuit alleged. The Millers used more than $7 million of bond proceeds to pay "exorbitant" salaries to themselves, family and friends, the suit said. None of these payments were disclosed to bond investors, the complaint said.

Another $1.2 million of bond proceeds was used to settle a securities fraud lawsuit against the Millers.

"These omissions were highly material given that they improperly diverted proceeds form the bond offering, and concealed facts that impugned the integrity and credibility of the Millers," the lawsuit said.

Bloomberg Industries

By Martin Z Braun

September 23, 2024

[Influx of Air Travelers Fuels Muni Borrowing Boom.]()

[Watch video.]()

Muni Moment – Bloomberg Markets: The Close

September 26th, 2024

WSJ: Extreme Weather Is Hitting Americans in the Wallet

Cities and counties are selling bonds to cover costs from storms and drought

Extreme weather is pressuring local budgets, sticking Americans with the bill and putting the $4 trillion market for state and local bonds at the center of the climate-change fight.

Clyde, Texas, will likely face increased borrowing costs after the city defaulted on debt last month during a drought. Higher parking fees at the beach in Naples, Fla., are helping repay bonds sold to rebuild the city's hurricane-damaged pier. Residents of Texas, Louisiana and Oklahoma will spend the next two decades chipping away at the multibillion-dollar cost of maintaining power during a 2021 winter storm.

"We'll be paying off the bond for the four days of electricity for years to come," said Georgetown, Texas, Mayor Josh Schroeder.

Continue reading.

The Wall Street Journal

By Heather Gillers

Sept. 26, 2024

One Cost of Extreme Weather: Decades of Payments for a Week-Long Storm

Americans often foot the bill for the increasing demands that heat, water and wind are putting on local communities. Frequently, they are paying interest, too.

When winter storm Uri brought a week of freezing weather in 2021, infrastructure built for warmer temperatures broke down. Energy prices skyrocketed, making it costly for energy companies to maintain electricity and gas for homes and businesses.

In 2022 and 2023, amid some of the highest rates in recent years, Texas, Louisiana and Oklahoma sold municipal bonds to reimburse the companies for the resulting costs. (The Louisiana bonds also paid for some hurricane-related energy costs.)

Continue reading.

The Wall Street Journal

by Heather Gillers

Sept 27, 2024

This Piece of the Tax-Exempt Bond Market is a Hot One - If You Manage the Risk.

High-yield municipal bonds have more price volatility and credit risk, but they have outperformed investment-grade munis dramatically over the past 15 years

Some investors focus on growth while others are interested in current income. For that second group, broader horizons within the bond market can lead to better returns over the long haul. You might be surprised to see that diversified high-yield (or junk) bond portfolios can be the best performers, as long as the portfolio managers do a good job analyzing credit risk.

John Miller is the head and chief investment officer of the High Yield Municipal Credit Team at First Eagle Investments in New York. He oversees the First Eagle High Yield Municipal Fund and the First Eagle Short Duration High Yield Municipal Fund. He is based in Chicago and joined First Eagle in January, after leaving Nuveen last April.

Continue reading.

morningstar.com

By Philip van Doorn

Sep 24, 2024

Fundamentals Remain Strong For Muni Bond ETF Strategies.

It's no secret that the commercial real estate market has been struggling for a while now. However, muni bond fundamentals remain strong.

Ever since hybrid and remote schedules became more popular work practices, commercial real estate has struggled. According to a Q2 2024 report from Moody's, the office sector vacancy rate sits at 20.1%. Moody's adds that this is the first time in history that the office sector vacancy rate surpassed 20%.

While some investors may worry about how office vacancies could affect municipal bonds, experts say there is no need to be concerned. In recent insights, the Eaton Vance team notes that the major cities have "significant time to address the potential budget shortfalls", adding that cities have plenty of options to rebalance their budgets.

Continue reading.

etftrends.com

by Nick Wodeshick

September 24, 2024

Wealth and Taxes: The Potential Benefits of Municipal Bond Investing.

"Once you reach a certain level of wealth, the conversation shifts. We aren't talking about accumulating anymore; we're talking about preserving."

This is how Nick Goetze, managing director of Fixed Income Solutions at Raymond James, frames things when he talks about bonds. And when it comes to preserving your wealth, some bonds are built differently.

"The first priority with bonds is principal preservation," says Nick. "In certain high-tax situations, individual investment-grade municipal bonds can be one of the better options to accomplish that goal."

Tax appeal

Issued by city, local and state governments, municipal bonds are loans used to build infrastructure – road expansions, new hospitals, school improvements, water and sewer maintenance, etc. What makes them an attractive opportunity for high-net-worth investors is how they are – or aren't – taxed.

Continue reading.

advisorperspectives.com

by Team of Raymond James, 9/27/24

Corporate and Municipal CUSIP Request Volumes Surge in August.

NORWALK, Conn., Sept. 20, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2024. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a sharp increase in request volume for new corporate and municipal identifiers.

North American corporate CUSIP requests totaled 7,602 in August, which is up 18.9% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 11.5%. The monthly volume surge was driven by a 19.2% increase in request volume for U.S. corporate debt and a 13.6% increase in volume for U.S. corporate equities. Request volumes for short-term certificates of deposit (22.2%) and longer-term certificates of deposit (60.0%) also rose sharply in August.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 20.8% versus July totals. On a year-over-year basis, overall municipal volumes are up 8.8%. Texas led state-level municipal request volume with a total of 305 new CUSIP requests in August, followed by New York (119) and California (59).

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What the Federal Reserve's Policy Shift Means for State and Local Budgets.

The Federal Reserve intended for its first rate cut in four years to stimulate the broader economy, but the decision will also gradually effect state and local budgets.

The Federal Reserve intended for today's interest rate cut of 0.5 percentage points to stimulate the broader economy, but this shift in monetary policy also represents a subtle but important change in the operating environment for state budgets. Interest rates affect every aspect of government finance, from revenue to infrastructure projects, and although the effects on state and local budgets will be gradual, the first rate cut in four years sends a message.

"This decision reflects our growing confidence that, with an appropriate recalibration of our policy stance, strength in the labor market can be maintained," Federal Reserve Chair Jerome Powell said at a press conference after announcing the cut. He also cautioned that the Fed is "not on any preset course—we will continue to make our decisions meeting by meeting."

One of the most immediate impacts of lower rates will be lower borrowing costs for state and local governments seeking to finance critical projects, particularly infrastructure, and make other long-term investments. The higher interest rates of recent years have discouraged borrowing and, as Utah Legislative Fiscal Analyst Jonathan Ball noted during an interview with The Pew Charitable Trusts, this has led some lawmakers to tap historically large general fund and other cash balances to pay for capital projects.

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Route Fifty

By Justin Theal and Liz Farmer

September 18, 2024

Fitch: US State Budgets Poised for Slower Growth After Fed Rate Cuts

Fitch Ratings-New York-19 September 2024: U.S. states are settling into a new normal of slower revenue growth after the Federal Reserve's first interest rate cut in four years, according to Fitch Ratings analysts during a webinar yesterday. Fitch economists project a sizeable slowdown in growth for 2025 and a series of interest rate cuts through 2026. The labor market and job growth are already slowing down, and the same trend appears likely for for state budgets.

"Managing expenditures to revenues is nothing new to states, but the pandemic was an extraordinary outlier that states had to adjust to in the moment," said Senior Director Karen Krop. "States had already learned the importance of building fiscal resilience during good times from the global financial crisis, and this lesson helped them weather the pandemic."

By adding to their coffers in recent years, states have been able to head off negative peformance pressure and smoothly downshift from what Krop called "first booming, then slowing, then normal growth."

After cresting in 2023, the wave of new state tax cuts appears to be ending. Senior Director and U.S.

state government group head Eric Kim pointed to California, Illinois and New Jersey as states that have recently raised taxes in part to address budget gaps.

Time will tell how the direction of the broader economy post-rate cuts will affect the state labor picture. Kim noted a wide range of disparity in terms of non-farm payrolls growth across the states; through July, Idaho and Utah grew over 10% growth above pre-pandemic levels, while Hawaii, Louisiana and Maryland were stalled below pre-pandemic employment levels.

Additional information is available in Fitch's state budget report at www.fitchratings.com.

S&P U.S. Mortgage Revenue Bond Program Medians: Solid Foundations Underpin Strong Credit Quality

Key Takeaways

- S&P Global Ratings' median rating for all U.S. housing finance agency (HFA) mortgage revenue bond (MRB) programs is 'AA+' with a stable outlook.
- The median minimum asset-to-liability (A/L) parity for all MRB programs was stable at 123% (compared with 122% in 2023) while median credit losses declined.
- Credit quality for single-family and multifamily MRB programs generally remained stable or slightly improved as prepayments slowed, loan quality stabilized, and A/L parity remained largely unchanged.
- HFA management teams continue to meet their mission by balancing the provision of affordable housing solutions through a measured debt issuance plan, which we believe will result in ongoing rating stability for MRB programs.

Continue reading.

19 Sep, 2024

Cramped Airports Fuel Muni Borrowing Boom as Travel Surges.

- **US airports have sold more than $12 billion of debt this year**
- **Facilities in Charleston, Fort Myers to issue in coming weeks**

An influx of travelers passing through US airports has created a frenzied borrowing boom to raise cash for expansion projects.

Facilities in South Carolina, California, New York and Florida have plans to tap the municipal bond market in the coming weeks, adding to the $12.3 billion of airport debt already sold this year, according to data compiled by Bloomberg. That volume marks a more than 100% increase from the same period a year ago. Proceeds from the sales will be used to finance new renovation projects designed to improve passengers' experiences.

"Airports are congested, there's a lot more flights and we just need more improvements," said Mikhail Foux, head of municipal strategy at Barclays Plc. "Traffic through airports is through the roof right now."

Continue reading.

Bloomberg Markets

By Lily Meier

September 19, 2024

Fitch: No Labor Shortage Quick Fix in Sight for U.S. Life Plan Communities

Fitch Ratings-Austin/New York-17 September 2024: U.S. senior care facilities face an uphill battle in trying to retain staff over time as a pivotal milestone around baby boomers inches closer, according to Fitch Ratings in its latest labor tracker for the sector.

Labor shortages, increased costs and a gradual shift toward home-based care are all contributing to keep employment at life plan communities (LPCs) and skilled nursing facilities (SNFs) below pre-pandemic levels. Conversely, assisted living facilities (ALFs) and the private sector have surpassed their pre-pandemic employment figures. Fitch's latest findings confirm an ongoing labor shortage that will take time to address, according to Director Richard Park.

"Demographic trends favor long-term demand growth for senior services with the last of the Baby Boomer Generation turning 65 by 2030," said Park. "However, service providers will need enhanced strategies to boost their workforce pipeline amid weak payroll recovery."

The health care and social assistance job openings rate continues to decline steadily, from 7.9% in January to 6% as of July. However, quit rates are still elevated compared to the 4.2% average rate between 2010-2019.

Elsewhere, LPCs payrolls are up by approximately 0.17% from January to July of this year. Additionally, ALFs have grown by around 2.15% while SNFs, where workforce challenges are still quite acute compared to pre-pandemic, have seen payrolls rise by 1.43%. Average hourly earnings are also showing signs of leveling off and stabilizing.

Fitch's latest "Life Plan Communities Labor Tracker: September 2024" is available at www.fitchratings.com.

EPA Announces $7.5 Billion in Water Infrastructure Loans: Holland & Knight

Highlights

- The U.S. Environmental Protection Agency (EPA) on Sept. 6, 2024, announced the availability of $6.5 billion in Water Infrastructure Finance and Innovation Act (WIFIA) funding and $1 billion in State Infrastructure Financing Authority (SWIFIA) funding.
- WIFIA funds long-term loans to finance critical water infrastructure projects to address public health, replace lead service lines, improve climate resilience improvements, improve infrastructure in disadvantaged communities and address emerging contaminants such as per- and polyfluoroalkyl substances (PFAS).
- Given the increased attention to emerging contaminants and regulations setting limits on the

presence of PFAS in water systems, this funding is expected to alleviate compliance costs.

The U.S. Environmental Protection Agency (EPA) on Sept. 6, 2024, announced the availability of $6.5 billion in Water Infrastructure Finance and Innovation Act (WIFIA) funding and $1 billion in State Infrastructure Financing Authority (SWIFIA) funding.

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Holland & Knight LLP – Dianne R. Phillips, Meaghan A Colligan, Amy L. Edwards, Michael Galano , Lauri A Hettinger and Molly Broughton

September 19 2024

Water-Challenged State Uses AI, Satellites to Find Leaks.

New Mexico will use artificial intelligence to monitor satellite images to identify leaks before they become major problems.

In 2022, residents in Chama, New Mexico, a Rocky Mountain village with less than 1,000 people near the Colorado border, seemingly overnight found their water taps had stopped working.

The state responded by sending in gallons of bottled water to prevent catastrophe. A subsequent investigation revealed that an unaddressed leak in the village's water system caused the disruption. New Mexico sent Chama $800,000 in capital funds to fix it and other water infrastructure needs. But it wouldn't be the last time the village suffered a water-related incident, this summer residents had to restrict their water use after a plant shutdown.

The fragility of the water supply statewide has been on display for a while now, a dam near Albuquerque, its largest city, has been out of commission for three years. That and the other water-related incidents prompted New Mexico to unveil a 50-year action plan in January to address water scarcity.

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Route Fifty

By Chris Teale

September 18, 2024

Green Bonds Aren't Driving Climate Action in US, Study Says.

- **Only 2% of proceeds initiate entirely unique green projects**
- **Global market for the bonds has grown to more than $3 trillion**

Almost all green bonds issued in the US fail to drive real action to tackle climate change, undermining the merits of a global market that's grown to more than $3 trillion, according to a study.

An analysis of the first green bonds sold by corporate and municipal issuers between 2013 to 2022 found that about 2% of proceeds were used to fund projects that are genuinely unique or don't replicate existing work, Pauline Lam and Jeffrey Wurgler said in a working paper published this month by the National Bureau of Economic Research.

Roughly 30% of proceeds from corporate green bonds and 45% in the case of municipal bonds were used to refinance ordinary debt, while in many other instances funds were directed to expanding existing projects or to new developments that were similar to previous work.

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Bloomberg Green

By Ishika Mookerjee

September 19, 2024

How the Fed's 50 Bps Rate Cut Impacts Muni Bonds.

Watch video.

Bloomberg Markets: The Close – Muni Moment

September 20th, 2024

Muni Bonds to Stay Cheap After Rate Cuts.

- **Ongoing wave of new issue deals will keep muni values cheap**
- **Strategists advise positioning portfolios now before election**

Municipal bonds are looking attractive compared to taxable debt, with valuations at or close to their cheapest levels this year.

State and local government securities are poised to get even cheaper in coming months following the Federal Reserve's 50 basis point cut this week, according to strategists at Bank of America Corp., as well as Goldman Sachs Asset Management and Barclays Plc, who are advising investors that it might be a good time to buy.

According to Bank of America strategists led by Yingchen Li, the current cheapening doesn't reflect weakness in the tax-exempt market but rather richness in the taxable space. Those valuations could shift if muni supply wavers.

"If the new issuance calendar shows any signs of slowing off the torrid pace when Election Day approaches, we believe significant ratio richening should be expected," wrote Li in a Friday note. "We continue to advise investors to take positions while the muni market rally remains slow and ratios are somewhat cheap."

The 10-year muni-Treasury ratio — a key measure of relative value — hit its highest level of the year earlier this week. The greater that figure, the cheaper municipal bonds appear on a relative basis.

So far in 2024, investors have piled into municipal bonds. Inflows into muni funds exceeded $700 million for the week ending Sept 18, marking 12 straight weeks of expansion, according to LSEG Lipper Global Fund Flows data.

Joseph Wenzel, head of municipal funds and institutional accounts platform at Goldman Sachs Asset Management, said he expects tax-exempt securities to cheapen as record-setting new issue supply continues to pick up, speaking in a webinar Wednesday.

Barclays' municipal strategists Mikhail Foux and Clare Pickering highlighted a similar sentiment in a Friday research note, saying that the "challenging" technicals of the muni market — namely record levels of supply — could buck the historical pattern of muni ratios declining after the first rate cut in an easing cycle.

"Even though investors should keep in mind the risk of 'red wave' in November, we would consider adding in October if valuations become more attractive," the group wrote.

Bloomberg Markets

By Erin Hudson and Maxwell Adler

September 20, 2024

Delayed Vacations, Long Hours Are Reasons to Be Cheerful for Muni Bond Pros.

- **New bond sales head for record year as pace quickens 38%**
- **Bankers, buyers happy for opportunity after lackluster years**

For Beth Coolidge, the record pace of municipal bond sales this year means only an occasional day off rather than week-long vacations. The head of public finance at Oppenheimer & Co. isn't complaining.

"You have to be available when the work is available, because we did see a drop in issuance the last few years," she said. "You don't want to take a week off because you feel like you are going to miss something."

Most bankers and investors say the crush of new deals is unlikely to ebb until after Election Day on Nov. 5. State and local governments are motivated to complete borrowing for infrastructure and other projects before a new president and Congress add the potential for market volatility.

Continue reading.

Bloomberg Markets

By Shruti Singh

September 18, 2024

Muni Buyers Pounce on Profusion of Bond Sales Ahead of Fed Cut.

- **Fed is expected to lower interest rates later this week**
- **Muni sales topped $14 billion in the week ended Friday**

Municipal bond buyers scooped up an abundance of debt sales last week, eager to lock in higher yields before the Federal Reserve is widely expected to lower interest rates for the first time in more than four years.

States and local governments sold more than $14 billion of debt in the week ended Friday, one of the largest weekly amounts of the year and 79% more than the five-year weekly average, according to data compiled by Bloomberg. Borrowers are rushing to market ahead of potential volatility before the US presidential election in November. Long-term municipal bond issuance is up more than one-third over 2023's pace.

"These next couple of weeks are basically the last chance to stock up on decent yields," said Dora Lee, research director at Belle Haven Investments. She said that recent transactions, including one by New York City, garnered healthy demand from investors.

Continue reading.

Bloomberg Markets

By Danielle Moran and Martin Z Braun

September 16, 2024

Muni Bond Enthusiasm Rises Ahead of Fed Rate Cuts.

The Federal Reserve nearing its first interest rate cut since 2020. So enthusiasm for fixed income assets is increasing, and muni bonds are part of that trend. That could be good news for exchange traded funds such as the ALPS Intermediate Municipal Bond ETF (MNBD).

The actively managed ETF has been a steady performer over the course of this year. And it hit a new 52-week high on Monday. That confirms it has ample leverage to the concept of lower interest rates. That's to be expected. But it's still encouraging to see MNBD and other municipal bonds behave accordingly in advance of monetary easing.

MNBD's recently encouraging price action is noteworthy for another reason. It's also reflective of buyers proving receptive to a spate of new issuance in the municipal bond market. City and state governments have recently sold a significant amount of bonds. Those new issues have easily absorbed, indicating there's increasing appetite for munis ahead of monetary easing.

MNBD Tailwinds Emerging

Municipal bonds, including MNBD holdings, are being boosted by the notion of lower borrowing costs. But the asset class is also catching a bid. That's because some experts believe volatility for risk assets will increase as Election Day nears.

“States and local governments sold more than $14 billion of debt in the week ended Friday, one of the largest weekly amounts of the year and 79% more than the five-year weekly average, according to data compiled by Bloomberg. Borrowers are rushing to market ahead of potential volatility before the US presidential election in November. Long-term municipal bond issuance is up more than one-third over 2023’s pace,” reported Bloomberg.

Owing to its status as an actively managed ETF with a trailing 12-month yield of 3.38%, MNBD could be an ideal avenue for investors looking to skirt equity market turbulence while accruing benefits delivered by Fed rate cuts.

MNBD is relevant for other reasons. Its 3.38% trailing 12-month yield is well in excess of the average 2.61% found on the highest-rated munis with 10-year maturities. Additionally, municipal bonds are seen as attractively valued relative to Treasurys. As for the supply issue, it could fall in the coming days before rebounding.

“Sales are expected to drop off this week as governments generally avoid coming to market when the Federal Open Market Committee meets. However, issuance is likely to inch back up with about six weeks until the election. Borrowers have already lined up about $15.5 billion of sales over the next 30 days,” according to Bloomberg.

etftrends.com

by Todd Shriber

September 17, 2024

[Don’t Shy Away From Munis to Avoid Election Volatility.]

Forthcoming market volatility from an election year may have fixed income investors shying away from bonds. However, it’s an ideal time to get municipal debt exposure, especially in the current market environment.

“In the current environment, which includes a too-close-to-call U.S. election and trillions of investable assets parked in cash, there’s opportunity in municipal bonds,” noted James M. D’Arcy, an active municipal fixed income portfolio manager at Vanguard.

At the start of 2024, private and public entities have issued bonds with the expectation of coming rate cuts. Now, municipalities are issuing bonds at increased pace. That’s providing a plethora of opportunities for fixed income investors to scoop up these debt issues.

“Usually, we see an annual increase in new municipal bond issues around October and November. However, this year, we’re seeing that increase now, particularly as issuers rush to complete new deals before Election Day,” added D’arcy. “At the same time, municipalities are issuing more bonds than they have for years.”

Underpinned by Strong Fundamentals

Situated between safe haven Treasury notes and investment-grade corporate bonds are munis. Currently, strong fundamentals currently underpin these local government debt issues. And that makes funds like the Vanguard Tax-Exempt Bond ETF (VTEB) an ideal option.

“In many ways, the fundamentals that support local governments are stronger today than we’ve seen for a long time,” D’Arcy said. State reserves and rainy-day funds are the highest we’ve seen in decades.

VTEB tracks the Standard & Poor’s National AMT-Free Municipal Bond Index. That index measures the performance of the investment-grade segment of the U.S. municipal bond market. With volatility ahead in the election year, this getting quality is ideal to weather any market fluctuation storms.

“Munis are a high-quality asset class—more than 85% of the market is rated A or higher—with a strong fundamental risk profile,” D’Arcy added. “That’s particularly true when compared to corporate bonds. Even the amount investors are compensated for going down in credit quality—credit spreads—remains attractive in the muni space, even in the current yield environment.”

VTEB is an ideal solution for investors wanting muni exposure but not wanting to sift through the mass of options available to them. The fund tracks an index including municipal bonds from issuers. Those issuers are primarily state or local governments or agencies whose interests are exempt from U.S. federal income taxes and the federal alternative minimum tax.

etftrends.com

by Ben Hernandez

September 20, 2024

[What's Missing from Passive Muni ETFs?]

Some of the largest municipal bond ETFs are passively managed, but did you know that these index-tracking funds exclude a significant portion of the muni bond market?

Notably, the two largest ETFs in this category are passively managed and account for nearly 75% of overall municipal bond ETF assets.1 While passive ETFs, including these giants, are attractive due to their low fees, these funds miss out on some compelling areas of the municipal bond market due to the rules that define their construction.

What sectors are often excluded from passive muni ETFs?

By design, a passive ETF’s portfolio is tied to its underlying benchmark. Examining the rules governing these benchmarks can shed light on which segments of the municipal bond market aren’t represented within their associated ETFs.

Commonly excluded areas of the market include housing bonds, tobacco bonds, and bonds that are subject to the alternative minimum tax. Conduit bonds, which are a specific type of municipal bond issued by a governmental entity but primarily for the benefit of for-profit institutions like hospitals and universities, can also be excluded from the index. Due to these exclusions, it’s estimated that the largest passive municipal bond ETFs lack exposure to around one-fifth of the municipal bond market.

Continue reading.

jhinvestments.com

September 20, 2024

BlackRock Reshapes Two Muni Bond Funds for ETF Market.

BlackRock Inc., the world's largest asset manager, is converting a municipal bond mutual fund into an ETF and revamping another, following a trend among issuers seeking to capitalize on growing demand for exchange-traded funds.

The New York-based firm plans to convert its $1.7 billion BlackRock High Yield Municipal Fund into an ETF and revamp its existing $195.84 million BlackRock High Yield Muni Income Bond ETF (HYMU) into an iShares-branded product. The mutual fund conversion, set to close on Feb. 7, will result in the creation of the iShares High Yield Muni Active ETF, according to a filing with the Securities and Exchange Commission.

ETFs are snatching an ever-increasing market share from mutual funds—so far this year ETFs raked in $588.1 billion and mutual funds bled $217 billion, Morningstar said recently. To accommodate demand issuers have converted dozens of mutual funds to ETFs since the first transition from Guinness Atkinson in March 2021, and Bloomberg ETF analyst Eric Balchunas has said that $1 trillion worth of mutual funds may convert to ETFs, which are easier to trade, by 2033.

Continue reading.

etf.com

by DJ Shaw
Finance Reporter

Sep 20, 2024

NASBO Summaries of Fiscal Year 2025 Enacted Budgets.

View the NASBO summaries.
