Bond Case Briefs

Municipal Finance Law Since 1971

Finance

Elite College Credit Ratings Take a Hit From Struggling Hospital Systems.

- **Growing academic health-care systems squeeze schools' finances**
- **Hospitals continue to struggle with higher costs for labor**

Like other major universities, the University of Southern California has poured resources into expanding its health system. But it's coming at a cost.

Moody's Ratings downgraded USC a notch to Aa2 last month, citing underperformance from its growing health system. Similarly, the agency lowered its outlook for Emory University to negative in January, citing "current and expected future weak operating performance stemming largely from Emory Healthcare."

The moves reveal a difficult reality: The medical complexes that burnish universities' reputations and bring in significant revenue are also becoming a drag on financial performance. The credit impact on USC, a marquee school that saw almost 82,000 applicants for its incoming freshman class, reflects both the growing importance of health-care revenue at many universities and the significant pressures facing even renowned hospital systems whose resources draw far-flung patients.

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

April 8, 2024

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

View the S&P Rating Activity.

[Free Registration Required]

S&P 'AAA' Rated U.S. Municipalities: Current List

View the Current List

4 Apr, 2024

S&P 'AAA' Rated U.S. Counties: Current List

View the Current List.

S&P 'AAA' Rated U.S. School Districts: Current List

View the Current List.

4 Apr, 2024

Public-Sector Workforce Returns to Pre-Pandemic Levels, but Gaps Persist

After shedding nearly 1 million jobs, staffing levels are now higher than at the start of 2020. But severe shortages remain in several fields such as nursing, public safety and education.

In Brief:

- There are more state and local workers now than at the start of the pandemic.
- However, several job categories remain difficult to fill due to a dramatic drop in the workforce pool.
- Governments are growing more concerned with skills and training.

When one nurse is late for their shift or calls out sick, other nurses have to stay later and work longer. Recruiting nurses is always a challenge — unemployment in the field is less than 2 percent — but the task was made more difficult by the loss of 100,000 nurses who left the workforce during the pandemic.

Continue reading.

governing.com

by Zina Hutton

April 5, 2024

Billions in Earmarks Headed to States and Cities.

The funding comes despite conservative opposition to the federal government paying for specific local projects.

As part of the spending packages Congress passed last week to avoid a government shutdown, roughly $14 billion will be headed for nearly 7,000 state and local projects through earmarks, according to a tally by Kentucky Republican Sen. Rand Paul’s office.

While those receiving the money say earmarks will help communities deal with an array of issues from increasing the number of salmon on Alaska's coast to addressing urban blight in Detroit, they are strongly opposed by some conservatives, including Paul, who considers them "wasteful spending."

In part, Paul objects to spending tax dollars when the nation is $1.6 trillion in debt. He also argues that local governments, and not the federal government, should be covering the $1.2 million cost of Rhode Island's bike path renovation.

Continue reading.

ROUTE FIFTY

by KERI MURAKAMI

APRIL 1, 2024

Munis Post Rare 0.0% Return in March as Fed Keeps Waiting to Cut.

- **Local debt underperformed Treasuries, corporate bonds**
- **Fed expects to begin lowering rates 'at some point this year'**

With the bond market still struggling to recover from some of the worst losses in decades, tax-exempt debt delivered what counts these days as good news: In March, investors didn't lose so much as a penny.

In turns out, they didn't make anything either: The municipal bond market returned exactly 0.00%.

Investors will be closely watching economic data for clues as to when the Federal Reserve may begin cutting rates, which will help determine if the muni market's flat returns extend into this month. An uptick in tax-exempt issuance to refinance old Build America Bonds could improve muni performance.

Continue reading.

Bloomberg Markets

By Nic Querolo and Skylar Woodhouse

April 3, 2024

First Issue of GFOA's Public Finance Journal Released.

Public Finance Journal features peer-reviewed research that examines and analyzes contemporary issues in budgeting and finance and explores the applicability of solution sets. The first issue includes research on budgeting and finance agendas, AI, property tax, and more.

View the Journal.

NASBO State Expenditure Report.

This annual report examines spending in the functional areas of state budgets: elementary and secondary education, higher education, public assistance, Medicaid, corrections, transportation, and "all other". It also includes data on capital spending by program area, as well as information on transportation fund revenue collections.

Overview: Fiscal 2021-2023

In fiscal 2023, estimated **total state spending** (including general funds, other state funds, bonds, and federal funds) rose 6.5 percent, driven by increased spending from state funds (general funds and other state funds combined), while federal funds slightly declined.

In fiscal 2022, **total state spending** grew 4.6 percent, once again due to spending growth from state funds.

Continue reading.

National Association of State Budget Officers

Unpacking the American Rescue Plan's 'Revenue Loss' Provision for Local Governments.

This month marks the third anniversary of the passage of the American Rescue Plan Act (ARPA) and its $350 billion Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, administered by the U.S. Department of the Treasury. State, local, and tribal governments have had three years to appropriate, obligate, and spend SLFRF dollars to address the health, economic, and fiscal effects of the COVID-19 pandemic.

Since the SLFRF program's inception, Brookings Metro, the National League of Cities, and the National Association of Counties have monitored how the nation's largest cities and counties (those with populations greater than 250,000) have used their $65 billion share of these funds through the Local Government ARPA Investment Tracker. This update provides new insights into how large local governments have used SLFRF dollars over the past three years to foster an equitable economic recovery from COVID-19, and their progress to date in obligating these funds in time for Treasury's impending December 2024 deadline. As of ARPA's three-year anniversary, all SLFRF recipients have just over nine months left to meet this deadline before they will be required to return any unobligated funding to Treasury.

Large cities and counties have committed 88% of their total allocation as of September 2023

As of September 30, 2023, 335 large cities and counties have reported their appropriations, obligations, and expenditures for a total of 14,186 projects—a 7% increase from the previous reporting period. (For definitions of these terms, see the Glossary at the end of this piece.) However, while the total number of projects underway in these large local governments has continued to grow, appropriations only increased by 3 percentage points between June 2023 (85%) and September 2023 (88%).

Continue reading.

The Brookings Institution

by Glencora Haskins, Mayu Takeuchi, Julia Bauer, and Patrick Rochford

March 15, 2024

Housing-Bond Sales Hit 10-Year High as Mortgage Rates Stay Lofty.

- **Michigan, Rhode Island, Colorado entities borrowed recently**
- **A 57% year-over-year jump in issuance of such bonds seen**

State and local governments borrowed nearly $9 billion for affordable housing so far this year — the most for the period in at least a decade — as buying a home in the US remains expensive.
The Michigan State Housing Development Authority's recent $425 million bond sale is expected to help more than 2,700 families get lower mortgages, said Chief Financial Officer Jeffrey Sykes. Rhode Island Housing sold about $125 million of non-taxable bonds to aid first-time home buyers. Colorado ski town Telluride borrowed $31.8 million, half of which will be used to buy and build affordable rental housing.

The 57% year-over-year jump in issuance of housing bonds coincides with a period of lower borrowing costs in the muni market. The yield on the 10-year AAA benchmark is down 1.1 percentage point since Nov. 1, the start of a prominent rally. Mortgage rates, meanwhile, continue to be twice as high as they were in 2021, before the Federal Reserve started raising interest rates.

Continue reading.

Bloomberg Markets

By Melina Chalkia

March 27, 2024

A New Pitch for Ballparks as Downtown Development.

Stadium design consultants Janet Marie Smith and Fran Weld say that baseball venues have a role to play as drivers of inclusive post-Covid urban recovery.

If you're a Major League Baseball team today, it's not enough to just have a nice ballpark: To claim a stable future, teams also want the ability to develop the real estate surrounding their home field.

By that metric, the new 30-year lease on Oriole Park at Camden Yards, approved by Maryland officials in December, offers only partial relief to anxious fans in Baltimore. The team's longtime owner, attorney Peter Angelos, died on Saturday at age 94, having sold the club in January to a team led by financier David Rubenstein. (Also in this ownership group: Michael Bloomberg, founder and majority owner of Bloomberg News parent Bloomberg LP.) On Wednesday, Major League Baseball approved the $1.725 billion sale to Rubenstein, who also hosts a show on Bloomberg Television. The

team's new owners have until 2027 to reach an agreement with the state on development rights for adjacent parking lots owned by the Maryland Stadium Authority. Until then, "The Ballpark That Forever Changed Baseball" — a phrase that the Orioles officially trademarked in 2012 — is a bit behind the times.

Continue reading.

Bloomberg CityLab

By Mark Byrnes

March 28, 2024

Fitch Affirms U.S. Municipal Standalone GARVEE Ratings.

Fitch Ratings – Chicago – 28 Mar 2024: Fitch Ratings has affirmed the ratings for the following standalone grant anticipation revenue vehicle (GARVEE) bonds:

Continue reading.

Thu 28 Mar, 2024 – 5:16 PM ET

S&P Default, Transition, and Recovery: 2023 Annual U.S. Public Finance Default And Rating Transition Study

Key Takeaways

- The U.S. public finance (USPF) default tally rose to four in 2023, up from two in 2022.
- Credit quality improved in 2023: S&P Global Ratings raised 1,157 USPF ratings (128 housing and 1,029 nonhousing) and lowered 257 (18 housing and 239 nonhousing), compared with 870 upgrades and 258 downgrades in 2022.
- The transportation sector continues to dramatically improve in credit quality, largely because of improvement among airports.
- The average one-year Gini coefficient was 94% for nonhousing and 91% for housing, indicating that our ratings strongly reflect relative default risk.

Continue reading. [Free registration required.]

28 Mar, 2024

What's Stifling City Climate Action? Municipal Finance Practices, One Report Says.

The Boston University researchers highlight how city funding approaches make emissions reduction projects easier to move forward than climate adaptation projects.

Claudia Diezmartínez wants city officials to be more curious about how local climate programs are funded. The funding process is shaping which projects cities pursue and who they benefit, according to a February 2024 Nature Climate Change paper co-authored by Diezmartínez, a Ph.D. candidate at Boston University.

“What happens in the budget office or with people who are making decisions about municipal bonds, all of those things are very opaque,” she said.

Based on interviews with 34 municipal officials and other urban climate policy and finance professionals, the paper highlights three ways municipal finance practices constrain urban climate action.

Continue reading.

smartcitiesdive.com

by Ysabelle Kempe

March 27, 2024

NLC and Cities Win on Lead Pipe Replacement.

President Joe Biden, speaking at the National League of Cities (NLC) Congressional Cities Conference, touted the achievement of providing funding through the Bipartisan Infrastructure Law (BIL) to replace lead pipes in communities across the country, including private-side lead pipes on personal property that connect to homes.

The President was able to tout this to city leaders because, at the end of February, the Internal Revenue Service (IRS) cleared the way for cities, towns, and villages to move forward by issuing critical guidance that the NLC helped shape.

Continue reading.

National League of Cities

by Carolyn Berndt & Michael Gleeson

MARCH 28, 2024

Unpacking the Muni Bond Rollercoaster: Lessons from 2023 and 2024

After 2022’s bond rout, 2023 was a wonderful time for fixed income investors. High yields as well as a variety of other factors sent many investors into attractive bonds. With lower issuance, the prices for many fixed income asset classes surged. This included the municipal bond sector. And with that, total returns—yield plus capital appreciation—was one of the best on record.

But so far, 2024 has been a bust. Municipal bonds have sputtered to a slight loss.

The question is whether or not investors should be worried. Will the new year be another one of losses for muni investors? The answer may be a resounding no.

Continue reading.

dividend.com

by Aaron Levitt

Mar 26, 2024

Why Municipal Bond Investors Should Proceed With Caution.

Fixed-income investing has garnered more attention lately as yields have risen dramatically over the last 12 months, reaching levels not seen since the Great Recession of 2007-2008. Current yields on U.S. Treasuries are now trading between 4% and 5% and have pushed other high-quality fixed-income assets, such as municipal bonds and corporate bonds, to yield levels not seen in many years. Collectively, this is attracting increased demand for fixed-income securities.

A recent Morningstar report showed that the only investment category to post positive fund inflows for 2023 was fixed income, which added $395 billion to bond funds. More recently and specific to municipal bonds, the Investment Company Institute reported that $8.35 billion flowed into municipal bond mutual funds and ETFs during the first 10 weeks of this year. That was the largest 10-week cumulative flow into municipal bonds since January of 2022.

This increase in demand has clearly benefited the municipal bond market year-to-date. The total return on the Bloomberg Municipal Bond Index is -0.22% as of March 22, while the Bloomberg Treasury Index is down much more, -1.18%, and the Bloomberg Corporate Bond Index is off -0.65%. Given such strong relative performance, sectors within the municipal bond market could be considered overbought for some investors, so proceed with caution.

Continue reading.

Forbes

Chris Gunster, CFA – Contributor
I am Partner and Head of Fixed Income at Fidelis Capital Partners, LLC

Mar 27, 2024,

February Corporate and Municipal CUSIP Request Volumes Rise Sharply.

NORWALK, Conn., March 19, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for February 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 monthly rise in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 7,761 in February, which is up 30.5% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month down 12.0%. The monthly volume increase was driven by a 67.7% rise in request volume for U.S. corporate debt identifiers. February also saw a 24.1% increase in request volume for short-term certificates of deposit (CDs) with maturities of less than one year, and a 15.3% increase in request volume for long-term CDs with maturities of more than one year.

The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 12.5% versus January totals. On a year-over-year basis, overall municipal volumes are down 2.2%. Texas led state-level municipal request volume with a total of 112 new CUSIP requests in February, followed by New York (81) and California (45).

“The pace of pre-market issuance activity in some asset classes has been ramping up,” said Gerard Faulkner, Director of Operations for CGS. “Time will tell whether we’re seeing a short-term blip in activity or whether this trend will continue throughout the first half of 2024.”

Requests for international equity CUSIPs fell 30.4% in February and international debt CUSIP requests rose 6.4%. On an annualized basis, international equity CUSIP requests are down 17.9% and international debt CUSIP requests are up 55.7%.

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

Mega-Trends Impacting Municipal Market: ArentFox Schiff

We are at the initial stages of a major paradigm shift that has significant implications for the municipal market over the next five to 10 years. A number of societal mega-trends will present material challenges for the municipal market. These include climate change, growing federal debt, shrinkage of the workforce, the impact of remote work, cybersecurity attacks, and political polarization.

This commentary will discuss each of these trends and their interrelationship. In combination these trends will likely increase expenses and decrease revenue resulting in growing challenges for municipalities.

Whether it be unprecedented droughts, forest fires, floods, tornadoes, wind, or heat waves, it is evident that climate change has begun in a dramatic fashion. How quickly it will escalate is unknown but that it will escalate is a near certainty, absent a quick dramatic change in human activity. As climate change escalates there will be even more damage to infrastructure, farmland, coastal properties, utilities, homes, and businesses. The cost of addressing these damages will likely rise significantly.

According to the National Oceanic and Atmospheric Administration, in 2023 there were 28 separate billion-dollar climate disaster events, the highest count of record. The cost of these events was $92.9 billion, and this number may rise by several billion as more costs are identified.

Continue reading.

by DAVID L. DUBROW

MARCH 20, 2024

ARENTFOX SCHIFF

US Warns of Cyberattacks Against Water Systems Throughout Nation.

- **Letter cites threats from hackers linked to Iran, China**
- **EPA is lead federal agency to ensure water sector's resilience**

The Biden administration is warning states to be on guard for cyberattacks against water systems, citing ongoing threats from hackers linked to the governments of Iran and China.

"Disabling cyberattacks are striking water and wastewater systems throughout the United States," Environmental Protection Agency Administrator Michael Regan and National Security Advisor Jake Sullivan wrote in a letter to governors made public Tuesday. "These attacks have the potential to disrupt the critical lifeline of clean and safe drinking water, as well as impose significant costs on affected communities."

Hackers affiliated with the Iranian Government Islamic Revolutionary Guard Corps have attacked drinking water systems, while a People's Republic of China state-sponsored group, Volt Typhoon, has compromised information technology of drinking water and other critical infrastructure systems, the letter warned.

Continue reading.

Bloomberg Technology

By Ari Natter

March 19, 2024

As Cyber Grant Program Hits the Halfway Mark, Feds Laud States' Progress.

Two years into the $1 billion program, state and local governments are better prepared for cyber attacks. But funding remains an obstacle as under-resourced cybersecurity budgets struggle to keep up with mounting threats.

When Congress passed the infrastructure law in 2021, it made a much-needed, first-of-its-kind investment in cybersecurity.

At the time, state and local governments were facing an increasing wave of ransomware and other cyberattacks. In 2020, a third of global attacks were on states and localities—a number that doubled in 2021, according to Sophos, a data protection and security company.

Now, two years into the $1 billion State and Local Cybersecurity Grant Program, hundreds of millions of dollars have already been appropriated, with millions more to follow starting later this year. States have used the grants to invest in long-term cybersecurity planning, coordinating with localities and implementing a whole-of-state approach.

Continue reading.

Route Fifty

By Chris Teale,
Staff Reporter, Route Fifty

MARCH 20, 2024

Schools are Vulnerable to Breaches — and Hackers Know It.

Schools face unique challenges in shoring up their cyber defenses. Just ask Baltimore County Public Schools. It suffered a successful attack in 2020, and while its cyber protection has improved, it still faces roadblocks.

James Corns first got wind of a cybersecurity incident one evening in November 2020, when a live stream of the Baltimore County Board of Education was interrupted.

By 11 p.m. that night, after getting calls from staff across the Baltimore County Public Schools system about their laptops malfunctioning, Corns realized the school system faced a "full scale attack."

An investigation later found that hackers had been in the school system's networks for about two weeks, after what Corns, executive director of IT, described as an "operator error" let them in. It started when a staff member who received an Excel spreadsheet in an email was unable to access it and forwarded it to a contractor who could, opening the door to the attack.

Continue reading.

Route Fifty

By Chris Teale,
Staff Reporter, Route Fifty

March 21, 2024

States Look to AI for Its Potential to Help with Finances.

Artificial intelligence holds promise for creating budget-saving efficiencies, aiding in audits and helping with compliance. But the emerging technology also poses challenges that could affect spending.

Artificial intelligence has quickly become a buzz topic among state leaders, and lawmakers in 31 states considered nearly 200 bills related to AI last year. Recent leaps in generative AI have the potential to create budget-saving efficiencies, such as reducing application processing times and freeing up staff capacity for other work. At the same time, however, states must deal with the risks that AI could pose to vital systems, particularly public information and data security.

In states throughout the country, auditors and public finance departments are exploring the possibility of using AI to lower the cost of monitoring and oversight, reduce risks, and streamline administrative processes. One recent report estimated that AI could boost productivity by $519 billion a year across all U.S. governments.

For instance, the Government Finance Officers Association, or GFOA, is working with Rutgers University to pilot how AI can help governments comply with the federal Financial Data Transparency Act, which requires that financial disclosures filed for outstanding bond debt be machine readable starting in 2027. GFOA previously estimated that implementing reforms needed to comply with the law could cost governments at least $1.5 billion by the deadline. But if the GFOA-Rutgers project is successful, an AI-powered data extraction process could make ongoing compliance virtually cost-free while reducing the risk of error.

Continue reading.

Route Fifty

by Liz Farmer

MARCH 20, 2024

Why Texas Is Banning Banks Over Their ESG Policies.

Texas passed two laws in 2021 that restrict government contracts with companies that take what state officials regard as punitive stances toward the fossil fuels and firearm industries. They're among the many new laws pushed by Republicans in states across the US to oppose ESG investing and financing, which they've made into a culture war target. Under one of the laws, Texas has barred some state entities, including pensions, from investing in roughly 350 funds that the Texas comptroller says engage in "boycotts" of fossil fuels. The legislation has also prompted state officials to prohibit Citigroup Inc. and Barclays Plc from helping the state and its local governments raise money for infrastructure projects through bond deals, and BlackRock Inc. from managing investments for a fund that supports the state's schools.

1. What is ESG?

An abbreviation for environmental, social and governance, ESG refers to a set of standards that some money managers and bankers use to screen potential investments and financings for their environmental efforts or societal impact. Companies have been pressured by consumers, activists, investors and regulators to good stewards not only be of financial capital but also of natural and social capital, according to a Deloitte primer on ESG. Some examples of criteria that may fall under the environmental pillar of ESG are projects that cut greenhouse gas emissions, curb water pollution or use recycled material. Socially conscious investors may consider how a company manages its labor diversity or risk policies regarding firearms.

Continue reading.

Bloomberg Green

By Danielle Moran

March 20, 2024

More Defaults for Senior Living Ahead as Debt Comes Due.

- **About $3.5 billion in muni debt matures next year, BI says**
- **More impairments, defaults could be on the sector's horizon**

Pandemic-induced obstacles are still squeezing senior living facilities and with a rash of debt coming due, investors are likely to feel continued pain in the sector over the next several years.
About $2.7 billion in senior living municipal debt comes due in the last nine months of this year, along with $3.5 billion next year, according to Karen Altamirano of Bloomberg Intelligence.

The looming maturities "could contribute to an uptick in impairments or default," said Lisa Washburn, chief credit officer at Municipal Market Analytics. "It's one more pressure on top of so many pressures that are facing the sector right now."

Continue reading.

Bloomberg

By Lauren Coleman-Lochner

March 22, 2024

S&P: U.S. Transportation Infrastructure 2024 Activity Estimates Indicate A Return To Pre-Pandemic Levels And Growth, With Transit Ridership Still Recovering

Key Takeaways

- Our recently updated U.S. economic forecast, which calls for real GDP growth of 2.4% in 2024 with no recession, bodes well for U.S. airports, ports, toll roads, and mass transit providers.
- We believe activity measures across most transportation modes will likely return to near pre-pandemic historical averages, although industry-specific variables such as airline capacity constraints, trade tariffs, geopolitical conflicts, and growing cost pressures could dampen near-term growth.
- Remote work trends will continue to drag on public transit ridership, with our activity estimates showing public transit recapturing about 75% of pre-pandemic activity in 2024, 80% in 2025, and only about 85% in 2026.

Continue reading.

21 Mar, 2024

Grants and Growth: The Infrastructure Funding Surge Demands Masterful Management

COMMENTARY | To leverage federal funds to strengthen their economies and invest in the future, state and local governments need strong, centralized grant management support.

State and local governments nationwide are racing against time to access billions in federal grants. As they rush to wrap up numerous projects before the 2026 State and Local Fiscal Recovery Fund, or SLFRF, deadline, at least one local government has indicated that they won't be able to pursue a significant number of federal grants in 2024.

In fact, data from the U.S. General Accountability Office shows that as of March 31, 2023, state and local governments had reported spending less than half their awards from the American Rescue Plan Act. As the historic CHIPS Act, Inflation Reduction Act, and Infrastructure Investment and Jobs Act reach their required implementation deadlines in the next few years, it has become clear that success in leveraging these funds requires a comprehensive approach.

State and local leaders must begin developing a deliberate federal funds strategy, which includes submitting grant proposals and applications that demonstrate a compelling plan for the use of funds. To show they can effectively leverage federal grant money, agencies also need a strong program design, prioritized projects and a robust capability to administer the funds in compliance with federal requirements.

Continue reading.

Route Fifty

By Rob Cohan,
Accenture Public Service Strategy and Consulting

MARCH 22, 2024

Apply Now: Navigating the Clean Ports Program Funding

Ports are vital nodes in global supply chains, facilitating the movement of goods and fostering economic growth. However, they pose significant environmental and public health challenges, particularly in nearby communities. To address these issues, the U.S. Environmental Protection Agency (EPA) has launched the Clean Ports Program, offering $3 billion in funding to support the transition to zero-emission port operations and enhance air quality planning.

Understanding the Clean Ports Program

The Clean Ports Program, established under the Inflation Reduction Act of 2022, aims to reduce diesel pollution and greenhouse gas emissions in and around U.S. ports while promoting community engagement and emissions reduction planning. The program comprises two main funding opportunities: the Zero-Emission Technology Deployment Competition and the Climate and Air Quality Planning Competition. Eligible participants are encouraged to apply by 11:59 PM (ET) for the May 28, 2024 deadline. View other important dates and times.

Continue reading.

NATIONAL LEAGUE OF CITIES

By Damion Deshield

MARCH 21, 2024

An Insight Into Municipal Bonds.

“After two tumultuous years, we expect a municipal-market recovery and we believe that municipal bond mutual funds will outperform other investment vehicles,” says Mackay Municipal Managers (Mackay), part of the New York Life Investments group of businesses, in its recent report on municipal markets in 2024.

The firm also says: “We believe that successful municipal bond managers will prioritise the fundamental facts over the headlines, recognise the strength of municipal credit and look to capture the opportunities in the high-yield municipal market.

“We also hold the view that by diversifying their retirement portfolios to include taxable municipal bonds, investors may stand to benefit. The municipal market of the last two years provided active managers with the opportunity to enhance returns in their funds; investors might now consider exploring these funds as potential investment options.”

In addition, Mackay takes the view that investing through a mutual fund captures the municipal-market opportunity:

“In response to a probable pivot by the Federal Reserve in 2024, we anticipate that short-term rates will decline, while longer-term bonds outperform. Therefore, investors may consider securing longer duration and income durability in the near term.

“However, higher yields only matter if they are in your portfolio. We believe investors have the opportunity to acquire high accrual rates, active portfolio positioning and the flexibility essential to capture the market’s recovery through mutual funds.

“Other professionally managed solutions are available, such as passive, index-bound ETFs or buy-and-hold, laddered separately managed accounts, but in our opinion, the rigidity of their constrained investing approaches limits their efficacy. We believe that municipal market prices will rise and that mutual funds will provide a compelling vehicle to capture that performance potential.”

The firm also anticipates that individual investors could embrace taxable municipal bonds in retirement plans: “We expect US-based, individual investor demand for taxable municipals will continue to increase. In our opinion, individuals will view taxable municipal bonds as an attractive complement to their investment-grade, corporate-bond exposure in their qualified accounts. Taxable municipal bonds can offer attractive absolute yields, credit spreads and additional return potential with the same strong fundamentals as traditional tax-exempt financings.

“Additionally, in our view, demand from both domestic and overseas institutional investors should be robust, as credit spreads remain attractive and hedging costs will most likely recede with the normalisation of yield curves around the world. This ‘one-two punch’ should increase demand and help propel returns in this often-overlooked segment of the municipal marketplace.”

David Dowden, a managing director at the firm and portfolio manager of the MainStay municipal bond funds, joined the firm 15 years ago, following roles at Financial Guaranty Insurance Company, Alliance Capital Management and Merrill Lynch & Co. He says: “We’ve done a lot of work over the last two years to position funds appropriately.

“Our expectation is that we will experience reasonable growth, both from new flows into our products, as well as from existing clients and shareholders adding more money into their positions, as they recognise the value we see in the market.”

etfexpress.com

by Fiona Nicolson

March 22, 2024

States Warned of ‘Recent and Ongoing’ Cyber Threats to Critical Infrastructure.

The EPA and White House acknowledged water systems and other utilities “often lack the resources” to adopt rigorous cybersecurity measures. They want to partner to bolster the current efforts of state and local governments.

A letter last week from two senior Biden administration officials warned states of “disabling cyberattacks” that could “disrupt the critical lifeline of clean and safe drinking water, as well as impose significant costs on affected communities.”

Just months after two separate attacks on water systems in Pennsylvania and Texas, Michael Regan, administrator of the Environmental Protection Agency, and Jake Sullivan, national security advisor, wrote governors warning of “two recent and ongoing” threats associated with China and Iran, and calling for their “partnership” in combating the issue.

“Drinking water and wastewater systems are an attractive target for cyberattacks,” the two officials wrote, “because they are a lifeline critical infrastructure sector but often lack the resources and technical capacity to adopt rigorous cybersecurity practices.”

Continue reading.

Route Fifty

By Chris Teale,
Staff Reporter, Route Fifty

MARCH 22, 2024

Unpacking the American Rescue Plan’s ‘Revenue Loss’ Provision for Local Governments.

This month marks the third anniversary of the passage of the American Rescue Plan Act (ARPA) and

its $350 billion Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program, administered by the U.S. Department of the Treasury. State, local, and tribal governments have had three years to appropriate, obligate and spend SLFRF dollars to address the health, economic and fiscal effects of the COVID-19 pandemic.

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Continue reading.

National League of Cities

BY: Julia Bauer & Patrick Rochford

MARCH 15, 2024

S&P: U.S. Local Governments Are Turning To Cyber Risk Pools For Savings And Security Benefits

Key Takeaways

- High cyber insurance premiums and difficulties securing coverage are prompting local governments to form cyber risk pools, where they self-insure in a group administered by a third-party manager.
- In addition to more affordable coverage, mutualization provides a forum in which similar entities can discuss cyber security risks and develop best practices.
- Participation in risk pools, coupled with adherence to rigorous cyber security risk mitigation strategies, may reduce costs and could improve public sector entities' overall credit quality.

Continue reading.

14 Mar, 2024

Puerto Rico Power Authority's Planned 'Turbo' Bonds Seen as Blueprint for Utilities.

- **Debt has early-redemption feature to ensure repayment**
- **Structure may serve as useful tool for other utilities**

The debt-restructuring plan put forward by Puerto Rico's bankrupt power authority includes a type of financing common among tobacco-settlement debt that may serve as a blueprint for other utilities

seeking to raise money to meet capital needs.

Known as “turbo bonds,” the debt — backed by a dedicated charge and a fee on customers’ monthly bills — has the potential to be repaid in full before maturity because any excess revenue must be used to pay back investors early.

Many bonds repaid from tobacco settlement receipts use this early redemption structure as a way to ensure repayment at a time when the broader trend is for cigarette sales to drop over time. Similarly, demand for energy supplied by the Puerto Rico Electric Power Authority is on course to slump as the island’s population declines and more residents and businesses turn to solar power.

The securities may serve as a useful financing tool for electric utilities across the US that are experiencing a decline in usage as customers install solar panels to their homes and rely less on the power grid, David Brownstein, the former head of Citigroup Inc’s soon-to-close public finance department and now a principal at BGC Partners Advisory, said while testifying in court Friday during a confirmation hearing on the utility’s debt-cutting proposal.

“Everybody is dealing with the same solar issue now. That’s why I believe this is going to become the market norm for utilities,” Brownstein said about the turbo-bond structure, according to a transcript of the court hearing.

BGC Partners Advisory is the restructuring adviser to the island’s financial oversight board, which is managing Puerto Rico’s bankruptcy and the workouts of its governmental agencies. Prepa, as the power authority is known, is seeking to slash its $10 billion of debt and financial obligations by as much as 75%.

Most power utilities pledge to raise electricity rates to cover principal and interest payments. Prepa’s debt plan doesn’t include such a promise, but its new bonds will be repaid from revenue collected through a fixed “legacy charge” and also a volumetric fee on customers’ monthly bill. If revenue from those charges comes in stronger than anticipated, then investors will be repaid sooner as the turbo bonds allow for accelerated payments.

“The structure of the Prepa bonds we have created, I believe, will be impactful to our entire market going forward,” Brownstein said.

Prepa’s debt plan also includes contingent value instruments. Called CVIs, those securities will repay Prepa investors from legacy-charge collections, but only after the restructured fixed-rate bonds are paid off in full within 35 years.

CVIs were also used in Puerto Rico’s own bankruptcy, but they’re structured differently.

Bloomberg Markets

By Michelle Kaske

March 12, 2024

CUSIP Global Services Adds Climate Bonds Initiative's Green Bond Data to Global Data Feeds.

Partnership with Climate Bonds Initiative Expands Coverage of ESG Data Attributes Globally

NORWALK, Conn. and LONDON, March 12, 2024 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced an alliance with the Climate Bonds Initiative (Climate Bonds), an international organization working to mobilize global capital for climate action, to add green bond data attributes for corporate and municipal bonds in its global data feed and desktop products. The new green bond tags will enable fixed income market participants to instantly identify and categorize securities that contain specific environmentally sustainable growth attributes, based on Climate Bonds' internationally recognized taxonomy for evaluating green finance principles and establishing green bond standards.

The CUSIP is a nine-character alphanumeric security identifier that captures the unique attributes of issuers and their financial instruments throughout the U.S. and Canada. In the U.S. bond market, the CUSIP is used by investors to uniquely identify and track securities and link them with the underlying issuing entity. With this enhancement of its data feed and desktop products, CGS will append a text-based descriptor to the standard CUSIP ID for green bonds. The new attributes, which include more granular use of proceeds information and non-alignment details, cover municipal and corporate debt issued globally and are provided at no additional cost to CGS customers.

"Green, social and sustainability-linked bond issuance accounted for roughly $1 trillion in bond issuance last year, as corporate and municipal issuers increasingly focus on this market segment," said Scott Preiss, Senior Vice President and Global Head, CUSIP Global Services. "By providing green bond tags as part of our data feed and desktop products, we are making it possible for market participants to quickly and reliably identify securities that meet key sustainable finance criteria using Climate Bonds' proven evaluation standard."

Continue reading.

CUSIP Global Services

Tue, Mar 12, 2024

Fitch: More U.S. Essential Housing Projects Likely Amid Affordability Crisis

Fitch Ratings-San Francisco/New York/Chicago-11 March 2024: U.S. local governments and state housing agencies are seeking to curb the widening affordability gap by entering into public-private partnerships to build essential housing, according to Fitch Ratings in a new report.

Amid the broader affordability crisis lies a more distressing predicament for middle-income earners such as teachers, police officers, and health care workers looking for a place to live. "Despite earning between 80% and 120% of the area median income, these essential workers often find it challenging to afford housing near their places of employment due to high costs and a shortage of affordable options," said Senior Director Karen Fitzgerald.

In response, governments have partnered with private developers to create essential housing projects near economic centers and transit hubs. These partnerships have been able to take advantage of low interest rate loans, tax incentives, subsidies, and land grants to make projects financially viable. Not surprisingly, the demand for essential housing is on the rise.

Furthermore, the Infrastructure Investment and Jobs Act has expanded lending capacity for transportation infrastructure projects, including Transit-Oriented Development (TOD). The TOD Program aims to foster compact, walkable communities around transit stations, with financing options available through the Transportation Infrastructure Finance and Innovation Act and Railroad Rehabilitation and Improvement Financing programs.

From a credit perspective, Fitch considers several key nuances and risks to future cash flow volatility when rating essential housing projects. For one, projects with rents that vary across AMI levels may be subject to ongoing cash flow volatility. “Material exposure to refinance risk could be problematic if projects cannot be refinanced before maturity,” said Fitzgerald. To address refinance risk, Fitch may assume fully amortizing, level-pay, annual debt service through bond maturity for projects with non-fully amortizing debt.

Other analytical considerations are addressed in Fitch’s “Essential Housing Initiatives” report, available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

P3 Infrastructure Assessment Grants: New DOT Grants to Help State and Local Governments Study P3 Possibilities - Orrick

The Department of Transportation’s Build America Bureau is soliciting applications until May 10 for grants intended to help state and local governments assess whether any of their assets would be viable for monetization in a public-private partnership (P3). Click here to apply.

The Innovative Finance and Asset Concession Grant Program provides up to $2 million per recipient to analyze, evaluate and determine whether any existing highway, transit, passenger rail, freight, port, airport and transit-oriented development[1] asset could be monetized in a P3 arrangement.

States, tribal governments, local governments and special purpose public authorities that own or control an eligible project are eligible recipients.

Asset Monetization in Transportation

An asset monetization in this context involves a private concessionaire paying a public entity for the right to improve, maintain, manage and/or operate a project. This approach is taken most frequently for toll roads, airports, ports, water treatment and distribution facilities and other assets with the potential to generate revenue.

Continue reading.

March.14.2024

$3.3B in Federal Grants Announced for Communities Split Apart by Highways.

The one-time infusion of cash for highway caps, bike trails and other improvements shows the Biden administration's priorities for one of its most high-profile infrastructure initiatives.

The Biden administration on Wednesday unveiled the winners of more than $3.3 billion in grants for one of its signature infrastructure initiatives, an effort that aims to reduce the harm caused by the construction of highways, rail lines and other infrastructure that sliced through neighborhoods across the country.

The grants would pay for new freeway "caps" in Atlanta, Austin, Dallas, Philadelphia and Portland, Ore. The short highway covers often include amenities like parks and trails to help connect the surrounding neighborhoods. Massachusetts will use its $335 million grant to rebuild an aging highway viaduct while creating new parks, building a new bridge for cyclists and pedestrians, and opening a new commuter rail station. New York's $180 million award will go toward making improvements to downtown Syracuse after removing a highway viaduct there. Jacksonville, Florida, will use $147 million to build 15 miles of a new off-street trail system that will connect historically Black neighborhoods to downtown and other amenities. And the Gulfton and Kashmere Gardens neighborhoods in Houston, where residents have long had to contend with chronic flooding and inadequate infrastructure, will get improved sidewalks, drainage and tree cover.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

MARCH 13, 2024

New Forever Chemical Rules Could Escalate Water Bills, US Cities Warn.

With the EPA's first-ever regulation of PFAS chemicals in the water supply expected soon, local officials say they need more funding to comply.

Hastings, Minnesota, is staring down a $69 million price tag for three new treatment plants to remove PFAS chemicals from its water supply, ahead of new US federal regulations limiting the amount of so-called forever chemicals in public drinking water — which could come as early as this month.

For a town of less than 22,000 people with an operation and maintenance budget of $3 million a year for its water system, the project amounts to a “budget buster,” says city administrator Dan Wietecha. Operation and maintenance costs for the new plants could add as much as $1 million to the tab each year.

The costs will likely be passed down to the public, unless the city can obtain funding through other means. “Water rates would essentially double in three years, triple in five years, and continue increasing,” Wietecha says. “So, yeah, we need outside funding. This is just an unrealistic burden to put on our residents and businesses.”

Continue reading.

Bloomberg CityLab

By Linda Poon

March 13, 2024

Look For Munis To Behave Like Bonds Again In 2024.

Now that the Fed is signaling an end to rate hikes and the possibility of rate cuts, investors can focus on municipal bonds behaving like bonds: offering tax-exempt income and providing portfolio diversification. Indeed, reasons abound for considering a meaningful allocation to municipals.

Across the muni marketplace, credit fundamentals are in great shape, in the wake of Covid-19 related stimulus and three consecutive years of extremely strong revenues. We believe the market overall is well positioned to handle any economic downturn, should there be one. And the rating agencies agree, with upgrades outpacing downgrades by a roughly four-to-one ratio for three straight years.

Muni bond gross supply is expected to total $400 billion in 2024, up from $330 billion in 2023. However, with approximately $400 billion of bonds maturing or being called in 2024, supply will likely be net negative, with the expectation of demand exceeding supply. This supply/demand disparity should keep yields and spreads contained.

Continue reading.

FA-MAG.COM

MARCH 12, 2024 • DANIEL J. CLOSE

Municipal Bond Funds Fare Well in May.

Tax-exempt funds dominate the list of top performers for the month of May.

In normal times, the generally muted returns of municipal bond funds wouldn’t be expected to place any number of such offerings on a top-10 performance list.

Well, these are anything but normal times, a fact underscored by the dominance of tax-exempt funds on the accompanying table of top open-end bond funds for May.

Muni bond funds enjoyed a bounce in May after being pressured for months by a variety of forces. Threats to their exemption to state income taxes have been disrupting the muni market for months, with the issued finally resolved in favor of the tax-exempt vehicles. If that weren't enough, the triple-A credit ratings of insurers of muni bonds have been in doubt as a result of the credit crunch.

Continue reading.

thestreet.com

by Richard Widows

Jun 9, 2008

Munis Defy Bond Selloff, Pushing Valuations to Three-Year High.

- **Ratios on 10-year muni debt sank to lowest level in years**
- **Deals oversubscribed by more than five times in February**

By one measure, state and local government bond yields have slid to the lowest levels against Treasuries in nearly three years, with a steady push into the securities largely sheltering them from the selloff seen in other corners of fixed-income markets.

Yields on 10-year municipal debt have hit the lowest relative to Treasuries since June 2021 after strong demand for the tax-exempt securities propped up prices during a Thursday bond-market rout.

Treasuries slid after a report on wholesale prices eroded confidence in the outlook for Federal Reserve interest-rate cuts this year. While municipals dropped slightly, their outperformance drove the muni-Treasury ratio to just 57%, according to data compiled by Bloomberg.

Continue reading.

Bloomberg Markets

By Nic Querolo

March 15, 2024

Muni Manager Takes Contra Approach and Focuses on Active: Bloomberg Masters of the Muniverse

Municipals are starting the year semi-flat and the latest read on CPI will not do much to alleviate the concern of market participants that performance could be stagnant for the foreseeable future. That being said, there are still some areas of relative value, even though the absolute tradeoff from last fall has faded to a large degree. Here to discuss the current market dynamics, credit quality, election predictions and much more is Jason Appleson from PGIM (Prudential Global Investment

Management)

Listen to the Podcast.

Bloomberg

Mar 15, 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 February) $62.9 billion, +36.6% Y/Y
- Trading (as of February) $12.5 billion ADV, -2.3% Y/Y
- Outstanding (as of 4Q23) $4.1 trillion, +0.5% Y/Y

Download XLS

March 7, 2024

Fitch Affirms Muni Ratings Tied to U.S. Sovereign Ratings at 'AA+'; Outlook Stable.

Fitch Ratings – San Francisco – 07 Mar 2024: Fitch Ratings has affirmed at 'AA+' the ratings of certain categories of debt that are directly tied to the creditworthiness of the United States or its related entities, following the affirmation of the United States of America's Foreign and Local Currency Issuer Default Ratings at 'AA+'/'F1+' with Stable Rating Outlooks.

Categories of debt whose ratings are affected include:

–Pre-refunded bonds whose repayments are wholly dependent on 'AA+'-rated United States government and agency obligations held in escrow;

–Municipal housing bonds that are primarily secured by mortgage-backed securities issued by Ginnie Mae, Fannie Mae and/or Freddie Mac;

–Obligations that are supported by credit enhancement issued by financial institutions directly linked to the United States, such as Fannie Mae or Freddie Mac.

Continue reading.

Thu 07 Mar, 2024

The Anti-ESG Backlash Is Playing Out Across the Country as Pensions and Investments Become a Political Football.

The anti-ESG backlash is playing out across the country as pensions and investments become a political football

After years of headlines about the growing environmental, social, and governance (ESG) movement in investing, ESG has been met with understandable skepticism from taxpayers, who both underwrite state and local government pension plans and government borrowing. After all, if the managers of these operations take their focus off properly balancing risk and return–pursuing ideological investment goals instead–taxpayers could be on the hook for hundreds of billions in additional liabilities. Yet, that focus must go in both directions. Forcing those managers to reflexively embrace ESG or to reflexively shun it could deprive taxpayers of the market-based innovation, resilience, and long-term value we're counting on to avoid a financial meltdown.

According to a Council of State Governments report, at the state level alone taxpayers face $1.3 trillion of unfunded liabilities from government employee pension systems. Administrators of these pension plans need every tool available to them to protect taxpayers against massive bailouts. Passing restrictive laws at the federal or state level, instructing these administrators to avoid certain industries or banks perceived to be too "woke" or not "woke" enough, could put them in a fiscally untenable position.

The financial contagion caused by pro and anti-ESG actors is already spreading into another area of public finance. In several instances, pursuing non-financial politically motivated outcomes has led to diminished investment returns, market distortions, and other forms of economic harm.

Continue reading.

FORTUNE

BY CARLOS CURBELO AND PETE SEPP

March 7, 2024

Muni Investors Stage Rare Challenge of $1 Billion Bond Deal.

- **Investors believe university 'has no legal basis' to call debt**
- **Deal is part of a wave of planned refundings using ERP call**

A group of investors is challenging a $1 billion municipal bond refunding by the Regents of the University of California.

The bondholders said there's "no legal basis" to allow the refinancing, according to a copy of a letter seen by Bloomberg News and people with knowledge of the matter. The debt was priced on Tuesday.

The deal is part of a wave of planned refundings that would replace taxable debt sold under the Build America Bonds program more than a decade ago with lower-yielding, tax-exempt securities. Some investors are questioning their legality, which hinges on a provision in the bond documents that allows state and local governments to buy back their debt before it comes due if an

extraordinary event occurs.

Continue reading.

Bloomberg Markets

By Nic Querolo and Amanda Albright

March 6, 2024

S&P Military Rental Housing 2024 Outlook: Bond Sector Stable Amid Slow Recruitment And Higher Expenses

Key Takeaways

- Rating actions in 2023 reflect the sector's stability as most projects benefitted from higher basic allowance for housing (BAH) revenue and strong occupancy.
- Operating pressure could materialize if military recruiting targets trend below expectations, leading to less demand for military housing projects. While we don't believe this is an immediate risk, it could affect credit quality over the medium-to-long term.
- Debt service coverage for military housing projects has experienced some volatility due to increasing costs from insurance coverage, utility expense, and maintenance and repair requirements.

Continue reading.

7 Mar, 2024

S&P: How U.S. Not-For-Profit Acute-Care Providers Are Managing Risks From The Change Healthcare Cyber Attack

Key Takeaways

- Repercussions from the Feb. 21, 2024, cyber attack on the nationwide claims processing provider Change Healthcare are still evolving.
- Disruption to Change Healthcare, a third-party vendor, introduces cash flow and liquidity risk for U.S. not-for-profit acute-care providers using its services.
- As full restoration of Change Healthcare's systems is still unknown, many acute-care providers have implemented workarounds to manage cash flow and liquidity.
- The credit impact could vary across rated providers, depending on credit specifics such as liquidity and reserves, ability to put workarounds in place, and the time it takes for Change Healthcare's systems to be operational.

Continue reading.

7 Mar, 2024

The Brave New World of Local Government Debt Management.

COMMENTARY | Market volatility, economic uncertainty and factors like climate change are driving heightened risk, creating a tougher issuing environment and a more complex landscape.

“How do we use federal money and stay compliant?”

That was Kevin Bain’s reply when our team asked what was top of mind for him. He is the director of strategy for the Detroit treasury department and CFO’s office, where he oversees debt management and strategic projects.

Bain was one of a number of finance leaders we spoke with to examine the role and impact debt managers have in improving local government finances. His response points to a trend that reflects an increasingly complex debt management world and the need for increased fiscal dexterity.

Detroit wants to tap into tax credits for clean-energy investments that are available under the Inflation Reduction Act. This is not a resource that municipalities typically apply for, so the city has no mechanisms in place for it. “We’re building the plane as we fly it,” says Bain.

A More Strategic, Agile Approach

The field of municipal finance is evolving. Market volatility, economic uncertainty and factors like climate change are driving heightened risk, creating a tougher issuing environment and a more complex landscape, such as with federal grant funding compliance.

There are “more and newer expectations foisted on the debt management function,” explains Justin Marlowe, a professor at the Harris School of Public Policy at the University of Chicago. “Whether that is better disclosure or continuing disclosure vis-à-vis the MSRB [Municipal Securities Rulemaking Board] or state authorities … and with pressure to speak to ESG and sustainability concerns, people now are actively scrutinizing when, where and how the quality of your continuing disclosure happens.”

In today’s municipal bond market, persistently high and fluctuating interest rates have increased borrowing costs for issuers and made issuing bonds more difficult. Local governments are beginning to recognize the heightened importance of the debt management role. “It has the potential to generate savings and add financial value,” notes Marlowe.

Route Fifty

By Mark Funkhouser

MARCH 6, 2024

ARPA 3-Year Anniversary: Documenting the Success of Direct Federal Aid to Cities and Towns.

Three years after its passage, the impact of the American Rescue Plan Act (ARPA) on America’s cities, towns and villages cannot be overstated.

APRA's State and Local Fiscal Recovery Fund (SLFRF) provided integral relief for local governments to navigate the COVID-19 pandemic and ensure stability for communities moving forward. During a time of uncertainty, SLFRF allocations ushered in funds to help cities, towns and villages ignite a bottom-up economic recovery strategy to assist the hardest-hit residents, stabilize municipal budgets, and maintain consistent spending on standard local government operations and services.

The SLFRF program provided direct federal aid in the form of block grants to all state, county and municipal governments, allowing for more opportunities for regional and multi-jurisdictional collaborations compared to competitive or categorical grants that are often limited to narrowly defined activities. Additionally, the SLFRF distribution model equitably allocated aid for metropolitan cities by borrowing the anti-poverty formula from the Community Development Block Grant (CDBG) program to deliver funding where it was needed the most. Relatedly, the three- and a half-year timeframe given to recipients to obligate funds has continued to foster opportunities to broadly engage residents and respond to community feedback on decisions around the use of these one-time dollars to address historic, immediate and long-term inequities. Many communities formalized community feedback opportunities, like Dayton, OH, which invested in a resident survey to use community voices and data to guide their decisions.

Continue reading.

National League of Cities

BY Julia Bauer, Patrick Rochford, Christine Baker-Smith & Michael Wallace

MARCH 4, 2024

Vulnerable US Private Colleges at Risk from New Federal, State Actions.

Fitch Ratings-Chicago/New York-06 March 2024: The credit or even viability of small U.S. private colleges serving sizable low-income and minority populations, many already financially vulnerable to operational and enrollment stress, is threatened by new hurdles posed by recent federal and state actions, Fitch Ratings says.

Recent federal financial aid processing delays, overtime pay proposals and merger/acquisition regulation, together with the U.S. Supreme Court's abolition of race-conscious admissions in 2023, place greater pressure on these colleges. State efforts to provide minimal-cost public college access to lower income residents also increases the acute competition faced by these institutions.

Financial stress in the higher education sector spiked during calendar year 2023 with a record high number of new impairments (payment and technical defaults) among the sector's bond issuers, according to Municipal Market Analytics. Fitch analysis shows that issuers with newly impaired debt in 2023 served very high percentages of minority and low-income students, averaging 55% non-White enrollment and 48% federal Pell Grant recipients among first-time undergraduates in fall 2022.

Continue reading.

Wed 06 Mar, 2024

Harvard Attracts 'Insatiable Demand' for AAA Rated Bond Sale.

- **Goldman-led deal with corporate cusip priced at low spread**
- **BI analyst Kazatsky says the university is 'too big to fail'**

Harvard University — armed with a AAA credit rating and $50 billion endowment — sold $750 million in taxable bonds this week as buyers shrugged off recent controversies swirling around the school.

The debt priced at 47 basis points above similar-maturity Treasuries, compared to earlier price talk of 60 basis points. That's one of the tightest spread of any 11-year investment-grade bond dating back to at least 2009, according to a person familiar with the matter who asked not to be named because they weren't authorized to speak publicly. The bonds rallied in secondary trading Wednesday morning, a further sign of strong investor appetite.

"There's insatiable demand for premier names in the higher-ed space. Obviously Harvard would be one of those at the top of the tier," said Chris Brigati, senior vice president at SWBC Investment Services, adding that the deal did "extremely well."

Continue reading.

Bloomberg Markets

By Amanda Albright and Danielle Moran

March 6, 2024

Municipal Bond Upgrades: Balancing Perceived Risks With Real Opportunities

When it comes to safety, municipal bonds have long been a go-to investment for income seekers. After all, in theory, a state or a local town has the ability to raise taxes to help pay for coupon payments – and history suggests just that. However, some investors have begun to worry about municipality and state revenues in the face of the dwindling economy.

The truth is, those worries may be all in investors' heads. Municipal credit continues to improve. Upgrades have far outweighed downgrades, while defaults remain low and concentrated in a few high-risk sectors. The reality is that munis are still offering very advantageous high yields at great credit quality.

Worries Mount

It's all about taxes, and that's the cause of the worries currently affecting municipal bonds. Munis are issued by state and local governments to fund their operations, launch special projects and provide their citizens with various programs. In order to pay for those bonds, it's often taxes – payroll, sales and property – that help pay the interest and pay off debt. And while states and towns have the ability to raise taxes, there is a limit to what they can collect. A family or a business can easily move to a lower tax state. Because of this, analysts and investors watch state revenues like a hawk to determine municipal bond health.

Continue reading.

dividend.com

by Aaron Levitt

Mar 05, 2024

These Muni Funds Sport Strikingly High Yields.

Looking for tax-free returns and some of the fattest yields in the bond market? Consider funds that invest in the high-yield segment of the municipal bond market.

According to BofA Securities, this is a great time to buy these bonds, which are issued by turnpike authorities, hospitals, and other state and local entities.

Jared Woodard, BofA's head of exchange-traded fund strategy, says high-yield munis have low default rates, with credit risk similar to that of investment-grade corporate bonds. That means investors can harvest some of the highest muni yields in recent history while keeping credit risk in check.

Continue reading.

Barron's

By Lauren Foster

Updated March 06, 2024,

Amid Rising Costs, States Scramble to Budget for Natural Disasters.

The U.S. set a new record for billion-dollar climate disasters in 2023. State budgets are increasingly shouldering the costs of more frequent and expensive weather events.

In 2023, U.S. states endured more weather-related disasters causing a billion dollars or more in damage than ever. The increasing cost and risk of natural disasters is playing a major role in shrinking the home insurance market and driving up rates in Gulf Coast and Western states. In response, leaders in these states have taken a range of steps to protect property and state budgets from the myriad threats posed by more frequent and costly disasters.

In Florida, a rapid loss of insurers and rising cost of policies has prompted regulatory changes designed to reduce the state's budget exposure as the de facto home insurer, and Gov. Ron DeSantis proposed a fiscal 2025 budget that includes more than $500 million to cut taxes and other insurance costs for homeowners.

Continue reading.

Route Fifty

By Liz Farmer

FEBRUARY 28, 2024

As COVID-19 Emergency Funding Dries Up, Some Rural Schools May Face a Steep Fiscal Cliff in 2024.

Lower-income districts are likely to face bigger budget reductions, along with districts who spent relief aid on teacher salaries and new faculty hires.

Some rural school districts—particularly those with greater poverty levels—are set to face steep budget reductions when COVID-19 emergency funding closes this September.

To offset the effects of COVID-19 on public education, the federal government issued historic amounts of pandemic relief aid through the Elementary and Secondary School Emergency Relief Fund (ESSER) to states and districts across the country beginning in March 2020.

Over the past several years, the public school system has had access to nearly $190 billion, which states and districts have spent on a variety of needs including technology, transportation, school infrastructure, mental health support, after-school programing, tutoring, faculty training and increased staffing.

Continue reading.

Route Fifty

By Lane Wendell Fischer,
The Daily Yonder

FEBRUARY 29, 2024

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

View the Current List.

1 Mar, 2024

Fitch Ratings Updates U.S. Water and Sewer Rating Criteria.

Fitch Ratings-Austin-29 February 2024: Fitch Ratings has updated its criteria for U.S. water and sewer utilities. The criteria updates and replaces the criteria from March 2023.

Notable revisions include the introduction of ‘extraordinarily weak’ assessments for revenue defensibility and operating risk, updated language on notch-specific rating positioning and an expanded discussion of circumstances when analytical outcomes may differ from the Rating

Positioning table. The last revision is intended to provide greater clarity as to when ratings may be higher or lower than what is suggested by the entity's leverage profile together with the Rating Positioning table. Fitch has also updated language related to the treatment of lease obligations in financial metrics to align such treatment with current accounting standards.

The key criteria elements remain consistent with those of the prior report. There is no impact on outstanding ratings, and no credits are being placed Under Criteria Observation. The previous version of the criteria has been retired.

The updated criteria report is available at www.fitchratings.com or by clicking the link above.

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Fitch Ratings Publishes Exposure Draft for U.S. Life Plan Communities Rating Criteria.

Fitch Ratings-New York-04 March 2024: Fitch Ratings has published an exposure draft detailing proposed revisions to its rating criteria for U.S. NPF life plan communities.

"The proposed revisions to criteria are intended to better reflect the unique risks of LPCs and their typically very limited market draw and high industry concentration risk, which limit their rating potential," said Fitch Senior Director Margaret Johnson. "The proposed revisions also acknowledge LPCs' propensity for large-scale capital plans relative to their revenue size and provide better transparency on when and how these plans will be factored into ratings."

Among Fitch's proposed changes include:

–Limitation of ratings of LPCs that do not carry a third party guarantee to the 'A' category;
–Added Revenue Defensibility sub-assessments to better differentiate risks of multi-site vs. single-site LPCs;

–Additional ‘B’ category to Ratings Positioning Table and added enhanced guidance for ratings below ‘B’ category; and;
–Further guidance on potential rating action based on probability and rating impact of capital project.

Regarding revenue defensibility, Johnson says that LPCs with more SNF units than ILUs are more vulnerable to revenue pressures, as they typically have very little pricing flexibility due to their high exposure to governmental payors. Among the asymmetric additional risk considerations Fitch considers, expansion projects help determine an LPC’s revenue defensibility. “While expansion projects can be of strategic benefit to LPCs, they very often lead to increased leverage and represent a relatively high degree of risk associated with the fill-up of expansion units,” said Johnson.

Fitch anticipates approximately 10% of LPC ratings to be affected by these changes, with most rating changes, if any, not to exceed one-notch downgrades. Fitch is actively soliciting market feedback on the proposed criteria. Send comments to criteria.feedback@fitchratings.com by April 18, 2024.

In addition to the exposure draft, Fitch has also published Exposure Draft: U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria: Frequently Asked Questions (FAQs).

Fitch’s “Exposure Draft: U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria” and the FAQs are available at www.fitchratings.com.

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Biden Administration Waives Certain ‘Build America’ Requirements for Broadband.

Even with the waiver, though, the administration estimates that roughly 90% of funding for equipment will still be used to purchase U.S.- made products.

The federal government says it’s OK for some components used in building out the nation’s broadband network to come from other countries.

The waiver announced last week by the National Telecommunications and Information Administration, or NTIA, addresses a key concern among states over requirements in the federal Build America, Buy America Act that infrastructure projects have to be built with products made in the U.S.

“I think we all generally support the goals of Build America, Buy America,” said Christine Hallquist, executive director of the Vermont Community Broadband Board, referring to the desire to increase the number of manufacturing jobs in the U.S. But “the real issue,” she said, is that not enough components used in the construction of broadband are currently made in America.

Continue reading.

Route Fifty

By Kery Murakami

FEBRUARY 27, 2024

Investing with Impact: How Municipal Bonds Are Leading the Way

Issues like water scarcity are felt most intensely at the local level. That makes it incumbent on municipal bond issuers to lead the response.

Municipal bond issuers are responsible for building and supporting the physical infrastructure and the public goods and services that enable citizens to participate more in an inclusive economy. That makes the roughly $4 trillion US municipal bond market fertile ground for impact investing. Challenges like supplying clean water and improving access to quality healthcare can both be tackled through environmentally, socially, and financially productive investments in communities and institutions.

Leading When Water Is Lacking

As we’ve seen over the past few years, access to water can’t be taken for granted. The country faces historic drought conditions in the West and other regions. For instance, the Rio Grande, a river that countless Southwestern US communities depend on, faces persistent drought and increased water demand.

These challenges disproportionately impact low-income communities. In one study, 14% of respondents said a $12 monthly increase in water bills would lead them to cut back spending on groceries and basic medical care.1 Long-term investments in projects that diversify water sources, combined with water conservation strategies, can go a long way toward improving drought resiliency and reducing the financial burden communities face.

Continue reading.

Alliance Bernstein

March 1, 2024

Tax Season Could be Boon for Muni Bonds.

Financial advisors looking to move cash off the sidelines this spring see opportunities in the municipal bond market.

Wealth managers move a lot of money around during tax season to meet client obligations. Several advisors say that this year, a lot of leftover cash from all that shuffling could end up in municipal bonds, especially for those high-net-worth clients living in high-tax states.

Over $1.2 trillion went into money-market funds in 2023, according to Bank of America, and with the Federal Reserve expected to cut rates at some point this year, financial advisors will be looking to take some of that cash off the sidelines and put it to work after Uncle Sam gets his due.

For those in the top tax bracket, investment-grade municipal bonds can achieve a taxable equivalent yield of up to 8 percent, which compares to the approximately 5 percent that money-market funds are currently paying.

Sam Weitzman, product specialist at Western Asset Management, says tax season tends to be a good time to leg into municipal bonds because investors are often selling out of their municipal bond positions to pay their taxes. As a result, new buyers are rewarded with marginally higher yield opportunities.

“We also saw taxes go down in 2018 following the Tax Cuts and Jobs Act,” Weitzman said. “Those tax cuts are slated to expire next year, and with that, we’re expecting a higher tax rate environment to further improve the value of tax-exempt income.”

As to what types of munis offer the best value in the current market, Weitzman said the highest quality portion of the market inside of 10 years appears overly crowded. Instead, he prefers doing a little more work for his clients to unearth opportunities “down the credit spectrum.”

“Right now, single-A munis and triple-B munis are offering about 100 basis points of after-tax yield pickup if you’re in the top tax bracket,” he said. “And to us, that’s a really attractive relative value proposition given the fact that munis tend to default much less frequently than those corporate counterparts.”

Speaking of defaults, Steve Stanganelli, certified financial planner at Clear View Wealth Advisors, worries that the ability of municipalities to tax their constituents is starting to push up against the ability of taxpayers to tap their wallets for debt service. Anecdotally speaking, he sees such fiscal challenges building in his own city and is concerned that similar scenarios are playing out across the country.

Nevertheless, he uses several Nuveen closed-end funds for clients, including the Nuveen AMT-Free Quality Muni (NEA), the Nuveen Quality Muni-Income (NAD), and the Nuveen Municipal Credit Income (NZF), because they offer high-yield dividends that are tax-advantaged.

“Despite my longer-term concerns about municipal tax revenues, in the near term munis are well positioned as investors are often buying them for safety. And for my higher-income clients, these tax advantages help boost yields even more,” Stanganelli said.

Jonathan Swanburg, president of TSA Wealth Management, agrees that for clients with taxable accounts that are in the highest tax brackets, municipal bonds are a sensible purchase at any time of year, not just during tax season.

“In Texas where we have no state income tax, a taxpayer making more than $731K is going be at a 40.8 percent effective tax rate on additional bond income. For this client, a 4 percent muni bond would have the same effective yield as a 6.76 percent corporate or Treasury,” Swanburg wrote in an email. “If that same client was at the highest income levels and lived in New York City, her effective tax rate would be around 55 percent in total. In her case, buying a NY City municipal bond would

have a tax equivalent yield of 8.8 percent relative to a corporate and 6.76 percent relative to a Treasury."

The biggest issue Swanburg sees with municipal bonds in the current environment is that investors will often buy them thinking tax-free income is universally better than taxable income. However, that's not necessarily the case for investors outside the highest tax brackets.

"It is very common for retirees, even high-net-worth retirees, to be in lower tax brackets. At the 24 percent marginal bracket, for example, a 4 percent muni has the equivalent yield of a 5.26 percent corporate. If the equivalent-risk corporate is yielding more than that, the investor is better off going with the taxable bond," he said.

Investment News

By Gregg Greenberg

February 29, 2024

Record Issuance, Strong Yields Put Municipal Bonds in Play.

Record issuance in municipal bonds is injecting the debt market with a healthy dose of supply. Combined with elevated yields, this puts municipal bonds in play for any bond portfolio to benefit.

Record issuance is happening at both the private and public sectors. This is because expectations of rate cuts by the Federal Reserve will allow issuers to take on more debt now and refinance later at lower rates. In addition to attractive yields, municipal bonds offer investors higher credit quality that can appease risk-averse investors who want yield, but not the additional credit risk other debt could carry. With the tailwinds of strong fundamentals behind it, municipal bonds are an ideal option to balance yield and credit risk.

"We expect that the fundamental backdrop will remain strong," private investment management company Lord Abbett said. "While the record-setting growth in tax revenues and rainy-day balances has moderated over the last year, we believe that municipal credit is returning to a more normalized environment."

"Tax receipts are still significantly above levels experienced prior to the pandemic, and rainy-day balances relative to spending remain multiple times higher than during much of the last 15 years," the firm added. "With the decline in growth of tax receipts, we also anticipate spending by state and local governments will lessen, as many states move beyond the one-off expenditures of last year."

Tax-Free Income in One Fund

A prime benefit of munis is the tax-free income they can offer that's beneficial for investors in higher income tax brackets. Rather than opt for a variety of muni bond holdings, an easier way is via one ETF: the well-diversified Vanguard Tax-Exempt Bond ETF (VTEB).

The fund 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.

Of course, a top-of-mind goal for fixed income investors, especially in a year in which rate cuts could happen at a quick pace, is extracting the most yield in the current macroeconomic environment. To that note, VTEB brings a yield of 3.33% (as of February 23), with an average duration of 5.6 years and average stated maturity of 13.6 years.

ETF TRENDS

by BEN HERNANDEZ

MARCH 1, 2024

Driving Muni Pricing with AI: Masters of the Muniverse

For a market notoriously known for resisting change, it is arguably one of the asset classes most in need of advanced technologies. However, artificial intelligence may finally bring better fair value pricing to Munis' nuanced and illiquid market. In the latest Masters of the Muniverse episode, Bloomberg's Eric Kazatsky and Karen Altamirano are joined by ficc.ai's co-founder, Charles Elken, to discuss how machine learning and muni ETFs can bring real-time pricing to Muniland.

Listen to the Bloomberg Podcast.

Feb 28, 2024

Attention BAB Issuers: Extraordinary Optional Redemption is Available - Orrick

For more than 10 years, as the subsidy for direct payment Build America Bonds (BABs) has been less than originally promised due to sequestration, issuers have wondered if sequestration constituted an "extraordinary event" that would trigger their right to seek extraordinary optional redemption.

A recently concluded court case provides favorable guidance for issuers. Although the specific language must be reviewed in each case, we believe extraordinary optional redemption is available for issuers of BABs in most cases.

Key Context

Most BABs were issued with an extraordinary optional redemption feature (less costly) and a make whole call feature (more costly). The extraordinary optional redemption was intended to be available if the 35% subsidy rate was reduced for reasons other than the fault of the issuer.

The 35% subsidy for BABs has been reduced since 2013 through sequestration.

An issuer's ability to exercise the extraordinary optional redemption turns on whether there has been an "extraordinary event" as defined in the extraordinary optional redemption provision for the specific bonds.

Continue reading.

by Charles C. Cardall & Barbara Jane League

February.21.2024

Orrick Herrington & Sutcliffe LLP

A Surge in Build America Bonds Calls: Navigating the Waters of Extraordinary Redemption.

Discover the impact of issuers activating ERP clauses on Build America Bonds (BABs) and its ripple effects on the municipal financing landscape. Gain insights into the strategic implications for investors and issuers in navigating this evolving trend.

Amid the echoes of bustling Wall Street and the undercurrents of a shifting financial landscape, a notable trend has emerged, capturing the attention of investors and municipal entities alike. The spotlight has turned towards the Build America Bonds (BABs), a relic of the post-2008 economic recovery era, as issuers increasingly exercise their right to call these bonds early under an 'extraordinary redemption provision' (ERP). This maneuver, spurred by recent court rulings and the prevailing interest rate environment, marks a pivotal moment that could reshape the terrain of municipal financing.

Understanding the Surge in ERP Calls

The genesis of this trend can be traced back to the inception of BABs during the fiscal stimulus efforts of 2009 and 2010. Designed to invigorate infrastructure projects and local economies, BABs offered a 35% subsidy on interest payments from the federal government to issuers, a lifeline that has since been repeatedly undercut by sequestration. However, the interpretation of sequestration as an 'extraordinary event' has been a subject of debate, leaving issuers in a limbo over their right to seek extraordinary optional redemption. The tide turned with a favorable court decision that clarified sequestration's adverse impact on subsidy payments, emboldening issuers to activate their ERP clauses. With around $110 billion of BABs harboring embedded ERP calls, and only a fraction deemed economical to call thus far, the stage is set for a significant uptick in activity. This year alone, the anticipation of $20 billion to $30 billion in ERP exercises presents a watershed moment, with potential reverberations across the taxable municipal bond market.

The Ripple Effects

The unfolding scenario presents a dichotomy of impacts. On one hand, the proactive redemption of BABs could signal a more assertive stance by issuers against the backdrop of fiscal challenges, offering a pathway to refinance at potentially lower interest rates. This strategic recalibration could enhance fiscal sustainability for municipalities, nurturing an environment ripe for fresh investments. On the flip side, the surge in ERP calls injects a dose of uncertainty into the market, potentially rattling investor confidence. The specter of premature redemptions may deter participation in future deals, casting a long shadow over the attractiveness of similar taxable municipal offerings. Furthermore, this trend underscores the intricate dance between fiscal policy decisions and market dynamics, a balancing act that demands meticulous navigation by all stakeholders involved.

Looking Ahead

As we stand at the crossroads of this significant shift, the broader implications for the municipal

bond market loom large. The increasing exercise of ERP rights by BAB issuers not only reshapes the immediate landscape but also sets a precedent for how extraordinary events are navigated in municipal finance. Investors and issuers alike are keenly watching how this wave of ERP calls unfolds, gauging its impact on market sentiment and future issuance strategies. Amidst this flux, the resilience and adaptability of the municipal bond market are put to the test, offering a compelling narrative on the interplay between policy, finance, and market dynamics. As the story of BABs continues to evolve, the lessons learned may well chart the course for the next chapter in municipal financing.

bnnbreaking.com

by Waqas Arain

26 Feb 2024

Issuers Expected to Call $20B to $30B of BABs This Year.

Clarity from a recent court ruling along with the level of current interest rates will likely lead to a dramatic increase in Build America Bonds being called by issuers this year, market participants say.

While only a small amount of BABs have been called using an “extraordinary redemption provision” since sequestration of BABs subsidies began in 2013, that should change as more issuers look to take advantage of using sequestration as a reason to exercise it, with analysts expecting the largest year of BABs called by the ERP to date.

For over a decade, as the subsidy for direct-pay BABs “has been less than originally promised due to sequestration, issuers have wondered if sequestration constituted an ‘extraordinary event’ that would trigger their right to seek extraordinary optional redemption,” said Orrick partners Charles C. Cardall and Barbara Jane League in a report posted on the firm’s website.

While BABs were issued with the expectation that the subsidy would not be reduced retroactively, the 35% subsidy for BABs has been reduced through sequestration numerous times. The current sequestration rate reduction is at 5.7%.

A recently concluded court case, Indiana Municipal Power Agency v. U.S., provides “favorable guidance” for issuers, Cardall and League noted, as it supports the conclusion that sequestration resulted in a materially adverse change to the cash subsidy payment obligation.”

Between 2009 and 2010, more than $180 billion of BABs were issued. They were priced with three types of calls – the optional, the make-whole call, and the extraordinary redemption provision call – but the vast majority were issued with embedded extraordinary redemption calls.

“A lot of people are looking at the court language and viewing that as very hopeful” because of what it might mean for the ERP, a lawyer said.

While the specific language has to be reviewed on a case-by-case basis, Cardall and League believe the “extraordinary optional redemption is available for issuers of BABs in most cases.”

J.P. Morgan strategists concurred, saying most ERPs are “actionable” after reviewing BAB ERP language from “representative bonds” from BABs 20 largest issuers.

The outstanding BABs universe with ERPs is only about 13% of the taxable muni market, according to a recent Barclays PLC (JJCTF) report.

There is currently around $110 billion of BABs with embedded ERP calls, but $20 billion is "out of the money because the bonds trade at wider spreads, are below par, or have low ERP strikes," they said.

Of the remaining $90 billion, Barclays (JJCTF) strategists expect $20 billion to $30 billion of ERPs to be triggered this year.

From 2018 to 2022, BABs ERPs were "rarely exercised," J.P. Morgan strategists said.

In 2023, two large deals exercised their ERP, taking $800 million out from the taxable market – $399 million from the Santa Clara Valley Transportation Authority and $386 million from the Ohio Water Development Authority, they said.

And so far this year, several issuers have already called their bonds, and others have given notice to investors that they are considering taking the bonds out, Barclays (JJCTF) strategists said.

The Maryland State Transportation Authority ERP called their BABs bonds last week, worth $721 million, J.P. Morgan strategists said.

Three other issuers, the Bay Area Toll Authority, the Los Angeles Unified School District and the University of California, which represent $5.4 billion of outstanding debt, have announced they plan to do the same later this year, they noted.

J.P. Morgan strategists said "higher-quality (A or better), lower-coupon, shorter-dated (maturity or average-life) bonds have the highest probability of being refunded." They believe there are $30 billion to $60 billion of BAB bonds outstanding that achieve adequate savings.

"This year looks set to be the largest BAB ERP call year by a large margin," Barclays (JJCTF) strategists said.

This interest, Barclays (JJCTF) strategists said, has led to BAB spreads "adjusting wider," though it "may have been just an excuse for investors to take profits after a four-month rally, but there has clearly been a catalyst, as several large deals will likely exercise their ERPs."

The extraordinary redemption provision can be triggered by an "extraordinary event," but what constitutes an "extraordinary event" differs, said Vikram Rai, head of municipal markets strategy at Wells Fargo (WFC), in a report from late January.

In "broad" language, the extraordinary event happens if the 35% subsidy is reduced, while in "restrictive" language, the extraordinary event is defined more narrowly and requires a change to a specific section of the Internal Revenue Code, he said.

Some issuers "got lucky" with the use of "broad" language allowing them to "issue new debt, refund the bonds and call it at par instead of this exorbitant price that requires us to make the investor whole, basically pay them all the interest they would have gotten if the bonds had stayed outstanding from maturity," the lawyer said.

Due to this, many of the BABs with "broad" language have already been called, with others with "restrictive" language are still waiting, the lawyer noted.

In instances when language is “restrictive,” Rai said “there is debate and confusion around whether the reduction in the BABs subsidy payment resulting from sequestration is sufficient to trigger the optional call.”

Until now, most BAB issuers had yet to be exercised due to economics, Rai said.

While the issuer could, in theory, realize long-term savings by “calling these bonds and refunding them at lower rates, the upfront cost made it prohibitive,” he said.

In instances when the ERP language “enabled issuers to call the bonds at par or only at a slight premium, exercising the ERP call made sense and thus issuers did so,” Rai said.

Due to higher interest rates, the bond prices are trading closer to par, meaning it makes economic sense for the ERP call, especially for shorter maturity securities, he said.

Additionally, the issuers “would want to reduce the risk of further cuts to the subsidy payments and also reduce the administrative burden,” Rai said.

When an issuer triggers an ERP, “it’s done in the context of a refinancing deal, which is a new transaction and [has] new underwriters,” the lawyer said.

Based on the way rates have moved over the last several years, the lawyer said it has made “potentially invoking these things more attractive than it was five or six years ago,” the source said.

While some issuers previously did complete such redemptions, the decision to trigger an ERP is a mix of both reduced subsidy and the right market conditions, which may be why now BABs with ERPs are seeing an increase, given the interest rate movement bonds, said David Erdman, managing director at Baker Tilly Municipal Advisors.

“The market [conditions] are a consideration for implementing or invoking the extraordinary redemption provision,” he said.

Furthermore, if there is a correction of the inverted yield curve and a reduction of interest rates in shorter maturities, he believes calling BABs through ERPs could become more attractive for issuers.

Barclays (JJCTF) strategists noted there are some positives and negatives to the resurgence of BABs through ERPs.

Over the past several years, “only ERPs with strikes at T+100bp have been triggered,” but there may be “some par ERPs exercised as well, although they are mostly embedded in smaller deals,” they said.

However, “even accounting for tighter spreads and low MMD-UST ratios, the economics do not work well for many issuers,” they said.

Municipalities will also have to consider “whether calling BABs through ERPs that were triggered because of a technicality might negatively affect investors’ desire to participate in future deals,” they said.

While the $20 billion to $30 billion of BABs triggered through ERPs this year would lead to even more “robust” tax-exempt issuance, it would have the opposite effect on the already estimated low supply in the taxable market, according to Barclays (JJCTF) strategists.

And even though the “BAB portion of the market might be under pressure, there could be some segmentation, and non-BAB taxables, BABs without ERPs or with much lower ERP strikes, and bonds with corporate CUSIPs might actually outperform,” they said.

Additionally, BABs with T+100bp ERPs could “also become more attractive if their spreads widen, and start trading closer to their strikes,” they said.

By Jessica Lerner

BY SOURCEMEDIA | MUNICIPAL | 02/26/24 12:33 PM EST

Are the Build America Rules Slowing Infrastructure Progress?

State DOTs, transit agencies and the construction industry want the White House to make it easier to comply with rules designed to include American-made products in infrastructure projects.

A key selling point of President Joe Biden’s infrastructure law was that it would help create jobs for more Americans. But new rules designed to pump up the domestic economy threaten to slow infrastructure projects and drive up their costs.

That’s been the message from state transportation departments, transit agencies and construction groups in recent weeks. They have been trying to raise the alarm with Congress and put pressure on the Biden administration to fix the slow and laborious process of complying with the law.

Transportation industry leaders say they support the goals under the Build America, Buy America Act that were included in the 2021 federal infrastructure law. The rules expand existing mandates that require certain infrastructure built with federal dollars to use U.S.-made materials. But, leaders warn, American companies and regulators often are not prepared for such a big switch.

Continue reading.

Route Fifty

by Daniel C. Vock

FEBRUARY 20, 2024

States Turn Up the Heat on ESG Investing.

At issue is whether mandates about environmental, social and governance investment strategies infringe upon a state fiduciary’s duty to maximize return

Environmental, social, and governance (ESG) investment strategies continue to gain popularity among investors and financial institutions, but with their rising prominence has come a growing divide in state attitudes about the ESG approach. ESG approaches consider the impacts that various investments have on people and the planet. They also can illuminate material risks and opportunities—such as a company’s record on employee relations or compliance with environmental

regulations—that should be considered as part of any financial decision-making.

In recent years, four states—Colorado, Illinois, Maine, and Maryland—enacted legislation encouraging public pension funds to include ESG factors in investment decisions, while in 2023 alone, 14 states adopted laws discouraging ESG considerations or banning ties to financial companies that do so. Most of this state legislation has focused on public pension investments, although some bills have encompassed other aspects of government finance, including banking, contracts, and borrowing.

Moreover, several states that have proposed but not passed ESG-related legislation—such as Arizona and Missouri—have introduced bills again in 2024. And lawmakers in California are still considering legislation that would require the state's pension systems to divest from fossil fuels by July 2031.

Continue reading.

Route Fifty

by Liz Farmer

FEBRUARY 21, 2024

S&P Outlook For U.S. Independent Schools: Healthy Demand Trends Drive Steady Sector Performance

Sector View: Stable

S&P Global Ratings' outlook on the U.S. independent school sector is stable, anchored by continued healthy demand trends, steady operating performance, and strengthened resources due to a rebound in market returns. In 2024, we expect schools will remain focused on sustaining demand and demonstrate nimble financial planning to support stability, despite rising expense pressures, slower economic growth, and an increasingly competitive landscape.

Continue reading.

22 Feb, 2024

Fitch: US NFP Hospital Median 2023 Preview Shows Decline; Improvement Expected

Fitch Ratings-Chicago/New York/Austin-21 February 2024: A preview of calendar year (CY) 2023 Fitch-rated not-for-profit (NFP) hospital performance medians initially reveals a continued decline in operating results, albeit not as severe as in CY2022, but likely marks a turning point, Fitch Ratings says. We anticipate that the full CY2023 median results will improve, but remain well below pre-pandemic levels. More positively, early medians, which reflect audited financial results for hospitals with a FYE in 1H2023, highlight balance sheet stability and stronger leverage metrics compared with the prior year, which are consistent with Fitch's final CY2023 median expectations.

Our full year median projections of operational performance metrics are based on several factors. Improvement in key indicators such as personnel expense as a percent of total revenue and revenue growth versus expense growth in 1H2023 relative to 1H2022 is likely to continue in 2H2023. We anticipate the results of hospitals with later FYEs (Sept. 30 and Dec. 31) will reflect the comparatively more profitable months in the latter half of fiscal 2023, pulling up the full year medians for all rated hospitals.

Fitch's full CY2022 medians marked a low point in the sector, with significantly pressured operating margins falling to just 0.2% from the 0.9% operating margin median suggested by providers with mid-year FYEs. We anticipated this decline at this time last year, with materially weaker profitability and reduced liquidity due to expense increases and investment market losses in 2022.

Continue reading.

Colorado Ski Town Sells Housing Bonds in Bid to Retain Teachers.

- **Telluride is latest vacation hamlet with locals priced out**
- **School district says jobs go unfilled without homes available**

Telluride, a ski resort destination in Colorado, is the first vacation town to sell municipal bonds for affordable housing this year. It likely won't be the last.

The reason for last week's sale is immediately apparent by typing "Homes for Sale Telluride Colorado" in an Internet browser. The websites that appear show that anyone wanting to buy a house there will need millions of dollars, maybe tens of millions.

So Telluride is "prioritizing" the acquisition and construction of affordable rental housing. Last week, Telluride School District R-1 borrowed $31.8 million, half of which will be used to pay for 25 units of "workforce housing."

The wealthy ski area has tapped the bond market for similar reasons several times in recent years. Just last month the town borrowed $9 million, a portion of which is being used to pay to refurbish affordable housing at an apartment building. In 2022, the town council approved spending more than $27 million for a project containing another 27 units of affordable housing. Five years earlier, the school district borrowed $2.5 million for more of the same.

"If there are no homes, I can't fill positions," Christine Reich, director of finance and nutrition for the school district, said in a telephone interview.

Reich's words are echoed by local officials in vacation areas nationwide. Towns heavy on quaintness and charm but light on housing supply have squeezed out locals, both ordinary and essential purpose workers, from shop help to police, firefighters and teachers.

Last year, the island of Nantucket off Cape Cod and the town of Wellfleet on the Cape each sold bonds for so-called workforce housing. Another Colorado ski town, Vail, did so in 2021. And it's not just vacation towns borrowing money to build affordable housing. Some colleges and universities, too, have sold bonds to pay for faculty housing, such as the University of Vermont and Middlebury College.

Income Gap

In Telluride, salaries in the school district range from an entry-level $50,000 to $94,665 for someone with a master's degree and 27 years of experience. But market-rate rentals in the town run from $4,000 to $5,000 per month for a one-bedroom apartment.

"We're remote," said Reich. "It's not as though you can commute in from Denver," a six-and-a-half hour drive away.

Only 55% of Telluride's housing is occupied by full-time residents, according to Treasure Walker, associate director at S&P Global Ratings. The remainder is typically used as short-term rentals and vacation homes in a town with a population of 2,620.

"There's a hyper supply-constrained environment," said Bill Fandel, the founding broker of Compass real estate in Telluride. He said that in a small town "the cost of the dirt becomes prohibitive,"referring to the space needed to build housing.

The school district, which is 326 square miles, includes the towns of Telluride, Ophir, Sawpit and Mountain Village and parts of unincorporated San Miguel County, and has a population of 6,515. It also has an "exceptionally high" full value per capita (the value of all the property divided by the population) of $2.1 million, according to Moody's Investors Service, which rates the bonds Aa2. The US median is $117,713.

"The district is a second-home destination for the very wealthy," Moody's said. "This, coupled with an influx of residents seeking an outdoor lifestyle during the pandemic, is driving a high cost of living and challenging the district's ability to recruit and retain teachers."

The district currently provides housing to about 10% of its 136 full-time and 16 part-time personnel and wants to increase this to one-third. Base rents are 25% of salary.

Already there is a waiting list for the proposed affordable housing.

Bloomberg Markets

By Joseph Mysak Jr

February 21, 2024

Princeton Asks Investors for $660 Million for Campus Upgrades.

- **School preps tax-exempt bond sales managed by Goldman**
- **Princeton has top-credit ratings from Moody's and S&P**

Princeton University plans to tap the $4 trillion municipal bond market to help finance capital projects on its New Jersey campus.

The Ivy League university, which boasts alumni like Former First Lady of the US Michelle Obama and Amazon.com Inc. founder Jeff Bezos, plans to sell $660 million of bonds that will be used in part to fund capital plans including the building of a new campus featuring hundreds of graduate student housing units, renovations to the school's main library and updated energy, transportation and technology infrastructure.

Princeton and other elite-universities can invest in such state of the art developments even when

institutions of higher education across the country are pressured because they have billions in their endowments and near world-wide name recognition. The school's impeccable credit ratings, graded the highest possible by S&P Global Ratings and Moody's Investors Service, means it can borrow cheaply and its debt is often sought after by investors.

Continue reading.

Bloomberg Markets

By Skylar Woodhouse

February 20, 2024

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8 States Move to Ban Utilities from Using Customer Money for Lobbying.

Utilities have come under fire for lobbying to stall climate policies and keep fossil fuel plants running.

While federal law prohibits utilities from recovering lobbying expenses from customers, consumer advocates say that those rules lack teeth and aren't sufficiently enforced. Now, states are taking the lead to ban the practice. According to the utility watchdog group Energy and Policy Institute, lawmakers in eight states, including California and Maryland, have introduced bills this year that would block utilities from charging customers for the costs of lobbying, advertising, trade association dues, and other political activities. The measures build on a growing trend in state policy: Last year, Colorado, Connecticut, and Maine became the first states in the nation to pass comprehensive laws preventing utilities from passing on the costs of lobbying to ratepayers.

"There is a lot of recent success that states can look to for inspiration," said Charles Harper, power sector policy lead at the climate advocacy group Evergreen Action. "People are starting to pay attention because they're realizing that they're paying for climate denial in their bills every month."

Continue reading.

Route Fifty

By Akielly Hu

FEBRUARY 21, 2024

Municipal Bond Outlook 2024: Are Munis a Good Investment Now?

Investment experts look past peak rates and see better days ahead for muni bonds.

Tune in to your favorite news outlet during an election year, and you'll likely hear the expression "All politics is local." Made famous by former Speaker of the House Tip O'Neill, the quote emphasizes the importance of keeping track of local constituents' perspectives on the relevant issues of the day.

It's also considered table stakes for elected representatives who want to keep the folks back home

satisfied with their overall job performance. Incidentally, O'Neill served his own constituents in the 8th and 11th districts of Massachusetts for 34 years, from 1953 to 1987.

Continue reading.

money.usnews.com

By Scott Ward

Jan. 29, 2024

Preston Hollow Community Capital Closes $202,500,000 Tax-Exempt Pooled Securities (TEPSTM) Financing

Strong Investor Demand for $135,000,000 Class A Certificates

DALLAS, February 26, 2024–(BUSINESS WIRE)–Preston Hollow Community Capital ("Preston Hollow" or "PHCC"), a provider of specialized impact financing solutions for projects of social and economic importance to local communities, announces the February 14, 2024 pricing and February 23, 2024 closing of a $202.5 million Tax-Exempt Pooled Securities ("TEPSTM") financing through the Public Finance Authority ("PFA"). The financing consists of $135 million of Class A Certificates, which have been assigned an Aa2 (sf) rating from Moody's Investors Service and $67.5 million of Class B Certificates which are not rated.

The Certificates are secured by a collateral pool of tax-exempt bonds, the vast majority of which were directly originated by PHCC. TEPSTM provides PHCC with an attractive cost of capital, a more standardized financing structure and reliable access to long-term funding through the tax-exempt capital markets.

The Class A Certificates were oversubscribed, with orders from nearly 20 different investors. PHCC purchased the $67.5MM Class B Certificates.

Jim Thompson, Chairman and CEO of Preston Hollow, commented, "This is our second TEPSTM transaction following our successful 2023 inaugural issuance, and we're gratified by the strong market reception. We see TEPSTM as a leading source of our future funding and we plan to be a regular issuer."

J.P. Morgan and Hilltop Securities Inc. served as the Underwriters for the Bonds. Kutak Rock LLP and Squire Patton Boggs (US) LLP served as counsel and disclosure counsel to the Sponsor, respectively, with Orrick and Ballard Spahr LLP serving as Underwriters' counsel.

About Preston Hollow Community Capital

Preston Hollow Community Capital is a market leader in providing specialized impact finance solutions for projects of significant social and economic importance to local communities in the United States. The Company invests in bespoke municipal finance transactions with a diversified investment portfolio. PHCC has invested over $5.1 billion since its inception across various sectors of the municipal bond market, including real estate, K-12 and higher education, healthcare, infrastructure, hospitality, general government, and economic development.

Since its inception, Preston Hollow has raised $1.6 billion in committed, permanent equity capital from premier sponsors like Stone Point Capital, HarbourVest Partners and TIAA. The Company has received long-term BBB (Stable) and short-term K2 (Stable) ratings from Kroll Bond Rating Agency.

Business Wire

Mon, Feb 26, 2024,

Vanguard Launches 2 Intermediate Municipal Bond ETFs.

Municipal bonds offer a mix of relative quality and yield. So the timing couldn't be more auspicious for exchange traded fund (ETF) provider Vanguard to debut a pair of muni-focused funds. The Vanguard Intermediate-Term Tax-Exempt Bond ETF (VTEI) and the Vanguard California Tax-Exempt Bond ETF (VTEC) allow fixed income investors to reap the benefits of muni funds, each having their own strategic focus. Both funds launched today on the Cboe BZX Exchange.

In times of high inflation, these funds offer cost-conscious investors muni exposure at low expense ratios. VTEI and VTEC both have a 0.08% expense ratio, making them more cost-effective versus comparable funds in their respective space.

In the current macroeconomic environment, more fixed income investors are willing to step farther out on the yield curve to extract more yield. With the expectation that interest rates will fall this year, getting intermediate exposure via bonds with longer maturities will allow fixed income investors to lock in current yields.

That said, VTEI is ideal for investors looking for more yield while maintaining the credit quality offered by municipal debt. As mentioned, the added tax benefits of municipal debt cater to investors searching for funds that not only add income but can help minimize their tax burden. Overall, VTEI can stand alone as an investor's sole fixed income exposure or complement Vanguard's existing short-term and broad market national tax-exempt ETFs.

Fixed income investors may also want to reap the benefits of certain state-specific debt. In the case of California, VTEC is an ideal, cost-effective solution. The fund also caters to tax-sensitive investors and focuses on an intermediate-term time horizon to strike a balance between yield and mitigating rate risk. Overall, the fund provides yield that is tax exempt at both the federal and state levels for California residents.

Backed by an Experienced Management Team

While there are several ETFs on the market for muni bond exposure, Vanguard has a proven track record that extends beyond fixed income funds. Its full array of ETF products can offer broad-based exposure or more strategic exposure when a tailored portfolio approach is necessary.

Furthermore, Vanguard's Fixed Income Group consists of an experienced municipal portfolio management team with proven expertise, along with an aforementioned track record for producing strong client outcomes. Munis can be a complex segment of the bond market, but Vanguard's municipal bond team includes 40 tenured portfolio managers, traders, and analysts with deep experience, scale, and sophisticated strategies to deftly navigate the market.

ETF TRENDS

by BEN HERNANDEZ

JANUARY 30, 2024

Cash Alternatives: How Short-Term Munis Provide Safety, Liquidity, and Tax Benefits

Savers have been rejoicing over the last year or so. With the Fed raising benchmark rates, CDs, money market funds, and even checking accounts have started to pay some meaningful interest. This has been wonderful news for those seeking income. However, as they say, “No good deed goes unpunished.”

And in this case, we’re talking about taxes.

It’s been a long time since investors have had to think about interest income and taxes with regard to their savings accounts. But after the yield bonanza of the last few years, tax bills are expected to be heavy. But there is a solution that investors may want to consider. Short-term municipal bonds offer safety, liquidity, and income without many of the tax surprises.

Continue reading.

dividend.com

by Aaron Levitt

Jan 30, 2024

Average Underwriting Spreads Stagnant in 2023, but Negotiated, Refunding Spreads Rise.

Average underwriting spreads for all bonds were stagnant in 2023, continuing a 15-year downward trend, but negotiated and refunding deal spreads rose while competitive spreads fell.

Underwriter spread ticked up slightly, rising to $3.66 in 2023 from $3.64 in 2022. Spreads on negotiated bonds rose to $3.76 in 2023 from $3.62 in 2022, while spreads on competitive deals fell to $2.71 from 2022’s $3.89, according to LSEG data.

Refunding spreads rose to $3.36 in 2023 from $2.86 a year prior, while new-money spreads dropped to $3.79 from $3.84 over the same period, per LSEG.

The decline of underwriting spreads has been happening for several years, and Michael Decker, senior vice president of policy and research at Bond Dealers of America, sees that trend continuing as firms become more efficient, reduce business costs and leverage technology, thus driving spreads lower, he said.

The gross underwriting spread is the payment or discount that an underwriter receives for marketing a deal. It is calculated as the dollar amount of the underwriting discount per $1,000 of an issue.

“Tight underwriting spreads in 2023 followed, for the most part, a well-entrenched trajectory that has backdropped the primary municipal market for years, and so the negligible bump in spreads does not come as a surprise,” said Jeff Lipton, managing director of credit research at Oppenheimer.

Spreads first fell below $4 in 2022, the first time in almost 20 years, well below the $5.58 in 2004. Spreads fluctuated between nearly $5 and $5.50 from 2004 through 2008 before hitting a high of $6.21 in 2009. From there, spreads continued to trend downward.

The first half of 2023 saw underwriting spreads rise to $3.70 billion in 1H 2023 from $3.54 in 1H 2022.

Wider spreads during the first half of last year were tied to specific market conditions at that time, according to Lipton.

“Banks had stepped away to some extent given the dislocations of last March from [Silicon Valley Bank] and the easing desirability of tax-exempt munis given the cost-of-funds for banks and taxable equivalent yield analysis,” he said.

Some other institutional buyers took “to the sidelines” amid heavy market volatility, he said.

Last year’s supply “received ample support from active Q4 issuance, helping to normalize spreads,” Lipton said. Issuance in 2023 ticked down 1.7% to $384.715 billion.

Additionally, part of the underwriting spread compression comes from increased competition in the muni market, market participants said.

“What you’re seeing is the race to the bottom, in terms of folks that are trying to win deals,” said Laci Knowles, a managing director and public finance banker at D.A. Davidson.

The muni market is a volume-based business, and to make money firms need to do a large number of deals, she said.

And if firms lower their fees, they can secure more deals, adding more money to their balance sheets, she said.

“There’s no secret sauce to do any types of transactions for a number of them, and so people can do them for lower fees,” Knowles said. “And maybe the deal isn’t perfect, but it gets it over the finish line.”

That competition partly contributed to the exit of Citi and UBS, participants say.

The business departures by Citi and UBS could have intermittent implications for underwriting spreads, but the commitments entered into by other dealers should help to contain any meaningful spread movement, Lipton said.

While there may not be a quantitative loss by the exit of two major underwriters, Decker said there are opportunities for the remaining firms to access talent they may have been unable to recruit otherwise.

“The idea that two fewer firms are chasing after the same issue will hopefully make things a little easier for the firms that remain,” he said.

Despite the decline in spreads, Decker noted spreads can only “go so low.”

“Underwriters have to be able to cover their expenses when they’re underwriting a deal, cover their risk, and, and make a reasonable profit on a transaction,” he said.

“You get to a point where spreads are so low that the margin on a deal for an underwriter becomes thin, but there’s a floor there,” Decker noted.

Given expectations for higher supply this year, underwriting spreads should remain tight, Lipton said.

“Unforeseen market and/or credit conditions could result in noted advances in spreads, yet such conditions could prove transitory, with spreads reverting to lower levels,” he said.

For example, Lipton noted “a large deal or several large deals could create wider spreads as more spread is usually needed to move paper and hedge risk.”

Should headline risk emerge surrounding a particular credit or sector, he said “spreads could temporarily expand until market participants have time to digest the development and hopefully conclude that there is no systemic impact across the municipal asset class.”

By Jessica Lerner

BY SOURCEMEDIA | MUNICIPAL | 08:59 AM EST

As Pandemic Aid Winds Down, States Scramble to Fill Gaps.

COVID-19 left a lasting mark on a few sectors, with schools, public transit and child care providers facing fiscal cliffs as federal funding dries up. State legislators, many already grappling with shortfalls, are looking for solutions.

Between 2020 and 2021, the federal government passed six relief bills in response to the COVID-19 pandemic that provided additional funding for state and local governments, Medicaid, and particularly hard-hit public sectors such as transit. All told, states received an unprecedented $800 billion in relief during this time, including $307 billion in flexible fiscal recovery funding that went directly to state coffers. Now, however, most pandemic aid programs have either ended or are slated do so by the end of 2024. And with sectors such as public education, child care, and transit having suffered lasting harm from the pandemic, the end of that funding means state policymakers throughout the country will have tough decisions to make in the upcoming legislative session.

Among the aid programs that have already expired or are winding down in 2024 are the Medicaid funding boost that Congress authorized in 2020; nearly $16 billion in emergency funding for struggling public transit systems and for Amtrak; the Elementary and Secondary School Emergency Relief (ESSER) Fund, which provided a total of $190 billion to schools; and $24 billion in child care stabilization funds from 2021’s American Rescue Plan Act. In addition, states must allocate any of their remaining flexible recovery funds by the end of this year.

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ROUTE FIFTY

by LIZ FARMER

FEBRUARY 12, 2024

Q&A: Machine-Learning Model Tracks Trends in Public Finance Research.

What are the leading topics in public finance and budgeting, how have they changed, and what future topics should be more closely researched by professionals and practitioners?

Can Chen and two of his former doctoral students, Shiyang Xiao at Syracuse University and Boyuan Zhao at Florida International University, used a machine-learning technique—structural topic modeling (STM)—to identify these themes and their dynamics over the past 40 years for an article recently published in the journal *Public Budgeting & Finance*.

Using the STM, Chen and his colleagues identified 15 latent topics in the areas of public budgeting, public finance and public financial management from the titles and abstracts of 1,028 articles published in the journal from 1981 to 2020. They compared these topics against those covered by standard exams for Certified Public Finance Officers (CPFO) and found much overlap. However, some topics that were mentioned less often may hint at some underexplored research agendas in PB&F.

Continue reading.

by Jennifer Ellen French, Georgia State University

FEBRUARY 16, 2024

S&P U.S. Not-For-Profit Health Care Rating Actions, January 2024

View the Rating Actions.

14 Feb, 2024

S&P: Financial Aid Delay Is The Latest Hurdle For U.S. Higher Education.

Key Takeaways

- The Department of Education announced recently that student applications for financial aid (FAFSA) for the 2024-2025 academic year will not be available for U.S. colleges and universities to review until at least March.
- Colleges and universities will have less time to determine financial aid packages for students and aid offers could be delayed.
- The current expected timing would leave students with less than a month before they're typically expected to commit to a college (May 1), so many schools could extend their deposit deadlines.
- The potential delay in financial aid offerings to students could affect college and university matriculations, as well as fiscal 2025 operating budgets if fall 2024 institutional financial aid ends up being materially higher than anticipated.

Continue reading.

12 Feb, 2024

Charter-School Stress Breaks Record With Pandemic Aid Ending.

- **Fifty-five charter schools are actively impaired on debt**
- **Gauge of high-yield education debt has slumped this year**

The number of distressed charter schools rose to a record in the beginning of 2024 as the sector struggles with the end of pandemic assistance and rising costs.

So far this year, five charter schools have become impaired, meaning a borrower has defaulted on their debt, broken a covenant or used some emergency means to make a payment. The impairments bring the total to 55 schools, according to a report by Municipal Market Analytics, a record that eclipsed the previous peak set during the early months of the pandemic in 2020.

Charter schools, which are privately run and publicly funded, have grown in popularity since the pandemic as some families sought alternatives to traditional public education. The number of public charter schools in the US increased by nearly 50% between 2011 and 2021, according to the National Center for Education Statistics. That growth has ramped up competition between schools for students, with shrinking class populations having the most-painful impact on smaller schools with thinner margins.

Continue reading.

Bloomberg Markets

By Melina Chalkia and Nic Querolo

February 9, 2024

Fitch: Bidenomics Boosts U.S. Manufacturing Output and Jobs, Primarily in South, West

Fitch Ratings-New York-15 February 2024: Investments pursuant to the Inflation Reduction Act (IRA) and CHIPS and Science Act (CHIPS Act) will provide a significant boost to semiconductor, electric vehicle (EV) and battery manufacturing, which represent around 60% of total announced spending, Fitch Ratings says. Nearly half of all planned investments are going to the South.

Texas is by far the biggest beneficiary in absolute dollar terms, receiving 20% of all announced manufacturing investments and the most new jobs. Overall announced investments as a percent of state GDP will be most meaningful for Arizona, West Virginia and Idaho at 17%, 15% and 14%, respectively.

Georgia, North Carolina, Michigan and Ohio are set to gain a large majority of new jobs, mostly in EV and battery manufacturing. These states, along with South Carolina, Kentucky, Nevada, Tennessee, Indiana, Kansas, Arizona and West Virginia, are estimated to receive the largest EV and

battery manufacturing investments as a percent of state GDP, ranging between 1.3% and 3.8%.

Continue reading.

Public Officials Pressured to Spend Billions on Sports Venues.

Professional sports teams are on the move and they're leaning on state and local officials to help them. Subsidies exceeding $1 billion per deal are on the table.

In Brief:

New stadiums and arenas are in the works in places including Kansas City, Philadelphia and Northern Virginia.

Elected officials are put in the position of mediating deals, with pressure not to lose marquee assets despite the cost to the public.

It's an open question whether there are real economic upsides to keeping a team that's already established in town.

This April, voters in Jackson County, Mo., will decide whether to extend a sales tax that has helped Kansas City's two biggest sports teams, the Chiefs and the Royals, build and maintain their stadiums.

Actually, it's not exactly an extension of the existing tax, which generates about $50 million a year for the sports complex shared by the teams. The Royals, currently playing in Kauffman Stadium, a stone's throw from the Chiefs' Arrowhead Stadium, want to build a new venue downtown. The tax revenue can only be spent at the existing location. So the Royals approached Jackson County officials and asked for a new deal. They wanted a proposal put on the April ballot, which would maintain the three-eighths-cent tax, but allow the revenue to be spent at a new stadium.

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governing.com

Feb. 20, 2024 • Jared Brey

More Taxpayer Money Benefits Pro Sports Owners Amid 'Stadium Construction Wave'

Research shows stadium and arena projects are poor public investments.

As sports stadiums built in the 1990s show their age, many professional sports teams are looking for new facilities — and public money to pay for them.

"We are just in the heating up phase of the next stadium construction wave," said J.C. Bradbury, a Kennesaw State University economics professor who has researched the issue. "That's part of the reason why you're seeing a lot more stadiums happen."

Across the country, pro sports teams are gearing up to improve or build new stadiums and arenas. In Chicago, both the NFL's Bears and the MLB's White Sox are exploring moves. Baseball's Cleveland Guardians, Milwaukee Brewers, Oakland Athletics and Kansas City Royals are all working toward new or improved stadiums. So are the NBA's Philadelphia 76ers, Oklahoma City Thunder and Los Angeles Clippers.

Continue reading.

STATELINE.ORG

BY: KEVIN HARDY – FEBRUARY 20, 2024

US Airports Get Nearly $1 Billion in Federal Funds for Makeovers.

- **Biden administration says $970 million will go to 114 airports**
- **Advocates say $151 billion investment needed through 2027**

More than 100 US airports will be awarded $970 million in federal grants, the latest effort to upgrade the nation's infrastructure — a top priority of President Joe Biden.

The new funding, announced Thursday, comes as airports in recent years have raced to modernize terminals and add new amenities, seeking to ride a rebound in air travel after the coronavirus pandemic. The latest round is on top of the nearly $2 billion granted to airports over the past two years for capital improvement projects that include wider concourses, adding extra gates to accommodate more plane service and ensuring airports meet Americans with Disabilities Act standards.

"America has been thinking a lot about air traffic lately," US Transportation Secretary Pete Buttigieg said on a call with reporters Wednesday. "A flight doesn't begin just when you settle into your seat on board. First, you're in the terminal and your experience depends in many ways on the conditions of that terminal building."

Continue reading.

Bloomberg Politics

By Skylar Woodhouse

February 15, 2024

The Stanford Professor Taking on Racism in the $4 Trillion Muni-Bond Market.

Historian Destin Jenkins studies how municipal bonds have contributed to inequality in American cities

The municipal-bond market is a sleepy corner of Wall Street that finances America's roads and sewers. It also features in the nation's history of racial inequality, and Destin Jenkins wants to show

you how.

People tend to think of munis—if they think of them at all—as the boring part of their investment portfolio, or the funding for the new school being built down the street. The bankers and bureaucrats involved in the day-to-day operations of the $4 trillion market for state and local debt tend to be more focused on yield curves than historical transgressions.

But the market has also, many argue, helped some Americans a lot more than others. Studies show that Black communities often pay more to borrow in the muni market. Jenkins's own research has found that white residents have benefited the most from some projects funded by citywide taxes.

Continue reading.

The Wall Street Journal

By Heather Gillers

Feb. 15, 2024

Finance and Climate Action: A Symbiotic Relationship Reshaping Urban Landscapes

Municipal finance plays a vital role in shaping urban responses to climate change. By integrating climate considerations into financial decisions, cities can build resilient and inclusive ecosystems.

View the BNN report.

bnnbreaking.com

by BNN Correspondents

16 Feb 2024

Take Advantage of These Muni ETFs Before Fed Cuts Rates.

The Federal Reserve standing pat on interest rates for the time being leaves the window open for fixed income investors to take advantage of current yields. That also includes muni bond exposure, but investors may want to take advantage before that proverbial window shuts.

An Institutional Investor article cited this opportunity in municipal bonds, highlighting the yield the debt is currently offering to the institutional space. Additionally, munis offer a higher degree of quality without taking on more credit risk versus, say, corporate debt, while still maintaining attractive yields. However, yields in the municipal bond market may not stay this appealing for long.

"Muni yields reached 4.72 percent in October — the highest they had been in more than a decade — and have since fallen to 3.91 percent," the article said. "Still, munis, for now, have relatively attractive yields."

As the article reiterated, “for now” speaks to the eventual rate cuts by a data-dependent Fed. Once the central bank gets its confirmation, rate cuts will shutter that opportunity window.

Continue reading.

ETFTRENDS.COM

by BEN HERNANDEZ

FEBRUARY 15, 2024

Seizing Opportunities in the Municipal Bond Market: Navigating Regulatory Changes and Evolving Investment Trends

The municipal bond market offers attractive yields and plays a crucial role in financing US public infrastructure. Investors should act before potential Fed rate cuts, while understanding the regulatory landscape and evolving investment strategies.

In the labyrinth of financial markets, the municipal bond market often gets overshadowed by its more glamorous counterparts. Yet, with yields reaching a notable 4.72 percent in October before settling at 3.91 percent, it’s clear why this segment is attracting the spotlight. Today, we delve into the opportunities within this market, emphasizing the urgency for investors to act before potential Federal Reserve rate cuts. Moreover, we’ll explore the implications of recent regulatory actions and the evolving landscape that could shape investment strategies in 2024.

A Glimpse into Today’s Market

The allure of municipal bonds lies not just in their attractive yields compared to corporate debt but also in their fundamental role in financing public infrastructure across the United States. Amid economic growth and inflation concerns, the municipal bond market has become a beacon for fixed income investors seeking refuge and profitability. The recent uptick in yields has cast a spotlight on muni-focused exchange-traded funds, such as the American Century Diversified Municipal Bond ETF and the Avantis Core Municipal Fixed Income ETF, offering retail investors a gateway to this market’s benefits.

Continue reading.

bnnbreaking.com

by Mahnoor Jehangir

15 Feb 2024

BlackRock: Muni Investors Rewarded by Patience To Start 2024

January update

- Municipal bonds posted negative total returns as the market reassessed macro expectations.

- Seasonal supply-and-demand dynamics were supportive, albeit less so than in prior years.
- We maintain some caution until absolute and relative valuations are more attractive.

Market overview

After posting the strongest performance since the mid1980s during the fourth quarter of 2023, municipal bonds took a breather in January. The asset class produced modestly negative total returns amid a macro-backdrop that generally unfolded as anticipated (see our 2024 Municipal Market Outlook). Economic growth remained firm and continued to eclipse projections, causing the market to reduce forward expectations for monetary policy easing, both in timing and in magnitude. As a result, the Treasury curve steepened with front-end rates falling and back-end rates rising. Given rich valuations, municipals modestly underperformed comparable Treasuries, and the S&P Municipal Bond Index returned -0.15%. Shorter-duration (i.e., less sensitive to interest rate changes) and single-A rated bonds performed best.

Continue reading.

by Team of BlackRock, 2/13/24

Investors Who Bet on Megacap Tech Stocks Should Consider Munis, Nuveen Says.

Saira Malik, chief investment officer of Nuveen, has a pitch for investors who have bet heavily on a group of tech megacap stocks called the Magnificent Seven: it's time to invest in US state and local debt.

"Investors with significant exposure to the Magnificent Seven may want to consider diversifying toward asset classes that were left behind in last year's broad rally, yet still offer attractive risk/reward profiles," Malik said in a note on Monday. "In our view, that calls for taking advantage of the opportunities in fixed income — municipal bonds in particular."

The group of tech stocks includes names like Alphabet Inc., Amazon.com Inc., and Apple Inc. Malik said those tech stocks are vulnerable to pullbacks given the run-up they've seen and the uncertainty around when the Federal Reserve will cut interest rates.

Continue reading.

Bloomberg Markets

By Amanda Albright

February 12, 2024

The Biggest Finance and Management Issues to Watch in 2024

State budgets are on track for modest growth even as federal fiscal recovery funds wane, pension underfunding persists and AI promises (or threatens) to change everything.

AI

Artificial intelligence has been around since the 1950s, but its sudden emergence as a consumer product and its potential to disrupt nearly every activity and industry has state lawmakers scrambling to address it. A dozen states have already enacted laws demanding agency research of AI and its use and consequences, while half the states have introduced bills to address its application both in government and the broader economy.

AI has incredible potential for handling data, automating repetitive tasks and generally making many functions easier for humans to handle. But lawmakers at this point are rushing to get ahead of possible downside risks. President Joe Biden issued an executive order laying out guidelines for "safe, secure and trustworthy use" of AI in October, while the European Union reached agreement on a sweeping set of policies last month.

Continue reading.

governing.com

by Jared Brey, Zina Hutton, Carl Smith

Feb. 8, 2024

Municipal Bonds for Private Projects Labeled as Green Stand Out as Risky.

- **Green bonds made up 45% of industrial development defaults**
- **The designation may signify 'some kind of credit infirmity'**

Municipal bond investors seeking higher returns from social or environmental do-good projects should be very wary.

That's according to Municipal Market Analytics. Industrial development bonds, which are sold by local and state governments to finance private projects like energy and recycling plants, carry more risk than other types of muni bonds. Moreover, those labeled green accounted for 45% of first-time payment defaults by IDB borrowers since 2021, a MMA analysis said.

"For investors, the implications are clear: spend more time underwriting and surveilling the credit profile of green-labeled IDBs," Matt Fabian and Lisa Washburn, analysts at MMA, wrote in a report. "Projects selling themselves as green may have been stretching to attract investors, potentially signifying some kind of credit infirmity or other liquidity/structural challenges."

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

February 6, 2024

Fitch Ratings Publishes State Revolving Fund and Municipal Finance Pool Program 2024 Peer Review.

Fitch Ratings-New York/Austin-12 February 2024: Fitch Ratings has published its "Peer Review of State Revolving Fund and Municipal Finance Pool Programs – 2024." All but one of the state revolving funds and municipal finance pool programs in the Fitch-rated portfolio are rated 'AAA', according to Fitch's report. The sector's high credit quality reflects the programs' robust financial structures and sound credit quality of the underlying pool participants.

The overall median Program Asset Strength Ratio (PASR), a measure of financial strength for the sector, was 2.2x in 2023, which is incrementally higher than the historical range of 1.8x-2.1x registered since 2014. The PASR, an asset-to-liability ratio, is calculated by dividing the amount of aggregate pledged assets, including scheduled obligor repayments, reserve funds and account earnings, by aggregate outstanding debt service. Pool quality also remains stable and sound, with a median level of investment-grade or higher entities of 77% across all included programs.

For more information, Fitch's "Peer Review of State Revolving Fund and Municipal Finance Pool Programs – 2024" is available at www.fitchratings.com.

Fitch: U.S. Public Pensions Highly Vulnerable to Market Correction

Fitch Ratings-New York-05 February 2024: Investment volatility has re-emerged as a key concern for defined benefit public pension plans since the pandemic began, signalling the risk that market corrections can set back progress in stabilizing funded ratios and trigger higher contributions, Fitch Ratings says.

Asset values surged in 2021 followed by sharp reversal in 2022 and a rebound in 2023. Based on audits of almost 100 major state pension plans, fiduciary plan assets rose a median of 24.4% in fiscal 2021, then fell 7% yoy in fiscal 2022. For major plans reporting fiscal 2023 audits to date, fiduciary plan assets are showing modest gains, near or just below the average investment return assumption (IRA) of about 6.9%.

While fiscal 2021 market returns were remarkably positive, recent market gyrations underscore the vulnerability of pensions to market shocks. We do not anticipate a market downturn similar to the Global Financial Crisis (GFC), when average returns fell 7.7% in 2008 and 17.9% in 2009, but a severe market correction would pressure funded ratios and require plans and governments to once again correct course to stabilize plans.

Since the GFC, plans and their sponsors have taken broad actions to improve pension sustainability. Most notable has been reducing the IRA, which now averages less than 6.9% compared with 8% during the GFC; Fitch views lower IRAs and the resulting higher liabilities as better reflecting the magnitude of the burden posed by pension commitments. Other plan changes include trimming benefits for new hires, shifting to more conservative mortality assumptions, tightening amortization practices and raising target contributions. Plan sponsors have also improved their contribution practices, with 36 states paying at least 100% of actuarial contributions in fiscal 2022, up from 25 in fiscal 2016. Nevertheless, to the extent that actual plan experience does not match expectations, governments need to make up the difference via higher future contributions, reducing expenditure flexibility and pressuring local and state budgets.

Pensions have also ramped up risk disclosure, including the risk of future market shock. For example, CalPERS, the largest public system, which provides pensions to the state and most local employers through hundreds of plans in its Public Employees Retirement Fund (PERF), has been a leader in risk disclosure through its Annual Review of Funding Levels and Risks report. The 2023 report, published last November, calculates the probability of its plans falling below 50% funded ratios at some point in the next 30 years, with the median probability at 22.8% for its miscellaneous plans (covering general employees), and 25.3% for its public safety plans.

Significant pension asset performance below target levels ultimately requires ongoing higher contributions by participating governments, and CalPERS already acknowledges that some "are under significant strain" in meeting this objective; CalPERS participants have no meaningful discretion to underpay. Current employer contribution rates as a percentage of payroll are sizable, and could go higher still; the average fiscal 2024 contribution rates are 26.4% for miscellaneous plans and 51.3% for public safety plans. These rates are forecast to rise by fiscal 2029 to an average of 31.1% and 62.6%, respectively.

Since the GFC, CalPERS and the state have taken substantial steps to mitigate pension risks, including reducing benefits for recent hires and lowering discount rates. The PERF funded ratio is estimated at 72% as of June 30, 2023 based on a 6.8% IRA, compared with 69.8% a decade ago, when the IRA was 7.5%. Assuming future experience matches current assumptions, including consistent 6.8% returns, CalPERS estimates a 15%-20% funded ratio increase over 10 years.

Fitch: Medicare Advantage Challenges Credit Neutral for U.S. Health Care Industry

Fitch Ratings-New York/Chicago/Austin-07 February 2024: Recent instability in Medicare Advantage (MA), driven by a convergence of program adjustments and an unexpected increase in utilization, has muddled the outlook for the program, but is expected to be largely credit-neutral for most rated health insurers and healthcare providers, Fitch Ratings says.

Some of the disruption in MA reflects renewed efforts by the Centers for Medicare and Medicaid Services (CMS) to rein in the rate of growth in expenditures for the Medicare program while attempting to maintain stable coverage for U.S. seniors. The recent tightening within the program follows a moderate relaxation of funding constraints during the pandemic to deal with morbidity associated with Covid-19 infections.

For U.S. health insurers, weaker payment rates combined with changes in the Star Ratings program and the risk adjustment model are increasing complexity in benefit offerings and pricing decisions. An increase in utilization beginning in 2023, driven in large part by the return of elective procedures that were deferred during the pandemic, has placed upward pressure on medical loss ratios for the MA business, and new rules around prior authorizations will likely further increase costs. The adverse effect of this elevated utilization has been most pronounced for insurers with high proportional exposure to MA business.

Fitch-rated health insurers generally have sufficient ratings headroom to withstand higher MA utilization rates, with broader medical loss ratios remaining within ratings expectations for most insurers. We expect stability to return to the business over the next 12 to 18 months as the higher utilization and hangover effects from the pandemic normalize and carriers adjust to administrative changes in the program.

While these developments appear to be placing downward pressure on MA margins for insurers, the popularity of such programs may promote a modest positive in terms of volume for some provider systems. For-profit health systems in particular benefitted in 2023 from above-average same-facility volume growth, including an upturn in inpatient volumes, which have experienced headwinds in recent years from outmigration of lower-complexity surgical procedures to outpatient settings, including ambulatory surgery centers.

The aforementioned increase in Medicare Advantage patient volumes has played a key role in the overall volume upturn, which helped stabilize provider margins and operating performance generally after a challenging 2022. During 2022, pandemic-constrained labor availability posed headwinds to both volumes and compensation costs, the latter including high temporary labor costs that notably receded over the course of 2023.

Despite the positive volume aspect of increased utilization for provider systems, however, there appears to be a growing trend, particularly among some not-for-profit providers, to exit network contracts with some MA insurers. Reasons often cited by the systems include administrative challenges, slow payments and denial of prior authorizations for care.

MA business is more exposed to federal government intervention and oversight relative to commercial business. It typically generates moderately lower EBITDA-based margins for health insurers relative to commercial membership, although absolute earnings per member are generally higher. In 2023, 30.8 million people were enrolled in MA, or 51% of the eligible Medicare population, and accounted for $454 billion (or 54%) of total federal Medicare spending, according to the Kaiser Foundation. UnitedHealthcare and Humana comprise nearly half (47%) of all Medicare Advantage enrollees nationwide.

The MA business will continue to be an important focus of U.S. health insurers, despite the current modest disruption. As the U.S. population continues to age, resulting in new beneficiaries eligible for the program, Medicare Advantage will continue to be a strong source of revenue growth for health insurers and healthcare providers in the coming years.

Charter-School Stress Breaks Record With Pandemic Aid Ending.

- **Fifty-five charter schools are actively impaired on debt**
- **Gauge of high-yield education debt has slumped this year**

The number of distressed charter schools rose to a record in the beginning of 2024 as the sector struggles with the end of pandemic assistance and rising costs.

So far this year, five charter schools have become impaired, meaning a borrower has defaulted on their debt, broken a covenant or used some emergency means to make a payment. The impairments bring the total to 55 schools, according to a report by Municipal Market Analytics, a record that eclipsed the previous peak set during the early months of the pandemic in 2020.

Charter schools, which are privately run and publicly funded, have grown in popularity since the pandemic as some families sought alternatives to traditional public education. The number of public charter schools in the US increased by nearly 50% between 2011 and 2021, according to the National Center for Education Statistics. That growth has ramped up competition between schools for students, with shrinking class populations having the most-painful impact on smaller schools with thinner margins.

Continue reading.

Bloomberg Markets

By Melina Chalkia and Nic Querolo

February 9, 2024

Machine-Learning Model Tracks Trends in Public Finance Research.

ATLANTA — What are the leading topics in public finance and budgeting, how have they changed, and what future topics should be more closely researched by professionals and practitioners? Can Chen and two of his former doctoral students, Shiyang Xiao at Syracuse University and Boyuan Zhao at Florida International University, used a machine-learning technique — structural topic modeling (STM) — to identify these themes and their dynamics over the past 40 years for an article recently published in the Journal of Public Budgeting & Finance (PB&F).

Using the STM, Chen and his colleagues identified 15 latent topics in the areas of public budgeting, public finance and public financial management from the titles and abstracts of 1,028 articles published in the journal from 1981 to 2020. They compared these topics against those covered by standard exams for Certified Public Finance Officers (CPFO) and found much overlap. However, some topics that were mentioned less often may hint at some underexplored research agendas in PB&F.

Chen, an associate professor of public management and policy in the Andrew Young School of Policy Studies, directs the college's Ph.D. programs in public policy. After presenting this research at the Next Generation Public Finance conference hosted by Georgia State University, he received helpful feedback and comments he gratefully acknowledges. In the Q&A that follows, Chen reveals more about the journal, the findings and his motivation for conducting the study with his colleagues.

Continue reading.

Georgia State University

by Can Chen

FEBRUARY 12, 2024

Who Will Fill the Void Left by Citi's Exit From the Muni Bond Business?

The bank was a tech-savvy leader in underwriting and market making.

In December, Citigroup made what for decades would have been an unthinkable announcement. It was closing its municipal bond underwriting and trading business, one of the most prominent in the $4 trillion market.

The shuttering currently underway is part of Citi's restructuring, which has already eliminated 20,000 jobs. Citi was a go-to partner for local governments seeking advice and help raising debt

capital, and its trading operation was one of the biggest. UBS also exited the muni market in 2023, but Citi's absence will create a more significant void.

Who will fill that space is uncertain. But James Morris, senior vice president at Investortools, a popular software suite in the muni market, has some expectations. Morris is a fixture in the market and his perspective includes more than 20 years of working with broker-dealers and institutional investors active in munis.

Continue reading.

Institutional Investor

by Michael Thrasher

February 5, 2024

Who Should Be in Charge of Protecting Our Water Systems from Cyber Threats?

Federal officials don't agree. Recent hacks on water systems exposed their vulnerabilities. But while some want the EPA to play a stronger role, others emphasized that local systems are best suited to defend themselves.

Who should ensure our critical water infrastructure is protected from cyberattacks? The water systems themselves? Or the Environmental Protection Agency?

A hearing last week before the House Energy and Commerce subcommittee showed there is little agreement on what role the federal government should play, if any. But the hearing did highlight the ongoing vulnerabilities in the sector.

It followed a November attack on the Municipal Water Authority of Aliquippa in Pennsylvania, which had its water management system breached by the Iran-linked Cyber Av3ngers gang. The attack prompted calls for a federal investigation into the attack, as lawmakers said Congress must act to bolster cybersecurity protections for a sector that is often underfunded, understaffed and wrestling with aging technology.

Continue reading.

Route Fifty

By Chris Teale | FEBRUARY 5, 2024

Office Buildings Remain Half Empty But US Cities Can Shrug It Off.

- **Occupancy has hovered near 50% since January 2023: Kastle**
- **S&P sees 'stable credit picture' for most major US cities**

Four years after Covid-19 filled hospital emergency rooms, closed schools and emptied out cities, US

offices remain about half vacant.

Office occupancy in 10 of the largest US metropolitan areas rose to a new high of 53% for the week ended Jan. 31, according to Kastle Systems, a firm that provides security to buildings. The firm's barometer on how corporate return-to-office policies is going has been hovering around that level for 13 months. Yet, cities are shrugging off empty offices and its implications for the commercial real estate market because they can, for now.

"Commercial real estate is not a key driver of general fund revenues for the majority of local governments," said Michael Rinaldi, head of US local governments at Fitch Ratings, in an email. "Declines can be managed through careful expenditure management and/or stability in other revenue sources, including residential property taxes, sales tax, utility taxes, etc."

Continue reading.

Bloomberg CityLab

By Joseph Mysak Jr

February 9, 2024

What Makes a Top Performing City?

The tech and hospitality industries drive sustainable economic performance, but broadband access, affordability and resilience also play key roles, according to the Milken Institute.

The Milken Institute today released the latest edition of its Best Performing Cities Index, a report that ranks hundreds of metropolitan areas on economic performance. The Austin, Texas, area ranked No. 1 among large cities for the first time since 2013, ending the three-year reign of Provo, Utah.

Idaho Falls, Idaho, was top among small cities, performing well across nearly all metrics. In addition to a strong and diverse job market, the city also has low rates of income inequality, meaning there's a relatively small difference between the highest and lowest earners' incomes.

Researchers studied more than 400 metropolitan areas and compared 13 metrics across three broad categories: labor market performance, tech industry impacts and access to economic opportunities.

Continue reading.

Route Fifty

By Molly Bolan | FEBRUARY 6, 2024

S&P 2024 Outlook For U.S. Public Finance: A Mixed Credit Picture

Key Takeaways

- We expect credit stability across most of U.S. public finance in 2024. Some sectors are facing credit pressure and their challenges are detailed in our 2024 sector outlook publications.
- Although recession risk has moderated, higher interest rates and inflation, coupled with expected slower economic growth this year, will create headwinds from a credit perspective.
- Proactive management and governance are key to credit stability, given the broad range of risks facing governments and not-for-profit entities, such as extreme weather events, cyber attacks, demographic shifts, labor force imbalance, federal policy uncertainty, and workplace trends.

Continue reading.

2 Feb, 2024

S&P: Five U.S. Public Pension And OPEB Points To Watch In 2024

Key Takeaways

- We expect U.S. public pension funded ratios will improve in fiscal 2024 due to positive market results in the first half.
- U.S. public pensions face growing risks because discount rates used to measure the funded ratio are based on increasingly diverse and opaque asset allocations.
- Inflation affects many pension factors, and the Consumer Price Index (CPI) has crossed below long-term rates.
- Pension obligation bond (POB) issuance could make a comeback, although not until rates fall further.
- An aging population exacerbates contribution risk stemming from market volatility.

Continue reading.

29 Jan, 2024

The War on 'Woke Capital' Is Backfiring.

Republicans want to outlaw state investment in funds they see as tainted by progressive ideology. They'll probably just get lower returns.

One of the stranger political crusades of the past few years has been the Republican war on so-called woke capital, which has led GOP politicians across the country to adopt a kind of anti-corporate, pro-regulatory rhetoric that one normally associates with the left wing of the Democratic Party. And among the GOP's favorite targets in this war has been ESG investing—investment funds that take "environmental, social, and governance" considerations into account.

For Republicans, ESG funds are a Trojan horse, designed to smuggle progressive attitudes toward climate change, and diversity and inclusion, into executive suites and corporate boardrooms, all under the guise of supposedly improving investment returns. And so, in red states, state treasurers have pulled public money out of firms that are associated with ESG, including even some of the world's biggest investment firms, such as BlackRock and State Street.

On top of that, Republican legislatures in at least 20 states have adopted anti-ESG rules of one sort or another. Last year, after the Biden administration revised a Trump-era rule to make clear that pension-fund managers *could* use ESG if it did not hurt investment returns, Republicans in the House and Senate (along with two Senate Democrats) passed a resolution seeking to repeal the rule. And a coalition of Republican state attorneys general filed suit in federal court to have the rule overturned. (Biden vetoed the congressional resolution, and a district court tossed out the lawsuit, so the rule remains in effect.)

Continue reading.

The Atlantic

By James Surowiecki

JANUARY 31, 2024

State Fiscal Debates to Watch in 2024: ESG Investing

States differ on the benefits, risks of environmental, social, and governance investment strategies

Environmental, social, and governance (ESG) investment strategies continue to gain popularity among investors and financial institutions, but with their rising prominence has come a growing divide in state attitudes about the ESG approach. ESG approaches consider the impacts that various investments have on people and the planet. They also can illuminate material risks and opportunities—such as a company's record on employee relations or compliance with environmental regulations—that should be considered as part of any financial decision-making.

In recent years, four states—Colorado, Illinois, Maine, and Maryland—enacted legislation encouraging public pension funds to include ESG factors in investment decisions, while in 2023 alone, 14 states adopted laws discouraging ESG considerations or banning ties to financial companies that do so. Most of this state legislation has focused on public pension investments, although some bills have encompassed other aspects of government finance, including banking, contracts, and borrowing.

Moreover, several states that have proposed but not passed ESG-related legislation—such as Arizona and Missouri—have introduced bills again in 2024. And lawmakers in California are still considering legislation that would require the state's pension systems to divest from fossil fuels by July 2031.

Continue reading.

The Pew Charitable Trusts

By: Liz Farmer

January 31, 2024

Fitch: Summa Health Acquisition an 'Unusual' Litmus Test for U.S. NFP Hospitals.

Fitch Ratings-Austin-31 January 2024: Summa Health's announcement that it will be acquired by General Catalyst's Health Assurance Transformation Corporation (HATCo) and converted into a for-profit organization adds an unusual wrinkle to what Fitch Ratings has already deemed another make or break year in 2024 for U.S. not-for-profit (NFP) hospitals.

The acquisition by HATCo is expected to be completed by the end of the year, once due diligence and a definitive agreement are finalized over the next several months. How it ultimately fares for Summa and how it potentially shapes the NFP hospital sector remain to be seen.

Day to day operations should not look much different for Summa, which remains the market leader in its Northeast Ohio service area. Though leverage is elevated, Summa's balance sheet remains adequate to cushion against operating margins that are expected to be breakeven or better in FY24, which led Fitch to affirm its ratings and Stable Rating Outlook for Summa Health last June.

Summa, like many of its peers, is struggling with containing higher labor expenses and the need to use expensive agency nurses and other personnel to maintain staffing levels in support of rebounding patient volumes post-pandemic. The HATCo acquisition should not alter the staffing picture dramatically for Summa.

Summa's planned conversion into a for-profit organization sheds more light on the longer-term transformation taking place within health care, (i.e., operating as efficiently as possible while improving patient access and patient care, and making more and better use of technology). Some of these things are being done as vendor/customer relationships and some through alignment/partnerships. This is a move that is likely to draw some regulatory scrutiny. That said, private equity purchasing NFP hospitals could proliferate over time, if Summa/HATCo proves to be successful.

Fitch will closely monitor the planned Summa/HATCo merger and share its perspective with the market as developments evolve.

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Fitch: Operating Margins Reset a Potential 'Pain Point' for U.S. NFP Hospitals

Fitch Ratings-Chicago/Austin-29 January 2024: The long-time ideal range for healthy operating margins is in danger of a permanent reset for U.S. NFP hospitals, according to Fitch Ratings in a new 2024 outlook report.

A question that has become top-of-mind among investors of late is whether operating margins resetting in the 1%-2% range (instead of 3%+) will lead to widespread downgrades. According to sector head Kevin Holloran, "Hospital downgrades en masse would be unlikely because many systems have built up robust balance sheets and learned to economize on capital spending to a certain degree."

Fitch does not view this scenario as a "sector-ending incident", but rather a "pain point" that each provider must balance against their respective liquidity cushions. That said, hospital-specific declines are a real possibility if they can't afford to defer capital longer and operations never improve. Of particular concern is the year 2030, according to Holloran. "The final 'Baby Boomer' generation will reach age 65, which will potentially pose the scenario of a smaller workforce serving a larger population in need of heightened care," said Holloran.

Another lingering question that still generates much attention revolves around days' cash on hand (DCOH), specifically whether 200 days-250 days may be too high given the sector's lofty struggles. With DCOH coming in at above 200 days nine of the last 10 years and the overall median being 216 days based on 2022 financials, the answer appears to be "no". However, DCOH will improve very little despite better profitability and inherent gains on investments.

Fitch's report, "What Investors Want to Know: Not-for-Profit Hospital and Health System 2024 Outlook", is available at www.fitchratings.com.

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S&P U.S. Municipal Water And Sewer Utilities Rating Actions, Fourth-Quarter 2023

Overview

S&P Global Ratings took 26 rating actions, made eight outlook revisions, and made one CreditWatch placement in the U.S. municipal water and sewer utilities sector in the fourth quarter of 2023. We affirmed 44 ratings with no outlook revisions and placed one rating on CreditWatch with negative implications.

Positive rating actions exceeded negative actions, with 12 upgrades compared to four downgrades in the quarter. We assigned a negative outlook to three ratings, outweighing the two outlooks revised

to positive, and also returned three outlooks to stable.

New ratings declined against third-quarter 2023 and also trended below the same period last year. Rating movement slightly increased compared to third-quarter 2023, reaching a peak for the year, but movement is generally down from the same period in 2022.

Continue reading.

31 Jan, 2024

Game Planning 2024 Muniland Election Impacts: Masters of the Muniverse - Bloomberg Podcast

With the election year well on its way, peak partisanship and geopolitical volatility may mean raised threats to Muniland. While election years in the past have returned more wins than losses for Munis, macro issues will continue to be a hurdle. To discuss these possible threats and the latest federal income tax developments, we have Bloomberg Intelligence's very own tax policy expert, Andrew Silverman, joining Bloomberg Intelligence's Eric Kazatsky and co-host Karen Altamirano.

Listen to Podcast.

Bloomberg

Jan 30, 2024

Municipal-Bond Investors Chase Returns Ahead of Fed Rate Cuts.

- **Muni funds receive $1.5 billion in week ended Jan. 31: Lipper**
- **'Rally has probably left some people with FOMO': Belle Haven**

Investors are rushing back to the municipal-bond market after many spurned it over the past two years.

Capital poured back into muni-bond funds for the fifth-straight week with weekly inflows reaching a two-year high of $1.5 billion, according to LSEG Lipper Global Fund Flows data through Jan. 31. After dumping more than $120 billion over the last two years, skittish investors have been lured back to the market to get higher yields ahead of interest rate cuts from the US central bank. Parametric Portfolio Associates and Bank of America Corp. are among those forecasting positive flows for this year.

Continue reading.

Bloomberg Markets

By Shruti Singh and Nic Querolo

February 2, 2024

Municipal-Bond Sales Surge in January as Issuers Take Advantage of Rate Stability.

- **Boom in new issuance dulled usual ‘January Effect’ performance**
- **More than $30 billion in cash looks for a new home in February**

This was the busiest January for municipal bond sales in almost a decade, and analysts predict that states and localities will keep up the pace, taking advantage of lower borrowing costs and strong investor demand.

Issuers sold $31.8 billion in municipal bonds, the largest amount since January of 2017, when they sold $34.4 billion, according to data compiled by Bloomberg. January is usually one of the slowest months for municipal bond sales: Over the past decade, the average for the month has been $25 billion.

The surge in sales followed a tepid December, when state and local governments sold $22.5 billion in debt, well below $29 billion, the average for the month over the past decade. This, along with a powerful rally in November when municipals gained 6.35% — their best single month since August 1982, according to the Bloomberg Municipal Bond Index — reversed the usual “January Effect.” This is when scarce supply and demand, fueled by cash being returned to investors in the form of maturing and called bonds, typically boosts performance. Municipals posted a loss in January of 0.51%.

Continue reading.

Bloomberg Markets

By Joseph Mysak Jr

February 1, 2024

For Muni Investors, It's Been a Dry January: Bloomberg

- **Performance sinks after November’s best gains in 40 years**
- **Bond buyers look for higher yields on new year issuance surge**

For municipal-bond performance, its been an undeniably Dry January.

So far this month, municipals posted a loss of 1.05% after closing 2023 with back-to-back months that lifted the entire year, according to data compiled by Bloomberg. Typically, munis post solid gains in January, registering a negative performance only in the Januarys of 2018 and 2022.

“I think that 2024 started last November when investors came in to snap up the much higher yields,” said Pat Luby, a municipal strategist at CreditSights Inc.

Continue reading.

Bloomberg Markets

By Joseph Mysak Jr

January 30, 2024

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Continue reading.

Bloomberg Markets

By Shruti Singh and Nic Querolo

February 2, 2024

Vanguard Launches 2 Municipal Bond ETFs.

Vanguard is launching 2 new ETFs giving investors exposure to the municipal bond market. The Vanguard Intermediate-Term Tax-Exempt Bond ETF (VTEI) and the Vanguard California Tax-Exempt Bond ETF (VTEC) launched on the CBOE BZX Exchange and are designed to offer targeted exposure to certain segments of the muni market with an emphasis on quality and yield.

Both also have low expense ratios of 0.08%, making them among the least costly within the muni fixed income category. The intermediate-focused, tax-exempt ETF is particularly timely given expectations that interest rates will decline in 2024 due to a dovish Fed and weakening economic outlook. Thus, many investors are looking to lock in yields at these levels by moving out from the short-end into the intermediate and longer-end of the curve.

In addition to quality and generous yields, municipal bonds also have tax benefits. While VTEI is designed to appeal to a wider swathe of investors, VTEC is for investors who want exposure to California municipal debt. The yield generated from this ETF is tax exempt at the federal and state level for California residents while also prioritizing credit quality.

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

February 01, 2024

Experience Benefits of Municipal Bonds That Extend Beyond Yield.

As the rate-hiking cycle appears to be over, the high yields that fixed income investors have been experiencing could also be ending. That said, assets like municipal bonds can offer investors benefits that extend beyond yield.

According to a recent Barron's article, investment strategists in particular "like the safety of the asset class and are finding different ways to squeeze a bit more juice from the lemon." They also lauded munis for the tax benefits that they offer, noting they "look even better for individuals in a top bracket in a high-tax state, where that 3.5% is the equivalent of a 6% taxable yield."

Additionally, the macroeconomic environment is conducive to munis as the Fed tries to ensure that it hikes rates enough to keep pace with inflation and subsequently cut when economic growth starts to dissipate, but not to the point where it causes a recession. Additionally, rate cuts may have already been priced into stocks, making them potentially overvalued relative to other assets like municipal bonds. A confluence of those factors makes the muni yield even that more attractive.

Continue reading.

Written by editorial@vettafi.com (ETF Trends) for ETF Trends ->

February 01, 2024

The Increasing Importance of Cybersecurity Readiness in the Municipal Bond Market: How Public Institutions Can Respond

In today's evolving world of security and data privacy, K-12 schools, universities, local governments, and hospitals are increasingly finding themselves on the same list: vulnerable to the threat of a cyberattack.

Bad actors look at these institutions as a treasure trove of data, from structured information taking a standard form like names and addresses to unstructured information like how a student is behaving in class or how a patient is coping with a diagnosis. And with the COVID-19 pandemic forcing these same institutions to use more and varied technology, the door to increased cyberattacks has crept more and more open.

The bond market has taken note, increasingly including disclosures about the impacts of cybersecurity incidents and compliance in public offering documents.

Continue reading.

January 24, 2024

Parker Poe Adams & Bernstein LLP

Overview Of Methodology For Rating U.S. Governments Request For Comment: S&P Slides

On Jan. 11, 2024, S&P Global Ratings published a request for comment on its proposed Methodology For Rating U.S. Governments. The proposal would consolidate criteria to analyze credit risks of U.S. governments using one comprehensive scored framework. We believe bringing government entities under the same analytic framework increases transparency of our methodology, improves consistency and alignment of ratings across these government types, and enhances global comparability.

Download

Travel Rebound That Rewarded Airport Bondholders to Lift Sales.

- **Airport bond issuance seen rising to $21 billion this year**
- **'Sector's days of playing defense are effectively over': Fitch**

Travelers returned to US airports in droves last year, contributing to a pick-up in plans to renovate and build new facilities.

The rebound in passenger traffic to levels not seen since before the pandemic has airports moving ahead with capital improvement projects and turning to the municipal bond market for funds. It also has delivered substantial returns to airport bondholders.

"Though there are still some future challenges to navigate, the sector's days of playing defense are effectively over," said Seth Lehman, a senior director at Fitch Ratings Inc. Airports are "now focusing more squarely on increased capital spending to meet current and future demand, both of which are trending much more positively."

Continue reading.

Bloomberg Markets

By Nic Querolo and Shruti Singh

January 25, 2024

S&P U.S. Higher Education Rating Actions, 2023

View the S&P Rating Actions.

23 Jan, 2024

S&P U.S. Public Finance Housing Outlook 2024: A Stable Foundation Despite

Emerging Risks And Slower Economic Growth

Sector View: Stable

Most affordable housing owners, operators, and lenders are well positioned to absorb emerging risks and slower economic growth. The most vulnerable affordable housing transactions in our rated universe are those secured by properties with no enhancement or federal support that may not cover higher operating costs that we expect to persist in the near term. Beyond 2024, the results of the fall election could reduce federal funding and affordable housing legislation initiatives, though housing has generally received broad bipartisan support through various political cycles.

Continue reading.

24 Jan, 2024

S&P U.S. Public Power And Electric Cooperative Utilities 2024 Outlook: Mandates, Rising Costs, And Diminishing Affordability

Sector View: Negative

The financial performance of, and ratings on, U.S. public power and electric cooperative utilities could weaken in 2024, owing to a confluence of inflation, reduced consumer wherewithal to pay utility bills, the sensitivity of rate-setting bodies to economic conditions, and a developing trend of weakening financial margins. Exacerbating inflation-related affordability pressures are legislative and regulatory mandates that S&P Global Ratings expects will trigger substantial utility spending on clean generation resources and generation additions needed to support load growth from electrification directives. However, utilities could maintain credit quality if they're able to recover costs in a timely manner and at levels sufficient to preserve sound financial margins–commensurate with our existing ratings.

Continue reading.

23 Jan, 2024

S&P U.S. Public Finance Housing Rating Actions, Fourth-Quarter 2023

View the S&P Rating Actions.

22 Jan, 2024

Fitch: U.S. Airports Come Full Circle

Fitch Ratings-New York-23 January 2024: The long, arduous return to pre-pandemic normal appears complete for U.S. airports, according to Fitch Ratings in its latest peer review for the sector.

Since its last peer review, Fitch upgraded seven airports and revised the Outlook to Positive from Stable for 13 airport sector ratings. “Airports’ enplanement recoveries and effective budgetary management have led to sustained strengthened financial metrics that are no longer dependent on prior receipt of federal grant awards,” said Senior Director Seth Lehman.

Among the notable rating upgrades include Chicago O’Hare, New York’s JFK, Houston, Las Vegas and Miami. This represents a stark contrast to the height of the pandemic when airports were forced to lean heavily on federal relief funds while reducing operating costs. Further signs of the sector’s turnaround are in fiscal 2022 performance, which for most airports to be much less impacted by the pandemic environment.

“Though there are still some future challenges to navigate, the sector’s days of playing defense are effectively over with airports now focusing more squarely on increased capital spending to meet current and future demand, both of which are trending much more positively,” said Lehman.

Fitch’s latest “Peer Review of U.S. Airports” is available at ‘www.fitchratings.com’

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Additional information is available on www.fitchratings.com

Congress Can Improve School Finance Transparency.

As state legislative sessions open across the country, lawmakers are considering bills giving parents greater control over their children’s share of public school spending, following historic progress last year. But teachers unions and other opponents of education choice programs will likely leverage public misunderstanding about public school finances to oppose giving parents options beyond their children’s assigned public school. Correcting that misunderstanding should be a priority for school choice advocates in the new year.

Recent polling by EdChoice makes clear the extent of public misunderstanding and the importance of showing parents how public schools are financed. Summarizing the poll results, EdChoice researcher Colyn Ritter writes, “More than half of Americans say public school funding is too low — until they are shown how much schools actually spent.” Americans estimate that public schools spend about $5,000 per student, but actual national average per-pupil expenditure is nearly three times as much: roughly $14,000.

Continue reading.

THE HILL

BY DAN LIPS AND ROBERT BELLAFIORE

01/24/24

How to Squeeze More Yield From Muni Bonds.

Considering investing in municipal bonds for tax-free income? Let's start with the bad news: The main muni index, tracked by the iShares National Muni Bond exchange-traded fund, yields just 3.1% right now, or 4.3% on an after-tax basis for those in the 28% federal tax bracket. Compare that to a 5% yield in a money-market fund.

Not that enticing, right? That's what *Barron's* concluded in its review of the best income investments for 2024.

Still, plenty of investment strategists like the safety of the asset class and are finding different ways to squeeze a bit more juice from the lemon. Munis look even better for individuals in a top bracket in a high-tax state, where that 3.5% is the equivalent of a 6% taxable yield.

Continue reading.

Barron's

By Amey Stone

Jan 25, 2024,

Active Management Will Drive Muni Returns in 2024

BlackRock's muni bond experts share their market outlook

After initial optimism at the start of 2023 spurred strong performance, munis subsequently struggled as the Fed continued its tightening policy, raising fed fund rates to 5.25%−5.50%, before pausing in September. The 10-year U.S. Treasury yield sold off, peaking at 5% in mid-October, and the Bloomberg Muni Bond Index was down by 2.30% on a year-to-date basis by late October.

However, falling inflation, weakening economic growth, and the prolonged Fed pause led to more dovish expectations for monetary policy — causing a strong interest rate rally into year-end (i.e., rates decline and prices increase). As a result, munis rallied sharply, with the Bloomberg Muni Bond Index posting a total return of 8.67% in November and December, bringing the full-year total return to 6.40%. Favorable technicals, backed by strong fundamentals, were key drivers of muni outperformance and pushed relative valuations to extremely rich levels by year-end.

Continue reading.

advisorperspectives.com

by Peter Hayes, Sean Carney of BlackRock, 1/24/24

A Muni Giant Exits the Field. What It Means for the $4 Trillion Market.

State and local governments have long relied on muni market heavyweight

When bankrupt Jefferson County, Ala., needed to find buyers for a new bond sale, Citigroup was there. When Detroit tiptoed back to market after haircutting bondholders, Citi C 2.56%increase; green up pointing triangle was there. When the board overseeing Puerto Rico's debt restructuring wanted advice, Citi was there.

Now municipalities will need to look elsewhere in good times and bad. Citi is exiting the $4 trillion market early this year after a quarter-century as a top trader of U.S. state and local government debt.

Citi is amid an overhaul, and munis are one of the businesses on the chopping block. Other changes include eliminating 20,000 jobs, curtailing overseas consumer business and exiting the market for distressed debt. The bank is trying to put its money to work in places where it has an edge and can get the best returns, said Howard Mason, an analyst with Renaissance Macro Research. "It wasn't as if they were picking on the muni market."

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan. 21, 2024

A Senate Committee Is Pondering Climate Risks to Towns' Credit.

Muni bond investors have so far been able to downplay climate change risks to state and local government creditworthiness, a bond research firm president told a Senate committee at a hearing Wednesday.

Tom Doe, president of Municipal Market Analytics, said at a hearing of the Senate Committee on the Budget—titled "Safeguarding Municipal Bonds from Climate Risk"—that the possibility of damage resulting from climate change has had little impact on state and local government bond prices.

That's for two reasons, Doe said: Disaster aid from the federal emergency management agency has helped communities rebuild; and ratings firms judging those communities' creditworthiness only look into the near future.

The committee also heard from a data scientist who helped develop a program recently acquired by Intercontinental Exchange Inc. for predicting the likelihood of natural disasters hitting specific towns, and a Columbus, Ohio, finance official who recommended creating a federal office to help municipal governments prepare for climate change.

Not everyone seemed convinced of a need for action. Sen. Chuck Grassley, an Iowa Republican, said at the hearing that he was more concerned about municipalities' reliance on federal funding. Matthew Kahn, a professor of economics and spatial sciences at the University of Southern

California, testified that pension obligations and suburban flight are bigger risks to municipal credit.

The Wall Street Journal

By Heather Gillers

Hospitals Are Back to the Muni Market With Labor Costs Easing.

- **Borrowing this month far outpaces all of last January**
- **Pent-up need for upgrades drives issuance as finances improve**

Hospitals are returning to the municipal-bond market as they aim to pivot from survival to revival.

So far this year, hospitals are tapping the market with more than $1.7 billion to expand and upgrade facilities, according to data compiled by Bloomberg as of Jan. 12. That figure outpaces $390.7 million of issuance by hospitals last January.

It's cheaper to tap the muni market at the moment, with the yield on the 10-year AAA benchmark down 127 basis points since Nov. 1. Financial pressures on hospitals have also started to ease. Staffing costs — by far their heftiest expense — have steadied and operating margins have been improving.

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

January 12, 2024

Fitch: Clear Path to Sustained Growth for U.S. Toll Roads

Fitch Ratings-New York-17 January 2024: U.S. toll roads are on a positive trajectory according to Fitch Ratings in its latest peer review for the sector.

Since its previous peer review, Fitch took nine positive rating actions on its rated U.S. toll roads and revised the Rating Outlook on three systems to Stable from Negative and two to Positive from Stable. Additionally, there were no negative rating actions. An overarching theme for the sector across the board has been strong and sustainable traffic.

Toll increases have boosted revenue growth for systems with slower traffic recovery like San Francisco's Bay Area Toll Authority and the Peace Bridge in Buffalo, according to Fitch Director Anne Tricerri. Fitch revised BATA's Outlook on the subordinate lien to Stable from Negative. 'Although BATA's traffic recovery has been disappointing in comparison with the toll road sector overall, revenues are up significantly over the past three years due to rate hikes as authorized by voters under regional measure three,' said Tricerri. Fitch revised Peace Bridge's Rating Outlook to Positive from Stable due to a sizable increase in toll rates. 'Peace Bridge's willingness and ability to increase toll rates over the past two years propelled toll revenue above pre-pandemic levels despite

traffic not being fully recovered.'

Fitch has also released an update to the interactive peer study for U.S. toll roads, available in the 'U.S. Toll Roads – 2024 Fitch Analytical Comparative Tool (FACT).' Fitch's 'U.S. Toll Roads Peer Review' is available at 'www.fitchratings.com'.

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Additional information is available on www.fitchratings.com

S&P U.S. Charter Schools Rating Actions, Fourth-Quarter 2023

View the S&P Rating Actions.

12 Jan, 2024

S&P U.S. Higher Education Rating Actions, Fourth-Quarter 2023

View the S&P Rating Actions.

16 Jan, 2024

S&P U.S. Charter Schools 2024 Outlook: Credit Stability, For Now

Sector view: Stable

U.S. charter schools' credit fundamentals are stable for now, supported by continued healthy demand, generally favorable per-pupil funding, and some cushion provided by still-available federal emergency relief funds. During 2024, we expect schools will focus on managing increased expense

pressures and teacher shortages amid dwindling federal emergency support and slower economic growth.

Continue reading.

17 Jan, 2024

The Financial Pain for Cities from Struggling Downtowns.

Nearly four years after the start of the pandemic, downtowns are still short of office workers and foot traffic. That's contributing to significant budget problems in some cities.

In Brief:

- Downtowns across the country continue to be emptier than before the pandemic. The loss of activity is hurting cities' finances.
- Transit agencies are particularly hard hit.
- Cities are looking for ideas for revitalizing downtowns, but no easy solution will work everywhere

Continue reading.

governing.com

by Zina Hutton

Jan. 19, 2024

The Future of Municipal Bonds Is Seldom This Bright — But the Window Is Shrinking.

Muni yields will remain attractive, until the Fed turns dovish.

Higher bond yields and expectations that the Federal Reserve will maintain or cut its benchmark interest rate this year have created a window of opportunity for institutional investors in the municipal bond market.

Muni yields reached 4.72 percent in October — the highest they had been in more than a decade — and have since fallen to 3.91 percent. Still, munis, for now, have relatively attractive yields.

"There needs to be a little sense of urgency with regards to this. Since the end of the third quarter and the beginning of the fourth quarter last year, we have been talking to clients about that sense of urgency. It's not a market timing call necessarily, and people can confuse that," Robert DiMella, executive managing director at MacKay Shields, said.

Continue reading.

Institutional Investor

by Michael Thrasher

January 19, 2024

Munis in 2024: The Key Factors to Watch

Alex Petrone, Rockefeller Asset Management director of fixed income, discusses the outlook for the municipal bond market. She spoke on the Jan. 10 episode of “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

January 12th, 2024

S&P U.S. States 2024 Outlook: Credit Stability Endures In Unstable Times

Sector View: Stable

Robust reserve positions and strong management controls will allow states to brace for slower economic growth and softening revenues in fiscal 2024. States’ credit fundamentals appear resilient, but fiscal 2025 budget discussions will likely center on managing increasing costs, waning federal support, and changes in tax policy potentially further straining revenues.

Continue reading.

4 Jan, 2024

Fitch Ratings 2024 Outlook: U.S. Public Finance Compendium

View the Compendium.

Municipal Outlook 2024: Capture the Momentum

A likely soft landing and rate cuts paint an optimal backdrop for the muni market in 2024.

The municipal bond market finished 2023 on a high note and its 2024 prospects look just as promising.

Munis whipsawed through sharp monthly selloffs and spikes for most of the year. In the end, the Bloomberg Municipal Bond Index returned 6.4% for the year, well above the 3.1% after-tax return for the Bloomberg 1–3 Month US Treasury Bill Index.

Unfortunately, munis' rollercoaster year made many investors reluctant to return to the market, leaving just under $6 trillion still sitting in money market funds. Wary investors may also worry they've missed the rally.

But thanks to a favorable mix of historically high yields, expectations that the Federal Reserve will ease off higher-for-longer interest rates, and attractive credit spreads, munis have seldom held as strong a potential as they do today.

Continue reading.

Alliance Bernstein

Jan 12, 2024

What 2024 May Hold for Municipal Bonds, a 'Crucial Financing Tool for Cities.

Interest rate trends, investor demand and the 2024 elections could all impact the municipal bond market, according to finance experts.

Dive Brief:

- As cities ramp up their investment in local infrastructure in 2024, state and local bond sales are expected to reach about $400 billion, up about 7% from 2023, according to Peter DeGroot, a JP Morgan managing director and head of municipal research and strategies. DeGroot spoke at a Dec. 14 webinar hosted by the bond insurer Build America Mutual and the National League of Cities.
- Municipal bonds typically are the source of more than 70% of state and local financing for infrastructure projects, such as road repairs, sewer system maintenance and school construction.
- Despite that expected growth, interest rate trends, investor demand and the 2024 elections could all impact the municipal bond market, webinar speakers said.

Continue reading.

smartcitiesdive.com

By Gaby Galvin

Published Jan. 11, 2024

United States ESG & the Muni Market 2023: A New Frontier in ESG Politics

DUBLIN, Jan. 10, 2024 /PRNewswire/ — The "U.S ESG & the Muni Market 2023" report has been added to ResearchAndMarkets.com's offering.

Environmental, social and governance (ESG) factors in the municipal market have garnered significant attention, both positive and negative, in the past five years. Some market participants see it as an opportunity for industry growth in the U.S. and abroad. Indeed, ESG bond issuance has grown even as overall municipal issuance has dropped precipitously. Others see ESG as a costly and

unnecessary additional issuer disclosure burden with little pricing benefit for state and local governments that say the debt they issue is inherently ESG.

Several politicians and other government officials assert ESG is part of a “woke” agenda in the financial markets. Some states have written legislation and enacted laws prohibiting the use of ESG in the public finance markets, while others have barred financial institutions from participating in the municipal market due to their stance on the firearm and/or fossil fuel industries.

Continue reading.

Wed, January 10, 2024

NASBO FY25 Budget Proposals.

Overview

Over the course of the coming months, governors in 33 states, the territories, and the District of Columbia will release a budget proposal for fiscal 2025 (governors in Kentucky, Virginia, and Wyoming will propose a biennial budget for both fiscal 2025 and fiscal 2026). Last year, 17 states enacted biennial budgets covering both fiscal 2024 and fiscal 2025; in some of those states, the governor will release a supplemental or revised budget recommendation for fiscal 2025. Forty-six states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1). Puerto Rico begins its fiscal year on July 1, while the District of Columbia, Guam, and the U.S. Virgin Islands begin their fiscal year on October 1.

Continue reading.

Muni Bond Defaults Most Likely to Occur in Senior Living, Skilled Nursing, Survey Finds.

Yields may have peaked in 2023 for municipal bonds, with defaults this year most likely to happen in senior living and skilled nursing, according to the results of a recent survey published by Hilltop Securities.

Long-term care-related defaults had been decreasing as of May.

Hilltop surveyed 125 market participants. Half of the respondents to the Hilltop Securities High Yield Impact Survey were investors; bankers and advisers accounted for 16%; sell side intermediaries accounted for 9%; and bond counsel, insurers and rating analysts contributed 16% of the responses. Other market participants (including bond evaluators and researchers) contributed the remaining 9%.

Continue reading.

McNight’s Senior Living

by Kathleen Steele Gaivin

JANUARY 9, 2024

Hospitals Are Back to the Muni Market With Labor Costs Easing.

- **Borrowing this month far outpaces all of last January**
- **Pent-up need for upgrades drives issuance as finances improve**

Hospitals are returning to the municipal-bond market as they aim to pivot from survival to revival. So far this year, hospitals are tapping the market with more than $1.7 billion to expand and upgrade facilities, according to data compiled by Bloomberg as of Jan. 12. That figure outpaces $390.7 million of issuance by hospitals last January.

It's cheaper to tap the muni market at the moment, with the yield on the 10-year AAA benchmark down 127 basis points since Nov. 1. Financial pressures on hospitals have also started to ease. Staffing costs — by far their heftiest expense — have steadied and operating margins have been improving.

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

January 12, 2024

S&P General Obligation Medians For Municipalities: December 2023

S&P Global Ratings derives the general obligation (GO) municipal medians from rating reviews completed under its GO criteria, "Local Government GO Ratings Methodology And Assumptions", published Sept. 12, 2013. The medians include the 3,952 municipalities that we rated as of December 2023, presented by rating category.

These medians do not pertain to counties and special districts such as school districts. We are publishing separate GO county and school district median reports concurrently with this article.

We calculate the metrics, for which we provide the medians, based on raw data, or in some cases, data that we have adjusted (for more information, see "S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency," published Sept. 12, 2013), and they are only one component of the rating analysis. The metrics play a part in the quantitative analysis in five factors: economy, budgetary flexibility, budgetary performance, liquidity, and debt and contingent liabilities. Qualitative adjustments within each factor (which the medians do not reflect) also play an important part in the analysis.

Continue reading.

3 Jan, 2024

S&P General Obligation Medians For School Districts: December 2023

S&P Global Ratings derives the general obligation (GO) school district medians from rating reviews completed under its “GO Debt” criteria published Oct. 12, 2006. We derive the school district medians from the 5,148 school districts we rated as of December 2023.

We present the medians by rating category. These medians do not pertain to municipalities and counties. We are publishing separate GO county and municipality median reports concurrently with this article.

Continue reading.

3 Jan, 2024

S&P U.S. Local Governments 2024 Outlook: Stimulus Shelters Governments In 2024; Preventing Long-Term Leaks Requires Fiscal Focus Now

Sector view: Stable

U.S. local governments continue to enjoy financial stability that stems from federal stimulus distributed during the pandemic. Despite elevated inflation and rising interest rates, ongoing credit strength has led to increasing revenues and improved reserve levels. However, if local or macroeconomic conditions prevent revenues from keeping pace with expenditure growth, management teams could be pressured to balance budgets while still addressing persistent issues requiring longer-term solutions, such as demographic changes and extreme weather.

Continue reading.

9 Jan, 2024

S&P Outlook For U.S. Not-For-Profit Transportation Infrastructure: Back To The Future For Most Operators, While Mass Transit Minds The Gap

Sector View: Stable Except For Mass Transit, Which Is Negative

S&P Global Ratings’ view of business conditions and credit quality across the U.S. not-for-profit transportation infrastructure sector for 2024 is stable, as most asset class operators fully return to historical activity levels and planning for the future. Our view applies to rated airports (and related special facilities), toll roads, maritime ports, parking operators, and all federal transportation grant-secured entities. Our negative sector view for mass transit is unchanged, reflecting financial pressures facing many transit providers with a historical reliance on fare revenues as they look to plug operating fund gaps as federal assistance runs out.

Continue reading.

10 Jan, 2024

S&P Request for Comment: Request For Comment: Methodology For Rating U.S. Governments

This article presents S&P Global Ratings' proposed criteria for rating U.S. governments. This proposal consolidates the criteria for U.S. states, counties, municipalities, school districts, and special government districts under a single framework for determining a stand-alone credit profile (SACP) (see "Related Publications" section for details of superseded criteria).

These proposed criteria would apply only to U.S. governments not in scope of other issuer credit rating (ICR) criteria.

Although the scope of activities may vary, governments share the following characteristics:

- Leadership is elected or is appointed by others who are elected;
- The entity provides public services and/or public infrastructure; and
- The entity is supported directly or indirectly by taxes and fees levied on residents or funds transferred from other levels of government.

Continue reading.

11 Jan, 2024

S&P Credit FAQ: An Overview Of S&P Global Ratings' Proposed Methodology For Rating U.S. Governments

On Jan. 11, 2024, S&P Global Ratings published a request for comment (RFC) on its proposed Methodology For Rating U.S. Governments. The proposed criteria apply to U.S. states, counties, municipalities, school districts, and special government districts. S&P Global Ratings believes it will be useful to provide additional context about the proposed criteria and to address questions on it, including scope, expected rating impacts, and key differences between the proposed and existing criteria. For the full proposed framework, see "Request For Comment: Methodology For Rating U.S. Governments."

Key Takeaways

- The proposed criteria, when finalized, will fully supersede "U.S. State Ratings Methodology," "U.S. Local Governments General Obligation Ratings: Methodology And Assumptions," "GO Debt," "Financial Management Assessment," "Debt Statement Analysis," and "Key General Obligation Ratio Credit Ranges."
- The proposal would consolidate criteria to analyze credit risks of U.S. governments using one comprehensive scored framework. We believe bringing government entities under the same analytic framework increases transparency of our methodology, improves consistency and alignment of ratings across these government types, and enhances global comparability.
- Across all ratings in scope of these proposed criteria, we expect approximately 95% will remain unchanged. For U.S. state and territories, we expect all ratings will remain unchanged.

Continue reading.

11 Jan, 2024

S&P U.S. Not-For-Profit Health Care Rating Actions, December 2023

S&P Global Ratings maintained 22 ratings without revising the outlooks, took one positive rating action, and six negative rating actions in December. In addition, we revised two outlooks favorably, revised two outlooks unfavorably, placed one issuer on CreditWatch with positive implications, and placed one issuer on CreditWatch with negative implications, all without changing the ratings in the U.S. not-for-profit health care sector.

There were six new debt issuances in the month, with four ratings maintained, one lowered (Scripps Health), and one rating initially assigned for Tampa General Hospital. In addition, SoutheastHEALTH was placed on CreditWatch with positive implications due to an upcoming merger with Mercy Health (subsequently upgraded upon consummation of the merger), while Hunt Memorial Hospital District was placed on CreditWatch with negative implications due to a recent debt issuance with the potential for additional borrowings with weakened performance and diminished reserves.

Continue reading.

11 Jan, 2024

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

View the Current List.

11 Jan, 2024

Fitch Updates U.S. Public Sector, Revenue-Supported Entities Rating Criteria.

Fitch Ratings-New York/Chicago/San Francisco-12 January 2024: Fitch Ratings has updated its master criteria for rating public sector, revenue-supported entities. The criteria updates and replaces the prior report from April 2023.

The new criteria report sets out Fitch's methodology for assigning new ratings and monitoring existing ratings for U.S. public sector and not-for-profit entities that provide or support essential public or social services and activities and whose debt is intended to be repaid from the entity's own revenue and resources. Fitch has limited the criteria's scope, to U.S. entities only and has added an appendix that provides additional guidance for assessing the key rating drivers for U.S. not-for-profit Institutions. The methodology for assigning new ratings and monitoring ratings of public policy government-related entities and not-for-profit outside the U.S. is now set out separately in Fitch's Public Policy Revenue-Supported Entities Rating Criteria.

The key criteria elements remain consistent with those of the prior report. There is no impact on outstanding ratings. The previous version of the criteria has been retired.

The updated criteria report is available at ‘www.fitchratings.com’.

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Additional information is available on www.fitchratings.com

Governors Propose Spending Billions on Overdue Infrastructure Projects.

In State of the State addresses this week, several governors said they would prioritize ambitious and much needed infrastructure projects. Plus, more news to use from around the country in this week’s State and Local Roundup.

It’s Saturday, Jan. 13, and we’d like to welcome you to the weekly State and Local Roundup. There is plenty to keep tabs on with the high court agreeing to hear a case about homeless encampments that could have huge implications in the West, the first all-female city council gaveling into session in St. Paul, a Massachusetts court ruling that “emerging adults” cannot be sentenced to life without parole and the feds cracking down on funny messages on electronic highway signs.

But first we turn to state infrastructure plans, which governors are still pressing forward on even as the financial picture for states is darkening.

Perhaps the most audacious plan comes from Georgia, where Republican Gov. Brian Kemp is proposing to spend $1.5 billion on transportation projects. The vast majority of that would go to the state transportation department before the current fiscal year ends in June, in order to speed up progress on the agency’s list of planned roadwork. The department will use part of that money to establish a freight infrastructure program and give cities and counties $200 million for their own projects.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

JANUARY 13, 2024

Fast-Growing Force in Muni Market Is Upending Mutual Funds’ Grip.

- **Investors flocked to separately-managed accounts in 2023**
- **The products could deter interest in muni mutual funds**

A booming corner of the municipal-bond market is poised to topple the long-standing dominance of mutual funds.

Affluent investors wanting to get in on surging yields have been increasingly turning to so-called separately managed accounts instead of mutual fund portfolios posting losses.

Estimates of the hard-to-track products — which allow investors to build customized portfolios with the help of a professional — suggest accounts hold anywhere from $600 billion to nearly $1 trillion of US state and local government bonds.

Citigroup Inc. estimated the market has grown more than 40% over the past decade to about $750 billion of munis as of the third quarter. Mutual funds, meanwhile, have shed more than a quarter of muni assets from their 2021 peak, with Federal Reserve data showing the funds held about $727 billion of the securities in the third quarter.

With yields at multi-year highs, individual investors have opted to snap up muni bonds using separately managed accounts as well as exchanged-traded funds rather than the traditional mutual funds.

Allspring Global Investments, for one, has seen significant inflows into its offerings. SMAs own about 23% of muni bonds, while mutual funds now hold about 20%, according to Manju Boraiah, Allspring's head of custom SMA investments. Households account for another 19% while banks, insurance companies and others own the rest, he said.

"The SMA growth has been fairly persistent and growing double digits over the past few years," he said.

Buying Force

Separately managed accounts began to make inroads in the early 2000s as advances in technology improved the ability of firms to oversee more accounts.

The interest in the products has been a major bright spot for demand given that municipal-bond mutual funds — one of the major buying forces in the market — recorded another year of outflows in 2023.

Kara South, municipal portfolio manager for GW&K Investment Management, said her firm tends to favor the products for its clients because they are so customizable. "SMAs will continue to be a driver of demand," she said.

Fee War

In addition to their individualized nature, competitive costs are a draw.

Fees on the products are often cheaper than mutual funds, and have been falling, according to Eric Kazatsky, municipal strategist for Bloomberg Intelligence. "Ten years ago, SMAs were basically 0% of the market, now they're 25%," he said.

Allspring's Boraiah estimates passively-run SMA portfolios fees range from 10 to 18 basis points, while actively managed ones are north of 20 basis points — still much less than what mutual funds

charge.

While it can be harder to withdraw money from these accounts, it also protects them from the “herd mentality” that can spur mutual fund outflows as investors dump assets during a market selloff, Cumberland Advisors, an investment firm, said in a report in November.

Unlike mutual funds, SMAs often have high investment minimums, usually around $250,000. Those minimums have been dropping over the years, which has made the products more accessible to a wider swath of investors.

Exchange-traded funds, meanwhile, have also made inroads, but still only have a market share of about 3%. The funds saw inflows of about $14.7 billion in 2023, data compiled by Bloomberg show. The overall muni ETF universe is over $120 billion.

Year Ahead

Of course, if interest rates fall mom and pop investors sitting on the sidelines in cash could return to municipal-bond mutual funds to goose returns.

Vikram Rai, head of municipal markets strategy at Wells Fargo & Co., said investment firms would benefit from including open-end funds, SMAs and ETFs in their product offerings. “In fact, most large complexes are doing so,” he said.

Allspring’s Boraiah doesn’t see mutual funds going away, but noted that the products are less popular among the financial advisory community. That will dampen growth.

“There is definitely a threat, but it’s kind of like a slow moving iceberg,” he said.

Bloomberg Markets

By Amanda Albright

January 12, 2024

— With assistance from Nic Querolo

Advantages of Separately Managed Accounts for Municipal Bonds.

Separately managed accounts (SMAs) have been utilized for decades to effectively manage client assets. Benefits include transparency, flexibility, control over costs, and choice. They can be optimized for various purposes including taxes, income, cash flow, etc. They also allow for more customization than ETFs or mutual funds.

They are particularly popular for fixed income purposes and have seen impressive growth in recent years. For instance, municipal fixed-income assets went from $100 billion in 2008 to $718 billion in July 2023. In part, this is due to SMAs becoming more accessible to a wider universe of investors as improved technology has led to lower costs and lower minimum amounts to invest.

ETF’s presence in the municipal bond market is also growing fast. There are now 81 funds and $108 billion in assets, a 50% increase from 2021 but less than 3% of the total muni market. Many active mutual funds are being converted into active ETFs. One advantage is greater liquidity which allows

investors to quickly gain exposure as a placeholder while they accumulate individual securities.

Mutual fund flows can be affected by market sentiment, leading to selling during periods of redemption, which is not an issue with SMAs. Due to the growth of SMAs and ETFs, muni mutual funds have seen net outflows over the last couple of years. Another factor is high rates making short-term securities or bank deposits more attractive relative to longer-duration assets.

Continue reading.

nasdaq.com

Written by dkorth@finsum.com

January 09, 2024

Investing in Nature Is Gaining Traction. Will It Be Enough?

Investing in nature to address climate change, support biodiversity, and protect ocean health—and more—is expected to reach record levels this year in response to more regulation and market demand, according to Cambridge Associates, a global investment firm.

Still, the amount of private capital invested to support natural systems will fall far short of what's needed, according to the annual "State of Finance for Nature" report published in December from the United Nations Environment Programme.

A big reason is that nearly US$7 trillion in public and private finance was directed to companies and economic activities in 2022 that caused direct harm to nature, while only US$200 billion was directed to so-called nature-based solutions, or NbS—investments that protect, conserve, restore, or engage in the sustainable management of land and water ecosystems, as defined by the United National Environment Assembly 5, or UNEA5, the report said.

Continue reading.

Barron's

By Abby Schultz

Jan. 9, 2024

Bloomberg Muni Outlook for 2024.

Chris Brigati, Senior VP and Director of Strategic Planning at SWBC (new role), joins to discuss the muni bond market. Hosted by Paul Sweeney and Lisa Mateo.

Listen to audio.

Bloomberg Markets

Jan 05, 2024

For Public Finance, a Year for Stability and Cautious Optimism.

As inflation and interest rates ease, 2024 will be a perfect time for overdue multiyear strategic planning and keeping up with breakthrough information technologies.

For state and local government financiers, the good news for 2024 is that most financial functions will be more predictable. Budget projections will be easier and more reliable, at least for the calendar year, as the economy continues settling fairly smoothly to a slower pace with inflation easing and interest rates drifting down with it.

Of course, a slowing economy can be expected to be accompanied by softening tax revenues, and that has been reported in some states already. Nonetheless — and absent the usual unforeseeables like new wars, oil shocks and pandemics — public finance is returning to something resembling business as usual. With a few exceptions, the “New Normal” is becoming the “Old Normal,” at least for budgeting, collective bargaining, pension funding, tax rates and debt issuance.

Wall Street has come to a growing consensus that the economy is gliding to a “soft landing,” with the only question being how long this can last. Inflation likely won’t drop in 2024 to the Federal Reserve’s target of 2 percent, so while interest rates will likely drift somewhat lower, don’t look for anything near the unusually minuscule levels that prevailed before and during the COVID-19 pandemic. Borrowers will still pay and investors will still earn a positive real rate of return on debt instruments. Mirroring that overall economic glide path, upward pressures on salaries are likely to ease. But labor markets nationally will remain tight by historical standards, making it an ongoing public-sector challenge to hire personnel amid tight budgets.

Continue reading.

governing.com

Jan. 2, 2024 • Girard Miller

Fitch: Most North American Sector Outlooks Deteriorating on Slowing Economy

Fitch Ratings-New York-05 January 2024: Sharply slowing economic growth, higher unemployment and continued tight financing conditions are key factors underpinning Fitch Ratings’ ‘deteriorating’ 2024 sector outlooks for the majority of North American credit, including sovereigns, U.S. banks, leveraged finance, retailing, REITs, most non-bank financial institutions and most structured finance asset classes. U.S. growth was better than expected in 2023 at 2.4%, but we forecast it to drop to 1.2% in 2024, with only a shallow recovery in 2025. Core inflation, while easing, remains above central banks’ 2% targets.

Key risks include higher-for-longer interest rates beyond our base case and financial market volatility should monetary policy and growth meaningfully vary from current expectations. Tight funding conditions, decelerating economic growth and sector-specific pressures on key asset classes,

such as real estate and structured finance, indicate risk bias to the downside.

Across multiple sectors, profits are declining and demand is expected to decelerate further as the economy slows in response to the lagged effect of higher interest rates and tightening credit conditions. Rising unemployment and higher cost of living pressures are key headwinds for consumer-based industries and asset classes, also pressuring U.S. banks' asset quality and operating profits.

Continue reading.

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 December) $380.5 billion, -2.6% Y/Y
- Trading (as of December) $13.1 billion ADV, -6.8% Y/Y
- Outstanding (as of 3Q23) $4.0 trillion, -0.3% Y/Y

View xls.

Jan 3, 2024

Megadeals, Lower Rates Set the Stage for Brisk Muni Borrowing in January.

- **Jefferson County, Washington put big bond sales on calendar**
- **Borrowing costs fall 130 basis points in November, December**

The municipal bond market is setting up for something it hasn't seen in a few years: a busy January for borrowing.

January is typically the slowest month in terms of new muni bond sales, averaging $25 billion over the past decade, according to Bloomberg LEAG data. But a lighter-than-average December sales calendar, coupled with an interest rate decline of more than a percentage point in recent months, sets the stage for an uptick in issuance this time around.

Long-term bond sales totaled $22.3 billion in December. That's above the $15.3 billion sold in December of 2022, but still well below the decade-average for the month of $29 billion. A slower December usually leads to a busier January.

Continue reading.

Bloomberg Markets

By Joseph Mysak Jr

January 2, 2024

Wall Street Thrived, Small Towns Lost as Anti-ESG Campaign Raged in 2023.

In 2023, a fervent anti-environmental, social and governance campaign swept state legislatures but failed to curtail the movement's main foe: Wall Street and its multitrillion-dollar asset management firms.

At the same time, the new state policies seeking to eliminate ESG considerations from public investments had some real-life consequences for cities and towns caught by the new mandates.

In Texas, the municipal bond market is in turmoil after the state's attorney general, Ken Paxton, issued an advisory in October to state and local government agencies asking them to be on the lookout for bond underwriters that may "boycott energy companies, discriminate against firearm entities or associations, or boycott Israel." Paxton's letter included a list of 22 companies he accused of violating Texas laws passed in 2021 to protect such interests.

Within days, the city of Del Rio on the Mexican border dropped RBC Capital Partners, its lead underwriter for a $12.5 million municipal bond deal, and replaced it with BOK Financial Corp., an Oklahoma-based firm that had escaped Paxton's scalpel. Paxton's public finance division had told the city of 34,000 it might not be able to close on schedule with RBC, prompting a last-minute scramble.

"It was very much a timing issue for the city," said Jay Juarez, Del Rio's bond counsel.

Around the same time, a Houston-area school district dropped Wells Fargo & Co. from a $310 million bond after Paxton indicated the company's practices were being reviewed. A Wells Fargo spokesperson declined to comment.

Neither RBC Capital nor Wells Fargo is on the Texas Comptroller's Office's most recent list of financial services companies, updated in December 2023, that boycott energy firms.

Similar situations have played out in other states.

Uproar in Oklahoma

In the spring of 2023, the city of Stillwater, Okla., an hour north of Oklahoma City, had lined up a low-interest $13.5 million loan from Bank of America Corp. to install energy-efficient lighting and replace two aging heating and cooling units in municipal buildings. The saved energy costs from the improvements would pay off the loan over 15 years, according to the city's deal with the bank.

That plan was halted when Oklahoma Treasurer Todd Russ in May published an initial list of 13 financial institutions, including Bank of America, barred from doing business in the state. Russ had determined that the companies violated the state's 2022 Energy Discrimination Elimination Act by boycotting energy companies.

Russ revised the list in August, naming six companies, including Bank of America.

"I appreciate that this is a fossil fuel state and the intention behind it, but the law passed here had not been vetted very well," Stillwater Mayor Will Joyce said in an interview. "I even had some folks

at the legislature tell me they never intended for the bill to have an impact on local municipalities."

Like the Texas law, Oklahoma's measure was among 36 bills lawmakers in 18 states passed over the last two years to blacklist banks and asset management firms that consider ESG risks and opportunities in investment decisions, data from the law firm Ropes & Gray shows.

An early 2023 analysis by Econsult Solutions Inc. estimated that six states including Oklahoma could see up to $708 million in higher borrowing costs by barring some banks from underwriting municipal bonds. Undeterred, ESG critics are pushing forward.

Republicans in Congress and GOP-controlled state legislatures say large money managers wield too much influence over pensions, bonds and other public investments, accusing them of playing politics with money they do not own. As the 2023 state legislative sessions wound down in early summer, about half of the anti-ESG bills introduced had not passed. But more than 40 will be automatically reintroduced in 2024, and new bills are expected.

'A fiduciary responsibility'

By October, Oklahoma lawmakers were discussing how to amend their energy discrimination law to better protect cities like Stillwater. The state's second-largest public pension system had also resisted the restrictions in the law. The Oklahoma Public Employees Retirement System voted 9-1 in August to retain BlackRock Inc. and State Street Corp. as investment advisers even though those banks were on the treasurer's blacklist.

"We were talking about a potential $10 million hit to our pensioners," Oklahoma Insurance Commissioner Glen Mulready, a member of the pension system's board and former Republican state lawmaker, said in an interview. "If we thought that we could have abided by the law without hurting the pension fund we would have done that in a heartbeat. But we have a fiduciary responsibility."

The disagreement between the treasurer and the pension system has yet to be resolved, Mulready said.

Adding to the ESG drama in Oklahoma, a retiree and former president of the Oklahoma Public Employees Association in November filed a lawsuit against the state and its treasurer, calling the state's anti-ESG legislation "government overreach" and a violation of free speech. The lawsuit was backed by three groups representing public state employees.

Business as usual for Wall Street

Meanwhile, banks on state non grata lists — including BlackRock, JPMorgan Chase & Co., State Street and Vanguard Group Inc. — continued to do business in states such as Florida, Texas and West Virginia that had been especially vocal ESG critics.

Now navigating a patchwork of different state policies as well as different regulations overseas, US financial firms have to be more strategic in how they tailor their communications while also avoiding potential legal pitfalls, said Josh Lichtenstein, a partner with Ropes & Gray. That does not mean they have changed their investment strategies, he said.

BlackRock's high-profile CEO, Larry Fink, a frequent Republican target over his company's investment policies, made headlines in June when he said BlackRock was abandoning the term ESG. The company would instead choose more specific words like decarbonization or corporate governance, which Fink summed up as "conscientious capitalism."

“That’s the progressive left’s ammo: Once we figure out what their acronyms really mean they’re going to change it,” said Derek Kreifels, CEO of the State Financial Officers Foundation, speaking to a London journalist in November about his group’s support for state anti-ESG efforts.

In October, BlackRock launched a new “climate-transition oriented” private debt fund to meet the growing needs of institutional investors who set low-carbon and climate transition goals for their portfolios. A survey of 200 large investors in 15 countries the asset manager conducted a few months earlier found that 98% of investors fall into that category, the company said.

For other players, it is business as usual. JPMorgan Chase, deemed by shareholder activist group As You Sow and others to be the world’s largest fossil fuel investor, published an ESG report as recently as May 2023. It also has detailed on its website how the investor plans to channel $2.5 trillion this decade for sustainable development.

Both asset management firms remain members of the Net Zero Asset Managers initiative, an alliance vilified by ESG critics. Its signatories commit to work with clients to decarbonize their portfolios by 2050 in alignment with the Paris Agreement on climate change.

New realities for community banker, small-town mayor

Even in Florida, which in May enacted what is arguably the nation’s strictest anti-ESG law, Climate First Bank continues to attract new customers “who wish to bank with the world’s first [Federal Deposit Insurance Corp.]-insured bank found to combat the climate crisis.” Ken LaRoe, the community bank’s founder and CEO, said in an email.

But because of the new Florida law, known as H.B. 3, “we are required to bank any industry, including dirty energy, tobacco, the for-profit prison industry and others,” LaRoe wrote. Such companies had previously been on the bank’s exclusionary list, which the law revoked.

An analysis by the law firm Akin Gump says the Florida law limits investment decisions for state pension assets to “pecuniary factors,” and prohibits consideration of “any social, political or ideological interests.” Local governments are prohibited from considering ESG principles in investment decisions and in awarding contracts.

By contrast, Oklahoma’s law has some wiggle room, enough to offer a possible solution for Stillwater and its stalled capital improvement project.

Oklahoma Attorney General Gentner Drummond had considered the city’s calculations showing that going with a lender other than Bank of America would cost Stillwater $1.2 million in lost energy savings and shrink the city’s project.

In a letter to the mayor, the attorney general wrote his “position” is that the loss qualified the city and Bank of America for an exception under the 2022 energy discrimination law.

“But that was not a binding legal opinion,” Joyce said. “What is the city’s liability if someone else in a few years tries to enforce the law? We had no certainty.”

So Stillwater decided to look within for funding for its energy efficiency upgrades. Rather than taking 12 months, the project will now take several years and there is no guarantee the funding will remain, Joyce said. “Overall,” he said, “we’re in a worse situation.”

S&P Global Capital

by Karin Rives

Hospitals Face More Credit Rating Downgrades Ahead, Fitch Says.

- **Operating margins will improve over time, but slowly**
- **Margins still falling short of what's needed to save, invest**

The not-for-profit hospital sector may continue to see downgrades as their health-care entities struggle to recover from the pandemic.

While 2023 didn't face the same intensity of challenges as its predecessor, namely higher labor costs and disappointing revenues, not-for-profit hospitals are still a ways off from being stable, Fitch Ratings senior director Kevin Holloran said during a presentation Thursday.

"For a lot of people, this is going to be another make-or-break year for the sector," he explained. Labor "is still troublesome for a big swath of the sector that's out there."

Continue reading.

Bloomberg Markets

By Lauren Coleman-Lochner

January 4, 2024

Early Median Signs Show 'Signs of Life' Amid Stress for U.S. NFP Hospitals: Fitch

Fitch Ratings-New York/Austin-04 January 2024: U.S. not-for-profit hospitals are beginning to dig out of a formidable operating trench, according to Fitch Ratings during a webinar hosted earlier today. However, results for the sector are still nowhere near pre-pandemic levels.

While median operating margins will gradually improve, a larger expense base will keep huge gains unlikely over the next two years, according to Senior Director and Sector Head Kevin Holloran. "2024 will not be markedly better and certainly not the V-shaped recovery we're hoping for," said Holloran. "NFP hospital margins are still below both pre-pandemic levels, but more importantly they will tread below the "magic number" operating margin of 3%."

A theme likely to dominate this year is ratings "trifurcation", which Fitch discussed its outlook report for the sector. This means a heightened risk of downgrades for a portion of hospitals already struggling to return to some degree of pre-pandemic normalcy. This follows a 2023 that saw a 3:1 ratio of hospital downgrades to upgrades.

Of note are recent Fitch downgrades among providers with smaller size and scale, and in hospital systems in two states now seen as challenging states in which to operate. "IT implementation issues, significant capital spending and aggressive expansion initiatives that simply did not work out as intended will further cloud outlooks for smaller hospitals and some providers in Washington and Pennsylvania," said Holloran.

Also of concern is what Holloran called a “dreaded” second year of debt service covenants violations, which “may intensify the potential for bondholders to declare an event of default and perhaps accelerate bond repayment.”

A replay of the webinar in its entirety will be available shortly. Fitch will release its latest NFP hospital medians later in the year.

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FERC Opens Inquiry into Upstream Investment Interests in Public Utilities: Troutman Pepper

On December 19, 2023, FERC issued a Notice of Inquiry (“NOI”) to examine whether and how to revise its policy on providing blanket authorizations for holding companies, including investment companies, to acquire securities in electric utilities and their upstream owners pursuant to section 203(a)(2) of the Federal Power Act (“FPA”). Specifically, the Commission is soliciting comment on what constitutes control of a public utility in evaluating holding companies’ requests for authorization and what factors it should consider when evaluating control. Commissioner Mark Christie concurred with a separate statement, stating that FERC should examine whether investment companies are truly acting as passive investors in electric utilities and whether FERC’s blanket authorization practices are still sufficient to protect the interests of the electric utilities’ customers.

The Commission has issued blanket authorizations on a case-specific basis to holding companies, allowing acquisitions of securities in certain electric utilities over the $10 million threshold pursuant to FPA section 203(a)(2), as well as to investment companies on a company-specific basis to acquire securities in publicly traded electric utilities over the $10 million threshold and up to 20% of the voting securities in the electric utility. These authorizations are time-limited, requiring periodic reevaluation to ensure they remain in the public interest, and are typically based on representations from the investment companies that they cannot exercise control over the electric utilities. FERC noted that changes in the public utility, finance, and banking industries, including consolidation and the growth of large index funds and asset managers, necessitate a review of the Commission’s blanket authorization policy.

FERC’s Notice of Inquiry seeks comments in response to various questions related to whether, and if so, how the Commission should revise its current policy on providing blanket authorizations for investment companies. In addition, FERC seeks comments in response to questions regarding whether FERC should consider the size of an investment company in evaluating a request for

blanket authorization and what factors the Commission should consider when evaluating control over public utilities as part of a request for blanket authorization.

Commissioner Christie concurred in a separate statement, stating that there is a potential conflict between the interests of investment companies and the public service obligations that an electric utility has. As a result, Commission Christie stated the NOI is timely and compelling to explore whether investment companies are actually exerting control over electric utilities rather than acting as passive investors and to examine whether FERC's blanket authorization policies adequately protect the electric utilities' customers. Commissioner Christie noted that while Congress has directed the Commission to streamline regulations to facilitate greater investments in the utility industry, this should not come at the expense of protecting consumers. Commission Christie further stated that it is the Commission's task to balance these responsibilities and continually evaluate this balance.

Initial comments on the NOI are due 90 days after publication in the Federal Register, with reply comments due 120 days after publication in the Federal Register.

FERC's NOI, issued in Docket No. AD24-6, can be found here.

Troutman Pepper

by Quintessa Davis and Russell Kooistra

December 29, 2023

Bureau of Transportation Statistics Releases Final Update to the Government Transportation Financial Statistics.

The Bureau of Transportation Statistics (BTS) today released its final update to the Government Transportation Financial Statistics (GTFS), with data through 2021. The GTFS provides a set of maps, charts, and tables with information on transportation-related revenue and expenditures for all levels of government, including federal, state, and local, and for all modes of transportation. This year BTS will transition to a new product called Transportation Public Finance Statistics (TPFS). TPFS builds on the GTFS foundation buy increasing the granularity of the estimates and will include a preliminary release in June of 2024 (2022 estimates) as well as an annual release in December 2024.

Continue reading.

Friday, January 5, 2024

High-Yield Municipal Bonds: A Cautious Outlook for 2024

High-yield municipal bonds, a star performer in the financial arena with a 9.2% gain in 2023, are expected to tread on a different trajectory in 2024. Money managers, who had reaped the benefits of a limited supply of high-yield offerings and a broad market rally initiated in November of the previous year, caution against expecting a repeat performance.

Potential Challenges in 2024

The financial forecast for 2024 is mired with potential hurdles, including the possibility of the Federal Reserve cutting interest rates and an increase in municipal issuers making a beeline to borrow. The slowing U.S. economy could especially impact sectors such as nursing homes, tobacco bonds, and charter schools, that form a significant chunk of the high-yield muni market.

A Growing Concern for Defaults

A survey by Hilltop Securities has raised red flags about potential defaults, particularly in senior living facilities. The survey found 45% of the respondents, who were high-yield muni investors, expressing their concern. Financial institutions, BNY Mellon Wealth Management and Barclays, echo this sentiment of caution with their prediction of a subdued performance for high-yield munis. Barclays, in particular, forecasts mid-to-low single-digit returns.

Presidential Elections and Market Performance

The upcoming U.S. presidential election is poised as a potential game-changer for high-yield muni performance. Changes in economic policies, a likely outcome of the election, could send ripples across the financial sector, influencing the performance of these bonds.

Optimism Amid Uncertainty

Despite the cautious outlook, there are optimists like Franklin Templeton Fixed Income's municipal-bond team who believe in the potential for improved performance. The team opines that with interest rates on the decline and capital availability, the stage could be set for better performance if mutual fund inflows occur. However, recent data from LSEG Lipper paints a different picture, showing outflows from high-yield muni funds and indicating investor hesitation. Market participants are advising prudence in the face of economic uncertainties and potential Federal Reserve rate cuts in 2024.

By: BNN Correspondents

Published: January 5, 2024

Investors Expect Tepid Returns for High-Yield Munis After Stellar Year.

- **A gauge tracking high-yield munis surged 9.2% in 2023**
- **Supply and demand dynamics supporting such debt remain strong**

Money managers don't anticipate another banner year for high-yield municipals, one of the best-performing sectors of US debt in 2023.

Junk muni bonds posted a 9.2% advance for the full year, the most since 2019. Returns were buoyed by a lack of high-yield supply and a widespread market rally starting in November.

The market could look different this year if the Federal Reserve cuts interest rates and muni issuers rush to borrow. A slowing US economy also doesn't bode well for a sector that's largely made up of nursing homes, tobacco bonds and charter schools, said John Flahive, head of fixed income at BNY Mellon Wealth Management.

Continue reading.

Bloomberg Markets

By Maxwell Adler and Amanda Albright

January 5, 2024

The Bloomberg Tape: Jobs, Munis, and Ozempic

Ben Emons, Head of Fixed Income at NewEdge Wealth, joins to give his market reaction to the jobs report for December. Chris Brigati, Senior VP and Director of Strategic Planning at SWBC, joins to discuss the muni bond market. Simone Foxman, reporter with Bloomberg News, joins to discuss her story on the burden weight loss drugs are having on state budgets, US taxpayers, and the healthcare system. Kristin Pothier, US Healthcare Lead at KPMG, joins to discuss the outlook for M&A in the healthcare sector in 2024. Julia Pollak, Chief Economist at ZipRecruiter, joins to break down the jobs report and outlook for hiring in 2024. Hosted by Paul Sweeney and Lisa Mateo.

Listen to audio.

Bloomberg

Jan 05, 2024

States and Localities In 2023: A Look At the Top Stories of the Year

The first half of the year was marked by the end of pandemic-era benefits. The second half was dominated by the shutdown. All the while, leaders were preoccupied with infrastructure, technology and flags.

The U.S. House voted 749 times this year, but passed just 27 bills—making Congress the least productive in decades. But that's not the story in state and local government. 2023 has been a busy year, and Route Fifty's top 10 stories show the breadth of topics that leaders from statehouses to city halls have been dealing with. This is just a sampling, of course. Other big stories of the year covered electric vehicles, bail reform, broadband, gas stoves, artificial intelligence, passenger rail, housing and more.

Continue reading.

ROUTE FIFTY

DECEMBER 29, 2023

2023 Trends from NLC's Center for Research and Data Analysis.

As the countdown to 2024 begins, it is important for local governments, of all sizes and geographies, to keep an eye on key trends impacting their communities. To help stay ahead of the curve, the NLC Center for Research and Data Analysis staff highlights a few key takeaways from recent research that will continue to inform and be of interest in the year ahead…

Municipal Finance

Against the backdrop of elevated but moderating inflation, cities can expect to see continued real growth in their tax revenues in the coming year, enabling the expanded funding of public services and infrastructure projects. At the same time, local governments are engaging in cautious budgeting headed into 2024, which may prove to be beneficial in the long run, as they have built up significant fiscal reserves and avoid excessive spending. Check out NLC's recent report: City Fiscal Conditions 2023.

Continue reading.

National League of Cities

by Joshua Franzel, PhD

DECEMBER 19, 2023

State and Local Governments Rake in Surpluses after Pandemic.

State and local governments accumulated $1.3 trillion in excess savings during the pandemic recession and subsequent recovery, from first quarter 2020 to second quarter 2023. Much of this excess is due to large federal transfers and high tax receipts relative to prepandemic trends.

While excess household savings have been credited with helping support U.S. economic resiliency throughout 2023, households were not alone in amassing excess savings after the pandemic. The existence of large sums in state and local government coffers runs counter to historic post-recession trends. State and local governments usually grapple with budget shortfalls due to rising social program demands and weak revenue streams following recessions.

Spending deadlines, along with requirements about how the funds should be used, accompanied most federal pandemic relief funds distributed to state and local governments. Additionally, many state and local governments face political pressure to pass accumulated non-pandemic relief funds along to households via transfers or tax cuts, for example. These factors may lead to sizeable drawdowns in state and local government excess savings over the next few years.

Continue reading.

dallasfed.org

by Ron Mau and Fang Yang

December 19, 2023

Cost Efficiency of Municipal Green Bonds' Measures: A Marginal Abatement Cost Curves Approach

This paper aims to investigate the cost-efficiency of the carbon reduction measures financed in Swedish municipalities through the scheme of municipal green bonds using the marginal abatement cost curves (MACCs) methodology.

Read the paper.

sei.org

Tommaso Piseddu
Research Associate

Fedra Vanhuyse
Head of Division: Societies, Climate and Policy Support

Published on 21 December 2023

Investor Jitters or Legitimate Concerns? Decoding the State Revenue Decline and Its Impact on Municipal Bonds.

Municipal bonds are typically seen as a boring fixed income sector. Volatility and defaults are both low. So, when any type of risk begins to grow, it tends to make investors nervous. And right now, a major risk is starting to brew.

The cash that helps pay for muni bond coupons—state and local revenues/taxes—is starting to slip.

But should investors actually be concerned or is this just a case of the boy who cried wolf? Is the recent dip in state revenues the start of a worrisome trend? The data suggests that it may not be a real concern.

Trending Lower

Taxes. They are the lifeblood of state and local governments. States rely on income taxes for about 40% of revenues and sales taxes for more than 35% of total revenues. Without this cash flowing in, they can't pay for essential services and expansion plans. They also can't pay their debts. Normally, this isn't a worry and muni bonds feature some of the lowest default rates of any bond type. But when something upends the apple cart of taxes, investors start to take notice. And that's just what is happening today.

State and local governments' revenues are starting to slide.

Continue reading.

dividend.com

by Aaron Levitt

Dec 22, 2023

Puerto Rico Electric Power Authority v. Assured Guaranty: SIFMA Amicus Brief

SUMMARY

Court:
U.S. Court of Appeals
(First Circuit)

Amicus Issue:
Whether a "pledge" of revenue is merely an unsecured promise. Whether the special revenue provisions of the Bankruptcy Code only protect the lien on revenues that are already on deposit with the trustee. Whether revenue bondholders do not have a contractual right to payment in full, but merely an unsecured claim for an amount calculated in an estimation proceeding.

Counsel of Record:

Faeger Drinker Biddle & Reath LLP

by Laura E. Appleby & Kyle R. Hosmer

Read the Brief.

Fitch U.S. Charter School Rating Criteria: Discussion Paper (Potential Changes to Charter School Rating Methodology in Advance of Exposure Draft)

Fitch Ratings believes that components of its current "U.S. Public Finance Charter School Rating Criteria," particularly the criteria's treatment of some major revenue defensibility factors, may be better characterized as scalable, rather than "asymmetric" credit factors. ("Asymmetric" factors have only neutral or negative rating impacts.) Fitch's new view of revenue defensibility would add the possibility that certain factors — such as charter renewal prospects and certain governance metrics, including authorizer framework — may have positive rating impacts, instead of just neutral or negative "asymmetric" impacts. Fitch's existing criteria resulted in "weaker" revenue defensibility profiles for almost all charter schools, effectively limiting ratings across the sector. A potential shift in view is that competitive funding positions vary widely among issuers and could result in higher revenue defensibility profiles for a subset of charter schools. Issuers that may receive higher revenue defensibility assessments will demonstrate favorable attributes across Fitch's proposed enhanced revenue defensibility factors, including authorizer funding and charter renewal protocols, competitive position, academics and certain governance metrics.

ACCESS REPORT

Wed 20 Dec, 2023

America's Billionaire Sports Team Owners Had a Banner Year Getting Public Handouts for Extravagant New Stadiums.

Standing on a portable stage erected at home plate of the Milwaukee Brewers ballpark, Wisconsin Gov. Tony Evers recently praised the professional baseball team as an "essential part" of the state's "culture and identity" and "economic success."

With fanfare, Evers then signed off on $500 million in public aid for the stadium's renovation, adding to a remarkable run of such blockbuster deals. This year alone, about a dozen Major League Baseball and National Football League franchises took steps toward new or improved stadiums.

A new wave of sports facility construction is underway. One driven, in part, by a race to keep up with rivals and one that could collectively cost taxpayers billions of dollars despite skepticism from economists that stadiums boost local economies.

Continue reading.

BY DAVID A. LIEB AND THE ASSOCIATED PRESS

December 24, 2023

Tobacco Bonds Are on Fire, Defying the Odds.

Backed by cigarette sales, they continue to thrive despite high rates and declining smoking

Anyone who has tried to quit smoking knows that cigarettes are tough to resist—almost as hard as it is for politicians to keep their hands off big piles of money.

Smoking and government spending had a rare chance to interact in the late 1990s when the largest American tobacco companies agreed to pay $206 billion over 25 years to 52 U.S. states and territories in exchange for those jurisdictions giving up future legal claims against them. The payers and the terms have been tweaked over the years as a result of more companies joining and lawsuits involving some states, but they are now effectively payments in perpetuity.

At least 21 states or territories, plus local entities within some of them, didn't want to wait for the money to trickle in, taking it up front and transferring that risk to municipal bond investors. Even after all these years, tobacco bonds are close to 9% of the high-yield municipal bond market, according to analysts at Invesco. Unlike those who buy bonds secured by the full faith and credit of a state government with taxing authority, though, tobacco bond investors typically have no recourse if the cash runs low.

Continue reading.

The Wall Street Journal

By Spencer Jakab

Dec. 28, 2023

Why Small US Colleges Are Struggling Financially.

Scores of small colleges in the US are facing growing pressures from demographic changes and increasing costs. Speaking with Vonnie Quinn and Sonali Basak, Nic Querolo also discusses the outlook for municipal bonds in 2024.

Watch video.

Bloomberg Markets Muni Moment

December 27th, 2023

States Will Need Millions to Protect Affected Wetlands.

After the U.S. Supreme Court stripped federal oversight of millions of acres of wetlands, the financial maintenance of those lands now falls to the states. It could take years for them to address the loss of federal standards, if they do it at all.

Earlier this year, the U.S. Supreme Court stripped federal oversight from millions of acres of wetlands long protected under the Clean Water Act. Now, erecting safeguards to ensure those waters are not polluted, drained or filled in by developers falls to the states.

They're finding that it's not easy.

"States and tribes already didn't have enough funding to support the programs they have, and now they are being put in a position where they need to step up," said Marla Stelk, executive director of the National Association of Wetland Managers, a nonprofit group that represents state and tribal regulators.

Continue reading.

governing.com

by Alex Brown, Stateline

Dec. 29, 2023

Private Credit Attracts Billions From US Pension Plans.

- **State and local funds boost allocations to booming sector**
- **Retirement plans seek higher returns, but there are risks**

US state and local retirement funds are pumping billions into private credit, joining the stampede into a booming sector of finance in the pursuit of higher returns.

These systems are collectively allocating at least $100 billion of their roughly $5 trillion in assets into private debt, according to Equable, a bipartisan pension researcher founded by public finance

leaders. While that's only a sliver of their holdings at present, funds' private credit positions have been steadily growing and are poised to take off as pension plans including the California Public Employees' Retirement System — the largest among its peers and a bellwether — show a keen interest in committing more to the space.

Continue reading.

Bloomberg Markets

By Shruti Singh

December 18, 2023

Forbes: These Are Good Times For Bond Investors And Mid-Cap Stocks

"It's sort of opposite day in the financial markets," George Bory said during Allspring Global Investment's market-outlook press conference. "But for bond investors, these are good times."

Bory, the firm's chief investment strategist for fixed income, said earlier this month in New York that 2024 may be more challenging for equities, but that the bond market is well supported because fundamentally monetary policy is tight, inflation is falling, and economic growth is slowing. He said these are the three most important factors that bond investors want to see.

Headquartered in Charlotte, N.C., Allspring manages $551 billion in assets. The global asset management firm started in 2021 after Wells Fargo sold it to two private equity firms: Reverence Capital and GTCR, which own 70% of Allspring.

Continue reading.

Forbes

by Lawrence Carrel

December 27, 2023

Fitch: Relative Calm for U.S. State & Local Governments in 2024

Fitch Ratings-San Francisco/New York-11 December 2023: Both U.S. state and local government ratings are in a strong fiscal position with a recession looking less likely in 2024, according to Fitch Ratings in its outlook report for the sectors.

Fitch has a neutral sector outlook for state and local governments in the coming year despite slowing economic growth for the U.S. That said, the country should be able to avoid tipping into a technical recession in 2024, which is good news for state and local government fiscal dynamics as they are closely tethered to the macro environment.

"A combination of strong reserves, significant liability reductions and other prudent budget management measures leave state and local governments well positioned," said Senior Director Eric

Kim.

Though the pace of tax policy changes slowed in 2023, it remains historically high with some measures altering the fundamental provisions of a tax code. “Tax cuts can have unexpected consequences for taxpayer behavior and economic response, particularly cuts that cover broad aspects of tax policy as Fitch observed in some states,” said Kim. Revenue volatility that significantly exceeds a state’s expectations could pose near- and medium-term fiscal risks.

Commercial real estate exposure, and particularly office exposure, is another area of increased focus for local governments, most of which have sufficiently diverse revenue structures and predominantly residential tax bases. “Larger urban centers with substantial commercial office space remain sensitive to secular changes in office policies and commuting patterns,” said Senior Director Michael Rinaldi.

Fitch’s ‘U.S. States and Local Governments Outlook 2024’ is available at ‘www.fitchratings.com’.

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S&P U.S. Public Finance 2023 Year In Review: Better Than Expected

Key Takeaways

- Credit fundamentals were relatively strong this year for most sectors, and we expect this to continue as we look ahead to 2024. Some sectors are facing credit pressure and their challenges will be detailed in our 2024 sector outlook publications.
- Higher interest rates and inflation, coupled with our expectations for slower economic growth in the year ahead, will create headwinds from a credit perspective.
- Proactive management and governance are key to credit stability, given the broad range of risks facing governments and not-for-profit entities such as extreme weather events, cyber attacks, demographic shifts, labor force imbalance, and workplace trends.

Continue reading.

12 Dec, 2023

NASBO State Expenditure Report.

View the NASBO report.

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

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15 Dec, 2023

S&P U.S. Public Finance Rating Activity, November 2023

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Fitch Rtgs 2024 Outlook: Strong Credit Profiles Support US CDSL Sector Despite Expected Slowdown

Fitch Ratings-Chicago/San Francisco/New York-13 December 2023: While the U.S. economy has remarkably averted recession thus far, the U.S. Community Development & Social Lending (CDSL) sector is not out of the woods just yet. Although Fitch is no longer forecasting a recession in 2024, the U.S. economy is expected to slow sharply as higher interest rates and a slowdown in bank credit weigh on consumer spending and private investment. However, Fitch believes that CDSL issuers are well-positioned to face these headwinds.

“Issuers in the CDSL sector have repeatedly demonstrated their resilience and adaptability during turbulent economic times,” says Karen Fitzgerald, Fitch Senior Director and Sector Head. “Given their strong financial profiles, conservative risk management practices, effective oversight, and successful track records, we expect CDSL issuers to remain steadfast as they face ongoing uncertainty and the continuing challenges of housing unaffordability and limited market access in 2024.”

Fitch made 19 downgrades and one upgrade to the sector’s ratings in 2023. Sixteen of the 19 downgrades were driven by direct linkages of U.S. housing finance agency (HFA) loan programs to the U.S. sovereign rating, which Fitch downgraded on Aug. 1. These 16 credits are primarily secured by mortgage-backed securities (MBS) issued by Ginnie Mae, Fannie Mae and/or Freddie Mac.

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Corporate and Municipal CUSIP Request Volumes Rise in November.

NORWALK, Conn., Dec. 14, 2023 (GLOBE NEWSWIRE) — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for November 2023. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly increase in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 5,907 in November, which is up 4.3% on a monthly basis. On a year-over-year basis, North American corporate requests closed the month up 15.9% over year ago totals. The monthly volume increase was driven by a 5.6% increase in request volume for corporate debt and a 3.1% increase in requests for U.S. corporate equity identifiers. November also saw a 5.1% increase in request volume for short-term certificates of deposit (CDs) with maturities of less than one year, while request volumes for long-term CDs (maturities greater than one year) fell 9.0%.

Municipal request volume rose for a second straight month in November. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – climbed 2.7% versus October totals. On a year-over-year basis, overall municipal volumes are down 6.0%. Texas led state-level municipal request volume with a total of 146 new CUSIP requests in November, followed by California (72) and Indiana (70).

Continue reading.

KBRA Releases Research – 2024 Public Finance Sector Outlook: U.S. Airports Navigate Strong Post-Pandemic Landing

KBRA believes the U.S. airport sector has successfully weathered the COVID-19 pandemic and the accompanying sharp decrease in passenger activity that began in March 2020. The combination of generally robust pre-pandemic balance sheet resources, federal recovery payments together with expenditure reductions, as well as support of airlines/concessionaires all contributed to financial stability. Also crucial were cost recovery mechanisms embedded in airline use and lease agreements that ensured coverage of debt service requirements. Significant federal aid (~$18.5 billion) was provided to airport operators as economic assistance to prevent, prepare for, and respond to the

pandemic and to offset the loss of revenues.

Key Takeaways

- Passenger activity approached, and in many instances exceeded pre-pandemic volume, although recovery was uneven across airports.
- Federal recovery funds, airport operator actions, and balance sheet resources assisted in maintenance of stable financial postures.
- Significant infrastructure needs remain to be addressed and financing source adequacy is ongoing.
- Environmental issues as well as potential reputational and cybersecurity risks remain prominent.

Click here to view the report.

December 12, 2023

S&P U.S. Not-For-Profit Retail Electric Sector Update And Medians: Despite Some Deterioration, Resilient Metrics Support Ratings

Key Takeaways

- Nearly 60% of S&P Global Ratings' not-for-profit retail electric utility ratings are in the 'A' category, with a median and modal rating of 'A+', reflecting our view of healthy operations and finances amid utility-specific and industrywide challenges.
- Largely stable outlooks reflect our expectation that most issuers are well positioned to manage the challenges facing the sector, yet we are seeing that inflationary pressures are affecting some utilities where retail rates are not increasing in lockstep with cost increases or are exhibiting rising delinquent accounts.
- Median financial metrics for fixed-charge coverage and debt to capitalization have held for the past three years, and we attribute this to widespread rate-setting autonomy, the general practice of passing through power and fuel costs to ratepayers, and credit-supportive management policies and practices.
- However, even as the median nominal amount of available financial reserves has increased over the past three years, median days' liquidity has slightly declined as utility operating expenses have increased.
- We lowered the rating on seven credits while raising the rating on three credits in 2023 through November. We revised four outlooks to negative from stable and two to positive from stable.

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Fitch: Federal Funds Ease US Water Utilities' Capex Burden but Gap Remains

Fitch Ratings-New York/Austin-12 December 2023: The American Rescue Plan Act (ARPA) and the Bipartisan Infrastructure Law (BIL) provide important funding support to water and sewer utilities to address needed infrastructure improvements and maintenance, Fitch Ratings says. Despite the significant infusion of funds, Fitch estimates a funding gap in excess of $85 billion over the next five

years that will need to be covered by paygo or additional debt.

Federal funding under ARPA and the BIL is supportive of water utility credit quality as it helps maintain and improve existing infrastructure, thereby moderating increases in Fitch's life cycle ratio, a measure of the age of capital assets. Federal grants under these laws also offset some of the need for new debt funding and significant rate increases to address capital plans, supporting overall affordability.

Utilities face increasing capex costs given inflation, aging infrastructure, and Environmental Protection Agency (EPA) mandates and proposed rules, namely per- and polyfluoroalkyl substances (PFAS) remediation, Lead and Copper Rule Revisions (2021) and Lead and Copper Rule Improvements (2023), which would require most water systems to replace lead service lines within 10 years.

Water supply and sewer construction spending were up 15.3% and 27.2%, respectively, in October 2023 from a year ago, according to Census data. Within the Fitch-rated portfolio, five-year capex/depreciation ratios have been increasing year over year, exceeding 150% since 2019, reflecting sustained, robust capital spending. This spending has kept the Fitch-calculated life cycle ratio relatively stable at around 37% for the last several years.

The EPA estimates $625 billion of total water infrastructure needs over 20 years for states and territories, according to the September 2023 Drinking Water Infrastructure Needs Survey and Assessment (DWINSA), based on 2021 data. This represents an increase of 32% from the last survey based on 2018 data. Distribution and transmission compose the largest need at 67% of total infrastructure needs. Lead line replacement alone is estimated to cost between $50 billion and $80 billion, per the DWINSA.

The BIL provides $35.7 billion in funding through 2026, the majority of which will be grants or principal forgiveness loans, specifically for water infrastructure ($50 billion total inclusive of wastewater funding). ARPA funding separately supports an estimated $55 billion of additional water/sewer investments through 2026. Much of this funding will flow through State Revolving Funds (SRFs). Funding eligibility is not solely based on capital needs, as a significant portion of federal grant amounts are set aside for disadvantaged communities.

The EPA also provides a standard annual SRF allotment via the drinking water ($1.1 billion in 2023) and clean water ($1.6 billion in 2023) SRFs with each receiving an additional 20% state match. Recent use of congressional earmarks benefiting certain states over others and proposals to cut annual SRF funding could limit this resource in the future. However, the proposed cuts do not appear to have broad support and may not make it into the final federal budget.

The funding gap between infrastructure needs as assessed by the EPA and annual SRF allocations (inclusive of state match requirements), ARPA and BIL funding is likely to widen after ARPA and BIL programs expire. It may need to be filled by additional borrowing or deferring discretionary capital projects.

Federal and state financing options may also be available, but most will be in the form of loans instead of grants. This includes low-cost loans provided through the Water Infrastructure Finance and Innovation Act (WIFIA) program and state programs such as the State Water Implementation Fund for Texas. The municipal water systems of Chicago and Philadelphia received significant WIFIA loans to replace lead pipes, and Orange County Water District, CA received funding to address PFAS contamination.

S&P: Pending Federal Regulation Could Significantly Affect Thousands Of U.S Water Utilities

Key Takeaways

- Per-and-polyfluoroalkyl substances (PFAS) contamination could pressure liquidity reserves and affordability in the U.S. water utilities sector, as the costs will likely be passed through to consumers
- Small utilities would be more vulnerable to credit deterioration due to the effects of the proposed regulation
- S&P Global Ratings views the impact of PFAS regulation on health and safety positively given heightened public awareness around potential forever chemical contamination

Proposed federal regulation related to emerging contaminants could affect the credit quality for thousands of U.S. water utilities, given the potential for increased capital and operating costs that could pressure rate flexibility.

In March 2023, the Environmental Protection Agency (EPA) proposed a national primary drinking water regulation for PFAS, otherwise known as forever chemicals, which is expected to be finalized in the next several months. For water utilities across the U.S., the proposed MCL might result in costly treatment upgrades, ongoing monitoring and asset replacement, disposal, and staffing.

S&P Global Ratings anticipates these costs will require meaningful rate increases in a rising-cost environment. Regulatory pressure, rising interest rates, and inflationary cost pressures are expected to weaken affordability for some utilities, especially smaller providers with vulnerable demographic characteristics. Failure to pass through mandated costs could weaken financial margins and credit quality.

Annual Financial Impact On Sector Could Approach $3 Billion

Initial costs might be limited to simple testing and ongoing monitoring of the water supply, but at the most stringent proposed MCL, the EPA estimates 4,300 water utilities will be affected by one or more PFAS contaminant. The American Water Works Association estimates that could grow to 7,000 utilities, with a total financial impact on the sector of nearly $3 billion annually in additional operating and maintenance costs. Disposal of toxic biosolids, carbon filters, and any other contaminated treatment bioproducts is estimated to add $3.5 billion in annual costs for U.S. utilities. In our view, these costs are substantial, but we view favorably the effects to health and human safety, with advanced treatment providing higher water quality and customer confidence in addition to upgrading technology, which can be used to meet further regulatory requirements.

We view smaller utilities and those with vulnerable economic metrics as particularly at risk, given the more limited ability to pass-through costs and thinner operating margins and nominal liquidity. We expect that if the proposal is implemented, utilities might seek regional partnership or consolidation to better manage capital expenses and leverage economies of scale, which we view favorably. Higher cost burdens will fall on utilities with less-diversified water-supply or have large watersheds exposed to industrial use. In addition, identifying and sourcing a new water supply, if PFAS detections occur, can have significant cost implications for utilities. The proposal’s three-year implementation period for utilities means demand for granular activated carbon, certified operators, and construction bids will grow and potentially escalate costs, exposing utilities to supply chain and inflationary challenges.

Many utilities have successfully implemented remediation efforts ahead of the finalized MCL, incorporating the capital and operating costs associated with enhanced treatment. We believe utilities that demonstrate strong relationships with major industrial customers and their rate-base will fare better in the long term as installation of pretreatment and timely adoption of rate increases assist in maintaining stable operating margins through the capital-intensive period. We believe transparency and accountability are critical to ratepayer trust, incorporated within our view of rate-setting flexibility through our Operational Management Assessment. Furthermore, financial costs could be defrayed by successful litigation against primary polluters such as 3M and Dupont, which are currently expected to pay approximately $12 billion and $1 billion, respectively. The U.S. government is also expected to provide grants and additional funding opportunities, which we view favorably. However, we note federal funding will not be available for operating costs past initial design and build.

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