Long-Dated Munis Reach Cheapest of 2021 Amid Tax-Hike Debate.

• Weakening relative to Treasuries comes as fund inflows slow
• Latest ICI data show smallest intake since outflow in March

Long-maturity municipal bonds have reached the cheapest levels seen all year as demand for tax-free debt fades with Democratic lawmakers in Congress struggling to determine how to boost revenue to help pay for President Joe Biden's agenda.

Yields on benchmark 30-year munis are now about 89% of those on similar-maturity Treasuries, the highest proportion of 2021, according to data compiled by Bloomberg. The ratio is extending its climb from record lows set around mid-year as cash flooded into state and local debt, in part from high earners looking for shelter from potentially higher tax levels.

But Democrats' inability to hammer out an accord on tax increases has helped erode that demand. A proposed levy on billionaires' assets has been dropped in negotiations, and legislators are now discussing a surtax for those earning more than $10 million, House Ways and Means Chair Richard Neal said Wednesday. The back and forth is adding to the uncertainty around the possibility of steeper taxes on income.

"As long as those prospects continue to wane, I think that is going to have an impact upon municipal demand," said Jeff Lipton, head of municipal credit strategy at Oppenheimer & Co. "I think by the end of the year, munis will comfortably outperform Treasuries, even though that performance spread may narrow."

Munis are on track for a third straight monthly decline for the first time since 2016. Driving home the ebbing appetite for the debt, muni mutual funds collected $193 million during the week ended Oct. 20, the smallest intake since an outflow in March, according to the Investment Company Institute.

Even amid the latest slide, state and local debt remains one of the stronger corners of fixed income this year, earning 0.4% through Tuesday's close while Treasuries have lost almost 3%, Bloomberg index data show. And there's little doubt that a broad bond-market selloff amid concern about elevated inflation is contributing to the waning appetite for munis.

"Fund flows are weakening because rates are rising, it is as simple as that," said Vikram Rai, head of municipal strategy at Citigroup Inc.

Still, investors say they're monitoring the shifting political sands in Washington as a key part of the muni market backdrop in coming months.

"It seems like when the whole Biden infrastructure plan came, a lot of the tax reform was already priced into the market," said Max Christiana, a portfolio manager at Belle Haven Investments LP. "Now you've had a lack of progress from Congress, and you're seeing some fatigue in the market."

Bloomberg Markets

By Nic Querolo

October 27, 2021, 10:40 AM PDT Updated on October 27, 2021, 12:46 PM PDT

Munis Head for Longest Slide Since 2016 on Sign of Ebbing Demand.

- **3-month drop comes as state, local mutual funds draw less cash**
- **Analysts point to impasse in D.C. on spending plans, tax hikes**

Municipal bonds are headed for a rare three-month slide, joining a broad slump in the U.S. debt market, amid signs that the insatiable demand that's buoyed tax-exempt securities this year may be waning.

Muni mutual funds collected $385 million of cash in the week ended Oct. 13, according to Investment Company Institute data. That was the second-smallest haul since March, and it compares with the $1.9 billion weekly average for 2021. What's more, municipal exchange-traded funds saw an outflow for the first time since February, CreditSights data show.

It's a possible indication that muni investors may be tiring of waiting for lawmakers in Washington to hammer out new spending measures that include tax increases on wealthy Americans. The expectation of such legislation has been a key driver behind the influx of cash into municipal debt this year, fueling the market's outperformance relative to Treasuries.

"Some of the slowdown in mutual fund flows may be due to seasonal factors, but because flows into muni ETFs have also slowed in the past two weeks, we think that there is a partial shift in market sentiment occurring," wrote Patrick Luby and John Ceffalio at CreditSights in a Monday research note.

The lackluster demand combined with rising Treasury yields have munis on track to lose 0.4% in October. It would be the third straight monthly decline, the first time that's happened since late 2016, according to Bloomberg index data. It's not as rare an occurrence in Treasuries, which are on the cusp of a similar slump and also suffered a four-month losing streak from December through March.

The appetite for munis may falter further should expectations for higher tax rates not materialize, said Matt Fabian, a partner at research firm Municipal Market Analytics.

"Congressional Democrats are finding those hikes to be difficult to implement," Fabian and colleague Lisa Washburn wrote in a note dated Monday.

'More Value'

Some money managers are finding a silver lining. Nisha Patel at Parametric Portfolio Associates LLC said the softening market has created a buying window for the ample amount of cash waiting on the sidelines.

"We saw a bit more value than what the new normal has been as of late," she said. "It's as exciting as it's been in a little bit of time."

Of note, municipals are still up for 2021, earning 0.4%. That's better than U.S. Treasuries, which have lost 3% this year as elevated inflation has led investors to bring forward bets on when the Federal Reserve will starting lifting borrowing costs.

"If you pull money out of munis, where are you putting it?" Patel said.

There's another way to gauge the opportunity created by the selloff. Relative to Treasury yields, muni rates are close to a seven-month high. That ratio hovered near all-time lows for months in 2021 as cash poured into tax-free debt.

"We reached a point where it was logical to have a bit of a pushback," said James Iselin, head of the municipal fixed-income group at Neuberger Berman Group. "We need higher yields, we need ratios for high-grade bonds to be more attractive, all those things are healthy for the market."

Bloomberg Markets

By Danielle Moran

October 26, 2021, 11:00 AM PDT

Muni-Bond Niche Defies Sales Slump as Banks Seize on Cheap Rates.

- **Gas-bond sales rises on gap between tax-exempt, taxable yields**
- **Barclays says such sales could hit record high this year**

Municipal-bond sales are surging in one corner of the market as banks seize on a way to secure low-cost financing, bucking the broader slowdown in borrowing by state and local government agencies.

Issuance of so-called prepaid gas bonds — which municipal utility agencies sell to lock in long-term fuel supplies from commodity trading arms of banks — have jumped to some $6.5 billion this year, more than four times as many as were sold in all of 2020, according to data compiled by Bloomberg.

While a recent surge in natural gas prices may be giving utilities a reason to borrow to lock in prices now, the increased use of such bonds has been driven by something more technical: the difference between yields in the tax-exempt and taxable debt markets. That gap widened earlier this year as investors shifted into municipal bonds on speculation that tax rates will rise under President Joe Biden.

That's effectively given banks access to a low-cost source of funds in the municipal-bond market, since they receive the proceeds of the debt sales in exchange for providing gas supplies in the years ahead.

"Its simply cheap financing for banks right now," said Charlie Hill, a portfolio manager at T. Rowe Price Group Inc. "Munis are very rich to Treasuries in the front end of the curve, so if [prepaid gas bonds] can price relative to a rich AAA, its cheaper than coming in the corporate market."

Two year tax-exempt bond yields over the past two decades have, on average, been roughly the same as those on Treasuries. But the municipal bonds were yielding about 49% of Treasuries by the close of trading Thursday. In August, that ratio hit a record low 26%, according to data compiled by Bloomberg.

Barclays Plc analysts led by Mayur Patel expect the brisk pace of prepaid gas bond sales to continue, putting them on pace for a potentially record-setting year.

The analysts said that such issuance historically has had more to do with the relationship between market interest rates than it has with commodity prices.

“While higher prices may attract municipal utilities to structure prepay gas deals in order to lock in long-term savings on their natural gas purchases, we find that the historical relationship between natural gas prices and prepaid gas supply is not that strong,” the analysts wrote in an Oct. 21 research note.

Bloomberg Markets

By Nic Querolo and Sri Taylor

October 22, 2021, 11:03 AM PDT

— With assistance by Natalia Lenkiewicz, and Martin Z Braun

High Yield Municipal Bonds Have Pulled Back - A Buying Opportunity?

As long-term interest rates have risen since the start of August from 1.17% to 1.63%, both investment-grade bonds and high-yield municipal bonds have sold off, explains Marvin Appel of Signalert Asset Management.

In the case of high-yield municipal bond funds, declines from August – October have ranged from 1.2%-1.8%. In comparison, the Vanguard Total Bond Market Index Fund (VBMFX), a taxable investment-grade bond fund) lost 1.6% over the same period.

Considering that high-yield municipal bond fund portfolios have longer maturities (typically nine years’ duration) than the average investment-grade bond (6.5 years), high-yield municipal bond funds have held up better than one might have feared. Year-to-date, they remain one of the best areas of the bond market. The benchmark S&P High-Yield Municipal Bond Index is up 5% in 2021, compared to much smaller gains in investment-grade munis (S&P Municipal Bond Index up 0.9%) and to a total return loss of 2% in investment-grade bonds.

Continue reading.

moneyshow.com

10/29/2021

SIFMA: US Fixed Income Securities Statistics

SIFMA Research tracks U.S. fixed income markets, including issuance, trading, and outstanding data breaking out U.S. Treasuries, mortgage-backed securities (MBS), corporate bonds, municipal securities, federal agency securities, asset-backed securities (ABS), and money markets (outstanding data only). Data is downloadable by monthly (issuance and trading only), quarterly and annual statistics including trend analysis.

Current YTD statistics include:

- Issuance (as of September) $9,915.9 billion, +10.9% Y/Y
- Trading (as of September) $955.8 billion, -2.4% Y/Y
- Outstanding (as of 2Q21) $51.5 trillion, +5.8% Y/Y

Download xls

Climate Change Litigation: The Case For Better Disclosure And Targets

Key Takeaways

- The volume of climate change-related litigation against companies and governments worldwide appears to be growing.
- Climate change attribution science is strengthening and could increasingly contribute to judgments against heavy emitters.
- We believe climate-related judgments may ultimately have financial and reputational consequences for affected issuers.
- While to date climate litigation has not had a material credit impact, it is one of many potential levers that could make transition and physical risk crystalize sooner for issuers globally.
- In this paper, we explore in case study form the current state of climate litigation globally and suggest ways in which the potential financial and reputational risks associated with this emerging issue could be identified and managed.

Continue reading.

6 Oct, 2021

S&P ESG Brief: ESG Pension And OPEB Analysis In U.S. Public Finance

Environmental, social, and governance (ESG) is integral to our public finance credit analysis and we continue to amplify our transparency efforts for market participants. This brief aims to identify when our view of pension analytics and governance as part of ESG intersects with credit rating analysis.

Credit rating analysis for pension and OPEB is built around cash flows, both current and future, and how contribution costs could negatively affect an issuer’s willingness and ability to meet its debt obligations and operational expenditures. In our view, ESG factors begin to overlap with our credit rating analysis for pension and OPEB when prioritization of plan contributions, through forward-looking plan governance decisions, is viewed through the lens of risk management, culture, and oversight.

Continue reading. [Registration required.]

7 Oct, 2021

S&P U.S. Higher Education Rating Actions, Third-Quarter 2021.

View the S&P Report.

13 Oct, 2021

S&P U.S. Not-For-Profit Health Care Rating Actions: September 2021 And Third-Quarter 2021

View the S&P Report.

14 Oct, 2021

S&P: Pension Obligation Bond Issuances Continue To Increase In 2021

Key Takeaways

- Pension and other postemployment benefit (OPEB) obligation bond (POB and OOB) issuance is accelerating in the U.S.
- Factors driving issuances include a favorable interest-rate environment and issuers' desire to control contribution escalation.
- Key credit concerns, while unique to each U.S. public finance (USPF) issuer, primarily include market returns falling short of expectations and pension contribution increases pressuring budgets.
- Obligations that aim to address pension liabilities might come in different forms, but with similar credit risks.

Continue reading. [Registration required.]

Fitch: U.S. Airport & Toll Road Traffic Inch Closer to Pre-Pandemic Highs

Fitch Ratings-New York-11 October 2021: Traffic at U.S airports and on toll roads continues its gradual return to pre-pandemic levels, according to Fitch Ratings in its latest U.S. Airports & Toll Roads Traffic Monitor.

One of the hardest hit infrastructure sectors due to COVID-19, U.S. airports have recovered to 70% of 2Q19 levels on average through the end of June, with a few airports exceeding pre-pandemic levels in certain leisure focused O&D markets. 'Airport traffic continues to improve across the U.S., though the recent surge of Delta variant infections is an area to watch to see if it pares back recent passenger growth,' said Director Henry Flynn. Domestic leisure traffic continues to show strength, while international traffic and business travel are expected to recover more slowly.

Conversely, one of the most resilient sectors during the pandemic continues to recover at a steady pace, with U.S. toll road average traffic volume in 2Q21 at 90% of 2Q19 levels. Certain markets continue to outperform and have already returned to pre-pandemic levels, particularly in Texas and Florida.

The traffic monitor is a web-based interactive platform that provides traffic volume information for more than 50 U.S. issuers. It compares current traffic levels as a percentage of 2019 traffic levels, to allow tracking of the sector's recovery to pre-pandemic levels. The monitor also compares actual data versus Fitch Rating Case, flagging how each issuer is performing against Fitch's scenarios. It provides several ways to sort data and produces charts to allow for visual comparisons between issuers. The latest version of the monitor includes enhanced functionality to compare recovery across airports at different time periods since the onset of the pandemic, in addition to map functionality.

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

For more information on Fitch's latest airport recovery assumptions, visit: https://www.fitchratings.com/research/infrastructure-project-finance/fitch-revises-us-air-traffic-assumptions-upward-for-airlines-airports-12-07-2021.

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[Fitch: U.S. Public Finance Strengthening Despite Uptick in 3Q Downgrades]

Fitch Ratings-New York-11 October 2021: U.S. public finance sectors hit hard by the coronavirus pandemic continued to move away from the pandemic's fallout last quarter, according to Fitch Ratings in its latest quarterly rating actions report.

Fitch upgraded 26 U.S. public finance ratings and downgraded 30 in third-quarter 2021 (3Q21) compared with 28 and 18, respectively, in 2Q21. The uptick in downgrades last quarter was partly driven by unusual downgrade activity in the public power sector, namely among Texas public power and electric cooperatives.

The uptick in downgrades was driven in part by changes Fitch made to its criteria for U.S. life plan communities (LPC) earlier this year; subsequent review of credits placed ‘Under Criteria Observation’ contributed modestly to the number of downgrades. Overall, about 87% of U.S. public finance ratings carry a Stable Rating Outlook.

The fiscal turnaround continues for U.S. states with Fitch revising its Rating Outlooks for New Jersey and Nevada to Stable from Negative and Ohio’s Rating Outlook to Positive from Stable last quarter. Updated revenue forecasts for fiscal years 2021 and 2022 generally reflect improved economic performance and outlooks. However, ‘caution is warranted for some states around the tax revenue effects if services spending rebounds while goods spending weakens,’ according to Arlene Bohner, Fitch’s Head of U.S. Public Finance.

Fortunes also continue to improve more broadly for not-for-profit hospitals with most providers well positioned to absorb future coronavirus aftershocks, even with cases on the rise again. Colleges and universities are also seeing improvement with no downgrades in 3Q21, one upgrade and six favorable Outlook revisions thanks to better-than-anticipated enrollment and favorable operating performance. That said, net tuition revenue growth will remain stagnant through both this academic year and the next.

‘U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2021’ is available at ‘www.fitchratings.com’.

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Fitch Ratings Publishes Special Report on Transfers for U.S. Public Power Utilities.

Fitch Ratings-New York/Austin-12 October 2021: Fitch Ratings has published a special report on transfers for U.S. Public Power Utilities. This report summarizes Fitch’s view and treatment of transfers in Fitch’s U.S. Public Power Rating Criteria.

The full report, “Transfers Not a Significant Credit Risk for Public Power Utilities”, is available at www.fitchratings.com.

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Fitch Ratings Launches Summary Sheet of Changes to ESG Relevance Scores.

Fitch Ratings-London-15 October 2021: Fitch Ratings has summarised changes to ESG Relevance Scores (ESG.RS) for the first nine months of 2021. Across the Fitch rated universe there were nearly 380 instances of an ESG.RS being changed, split nearly equally between scores improving and deteriorating. In some cases, an issuer or issue will see a deterioration and subsequent improvement, but they are counted as unique changes.

Changes to scores related to environmental issues accounted for 19% of score changes, with slightly more than half being improvements to scores, mostly from a ‘3’ to a ‘4’ and a few to a ‘5’. This indicates that a general issue was having a material impact on the credit rating, either in conjunction with other factors (‘4’) or was a key rating driver (‘5’).

‘Exposure to Environmental Impacts’ was the most frequent cited issue, with the highest concentration around US public finance (USPF) entities, specifically utilities affected by the extreme cold weather in Texas in February 2021. With 27 scores increasing, this was the highest concentration in any asset class around a single general issue.

There were also some increases in ESG.RS that reflected a positive impact on the credit rating. These were driven by sustainable building practices that led to a rise in scores in two US structured finance CMBS issues and a non-bank financial institution transaction that focused on sustainable infrastructure.

Improvements in ESG.RS occurred for a variety of reasons and usually scores moved from a ‘4’ to a ‘3’. Most instances were in corporates, with smaller concentrations in financial institutions and public finance. The reduction in ESG.RS scores were due to clear and updated emissions targets, divestment from coal-fired power generation and reduced exposure to extreme weather.

Changes to scores related to social issues accounted for 14% of all changes. Financing and leasing issuers had a high prevalence of deterioration in scores around ‘Customer Welfare’ due to exposure to high-cost consumer lending and to compliance risks. Under general social issues, there were instances of score increases reflecting a positive impact on the rating (signified with a ‘+’ next to the score), mainly revolving around a business’s positive impact on access and affordability of financial or housing services to under-banked or under-served populations. These can be beneficial through a financial institution's central policy role or through access to state-guarantees to provide banking services to citizens with lower incomes.

The largest share of score changes was in governance, with nearly two-thirds of all score changes, in line with the wider trend of Governance issues being the dominant drivers of elevated ESG risks in credit ratings. The split was equal between scores being raised and lowered.

Half of all score changes within governance were improvements, but nearly 20% of these were instances of the score falling from a '5' to a '4', indicating that the issue was still pertinent for the credit rating. Most decreases were in corporates often due to material weakness in internal controls or owners' strong influence on management.

North American entities experienced material weakness in internal controls. APAC issuers had problem that caused delays in finalising refinancing and independence risk at board level. European and South American companies had concerns over concentration of ownership and reorganisation. There was also a concentration in 'Management Strategy' and 'Financial Transparency' issues.

For further details, please see a sample of "ESG.RS Changes Summary 9M 2021" available at www.fitchratings.com. The full list of ESG.RS changes, including rationales and links to the relevant RACs, is available for Fitch Solutions feed subscribers.

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'Fiscal Justice Ratings' Fight Police Brutality With Finance.

A new project aims to incorporate the cost of lawsuit settlements and inequality when rating municipal bonds.

Napoleon Wallace, a bond analyst and municipal budget wonk, sees disaster in the finances of America's largest cities where others do not.

When it comes to assessing the value of municipal bonds issued by many American cities, he says investors — and the public — are often looking at the wrong numbers, overlooking the true embedded costs of a social justice system that has become normalized. He believes paying more attention could be an path for change.

To Mr. Wallace, factors that contribute to inequality, including police misconduct, add up to trouble for both residents and city finances. He believes that municipal bond investors should consider "fiscal justice" before investing in a city's debt. His firm, Activest, plans to introduce a new type of ratings system this year to help them do it.

Take Louisville, Ky. The city gets an AA rating or higher from the major credit rating agencies, including Fitch, Moody's and Standard & Poor's. Mr. Wallace, however, gives Louisville's finances poor marks across the board. According to his research, which he plans to publish in a report next month, the city is overreliant on fines and fees to generate revenue, corporate tax abatements are excessive and housing affordability is a problem. Mr. Wallace estimates that it also loses $100 million a year because of inequality, in large part because lower wages for Black and Latino residents result in lower tax revenue for the city and less economic activity.

Then there are the legal settlements. Louisville has paid nearly $31 million over the past five years to settle cases involving excessive police force, according to the report, which used data from the nonprofit Root Cause Research Center in Louisville. Not all of these payments have been publicly disclosed. The largest, $12 million, was made last year to the family of Breonna Taylor after Louisville police officers shot and killed her during a botched raid on her apartment.

A spokeswoman for the Louisville mayor's office said Activest's police settlements figure was wrong, but did not offer an alternative. "Equity is the central principle around every decision Louisville Metro Government makes," said Jessica Wethington, the office's deputy director of communications. "This year's city budget focused on accelerating the city's economic recovery, reimagining public safety, expanding youth development efforts and housing."

Counting the cost of police misconduct

Activest bases its ratings on eight social and justice factors, with a heavy emphasis on policing, but also education, health care and affordability. Some practices that traditional credit raters see as good, such as high revenue from fines or fees, use of tax abatements and large police budgets, can erode a city's tax base, exacerbate overpolicing and serve as early warning signs of social unrest, Mr. Wallace says. His fiscal justice ratings aim to account for this long-term impact.

The ratings also acknowledge the potential cost of police misconduct, which traditional rating agencies have typically ignored. In one exception that illustrates how police killings can destabilize city budgets, Moody's downgraded the bonds of Ferguson, Mo., after a white police officer shot and killed Michael Brown, an unarmed Black teenager, in 2014. Moody's cited "the potential financial impact of ongoing litigation costs," legal settlements and negotiations with the Department of Justice to overhaul the city's justice system.

"The ability to clearly and precisely distill all of the many fiscal justice risks into an outlook is very needed in this market," Mr. Wallace said.

Activest, which Mr. Wallace founded six years ago with Ryan Bowers, a racial equity consultant, plans to publish research reports and ratings for as many as 50 U.S. cities. The initial goal is to bring to light police settlements, both public and private, and identify cities that are most at risk of not being able to pay them or meet other obligations.

But the ultimate goal is to use the bond market to rein in police brutality and make cities more just. As investors look for socially responsible investments, Mr. Wallace believes Activest's fiscal justice ratings could influence bond prices and, therefore, the interest rates. By attracting more investors, a city would lower its borrowing costs, improving budgets and possibly allowing politicians to lower taxes or at least spend money elsewhere. And that could provide an incentive to treat citizens more fairly.

E.S.G. for municipal bonds

Municipal bonds were the original socially responsible investment. In ubiquitous television commercials that ran throughout the 1970s and 1980s, the bond salesman Jim Lebenthal stood in front of landfills, power plants and bridges to pitch the idea that investing in local government debt was putting money toward a better America.

But the modern iteration of socially responsible investing, known as the environmental, social and governance, or E.S.G., movement, has mostly steered clear of the muni bond market, and when E.S.G. investing tactics are applied to muni bonds, the focus is usually on environmental issues.

One reason for this, muni market experts say, is a lack of data. Larry Bellinger, the head of municipal bond research at AllianceBernstein, which manages $55 billion in local government debt, said that he had found relatively adequate research on carbon footprints and natural hazards, but that on social and justice issues, “data is a problem.”

That could change as muni bond investors become more interested in these issues. Michael Belsky, a former mayor of Highland Park, Ill., and a municipal bond veteran at HilltopSecurities, said that George Floyd’s murder last year, and the protests that followed, had sparked much of the new interest in E.S.G. from muni bond investors.

After Mr. Floyd was killed by a Minneapolis police officer, there were widespread calls to ban so-called police brutality bonds — municipal bond deals that raise money to pay for legal settlements tied to excessive policing. Banning such bonds is difficult because cities rarely raise money specifically for legal settlements. The same bonds that raise money to pay legal settlements, called general obligation bonds, also help pay for garbage pickup, the upkeep of parks and other city services.

Proposed boycotts fizzled. But an E.S.G. approach, which evaluates a number of measures to find out if investment targets, in this case city governments, are acting responsibly may be more lasting.

Some firms are already seeking better data on cities’ social and justice issues. A number of large money management firms, including BlackRock and Vanguard, have recently joined an effort by two minority-owned underwriting firms, Loop Capital Markets and Siebert Williams Shank, to get local officials to answer questions about policing policies, as well as stats on race-based inequalities.

Activest aims to make this type of data easily accessible.

“What Napoleon and Activest are doing is uncovering a new set of data for investors to use,” said Kimberlee Cornett, the director of impact investing at the Robert Wood Johnson Foundation, a nonprofit that is working on its own racial and equity-focused rating score for cities. “Investors are increasingly asking the racial equity question, and if data becomes consistently available, I think investors will pay attention to it.”

Beyond the data problem

The first money management firm to sign on with Activest, Adasina Social Capital, has raised nearly $60 million in less than a year for its fiscal justice investment strategy.

But even with more data and plenty of investor interest, some experts are skeptical that a fiscal justice rating could meaningfully influence bond prices and, therefore, push cities to tackle racial inequities.

Thomas Doe, the founder of Municipal Market Analytics, said that though environmental data and ratings had been in the muni bond market for a while, they had yet to have much impact on borrowing rates.

“Munis default so infrequently that there isn’t enough data out there to prove that fiscal justice has an impact on default risk,” Mr. Doe said.

And even if social ratings are successful, they could create ethical dilemmas. Minority populations in low-rated cities may see their community resources shrink further when borrowing rates rise.

Mr. Wallace of Activest thinks the firm’s fiscal justice ratings not only can influence bond prices but can also be an instrument of engagement.

“Using the power of the purse to motivate municipalities to ask, ‘Is this really the best use of resources for residents and bond holders?’ is a really compelling way to engage the market,” he said.

Adasina plans to buy bonds of cities that perform poorly in fiscal justice and then address the issues with city managers, who may be more willing to listen to their lenders.

“Fiscal justice strategy is driving more money to majority Black communities,” said Rachel Robasciotti, Adasina’s founder. “Activest’s folks, rather than call for divestment, are advocating for reforming behavior.”

The New York Times

By Stephen Gandel

Oct. 16, 2021

Municipal 30-Day Supply Is Highest Since 2020 at $18 Billion.

U.S. state and local governments are projected to issue approximately $18 billion in bonded debt over the next month, according to data compiled by Bloomberg.

This is the biggest 30-day supply in almost a year, with municipal bond sales peaking at $18.7 billion in November 2020. Investors said seasonal factors help explain the surge, citing states and cities seeking to get deals done before any potential delays during the holiday season as one of the main driving forces.

“This time of the year, the markets begin to get distracted by the string of holidays at the end of the year,” said Patrick Luby, CreditSights senior municipal strategist. “That stretch between labor day and thanksgiving become the time of year where it’s convenient for issuers to issue updated financials.”

The upward drift in supply is also likely a response to the threat of higher rates, according to municipal investors. Issuers are constantly on the lookout for refunding opportunities and taxable bonds have provided solid savings.

Bloomberg Markets

By Sri Taylor

October 13, 2021, 11:13 AM PDT

[Cities Sell Muni Debt. One Bank Thinks They Should Buy It Too.]

- **Cabrera pitches clients on merits of cities buying munis**
- **Way to expand investor base amid uptick of taxable muni deals**

At the Cabrera Capital Markets office in Chicago, public finance bankers Brian King and Edward Kurth were kicking around ideas when it occurred to them: amid the current wave of taxable deals, why not expand the investor base by pitching municipal governments themselves to buy the debt?

Municipal treasurers aren't typical buyers of the kind of the debt they sell themselves. They don't benefit from the tax exemption on most muni bonds, and the assets they buy tend to be short-dated. Indeed, state and local governments hold just $20 billion of municipal bonds, a fraction of the universe, according to Federal Reserve data.

But, as King said in a phone interview, municipal issuers always ask underwriters to find more buyers for their bonds. The issuers themselves don't get calls from muni-bond salespeople, and they sometimes turn to corporate bonds to invest their cash. But the rise of taxable municipal sales provides a unique entry.

"It struck us that this would be a natural way for them to vastly increase their investor base," King said. "And at the same time provide an opportunity for municipal treasurers to make what would be really good investments in municipal bonds of other governments."

Since their epiphany at the middle of last year, King said, Cabrera salespeople have ramped up their calls to local governments to buy new muni deals. He and other Cabrera bankers have also pitched government issuers about the potential of tapping this investor base and recommended moves such as marketing directly to governments or even giving such buyers a preference during sales.

Keep Competitive

King doesn't expect a radical shake-up of the investor base. Still, the pitch shows how underwriters are adapting to developments in the staid municipal-bond market and trying to keep competitive with new ideas. More banks are vying for deals, to the benefit of issuers.

There are about 50,000 governmental units managing more than $7.6 trillion of funds in the U.S., according to a Cabrera presentation in June to the California treasurer's office obtained through a public-records request.

Underwriters could pitch municipal buyers for the short maturities — six months to five years — that they are interested in, and if such investors get first dibs, corporate buyers would then have to buy debt further along the curve, King said.

"We're able to generate additional demand in the short end, more order flow," King said.

The record pace of taxable deals is slowing after last year, however. Still, King said the idea holds value as a long-term approach to building up a diverse investor base. He said Cabrera is recommending to their issuer clients that they tell their other bankers to solicit relationships with government buyers.

It's positive that underwriters are thinking creatively, said Matt Fabian, partner at research firm Municipal Markets Analytics. Still, he said, the prospect of munis buying munis is "a little weird."

Sell Quickly

Local governments hold assets that they can sell quickly in times of distress, with their investment policies often requiring highly-rated, short-dated securities.

"If the city itself is in trouble, it's likely that its peers will be in trouble," Fabian said. "And so, its investments would thus be underperforming when the city itself needs more money."

And if there's a default, a city would find itself in the politically awkward position of being a creditor to another local government, he said.

For Tim Schaefer, California's deputy treasurer, Cabrera's pitch was interesting, although "it's not necessarily as applicable to the state of California simply because of the weighting we give to selling tax-exempt debt and longer-dated debt," he said. Indeed, the holdings of top 10 local-government investors of California's general obligation bonds tally about $129 million, much less than the $6.6 billion held by the state's biggest investor, Vanguard Group, data compiled by Bloomberg show.

Still, Schaefer said, other jurisdictions should "absolutely" consider marketing their taxable deals to others.

"It would be unwise to not explore how to expand your buyer's market," Schaefer said. "You won't know until you try."

Bloomberg Markets

By Romy Varghese

October 13, 2021, 10:30 AM PDT

— With assistance by Natalia Lenkiewicz

Muni Trading Hasn't Been So Slow Since Turn of Century.

- **Market's trading volume tumbles 34% this year to 22-year low**
- **Bonds have grown scarce with cash flowing steadily in**

The loneliest place on Wall Street may be the muni-bond trading desk.

Even with the volume of new state and local government debt sales on pace to surpass last year's record, trading activity has dried up considerably. The par amount of bonds traded has tumbled by 34% so far this year to $1.43 trillion, a 22-year low, according to data compiled by Bloomberg.

On average, about $8.9 billion of municipal bonds are changing hands each day, the least since 2001.

The dearth of activity is likely a side effect of the massive influx of cash into the $4 trillion municipal securities market, with mutual funds receiving an average of about $2 billion each week since the start of the year, according to Investment Company Institute figures.

As a result, money managers have faced brisk competition to get in on new bond deals and yields have held near the lowest in decades. And it seems those who own the securities are, on the whole, not eager to sell.

“Overall a lot more investors, whether they are participating in new issues or not, they are just holding on to their paper,” Jonathan Law, a portfolio manager at Advisors Asset Management, said in an interview Wednesday.

It doesn’t look like the gulf between supply and demand will narrow much soon. Over the next month, there’s about $10.6 billion of new municipal debt sales scheduled so far, according to data compiled by Bloomberg. That’s about $14.3 billion less than the amount of cash bondholders will receive from debt that’s being paid off, which they typically seek to reinvest.

Bloomberg Markets

By Shruti Singh and Skylar Woodhouse

August 25, 2021, 11:37 AM PDT Corrected October 12, 2021, 11:07 AM PDT

— With assistance by Natalia Lenkiewicz

Munis In Focus: Puerto Rico Pensions (Radio)

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

Play Episode

Bloomberg Radio

October 15, 2021

Fitch: U.S. Public Finance Strengthening Despite Uptick in 3Q Downgrades

Fitch Ratings-New York-11 October 2021: U.S. public finance sectors hit hard by the coronavirus pandemic continued to move away from the pandemic’s fallout last quarter, according to Fitch Ratings in its latest quarterly rating actions report.

Fitch upgraded 26 U.S. public finance ratings and downgraded 30 in third-quarter 2021 (3Q21) compared with 28 and 18, respectively, in 2Q21. The uptick in downgrades last quarter was partly driven by unusual downgrade activity in the public power sector, namely among Texas public power and electric cooperatives.

The uptick in downgrades was driven in part by changes Fitch made to its criteria for U.S. life plan communities (LPC) earlier this year; subsequent review of credits placed 'Under Criteria Observation' contributed modestly to the number of downgrades. Overall, about 87% of U.S. public finance ratings carry a Stable Rating Outlook.

The fiscal turnaround continues for U.S. states with Fitch revising its Rating Outlooks for New Jersey and Nevada to Stable from Negative and Ohio's Rating Outlook to Positive from Stable last quarter. Updated revenue forecasts for fiscal years 2021 and 2022 generally reflect improved economic performance and outlooks. However, 'caution is warranted for some states around the tax revenue effects if services spending rebounds while goods spending weakens,' according to Arlene Bohner, Fitch's Head of U.S. Public Finance.

Fortunes also continue to improve more broadly for not-for-profit hospitals with most providers well positioned to absorb future coronavirus aftershocks, even with cases on the rise again. Colleges and universities are also seeing improvement with no downgrades in 3Q21, one upgrade and six favorable Outlook revisions thanks to better-than-anticipated enrollment and favorable operating performance. That said, net tuition revenue growth will remain stagnant through both this academic year and the next.

'U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2021' is available at 'www.fitchratings.com'.

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NLC Releases Annual City Fiscal Conditions Survey.

The National League of Cities (NLC) has released its annual City Fiscal Conditions survey, a national survey of finance officers in U.S. cities with populations greater than 10,000 people. Conducted in June and July of this year, the 2021 data were drawn from 443 cities across the country.

The report finds that on average, cities ended FY 2021 with the first revenue losses since the Great Recession (2007-2009), but federal assistance has helped communities of all sizes begin to recover from the economic damage caused by the COVID-19 pandemic. According to the survey, 81 percent of city finance officers said federal aid had a positive impact on FY2021.

"Cities are leading the way in coming up with equitable ways to recover and rebuild from the COVID-19 pandemic," said Clarence Anthony, CEO and executive director of NLC. "Municipal finances are on the mend and the economic outlook is improving as a result of direct, flexible federal relief, such as those from investments in the American Rescue Plan. The data is clear—the nation's economic recovery begins on the Main Streets of our cities, towns and villages."

Some key findings in the survey include that two-thirds of cities surveyed plan to use their American Rescue Plan Act (ARPA) funds to replace lost revenue, while 54 percent of cities will use the funds to support households, small businesses, nonprofits and impacted industries.

Infrastructure remains an important issue facing cities, with half of the finance officers reporting that it was the factor most hindering their ability to balance FY2021 budgets. During the COVID-19 pandemic, cities were forced to pause infrastructure projects to budgetary constraints, and they continue to face challenges in funding infrastructure maintenance and new projects.

"We look forward to Congress finalizing the Infrastructure Investment and Jobs Act so that municipalities and the federal government can work together to build and strengthen the infrastructure that keeps Americans moving," Anthony said.

The full City Fiscal Conditions 2021 survey is available to read here.

National League of Cities

Written by Michelle M. Havich

5th October 2021

67% of Cities Plan to Use ARPA for Lost Revenue.

Cities are more likely to use money to replace lost tax revenues than to spend on infrastructure, according to a National League of Cities report.

Two-thirds of cities expect to use American Rescue Plan Act money to cover lost revenues as city financial officers budgeted for continued revenue declines in fiscal 2021, according to the National League of Cities' annual fiscal survey.

The findings, included in the report released Tuesday, underscore how important federal funding has been for municipalities as they weathered the economic impacts of the coronavirus pandemic, said Clarence Anthony, NLC's CEO and executive director.

The $46 billion distributed directly to cities through ARPA "is a game changer," he said as he spoke Tuesday at a panel discussion about the NLC report.

Continue reading.

ROUTE FIFTY

by ANDREA NOBLE

OCTOBER 5, 2021

[For Once, the Federal Government Really Was Here to Help.]

The pandemic sent municipal revenues into a tailspin. They still haven't fully recovered, but $65 billion from Uncle Sam is easing a lot of pain.

Revenue growth for Philadelphia was so strong heading into 2020 that Marisa Waxman, the city's budget director, felt a little bit like Oprah Winfrey.

"We were so far ahead of estimates, we were bracing for a fight over what to do with all the extra money," she says. "You get a trash truck! You get a street sweeper! You get a tax cut! It was amazing."

The giddy feeling of plenty didn't last. Once the pandemic hit, the city's revenues dried up. Everything but health, public safety and schools came in for cuts. "We had three amazing quarters," Waxman says. "Then the bottom fell out."

It was the same story all over. Cities headed into the pandemic finally witnessing their inflation-adjusted revenues rise above levels last seen in 2007, before the Great Recession. Those gains were wiped out by the pandemic and its immediate shock to the economy.

But revenues turned out not nearly as bad as they could have been. The economy rebounded and remote workers were able to keep spending and paying income taxes. And there were other factors that saved municipal bacon.

Most notably, the American Rescue Plan Act (ARPA), enacted in March, provided $65.1 billion in direct relief for cities, towns and villages. Federal funds were cited by 81 percent of fiscal officers as their single most-positive factor in putting together their fiscal 2021 budgets, according to the National League of Cities' annual city fiscal conditions survey, released Tuesday.

"Cities ended fiscal year 2020 with a revenue loss – the first since the Great Recession – and they budgeted even larger decline for fiscal 2021," says Christiana McFarland, NLC's research director. "These losses pale in comparison to what they could have been without federal intervention."

ARPA was a godsend, but it hasn't solved all problems. In fact, cities and states have been slow to allocate those dollars. Large cities have spent just 8.5 percent of the funds they've received so far, while states have spent only 2.5 percent, according to an Associated Press analysis.

Philadelphia is using all of its $1.4 billion worth of ARPA money to make up for lost revenues over the next several years. Waxman admits it's not a very satisfying decision for residents. No new street sweepers, no new trucks.

"It's new money for old stuff," she says. "ARPA dollars can be spent into 2024, so we're drawing them down over a number of fiscal years as a glide path to allow our other revenues to recover."

Where Taxes Are Collected

Cities caught another break heading into the pandemic. In 2018, the Supreme Court ruled that states could collect taxes on sales from vendors without a physical presence within their borders. The Wayfair decision allowed cities and states to collect billions in revenues that otherwise would have been lost as consumers shifted more of their spending online. "Wayfair was a wonderful, fortuitous decision by the Supreme Court, and a good one," says Michael Pagano, a municipal finance expert at the University of Illinois Chicago.

Depending on their economic mix, some cities benefited from shifts in the economy. Being home to Procter & Gamble – maker of Bounty, Charmin and many other consumer goods – helped Cincinnati's bottom line.

"I guess I should thank everyone who ordered toilet paper, but we had some very strong corporate profits that were completely unanticipated," Andrew Dudas, Cincinnati's budget director, said during a webinar announcing NLC's fiscal findings.

Not every ball bounced Cincinnati's way, however. Corporate and personal income taxes make up more than 70 percent of the city's revenues. When the bottom fell out in the spring of 2020, the city opened up a $50 million line of credit, since Ohio allows cities to borrow in emergencies to pay for basic services.

Thanks to ARPA, Cincinnati didn't have to take on that debt. The city is using just over 75 percent of its ARPA money to make up for lost revenues. The rest is going to help businesses that were hit hard by the pandemic.

Since property tax collections are capped at $29 million, Cincinnati is losing out on the increase in residential property values. Meanwhile, like every other city with a central business district, it has to worry about what percentage of the workforce will be coming back to the office, and when.

"We're estimating around 16 percent permanent reduction to our income tax due to remote work," Dudas says. "We've had some corporations downtown that have brought significant numbers of employees back, but it's nowhere near where it was pre-pandemic."

Waiting on Infrastructure

Everyone is wondering how the economy will be restructured, which raises a chicken-and-egg question: Should cities plan to change their tax codes to reflect the new reality, or do they have to wait and see what the new reality might look like in order to figure out how to capture their share? "After this pandemic, no one knows, but we are definitely thinking about it," says Susan Gooding-Liburd, chief financial officer for Miramar, Fla.

In Philadelphia, remote workers typically make up 40 percent of the city's earned income tax base. "When we projected our revenue losses across a five-year plan, it is still more than $1.4 billion," Waxman says. "We're envious of cities with a property tax."

Two-thirds of the 444 cities analyzed by NLC have prioritized replacing lost revenue with ARPA funds, while 54 percent are also helping out individuals, businesses and nonprofits hurt by the economic impact of the pandemic.

Cities are all over the place in terms of their current fiscal well-being. For fiscal 2021, 18 percent of cities budgeted for revenue growth above 5 percent, while 29 percent budgeted for greater than 5 percent decline. That kind of range is unusual, McFarland says.

Infrastructure was the category named by most finance officers as negatively affecting their 2021 budgets. Many projects were put on hold by the downturn.

Revving them up might take some time. If and when Congress approves an infrastructure package, finding enough engineers and skilled laborers to do the work is going to be a challenge, Waxman says, given the booming construction market. Meanwhile, the rising cost of materials means money won't go as far as it would have when many plans were first drawn up.

Still, a trillion or so in federal infrastructure dollars would allow cities to dream big, rather than simply trying to keep their collective heads above water. "We're trying to make sure we're positioning ourselves to be able to stand on our own two feet," Waxman says, "after the federal money draws down."

governing.com

October 06, 2021 • Alan Greenblatt

[Two Dozen Banks Sidestep Texas Law Punishing Gun, Oil Policies.]

- **Texas barred public work with banks seen targeting industries**
- **The laws triggered a pullback by Citigroup, JPMorgan**

More than two dozen banks have said they can continue working with Texas and its local governments in the wake of new state laws seeking to punish financial institutions that have policies aimed at the gun and fossil fuel industries.

Barclays Plc, TD Securities, Stifel Financial Corp., Wells Fargo & Co. and Jefferies Financial Group are among those certifying that that they don't run afoul of the new laws, according to letters to the state attorney general compiled by the Municipal Advisory Council of Texas, an industry association. The advisory council posted the letters on its web site.

The assertions signal that there are plenty ready to fill the breach left at least temporarily by Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., all of which have seen business grind to a halt in Texas since the new laws took effect in September.

A Republican-backed gun law bars the state and local governments from working with banks that have moved to curtail ties to the firearms industry, an effort to retaliate against them for weighing in on the national debate on gun control. A separate law restricts state contracts with those that have shunned fossil-fuel producers, a major industry in Texas.

The laws promise to shake up the public finance business in Texas, whose swift growth has made it the second-largest issuer of state and local government debt, with some $58 billion sold last year.

The laws have created legal uncertainty for other banks about whether they can still work for Texas governments.

Citigroup, which has temporarily stopped seeking Texas work, has said it believes it will be able to comply with the law. JPMorgan has said it currently can't bid for most Texas work. Bank of America has declined to comment, but it hasn't underwritten any Texas bond deals since the start of last month, according to data compiled by Bloomberg.

Bank of America and Citigroup are listed as not yet posting the letter regarding the effect of the gun and fossil fuel laws on their ability to do business in Texas.

Bloomberg Markets

By Amanda Albright and Danielle Moran

October 8, 2021, 9:42 AM PDT

[Bond Giants' Retreat From Texas Opens Door for Smaller Rivals.]

- **BofA, Citi, JPMorgan out of bond market since law kicked in**
- **Marks a shakeup in $58 billion corner of muni market**

In Texas, plenty of banks are already filling the void left by Wall Street's giants.

Gone, at least for now, are Bank of America Corp., Citigroup Inc. and JPMorgan Chase & Co., the three biggest municipal-bond underwriters, which have seen business grind to a halt since a state law took effect cracking down on companies that restrict work with the gun and fossil fuel industries.

In their place are the likes of UBS AG, Wells Fargo & Co. and smaller players like Hilltop Securities, which are quietly filling the breach in the Lone Star State, where governments and public agencies sold about $58 billion of bonds last year.

UBS, which has been aggressively rebuilding its U.S. municipal bond business, replaced JPMorgan as the underwriter on a hospital debt deal. Wells Fargo, Morgan Stanley and Jefferies Financial Group have all been managing new Texas bond offerings. So has RBC Capital Markets, a unit of the Royal Bank of Canada that has certified that governments can hire it without running afoul of the gun law, according to a person familiar with the matter.

The moves provide an early look at how little-noticed laws that took effect in September are promising to shake up the public finance business in Texas, whose population surged more than any other state's over the past decade and is home to three of the nation's 10 biggest cities. That rapid growth made it the second-largest source of municipal bonds in 2020 as governments borrowed to build new roads, schools and other infrastructure. The approximately $58 billion of debt Texas issuers sold last year is about three times the amount of bonds sold by governments in Florida, according to data compiled by Bloomberg.

The potential lost business doesn't pose much of a risk to Bank of America, Citigroup or JPMorgan. The entire Texas bond market produces only a few hundred million dollars in fees each year, a pittance compared with the nearly $300 billion in annual revenue raked in by those three. Yet it could provide an opening for rivals eager to chip away at their leading position in the municipal-securities business. The three handled more than 100 Texas municipal-bond issues in 2020, totaling $13.7 billion, according to data compiled by Bloomberg. They account for roughly one-third of such deals nationally.

"Where it does help us going forward is having the larger, more sophisticated issuers in the state take a renewed look at FHN Financial and the merits of what we bring," said Ajay Thomas, the head of public finance for the underwriter. "This gives them an opportunity to take a fresh look at us."

The Republican-backed laws have far reach. One bars state and local government agencies and school districts from entering into contracts with banks unless they certify that they haven't enacted policies that discriminate against the gun industry or its trade groups like the National Rifle Association. Another applies similar rules for banks that have targeted fossil fuels.

The wording of the laws has cast uncertainty over some big banks' ability to work for governments in the state, though that could be only temporary as lawyers decide how to interpret them.

JPMorgan said it can't currently bid on most business with public entities in the state. Earlier this year, Chief Executive Officer Jamie Dimon told a Congressional committee that his bank won't finance gun companies that make military-style weapons for consumers. But Citigroup — which has targeted retailers that sell bump stocks like those used in mass shootings and has temporarily stopped bidding for Texas work — has said that it expects to be able to comply with the law.

A Bank of America spokesperson declined to comment.

The legal clouds may have temporarily dampened bond issuance in Texas. In September, the volume of new sales there tumbled about 38% from a year earlier, more than twice as much as the drop nationwide.

Yet the pipeline of upcoming deals shows that many banks are unaffected. Jefferies is serving as lead manager on a $365.8 million sale by the Texas Water Development Board, a major issuer, and the bank is working on a $652 million offering for the Central Texas Regional Mobility Authority. A dozen banks, including Wells Fargo, are included in an upcoming debt sale by the Dallas Fort Worth International Airport, according to a regulatory filing.

Spokespeople for Jefferies, UBS and Wells Fargo declined to comment.

Government officials say they are still working through the impact of the laws, which some have said could potentially cause them to pay higher interest rates if they pushed major banks out of the state. Texas Representative Vikki Goodwin, a Democrat, proposed exempting municipal sales from the law for that reason.

"The state has had a history of passing legislation without really fully understanding the consequences," she said in an interview.

Bloomberg Markets

By Danielle Moran and Amanda Albright

October 7, 2021, 8:42 AM PDT Updated on October 7, 2021, 11:10 AM PDT

[Goldman Joins Retreat From Texas Muni Business After Gun Law.]

- **Goldman replaced by Texas agency as lead on upcoming bond sale**
- **Official cites bank's decision to pause underwriting in state**

Goldman Sachs Group Inc. is said to be pulling back from public-finance business in Texas because of new state laws that seek to punish Wall Street banks for wading into the debates over gun control and global warming.

The bank, which is ranked as the sixth biggest municipal-bond underwriter in 2021, is joining rivals Citigroup Inc. and JPMorgan Chase & Co. in halting such business in Texas, at least temporarily, since the Republican-backed laws took effect Sept. 1, according to a state agency that had planned to have Goldman lead an upcoming sale. Bank of America Corp. also hasn't handled any new Texas bond deals since the start of last month.

One of the laws bars Texas state and local governments from working with banks that have moved to curtail ties to the firearms industry in the wake of U.S. mass shootings. Another restricts state contracts with those that have shunned fossil-fuel producers, a major industry in Texas.

The board for the Texas Public Finance Authority last week voted to appoint a new bank to replace Goldman on an upcoming general-obligation bond sale because the bank is pausing its underwriting work in the state, according to an audio recording of the meeting provided to Bloomberg by the authority.

Patrick Scanlan, a spokesperson for Goldman, declined to comment.

Goldman isn't as big a force in Texas bond underwriting as rivals like Bank of America or Citigroup, ranking as the 12th-biggest in the state in 2020 with about $1.9 billion of new long-term deals, according to data compiled by Bloomberg.

But Goldman was slated to be the senior manager on the finance authority deal, which could be as big as $856 million. The board issues bonds for state agencies and entities like universities.

Lee Deviney, executive director of the authority, said at the Oct. 7 meeting that a "handful" of municipal underwriters have told the authority that they are on pause in the state due to the new legislation.

"In this case, Goldman Sachs has advised us that they are on pause," he said at the meeting.

The underwriters that have been affected are deciding how to comply with the legislation or not, he said at the meeting. As part of the gun law, banks have to verify that they haven't enacted policies that discriminate against the gun industry or its trade groups.

Deviney declined to comment.

The authority's board members voted to appoint Raymond James Financial Inc. to replace Goldman on the upcoming bond transaction.

That bank is among those filling the breach left by the retreat of some of the biggest underwriters.

Barclays Plc, TD Securities, Stifel Financial Corp. and Wells Fargo & Co. are also among those certifying that that they can keep working in Texas because they don't have policies targeted by its new laws, according to letters to the state attorney general compiled by the Municipal Advisory Council of Texas, an industry association. The advisory council posted the letters on its website.

Bloomberg Markets

By Amanda Albright and Danielle Moran

October 11, 2021, 9:10 AM PDT Updated on October 11, 2021, 10:19 AM PDT

[Munis In Focus With Eric Kazatsky (Radio)]

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses the latest muni market news. Hosted by Paul Sweeney and Kailey Leinz.

[Play Episode]

Bloomberg Radio

October 8, 2021

[Richest Americans Flee Treasuries With Holdings at 17-Year Low.]

America's super-rich hold fewer U.S. government and municipal securities than they've done for almost two decades, according to recent data from the Federal Reserve.

The top 1% of households by income held $887 billion of those assets as of June, the smallest amount in 17 years and down from a peak of $1.5 trillion a decade ago.

Americans lower down the income ladder have been trimming their holdings too. Public and municipal debt held by the bottom 99% of households peaked at about $3 trillion in June 2019, and is down by almost $400 billion since then.

High-earners traditionally tended to buy municipal bonds to take advantage of tax exemptions on the interest income.

But with rates on Treasuries and munis near historic lows, it's likely that they "searched for higher yields elsewhere, whether via equities, high-yield or investment-grade debt, private credit, non-fungible tokens, crypto, etc.," said Peter Boockvar, chief investment officer for Bleakley Advisory Group.

Benchmark 10-year Treasuries are currently trading around 1.55%. That's up from the all-time trough they hit last year, but still just a fraction of the long-run average. Meanwhile, inflation has been above 5% for months.

"Higher-income households are likely well aware that they are receiving negative real returns on U.S. government and municipal securities," said Chris Ahrens, a strategist at Stifel Nicolaus & Co.

The top 20% of households held 74.2% of U.S. government and municipal securities, the lowest share in records dating back to 1989, according to the Fed.

Bloomberg Wealth

By Alexandre Tanzi and Liz McCormick

October 7, 2021, 7:41 AM PDT

[How the Infrastructure Bill Could Benefit Municipal Bonds.]

The beleaguered $1 billion infrastructure bill that is still being held up in Congress would spell improvement for a lot neglected and failing parts of the country. In addition to containing funding for improving and repairing roads and bridges, the bill also contains funds for updating public transit, all things that could boost an increase in municipal bond offerings, reported Yahoo Finance.

The infrastructure bill is currently hinging on the much larger $3.5 trillion climate and welfare bill that House Democrats are still negotiating over. Suzanne Shank, president and CEO of investment bank Siebert Williams Shank, one of the nation's largest underwriters of municipal bonds that specialize in infrastructure, has lent her support to the bill, calling it an "invaluable" improvement for the economy.

"Any plan that helps our country get from the D-plus [infrastructure grade] it has been for so many years, I think we just emerged to a C," said Shank. "For us to be competitive globally, we need to get to the A-B range."

The bill as it is includes $110 billion in funding for bridges and roads, and an additional $39 billion for updating public transit. This funding boost by the federal government would most likely cause an increase in investment with local governments offering more municipal bonds as they seek not to repair their infrastructure but upgrade it.

"We hope to see municipalities leverage the infrastructure bill — they will probably have to issue more bonds to match some of the funding from the federal level," Shank said. "So we think overall, it will be very positive to supply and obviously make our municipalities stronger going forward so they're not doing emergency fixes."

ETF Trends

OCT 5, 2021 9:56AM EDT

Declining Trade Volume: MSRB Report

Learn what might be driving a decline in trading volume in the municipal market over the last five years.

Read the MSRB's latest report.

Muni Trading Surge Drives Bond Values to Cheapest Since March.

- **The market braces for a flood of new supply in October**
- **More than $54 billion of bonds change hands in one week**

After months of scrounging for anything worth buying, municipal debt traders are finally finding plenty to keep them busy.

The amount of debt changing hands in the secondary market has picked up in recent days after a global fixed-income selloff shook the market out of its months-long stupor, driving 10-year tax-exempt yields to their highest relative to Treasuries in seven months. Over $54 billion of bonds changed hands the week ended Friday, the most in a single week since March and the second-largest weekly total of the year, according to Municipal Security Rulemaking Board data compiled by Bloomberg.

"The backup in ratios gave asset managers the chance to put money to work," said Simone Santiago, senior municipal trader at Eaton Vance. "They are able to swap out bonds they bought earlier in the year at much tighter yields and rebid those positions at wider spreads."

There's more to come as supply expands. State and local governments have so far scheduled $14.8

billion of bond sales over the next 30 days, well above the $11 billion average for that gauge this year, according to data tracked by Bloomberg. The actual amount sold will likely be far larger since many deals are scheduled with less than a month's notice.

Municipal bond yields edged up in recent weeks, tracking a sell-off in Treasury bonds and causing state and local government securities to post a 0.7% loss in September, the worst since February. Ten-year top-rated municipals are yielding about 76% of Treasury bonds, near the cheapest since early March.

The quicker pace marks a shift from earlier in the year when trading volume dropped to the lowest since at least 2001. In the first part of 2021, the market had too much cash and too few new bond sales, which kept yields low and valuations at historically expensive levels. Just last month, when California priced $2 billion of debt, those that mature in 2022 were sold for a yield of only 0.06%, 1 basis point lower than top-rated benchmark bonds at the time.

Santiago said being a trader in that market was like the 1993 film "Groundhog Day," with little changing from day to day, and she welcomes the newfound activity. "There is more to do, more opportunities if you want to book higher levels," she said.

Patrick Luby, a municipal strategist at CreditSights, said the largest contributor to the revival in trading is investors preparing for a flood of bond sales that typically happens in October.

"Munis remain a market that is constrained for supply," he said in an interview. "Having an expanded menu of choices for new deals in the market — that is a big driver."

This week, the Alabama Federal Aid Highway Finance Authority is planning to sell $1.52 billion of bonds, while San Diego's public school district is slated to bring $1 billion of debt to market.

The upcoming six weeks are typically the last time investors can get primary market exposure before new bond sales dry up around the winter holidays.

"We're coming into the part of the year that's the last sprint before the walk to the finish," Luby said.

Bloomberg Markets

By Danielle Moran

October 5, 2021, 10:05 AM PDT

— With assistance by Siddharth Chaturvedi

Municipal-Bond Fund Investor Pullback Signals Weakening Market.

- **Municipal bond mutual funds see smallest inflow since March**
- **Investors pulling out of long-term municipal-bond funds**

Muni-bond yields have climbed in sympathy with Treasuries

Investors in the $4 trillion market for state and local government debt appear to be looking for the exit.

They pulled $344 million from long-term municipal-bond mutual funds and $460 million from high-yield funds during the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data. Overall they put just $37 million into municipal funds, the least since an outflow in March and down steeply from last week's $408 million inflow.

The easing of fund flows comes during a seasonally weaker period for municipal bonds. The amount of cash flowing back to investors through redemption payments over the next month is near its lowest since July and new sales of debt tend to increase in October. The municipal market posted a 0.7% loss in September, the second consecutive month of negative returns and the worst monthly return since February.

Patrick Luby, a municipal strategist at CreditSights, says there's no reason to panic just yet but said it is concerning giving broader market and economic trends. "There doesn't appear to be a wholesale change in sentiment," he said. "When you look at it within the context of weak prices and concerns about inflation, concerns about everything else I think it's definitely a yellow flag."

While these factors haven't been enough to spur significant outflows, the market is on the precipice, said Vikram Rai, head of municipal strategy for Citigroup Inc.

"It's not enough to trigger an outflow cycle but we're getting close," he said. "I expect that we will survive this. As long as Treasuries don't continue to sell off."

The Federal Reserve hinting at the potential pullback of its Treasury purchases as already pushed benchmark yields higher and is another weight on performance. If that trend continues, the weak demand may turn into outflows and create a cycle of under-performance in the market, Luby said.

"The bid side could be pressured pretty quickly if there's outflows from mutual funds," Luby said. "If that pressures the entire muni curve I would expect munis would under-perform."

Bloomberg Markets

By Fola Akinnibi

October 8, 2021, 10:32 AM PDT

These Are The Ten Top California Muni Intermediate Funds.

Investors who want exposure to a specific region or state can invest in bonds and debt securities issued by the companies and government agencies in that region. Those who are risk averse or don't want to take on much risk can invest in the municipal debt securities of that region. Investors looking for similar exposure in California can invest via California Muni intermediate funds. Such funds mainly invest in California municipal debt. What makes such investment even more attractive is that the income from these bonds is usually free from federal taxes and California state taxes. Let's take a look at the ten top California Muni intermediate funds.

Ten Top California Muni Intermediate Funds

We have used the past one year return data (from U.S. News) to come up with our list of ten top California Muni intermediate funds. Following are the ten top California Muni intermediate funds:

PIMCO Ca Munil Oppc Val Fd (MUTF:GCMFX, 3%)
GCMFX mainly invests in securities in which interest is exempt from federal and California income tax. It has returned almost 1% in the last three months and over 3% in the last three years. GCMFX has over $230 million in total assets. The top two holdings of the fund are: LOS ANGELES CALIF DEPT ARPTS REV 5% and LOS ANGELES CALIF DEPT WTR & PWR WTRWKS REV 5%.

PGIM California Muni Income Fund (MUTF:PBCAX, 3%)
PBCAX primarily invests in California state and local municipal bonds. It has returned more than 1% in the last three months and over 4% in the last three years. PBCAX has over $230 million in total assets. The top two holdings of the fund are: CALIFORNIA MUN FIN AUTH EXEMPT FACS REV 0.02% and CALIFORNIA ST 5%.

BNY Mellon CA AMT-Free Muni Bd Fd (MUTF:DCAAX, 4%)
DCAAX normally invests in municipal bonds offering interest that is exempt from federal and California state income taxes, as well as federal alternative minimum tax. It has returned more than 1% in the last three months and over 4% in the last three years. DCAAX has over $833 million in total assets. The top two holdings of the fund are: LOS ANGELES CALIF DEPT ARPTS REV 5% and CALIFORNIA ST 5.25%.

Payden California Municipal Scl Imp Fd (MUTF:PYCRX, 4%)
PYCRX normally invests in "California Municipal Securities" that are issued by the State of California, local governments and state authorities. It has returned more than 1% in the last three months and over 5% in the last three years. PYCRX has over $76 million in total assets. The top two holdings of the fund are: United States Treasury Notes 1.12% and HILLSBOROUGH CALIF CTFS PARTN 0.04%.

Western Asset Interm Maturity CA Muni Fd (MUTF:ITCAX, 5%)
ITCAX mainly invests in investment grade "California municipal securities" or investments having similar economic characteristics, including up to 20% in unrated securities. It has returned more than 1% in the last three months and over 3% in the last three years. ITSAX has over $168 million in total assets. The top two holdings of the fund are: SAN FRANCISCO CALIF CITY & CNTY ARPTS COMMN INTL ARPT REV 5% and M-S-R ENERGY AUTH CALIF GAS REV 6.12%.

Principal California Municipal Fund (MUTF:SRCMX, 5%)
SRCMX normally invests in California municipal obligations, in which interest is exempt from state personal and federal income tax. It has returned more than 1% in the last three months and over 5% in the last three years. SRCMX has over $713 million in total assets. The top two holdings of the fund are: CALIFORNIA STATEWIDE CMNTYS DEV AUTH REV and CALIFORNIA MUN FIN AUTH SPL FAC REV.

AB Municipal Income California Portfolio (MUTF:ALCAX, 5%)
ALCAX mainly invests in high-yielding investment grade municipal securities that offer tax free interest. It has returned more than 1% in the last three months and over 4% in the last three years. ALCAX has over $1 billion in total assets. The top two holdings of the fund are: AB Government Money Market AB and LOS ANGELES CNTY CALIF 4%.

DFA CA Municipal Real Return Portfolio (MUTF:DCARX, 7%)
DCARX primarily invests in a variety of municipal securities, including inflation-protected municipal securities issued by or on behalf of the state of California. It has returned more than 2% in the last three months and over 3% in the last three years. DCARX has over $198 million in total assets. The top two holdings of the fund are: CALIFORNIA HEALTH FACS FING AUTH REV 5.25% and CALIFORNIA ST 5%.

BlackRock California Municipal Opps Fd (MUTF:MACMX, 7%)
MACMX primarily invests in California municipal bonds, including a minimum of 50% of its assets in investment grade securities. It has returned more than 1% in the last three months and almost 4% in the last three years. MACMX has over $3.3 billion in total assets. The top two holdings of the fund are: BlackRock Liquidity CA Money Instl and LOS ANGELES CNTY CALIF 4%.

Franklin Templeton SMACS: Series CH (MUTF:FQCHX, 11%)
FQCHX primarily invests in municipal securities, in which interest is tax exempt from the regular federal income taxes and California personal income taxes. It has returned more than 2% in the last three months and has over $3 million in total assets. The top two holdings of the fund are: CALIFORNIA STATEWIDE CMNTYS DEV AUTH REV 5.5% and CALIFORNIA CMNTY HSG AGY WORKFORCE HSG REV 5%.

Yahoo Finance

by Aman Jain

October 5, 2021

Where to Find the Best Municipal Bonds Now, According to Pimco.

Pimco, a name synonymous with active fixed-income management, isn't the first one you might associate with municipal bonds. But given the idiosyncratic nature of most munis, it's a sector especially suited for picking individual securities.

The Newport Beach, Calif., firm recently launched the Pimco Municipal Income Opportunities Active exchange-traded fund (ticker: MINO), managed by David Hammer, to complement its stable of established open- and closed-end muni funds and add to its unusually successful lineup of actively managed ETFs.

Fiscal policy—how much the federal government is spending, what it's spending on, and how it's paying for it—is driving the economy and markets more than it has historically, forcing stock investors to pay closer attention. Muni managers, however, have always tracked government maneuvers. It seemed an apt occasion to discuss the state of the sector with Hammer, Pimco's head of munis. An edited version of our conversation follows.

Continue reading.

Barron's

By Randall W. Forsyth

Oct. 7, 2021 4:15 am ET

NASBO FY22 Summaries of Proposed & Enacted Budgets.

View the summaries.

S&P Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports

S&P Global Ratings is adopting a new criteria-related article, called a sector and industry variables report. Over the next two to three years, the new reports will replace guidance documents, which we've used since late 2017. The transition entails moving criteria-related quantitative variables from guidance to new sector and industry variables reports and other guidance content (mostly criteria-related elaborative text) to criteria. We are making this transition to provide more transparency to the market about our methodologies framework.

The methodologies framework will continue to comprise two key components–our criteria and a criteria-related document, which, in the future, will be sector and industry variables reports. We have not changed the definition or role of our criteria, which continue to be published analytical frameworks we use for determining credit ratings. The only change is a revision to the concept and scope of a criteria-related document. Sector and industry variables reports are more streamlined and narrower in scope than guidance and will focus on criteria-related variables that are expected to change over time due to external conditions and, therefore, will be periodically updated.

Here, we aim to help readers better understand the key features of these two concepts and how we plan to use them.

Continue reading.

1 Oct, 2021

Fitch Ratings Updates State Revolving Fund and Muni Finance Pool Program Criteria.

Fitch Ratings-Austin-27 September 2021: Fitch Ratings has published an update to its "State Revolving Fund and Municipal Finance Pool Program Criteria (SRF Criteria)". The update follows Fitch's previous announcement that it had published an exposure draft of its "CLOs and Corporate CDOs Rating Criteria (CDO Criteria)." The exposure draft proposed a calibration revision of Fitch's Portfolio Credit Model, including probability of default assumptions, confidence intervals, and correlation. These proposed CDO Criteria changes were finalized and fully incorporated into Fitch's criteria as of Sept. 17, 2021.

Given the relationship of the SRF criteria to the CDO criteria, with this update Fitch has finalized modifications to its Portfolio Stress Model incorporating similar changes as those described in the CDO Criteria. Fitch does not expect any ratings changes as a result of these updates.

The updated criteria report is available at 'www.fitchratings.com'.

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Report: Urban Wealth Funds Allow Cities to Commercially Capitalize on Their Assets for the Public's Benefit.

Subways don't have to exclusively transport commuters; parking lots can provide space for a lot more than cars; buildings can house services alongside town offices. Responsible commercialization and management of public assets can offset operating costs, reducing a municipality's reliance on taxation and opening revenue for additional infrastructure investments.

In analyzing Boston's publicly held real estate, for example, a report from the Government Finance Officers Association found that publicly owned properties hold potential as "a major source of revenue for the city." The report highlights how the city's real estate could be monetized through an Urban Wealth Fund (UWF), a unified professional investment fund that is set up to manage public assets in the commercial space for the community's betterment.

Practically, Urban Wealth Funds operate like private firms, the report notes, developing and managing publicly owned assets like parking lots or vacant land and retrofitting outdated buildings for modern use. Under the oversight of an Urban Wealth Fund, municipal buildings with unused space in them could be converted for mixed usage, housing civic departments along with residential units, commercial offices and schools.

"Through a mix of tenants, the UWF would generate a diversified revenue stream that could be used to invest in the maintenance of the water system or airport, as an example. Such a comprehensive approach would not only improve the quality of services from publicly owned utilities and transportation systems but also create a more sustainable environment for the benefit of society," the report says.

They have potential for cities because governments aren't designed to manage commercial risk. While being insulated from political instability, an urban wealth fund is able to hire and manage professional property managers and compete with private sector firms, the report says.

“We have looked at cities all over the country. When you do the math, it is easy to see that urban areas all over the United States are sitting on a ‘gold mine’ of resources—their real estate—that is not used as efficiently as it could be,” said Joe Minicozzi, an urban planning consultant who helped put together the report. “If professionally managed, these assets could be a great supplement to tax revenues.”

In Europe and Asia, the report notes UWFs have been successfully implemented in several notable cities including Copenhagen, Sweden and the city-state Singapore, which, “with the help of a UWF … has supplied public housing to 85 percent of its population,” the report continues.

Notably in 2018, then-mayor of Salt Lake County, Ben McAdams, commissioned an analysis of publicly owned land throughout the region’s nearly two-dozen cities and towns. Much of the land was clustered around the subway system in small plots. Because of the proximity to the transit system, its estimated value was pegged at $13.5 billion.

Under the management of a UWF, “Development in these areas could house about 58,000 people and create 39,000 new employment opportunities,” the report says.

This kind of public-private management structure doesn’t yet commonly exist in the United States for a few reasons. For one, public perception of what government should be like has historically drawn a hard line between the public and private sectors—an organization should either be owned by the public or privatized for monetary gain.

“A UWF is a different approach where the assets are owned by the government but with a professional management team in place, using private sector techniques,” the report explains. “It is seperated from politics by a ‘holding company’ at an arm’s length distance to ensure a comprehensive commercial mindset of all assets within the portfolio.”

Further, public assets are owned by a fragmentation of government agencies, making commerical management of them difficult. A UWF could bring them all under one umbrella. And because so much of public land was acquired a long time ago at a fraction of today’s cost, fair market value hasn’t historically been considered.

“Low values or often no value at all attached to an asset will not incentivize investments, maintenance, or even professional management,” the report continues. “For example, there have been cases where local governments have operated garages or vehicle yards on waterfront property because these facilities were built when the land was worth much less.”

A UWF could tastefully develop that land, considering fair market value and making it more attractive for everyone while simultaneously creating new revenue streams for the city.

For cities interested in considering creatign a UWF, the Government Finance Officers Association recommends taking the following steps: Take complete inventory of publicly owned land and project potential market value of it. Explore basic development scenerios and estimate revenue impact.

americancityandcounty.com

Written by Andy Castillo

28th September 2021

How Local Governments Can Use the Budgeting Process to Increase Transparency and Trust.

COVID-19 has deepened many citizens' relationship with their local governments. In the United States, citizens are focused on both the federal government's response and that of their local governments, which have been highly influential on the overall pandemic response in any given part of the country. In the short term, this focus led to a surge in public trust. Yet, while times of crisis might momentarily bring about more trust between citizens and the government, local governments can't count on this public trust to last long without additional efforts.

For example, while many governments saw a surge in public trust at the outset of the Coronavirus pandemic in 2020, a global survey by Deloitte shows that by January 2021, the trust in government had fallen by 8 points, highlighting challenges in sustaining trust for extended periods.

This deficit in trust is not just a theoretical concept; it has real-world implications. It can directly affect a government's long-term goals, including re-election and implementation of policies that were promised during elections. Yet, citizen trust is highly influenced by how governments use their tax dollars. That's why the COVID-19 pandemic has highlighted the need for governments to rethink how they plan and execute their budgets, with a new commitment to transparency. So, how can governments change their approach to budgeting to create new layers of transparency and sustain public trust?

Continue reading.

americancityandcounty.com

Written by Charlie Francis

1st October 2021

The Online Maps Localities Need for the Big Federal Treasure Hunt.

With billions in grants about to start flowing from Washington, they will need comprehensive, timely information on what's available. They shouldn't have to wait for the feds to supply it.

"On your marks. Get set. … Now, wait."

Local officials across America are anxiously standing by to see if, what and how much Congress ultimately approves for both infrastructure and the Democrats' big budget bill. Although some doubt whether the blue factions will compromise, I predict that the sun will indeed rise as it always has and both will be passed, along with a new debt ceiling.

However, until the ink is dry on both statutes and they're signed by the president, we won't know the size and precise details of what's in there. That said, you can expect every local governing body in the country to soon have members from both political parties pontificating about how best to get their community's fair share and bring home some bacon.

[Continue reading.](#)

governing.com

by Girard Miller

September 28, 2021

[Why Some Small Towns Are Rejecting Federal COVID Relief Funds.](#)

Bingham Township, Pennsylvania, is a quiet, rural place with few local businesses. “I always tell people that the cows outnumber the people over here,” said Cheryl Young, the township’s secretary. Most roads are dirt and gravel, she said, and many of the 600-some residents are Amish.

Congress in March authorized $19.5 billion in aid for cities and towns with fewer than 50,000 residents, including very small jurisdictions such as Bingham. Lawmakers wanted to help every town cover the cost of fighting a pandemic and recovering from last year’s recession.

But in some small, rural or conservative towns, local leaders are refusing the cash. They say they don’t need it, and in some cases, don’t feel comfortable accepting it.

Bingham’s leaders recently turned down about $69,000 in federal COVID-19 relief aid because they couldn’t think of a way to spend it, Young said.

“That’s the main reason why we opted not to do it,” Young said. “There’s no sense having [the money] sit here for two years, then turn around and send it back, because you can’t spend it.”

To be sure, such refusals are rare. Across 14 states where data is available, just 171 communities out of 7,975 that have fewer than 50,000 residents rejected the funds, according to the National League of Cities, a Washington, D.C.-based group that advocates for cities and towns.

The average community that rejected the money has 540 residents, according to the group.

Advocates for cities say towns that decline the funds are missing a big opportunity. “It’s unfortunate that anyone would turn down this money, because I think any community could benefit from it,” said Mike Gleeson, legislative manager for finance, administration and intergovernmental relations on the National League of Cities’ federal advocacy team.

Small towns can team up with their neighbors or with county and state leaders to use the funds, such advocates say. That could mean a regional effort to expand broadband, upgrade water infrastructure or study an area’s housing needs.

“I don’t think there’s any shortage of things to spend the money on, especially when we’re able to think beyond city hall and beyond village hall,” said Chris Hackbarth, director of state and federal affairs for the Michigan Municipal League.

Fourteen Michigan villages and townships declined the funds, out of 1,692 eligible jurisdictions with fewer than 50,000 residents, according to the Michigan Treasury’s latest statistics.

Small towns that accept the funds may need help from states, municipal associations and local accountants to manage their grants. Places as small as Bingham don’t typically have staff used to following federal grant requirements.

Young said that she, three elected supervisors and two road maintenance workers—one of whom also serves on the board of supervisors—are about the extent of the local government. “That’s it,” she said. “You’re looking at us.”

Money for All Municipalities

Last year’s major federal aid package, known as the CARES Act, sent money directly to large cities and counties but not to small ones. States were supposed to transfer a portion of the federal dollars they received to jurisdictions with fewer than 500,000 residents.

That system left many localities behind, however. Almost 30% of towns nationwide didn’t get CARES Act money, according to the National League of Cities.

Congress tried a new approach with this year’s federal relief package, the American Rescue Plan Act. The law sent money to most incorporated cities, towns, townships, boroughs and districts.

“They made sure to include all the small guys,” said Emily S. Brock, director of the Government Finance Officers Association’s Federal Liaison Center. The association represents public finance officials.

U.S. Treasury Department and state officials had to figure out which governments could handle the money, however. Some local governments exist in name only or have limited tax and spending functions.

Brock said her organization advised the U.S. Treasury to avoid allocating funds to such figurehead governments. “There’s no elected officials, there’s no governing body—you cannot give them $100 million!” she said.

Eligible localities can use the latest round of federal COVID-19 relief for a broad range of things: to replace lost tax revenue; pay for pandemic response efforts; help households and businesses recover economically; give essential workers a raise; and invest in water, sewer and broadband infrastructure. The money can’t be used to shore up pension funds or pay for tax cuts.

Towns that accept the money get half of it this year and half next year. They have until 2026 to spend it and must regularly report their spending to the Treasury. Those that fail to spend the money according to the law and Treasury rules must return those dollars to the federal government.

States again have acted as a go-between. Local leaders have to apply to states to either accept or reject their federal allocation. When towns refuse the cash, or simply fail to apply for it, states must reallocate the money among other eligible localities with fewer than 50,000 people.

Some quirky jurisdictions that made the cut have turned their federal grants down, according to state records published online or provided to Stateline.

In Pennsylvania, for instance, the borough S.N.P.J. declined a $1,988 grant. S.N.P.J., or “Slovenska Narodna Podporna Jednota,” is a fraternal benefit association founded by Slovenian immigrants in 1904. The group runs a recreation center that’s incorporated as a borough. S.N.P.J. has just 18 residents, according to the U.S. Census Bureau.

‘It Was No Benefit to Us’

More established towns also have declined the funds. Town leaders who refused the latest federal grants say they lack infrastructure, struggling businesses, essential workers or public health efforts to spend the money on.

“The things that they allowed us to use the money on in that plan did not fall with anything we had in our town,” said Richard Ouellette, chair of the Dummer, New Hampshire, select board. “So really, it was no benefit to us whatsoever.”

Dummer is a rural town with about 300 residents, and it was eligible for about $29,000. “We really had no expenses for COVID,” Ouellette said. “We ended up buying maybe a case of masks for the town office, and that was pretty much it.”

There aren’t many businesses in town, Ouellette said, and residents get water from their wells rather than a municipal water system.

Iowa Park, Texas, received CARES Act money last year, said City Manager Jerry Flemming. That money—$350,020, according to records published online by the federal Pandemic Response Accountability Committee—covered all the town’s pandemic-related needs, he said.

The latest round of aid wasn’t as useful, Flemming said. “We just didn’t have any projects that met the criteria for it, so we didn’t apply for it.” Iowa Park sits near the Oklahoma border, and has about 6,500 residents.

Some local leaders refused the funds partly for ideological reasons. “The main reason we said ‘no’ as a board is because our country is going $29 trillion in debt, and we wanted to do our part to say: Hey, enough’s enough,” said Kevin Green, supervisor of Algoma Township in western Michigan. “We didn’t want to be part of that.”

Greene said the board had two other reasons for rejecting its $1.3 million allocation: Members couldn’t think of a way to use the funds to benefit all 12,055 residents, and they felt rushed.

The U.S. Treasury hasn’t yet released its final rules for spending the money, Green noted. But the Michigan Treasury wanted towns to accept or reject the funds by the end of July. “I think if they had given us a few more months, and we could have thought through it, maybe we could have accepted part of it,” he said.

Algoma did receive CARES Act funds last year, he said. The township used the funds to pay public safety workers overtime. He said local leaders would have liked to use the latest relief money to upgrade the township’s roads and parks, but such general infrastructure projects aren’t allowed under the law.

Following Federal Rules

Many small towns won’t be able to track their spending and report it to the U.S. Treasury without help.

Many leaders of such towns aren’t familiar with federal reporting and audit requirements, said Brock of the Government Finance Officers Association.

“In some cases, they may have to hire an auditor, or a consultant, to make sure they’re doing that right—an added expense on top of the money that they’ve just received,” she said.

About half the counties and more than 100 municipalities in Pennsylvania have hired Zelenkofske

Axelrod LLC, an accounting firm, to help them manage the money, said Cory Johnson, a partner at the firm who works with public sector clients.

“There are small townships that have, at best, part-time people, and they’re not accountants,” he said. Some local leaders don’t have strong computer skills, he added. “That’s a big hesitation, in certain parts of the state.”

Assistance is available, though. Town leaders can use their American Rescue Plan Act grants to hire outside help. And they can turn to municipal leagues, professional associations and even public university extension agents, who have been fielding questions about compliance.

Advocates for cities say that once small towns get used to handling federal money, they’ll be well-positioned for any future grant opportunities. “If they can do it this time, it could potentially open up future federal grants,” said Gleeson of the National League of Cities.

Not all local leaders may see things that way. Green of Algoma said that dealing with the CARES Act requirements wasn’t easy, and township leaders weren’t eager to go through the process again this year. “Accounting-wise, it was a little rough,” he said.

The Pew Charitable Trusts

September 28, 2021

[States and Cities Slow to Spend Federal Pandemic Money.]

As Congress considered a massive COVID-19 relief package earlier this year, hundreds of mayors from across the U.S. pleaded for “immediate action” on billions of dollars targeted to shore up their finances and revive their communities.

Now that they’ve received it, local officials are taking their time before actually spending the windfall.

As of this summer, a majority of large cities and states hadn’t spent a penny from the American Rescue Plan championed by Democrats and President Joe Biden, according to an Associated Press review of the first financial reports due under the law. States had spent just 2.5% of their initial allotment while large cities spent 8.5%, according to the AP analysis.

Many state and local governments reported they were still working on plans for their share of the $350 billion, which can be spent on a wide array of programs.

Though Biden signed the law in March, the Treasury Department didn’t release the money and spending guidelines until May. By then, some state legislatures already had wrapped up their budget work for the next year, leaving governors with no authority to spend the new money. Some states waited several more months to ask the federal government for their share.

Cities sometimes delayed decisions while soliciting suggestions from the public. And some government officials — still trying to figure out how to spend previous rounds of federal pandemic aid — simply didn’t see an urgent need for the additional cash.

“It’s a lot of money that’s been put out there. I think it’s a good sign that it hasn’t been frivolously spent," Louisville Mayor Greg Fischer said. He was president of the U.S. Conference of Mayors when more than 400 mayors signed a letter urging Congress to quickly pass Biden's plan.

The law gives states until the end of 2024 to make spending commitments and the end of 2026 to spend the money. Any money not obligated or spent by those dates must be returned to the federal government.

The Biden administration said it isn't concerned about the early pace of the initiative. The aid to governments is intended both "to address any crisis needs" and to provide "longer-term fire power to ensure a durable and equitable recovery," said Gene Sperling, White House American Rescue Plan coordinator.

"The fact that you can spread your spending out is a feature, not a bug, of the program. It is by design," Sperling told the AP.

The Treasury Department set an aggressive reporting schedule to try to prod local planning. It required states, counties and cities with estimated populations of at least 250,000 to file reports by Aug. 31 detailing their spending as of the previous month as well as future plans.

More than half the states and nearly two-thirds of the roughly 90 largest cities reported no initial spending. The governments reported future plans for about 40% of their total funds. The AP did not gather reports from counties because of the large number of them.

To promote transparency, the Treasury Department also required governments to post the reports on a "prominent public-facing website," such as their home page or a general coronavirus response site. But the AP found that many governments ignored that directive, instead tucking the documents behind numerous navigational steps. Idaho and Nebraska had not posted their reports online when contacted by the AP. Neither had some cities.

Officials in Jersey City, New Jersey, required the AP to file a formal open-records request to get its report, though that shouldn't have been necessary. City employees in Laredo, Texas, and Sacramento, California, also initially directed the AP to file open-records requests. Laredo later told the AP it had spent nothing. Sacramento relented and eventually provided a short report stating it had spent nothing but might put its entire $112 million allocation toward replacing lost revenue and providing government services.

Among states, the largest share of initial spending went toward shoring up unemployment insurance trust funds that were depleted during the pandemic. Arizona reported pouring nearly $759 million into its unemployment account, New Mexico nearly $657 million and Kentucky almost $506 million.

For large cities, the most common use of the money was to replenish their diminished revenue and fund government services. San Francisco reported using its entire initial allotment of $312 million for that purpose.

Those reporting no initial spending included Pittsburgh, whose mayor joined with several other Pennsylvania mayors in February on a column urging Congress to pass "crucial" aid for state and local governments.

"Congress must act, and they must act soon. Our communities cannot wait another day," the Pennsylvania mayors wrote.

Pittsburgh ultimately ended up waiting to spend the money until the Treasury guidelines were released, community members had a chance to comment and the City Council could sign off on the spending plans. In the future, the city plans to use part of its federal windfall to buy 78 electric vehicles, build technology labs at recreation centers and launch a pilot project paying 100 low-income Black women $500 a month for two years to test the merits of a guaranteed income program.

The federal money also will help pay the salaries of more than 600 city employees

“Even though the money hadn’t technically been expended” by the Treasury Department’s reporting timeline, “the receipt of the money was enough for us to hold off on major layoffs,” said Dan Gilman, chief of staff to Pittsburgh Mayor William Peduto.

Some officials are intentionally taking their time.

Missouri Gov. Mike Parson, a Republican, opted not to call a special session to appropriate money from the latest federal pandemic relief act. So far, he’s publicly outlined just one proposal — $400 million for broadband.

Parson’s budget director said the administration will present more ideas to lawmakers when they convene for their regular session in January. Until then, the state should have enough money left from a previous federal relief law to cover the costs of fighting the virus, budget director Dan Haug said.

“We want to try to find things that are going to benefit Missouri not just next year or the year after, but 10 or 20 years down the road,” Haug said. “That takes some thought and some planning.”

Republican state Rep. Doug Richey, who leads a House panel on federal stimulus spending, said he’s not convinced Missouri needs to spend all of its American Rescue Plan funds.

“To the extent that we spend these dollars, we are participating in an ever-increasing federal debt or bad monetary policy,” Richey said.

Missouri was one several states that waited to request its initial allotment. Five other Republican-led states — Oklahoma, South Carolina, South Dakota, Tennessee and Texas — waited so long that they weren’t required to file reports by the Treasury’s Aug. 31 deadline.

Tennessee wanted to make sure small cities were prepared for a 30-day clock that starts ticking for them to seek funding once the dollars arrive at the state, said Lola Potter, a spokesperson for the state Department of Finance and Administration. A South Dakota official cited similar reasoning for the delay. Financial Systems Director Colin Keeler said it’s difficult for small towns to take the steps needed to apply.

“The state was in no rush at all,” he said. “The cities wanted to get theirs, but we needed to be prepared.”

ASSOCIATED PRESS

By DAVID A. LIEB

OCT 03, 2021

Muni Market Promotes Inequality: Jenkins

In this edition of Bloomberg Equality, Romaine Bostick, Caroline Hyde and Taylor Riggs spoke to Stanford Professor and Author of "The Bonds of Inequality: Debt and the Making of the American City." which presents the postwar history of the San Francisco municipal bond market.

Watch video.

Bloomberg

October 1st, 2021

Munis In Focus: Infrastructure And The Bears (Radio)

Joe Mysak, Editor of Bloomberg Brief: Municipal Market, discusses the latest news from the muni market. Hosted by Paul Sweeney and Kailey Leinz.

Play Episode

Bloomberg Radio

October 1, 2021

How Public Pensions Fared During a Year Marked by the Pandemic.

The share of large state and local government pension plans around the U.S. that maintained funding levels at or above a national average slid somewhat last year, according to a new report.

Last year, the average "funded ratio" for 169 plans was around 72%. This is a measure of how the plans' assets stack up against benefits they will owe to retirees in the years ahead—the lower the percentage, the bigger the gap and the weaker a plan's financial health.

Average funding levels for the plans have been in the low 70% range since 2012, compared with upwards of 100% in the early 2000s.

The new analysis found that, last year, the share meeting the 70% funded ratio threshold fell to about 56% from around 60% in 2019.

Overall, the data in the report, released by MissionSquare Research Institute, do not indicate that the Covid-19 pandemic delivered a severe blow last year to pension plans. The stock market generally performed well in 2020 despite the turmoil brought on by the virus.

Looking at 154 plans, the authors of the report found that, in about eight out of 10 cases, government employers made at least 90% of the contributions recommended—or "actuarially determined"—to keep the plans adequately funded. That's roughly in line with 2019.

Pension plans depend on putting employer and employee contributions into the stock market and other investments and then using the investment returns to help cover benefit costs.

Recent years have seen a rise in the share of funding that plan managers are plowing into so-called alternative investments, a category that includes hedge funds, real estate, private equity and commodities. This trend kept up in 2020, with about 28% of investments for plans the researchers examined parked in alternatives, compared with 26% in 2015.

Meanwhile, the amount of money in equities was down slightly at 47%, compared to 50% in 2015. The share of fixed income investments grew by a percentage point over that time to 23%. In 2005, just 9% of investments were in alternatives and 61% in equities.

"Diversification can help protect against being over-invested in any given area, but some alternative investments may carry higher risks, and therefore may reflect a choice by fund managers to compensate for smaller contributions with a higher risk/higher reward investment policy," the report authors note.

The paper relies on data from the Public Plans Database, a collaborative project involving MissionSquare, the National Association of State Retirement Administrators and the Center for Retirement Research at Boston College.

Route Fifty

By Bill Lucia

September 30, 2021

JPMorgan's Texas Muni Work Becomes Latest Culture War Fallout.

- **Legal risk of Texas law prevents work with government: bank**
- **New GOP legislation targets companies for gun policies**

The largest U.S. bank says it's being shut out of underwriting municipal-bond deals in Texas after the state enacted a law banning government work with banks that limit business with the firearms industry.

Due to the legislation, JPMorgan Chase & Co. won't bid on business with public entities in Texas, a key market where the bank underwrote $3.6 billion of municipal debt sales in 2020. Texas-based borrowers sold more than $58 billion of bonds in 2020, the most of any state after California, according to data compiled by Bloomberg. As part of bond offerings, borrowers often hire banks ahead of time and pay them a fee for underwriting the sales.

It's one of the first signs of fallout from the Texas GOP's effort to punish Wall Street banks for restrictive gun policies, with politicians in the gun-friendly state seeing it as a way of retaliating against them for weighing in on America's fraught culture wars.

The law prohibits governmental entities from working with a business that "discriminates" against firearm and ammunition businesses or organizations, according to Republican Governor Greg Abbott, who has touted the legislation.

"While our business practices should permit us to certify, the legal risk associated with this ambiguous law prevents us from bidding on most business right now with Texas public entities," Patricia Wexler, a spokesperson for the bank, said in an emailed statement.

The law was enacted as part of a flurry of GOP legislation, such as a law that restricts abortion rights and another that punished cities that defund their police departments. As part of Senate Bill 19, companies have to provide a written verification that they comply with the law, which applies to a contract that has a value of at least $100,000.

JPMorgan was ranked as the seventh-biggest underwriter of deals out of the state, which is one of the biggest markets for the muni-bond business thanks to its fast-growing population.

JPM Replaced

This legislation could be detrimental to municipal issuers in Texas, depending on ultimately how many banks are “captured” by the new law, said Martin Luby, a professor of public affairs at the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin. “There is a concern that the state and local governments wont have access to as many investors if the big banks aren’t participating in these transactions.”

Earlier this year, JPMorgan CEO Jamie Dimon told a Congressional committee that his bank won’t finance gun companies that make military-style weapons for consumers.

Still, the effect of the law is not entirely clear in Texas. Another bank that was targeted by the legislation, Citigroup Inc., said in June that it didn’t think it was affected by the law. In 2018, Citi said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven’t passed a background check or are younger than 21. The bank was ranked as the biggest underwriter of Texas muni sales in 2020, when it was credited with underwriting $6.3 billion of long-term sales.

Mass Shootings

Bank of America also announced in 2018 it would stop making new loans to companies that make military-style rifles for civilian use. Its policy came after dozens of employees lost family members or suffered other trauma related to mass shootings in the past few years.

Bank of America was credited with underwriting $3.8 billion of municipal debt sales in Texas in 2020, making it the fifth-biggest underwriter there. A spokesperson for Citi didn’t provide an immediate comment on Thursday. Representatives for Bank of America and UBS did not respond to a request for comment.

It’s not the first time that municipalities or states have sought to punish Wall Street by cutting them off from new business. In 2018, Louisiana officials barred Bank of America and Citi from a bond sale, citing their restrictive gun policies.

And states like California in 2016 suspended Wells Fargo & Co. from bond work over the bank’s bogus accounts scandal.

Hospital Deal

The law is already crimping new business for JPMorgan.

This week, JPMorgan was replaced by UBS Group AG as the underwriter of a bond issue for Texas’s Decatur Hospital Authority, a local agency, according to a bond filing Thursday. The authority is an arm of a 7,000-person Texas city that operates Wise Health System. Decatur is the seat of Wise County and is about 65 miles (105 kilometers) northwest of Dallas. In July, the agency had disclosed that it was planning to have JPMorgan serve as senior managing underwriter on a financing that could include the sale of up to $150 million of bonds.

The authority cited “uncertainty related to the implementation of new legislation passed by the State of Texas,” though it didn’t specify which law.

Todd Scroggins, chief financial officer for Wise Health, didn’t respond to a request for comment, nor did a hospital spokesperson.

Bloomberg Markets

By Amanda Albright and Danielle Moran

September 30, 2021, 1:33 PM PDT Updated on September 30, 2021, 4:26 PM PDT

BofA, Citi, JPMorgan See Texas Muni Business Halt After Gun Law.

- **JPMorgan, Citi pull back amid uncertainty cast by law**
- **Law blocks banks that ‘discriminate’ against gun industry**

Wall Street’s three biggest municipal-bond underwriters have seen business grind to a halt in Texas after the state enacted a law that blocks governments from working with banks that have curtailed ties to the gun industry.

Since the Republican-backed law took effect on Sept. 1, neither Bank of America Corp., Citigroup Inc. or JPMorgan Chase & Co. has managed a single municipal-bond sale in the state, according to data compiled by Bloomberg. It was the first time that’s happened since at least late 2014.

JPMorgan said Thursday that it has decided that it can no longer bid for most municipal-debt business in Texas due to the law. On Friday, rival Citigroup said it has temporarily stopped underwriting deals there while it evaluates the law, though it expects to be able to resume work eventually.

Spokespeople for Bank of America declined to comment.

The Texas law marked the latest clash between Republican lawmakers and corporations that have been drawn into America’s fraught cultural wars, such as the efforts to enact more restrictive voting laws in the wake of Donald Trump’s defeat last year. Lawmakers in the gun-friendly state enacted the restriction to punish banks that curbed ties to firearm and ammunition makers in the wake of mass shootings like the one at a Parkland, Florida, high school in 2018 that left 17 dead.

The legislation, Senate Bill 19, requires that governments receive a written verification from companies that they do not have a practice, policy, guidance or directive that “discriminates against a firearm entity or firearm trade association.” They also have to verify that they will not do so during the term of the contract.

In 2018, Bank of America said it would stop making new loans to companies that make military-style rifles for civilian use. That same year, Citigroup said it would prohibit retailers that are customers of the bank from offering bump stocks or selling guns to people who haven’t passed a background check or are younger than 21. JPMorgan Chief Executive Officer Jamie Dimon told a Congressional committee this year that his bank won’t finance gun companies that make military-style weapons for consumers.

The Texas municipal-bond market isn't a major profit center for the Wall Street goliaths, so the law doesn't threaten a major hit to their bottom lines. But it does lock them out of a big corner of the state and local underwriting business because Texas's swift growth has made it one of the biggest issuers of such securities.

The ambiguity around the law was what led JPMorgan to decide it can't bid on most business with public entities in Texas, according to a company spokesperson.

"While our business practices should permit us to certify, the legal risk associated with this ambiguous law prevents us from bidding on most business right now with Texas public entities," Patricia Wexler, a spokesperson for the bank, said in an emailed statement.

On Friday, Citigroup said in a statement that it believes it can comply with the law but has temporarily pulled back.

"While we are dedicated to staying involved in the Texas market and serving our public sector clients, we have elected not to engage in primary market underwriting temporarily as we work through the certification process," the bank said in a statement to Bloomberg News.

The legislation has also sown some consternation among local officials concerned that limiting the number of banks at work could affect their ability to raise money or leave them paying higher costs.

Denise Tacke, the finance director for the city of Plano, Texas, said it's unclear how big of an impediment the legislation will be until the city sells bonds again and sees how many underwriters participate and whether it has an impact on how the bonds price. She said it's still unclear which financial institutions the city is barred from working with.

"We were concerned about the bill and we did let our legislators know that it might negatively impact us," she said in an email.

Bloomberg Markets

By Amanda Albright and Danielle Moran

October 1, 2021, 11:10 AM PDT

— With assistance by Natalia Lenkiewicz

Wall Street's Muni Slowdown Dials Back Hopes for a Blowout Year.

- **Volume of new deals in September set to drop 30% from year ago**
- **Rising rates, uncertainty have pared back government sales**

Wall Street's municipal-bond underwriters may not get as big a year as they once expected.

Even before this week's selloff drove 10-year benchmark yields to the highest since March, the volume of new state and local government bond sales was slowing from last year's record-setting pace.

Such governments sold about $33 billion of debt in September, a 30% drop from a year earlier, according to data compiled by Bloomberg. That's left issuance so far this year at $335 billion, up less than 3% from 2020, thanks to a surge in borrowing in the first half of 2021.

On top of that, next month's issuance may trail the nearly $72 billion that flooded the market last October, when officials rushed to get ahead of any potential havoc following the presidential election.

The slowdown reflects the rise in interest rates, the economic uncertainty cast by the delta variant, and a decline in taxable bond sales for a key type of refinancing as Democrats in Congress push to restore governments' ability to sell cheaper tax-exempt debt for that purpose instead. The odds of President Joe Biden enacting an infrastructure program has been another wild card.

"You have a lot of uncertainty in the market right now and when you have a lot of uncertainty, that gives the issuer community pause," said Jeff Lipton, a managing director at Oppenheimer & Co.

Many municipal-bond strategists had high expectations for 2021, with those at Citigroup Inc., Morgan Stanley and Municipal Market Analytics late last year all forecasting that sales would hit $500 billion or more. Long-term municipal debt sales totaled about $455 billion last year, not including those with corporate-bond identifiers, according to data compiled by Bloomberg.

Yingchen Li, co-head of municipal-debt research at Bank of America Corp., attributed the recent slowdown to a drop in taxable debt issued for refinancings.

"Now, the question is: is it possible to catch up?" said Li. The bank has maintained its annual forecast even though issuance is behind schedule by an estimated $20 billion.

"It's really whether we can make up $20 billion more in refundings," he said. "If there's a lot more new money than we thought, then that's another way to catch up. The fourth quarter is normally very big."

Analysts at Citigroup led by Vikram Rai have already rolled back their forecast, predicting $515 billion of long-term sales this year, down from the $550 billion projection made at the end of 2020. Rai stands by that call, saying that the fall season typically brings stronger sales.

"It's definitely do-able," he said in an interview.

Tom Kozlik, head of municipal strategy and credit at Hilltop Securities in Dallas, has been estimating that states and local governments will sell around $460 billion. He said the pace of sales next month will be a big factor in whether his target proves correct, given that it's a crucial month before the winter holidays.

JPMorgan Chase & Co.'s Peter DeGroot, head of municipal research and strategy for the bank, cut his forecast in the middle of the year because of the dip in taxable debt sales. He now predicts about $465 billion by the end of the year, including those sold into the corporate-bond market.

Yet even if 2021 sales fall short of last year's record, issuance could be the second-busiest year since at least 2013, according to data compiled by Bloomberg.

"At the onset of the year we expected another year of record supply," DeGroot said in an interview. "That record supply was largely beholden to an increase in taxable issuance."

"We do expect issuance to be somewhat lower but still relatively high," he said.

Bloomberg Markets

By Danielle Moran and Shruti Singh

September 28, 2021, 11:08 AM PDT

Stir-Crazy Americans Hit Road, Spurring Muni Toll-Bond Demand.

- **Issuance for tollways, bridges and tunnels highest since 2017**
- **Tollways benefit from rebound of economy, travelers: Vanguard**

Americans eager to get out of the house are jumping in their cars for trips near and far, spurring a faster-than-expected rebound in traffic and investor demand for bonds funding municipal toll roads, bridges and tunnels.

Many non-profit toll operators are seeing traffic at around 90% to 100% of 2019 activity, after a shallower drop and stronger rebound than anticipated, said S&P Global Ratings Analyst Scott Shad. While volume overall won't hit 2019 rates this year, it will probably recover to pre-pandemic levels in 2022 and grow 5% in 2023 given a pickup in the economy and pent-up consumer demand, Shad said.

Such metrics are drawing the attention of investors who are trying to find higher yields in muni bonds at a time when returns are low, and when record federal aid has given a boost to nearly all issuers. Debt issuance for state and local tollways, bridges and tunnels has reached about $9.77 billion, the highest for the year-to-date period since 2017, according to data compiled by Bloomberg.

The combination of aid and market technicals has made it "really hard to distinguish the good from the bad," said Mathew Kiselak, head of long term municipal portfolio management for Vanguard, which holds $222 billion in muni assets. Toll roads stand out as attractive investments, he said.

"It's really looking at sub-sectors that benefit from an improving economy," Kiselak said in an interview. "We love toll roads."

A North Texas Tollway System bond that matures in 2048, among the debt held in funds that Kiselak manages, has seen a 55 basis point premium to benchmark securities in January fall to a discount of 36 basis points earlier this month. The spread above the benchmark for debt issued by the Pennsylvania Turnpike Commission that matures in 2027, another Vanguard holding, has shrunk to 23 basis points this month from 49 basis points in May.

Part of the sector's strength stems from Americans choosing to hit the road rather than flying, Kiselak said. The total number of vehicle miles traveled in the U.S. is close to pre-pandemic levels based on a weekly U.S. Department of Transportation report that compares current interstate highway traffic to the same week in 2019.

Separating the mileage data between commercial and passenger shows that truck volume helped kick off the rebound in mid-2020 when shoppers jumped online for purchases and the delivery sector surged. Passenger traffic began to gain more in the new year and is now close to pre-pandemic levels, according to the government data.

Weekly vehicle miles traveled are recovering faster than expected

Better still, often issuers can increase tolls with inflation, giving investors some benefit from recent rising price levels. Increases to toll rates and other “prudent” management steps have kept credit stable and meant no downgrades in 2020 or 2021 across 55 toll road operators rated by S&P. Debt coverage “remained strong despite declines in operating revenues” in 2020, according to S&P.

This sector has “proven its worth,” Ed Paulinski, a portfolio manager and head of muni separately managed accounts at Goldman Sachs Asset Management, said in an interview.

“A lot of the transportation-related sectors actually survived the downturn pretty well and toll roads was certainly one them,” Paulinski said. “The revenue has been in line or in some cases better than pre-Covid. I think that in combination with spreads is hard to find.”

Bloomberg Markets

By Shruti Singh and Skylar Woodhouse

September 27, 2021, 10:45 AM PDT

— With assistance by Natalia Lenkiewicz

[S&P: Wildfires Are Becoming The New Normal In Western States; Their Unpredictable Nature Increases Long-Term Risk]

Since 2018, wildfires have become increasingly common and are a credit risk for municipalities in high fire-risk areas across several western states such as California, Washington, Oregon, and Colorado. The ongoing drought, particularly in California, is a likely contributor to the reoccurrence of wildfires in areas with historically low rainfall. With the effects of climate change likely to stay, we believe wildfires will remain a common occurrence for the foreseeable future.

However, despite the number of wildfires in the western states, S&P Global Ratings has not taken any negative rating actions to date. Although some wildfires are close to municipalities that we rate, most of these municipalities’ boundaries and property values have not been materially damaged. We closely monitor wildfire risk across the western states.

Continue reading.

28 Sep, 2021

[Municipal Bond Market Outlook - A Lot Of Uncertainty.]

Summary

- As a working professional, the municipal bond market has been a preferred asset class of mine for a long time. I find the tax-exempt income preferable to alternative, taxable investment grade options.
- With a new administration in the White House that is calling for higher tax rates on corporations and the wealthy, the outlook for munis should be very bullish.
- However, there are caveats to this view. While absolute rates may go up, many Democrats are advocating for a repeal of the SALT deduction cap.

- A repeal of SALT deduction limits could actually drive down effective tax rates, even if absolute rates go up. This will limit the desirability of munis.
- Further, other provisions, like advance refundings, could see substantial changes.

Continue reading.

Seeking Alpha

Oct. 04, 2021

Fitch: Effects of US Fed Govt Shutdown Would Be Limited for Public Finance

Fitch Ratings-New York-29 September 2021: A US federal government shutdown as a result of the failure to pass legislation to extend government funding would unlikely affect most US public finance credits in the near term, Fitch Ratings says. However, a prolonged shutdown without a clear path or timeline for resolution could lead to disruption in federal payments to public and private entities and limited economic effects in areas with larger concentrations of federal employment. Moreover, political deadlock complicates policymaking, which may have longer-term implications for entities relying on federal funding. Government funding expires at midnight on October 1.

It is unclear what agencies and services would be affected in a shutdown, as President Joseph Biden has discretion about what would be considered essential functions of the government and would, therefore, continue through any shutdown. This shutdown may have more extensive reach than prior ones, as Congress has not yet passed any funding bills that would maintain ongoing operations for certain agencies.

Payments to states and local governments under the American Rescue Plan Act should not be affected, as remaining allocations are not due until 2022. Medicaid, which is the largest federal government transfer to states, and Medicare are expected to continue as both are considered mandatory spending programs. It is unclear if the funding and operations of public health agencies, such as the Centers for Disease Control and Prevention and US Food and Drug Administration, would be disrupted.

Most federal employees, including Defense and the US Postal Service, which together make up almost half of the total of employees, would not see changes to their employment or pay status. Other employees could be furloughed or required to work without pay. Localities with the highest proportion of federal employment are unlikely to see long-lasting effects on economically-sensitive tax revenues as the Government Employment Fair Treatment Act (GEFTA) of 2019 ensures payment of federal salaries deferred during a shutdown. The District of Columbia’s operations are protected by the fiscal 2021 D.C. Appropriations bill, which excepts the district government from a shutdown in fiscal 2022.

Universities and non-profit entities may experience temporary pressures if federal research grants are not processed and disbursed. A short-term shutdown would have little effect but those that rely most heavily on federal grants or contracts would suffer in a longer shutdown. Student financial aid will likely be unaffected, as most disbursements for fall have occurred already.

Federal Housing Administration (FHA) loan applications may be stalled for new single-family FHA mortgages and multifamily properties with FHA risk share loans. This will delay the addition of new mortgage assets to Housing Finance Agency (HFA) programs, which could potentially cause a turnaround in the aggregate increases in total assets that HFAs experienced over the last five fiscal years.

Infrastructure projects backed by federal dollars may be affected in a prolonged shutdown. Federal highway transportation funding to states and local governments through the Highway Trust Fund is authorized outside of the annual budget process through multi-year legislation. The current authorization expires on October 1 as well, with reauthorization included in the Infrastructure and Investment Act (HR 3684) scheduled for a final House vote on Thursday. The Senate already cleared HR 3684 and the President plans to sign it if passed by the House.

Extending federal government funding seems to have support across the aisle, which may ease passage of a bill this week. These discussions are related to, but separate from, the deadlock over the debt limit. The Senate recently voted against a measure that combined the two issues, with all Republicans voting against it. The debt limit could be suspended or raised by other means before the limit is reached, estimated to be mid-October.

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

Alternative Bond ETF Strategies to Diversify Risk, Maintain Yields.

Fixed income investors should consider the risks of traditional market cap-weighted bond indexing and look to alternative exchange traded fund methodologies to help diversify their risks and maintain income.

In the recent webcast, *The Quest for Income: Smarter Approaches to Meet Client Income and Stability Needs*, Katherine Nuss, vice president and fixed income client portfolio manager at Columbia Threadneedle Investments, touched upon the current economic environment, with labor markets progressing but still below their peak and core inflation decelerating. The Federal Reserve is still waiting on the labor markets to make a full rebound and insists that inflation remains transitory.

Nuss argued that investors should consider the value in diversification rather than further upside potential, especially with the markets more at risk of rising interest rates. However, credit valuations leave little room for error with tight spreads reflecting high valuations in the credit markets already.

Marc Zeitoun, head of strategic beta and private client advisory at Columbia Threadneedle Investments, argued that there may be room for fixed income investors to find value, but people will have to go beyond their comfort zones or away from traditional bond benchmarks like the Bloomberg U.S. Aggregate Bond Index.

“Bloomberg U.S. Aggregate Bond Index investors are taking more risk to generate less income than ever before,” Zeitoun said.

Zeitoun warned that investors need more credit exposure or even 80% in high yield in today’s low-rate environment to generate a 4% yield, but this would expose them to risks that many may not be comfortable with. Income is a driver of total return, and its contribution is magnified in short duration. On the other hand, Zeitoun argued that investors need to consider a diversified, flexible portfolio that can better balance today’s market risks.

For example, Jay McAndrew, vice president and national sales manager at Columbia Threadneedle Investments, highlighted the Columbia Diversified Fixed Income Allocation ETF (NYSEArca: DIAL), the Columbia Short Duration Bond ETF (SBND) and the Columbia Multi-Sector Municipal Income ETF (MUST).

McAndrew underscored the improving income and diversification through a broader opportunity set. For example, high yield and emerging market debt produce the most yield relative to duration. They also exhibit low correlation with the Bloomberg 1-5 Government/Credit Index.

DIAL provides convenient access to six sectors attractively priced and managed by senior fixed income portfolio managers. For instance, the ETF focuses on BBB- and BB-rated sovereign EM bonds that have provided income at a reasonable volatility. McAndrew noted that DIAL’s indexing methodology provides a more differentiated country and currency exposure, investing in higher-yielding countries and a modestly shorter duration.

DIAL helps investors focus on areas that have been largely ignored by traditional bond benchmarks. The typical short-term bond fund lacks meaningful exposure to higher income-producing sectors, according to McAndrew. Meanwhile, with short-term rates so low, fees can even negate the impact on effective yield.

Additionally, SBND, which tracks the Beta Advantage® Short Term Bond Index, provides convenient, diversified access to four sectors, managed by senior fixed income portfolio managers at a competitive price. The thoughtfully constructed, diversified portfolio can mitigate duration risk while capturing higher current income opportunities. In order to maximize the potential for risk-adjusted returns and income, the underlying Beta Advantage Multi-Sector Municipal Bond Index is designed to exploit inefficiencies inherent in traditional passive approaches.

Lastly, MUST broadens the opportunity set by providing thoughtful access to municipal sectors at an attractive price and is designed by senior municipal fixed income portfolio managers.

ETF TRENDS

by MAX CHEN

SEPTEMBER 30, 2021

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

[View the Current List.]

22 Sep, 2021

[NASBO: Links to State Recovery Plans]

[View the NASBA list of State Recovery Plans.]

[Build Back Better: Notable Infrastructure and Other Public Finance Provisions Make Progress in Congress - Foley & Lardner]

On Wednesday, September 15, 2021, the House Committee on Ways and Means advanced the infrastructure bill (also called the Build Back Better Act). Of particular interest to the public finance market are Subtitles F and G, which are Infrastructure Financing and Community Development, and Green Energy, respectively. The legislation includes dozens of development finance provisions related to bonds, tax credits, and housing. The link to Subtitles F and G can be found [here].

Notably, the infrastructure bill includes the restoration of Advance Refunding Bonds, a Bond Category for Electric Vehicle Charging Stations, creation of new Qualified Infrastructure Bonds, a permanent extension to the New Markets Tax Credits, and an increase in the threshold for bank qualified bonds.

We will continue to provide updates on the status of the infrastructure bill and legislative next steps. At this point, it is important to caution that it is anticipated the bill will go through additional revisions. Committee Chair Richard Neal is a recognized friend of the muni market and the bill's finance provisions may well face headwinds from other sectors.

New Measures

The following are notable measures included in the Ways and Means Committee's portion of the infrastructure bill:

Infrastructure Financing:

- Credit to issuer for a new category of qualified infrastructure bonds (modeled on the success of Build America Bonds)
- Advance refunding bonds
- Permanent modification of small issuer exception to tax-exempt interest expense allocation rules for financial institutions
- Modifications to qualified small issue Industrial Development Bonds
- Certain water and sewage facility bonds exempt from volume cap on private activity bonds

- Exempt facility bonds for zero-emission vehicle infrastructure

Other Provisions Related to Infrastructure Financing:

- Creates a 30% credit for government-owned broadband
- Permanently extends the New Markets Tax Credit (NMTC)
- Temporarily increases the historic rehabilitation tax credit (HTC) to 30%
- Permanently increases the HTC percentage to 30% for certain smaller projects
- Creates a 30% credit for qualified wildfire mitigation expenditures

Housing Provisions:

- Increases in-state low-income housing tax credit (LIHTC) allocations.
- Temporarily reduces the LIHTC 50% requirement to 25%
- Basis boost for LIHTC buildings designated to serve extremely low-income households
- Basis boost for inclusion of rural areas as difficult development areas
- Increase in credit for bond-financed projects designated by housing credit agency
- Establishes a new federal neighborhood homes credit

Green Energy Provisions:

- Extension of credit for electricity produced from certain renewable resources
- Extension and modification of energy credit
- Increase in energy credit for solar facilities placed in service in connection with low-income communities
- Elective Payment for energy property and electricity produced from certain renewable resources
- Investment credit for electric transmission property
- Zero emissions facility credit
- Extension of credit for carbon oxide sequestration
- Green energy publicly traded partnerships
- Zero-emission nuclear power production credit
- Extension of excise tax credits relating to alternative fuels
- Extension of second generation biofuel incentives

Steps to Passage

The House Budget Committee and House Rules Committee will consider the bill before it is voted on by the full House, though the timeline for additional House and Senate action is unclear after a number of moderate House and Senate Democrats expressed concerns over the overall price tag and individual components of the bill.

September 23, 2021

Hospital Muni-Bond Issuance on Track for Slowest Year Since 2014.

- **Year-over-year bond sales fell 34% to $12.6 billion in 2021**
- **Federal aid diminished some facilities’ need to borrow**

U.S. hospitals are pulling back on issuing municipal debt in the midst of the ongoing Covid-19 pandemic, following a wave of federal aid that softened borrowing needs and uncertainty that has clouded capital spending plans.

Muni-bond sales by U.S. hospitals have fallen about 34% to $12.6 billion this year compared to the same period in 2020. The borrowings are on pace to be the lowest since 2014, according to data compiled by Bloomberg.

The slowdown in such debt sales may reflect a slump in planned capital expenditures given the uncertainty surrounding the pandemic, said Ryan Ciavarelli, senior research analyst for Belle Haven Investments. “You don’t see a lot of hospitals issuing new money debt to build a new hospital unless they had those plans in the works,” he said.

Taxable health-care issuance, on the other hand, is roughly on track for an average year, likely because many hospital systems are refinancing tax-exempt debt with longer calls and terming out lines of credit tapped during the early stages of the pandemic, Ciavarelli said.

Another factor driving the decline may be the presidential election in 2020, which spurred borrowers to move deals forward that year to avoid potential market disruption in the aftermath of the vote, said Steve Sohn, senior vice president at health-care consultancy Kaufman Hall & Associates LLC.

Hospitals generally performed better in 2020 than many investors expected after elective surgeries, which had been deferred during the peak of the virus, recovered and an influx of federal aid strengthened balance sheets. Many systems are now better equipped to handle Covid-19 case surges while still continuing to provide elective procedures, a major driver of revenue.

The Bloomberg Hospital index has returned 2.72% year to date, the strongest performance among municipal revenue bond sectors tracked by Bloomberg. The high-yield hospital bond index returned 6.67% over the same period.

Under the CARES Act passed in March 2020, the U.S. Department of Health and Human Services received $175 billion to distribute to hospitals and health-care providers. The American Rescue Plan Act also secured additional aid for providers.

“The need to come to market isn’t quite so great with the federal stimulus money being allocated,” said Kim Olsan, senior vice president for municipal trading at FHN Financial. “As states have found with G.O. debt, airports, transit systems, a lot of that federal money is taking the place of traditional financing needs.”

Still, the outlook for the sector is complex. Covid-19 cases and hospitalizations spiked in recent weeks as delta spread, reaching a seven-day moving average of nearly 160,000 cases earlier this month. Kaufman Hall projects hospitals nationwide will lose an estimated $54 billion in net income over the course of 2021, even considering federal relief from the CARES Act. More than a third of U.S. hospitals will maintain negative operating margin through year end, according to a September report from Kaufman Hall.

Like other businesses and governments, staffing is also a concern that is prompting some hospitals to look into closing service lines, cross-training nurses and offering signing bonuses to new hires, which could compress margins.

“Pretty much every single major health care system is having challenges with labor, especially on the nursing side,” Kaufman Hall’s Sohn said.

Bloomberg Markets

By Nic Querolo and Sri Taylor

September 23, 2021, 11:41 AM MDT

— With assistance by Danielle Moran

BlackRock, Goldman Join Racial-Justice Push in Muni-Bond Market.

- **Asking issuers about social policies ahead of bond offerings**
- **'They are mammoth institutions that can impact pricing levels'**

Some of Wall Street's biggest buyers of America's state and local government bonds are starting to ask questions about racial equity.

Five investment giants — BlackRock Inc., Goldman Sachs Asset Management, Lord, Abbett & Co., Morgan Stanley Investment Management and Vanguard Group Inc. — are working with two minority-owned underwriters, Loop Capital Markets and Siebert Williams Shank & Co., to develop and distribute a questionnaire that governments will be asked to fill out before new bond deals are arranged. It will ask about policing policies, efforts to combat race-based inequality, social services and the demographic breakdown of the government's workforce, among other things.

"The pandemic has brought up the broad range of inequity in our society and it's important to understand how everyone is working on that," said Daniel Solender, head of municipal bonds at Lord, Abbett, which manages about $36 billion of the securities.

"We want to engage: we can ask questions, we can compare different issuers for what they're doing," Solender said. "It's important for us to know what we're investing in."

The push reflects the growing influence of the socially responsible investment business, with Wall Street funds eager to cater to investors seeking to use their funds to combat global warming or promote societal change.

The industry has been making inroads into the $4 trillion municipal securities market, a slow moving haven of buy-and-hold investors seeking tax-free income.

But the market has broad reach that's drawn attention from activists, since it finances everything from hospitals and water systems to sports stadiums and legal settlements for victims of police brutality. And governments themselves have started courting the do-good investors: they sold a record $10 billion of so-called social debt so far this year, and they frequently put green-bond labels on debt issues that finance public transportation, energy efficient buildings and other projects with environmental benefits.

The questionnaire project, called the Municipal Issuer Racial Equity & Inclusion Engagement Framework, marks a step to provide more information to investors interested in how cities are working to address the nation's legacy of racial inequality. It was organized in part by the non-profit JUST Capital.

The protests that gripped the U.S. in the summer of 2020 underscored the need for investors to know what cities are doing to promote racial equity, said Alexa Gordon, head of municipal ESG at

Goldman Sachs Asset Management. She said that eventually the responses may help investors decide what to buy.

"There may be a time where we look to invest in certain issuers because they are willing to engage with us," she said.

The firms aren't bound to use the information in their investment decisions, nor will the underwriters require governments to participate. Yet backers said the involvement of such massive investment companies gives the project significant heft and lets governments know that social concerns are beginning to matter to buyers of their bonds.

"These are among the largest municipal bond holders; they are mammoth institutions that can impact pricing levels on municipal bonds and their position is that we need this information," said Suzanne Shank, chief executive officer of underwriter Siebert Williams Shank. "Issuers want to access the best rates at the best time in the market. If investors are demanding this, we want to make our issuer clients aware that this is something that will be increasingly scrutinized."

Peter Hayes, who oversees about $183 billion as the head of state and local government debt investing at BlackRock, called the survey a first step.

"This will continue to evolve," he said, noting that the use of the data to determine which bonds to invest in is "a bit down the road."

Bloomberg Markets

By Danielle Moran

September 24, 2021, 6:00 AM MDT

NFMA Green Bond Survey.

We are seeking member input for the NFMA Green Bond Survey. Your input matters!

Please complete this Green Bond survey to assist the NFMA Green Bond Committee determine what disclosures investors seek from issuers of Green Bonds.

The survey will take approximately 10 minutes to complete and it is anonymous.

S&P U.S. Transportation Infrastructure Sector Update And Medians: Not-Fo--Profit Toll Roads and Bridges

Key Takeaways

- We expect U.S. not-for-profit toll road ratings will remain stable, given a rebound in traffic in 2021 to near pre-pandemic levels supported by positive commercial vehicle traffic trends, following temporarily weakened activity at the onset of the COVID-19 pandemic.
- Prudent management actions, including reducing operating and maintenance (O&M) expenses, increasing toll rates, restructuring debt, and deferring capital projects, have largely mitigated the

effect of revenue loss on financial metrics.
- Resilient commercial vehicle traffic spurred by increased consumer spending somewhat offset more severe declines in passenger vehicle traffic and supported overall operating revenue performance, especially for mature, statewide systems.
- Fiscal 2020 financial metrics, including debt service coverage (DSC), debt to EBIDA, and liquidity and financial flexibility, weakened but remained comparable with historical levels despite lower median revenues of about 10% in 2020 due to pandemic-induced activity declines and toll transaction declines of about 15%, resulting in median DSC of 1.7x in 2020 compared with 1.9x in 2019.

Continue reading.

22 Sep, 2021

S&P Green Transaction Evaluation: Washington Suburban Sanitary District Consolidated Public Improvement Bonds of 2021 (Second Series) (Green Bonds)

The Washington Suburban Sanitary District will use bond proceeds to improve the water system throughout the service area. The projects were necessitated by aging infrastructure, a consent decree, and the desire to improve water sustainability and reduce pollution.

Read the S&P Green Transaction Evaluation.

Fitch: Delta Variant Slows Job Growth in US Metros

Fitch Ratings-New York-22 September 2021: Jobs continue to rise in major metropolitan statistical areas throughout the U.S., but Fitch Ratings' latest U.S. Metro Labor Markets Tracker shows the rate of growth is slowing due to the Delta variant.

The median jobs recovery rate for U.S. metros rose to 68% in July with 49 of 53 major metros seeing employment growth, a significant increase from June. Much of the growth came from metros in the South. Nationally, however, employment growth slowed in August largely due to the impact of the Delta variant on pandemic-sensitive sectors such as leisure and hospitality.

"Recent federal vaccination mandates for employees of firms with 100 or more employees will likely lead to an uptick in vaccination rates but may also result in a more challenging job-seeking environment for those who decline vaccination," said Senior Director Olu Sonola. "L&H, education and health services and local government jobs still account for 71% of total job losses in major metros, which are still well below pre-pandemic levels despite some recent growth."

The employment recovery rate for major Southern metros rose to 78% in July from 74% in June. The region still has weak pockets including Memphis, Oklahoma City, San Antonio, and Virginia Beach. Three major metros (Richmond, New Orleans, and Orlando) remain particularly challenged by the current economic environment, with employment recovery rates below 50%. The struggles of New Orleans and Orlando largely reflect the cities' heavy exposure to tourism activities.

‘U.S. Metro Labor Markets Tracker’ is available at ‘www.fitchratings.com’.

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Additional information is available on www.fitchratings.com

Wave of Public Finance Retirements to Worsen Worker Shortage.

- **Online job postings up 84% from 2016 to 2020 in public finance**
- **Smaller workforce to manage record billions in federal aid**

Record amounts of federal aid set to flow through state and local coffers will add to the workload of public accountants and investment officers, pressure that could build further as a potential surge of retirements exacerbates a worker shortage.

The demand for public finance employees based on online job postings surged 84% between 2016 and 2020, even after a slight year-over-year dip last year due to the pandemic, according to a study released Tuesday by the National Association of State Treasurers Foundation.

Over 2019 and 2020, public sector employers across all levels of government posted more than 112,000 jobs online including chief financial officer, accountant, financial analyst, auditor, debt manager and budget specialist, according to the report.

Additionally, the sector that employs more than 850,000 state, county and city government workers may be on the verge of a so-called “silver tsunami,” according to the association. The public finance workforce, 31% of which is over the age of 55, and 60% is over the age of 45, “is on the brink of a wave of retirements,” the report said.

“We are entering a potentially tumultuous era of employment and staffing in the public finance sector,” Indiana Treasurer Kelly Mitchell and Connecticut Treasurer Shawn Wooden said in the opening remarks in the report.

Facing Pressure

The industry is facing “unpredicted rates of retirement,” fewer applicants and competition from the private sector, according to the report. Those challenges come at a time when federal investments in local economic recoveries and infrastructure are increasing public spending as well as the need for employees with skills to manage those resources. The latest stimulus package, the American Rescue Plan Act, is sending $350 billion to state and local governments over the next few years.

The finance segment of the state and local workforce is one of several in the government sector facing pressures around the country. U.S. state and local government job openings jumped to 936,000 in July, the highest since at least 2000, according to the U.S. Labor Department this month.

U.S. state and local job openings hit a record in July

The foundation undertook the study in collaboration with Emsi Burning Glass to understand the skills needed along with short- and long-term staffing and skills challenges. Demand numbers are reported as a two-year snapshot between Jan. 1, 2019 and Dec. 31, 2020 "to smooth out" some effects of the pandemic. Emsi Burning Glass also analyzed growth rates between 2016 and 2020.

Public sector agencies may need to expand capacity, staffing, and hiring given the level of anticipated retirements "may further exacerbate skills and worker shortages," according to the report. The sector, however, has several points working its favor for recruiting and retaining employees.

Important Work

Low barriers to entry, an already diverse workforce and entry-level pay that on average is higher than the private sector can help, according to Joel Simon, vice president for workforce strategies at Emsi Burning Glass. Women making up about 52% of the public finance workforce and the sector mostly mirrors the racial and ethnic profile of the broader U.S. workforce.

"It's a bigger, wider door," Simon said.

The importance of the work is also key, said Mitchell, Indiana's Treasurer. The office serves as the chief investment officer for the state and manages nearly $10 billion. Done properly, public finance posts such as treasurer offices can save money for taxpayers by lowering borrowing costs with higher credit ratings and increasing funds with higher returns on investments, she said.

"I try to draw that line financially between what we do and the impact on individuals own wallet," Mitchell said in an interview.

Bloomberg Politics

By Shruti Singh

September 20, 2021, 10:01 PM MDT Updated on September 21, 2021, 11:16 AM MDT

Corporate and Municipal CUSIP Request Volumes Slow in August.

Second Consecutive Monthly Decline in Muni Volume

NEW YORK, Sept. 20, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for August 2021. The report, which tracks the issuance of new security identifiers as an early indicator of debt and capital markets activity over the next quarter, found a monthly decrease in request volume for new corporate and municipal identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt fell 15.4% versus July totals. The decrease was driven largely by a decline in requests for domestic corporate equity and Canadian corporate identifiers. On a year-over-year basis, corporate CUSIP request volume rose 0.1%.

Monthly municipal volume decreased in August, the second consecutive monthly decline in muni CUSIP request volume following seven straight months of increases. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 1.7% versus July totals. On an annualized basis, municipal CUSIP identifier request volumes were up 2.4% through August. Texas led state-level municipal request volume with a total of 221 new CUSIP requests in August, followed by New York with 123 and California with 81.

"It is noteworthy that we're seeing a second month in a row of declining CUSIP request volume, but it is also important to recognize that August is a historically slower month for issuers," said Gerard Faulkner, Director of Operations for CGS. "We will continue to monitor request volumes closely to get a clearer read on expected issuance activity as we head into the fourth quarter."

Requests for international equity and debt CUSIPs both declined in August. International equity CUSIP requests were down 8.7% versus July. International debt CUSIPs were down 0.3% on a monthly basis.

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

Treasury Urged to Ban Use of Stimulus Aid to Build New Prisons.

- **Activists single out Alabama in letter to Biden administration**
- **Alabama to hold special session on correctional facilities**

Activists and investors are asking President Joe Biden's administration to ban the use of federal stimulus funds to build prisons in Alabama and elsewhere.

Dozens of signatories, including the American Sustainable Business Council and Justice Capital, sent a letter to Treasury Secretary Janet Yellen and other administration officials asking them to "explicitly prohibit any state, including Alabama, from using CARES Act, American Rescue Plan (ARP), infrastructure funds or any other federal dollars for prison construction projects."

The push comes after Alabama Governor Kay Ivey, a Republican, this week called a special session of the state legislature to address "longstanding" issues with correctional facilities. As part of the plan to modernize the state prison system, lawmakers could consider a bill to sell as much as $785 million of bonds and tap as much as $400 million in federal aid from the Biden administration's American Rescue Plan, according to the governor's office.

State lawmakers are considering those funding options after a controversial debt financing didn't move forward in the municipal bond market. In that proposal, the state would have contracted with prison company CoreCivic Inc. to build and own the facilities while leasing them to the state's corrections department. The state terminated its 30-year lease with CoreCivic in August.

The activists say the federal aid should be allocated to those who have been disproportionately impacted by the pandemic, like Black, Brown and indigenous communities.

“If permitted to use federal dollars, the State will squander a once-in-a-generation opportunity to invest in our communities for productive infrastructure like K-12 and early childhood education, access to high quality and affordable healthcare, clean water and sanitation,” the group wrote in the letter dated Sept. 23. “Aid should be allocated to explicitly center and uplift widespread economic prosperity.”

Bloomberg Markets

By Danielle Moran and Amanda Albright

September 24, 2021, 8:22 AM MDT

[Alabama’s Scuttled Prison Deal Spurs Pivot to Bonds, U.S. Aid.]

- **Ivey calls legislature back into special session next week**
- **Lawmakers to mull plan to use American Rescue aid for prisons**

Alabama may seek to use debt and federal aid to fix longstanding issues with its prisons after a controversial financing plan fell apart earlier this year.

Governor Kay Ivey, a Republican, announced on Thursday that the legislature would meet in a special session on Sept. 27 to address the state’s “longstanding” issues with correctional facilities, according to a statement from her office. Alabama and its corrections department were sued by the U.S. Department of Justice in December 2020 for failing to protect male prisoners from violence and unsanitary conditions.

As part of plans to modernize correctional facilities, lawmakers could consider legislation authorizing the sale of up to $785 million in bonds for prison projects, according to the governor’s proclamation. It could also consider a bill that would authorize using up to $400 million in federal aid from the Biden administration’s American Rescue Plan and up to $154 million from the state general fund.

Earlier this year, the state abandoned its plan for prison company CoreCivic Inc. to build and own new prisons after a controversial debt financing didn’t move forward in the municipal-bond market. The state’s corrections department terminated its 30-year lease with CoreCivic in August.

“I am pleased and extremely hopeful that we are finally positioned to address our state’s prison infrastructure challenges,” Ivey said in a statement. “I appreciate the hard work of the legislative leadership and the many members who have worked diligently with my team to put us in position for a bipartisan proposal.”

In July, the state asked the Treasury Department whether Covid-19 relief aid can be used to fund correctional system projects. Alabama is eligible to receive $2.12 billion from the American Rescue Plan’s aid package for states.

Bloomberg Markets

By Amanda Albright and Danielle Moran

September 23, 2021, 2:03 PM MDT

Pension Funding is Down Over the Last Decade, But Has Held Steady Through the Pandemic.

Two decades ago, most American cities were making adequate contributions to their municipal pension funds—the national funded ratio-average for cities across the nation was more than 100 percent. But that percentage dropped when the dot-com bubble popped, and in 2007, the Great Recession pushed it down further.

It's hovered in the low 70s since 2012.

At the pandemic's onset last year, there was concern that suddenly tightened budgets would drive municipalities further into the hole, exacerbating an already serious fiscal problem. That hasn't been the case so far, according to an analysis of public retirement plans released this month by MissionSquare Research Institute.

Most pension plans continued making all or most of their annual contributions throughout 2020.

"Despite the early economic disruption of the COVID-19 pandemic, the average funded ratio among state and local pension plans has held steady at 72 percent for plans included in the Public Plans Database," according to a statement from the research institute released along with the report, "Public Plans Database—Snapshot as of September 2021."

The Public Plans Database, described in the statement as "a comprehensive database of public sector retirement plans," was developed and is maintained by the MissionSquare Research Institute in collaboration with the Center of Retirement Research at Boston College, the Government Finance Officers Association and the National Association of Retirement Administrators.

According to the statement, the database "contains detailed information on the 210 largest state and local (defined benefit) pension plans in the U.S., representing 95 percent of all state and local pension assets and participants. The PPD was expanded in 2020 to include data from public sector DC retirement plans. For this report, 2020 data were available for most but not all of the 210 total plans, depending on when a plan's fiscal year closed."

Through the first quarter of this year, defined benefit plans accumulated $5 trillion in assets and defined contribution plans contributed $531 billion.

"The Public Plans Database continues to be an excellent resource for understanding the public sector retirement plan landscape," said Joshua Franzel, Ph.D., managing director at the research institute. "As we continue to expand the PPD to include more defined contribution plans, it will provide stakeholders with an even more comprehensive view of public retirement plans."

Just as the average ratio for funded pension plans held steady, the share of cities and states with around or above 100 percent funding also remained high, "although decreasing from 85 percent of all plans in 2019 to 83 percent in 2020," the statement says. And the percentage of plans paying less than 70 percent "decreased from 9 percent of all plans in 2019 to 6 percent in 2020."

Of the 16 pension plans with a funded ratio below half, 13 contributed at least 70 percent last year and three contributed between 60 and 70 percent.

When economic downturns happen and revenue dries up, reducing pension contributions can be a tempting temporary solution for city leaders, the report notes. But "doing so has the potential to adversely affect long-term funded ratios as it reduces the principal available for investment."

Driven by a changing economic landscape, cities and states have begun to shift away from exclusively employer-paid pension plans. The number of plans that include a payroll contribution has more than doubled since 2001. Even so, defined benefit pension plans (when an employer promises a specified payment plan, lump-sum or a combination of the two) are still the most common form of state and local retirement plans—offered to 86 percent of public state and local employees.

Defined contribution plans (those in which an employee contributes money and their employer typically makes a matching contribution) account for 37 percent of all plans.

americancityandcounty.com

Written by Andy Castillo

27th September 2021

[S&P: U.S. States Weigh Risk Reduction In Managing Pension And OPEB Liabilities]

Key Takeaways

- The average U.S. state funded ratio decreased for fiscal 2020 to 68.9% from 70.9% primarily due to market returns during the pandemic-induced recession; however, we expect funded levels will improve for many plans in fiscal 2021 given generally strong market returns to date.
- Fourteen U.S. states met our minimum funding progress metric for pensions, indicating they made meaningful contributions toward full funding.
- States continue to reduce market risk exposure in their target portfolios, leading to lower discount rates and higher reported liabilities.
- State retirement plans benefited indirectly from historic levels of federal aid during the pandemic, but large unfunded liabilities persist.
- Retiree health care plans remain substantially underfunded because most states direct limited resources to other priorities.

Continue reading.

[Keeping The Wolf From The Door: U.S. HFA Multifamily Programs Perform Well During The Pandemic]

Key Takeaways

- Housing finance agency (HFA) multifamily programs maintain strong asset-to-liability parity.
- Multifamily program delinquencies and loans in forbearance have returned to near-pre-pandemic levels after slight increases in mid-2020.
- Extraordinary federal support during the pandemic bridges the gap while renters get back on their feet.
- Preparedness is everything: HFAs have shown nimbleness and resilience in adapting to a changing

environment.

Continue reading.

23 Sep, 2021

S&P: U.S. Housing Finance Agency Ratings Hold Strong Despite Pandemic Pressure

Key Takeaways

- U.S. state housing finance agency (HFA) issuer credit ratings generally remained strong from 2020 through the first nine months of 2021.
- Of the 23 state HFAs we rate, all but one are rated ‘AA-‘ or higher.
- Ratios in fiscal 2020 showed mixed performance, with equity and assets at record highs and profitability and asset quality declining.
- The COVID-19 pandemic brought a combination of pressure and relief to HFAs; healthy balance sheets and robust liquidity mitigated its impact.
- Sizable funding from federal stimulus programs is expected to slowly but surely aid in the return to pre-pandemic trends.

Continue reading.

23 Sep, 2021

S&P: Despite Weaker Loan Performance, HFA Single-Family Program Ratings Remain Strong

Key Takeaways

- Rated U.S. HFA single-family programs have withstood pandemic-related impacts, with median parity remaining relatively stable at 121%.
- Median whole loan delinquencies reached just above 6% by the end of 2020, their highest level since 2013, but have since come down in 2021.
- Most single-family whole loan programs carry insurance or guarantees from the federal government or investment-grade-rated insurance providers.
- Single-family bond issuance was 6% lower in 2020 than in 2019, but is on pace to exceed 2020 totals as of July 2021.

Continue reading.

23 Sep, 2021

RJ Gallo on Fed Tapering & the Muni Bond Space (Radio)

RJ Gallo, Senior Fixed Income Portfolio Manager & Head of the Municipal Bond Group at Federated Hermes, discusses the Federal Reserve taper timeline, and the municipal bond space. Hosted by Paul Sweeney and Matt Miller.

[Play Episode]

Bloomberg Radio

September 20, 2021

[Barclays Sees Challenges for Muni Market Amid Rates Volatility.]

- **Bank strategists see pressure for muni returns, citing rates**
- **October supply uptick may also pressure performance, they say**

Pressure is building for the municipal-bond market after a selloff in U.S. Treasuries this week, according to Barclays Plc.

Rates market volatility is one of the challenges facing state and local debt performance in the near-term, according to a Sept. 24 note by strategists Mikhail Foux, Clare Pickering and Mayur Patel. Municipal bonds have posted losses this week but outperformed U.S. Treasuries, which sold off after the Federal Reserve announced it could begin scaling back asset purchases in November.

The bonds were able to "hold their ground relatively well" amid the bond market selloff, the Barclays strategists said. Benchmark AAA yields have climbed as much as five basis points higher since the start of the week.

"However, if rates remain under pressure, at some point tax-exempts will have to follow," they said.

The Barclays strategists also pointed to more supply as a challenge facing the market, given that the volume of bond sales tend to pick up in October, which can weigh on performance. But any selloff over the next four to six weeks could be a buying opportunity, they added.

"In general, we are not overly concerned, as we see this as a temporary dislocation," they said.

Bloomberg Markets

By Amanda Albright

September 24, 2021, 10:40 AM MDT

[Munis In Focus: Active Versus Passive In ETFs (Radio)]

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses muni market news. Hosted by Paul Sweeney and Matt Miller.

[Play Episode]

Bloomberg Radio

September 24, 2021

Cryptocurrency: U.S. Public Finance Issuers Cautiously Consider Its Applications

Key Takeaways

- U.S. public finance issuers are showing an increasing interest in blockchain and cryptocurrency (crypto) as a new investment tool to enhance portfolio diversification, earn higher returns, and provide more efficient operations to control costs.
- Analogous to a retail consumer using a debit card for ease of electronic transfer, this technology and related innovations could aid some U.S. government entities but also introduces cybersecurity risks.
- A portfolio that includes cryptocurrency contains liquidity risk due to the high volatility of cash-out value and could affect creditworthiness because of reduced budgetary stability.
- ESG considerations include the environmental impact of high energy costs associated with blockchain operations, regulation, potential government interference, the escalated impact of possible cyber attacks, transparency, and whether companies involved in blockchain and crypto are promoting social welfare or merely seeking pecuniary benefit.

Continue reading. (Registration required.)

Record Number of Muni Issuers Bet on Pension Debt With Rates Low.

- **74 issuers have sold in 2021, unprecedented year-to-date tally**
- **Governments see chance to borrow cheaply, invest in stocks**

Unprecedented number of muni issuers selling pension debt

A record number of U.S. state and local issuers are selling debt to pay for retirement benefits, tapping borrowing costs near historic lows as they eye surging returns in investments such as stocks.

Seventy-four issuers have sold debt to finance pension costs in 2021, the highest number year-t--date in records starting in 1999, data compiled by Bloomberg show. The combined amount of more than $10.3 billion, encompassing all bonds where at least a portion of the proceeds goes toward pension funding, is the highest since the all-time peak in 2003, which included a $10 billion Illinois sale.

The offerings have come from states and an array of other borrowers, including cities, townships, fire and school districts, a community college and a university. Growing unfunded liabilities, which add budget stress each year, are a key driver, and with some Wall Street banks anticipating higher long-term rates, the timing appears right. For UBS Group AG's Tom McLoughlin, it adds up to a third major wave of such sales, after one following the 2008 financial crisis and another in 2003.

"The low rates in the market, if they persist, you could expect this wave to be larger," said McLoughlin, head of fixed income, Americas.

Municipalities nationwide are grappling with a pension shortfall that amounted to around $4.5 trillion as of 2018, according to the Federal Reserve's latest analysis. Years of underfunding and aggressive assumptions for returns at times were big contributors. The pain is only increasing now as the slow recovery in state and local employment from the pandemic has left fewer workers contributing to retirement systems, McLoughlin said.

The gamble for issuers is that they'll be able to earn more investing the proceeds of the bond sales than they need to repay the debt. It's been an appealing option in 2021, with major stock indexes marching to a series of record highs, even as valuation questions are mounting.

'Pros and Cons'

In June, when the border town of Douglas, Arizona, sold almost $39 million in pension-obligation securities, it looked "at the pros and cons extensively, and felt this was the best way" to avoid a crisis down the road, said its mayor, Donald Huish.

The community had expected its annual fire and police pension payments to jump to $4.4 million in 2038, from $2.4 million in fiscal 2022, Huish said. Douglas sold the debt with an average rate of about 2.9% and projects a 7.3% annual return.

Many issuers are drawn by the arbitrage opportunity and the bonds "probably look pretty attractive" said Lisa Washburn, a managing director at research firm Municipal Market Analytics. The risks they carry, however, mean they're "not a sure thing."

The Government Finance Officers Association has advised against using them and analysts warn that they take a "soft" liability such as an annual contribution that some governments reduce in times of financial challenges and turn it into a hard liability, like fixed debt service.

A spokesperson for Stifel, which has managed the most such deals in 2021 — 27 of the 74 sold — said the firm didn't have a comment.

Timing Challenge

The catch with pension bonds is two-fold. First, they don't offer a permanent fix to the fiscal strains that pushed municipalities to sell them, says Michael Rinaldi, a Fitch Ratings analyst. The second is the issue of market timing.

Timing worked against Stockton, California, which sold pension debt in 2007 and filed for bankruptcy in 2012. The 2008 crisis drove investment returns below assumptions and the bursting of the housing bubble slashed revenue collections.

One reason for confidence now is that Treasury yields remain low by historical standards, with 30-year rates hovering below 2%. The yield will probably be closer to 2.6% a year from now, according to the median forecast in a Bloomberg survey.

In August, Kansas sold about $500 million of pension bonds, its first such issuance since 2015, "to take advantage of the attractive interest rates in the bond market right now," Adam Proffitt, the state's budget director, said in an email. Proceeds will go into the public pension system to pay down a portion of its unfunded actuarial liability and accelerate payments, he said.

Dozens of smaller governments have jumped in as well.

Localities are addressing "unsustainable" costs and unfunded liabilities that are threatening the ability to serve residents, said Kevin Phelps, city manager for Glendale, Arizona, which issued about $253 million in pension bonds in June. The city pays around $50,000 a year per firefighter and per police officer into the retirement system, close to the median household income in the community, he said.

The sale of almost $54 million in pension debt in recent days by Naugatuck, Connecticut, will go toward financing unfunded retirement obligations for borough employees and firefighters. The borough ended its defined-benefit pension plan in 2012 and shifted to a 401(k) plan for new employees to ease pressure on its budget long-term.

"We can definitely see the end," said Mayor Pete Hess.

Bloomberg Markets

By Shruti Singh

September 9, 2021, 11:00 AM MDT

— With assistance by Natalia Lenkiewicz, and Francis Yatzun

Future Returns: Navigating the Municipal Bond Market.

The prospect of higher taxes has fueled interest in muni cipal bonds since state elections in Georgia assured Democrats of a slim majority in Congress at the beginning of the year.

That's because municipal bonds allow investors to earn tax-free income. But the benefits of owning the highest quality of these tax-free securities relative to Treasuries or investment-grade corporate bonds have diminished as the rush to munis has pushed prices higher, and yields lower.

The yield-to-worst (the potential lowest yield for a security) of the S&P Municipal Bond Index was only 1.03% on Monday, slightly above a low of 0.92% hit on July 27 this year. By comparison, the U.S. 10-year Treasury closed Monday at a yield of 1.36%

But high prices, and low yields, haven't quashed investor interest in munis. Estimated net cash flows into municipal bond mutual funds and exchange-traded funds reached US$79.25 billion through the end of August this year compared with US$15.73 billion in the same period a year ago, according to Refinitiv Lipper data. Those are the largest inflow totals for municipal bonds on record, according to the firm, a unit of the London Stock Exchange Group.

"There's only been one or two weeks over the last 60 that we haven't had positive cash flows into municipal bond funds," says John Flahive, head of fixed income investments at BNY Mellon Wealth Management.

Penta recently spoke with Flahive about how wealthy investors should approach the municipal bond market amid low interest rates throughout the world of fixed income.

A Rapidly Declining Ratio

Before the pandemic, the yield on 10-year triple-A-rated municipal bonds was about 85% to 90% of the 10-year Treasury yield. For investors in a 40% tax bracket, the taxable-equivalent yield on those municipal securities would be 0.30-0.50 of a percentage point higher (depending on the yield of the security at the time), Flahive says.

But prices of municipal bonds tanked, and yields rose, in the first few months of 2020 as investors feared pandemic-related lockdowns would cause state and local governments to run into financial difficulties. That would mean they could have trouble making bond payments to investors.

As a result, yields on muni bonds rose to nearly four times comparable Treasuries by the end of March 2020, according to research from Brookings.

But interventions by the Federal Reserve during the height of the crisis quickly stemmed fears. By the time the pandemic-related eligibility of municipal securities for the Fed’s Commercial Paper Funding Facility and for the Money Market Mutual Fund Liquidity Facility expired on March 31, muni rates had fallen to about 50% of comparable Treasuries, Brookings researchers wrote in an Aug. 31 post.

As Flahive noted in a mid-year report on the bond markets, the yield on 30-year triple-A rated municipal bonds rose just 0.07 percentage point in the first half of this year compared with a 0.47 percentage point gain in 30-year Treasury yields.

The relative after-tax advantage of munis, as a result, was historically low on all maturities as of the first half. Today, the tax-equivalent yield differential between munis and Treasuries is so slim that in some cases it doesn’t exist at all, Flahive says.

Total returns for munis have also been modest. The US$14 billion Vanguard Tax-Exempt Bond fund, a national intermediate municipal bond fund, returned 1.32% through Monday, Sept. 13, compared to 4.98% in 2020 and 7.45% in 2019, according to Morningstar.

The credit outlook for municipal securities, meanwhile, “is as favorable as we can recall” as a result of federal fiscal stimulus during the pandemic, Flahive said in the mid-year report. While that stimulus swelled general fund balances, he cautioned that spending budgets by these municipalities will expand, “which could make it more difficult to manage during an economic downturn.”

Still Worth Owning

For wealthy investors, the tax advantages of municipal bonds mean the securities are worth buying compared with taxable securities of similar credit quality and with durations of more than five years.

More important for investors, however, is to have a diversified fixed-income portfolio. According to Flahive, investors should even consider giving up some after-tax yield to include taxable bonds among their holdings.

“There’s nothing wrong with taking on some corporates, and for those who can take on some risk, there’s nothing wrong [with having] exposure to high-yield, floating-rate high-yield, and maybe even emerging market debt,” he says.

Sticking With Bonds

Even with rates low across the board, BNY Mellon says investors, generally, should own bonds—albeit a judicious amount. While a generic, moderate-risk portfolio might typically call for 60% in stocks and 40% in bonds (taxable and tax-free), for instance, the wealth manager’s high-level recommendation is now for something less than 30% in fixed income, Flahive says.

Of that approximate 30% allocation, most should be in “core” securities, such as intermediate municipal bonds. Generally, this allocation should include about 80% in state-issued municipal securities (for those who live in states with good bond ratings, such as New York or California), and about 20% in national bonds. The portfolio should be diversified between revenue bonds (used to fund specific projects) and general obligation bonds.

Another 6% or so of the total fixed-income allocation could then be in riskier, higher-yielding securities, including opportunistic municipal bond strategies, he says.

“You are probably better off following a diversified fixed-income approach even though you might be taking more volatility asset class by asset class, [because] at least it’s not just one asset class,” Flahive says.

Barron’s

By Abby Schultz

Updated Sept. 14, 2021

Introducing Sustainable Fitch: ESG. Focused.

We understand how challenging (and frustrating) it can be to try and measure the true impact of ESG factors, as the landscape constantly evolves without any clear standards to measure ESG-related risks and opportunities. Leaning on our best-in-class analytics and research and our on-th--ground subject experts, Fitch has developed a robust and comprehensive ESG data and analysis solution that will set a new standard in the market.

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DISCOVER SUSTAINABLE FITCH

Are States And Cities Taking On Too Much Debt?

Fears are receding of immediate state and city budget crises, due to the double impact of federal spending and restored economic and revenue growth. But low interest rates and pent-up public spending needs are leading to a great deal of new state and local borrowing. Are states and cities taking on too much debt?

In 2020, falling revenues due to the Covid-19 recession led to significant new muni borrowing. In fact, 2020 saw municipal bond sales set a new record of $451.2 billion, up 11% over 2019.

2021 has seen continued issues from states and cities, "5% above the 5-year average" in June according to Blackrock. But muni supply is being swamped by demand, with large inflows of purchasing funds and less supply due to investors buying and holding munis.

Continue reading.

Forbes

by Richard McGahey

Sep 8, 2021

S&P U.S. Not-For-Profit Health Care Rating Actions, August 2021.

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S&P Global Ratings affirmed 17 ratings without revising the outlooks and took 12 rating actions in the U.S. not-for-profit health care sector in August 2021. There were 11 new sales in August including ratings initially assigned to AtlantiCare Health System, N.J. and St. Lukes Hospital of Duluth, Minn. We also assigned an issuer credit rating to Antelope Valley Hospital, Calif. The 12 rating and outlook actions were comprised of the following:

- Three stand-alone hospital downgrades all into speculative grade;
- Two upgrades, including one stand-alone hospital and one health system;
- Five favorable outlook revisions (four to stable from negative and one to positive from stable); and
- Two unfavorable outlook revisions (to negative from stable).

The table below summarizes S&P Global Ratings' monthly bond rating actions for U.S. not-for-profit health care providers in August. We based the credit rating affirmations and rating actions on several factors within enterprise and financial profiles, including business position, utilization, financial performance, debt levels, bond-issuance activity, physician relationships, and the external regulatory and reimbursement environment. This also incorporates our stable sector view and our assessment of COVID-19, economic developments, and market volatility.

Continue reading.

13 Sep, 2021

Fitch 2021 Median Ratios for Not-for-Profit Life Plan Communities.

Fitch Ratings-New York-13 September 2021: Fitch Ratings has released its 2021 Median Ratios for Not-for-Profit Life Plan Communities (LPCs). The data presented in this report are limited solely to audited fiscal 2019 results.

"The sector remained resilient during the coronavirus pandemic, which is reflected in the sector's 2020 financial results," said Margaret Johnson, Director. "Most of Fitch's rated communities availed themselves of various forms of emergency stimulus funding to alleviate the operational pressure of the pandemic, which included increased expenses, lower revenues as a result of a decline in post-acute rehabilitation volumes and pressured cash flows from curtailed turnover due to severe limitations imposed on move-ins to communities during the pandemic."

As of Aug. 4, 2021, Fitch maintained public ratings on 161 LPC providers, of which 151 are included in the medians report. The median rating is 'BBB' and the number of ratings in the 'BBB' rating category remains the most numerous at 77 (or about 51%) versus 34 (or 22%) in the 'A' rating category. Within Fitch's median portfolio, Type A contract providers remain the plurality with 57 (about 38% of the portfolio), followed by Type C contract providers and Type B contract providers.

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Update on the Reconciliation Package: Municipal Bonding Priorities

Pullman & Comley's Public Finance tax attorneys are pleased to bring you the latest development on the budget reconciliation front as it relates to municipal bonding. Last Thursday, September 9, 2021, the House Ways and Means Committee kicked off a multiday markup of key elements of $3.5 trillion social spending package. In the evening on Friday, September 10, the House Ways and Means Committee released the remaining tax subtitles for consideration in their portion of the reconciliation package. The proposed legislation, which the Committee will mark up this week, includes the following municipal bond priorities (among others):

- Restoration of Advance Refundings,

- Reinstatement of a Direct Subsidy Bond Program Similar to Build America Bonds, and
- Expansion of Bank Qualified Provisions of the Code.

The Committee's section-by-section summary is below. There are still no firm details on the Senate's tax provisions or on the anticipated schedule for consideration.

Section-By-Section Details for Select Sections of Subtitle F – Infrastructure Financing and Community Development

Sec. 135101. Credit to issuer for certain infrastructure bonds.

Based on the successful Build America Bonds program enacted in the 2009 American Recovery and Reinvestment Act, issuers of qualified infrastructure bonds would receive a tax credit equal to an applicable percentage of the interest, providing direct financing support for infrastructure investments made by state and local governments. The applicable percentage of the credit for interest paid with respect to qualified bonds is determined in the year the bond is issued as follows:

2022 through 2024 – 35%
2025 – 32%
2026 – 30%
2027 and thereafter – 28%

State and local governments may claim this credit for bonds whose interest would otherwise be eligible for tax-exempt status in the Internal Revenue Code, and the entirety of whose net proceeds are used for capital expenditures or the operation and maintenance of capital expenditures.

This provision requires that 100% of the proceeds of a bond issued under this provision meet the requirements in the Davis-Bacon Act. Payments under this section are grossed up in the event of sequestration. This provision applies to qualified infrastructure bonds issued after December 31, 2021.

Sec. 135102. Advance refunding bonds.

Advance refunding refers to a state or local government holding the proceeds of a refunding issue for longer than 90 days before using such proceeds to pay off a refunded issue, allowing state and municipal governments to take advantage of lower interest rates to refinance long-term debt obligations. Prior to repeal in the 2017 Tax Cuts and Jobs Act, interest on advance refunding bonds was exempt from tax. This provision would once again allow interest on advance refunding bonds issued by state and local governments to be exempt from tax. This provision applies to advance refunding bonds issued more than 30 days after date of enactment of this Act.

Sec. 135103. Permanent modification of small issuer exception to tax-exempt interest expense allocation rules for financial institutions.

As a general rule, no deductions are allowed for expenses that are allocable to tax-exempt income, including tax-exempt interest received by holders of certain municipal bonds. The same general rule applies to financial institutions to disallow a deduction for interest expense that is allocable to tax-exempt interest income. However, present law provides an exception for interest expense allocable to certain tax-exempt obligations issued by qualified small issuers, which are defined (in part) as issuers that are not reasonably expected to issue more than $10 million in tax-exempt obligations during a calendar year. This provision revises the definition of qualified small issuers by increasing the $10 million limit to $30 million (indexed annually for inflation). In addition, this provision treats qualified 501(c)(3) bonds as tax-exempt obligations for purposes of the small issuer exception, and makes permanent certain rules related to qualified financings.

Sec. 135104. Modifications to qualified small issue bonds.

This provision expands the definition of eligible manufacturing facilities eligible for financing through qualified small issue bonds to include facilities used for the creation or production of intangible property, and facilities functionally related and subordinate (or directly related and ancillary) to facilities used for the manufacturing, creation, or productions of tangible or intangible property. This provision also raises the aggregate cap for prior issues from $10 million to $30 million, indexed annually for inflation.

Please contact Michael J. Andreana, Sandra D. Dawson or Glenn G. Rybacki with any questions.

by Michael J. Andreana, Sandra D. Dawson and Glenn G. Rybacki

09.14.2021

Pullman & Comley, LLC

Biden Warns States, Cities of Fallout From Debt Default.

- **White House warns of possible recession, slump in federal aid**
- **Treasury has warned “extraordinary measures” run out in Oct.**

President Joe Biden’s administration is warning state and local governments that the risk of a default on U.S. debt could trigger a recession and curb the flow of federal aid, as it urges Congress to raise or suspend the federal borrowing ceiling and avoid a crisis.

“Hitting the debt ceiling could cause a recession. Economic growth would falter, unemployment would rise, and the labor market could lose millions of jobs,” the White House said in a letter to state and local governments, released Friday.

The White House said disaster relief payments, Medicaid and the children’s health insurance program, as well as funding for education, infrastructure and child nutrition could be disrupted.

“If the U.S. defaults on its obligations, the ripple effects will hurt cities and states across the country,” the letter said.

The letter comes after Senate Minority Leader Mitch McConnell this week rejected an appeal by Treasury Secretary Janet Yellen for Republicans to join with Democrats in raising the federal debt ceiling, leaving the two sides at odds with potentially just weeks to go until the limit is breached.

The debt limit snapped back into place at the beginning of August, but Treasury has been using so-called extraordinary measures since then to avoid a default. Yellen has warned that those measures will run out some time in October.

“If the U.S. defaults on its debt – cities and states could experience a double-whammy: falling revenues and no federal aid as long as Congress refuses to raise or suspend the debt limit,” the White House warned, adding that a debt limit crisis could also raise the cost of borrowing for states and municipalities.

It warned that the S&P 500 could plunge in the event of a prolonged standoff, "and the value of state pension fund assets would fall as a result, hampering states' ability to pay their pension obligations."

The administration has been urging Congress to simply raise or suspend the limit, as has been done regularly in the past, though Republicans have seized on the issue as a way to combat Biden's domestic fiscal agenda, which includes tax increases for corporations and a series of proposed spending measures that the GOP opposes.

National Economic Council Director Brian Deese said Friday that the administration ultimately expects Congress to avoid a debt limit crisis.

"We have seen this done in a bipartisan way consistently and the best way to do this is without a lot of drama, without a lot of self-inflicted harm to the economy and to our country, and that's what we're going to do," Deese told MSNBC. "Now, there's a lot of posturing on this issue, but we're confident at the end of the day we'll get this done."

The U.S. Conference of Mayors on Friday urged Congress to act on a bipartisan basis.

"Both parties in Washington have added to our debt, and both parties have an obligation to make sure the United States can continue to pay its bills," Dayton, Ohio Mayor Nan Whaley, the group's president, said in a statement. "This is one of the most basic responsibilities of Congress, and there is no good reason for lawmakers to create a crisis that undermines the full faith and credit of the United States."

Bloomberg Politics

By Josh Wingrove

September 17, 2021

States and the Fiscal Experiment Flowing from Washington.

Despite predictions that COVID-19 would crush state tax revenues, most of them didn't need megabillions in pandemic aid to balance their budgets. But for the most part they seem to be spending the money wisely.

It's time for macroeconomists and public finance pundits to eat crow. Early last year, almost all of us — myself included — predicted that states would encounter major revenue shortfalls as the nation locked down to fight the coronavirus. In retrospect, that proved to be a false alarm, at least for all but a third of the states. So the megabillions of federal dollars allocated to them by the 2020 CARES Act and the 2021 American Rescue Plan are largely going someplace other than budget balancing. Has a half-century of empirical public finance wisdom gone out the window?

As for my own humble pie, hopefully I can pass up the largest slice: While I was among the pundits predicting significant tax revenue shortfalls, I did make the case in this space in April 2020 that the size of federal relief packages being proposed at the time by congressional liberals and advocates of state and local government were double or even quadruple the realistic magnitude of what the pandemic could inflict. Beginning with the data point that total state and local sales and income taxes garner about $1 trillion annually, my bar-napkin estimate of the likely revenue shortfall was a range of 10 to 25 percent of that number, so perhaps $100 billion to $250 billion. At the time, governors were pleading for $500 billion, and I explained how that was probably going to be far more than was actually needed.

Although the 2020 CARES Act focused mostly on direct aid to individuals and small businesses, it did include about $150 billion for states and localities. With Democrats relentlessly pushing for more, the bigger funding package came later in this year's pandemic relief legislation: the American Rescue Plan, which earmarked another $350 billion for intergovernmental aid — a number that will be debated for many years to come.

Continue reading.

governing.com

September 14, 2021 • Girard Miller

Tax Hike Seen Luring Banks Back to Munis After Trump-Era Exodus.

- **House panel approves increase to the corporate tax rate**
- **Banks wading back after Trump tax cuts set off a pullback**

The Democrats' push to raise the corporate income tax will likely drive banks and insurers to step up their purchases of municipal bonds, a haven for tax-averse investors.

House Democrats are looking to increase the top corporate rate to 26.5% from 21% to help finance President Joe Biden's $3.5 trillion economic plan.

That could spark demand for state and local government debt from financial firms seeking to ease their tax burden. Banks, property and casualty insurers and life insurance providers are active investors in the $4 trillion municipal-bond market, collectively holding a combined $1 trillion of the securities as of March 31, according to Federal Reserve data.

"With the increase in the tax rate you would see more demand for tax exempts from banks and property and casualty insurance, especially because they're quite sensitive to tax-rate changes and often times they make decisions between municipal bonds and corporate bonds," said Karel Citroen, head of municipal research at Conning, which oversees $9 billion of state and local debt, mostly for insurance clients.

The tax increase would partially roll back the deep cuts in the 2017 law enacted under former President Donald Trump, which reduced the corporate rate from 35%. That caused banks to slash their holdings of municipal bonds by lessening the need for the tax shelter.

Such holdings by financial institutions and insurers are down from $1.1 trillion at the end of 2017, the Fed's data show.

The latest tax-law changes could also affect demand from the wealthiest investors. The steps approved by the House Ways and Means Committee would raise the highest tax rate and impose a 3% surtax on incomes over $5 million.

The impacts appears largely priced into the market, given that yields have been largely unchanged since the measures were rolled out. Investors have widely anticipated such tax hikes under Biden, contributing to a large influx into tax-exempt bond funds.

"If the tax changes are implemented in the current form, we will likely see demand for the product remaining quite strong," Barclays strategists wrote in a report Wednesday. "Higher individual tax rates, and a 3% surcharge for adjusted gross income above $5 million, should increase appetite even further, given that individual investors in top tax brackets own the bulk of tax-exempt bonds."

Bloomberg Markets

By Michelle Kaske

September 16, 2021

Americans Storm Blackjack Tables in Fiscal Tailwind for States.

- **U.S. commercial casinos earned record $4.8 billion in July**
- **More relief for municipalities that collect gaming taxes**

In a boon for U.S. states that tax gambling revenue, the nation's commercial casinos are earning record sums as Americans hungry for leisure and entertainment storm back to play blackjack, work the slots and bet on sports.

July was a historic month for commercial casinos, which earned $4.83 billion after paying out winnings, according to the latest data from the American Gaming Association.

It was also the fifth consecutive month of double-digit revenue growth over the same period in 2019, and the year's total, $29.6 billion, almost matches the entire intake for 2020. The peak year was 2019, at $43.6 billion, and 2021 looks like it may give it a run for the money.

This is more good fiscal news for states and localities, already awash in cash as the result of stronger-than-forecast tax revenue as the economy rebounds from the pandemic, as well as $350 billion in federal aid. The robust financial backdrop has been one of the pillars supporting municipal debt this year as it's outperformed the broader U.S. fixed-income market.

"For those states that collect gaming taxes, we have seen steady collections from online gaming activity as well as a recovery in in-person gaming receipts, primarily due to a surge in domestic leisure travel and limited alternative entertainment options that conform to social-distancing practices," Ladunni Okolo and Sussan Corson of S&P Global Ratings said in an email Tuesday.

The totals from the AGA represent gambling in the 25 states with commercial casinos, and don't include revenue from Native American tribal operations. July marked the first full month since the onset of the pandemic in which casinos in all 25 of those states could open at full capacity, the association said.

Turnaround 2021

It promises to be a big turnaround year from the perspective of the tax collectors. In 2020, commercial gaming and sports-betting operations paid $6.7 billion in taxes, down from $10.2 billion in 2019, according to AGA data.

Massachusetts gambling operations have reaped the biggest increase in revenue this year: The $560 million they've taken in amount to a 79.2% increase over the same period in 2019. Nevada casinos brought in the most, at $7.4 billion, which is a 6% increase over the January-July period in 2019.

Las Vegas has seen visitors increase steadily this year, according to data through July, which was just as the delta variant of the coronavirus was causing cases to soar again.

For municipalities, gambling tax revenue is only part of the story, said Douglas Goldmacher, a senior analyst at Moody's Investors Service.

"Although the overall impact is undeniably positive, the specific impact on a given state or local government is more variable as it depends on the tax structure of the jurisdiction," he said via email Tuesday.

"For some, there is a direct link between higher revenues and higher taxes, but for others, the effects may be more indirect and may depend less on total revenues and more on the number of jobs or ancillary economic impacts," he said.

Bloomberg Markets

By Joseph Mysak Jr

September 15, 2021, 9:06 AM MDT

— With assistance by Alexandre Tanzi, and Danielle Moran

Muni Market Facing Bond-Sales Deluge in Democrats' Budget Plans.

- **Refinancing, infrastructure subsidies would unleash new issues**
- **At the same time, tax-law changes could affect demand**

A flurry of legislative activity in Congress is promising to shake up the $4 trillion municipal-bond market by unleashing a potential surge of new debt sales and altering tax rates in ways that could affect demand from investors.

The proposals are among those included in legislation released by Democrats in the U.S. House of Representatives who are moving to implement President Joe Biden's tax-and-spending agenda.

The steps, if enacted, would upend the calculations used in the tax-exempt bond market, where valuations have surged and investors have flooded in over speculation that Biden will raise taxes on the highest earners. Yet the varying elements make it difficult to gauge exactly how it will affect prices, particularly since some elements would likely increase demand as well as supply.

One set of proposals would almost certainly set off a large increase in new bond issuance by subsidizing governments that sell taxable debt for infrastructure projects and restoring the tax-breaks for a refinancing tactic that was effectively ended by Donald Trump in 2017. That could be offset at least in part by moves to raise corporate tax rates and apply a surcharge on individual incomes over $5 million, providing a potential increase to demand.

"It's a little hard to predict how that all comes out in the wash at this point," said James Iselin, head of the municipal fixed-income group at Neuberger Berman Group.

The legislative push could inject more volatility into the state and local government bond market, where yields have been little changed since April.

JPMorgan Chase & Co. estimated that the move to allow governments to again sell tax-exempt bonds for so-called advance refundings could fuel over $100 billion of debt sales in 2022 alone. At the same time, lawmakers are seeking to revive the Obama-era Build America Bonds program, which covered part of the interest bills on taxable municipal bonds to spur infrastructure projects. About $186 billion of such debt was sold in 2009 and 2010.

The House Ways and Means Committee's proposal to raise the top corporate tax rate from 21% to 26.5%, however, could affect demand from buyers such as banks that pared their municipal-bond holdings after taxes were cut under Trump. Even so, some lawmakers are pushing to eliminate the $10,000 cap on state and local tax deductions that was widely seen as increasing demand for tax-free bonds from wealthy Americans, particularly in states like New York that were heavily affected by the limit.

Overall, though, money managers said the provisions could ease the shortage of new bonds that resulted from a steady influx of cash this year. Municipal debt sales have increased just 3.5% this year, according to data compiled by Bloomberg.

"Most market participants feel there's just not enough tax-exempt bonds relative to that demand," Iselin said. "It could wake the market up from this more doldrum-like state. Everybody would be happy for that."

A surge in debt sales would in theory weigh on performance given that the market tends to be heavily driven by supply and demand dynamics. But any selloff as a result of the expectations for higher supply would be "healthy," said Jeff Timlin, a managing partner at Sage Advisory Services, and so far prices have barely budged.

Municipal bonds have posted small gains this year, bucking the losses seen in other parts of the fixed-income markets. And the yields on 10-year tax-exempt bonds have averaged about 66% of those on Treasuries this year, down from 106% in the second half of 2020, indicating valuations have risen.

Any pullback could "help the muni market reprice to levels or valuations that are more sustainable in the long run," Timlin said.

Bloomberg Markets

By Amanda Albright

September 14, 2021, 11:07 AM MDT

Muni-Bond Buyers Wish for 'Time Machine' as Airport Sells Debt.

- **Atlanta's airport, one of world's busiest, to sell muni bonds**
- **Bond sale unlikely to face penalty despite rising Covid cases**

When the Hartsfield-Jackson Atlanta International Airport offers nearly $342 million of municipal debt Tuesday, bond investors may wish they could go back in time.

When the airport, one of the busiest in the world, sold bonds during the depths of the pandemic in September 2020, it paid 49 basis points above AAA rated securities on debt due in 2030. Since then, the additional yield that investors could get on airport bonds has dwindled, lowering the yield penalty on those Atlanta bonds to 19 basis points in secondary market trading on Sept. 8.

Betting on bonds that will benefit from the pandemic recovery is a trade that's losing its shine in the municipal market. The additional yield that investors received on airport debt has dwindled after the market's steep selloff in spring 2020 as buyers became more confident in airports' ability to weather the pandemic.

"If I had a time machine I'd like to go back to May 2020 and buy a bunch of these," said Paul Toft, senior portfolio manager for municipal investments at Key Private Bank.

Toft said he'll likely sit out this week's sale because airport bonds have become "overvalued" over the last six to 12 months.

Why It's Noteworthy

Municipal-bond investors have been showing confidence in airports, citing their ample supply of liquidity going into the pandemic. Cash on hand for airports rated by Moody's Investors Service totaled 652 days in fiscal 2019, a record.

Atlanta's Department of Aviation, which operates the city-owned airport, had 1,026 days of cash on hand as of June 30, 2021. The federal government has provided several rounds of aid to airports through stimulus legislation, and Atlanta's has received nearly $800 million in relief.

Jason Appleson, a portfolio manager at PT Asset Management, said the airport benefits from its large size and being the largest hub for Delta Air Lines Inc. "They're well positioned to sustain a temporary loss of passengers from Covid," he said.

He said credit spreads in the bond market haven't reacted much to the spike in Covid-19 cases. U.S. carriers have warned that the rise in Covid-19 infections is delaying their recovery after a strong travel season this summer.

Greg Richardson, chief financial officer of the airport, said in an emailed statement that the airport is seeing signs of "traffic recovery." Enplanements in June 2021 totaled about 75% of June 2019 levels, according to bond offering documents. He said the airport has about $600 million of unused pandemic relief aid which it can use to address future challenges.

Market's View

The Atlanta airport debt is rated Aa3 by Moody's, which said the airport is in a "solid position." Loop Capital Markets is serving as the senior manager on the sale.

Richardson said the airport is expecting very strong interest from investors and he hopes to achieve savings of more than $90 million from the refinancing.

"The market for airport debt remains strong as investors understand the essential role ATL and other airports serve in the national and global transportation network," he said.

Toft said expects the Atlanta airport deal to price around 20 basis points higher than five-year AAA debt issued by Georgia, which he uses as a proxy for where top-rated municipal credits are trading. He said higher quality debt may make more sense given there is "downside" potential for airports with credit spreads at tight levels.

Appleson said he would consider buying the debt if there was a price "concession" but said he has not been actively buying airport bonds.

"Spreads are so tight in the sector that you're not getting paid to take airport bond risk," he said.

Bloomberg Markets

By Amanda Albright

September 13, 2021, 11:04 AM MDT

Build America Bonds, Advance Refunding Revived by Panel.

- **Ways and Means Committee on Tuesday will discuss bill markup**
- **New BABs would lead to jump in issuance in the muni market**

Build America Bonds are back.

So is the ability to refinance debt that comes due years later on a tax-exempt basis. There's also an increase, to $30 million from $10 million, in the amount of bonds that can be sold by small issuers and for which banks can deduct their cost of carry. And Native American tribes will find it easier to borrow in the municipal market, while companies will get a new tax credit for wages paid in U.S. possessions.

These are among the proposals affecting the municipal bond market in the text of a bill released late Friday by the House Ways and Means Committee, which on Tuesday will resume discussion of the Build Back Better Act, its portion of President Joe Biden's $3.5 trillion economic agenda.

The return of so-called tax-exempt advance refunding bonds is something municipal market participants have been advocating for since they were prohibited under President Donald Trump's tax overhaul in 2017. The wish for a return of Build America Bonds, a type of subsidized taxable bond, goes back even further, to the end of 2010, when the program expired.

"It's safe to say there's a lot of very happy issuers out there," Emily Swenson Brock, director of the Government Finance Officers Association's Federal Liaison Center, said in an email on Sept. 11. The group, which represents state and local governments in the U.S. and Canada, has been lobbying for both provisions.

Brock cautioned that the House had a big list to tackle before its self-imposed Sept. 27 deadline, and that Speaker Nancy Pelosi had "to get the caucus in lock-step for reconciliation, which will require some give and take."

Issuers sold $187 billion in Build America Bonds, created by the American Recovery and Reinvestment Act of 2009, before the program expired at the end of 2010. BABs provided issuers with a direct-payment 35% subsidy on the interest they paid to investors, making the taxable borrowing even cheaper than tax-exempt. The subsidy was later lowered as a result of budget sequestration.

"Short opinion is that Christmas came early!" Dave Erdman, Wisconsin's capital finance director, said in an email. "Yes 'some assembly required' and some details need to be worked out, but very happy with the work completed by the Ways and Means Committee!"

New BABs will offer a direct-payment subsidy of 35% from 2022 to 2024 and decrease to 28% by 2027 and after that. Brock of the GFOA said Monday that the committee clarified that the bill would offer direct-pay bonds to the issuer, rather than a credit allowed to the buyer. The committee plans to clarify this in the markup this week, according to Brock.

Burned Last Time

"There will be many issuers out there who felt burned by sequestration-related subsidy cuts last time and may not even consider this taxable financing option without overwhelmingly attractive subsidy rates," said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities in Dallas, Texas.

Advance refundings once counted for anywhere between 25% and 30% of municipal bond sales every year. In recent years, issuers have turned to doing them with taxable munis because interest rates had become so compressed.

"The muni-friendly provisions in the Ways and Means reconciliation draft is nothing short of a love letter to MuniLand," said Eric Kazatsky of Bloomberg Intelligence in an email. "While we don't know what will make the final cut, it is safe to say that public finance bankers should have their hands full going forward."

The Joint Committee on Taxation on Sept. 11 released a report on the budgetary effects of each of the proposals being considered by Ways and Means. New BABs would cost the government $22.5 billion between fiscal 2022 and 2031, while allowing tax-exempt advance refundings would cost $14.9 billion. Expanding bank-qualified issuance would cost $3.97 billion.

Bloomberg Politics

By Joseph Mysak Jr

September 13, 2021, 12:00 AM MDT Updated on September 13, 2021, 11:44 AM MDT

— With assistance by Erik Wasson

Muni-Bond Sales Set to Surge in Boon to Funds Awash With Cash.

- **Governments expected to sell $15.9 billion of bonds in 30-days**
- **Supply, demand imbalance has frustrated investors for months**

The pace of new municipal-bond sales is poised to surge, snapping back from the late-summer lull and promising to ease a supply dearth that's left money-managers competing to get in on debt offerings.

State and local governments are expected to sell $15.9 billion of bonds over the next 30 days, the fastest pace since June. The actual amount issued will be much higher because many offerings are scheduled with less than a month's notice.

Continue reading.

Bloomberg Markets

By Danielle Moran

September 10, 2021, 9:13 AM MDT

[Munis In Focus: The Delta Variant (Radio)]

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses muni market news. Hosted by Paul Sweeney and Matt Miller.

[Play Episode]

Bloomberg Radio

September 10, 2021 — 11:00 AM MDT

[Muni Buyers Look for Shift From 'Inertia' That's Gripped Market.]

- **Market stagnates with light trading and predictable patterns**
- **Barclays cites 'Let's Get it Started,' sees more volatility**

Volatility in the state and local debt market has dwindled

Municipal-bond investors and traders are looking for something, anything, to get the market out of its doldrums.

Trading has slowed. Debt sales are up, but only by a paltry 4%. The amount of cash pouring into municipal investment funds has become predictable. State and local debt even defied the selloff in bonds globally on Tuesday, with yields barely budging.

The conditions have meant there hasn't been much volatility that investors often pounce on for buying and selling opportunities. A gauge measuring that volatility in the market over a 30 day period has fallen to the lowest since January.

"Absolute muni yields are too low to sell and too low to buy," said John Ford, co-head of municipal trading at broker-dealer firm Wall Street Access, who described the market as being stuck in a period of "inertia."

"Nobody wants to enter the market at these levels," he said.

Barclays Plc municipal strategists say they think the next few months could get more eventful, publishing a note on Friday with a title that referenced "Let's Get It Started," a song by the Black Eyed Peas, a pop-rap group. The note detailed the potential factors that could drive more activity in the market, including federal infrastructure legislation.

Dave Isaak, owner of Isaak Bond Investments, said he thinks buyers are worried about the risk of inflation, and that may be causing buyers to struggle to commit to a big position making a call on the direction of interest rates.

"There's a level of hesitation," he said. "Because the risk of inflation being more than transitory is out there."

The muni-bond market is also watching for any related change in policy from the Federal Reserve. If the Fed sought to taper its bond purchases, it could cause Treasury yields to increase, which could drive up yields on muni bonds, Ford said.

Still, Ford said he thinks any taper-related selloff would likely be muted compared to what happened during the taper tantrum in 2013, given the Fed has refined its messaging strategy and would telegraph a change in policy well in advance.

That would likely limit any increase in muni yields and would mean the securities could have a "lid" on them for a while longer, he said. "I think munis are overpriced here and I hope that a new buying opportunity emerges."

Bloomberg Markets

By Amanda Albright

September 7, 2021, 11:00 AM MDT

HUD Opens Access to $5 Billion in American Rescue Plan Grants to Prevent and End Homelessness.

WASHINGTON – The U.S. Department of Housing and Urban Development today issued the HOME-ARP Implementing CPD Notice, Requirements for the Use of Funds in the HOME-American Rescue Plan Program ("the Notice"). The new HOME-ARP notice is a critical step taken by HUD to expeditiously allow communities to begin accessing funds from the nearly $5 billion funds allocated from the American Rescue Plan to help communities across the country create affordable housing and services for people experiencing or at risk of experiencing homelessness.

"With rates of COVID-19 transmission still high, there is no time to wait to assist the more than half a million Americans on any given night who are enduring this pandemic in crowded shelters or on the streets," said Secretary Marcia L. Fudge. "Today's release of guidance opens up access to the critically needed American Rescue Plan funds that will help communities provide the safety and security of a stable home to more Americans."

In April, HUD announced the American Rescue Plan funding allocations and broad contours of how the funds can be used. Today, this notice sets forth specific program requirements that participating jurisdictions or grantees must meet to begin planning for their use of their HOME-ARP funds in earnest. Under the regular HOME program, grantees must wait until their allocation plans are completed and approved by HUD in order to access funds. Given HOME-ARP's focus on addressing the urgent needs of people experiencing and at-risk of homelessness, HUD is providing grantees with five percent of their HOME-ARP grant upfront to support eligible program planning activities related to the development of their HOME-ARP Allocation Plans. Participating jurisdictions will be provided access to the balance of its HOME-ARP grant, including the remaining 10 percent of its administrative and planning set-aside, after HUD reviews and accepts its HOME-ARP Allocation Plan.

The $4.925 billion in HOME-ARP funding will play a critical role in developing housing to address homelessness and homelessness risk among extremely low-income households. The funding also gives participating jurisdictions flexibility to best meet the needs of people experiencing or at – risk of experiencing homelessness, including through the development of affordable housing and permanent supportive housing, the provision of tenant-based rental assistance, the delivery of supportive services, and acquisition and development of non-congregate shelter units.

September 15, 2021

[ESG Is Coming to Municipal Bonds ETFs. What to Know.]

Municipal bond ETFs are getting into something that stock fund managers have been doing for a while now—sustainable investing.

On Friday, asset manager VanEck launched the first municipal bond exchange-traded fund explicitly focused on the type of investment that goes by many names—sustainable, values-aligned, but most commonly ESG, which stands for environmental, social, and corporate governance.

The VanEck HIP Sustainable Muni ETF (ticker: SMI) will hold investment-grade state and local government debt that promotes positive social, environmental and economic outcomes, according to the company.

Continue reading.

Barron's

By Evie Liu

Sept. 10, 2021

High-Yield Munis Worth Considering as Default Rates Cooperate.

Yields are low across the fixed income universe this year, and municipal bonds aren't exempt from that trend.

That may sound like an invitation to embrace high-yield municipal bonds and exchange traded funds like the VanEck Vectors High Yield Muni ETF (HYD). After all, the $4 billion HYD sports a 30-day SEC yield of 2.20%. That's a lot better than the 0.75% on the widely followed S&P National AMT-Free Municipal Bond Index.

Of course, the trade-off for more yield on any bond usually is elevated default risk, among other concerns. Fortunately, muni defaults remain rare and that's a plus for investors considering HYD.

"While they may have become more common over the last 10 years, municipal defaults and bankruptcies still remain rare overall," says Michael Cohick, VanEck senior ETF product manager. "(Indeed, during the period of significant market stress during 2020 resulting from Covid, there were only two municipal defaults and neither were virus related.) Second, muni bonds continue to be highly rated compared to corporates. While there were municipal ratings downgrades during the year, global corporates' ratings' downgrades were more frequent."

Municpal bonds, high-yield and otherwise, are seen as long-term investments, ideal for conservative investors and retirees. On that note, a recent study by Moody's Investors Service notes the long-term default for munis is rather low.

“The five-year all-rated cumulative default rate (CDR) of municipal bonds throughout the study period (1970-2020) was unchanged at 0.08% and still remains very low,” adds Cohick. “Likewise when compared to the five-year CDR of 6.89% for global corporates over the same time period. Of the two muni defaults in 2020, one was rated and the other was “’by a Moody’s rated entity albeit on an unrated instrument.’”

Low default rates are particularly relevant in the case of HYD, not just because the fund holds high-yield debt, but also because of some of its state exposures. For example, Illinois, one of the more financially challenged states, accounts for 11.7% of the ETF’s roster. California, a state with ballooning public pension obligations, is the fund’s largest allocation at 13.7%. Those are points to consider, but history is on HYD’s side.

“If one looks at long-term municipal bond obligations, across all sectors, between 1970 and 2020, according to the Moody’s report, there were only 114 distinct Moody’s-rated defaults, representing a little over $72 billion, out of a universe of more than 50,000 different state and local governments and other issuing authorities,” according to Cohick.

ETF TRENDS

by TOM LYDON

SEPTEMBER 7, 2021

Muni Market ETFs Ripe For Active Mgmt.

Though the ETF wrapper’s genesis was in benchmark-tracking, with the launch of the SPDR S&P 500 ETF Trust (SPY) in 1993, active ETFs have begun to gain ground since their debut in 2008. Fixed income ETFs have been particularly well-suited for active management, especially in the current low rate environment.

With the return of near-zero interest rates in the wake of the pandemic, active fixed income managers can adjust interest rate sensitivity based on their prediction of the next Federal Reserve action.

Active managers can also conduct analysis on various credits, picking and choosing which might be best-positioned to make good on their debts.

Continue reading.

etf.com

by Jessica Ferringer

September 08, 2021

[ICE and ADP Introduce Workforce Demographics Data for Municipal Bond Investors.]

ATLANTA & NEW YORK, September 07, 2021–(BUSINESS WIRE)–Intercontinental Exchange, Inc. (NYSE: ICE), a leading global provider of data, technology and market infrastructure, and ADP (NASDAQ: ADP), a leading global technology company providing human capital management (HCM) solutions, today announced the launch of a new data service that helps investors better understand and assess the economic stability and creditworthiness of fixed income issuers in the U.S. municipal bond market.

The new service links aggregated and anonymized human resources and compensation data from ADP directly to more than one million municipal bonds covered by ICE's reference data service. This can allow municipal bond investors, and other market participants, to assess a wide range of dynamics that could impact a municipal issuer and supplement their fundamental research.

"This data is incredibly powerful and can be used by market participants to drill into the financial stability of a municipal issuer," said Lynn Martin, President of Fixed Income & Data Services at ICE. "ADP's human capital data is impressive in its timeliness and breadth of coverage, and by linking it to our municipal fixed income data, we're able to give investors and market participants convenient access to a broad set of alternative datasets to better understand the implications and risks of their investments."

"Our work with ICE highlights that ADP's anonymized and aggregated data can help investors discover and better understand the U.S. municipal bond environment," said Jack Berkowitz, Chief Data Officer at ADP. "ADP serves more than 900,000 clients worldwide, including approximately 75% of the Fortune 500. Our depth of information and data makes us a powerful input for real-time socioeconomic analysis."

Users will have access to granular aggregated and anonymized human capital data, including average gross pay, total projected income, average commute distance, details into specific job sectors and more than 50 other distinct fields. It can also be used to see trends over time, including migration, which is particularly relevant in understanding how a municipality or region's population changed over periods of time. ICE's data will be consistently updated with ADP's anonymized and aggregated data , making it a compelling complement to sources of public information.

For more information about ICE's reference data service, please visit: https://www.theice.com/about/fixed-income-data.

[ESG Is Coming to Municipal Bonds ETFs. What to Know.]

Municipal bond ETFs are getting into something that stock fund managers have been doing for a while now—sustainable investing.

On Friday, asset manager VanEck launched the first municipal bond exchange-traded fund explicitly focused on the type of investment that goes by many names—sustainable, values-aligned, but most commonly ESG, which stands for environmental, social, and corporate governance.

The VanEck HIP Sustainable Muni ETF (ticker: SMI) will hold investment-grade state and local government debt that promotes positive social, environmental and economic outcomes, according to the company.

Continue reading.

Barron’s

By Evie Liu

Sept. 10, 2021

Get Hip to Green Municipal Bonds With This New ETF.

Green bonds are a growing part of the fixed income landscape, and there’s an appetite for those issues. The success of the VanEck Vectors Green Bond ETF (NYSEArca: GRNB) confirms as much.

In traditional form, green bonds are debt used by companies and governments to fund environmentally friendly projects. With governments prioritizing climate awareness and sustainability, there are myriad avenues for increasing green debt issuance, including in the municipal bond market. The new VanEck HIP Sustainable Muni ETF (SMI) taps into that theme.

SMI, which debuted last week, is an actively managed ETF. Active management could serve investors in the green municipal bond space, a corner of the bond market that’s still in its infancy.

Continue reading.

ETF TRENDS

by TOM LYDON

SEPTEMBER 16, 2021

VanEck Launches First Sustainable Muni ETF as Funds Lure Cash.

- **Actively managed fund enters growing area of fixed income**
- **ETF to deploy four different criteria to evaluate securities**

VanEck is breaking new ground in the nearly $80 billion municipal exchange-traded fund business with a product focused on sustainable investing.

The asset manager on Friday introduced an actively managed fund, the VanEck HIP Sustainable Muni ETF, which will focus on investments in projects that advance sustainability or those with “positive social, environmental and economic outcomes,” according to a statement by the company. It will trade under the ticker SMI.

The fund will seize on growing demand for investments — in both stocks and bonds — that have a positive social or environmental impact. At the same time, municipal ETFs have lured a record amount of cash this year as investors seek out the tax-free securities to shield income from potentially higher levies under the Biden administration.

The fund, which will be managed by Jim Colby and Stephanie Wang, will add to VanEck's existing muni ETF lineup, which has over $7 billion under management. The company is partnering with research firm HIP Investor on the new product.

"Clients all across the board in every channel have been indicating interest in ESG broadly, but specifically an option they can use in an ETF format in this asset class," Michael Cohick, senior ETF product manager at VanEck, said in an interview.

The fund enters a burgeoning corner of the fixed-income ETF industry focused on investments with a positive environmental or social impact. Janus Henderson Group on Thursday announced two sustainable ETFs dedicated to fixed income, buying corporate credit and other bonds. U.S. fixed-income ETFs that follow certain ESG criteria have amassed about $4.7 billion, according to Bloomberg Intelligence.

VanEck is using four different screening processes from HIP, which evaluates securities for their environmental and social impact, to determine whether debt is eligible for the fund. The filters take into account resilience to climate threats and proximity to opportunity zones that are typically home to lower-income and racially diverse populations, for example.

The fund, HIP Investor's first co-branded ETF, uses a broad index with about 60,000 securities in it. After applying the four screens in early August, there were around 23,000 securities remaining, Cohick said. He noted the firm is seeking to construct a "highly sustainable" portfolio that maintains the yield and duration characteristics of the benchmark.

Initial holdings include debt of the state of Minnesota, which will likely become a "climate crisis destination" amid global warming, said R. Paul Herman, chief executive officer of HIP Investor. Another is a California school district that uses solar energy, which helps reduce energy costs and train students about taking climate action, he said.

Transparency Push

The new ETF's data-driven approach to bond picking will help make clear why securities are in the fund, Herman said.

"It can bring new transparency and accountability to the muni market," he said.

Cohick said he expects the fund will gain traction with a variety of investors. The muni ETF industry is dominated by passively run products that follow an index, but more companies have launched actively run funds focused on state and local debt. This week, Pacific Investment Management Co. also introduced an actively managed muni ETF.

In its research, VanEck found that its new ETF strategy outperformed the two largest, passively run muni ETFs, Cohick said.

"We thought an active approach made sense for this fund, the novelness of it," he said.

Bloomberg Markets

By Amanda Albright

September 10, 2021, 7:30 AM MDT

[Bitvore Announces Availability of Cellenus® ESG Dataset for the Municipal Bond Market.]

New Cellenus ESG for Muni's dataset features ESG topics across all 1.5 million active CUSIP's to reduce investment risk

IRVINE, Calif., Sept. 14, 2021 /PRNewswire/ — Bitvore, the leading provider of AI-driven intelligence for third-party risk management, today announced availability of a new Cellenus Environmental, Social and Governance (ESG) dataset targeting the municipal bond market.

ESG refers to the three central factors in measuring the sustainability and societal impact of municipal bond debt issuances. These criteria help to better determine the future financial performance of issuers in terms of return and risk. Bitvore's continuously updated ESG topics are derived from over 60K quality unstructured data sources (including news, press releases, EMMA filings and more), and identify what nearly 50k issuers are doing regarding ESG transparency.

"We're excited to announce our new Bitvore Cellenus ESG Dataset for the municipal bond market," said Elizabeth Pritchard, CEO, Bitvore. "It is fast becoming a requirement for investors to evaluate the financials of a muni offering together with the sustainability impact. Our new ESG insights will allow municipal bond analysts to get the full picture of the value of a bond."

The Cellenus Muni ESG dataset is derived from more than 60K unique unstructured data sources, including both publicly available and licensed subscription sources. Using machine learning models and NLP, Bitvore derives 34 unique ESG Muni topics, allowing customers to quickly identify specific ESG topics of interest such as GHG emissions, Diversity & Inclusion, Climate Change, Cybersecurity and more. In addition to the continuously updated ESG topics, Bitvore allows existing customers to effortlessly request ESG topics be included into daily surveillance alerts. Bitvore's surveillance alerts assist in mapping out any potential ESG risk that may be found in a portfolio of municipal bonds or across a sector.

Bitvore's Cellenus platform provides continuous, AI-powered analysis of unstructured data sources, linking the right obligor to specific ESG events or topics and providing early warning of any potential ESG violations. It also offers the capability to monitor specific topics across the entirety of the municipal bond market. For example, monitoring the expanding drought across the western United States or monitoring which municipalities are meeting goals around recycling or net-zero emissions. The Cellenus Muni ESG dataset may also aid in complying with future regulatory requirements by surfacing relevant ESG related topics and mapping the content back to a relevant obligor for transparency purposes.

Bitvore Cellenus datasets are accessible via API, file downloads and full research applications.

For more information about Bitvore Cellenus, please visit https://bitvore.com/cellenus-intro/

How Well Did the Fed's Intervention in the Municipal Bond Market Work?

The beginning of the COVID-19 pandemic strained many sectors of the economy, including the municipal bond market, prompting an unprecedented intervention by the Federal Reserve. This post summarizes the latest research on the effectiveness of the Fed's response to COVID-related distress in the muni market, which finances more than 50,000 local and state governments and other entities.

HOW DID COVID-19 AFFECT THE MUNI BOND MARKET?

Prior to the pandemic, the muni market was ebullient. According to Morningstar, between the beginning of 2019 and February 2020, investors put $105 billion into muni mutual funds and exchange-traded funds, the largest annual influx in the muni sector in 25 years.

COVID-19 hit nearly every sector of the financial market. In the muni market, investors apparently feared that state and local government revenues would fall and spending would increase, hurting governments' ability to service their debt.

Continue reading.

The Brookings Institution

Sophia Campbell and David Wessel

August 31, 2021

Billion-Dollar Muni Deals a Rarity as Free Cash, Revenue Pile Up.

- **Average muni offering was $34 million from Jan. through July**
- **15 deals of $1 billion or more is fraction of corporate tally**

U.S. states and localities have sold 15 bond deals of at least $1 billion this year, on pace to surpass the total of 18 offered in 2020 and potentially even challenge the record 26 issued in 2018, data compiled by Bloomberg show.

And yet, it's still a far cry from the hundreds of megadeals sold in the world of U.S. corporate bonds this year. Muni investors may be looking to the corporate-debt space with envy, amid a dearth of trading activity in the state and local-government market.

The conditions are right: The amount that municipalities are paying to borrow is at rock-bottom generational lows. Their credit has never been better because it has been rendered almost irrelevant by free money from the federal government aimed at bolstering the economic rebound from the pandemic. And investor demand is seemingly insatiable.

Two primary forces are holding them back from issuing larger sums, analysts say. The first is, they don't need to, in part as many states and cities are refilling their coffers more quickly than they'd anticipated.

"Tax revenues have surged with the economy re-opening this year and when combined with the stimulus funds from the American Families Plan and more coming from the Infrastructure Investment and Jobs Act, they're simply flush with cash," said Matt Buscone, co-head of portfolio management at Breckinridge Capital, in an email last week.

Some municipalities may use part of the federal money for deferred maintenance; others will tap it for debt reduction and fund more of their capital budgets on a pay-as-you-go basis, Buscone added.

Size Mismatch

A second key reason why states and localities aren't bringing more extra-large deals is that size matters.

It's "primarily attributable to the size of corporations versus municipalities," said Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research. "There are many more bonds in the muni index, but they are much smaller on average than the corporate market."

To illustrate, he said there are a bit fewer than 7,000 bonds in the Bloomberg Corporate Bond Index, compared to more than 55,000 in the Bloomberg Municipal Bond Index. The size of the average bond in the muni index is a little over $30 million, compared with around $1 billion for the corporate index, according to Howard.

The average size of new muni deals was $34 million from January to July, according to the Municipal Securities Rulemaking Board. More than half were for $10 million or less.

So for every Texas Municipal Gas Acquisition & Supply Corp III (which sold $1.06 billion in bonds in January) or California State University ($1.66 billion in July), there are hundreds of issuers more like Cimarron, Kansas (population around 2200; borrowed $975,000 in February), and Pomeroy, Iowa (population roughly 660, borrowed $995,000 in March).

But a more fundamental reason may be at work, which is that most of the nation's 90,126 units of government — the tally in the Census of Governments 2017 data — don't seem to like debt.

That may explain why they pay some of it off every year and why 31% of it will mature or be called by the end of 2026, according to a study by Municipal Market Analytics.

Bloomberg Markets

By Joseph Mysak Jr

August 31, 2021

— With assistance by Danielle Moran

Even With Covid, Muni Bonds Report Shows Defaults Remain Rare.

Summary

- While they may have become more common over the last 10 years, municipal defaults and bankruptcies still remain rare overall.
- The five-year all-rated cumulative default rate of municipal bonds throughout the study period (1970-2020) was unchanged at 0.08% and still remains very low.
- Municipal credits remain strong.

Continue reading.

Seeking Alpha

Sep. 03, 2021

NFMA Recommended Best Practices in Disclosure for Toll Road Bonds.

The Disclosure Committee is pleased to release the final version of the Recommended Best Practices in Disclosure for Toll Road Bonds, dated August 2021.

To view this paper and other work products of the Disclosure Committee and the Industry Practices Committee, go to Best Practices in Disclosure and Position Statements under Resources.

Main Street Pensions Take Wall Street Gamble by Investing Borrowed Money.

Municipalities have assumed about $10 billion in debt this year to shore up retirement obligations

Many U.S. towns and cities are years behind on their pension obligations. Now some are effectively planning to borrow money and put it into stocks and other investments in a bid to catch up.

State and local governments have borrowed about $10 billion for pension funding this year through the end of August, more than in any of the previous 15 full calendar years, according to an analysis of Bloomberg data by Municipal Market Analytics. The number of individual municipalities borrowing for pensions soared to 72 from a 15-year average of 25.

Among those considering what is known as pension obligation borrowing is Norwich, a city in southeastern Connecticut with a population of 40,000. Its yearly payment toward its old pension debts has climbed to $11 million in 2022—four times the annual retirement contribution for current workers and 8% of the city's budget. The city will vote in November on whether to sell $145 million in 25-year bonds to cover the pensions of retired police officers, firefighters, city workers and school employees.

Norwich's rating from Moody's Investors Service is in line with the median for U.S. cities, and officials expect to pay about 3% in interest. Norwich's pension consultant, Milliman, projects investment returns of 6.25%.

Comptroller Josh Pothier said that spread helped him overcome his initial hesitation. "It's pretty scary; it's kind of like buying on margin," he said he thought to himself. "But we've had a long run of interest rates being extraordinarily low," he added.

Milliman forecasts that Norwich would save $43 million in today's dollars over the next 30 years.

Over the past few decades, state and local governments across the country have fallen hundreds of billions of dollars behind on savings needed to pay public employees' future promised pension benefits. Officials have been trying to catch up by cutting expenses from annual budgets and making aggressive investment bets.

With big pension payments looming and Covid-19-era federal stimulus pushing municipal borrowing costs to record lows, local officials are taking a gamble: that their retirement plans can earn more in investment income on bond money than they pay in interest.

Here is how a pension obligation bond works: A city or county issues a bond for all or a portion of its missed pension payments and dumps the proceeds into its pension coffers to be invested. If the returns on pension investments are higher than the bond rate, the additional investment income will translate into lower pension contributions for the city or county over time. (The $10 billion in pension borrowing captured by the Municipal Market Analytics analysis also included some money used directly for pension benefits, rather than being invested, and at least one borrower directed some bond proceeds to other uses.)

Pension obligation bonds can backfire. If investments don't perform as expected and returns fall below the bond interest rate, the city can end up paying even more than if it hadn't borrowed.

Norwich is one of many smaller municipalities venturing into pension borrowing. This summer local governments issued 24 pension obligation bonds with an average size of $112 million, according to data from ICE Data Services. That compares with 11 deals with an average size of $284 million during the same period last year.

The Government Finance Officers Association, a trade group, in February reaffirmed its recommendation against the practice. "Absolutely nothing has changed," said Emily Brock, director of the group's federal liaison center. "It's still not a good choice."

In 2009, Boston College's Center for Retirement Research examined pension obligation bonds issued since 1986 and found that most of the borrowers had lost money because their pension-fund investments returned less than the amount of interest they were paying. A 2014 update found those losses had reversed and returns were exceeding borrowing costs by 1.5 percentage points.

By swapping out their pension liability for bond debt, local pension borrowers give up the budgetary flexibility to skip a retirement payment in an acute crisis. Pension obligation bonds have contributed to the chapter 9 bankruptcies of Detroit, Stockton, Calif., and San Bernardino, Calif. Chicago three years ago considered, and then scrapped, plans for a big pension borrowing deal.

Other local officials are starting to educate themselves about the deals. More than 200 people attended the webinar "How to Explain Pension Obligation Bonds to Your Governing Board," hosted by the law firm Orrick, Herrington & Sutcliffe last month.

For investors, the bonds can be more of a mixed bag. A pension obligation bond approved by Houston voters in 2017 earned praise from analysts because the city paired it with benefit cuts.

Howard Cure, director of municipal bond research at Evercore Wealth Management, said that though he occasionally purchases the securities, the decision to issue them raises red flags. "I have a lot more questions about how an entity is governed if they're using this tactic," Mr. Cure said.

The Wall Street Journal

By Heather Gillers

Sept. 4, 2021

As Wildfires Burn, ICE Shows How Sophisticated ESG Tools Have Become.

Wildfires are raging across the western United States, destroying homes, commercial buildings and entire towns. The biggest is the Dixie Fire, which has spread across more than 700,000 acres in Northern California and turned more than 1,200 buildings to ash.

“My defiantly quirky, beautiful adopted hometown turned into a ghost town last night,” reporter Meg Upton wrote on Aug. 5 in the Plumas News. In an unstoppable march of heat and flame, the Dixie Fire erased the bulk of Upton’s hometown of Greenville from existence.

As with many of the more than 150 wildfires burning today, the Dixie Fire was fueled by dry timber and high temperatures amid a changing climate.

A nation away, experts at Atlanta-based Intercontinental Exchange, known as ICE, and climate and ESG data provider risQ, headquartered in Boston, work to help identify and quantify the risk associated with such potentially disastrous events. Their efforts power a young service called ICE Climate Risk, developed for those who invest in the trillions of dollars in bonds that municipalities have sold to pay for hospitals, power plants, schools and other critical infrastructure.

ICE Climate Risk sits at the cutting edge of modern ESG tools, with the most advanced growing remarkably sophisticated in recent years as those who invest in a variety of asset classes pay rapt attention to environmental, social and governance issues.

“ESG is definitely evolving,” says Mark Heckert, who oversees ICE’s fixed income and data services products.

ICE Climate Risk works by dividing the nation’s 48 contiguous states into 100-square-meter cells and analyzing each for its risk from different climate events. Comprising more than 1.3 billion cells in total, the data set quantifies risk for events including flooding, hurricane, heat stress, drought and, of course, wildfire.

Climate risk can be particularly important to investors in municipal bonds, as these securities are tied to the locations of the projects they fund. For example, a bond sold to pay for a new library in an area with a high risk of flooding may warrant a different price than a similar bond in a location with little threat from the climate.

“We can tell you for every patch of dirt in the U.S., what debt is sitting on it,” says risQ CEO Evan Kodra.

Indeed, ICE Climate Risk had identified Plumas County, where Upton’s hometown of Greenville is located, as falling in the 98th percentile of wildfire risk across the United States and the 86th percentile in the fire-prone state of California. Of course, the database could not predict when the Dixie Fire would occur. It can and did, however, quantify the likelihood of such an event.

“It was way at the top end of the percentile in that risk,” says ICE’s Spencer Gallagher, who helped develop ICE Climate Risk together with Kodra.

ESG investing has been around for some time, with the United Nations launching its Principles for Responsible Investment in April 2006 at the New York Stock Exchange, which is owned by ICE. Yet, demand for high-tech ESG tools like ICE Climate Risk has grown most rapidly in recent years as investors have demonstrated a keen interest in projects and organizations whose values and approaches align in these areas.

In addition to climate risk, ICE is involved in many other areas of ESG investing. “ICE was an early investor in this space and has been helping develop these markets for many years,” says Brookly McLaughlin, who oversees ICE’s sustainability efforts.

In some ways, the company’s offerings represent a microcosm of the modern ESG universe.

For equity investors, ICE's ESG Reference Data tracks about 500 ESG metrics across publicly traded companies including carbon emissions, renewable energy, diversity and inclusion, and board profile. The NYSE leverages this data as it works with its 2,400 listed companies to help them adopt best practices in ESG standards and disclosure.

The NYSE Arca exchange lists more than $23 billion of ESG-focused ETFs. ICE also lists numerous climate-related futures contracts in Europe and North America, allowing companies and other organizations to offset their carbon footprints.

In early August, ICE, together with risQ, announced that municipal bond investors can now receive data to help evaluate the potential social impact of an investment, an area of fast-growing interest. Similar to ICE Climate Risk, they can use this information to analyze poverty, employment, racial diversity and other factors in the geographies where the bonds' underlying projects live.

Growth in the importance of ESG investing doesn't seem likely to disappear anytime soon. Earlier this month, the U.N.'s Intergovernmental Panel on Climate Change published a report that received wide media coverage, finding that temperatures will continue to rise globally "until at least the mid-century." This almost certainly will make the ability to identify the risk of climate events like the Dixie Fire even more critical in the years ahead.

"When we first started, a lot of the market originally was skeptical that a lot of this stuff was ever going to matter," Kodra recalls. "That clearly changed."

By NYSE

August 31, 2021

By Farrell Kramer, Head of NYSE Communications, New York Stock Exchange

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[The World of Alternative Revenues: Low Carbon Fuel Standard Credits.]

In a normal public finance transaction to raise capital, local governments often have to pledge some form of revenue stream that's both reliable and enough to meet the debt service for the capital raised.

For most municipal debt issuances, these revenue streams are often limited to sales tax, property tax, some form of utility user tax, or a combination of all three. However, with the constantly evolving capital markets and its investor base, issuers are demanding more creative ways to pledge alternative revenue sources to take the pressure off their other revenue streams.

In this article, we will take a closer look at the world of Low Carbon Fuel Standard Credits (LCFS) and how some transportation agencies are pledging them as a revenue source to issue green debt for their respective capital needs.

Continue reading.

municipalbonds.com

by Jayden Sangha

Sep 01, 2021

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

- Issuance (as of August) $309.1 billion, +2.5% Y/Y
- Trading (as of August) $8.8 billion ADV, -33.0% Y/Y
- Outstanding (as of 1Q21) $4.0 trillion, +2.7% Y/Y

Download.

September 2, 2021

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

View the list.

2 Sep, 2021

S&P U.S. Public Finance Rating Activity, July 2021.

Rating Activity

S&P Global Ratings took the following rating actions in U.S. public finance in July 2021:

25 downgrades
58 upgrades
372 outlook revisions to stable
15 outlook revisions to positive
13 outlook revisions to negative

These data were prepared by individuals on behalf of the USPF group of S&P Global Ratings and are current as of Sept. 1, 2021. For the most up to date, accurate, and complete information on any credit ratings referenced here, visit www.spratings.com. For these purposes we represent as one rating action a change in the rating of linked ratings. For example, we reflect as one rating action a change in the rating on a general obligation (GO) issuer and its related appropriation issues if the rating change on the GO led to rating changes for linked appropriation issues. In certain other publications, linked ratings actions may be represented or counted as separate rating actions.

Continue reading.

3 Sep, 2021

‘Solar Bond’ Demand Goes Through the Roof.

Larger investors are starting to buy up the debt behind loans to homeowners who want to reduce their dependence on vulnerable electric grids

Investment firms are buying record amounts of so-called solar bonds, debt issued to help U.S. individuals finance the purchase of rooftop solar panels to power their homes.

Sales of solar bonds hit around $2 billion in the first six months of the year, roughly double levels during the same period in 2020 and 2019, according to deal tracker Finsight.com. The bonds, which are backed by bundles of loans made to homeowners for panel purchases, are being issued by a handful of financing companies that specialize in residential solar panels, including GoodLeap LLC, Sunnova Energy Corp. and Solar Mosaic Inc.

By tapping bond markets, the companies are connecting fund managers looking for eco-friendly investments with homeowners who want to get cheaper—and potentially more reliable—electricity while cutting their carbon footprints.

“It came down to cost and the environment,” said Josh Rudin, a 34-year-old real-estate attorney who took out a 10-year loan from Solar Mosaic to install solar panels on the house his family bought in Woodbury, N.Y., this year. “We just started a week ago, and even with the bad weather, the system is producing 82% of our electricity.”

The solar panels cut the cost of his electricity purchases from the grid by 95% and qualify him for about $15,000 in federal and state tax credits. Even after accounting for loan payments, his monthly power expenditure will fall, saving him about $8,500 over the life of the loan, according to EmPower Solar, the company that sold him the equipment. Payments on the loan will remain fixed, and when the panels produce more electricity than he uses, Mr. Rudin can sell the excess to his local power grid, he said.

Demand for the loans is accelerating this year amid more violent and unpredictable weather patterns, said Tanguy Serra, president of GoodLeap LLC, the largest issuer of solar bonds. “The wildfires in California, the Texas winter, the outages in Louisiana, they’re all large-scale advertising for the product,” he said.

Hurricane Ida cut power to roughly one million customers in New Orleans and Mississippi and 200,000 people in New York, New Jersey and Pennsylvania this past week.

Bond investors like debt backed by solar loans because the borrowers must own their homes and have good mortgage track records to qualify, said Katrina Niehaus, head of corporate structured finance at Goldman Sachs Group Inc., which arranges solar bonds. Buying the securities also helps asset managers meet environmental, social and governance, or ESG, investing targets required by their clients.

Growing appetite for the bonds is lowering borrowing costs for companies like GoodLeap. Investors bought the bulk of the firm’s most recently issued bonds at a yield of 1.94%, compared with 2.77% on a deal done in July 2020, according to Finsight.com.

Solar energy systems can cost $30,000 or more, and until recently, most homeowners had two choices when purchasing them: pay cash or sign a lease. Over the past five years, solar financing companies scaled up operations by borrowing money from banks and credit unions, then lending it out to customers of panel vendors like EmPower.

The companies use algorithms to rapidly assess and approve borrowers, collect fees on the loans and then sell them to fund managers. Loans accounted for 63% of solar financing in 2020, up from 21% in 2015, Mosaic Chief Executive Billy Parrish said.

Initially, finance companies sold much of their loans and bonds to hedge-fund managers. Alternative fund manager CarVal Investors LP has purchased more than $500 million worth of loans from GoodLeap and Blackstone Group Inc. bought large quantities from the company when bond markets seized up in the summer of 2020, people familiar with the matter said.

The solar bond market is still small, but it is now starting to attract larger traditional investors, said Rob Camacho, co-head of structured credit at Blackstone. “This market is going to grow a lot, so you have money managers willing to spend time on it,” he said.

BlackRock Inc., the largest fund management company in the world, has begun buying solar bonds, a person familiar with the matter said.

As the market expands, so could the risk in the loans backing solar bonds. The average FICO score of solar loan borrowers is roughly 745, but “there’s definitely the possibility that the industry will expand to borrowers that are in the lower credit spectrum,” said Melvin Zhou, an analyst at Kroll Bond Rating Agency LLC.

Increased government support is playing a part in the industry’s growth, said Bryan White, a solar analyst at market research firm Wood Mackenzie. The 26% federal investment tax credit on residential solar panels is slated to expire fully in 2024, but the Biden administration and Democrats in Congress are working on extending that by as much as eight years through the current budget reconciliation process, he said.

“It’s a great day for solar today,” Mr. Rudin said on Thursday as blue skies replaced Ida’s torrential downpour. “I’m exporting five kilowatts to the grid and it’s only 9 a.m.”

The Wall Street Journal

By Matt Wirz

Sept. 4, 2021

Climate Change Is Bankrupting America’s Small Towns.

Repeated shocks from hurricanes, fires and floods are pushing some rural communities, already struggling economically, to the brink of financial collapse.

FAIR BLUFF, N.C. — It’s been almost five years since Hurricane Matthew flooded this small town on the coastal plain of North Carolina. But somehow, the damage keeps getting worse.

The storm submerged Main Street in four feet of water, destroyed the town hall, the police and fire departments, and flooded almost a quarter of its homes. After two weeks underwater, the roads buckled. The school and grocery store shut, then didn't reopen. When Hurricane Florence submerged the same ground two years later, in 2018, there was little left to destroy.

What started as a physical crisis has become an existential one. The town's only factory, which made vinyl products, closed a few months after Matthew. The population of around 1,000 fell by about half. The federal government tried to help, buying the homes of people who wanted to leave, but those buyouts meant even less property tax, tightening the fiscal noose.

Continue reading.

The New York Times

By Christopher Flavelle

Sept. 2, 2021

NTIA Releases Interactive Federal Funding Guide.

Today, the National Telecommunications and Information Administration (NTIA) released the Interactive Federal Funding Guide as an enhancement to BroadbandUSA's "one-stop" federal funding site. The Guide provides an interactive, step-by-step approach for users to filter through more than 90 broadband related programs compiled from 12 federal agencies and the Federal Communications Commission. These programs were included in the BroadbandUSA FY21 website update, which was recently updated with EDA's American Rescue Plan Programs. It highlights general information about each program, including program descriptions, important dates, contact information, and links to program websites. Developed in response to feedback from users of the federal funding site, the Interactive Guide can be used offline and across multiple platforms, including tablets and mobile devices, providing an option for users with limited access to the internet or digital devices.

Feedback on the site overall and this Interactive Guide is welcomed; please contact BroadbandUSA@ntia.doc.gov to provide input.

Fitch: Multifamily Housing Cushioned Against End of Aid and Eviction Ban

Fitch Ratings-New York-30 August 2021: Multifamily mortgage delinquency levels have remained low throughout the pandemic, up only slightly from pre-pandemic levels for both Fitch-rated affordable housing and market-rate housing loans in commercial mortgage backed securities (CMBS), Fitch Ratings says. The end of federal unemployment aid that provides support to individuals may lead to increased rent delinquencies, negatively affecting multifamily loan performance. Both affordable housing transactions and CMBS have robust overcollateralization to protect against multifamily loan performance deterioration.

Occupancy levels may see some volatility with the end of the Centers for Disease Control and Prevention's (CDC) eviction moratorium, which applied to those counties experiencing substantial and high community transmission virus levels, covering over 90% of the country. The Supreme Court of the United States ruled on August 26 that the CDC did not have the authority to impose the moratorium. Only a fraction of federal aid for rental assistance has been dispersed, and it is unclear how quickly remaining funds will be made available.

The impending expiration of federal supplemental unemployment benefits in September presents a significant income cliff for millions of unemployed and increased coronavirus cases are expected to drag on jobs recovery for lower wage earners. Lower wage sectors saw the biggest hit to employment during the pandemic and employment has not rebounded for these sectors to the same extent as other wage brackets.

We would expect delinquencies and evictions to be higher for lower-income individuals, although some affordable housing properties lack the ability to evict tenants. For the week ending August 2, 70% of renters who were delinquent on rent payments have an annual household income of less than $35,000, according to the US Census Bureau. This is a material jump up from a range of 60% to 63% during the 1H21. The National Multifamily Housing Council Rent Payment Tracker indicates that 94.9% of apartment renters made a full or partial rent payment in July, down 0.7% from June and 0.8% yoy.

Fitch-rated affordable housing programs maintained sufficient cushion along with liquidity and reserves sized to cover short-term cash flow disruptions without eroding the overcollateralization sufficient to cover debt service payments and provide cushion for higher ratings. Fitch’s stress scenario models a hit of 10%-50% to NOI for rated affordable housing pools. This assumes 30% of each unsubsidized property may experience non-payment or payment lag in addition to a 10%-20% increase in operating expenses, due to coronavirus containment efforts during a six-month period, resulting in a total discount to the debt service coverage ratio (DSCR) of 40%-50%. We assume full, on-time rental payments for government subsidized properties and an increase in operating expenses of 10%-20%, resulting in a 10%-20% discount to the DSCR.

Multifamily mortgages securitized in Fitch-rated conduit CMBS and Freddie Mac transactions are typically 10-year loans backed by properties with historically strong performance. CMBS multifamily delinquencies remained low, ticking up slightly to 0.49% in July 2021, compared with 0.41% prior to the pandemic. Master servicers for CMBS transactions are obligated to advance against missed principal, interest, taxes and insurance, thus providing liquidity if there are payment shortfalls.

Multifamily cash flow performance throughout the pandemic significantly outperformed our expectations and we have removed additional coronavirus stresses for CMBS multifamily loans. The expiration of the eviction moratorium is not expected to cause disruptions to landlords of properties securitized in CMBS, as multifamily property-level NOI for conduit and Freddie Mac loans in our rated portfolio saw an overall positive NOI growth rate of 1.4% in 2020. Some of the Negative Outlooks previously assigned were revised to Stable based on performance stabilization.

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Fitch: Children's Hospital Sector Remains Strong in the Midst of Coronavirus Operating Pressures

Fitch Ratings-New York/Austin-31 August 2021: Fiscal 2020 was a very challenging operational year for children's hospitals, but the medians confirmed that the sector's specialized service mix and high acuity of care translated into favorable profitability compared to adult hospitals. That being said, Fitch Ratings' analysis shows that stimulus relief provided significant support as the 2021 median operating margin and operating EBITDA of 3.8% and 9.8% would have decreased significantly to negative 0.8% and 7.1% without the support of CARES Act funding.

Management teams did not halt their focus on strategic efforts as many children's hospitals took advantage of low interest rates to fund upcoming projects using tax-exempt and taxable debt issuances, resulting in increased liquidity and leverage. "Capital spending was lower in the past fiscal year, but this is expected to be a temporary reaction to conserve liquidity given the unknown risks of the pandemic during the March/April 2020 timeframe," said Fitch Director Richard Park. 2021 median cash-to-adjusted debt decreased to 229.6% from 240.9% in the prior year. Yet days cash on hand improved to 396.1 days, compared with 350.4 in the prior year.

The 2021 medians largely reflect the reduction in patient care revenues with children's hospitals being forced to temporarily cease elective procedures and caretakers deferring care even though COVID-19 has not had the same physical effect on children as it has had on adults. Fitch believes the coronavirus pandemic remains a significant operating risk as the Delta variant appears to be more easily spread than other coronavirus variants to the pediatric population and children under the age of 12 are still not eligible for vaccination.

Fitch's '2021 Median Ratios for Not-for-Profit Children's Hospitals' is available at www.fitchratings.com.

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

Fitch Ratings-New York/London/Moscow-01 September 2021: Fitch Ratings has updated the Public Sector, Revenue-Supported Entities Rating Criteria report (the Revenue Master Criteria) as part of the routine criteria review process. Revisions to the criteria are mostly editorial in nature and there is no impact on existing ratings.

This update describes in criteria the effect on ratings of a distressed debt exchange event and adds consideration of management's ability to protect cyber and other infrastructure adequately as an asymmetric risk factor. Other minor and editorial revisions to the report include clarifying the application of these criteria to government-owned financial institutions and updating various references consistent with changes in other criteria and definitions.

This new criteria report replaces the criteria report of the same name dated Feb. 23, 2021.

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Fitch Ratings Updates U.S. Military Housing Rating Criteria.

Fitch Ratings-New York-01 September 2021: Fitch Ratings has published an updated criteria report titled ‘U.S. Military Housing Rating Criteria.’ The report replaces the existing criteria dated July 2, 2020.

Primary revisions to the criteria include the publication of category-specific assessments for each key rating driver (revenue defensibility, operating risk and financial profile). The key rating drivers were updated in line with the master revenue criteria, ‘Public Sector, Revenue-Supported Entities Rating Criteria.’

The revised criteria report also describes the explicit forward-looking approach for military housing surveillance reviews, which, similar to the initial rating assignment, considers revenue and expenses stresses, and the potential impact on a project’s debt service coverage ratio (DSCR). The magnitude of the revenue and expense stresses are evaluated in the context of the revenue defensibility and operating risk assessments. The financial profile DSCR ranges in the criteria were also updated, as supported by fourteen-years of financial performance of this ratio for all Fitch-rated military housing projects.

Additionally, the updated criteria references Fitch’s ‘Completion Risk Rating Criteria’ for the analysis of construction risk (if present).

No changes to the ratings of existing transactions are anticipated as a result of the application of the criteria.

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

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Infrastructure Bill Could Influence How States Select Transportation Projects.

Virginia's 'Smart Scale' program offers an example of how a more-calibrated approach can work—and generate controversy

Included in the bipartisan infrastructure bill now before the U.S. House of Representatives are a pair of provisions that could spur states to rethink how they allocate scarce transportation dollars.

One new program would offer $2 million grants to help planners set up a formal and more open process to determine which projects should get funding. The other gives officials access to new data sources to help set those priorities.

The grants, pushed by Sens. Tom Carper (D., Del.) and Tammy Duckworth (D., Ill.), were modeled on a Virginia program that shows how such a system could work—and how it can generate controversy.

In 2014, Virginia lawmakers on a bipartisan basis changed the way the state's transportation department allocates funds to road, transit and pedestrian projects.

Before, transportation officials would release a list of their top projects and then work their way down as money became available. But they didn't discuss in detail what criteria they used to devise their ranking.

The ranking was closely watched by local officials and residents, anxious to get money for projects such as widening a traffic-choked highway or calming a dangerous intersection.

Many states use a similar process. In some cases the legislature, rather than the department of transportation, determines the list of projects to fund.

Under Virginia's new system, dubbed "Smart Scale," officials score projects based on six criteria. They examine a project's effect on congestion, safety and environmental quality. They also look at how it fits into regional land-use plans and whether it would contribute to local economic development efforts.

Finally, they assess how a project, such as a widened road, would make the region more accessible, defined as whether people would be able to more easily move around their neighborhoods, even if they don't use the road in question.

"It ties the benefits to people rather than to how well an individual road is performing," said Chris McCahill, director of the State Smart Transportation Initiative, a research group at the University of Wisconsin that helped Virginia set up its program.

Academics have focused on such accessibility measures for decades. But only in the past few years have planners begun to incorporate them into transportation decisions, in part because they can get much more detailed data now than in the past, said Andrew Owen, a research fellow at the Center for Transportation Studies at the University of Minnesota.

For instance, planners can now map out how long it takes for people on every block to get to destinations such as jobs, grocery stores, schools or doctors' offices and estimate how those travel times would change under different scenarios.

Focusing on those details could change how planners invest their money, said Mr. Owen.

"One of things that we might see is more attention being paid to projects that are smaller-scale but that have an outsized impact on people's ability to get to destinations," he said.

A provision in the infrastructure bill would make that data more widely available.

Virginia officials publish a project's scores on all the criteria, and weigh the results against the costs. They then recommend the top projects for funding from the state's transportation board. The board can adopt or reject the agency's recommendations.

"In the past there was a sense the process was opaque," said Nick Donohue, Virginia's deputy transportation secretary. "Now we have a much more transparent and accountable process. I would like to think that we're picking much more effective projects."

But Virginia's effort has its critics. For instance, a $115.5 million request to widen the northbound lanes of Interstate 95 over the Rappahannock River didn't score high enough to receive money through the program, even though widening the southbound lanes was approved under the program. That upset local officials who say that stretch of highway is among the state's most congested.

Matthew Kelly, a city council member in nearby Fredericksburg, said that although he agrees with the principle behind Virginia's Smart Scale program, he has problems with its execution.

"It's the metrics that they use to determine what gets funded that creates a problem," he said. "Everybody would agree we are the most screwed-up section of 95 in the freaking world."

The project eventually received funding through other sources.

Dave LaRock, a Republican who represents Loudoun County in the Virginia House of Delegates, said the department of transportation's criteria put too little emphasis on reducing congestion, which he called "the most fundamental need for roads."

Mr. LaRock has introduced legislation to overhaul Smart Scale, so far without success.

Other states, such as North Carolina and Utah, have similar processes in place. In Utah, planners evaluate how projects will affect safety, economic growth, air quality, the possibility of walking or biking and whether the project would fit into the existing community, said Carlos Braceras, executive director of the Utah Department of Transportation.

"When I started here in 1986 the attitude was we're the experts, get out of the way," Mr. Braceras said. "The focus on transparency, on being clear how and why decisions are made, I don't think was as big a focus."

Asking transportation officials to publicly spell out their priorities is a significant shift, said Mr. McCahill. "You've got to change the way you've been doing things and commit to some level of staffing to get it right," he said. "The pilot program in the bill would enable a lot more folks to take that step."

Mr. Braceras said the grants included in the infrastructure bill could help states overcome the fear of trying something new.

“There’s so much risk,” he said. “If it’s done in partnership with the federal government and it’s done with a pilot [program], it gives you a lot of cover.”

The Wall Street Journal

By David Harrison

Sept. 4, 2021

The Rich Rush to Muni Bonds.

As Biden’s tax hikes loom, cities and states see a tax-exempt boom.

The biggest winners of the 2020 election have turned out to be state and local governments, especially those run by Democrats. Democrats in Congress have showered them with federal largesse, and President Biden is now reducing their borrowing costs by driving a stampede of investors into tax-exempt municipal bonds.

Demand for muni debt has surged this year even from last year’s high levels as well-to-do Americans seek protection from the expected income and capital gains tax increases. Investors have plowed a record $69 billion into muni-bond mutual and exchange traded funds during the first seven months of this year, driving yields to historic lows.

The yield on the S&P Municipal Bond Index this summer fell below 1% for the first time and is now about half of what it was two years ago. BlackRock’s California and New York Muni Bond ETFs (which include bonds from municipalities and local public agencies) are yielding 0.83% and 0.86%, respectively, versus 1.29% on the 10-year Treasury.

Try to wrap your head around this: The U.S. government has been issuing hundreds of billions of dollars in debt to help states and localities that are rolling in record tax revenue and can borrow at negative real rates. Now Congress plans to borrow even more for public works that many states could finance more cheaply. Only in Washington does this make any sense.

Munis have become more attractive because their interest is exempt from federal income tax, unlike Treasurys and corporate bonds. Most states also exempt debt issued by their localities from income taxes. This makes muni ETF and mutual funds especially popular among wealthy Americans in states with high tax rates like California and New York.

Now Mr. Biden wants to raise the top income tax rate to 39.6% from 37%. After adding the 3.8% investment tax, couples making more than $509,000 would pay 43.4% on interest income and dividends. High earners currently pay 23.8% on long-term capital gains, but Democrats also want to tax their capital gains as ordinary income.

The tax bill for wealthy Americans in many states could soon exceed 50% on stock sales, dividends and interest income. Tax-exempt munis are a port in this tax storm. Despite the paltry yields on munis, Americans may still net more than they would buying corporate bonds or Treasurys.

The gusher of cash from Congress to the states has also reduced muni-bond risk. Illinois recently received its first credit rating upgrade in more than 20 years, though the state’s spendthrift policies and public-union stranglehold on Springfield haven’t changed. The difference is the federal bailout cash.

The biggest, if unseen, cost of this investment in munis is misallocation of capital. Muni bonds do finance some needed public works improvements. But today's extraordinary rush to munis means that many investors are looking for tax avoidance rather than investing for higher returns in new ventures or productive private enterprises.

All of this finances bigger government, not the wealth creation that is essential to long-term growth and higher living standards.

The Wall Street Journal

By The Editorial Board

Sept. 2, 2021 6:48 pm ET

These Charts Show Which States Will Get the Most Money from Biden's Infrastructure Bill.

KEY POINTS

- California, Texas and New York will likely cash in big on the trillion-dollar infrastructure package if the bill makes its way to President Joe Biden's desk.
- But far less populous states — such as Montana and Alaska — will get the most money per capita.
- The Senate overwhelmingly approved the $1 trillion infrastructure bill earlier this month. The House aims to pass the bill by October.

Continue reading.

cnbc.com

by Thomas Franck & Nate Rattner

AUG 31 2021

Why Didn't Covid-19 Wreck State And City Budgets? Federal Spending.

When the Covid-19 recession hit hard in spring 2020, people feared that state budgets would collapse, driving cities and states to bankruptcy and crippling public services. Although we still must keep investing in public goods, the feared budget disaster didn't happen. Why? Prompt government action, including unprecedented steps by the Federal Reserve and massive federal spending.

Remember the headlines? In May 2020, the New York Times NYT -1.3% saw state services decline "as virus ravages budgets." The US Conference of Mayors put a "Fiscal Pain Tracker" on the internet, detailing the cuts being made across America's cities, big and small. In August, National Public Radio said "States Are Broke And Many Are Eyeing Massive Cuts."

I was among those fearing deep harm from the Covid-19 recession. In May 2020, I endorsed a $1 trillion spending package for states and cities, arguing that "collapsing" tax revenues were undercutting public sector jobs and threatening the macroeconomy.

[Continue reading.](#)

Forbes

by Richard McGahey

Sep 1, 2021

[State, Local Job Recovery Stalls Out Amid Virus's Resurgence.](#)

- **Combined payrolls fell in August for first time since February**
- **Employment levels still below pre-pandemic levels despite aid**

State and local governments shed employees in August, underscoring the impact of the latest surge in U.S. coronavirus infections and the cautious approach municipalities have been taking with their windfall from federal aid.

August payrolls for nonfarm state and local government employees fell by about 11,000, according to Bureau of Labor Statistics data released Friday. The decline followed steady gains for most of 2021 and represents the first drop since February.

The losses took place against a backdrop of a weak overall hiring across the economy in August, which produced the smallest job gains in seven months.

The lethargic rebound at the state and local level — in particular in education, where pandemic-related staffing fluctuations are roiling hiring — is significant, though: The state and local areas combined account for about 12% of total employment.

"The pandemic is weighing on the labor market again," said Teryn Zmuda, chief economist at the National Association of Counties. "Overall the jobs report did not perform as we hoped for or expected."

Municipalities received $350 billion from the federal government to ease the blow of the pandemic and to stave off the sort of cuts that hampered growth in the years after the 2008 financial crisis.

Education Losses

Still, the 466,000 jobs gained in the sector since January 2021 leaves states and localities 780,000 positions short of their January 2020 levels, according to the BLS data. Of note, around half of that deficit is from education jobs.

The gap should continue to close as the governments build and implement programs to spend the unprecedented federal aid distributed as part of the American Rescue Plan. States have spent or appropriated at least $81 billion of the $200 billion they received, according to data compiled by Bloomberg. The measured approach is evident at the local level as well, Zmuda said.

The fact that state and local job losses have been concentrated in education is a promising sign for recovery, said Mikhail Foux, head of municipal strategy at Barclays Plc. He sees next month showing a bigger rebound as schools reopen and resume in-person activity.

“We expect September job numbers to be substantially stronger,” he said.

Bloomberg Economics

By Fola Akinnibi

September 3, 2021

— With assistance by Amanda Albright, and Olivia Rockeman

[Munis In Focus: Ida Impact And Rescue Funds (Radio)]

Joe Mysak, Editor of Bloomberg Brief: Municipal Market, discusses the latest news from the muni market. Hosted by Paul Sweeney and Matt Miller. (Taylor Riggs fills in for Paul Sweeney)

[Play Episode]

Bloomberg Radio

September 3, 2021

[Citigroup Sees Pain for High-Yield Munis After Nuveen Shuts Fund.]

- **Fund manager plan to close to new money may signal overheating**
- **Citi sees high-yield muni spreads widening, valuations falling**

The riskiest part of the $4 trillion municipal bond market may see demand fade as the largest fund devoted to buying that debt closes its doors to new investors, according to Citigroup Inc. strategists.

Nuveen’s plan to limit new money in its high-yield muni fund signals to investors that the market for riskier tax-free bonds may be overheating, strategists led by Vikram Rai wrote this week, in a report that doesn’t mention the asset manager by name.

In addition to the signaling effect, Nuveen’s fund accounts for almost a fifth of the assets under management by high-yield muni asset managers, according to Citigroup. Even if existing holders keep adding money, and new investors hand their dollars over to other firms, the fund is big enough to have an impact on the overall market as its demand slows.

“You can expect spreads to cheapen because one, people will buy less and secondly the largest mission fund manager will also buy less,” Rai said in an interview.

The strategists estimate that the Nuveen fund’s demand for new securities will drop by about 50%. But it’s unusual for muni funds to close their doors to new investors, so it’s hard to know what the net decline will be for demand overall in the market as at least some investors pour money into other funds, they wrote.

In addition to high-yield municipal bonds getting weaker relative to Treasuries, valuations will likely fall overall, Rai wrote. Any declines would come after the securities lost 0.2% in August on a total return basis, the first monthly decline since February, according to a Bloomberg index. The debt has still gained 7.2% this year.

Nuveen said last month that its High Yield Municipal Bond Fund, run by John Miller, plans to close to new investors at the end of September. It has returned around 15% over the past year, better than all but 2% of its peers, according to data compiled by Bloomberg.

Junk and unrated munis can fund a range of issuers, including airline-linked projects and convention centers. Investors have poured nearly $18 billion into funds buying these securities this year, as an improving economy and federal bailouts for state and local governments have made many fund buyers more willing to take risk.

Meanwhile, there are only so many opportunities to buy high-yield muni bonds now, Citigroup strategists wrote, noting "demand far exceeds supply." Buying investment-grade securities would depress returns for these funds.

Nuveen's move came after Invesco in May said it was closing its high-yield muni fund to new investors.

Bloomberg Markets

By Skylar Woodhouse

September 1, 2021, 11:48 AM MDT

— With assistance by Romy Varghese

'Can't Go Up Forever': Muni Bonds See First Loss Since February.

- **Bloomberg benchmark shows tax-free debt down 0.37% in August**
- **Market still up for the year, beating Treasuries, corporates**

State and local government debt is poised for the first monthly drop since February, stepping back from a rally that made it one of the best performing corners of the bond market.

The securities have posted a loss of 0.37% since the start of August, according to Bloomberg's benchmark index, as yields rose on speculation about when the Federal Reserve will start tightening monetary policy.

The decline is a shift after five straight months of gains that have allowed tax-exempt bonds to eke out a positive return so far this year, in contrast the overall losses for both Treasuries and investment-grade corporate debt.

"The market just can't keep rallying," said Vikram Rai, head of municipal strategy for Citigroup Inc. He said the returns are not "deeply negative," so the dip isn't likely to shake up investor sentiment or cheapen heady valuations that have frustrated investors for much of the year. "August is just a minor correction."

The advance this year came as investors plowed record amounts of cash into mutual funds, fueling high demand for the bonds. That helped hold down yields and earlier this year pushed a key measure of valuations to an all-time high. That influx has continued to hold up despite the price retreat.

James Iselin, a portfolio manager at Neuberger Berman Group, said that tax-exempt bonds have been extremely expensive relative to Treasuries and it's natural to see "a modest pullback" as trading slows at the end of the summer.

"Things can't go up forever," he said.

"A lot of people in the market aren't upset to see a little backup in yields off these levels," he added. "The market got a little bit tired and, with Treasuries stopping the huge rally that they had and going the other way, it makes sense that munis came a little off their highs."

Bloomberg Markets

By Danielle Moran and Skylar Woodhouse

August 31, 2021, 11:33 AM MDT

Bond Insurance on Pace for Best Market Share Since 2008.

The two active bond insurers combined for a total of $18.75 billion of insured par in the first half of 2021 in 1,164 deals, up from the $14.04 billion in 985 transactions in the first half of last year.

They are on pace for the most insured par since 2008 and best market share since 2009.

Assured Guaranty Municipal Corp. and Build America Mutual insured 8.4% of the market, measured by par, according to Refinitiv data, the highest since it was 8.64% at the end of 2009. Pre-pandemic, the wrap rate was roughly 6%.

The first-half insured par is up 31% year-over-year compared to the overall market volume growth of 15%. The number of insured transactions is up 88%, while the total transaction count in the muni market increased by 19%.

Insurance usage was up 77.5% in the first quarter to $8.71 billion from $4.91 billion in the same time the year before, while the second quarter was up 9.9% to $10.04 billion from $9.14 billion.

Assured Guaranty (AGO) accounted for a total of $10.74 billion in 543 deals in the first half of 2021, compared to $7.84 billion in 476 deals a year prior. Those figures include Assured's subsidiary, Municipal Assurance Corp, according to Refinitiv data.

"Assured Guaranty's U.S. municipal bond insurance production was outstanding during the first half of 2021, guaranteeing 58% of new issue insured par sold," said Robert Tucker, senior managing director and head of investor relations and communications at Assured. "The $11.1 billion (inclusive of a corporate-CUSIP transactions) Assured Guaranty (AGO) guaranteed in the primary market was 34% higher than the amount of new-issue insured par sold that it guaranteed in the first half of 2020 and, looking back to a comparable period just before the pandemic, 73% more than the amount of new-issue insured par sold that it guaranteed in the first half of 2019."

Tucker added that the results were achieved in a market where municipal interest rates hovered near historic lows and credit spreads tightened.

“Year over year, the financial guaranty industry’s total first half insured par was up 34%, more than double the 15% rate of increase for total par issued in the U.S. municipal bond market,” Tucker said.

Build America Mutual was credited by Refinitiv with $7.54 billion in 584 deals or 41.2% of the two-insurer market share in the first half of 2021, up from its first half 2020 total of $6.09 billion in 504 transactions.

“Insured bond volume is growing significantly faster than the market overall, and that is likely to be a lasting change: 48 underwriters priced transactions with BAM insurance in the first half, and we find that dealers who have had positive experiences selling BAM-insured bonds are more likely to utilize us again in the future,” according to Scott Richbourg, head of public finance at BAM.

Assured Guaranty (AGO) reports continued heightened demand for its financial guaranty insurance on larger transactions, where high demand typically signals interest from institutional investors.

In the first half of 2021, Assured Guaranty (AGO) selectively insured 21 transactions of $100 million or more in insured par, Tucker said.

“Assured Guaranty also continued to add value on double-A credits, insuring $2.3 billion of par on 56 transactions in this category during the first half of 2021,” he said. “Overall par volume of municipal bonds issued has been strong year-to-date as monetary and fiscal policy drive economic recovery. Additionally, to the extent high-net-worth individual investors anticipate higher tax rates, the demand for tax-exempt income tends to increase.”

Tucker noted that taxable issues made up a quarter of the par amount issued in the U.S. municipal bond market year-to-date and that Assured Guaranty (AGO) believes these issues are attractive to taxable buyers because of the currently high relative value of taxable municipals versus corporate bonds.

“Some buyers of taxable municipal bonds, including international buyers, may prefer insured bonds because they are less familiar with U.S. municipal credit and benefit from the underwriting experience of the financial guarantor,” he said. “Bond insurance penetration of first-half taxable new issue par sold reached 10%, and Assured Guaranty (AGO) insured $3.9 billion of taxable new-issue par sold, which was about two-thirds of the taxable new-issue insured par sold.”

BAM’s Richbourg said the insurer is seeing increased utilization on sales with underlying ratings in the double-A category, which allows the mutual insurer to achieve substantial growth without changing its credit appetite.

Both of the major insurers bring AA financial strength ratings from S&P Global Ratings to the paper they wrap.

“We anticipate that new-money volume will be stronger in the second half and into 2022 as issuers gear up their capital plans post-COVID, and our guaranty will be a helpful tool for them,” he said.

Grant Dewey, head of capital markets at BAM, noted the ?uneven? economic recovery from the COVID-19 pandemic.

“Even though municipal bond yields began and ended the first half at about the same level, there were some significant swings in the interim,” he said. “We saw weakness in the first quarter based on inflation concerns, which then reversed when the Delta variant began to spread more widely in Q2.”

He added that institutional investors, in particular, recognize that insured bonds can be more stable during those periods of volatility.

"So their appetite for a BAM wrap has remained elevated as compared to similar pre-COVID market conditions," he said. "We're also continuing to see strong interest on taxable transactions from buyers who are relatively new to the municipal market, and value BAM's deep knowledge of the sector and the liquidity of BAM-insured bonds."

By Aaron Weitzman

BY SOURCEMEDIA | 08/23/21

Another Climate Risk for Cities: Higher Borrowing Costs.

The severe drought covering the Western U.S. threatens the economic health of municipalities and may force them to pay more for bonds that fund local projects.

The extreme drought that has gripped much of the western United States has shriveled crops, stoked wildfires, and drained reservoirs across several states. According the U.S. Drought Monitor, more than 60 million people are currently living under drought conditions in the region. For some cities, lack of water could be a fiscal as well as an environmental disaster: Prolonged droughts are threatening the creditworthiness of local governments, utilities and irrigation districts.

According to a new report from S&P Global Ratings analysts Jane Ridley, Chloe Weil and Nora Wittstruck, drought-struck municipalities may generate less income from their water systems because there's less to sell or they may have higher costs to provide adequate supplies. While cities and utilities can manage a year of dry weather, the drought conditions west of the Rocky Mountains have persisted since May 2020, with no end in sight. These conditions could slow overall local economic growth and dent property values, creating "revenue implications that can lead to rating changes."

Lower credit ratings would force local governments and utilities to pay higher interest rates on bonds they issue to fund general operations and special projects. "Cities finance their infrastructure projects with debt, so this could have a significant impact on their ability to do so," said Danielle Spiegel-Feld, executive director of the Guarini Center at New York University's law school, which focuses on sustainable energy and environmental practices.

Cities may also need to restrict water use for residents and farmers, as well as limit commercial and residential development in areas where the water supply may be insufficient to sustain additional growth, S&P said.

"In some ways, cities are between a rock and a hard place in terms of financing their debt," Spiegel-Feld said. They need to limit development in areas prone to flooding, for example, but also need the property tax revenue from building on valuable land.

But lower ratings shouldn't be a near-term problem for cities, said Bloomberg Intelligence analyst Eric Kazatsky. "Credit spreads in munis are at all-time lows, across the curve and credit spectrum," he said.

Higher borrowing costs from extreme dry weather would add to expenses governments are already shouldering to shore up infrastructure, deal with damage from other extreme climate events such as floods and wildfires, and supply adequate power.

California's hydroelectric production in the first four months of this year is 29% of that generated in the same period two years ago; the hydroelectric facility on Lake Oroville, for example, was forced to shut down for the first time when water levels dropped too low at the beginning of August. In Nevada, Lake Mead's capacity is at 35%, the lowest since the area that sends water and power throughout the Southwest was created. Both situations could force local utilities to turn to more expensive — and less climate-friendly — options, such as natural gas powered plants, S&P said.

The water problem is part of a bigger puzzle for cities to solve on the overall environmental, social and governance front, with the S&P analysts writing that water considerations "will be part of issuers' ESG planning as they address what could become the 'new normal' across the West."

Bloomberg CityLab

By Lauren Coleman-Lochner

August 23, 2021

[The Dedication Doctrine vs. The Project Influence Rule - Which Valuation Methodology Applies? - Nossaman]

Property dedication requirements and eminent domain usually don't mix well:they make for an odd and confusing set of valuation rules. For example, if an agency seeks to condemn property to build a road through an undeveloped area, but that road would be required in order to develop the properties, how should it be valued? Under one set of eminent domain rules (the *Porterville* doctrine), the property subject to dedication has little value since it would have to be given up as part of any future development. Under another set of eminent domain rules (the "project influence rule"), the road project should be disregarded as part of the valuation. These rules create an inherent tension for valuation purposes that courts have struggled to resolve. A recent Court of Appeal decision, *City of Escondido v. Pacific Harmony Grove Dev.*, 2021 Cal. App. LEXIS 706 (Aug. 26, 2021), provides some guidance on what valuation methodology should apply.

Background

In *Pacific Harmony*, the city filed an eminent domain action to acquire a strip of land for a road extension. The road extension had long been on the city's circulation element of its general plan, and a city ordinance required any owner developing property to dedicate public improvements to conform to the general plan. The city had also previously entered into a development agreement with a nearby hospital pursuant to which the city agreed to extend the road with contributions from the hospital and surrounding developers. With the anticipated road extension coming to fruition, the surrounding properties were up-zoned for industrial use (as opposed to low-density residential).

In the condemnation action, the city argued that the strip of land had nominal value ($50,000) since it would have been required to be dedicated as part of any future development. The city provided extensive testimony as to why the road dedication was roughly proportional to the impacts of any development (including increased daily trips from a new industrial development, the costs for the owner to build its own access road, etc.). The owner claimed the road was not necessary, as it could utilize an existing road which had sufficient capacity, and therefore the strip of land should be valued based on its industrial highest and best use, resulting in compensation of nearly $1 million. The owner also argued that the city was liable for precondemnation damages since it waited more than 10 years to condemn after entering into the development agreement which committed to build the road.

The trial court concluded that the strip of land should be valued at its unimproved value since it would have been required to be dedicated as part of any future development, and such a dedication requirement was constitutional (it was roughly proportional and rationally related to any future development impacts). The court also concluded that the "project-effect rule" did not apply, since the dedication was not put in place to impact the value of the property, but instead to mitigate the traffic burdens created by a future development. Finally, the court held that the owner was not entitled to precondemnation damages as there was no unreasonable delay in pursuing the condemnation or the road extension project. The owners appealed.

Court of Appeal Decision

The Court of Appeal walked through the two competing arguments on valuation: how to take into account the dedication requirements while also disregarding project influence.

Dedication Doctrine

With respect to the dedication issue, the Court explained that pursuant to the *Porterville* decision, "when a city would lawfully have conditioned development of property upon the owner's dedication of a portion of the property" to mitigate the impacts of the development, "the fair market value of that portion in a subsequent condemnation action is its value in its undeveloped, agricultural state," rather than in its highest and best developed state." The rationale for this rule is that because the owner could not develop the portion of land subject to dedication, no willing buyer would purchase that portion for more than its undeveloped value, and therefore that is what the acquiring agency should pay. In order for this valuation approach to apply, the dedication requirement must be constitutional (roughly proportional and rationally related to the impacts from the proposed development), and it must be reasonably probable that the condemning agency would actually impose the dedication requirement as a condition of development.

Project Influence Rule

With respect to the project influence rule, the Court explained that the rule prohibits the fair market value of condemned property from being influenced by the project for which the property is being condemned. For example, if the government is condemning property to build a sewage plant, the government does not get a discount because its project renders surrounding properties less valuable. So if municipal zoning actions were enacted to suppress property values before an intended taking, the zoning law must be disregarded when valuing the condemned property.

These two concepts present an inherent conflict: the dedication approach allows a city's dedication requirements to depress the value of condemned property, while the project influence rule prohibits it. In order to address this conflict, courts look at a "date of probable inclusion" to determine which rule applies. If the dedication requirement arose before the date of probable inclusion, the dedication approach applies, but if it arose after, the project influence rule applies. The date of probable inclusion is determined when a public agency is engaging in a public project for which it intends to acquire property, and it must be probable that the property at issue would be included in that project. Where a general plan and circulation element require a strip of land be dedicated for a roadway if the larger parcel is ever developed, the designation itself does not make it probable that the agency would condemn the strip (and hence does not trigger the date of probable inclusion).

Here, the Court concluded that the dedication requirement was constitutional, as the city did "its constitutionally required homework" to ensure that its dedication requirement was proportional to the impacts caused by developing the property. The Court also agreed that the project influence rule did not apply because the dedication requirement arose as part of the general plan and circulation element, which were in place long before the "date of probable inclusion". The Court held it would result in a windfall to compensate the property owner for an industrial use of the strip of land when the owner would have been required to dedicate that land in order to achieve an industrial development.

With respect to the precondemnation damages claim, the Court explained that the owner is required to demonstrate that the public agency acted improperly by either unreasonably delaying an eminent domain action following an announcement of an intent to condemn or by other unreasonable conduct, and the actions must have resulted in a diminution in value. There must also be some formal announcement or other official act or expression of intent to acquire the property in question (i.e., the agency's activities must go beyond the planning stage to reach the acquiring stage).

Here, the city's entering into a development agreement with the hospital committing to build the road 10 years before filing the condemnation was not unreasonable; the city still had to go through general planning and environmental approvals, and regardless, the owner did not suffer any damages as a result.

Take-Aways

Dedication requirements will continue to create complex, fact-specific inquiries to determine the appropriate valuation methodology. Government agencies will likely continue to require owners to dedicate property for public improvements as part of future developments, and may resort to condemnation when necessary to complete those improvements. Property owners should be informed regarding the conditions or exactions placed on their property, and understand the constitutional factors and valuation methodologies that come into play.

Nossaman LLP – Bradford B. Kuhn

California Eminent Domain Report

August 27 2021

Muni Underwriters Cut Fees in Takedown Race-to-Bottom.

- **Massachusetts' documents show how little banks' will charge**
- **But there may be a hidden downside for states and cities**

Every once in a while, a state or local government's request for underwriting services will have a question that illuminates what's going on in the municipal-bond market at large.

Massachusetts' request from May 2020 is one of them. It asked for something rather mundane — their underwriting takedown for every $1,000 of bonds sold. That's effectively what the banks' main fee would be upfront, a key measure of the total cost of floating a bond issue.

Underwriting fees have declined steeply since the 1980s, when negotiated fees were more than $20 per $1,000 of bonds, and had more or less continued on the downward drift in recent years. This year, they're around $5.15 overall, according to data compiled by Bloomberg.

But for a big-name client like Massachusetts, underwriters, it seems, are willing to work for much less. Sue Perez, the state's Deputy Treasurer for Debt Management, said the takedowns on its bond deals has been in the $2 to $3 range since at least 2014.

Sixteen banks applied to underwrite all three transactions mentioned in the RFP. None wanted more than $3, according to copies of the responses received through a public records request. Bank of America Corp., the market's underwriting behemoth, was willing to work for just 50 cents, as was Morgan Stanley, on one-year maturities. Both won top slots.

I was shocked because I hadn't realized takedowns had shrunk to so little. But David Erdman, Wisconsin's capital finance director, assured me in an email that this collapse had come in the past two or three years, and that "starting 3-4 years ago firms have stopped even asking for a management fee," formerly levied for running a syndicate.

This takedown death-ride has come as a result of both issuers and their advisers pressing for it, but also banks on their own just offering it, said Erdman. There's often been a shortage of bonds to go around, and banks have been eager to land inventory for their clients.

All told, this seems like a great thing. That means it costs municipalities less to gain access to the bond market, right?

And this is true, but there are two elements to "how much you pay." The first is one-time professional fees, like those for underwriters, that are transparent. The second is how the actual bonds are priced, which has a much more long-term and costly impact, and is more murky.

Lee McElhannon, director of bond finance for the Georgia State Financing and Investment Commission, said the more those transparent fees are cut the more important it is to see whether the banks are underpricing the bonds.

That would make it a lot less work to sell them and maybe even deliver a quick gain to early investors. But all that would come at the government's expense, which perhaps could have paid a lower interest rate for many years to come.

This seems especially important for smaller issuers who may not have the knowledge or ability to evaluate how their bonds are priced, or who may not even care. You would do well to remember that most of the municipal market's issuers — beyond states, major authorities, some large cities and counties — are small and relatively unsophisticated.

"Your financial adviser better be very good at pressing them on preliminary and final scales, and even then you might see some interesting secondary market trades for a week or so after pricing," McElhannon said in an email. "Underwriters are pricing bonds so they move the bonds and don't take on any (significant) risk."

That may not be the case for big, sophisticated issuers like Massachusetts, who comprise a very small portion of the market. Yet other public officials chasing after those rock-bottom fees may do well to remember that sometimes, well, you get what you pay for.

Bloomberg Markets

By Joseph Mysak Jr

August 24, 2021

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

View the current list. (Registration required.)

27 Aug, 2021

Fitch Ratings Resolves Ratings of Life Plan Communities Placed Under Criteria Observation.

Fitch Ratings-New York-25 August 2021: Fitch Ratings has resolved the ratings of all Life Plan Communities (LPCs) placed Under Criteria Observation (UCO) in March, following the release of its revised LPC rating criteria.

Of the 22 ratings placed UCO, four were downgraded: one driven solely by criteria factors, one driven solely by credit reasons (a large additional borrowing), and two driven by a combination of criteria and credit factors. The remaining 18 were affirmed.

Updated review status of UCO names is available in the special report linked above.

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Additional information is available on www.fitchratings.com

S&P: A Regional Investment Bank Wins New Business and Better Manages its Municipal Clients' Credit and Climate Risks.

HIGHLIGHTS

A regional investment bank is looking into upgrading its credit and climate workflow processes. By working with S&P Global Market Intelligence, the bank was able to automate its credit and climate data collection process, acquire a transparent approach to understanding creditworthiness of financial advisory clients, and help the firm win the underwriting of new deals.

This regional investment bank advises over 100 municipal clients and underwrites dozens of deals annually. The financial advisory team supports their clients with the issuance of new debt and navigating the credit rating process. Separately, the underwriting team facilitates the purchase and resale of new municipal securities, where having a deep understanding of credit and climate risks is essential in structuring a deal. Also, the company was aggressively looking to add more clients. Given the importance of these functions to these departments, the company was interested in upgrading its credit and climate workflow processes. By working with S&P Global Market Intelligence (Market Intelligence), the company achieved these goals of automating its credit and climate data collection process and providing a simple to use, completely transparent approach to understanding creditworthiness of financial advisory clients and helping the firm compete, win and promote the underwriting of new deals.

Pain Points
The Public Finance financial advisory and underwriting teams had been struggling with their internally developed solution, which was not adequate for the company's needs. Specifically:

- **Lacked an understanding of client climate risk:** The company did not have the data or process to assess the impact of climate or physical risk for its clients or new deals they were taking to market.
- **Internal credit models were misaligned with Rating Agency criteria:** Since the company's credit models were not annually recalibrated and updated, they were not reflective of the current methodology including environmental and social factors. Consequently, they were generating credit results that had material credit scores different than the public ratings. So, when scenario analyses were conducted (e.g. new debt) the results were inconsistent.
- **Needed innovative approaches to win new business:** The business was increasingly competitive, and they needed to identify ways to differentiate themselves from competitors.
- **Cumbersome surveillance process:** The process the company used to conduct annual reviews of their customers was manual and time consuming.
- **Insufficient data coverage:** The company was spending more time trying to obtain the necessary data than it was conducting the analysis.
- **Gaps or lack of expertise for certain public finance segments:** The company had difficulty entering new Public Finance segments because they lacked the expertise or did not have the appropriate segment specific credit models (e.g. higher education, healthcare, housing, general obligation, transportation, water & sewer).

The company's Public Finance team adopted the Market Intelligence's Public Finance Automated Scoring Tool (PFAST) solution to address these challenges.

The Solution
Market Intelligence recommended PFAST, an Excel-based suite of Market Intelligence Credit Assessment Scorecards that is both an automated credit scoring and data solution enabling users to:

Assign credit scores to the vast majority of the company's municipal customers
PFAST offers broad Public Finance sector coverage, including:

- **General Obligation** issuers or states, cities, counties, and school districts
- **Water and Sewer** utilities
- **Not-for Profit Health Care** including health care systems and hospitals
- **Not-for-Profit Higher Education** including private and public/state institutions
- **Transportation** including airports, mass transit, toll roads, bridges, and tunnels
- **Housing** including single- and multi- family agencies

Understand your client's climate risks
Understanding your client's susceptibility to 18 different natural hazards and potential economic loss from those natural disasters will help you better and more proactively manage your clients. PFAST also includes a quantitatively based summary environmental/social score for every municipal entity where data is available.

Win new business by differentiating yourself from your competitors by providing credit and climate insights
PFAST will provide easy to identify credit and climate finding that will highlight your command of new and existing clients. Leverage our unrivaled ability to create local, regional, and national benchmarks for prospective clients given our vast database of both rated and unrated issuers.

Automate the spreading for all S&P rated General Obligation, Water & Sewer, Healthcare, Higher Education and Airport Obligors
Market Intelligence has collected more than three years of financial and economic data for all rated general obligation issuers, water & sewer, healthcare, higher education, and airports. The data and credit scoring are fully automated by simply using an identifier (CUSIP or S&P Capital IQ ID).

Monitor your customer credit quality in minutes
By simply inputting an identifier a user can generate overall credit risk scores for your complete public finance customer portfolio.

Conduct scenario analysis
Additional functionality for conducting "what-if" scenario analysis for your municipal portfolio.

Key Benefits

The PFAST solution provides an automated credit scoring tool for all US cities, counties, and school districts and water and sewer utilities. A similar approach is also available for the major rated revenue bond segments. Key benefits include:

- **Broad scope of application** with sector-specific credit scorecards and data for General Obligation and Revenue Bonds including Water and Sewer, Not-For-Profit Healthcare, Not-Fo--Profit Higher Education, Transportation and Housing.
- **Climate Risk data and scores** that identifies the susceptibility and potential economic from 18 different natural hazards fully mapped to every U.S. county.
- **Methodology transparency** of the Scorecard including all risk factors, weights, benchmarks, and scoring algorithms.
- **Training and ongoing analytical assistance** to help groups understand the range of available capabilities and continue to get the most out of the solutions.
- **Quickly get up to speed** in public finance credit analysis with our easy to use Scorecard User Guides and 24/7/365 support from our global customer support team.
- **Validation support** through annual technical documentation that explains Scorecard methodology and testing.
- **Extensive coverage and continually growing database** of municipal entities financials and economic data.

Click here to learn more about the Public Finance Automated Scoring Tool (PFAST), mentioned in this case study.

Fitch: Fiscal 2022 Much Smoother for U.S. State Budgets.

Fitch Ratings-New York-23 August 2021: A stronger economy and Federal Aid have helped U.S. states weather the disruption caused by the coronavirus pandemic with a smoother budget season firmly in place for 2022, according to Fitch Ratings in its latest annual report for U.S. state budgets.

Fiscal 2022 budgets have been enacted so 47 states so far with North Carolina, Oregon and Michigan (whose fiscal year begins on October 1) as the only outliers so far. This represents a return to more normal budgeting and is in stark contrast to the upheaval the pandemic induced last year that led to a steep drop in state tax revenue.

Many states are still determining how to allocate funds received under the American Rescue Plan Act, and renewed concerns about the trajectory of the pandemic pose a downside risk. That said, ‘Strong fiscal 2021 revenue performance led many states to make upward revisions to their forecasts for fiscal 2022, bringing many close to pre-pandemic revenue estimates,’ said Senior Director Karen Krop.

Going into this latest fiscal year, a primary focus for states will be rebuilding their budget resilience through adding to reserves and paying down liabilities. Whereas only a few states drew on their rainy day funds to close out fiscal 2020 and several budgeted reserve draws in fiscal 2021, states are now drawing down reserves less than budgeted and are adding to reserves in fiscal 2022.

‘With additional available revenues, many states are addressing issues such as displaced workers and employment issues, mental and other health programming, and education spending,’ said Krop. ‘Health care is also still a key driver with many states using additional available tax revenues to support various programs, though several states are still struggling with whether or not to expand Medicaid under the Affordable Care Act ten years after its passage.’

‘U.S. State Budgets Bounce Back in 2022’ is available at www.fitchratings.com.

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Activists to U.S. Treasury: Use Federal Aid for Pandemic Relief, Not Debt

Grassroots groups are imploring federal officials to make sure local governments get relief to those most in need, rather than banks.

Dozens of community organizations from across the U.S. want Treasury Secretary Janet Yellen to issue rules that direct the latest round of relief funds into communities hardest hit by the pandemic and away from state and local debt repayments and police budgets.

Fifty-seven national and local groups are sending Yellen and President Joe Biden a letter Tuesday to maintain the current ban on states and cities using American Rescue Plan Act funds to repay debt. They also are asking that the aid not boost police budgets. Paying back loans and increasing funding for cops would come at the expense of community needs such a rental assistance, mental health programs, child care, homeless services and violence prevention, according to interviews with the organizations and local elected officials.

The groups are making a public push in response to efforts and comments submitted by state and local officials to the Treasury since May that seek to change or ease interim rules on the use of the funds. The rescue plan enacted in March is sending $350 billion in aid to state and local governments, which are now debating how to appropriate the unprecedented amounts.

“Congress passed the federal relief to go directly into communities,” Bahar Tolou, a campaign director in Los Angeles for the Action Center on Race and the Economy, said in an interview. “The relief money is in real danger of being diverted.”

ACRE, one of the lead organizations sending the letter to Yellen, is among groups from New York, Philadelphia, Detroit, Milwaukee, Chicago and Sacramento that advocate for workers, minority communities and lower income neighborhoods. They are trying to shine a light on the needs of communities after the pandemic exacerbated long-standing income gaps. Now is not the time to send money to Wall Street banks, expand police budgets or give corporations tax cuts, according to the letter.

“Every year, public dollars are already siphoned off by banks through high cost municipal debt and for corporate tax benefits, draining hundreds of billions from neighborhood services, enabling the conditions for over-policing, and exacerbating racial and economic inequality in communities,” according to the letter. “These are the very conditions that made Black and brown communities so vulnerable in the pandemic.”

Ongoing Argument

The debate over how to best use the unprecedented infusion of federal aid is playing out across the country. Philadelphia is among the cities that have asked the Treasury to reconsider and allow debt service to be paid with the money.

The city wants to “generate the highest impact for our residents,” Ashley Del Bianco, Philadelphia’s chief grants officer, said in an emailed statement. “Using a portion of our ARP allocation for debt service would allow us to provide services that are key to the economic recovery of our region.” Debt service funds projects that “directly benefit residents,” she said.

Philadelphia Councilwoman Kendra Brooks is among those who want the city to instead use the aid to address the “root causes of poverty.” For example, officials should use the funds to boost support for a mobile crisis program run by social workers rather than police, she said.

“ARPA is so unprecedented. It can have long lasting impacts,” Amanda Kass, associate director of the Government Finance Research Center at the University of Illinois in Chicago, said in an interview. “It’s great to see this kind of debate taking place.”

In Chicago, where the budget process is just getting started, officials are planning to use the funds to provide fiscal relief and still abide by the rules. Before the Treasury’s interim guidance banned using the funds for debt repayment, Chicago Mayor Lori Lightfoot’s administration had floated the idea of using ARP funds to repay a $465 million loan the city took in 2020 from JPMorgan Chase & Co. Since then, the city has said that eligible reimbursements under the Treasury’s interim rules will open up money in its main operating fund to pay back the debt and cancel another refinancing it had planned for this year.

Alderman Daniel La Spata argues that using $782 million of ARP funds to pay for expenses in Chicago’s corporate fund, which pays for services including policing, as the Lightfoot administration has proposed, and then using the money that’s freed up to pay the loan immediately, ignores the dire situation facing some residents.

“It’s within the letter of what Treasury guidance says but not the spirit,” said La Spata who wants to divvy up the city’s $1.9 billion in ARP funds for needs including mental health, child care and homeless services. “There are so many urgent needs.”

The department is “carefully reviewing” all input as it finalizes the rule, a Treasury official said Tuesday. In Sacramento, community organizer Christina Livingston said she’s worried the Treasury will relax the rules, as the city asked last month. Livingston is executive director of the Alliance of Californians For Community Empowerment, which advocates for low-income workers and people of color.

“Debt service should be included as an eligible expenditure, especially as a ‘negative economic impact’ of Covid-19,” Leyne Milstein, Sacramento’s assistant city manager, wrote in a comment on the Treasury’s website in July. “Debt secured prior to the pandemic, whose primary source of repayment is a specific source impacted by the pandemic, is especially challenged as many of these revenue sources declined precipitously and have yet to fully recover.”

Aug. 31 is the deadline for when states and larger municipalities must report to Treasury how much of the ARP allocation they’ve spent so far. In the meantime, the collective of grassroots groups is trying to sway the Biden administration’s stance on the rules.

“We don’t want this money spent on banks nor on police,” said Emma Tai, executive director of United Working Families in Chicago, among the community groups that signed the letter. “At this time, it’s so evident human need is so great.”

Bloomberg CityLab

By Shruti Singh

August 24, 2021

We’re Burying Our Kids in Debt (Just Not the Way You Think).

For the Philadelphia teacher Freda Anderson, setting up her classroom involves clearing plaster, dust and paint chips from tables, chairs and desks. Somewhere, a leak has allowed water to seep through the walls. Years of deferred maintenance have caused dust and paint chips to scatter across the room. This debris is not just a brazen reminder of state abandonment of public education — it is an active vector of harm. A report released this spring revealed an asbestos epidemic creeping through Philadelphia schools.

During the 2019 school year, 11 schools closed because of toxic physical conditions; a veteran teacher is suffering from mesothelioma, a lethal disease caused by asbestos. Ms. Anderson used to believe the best way to fix schools would be to hire more teachers, counselors and mental health providers, "but, honestly, now the first thing I would do is start reallocating money to fix the buildings," she told me. "They're just really dangerous."

The question of how to finance Philadelphia schools' $4.5 billion of unmet infrastructure needs — as well as hiring more teachers, counselors and nurses — has been a vexing issue for the community. Despite high levels of affluence in the city, inequitable distribution of state aid and regressive taxation, including hundreds of millions of dollars in local corporate tax breaks, have exacerbated budget shortfalls.

Continue reading.

The New York Times

By Eleni Schirmer

Aug. 27, 2021

Ninth Circuit Rules That EPA's 2010 WET Testing Methodology Is Not Subject to APA Review: Taft Stettinius & Hollister

In *Southern California Alliance of Publicly Owned Treatment Works v. U.S. Environmental Protection Agency*, — F.4th —, No. 19-15535, 2021 WL 3412744 (9th Cir. Aug. 5, 2021), the Ninth Circuit held that the Environmental Protection Agency's (EPA) nonbinding guidance recommending a new statistical method for assessing water toxicity under the Clean Water Act (CWA) was not a reviewable final action under the Administrative Procedures Act (APA). Instead, challenges to the guidance must be made in the context of individual permit decisions.

Under EPA's National Pollutant Discharge Elimination System (NPDES) program, the CWA permitting scheme, some permit holders must pass a whole effluent toxicity (WET) test which measures the "aggregate effect of a discharge on aquatic organisms." *Id.* EPA previously recommended several statistical methods to satisfy the WET test requirements and in June 2010, recommended an additional method called the Test of Significant Toxicity (TST) in a separate nonbinding guidance document (2010 Guidance). *Id.* at *2. The plaintiffs, municipal wastewater trade associations, alleged that EPA violated the APA by issuing the 2010 Guidance and the TST without following notice-and-comment procedures. *Id.*

The Ninth Circuit affirmed the district court's dismissal of the plaintiffs' challenge on the alternative ground that the 2010 guidance was not a reviewable final agency action. Under the APA, plaintiffs are only allowed to challenge final agency action and an agency's action is final only if it imposes legal consequences. *Id.* at *1.

The Ninth Circuit determined that the 2010 guidance does not impose any legal consequences on its own because it merely recommended the TST as another WET testing methodology from which permitting authorities may choose. *Id.* at *4. In fact, the court found that the 2010 guidance will not have legal consequences at all unless the TST is incorporated into an entity's individual NPDES permit. The court explained that "an agency action is not final when subsequent agency decision making is necessary to create any practical consequences." *Id.* The court, therefore, held that the 2010 guidance was not reviewable under the APA.

Plaintiffs argued that if they are not permitted to challenge the 2010 guidance in the district court, they will have no forum to do so. The Ninth Circuit disagreed and advised plaintiffs and other would-be challengers that the appropriate forum to challenge the TST and 2010 guidance is in the context of individual NPDES permit decisions. *Id.* at *5.

Taft Stettinius & Hollister LLP – Kristine Gordon

August 27 2021

Modernizing the Budgetary Process with Cloud-Based Systems Lets Municipalities Better Adapt.

It wasn't just businesses that shuttered their doors when the pandemic struck last spring. With everyone suddenly telecommuting, municipal governments from Massachusetts to New Mexico were unexpectedly thrust into an entirely digitized world.

For many cities and counties accustomed to working in-person within closed or analog systems, adapting to the change was undoubtedly a challenge. Especially when it comes to budgeting, being able to adapt to the pandemic's rapidly changing conditions has been a vital skill for municipal leaders over the last year, according to Charlie Francis, senior policy analyst at Questica, a California-based government administration software company.

"The ones that could respond and react most efficiently and strategically where the ones that had already made the transition from excel-based budgeting to cloud-based budgeting," said Francis, who has spent 45 years working in government finance, including half as finance director at Sausalito, Calif.; Tracy, Calif.; and Indian Wells, Calif. Last year, he returned to Sausalito after the municipality's finance director unexpectedly resigned in the middle of budget season.

Those municipalities still working with analog systems suddenly had to confront the question, "How do you collaborate when everyone is working from home?" he said. In this, cloud-based budgeting programs, which allow administrators to access data remotely and work together collaboratively, provide an answer for municipalities of all sizes.

According to Francis, digital budgeting systems have a number of benefits: First, data is accessible from anywhere. With built-in archives, there's more time for municipal leaders to analyze historical and present-day data (a feature that was especially important last year, with town meetings held via video conference apps). It's also easier to collaborate remotely when everything is digitized. And because digital data is accessible from anywhere and by everyone—citizens, too—trust in government is enhanced through transparency.

"One of the integral parts of going through a crisis like the pandemic is that you want to be able to communicate easily and accurately," Francis said, noting that trade organizations like the Government Finance Officers Association can help municipal leaders set up digital cloud-based budgeting infrastructure (OpenGov, ClearGov and Questica are three companies that make cloud-based budgeting software).

Beyond digital collaboration, Francis said governments that early-on in the pandemic preplanned and developed scenarios for budgeting were better able to adapt. Based on those scenarios, they were able to leverage data in real time as challenges unfolded, adjusting quickly to meet community needs—a process Francis calls "continuous budgeting. In other words, as new data was coming in, they were recalibrating their figures," he said.

Within the government finance community, this is "an emerging practice," Francis said. "We went from line item budgeting … to priority-based budgeting. Continues budgeting is going to be the next wave."

But it's only made possible through technology advancements such as cloud-based budgeting. In an analog system, administrators have to crunch numbers derived from separate data sheets to estimate a specific performance results. Digital systems allow this data to be viewed in real time.

For example, in order to find out how much it costs to vaccinate one person, a financial officer working in an analog system might have to, by hand, combine the number of people vaccinated with the total amount spent on vaccinations, Francis said. "Modern systems can bring all of that into one place with a dashboard: 'Here's the number of people vaccinated; here's the cost for each person to be vaccinated.'"

Another beneficial aspect of cloud-based budgeting is social features, which are increasingly being integrated.

"Governing and budgeting used to be (completed by) department heads … getting together and saying, 'here's what we think the services are that citizens need,'" he said. These days, "Citizens are finally telling us what services they need and how they would like them delivered. It's more interactive, it's more productive."

As an example, he pointed to the civil unrest that erupted last year.

"We saw it going on during COVID—here's how we would like to see police services delivered," Francis continued. Instead of governments telling citizens how they were going to be managed, many communities across the United States called on their leaders to integrate different policing practices based on their personal experiences.

In looking to the future, Francis said he expects these governing tech-trends to continue long after the pandemic subsides and life returns to a semblance of what it used to be. The ongoing pandemic accelerated a shift toward the digital realm that had already started. A next step beyond continuous budgeting is budgeting based on "geo-predictive analytics"—a process through which municipal leaders allot funds based on predictive data. Francis said it's already happening in some regions.

"The new generation of finance leadership has been born into an entirely digitized working (environment)," he said. "They're used to using rules and algorithms."

American City & County

Written by Andy Castillo

20th August 2021

Muni Trading Hasn't Been This Slow Since the Turn of the Century.

- **Market's trading volume tumbles 34% this year to 22-year low**
- **Bonds have grown scarce with cash flowing steadily in**

The loneliest place on Wall Street may be the muni-bond trading desk.

Even with the volume of new state and local government debt sales on pace to surpass last year's record, trading activity has dried up considerably. The par amount of bonds traded has tumbled by 34% so far this year to $1.43 trillion, a 22-year low, according to data compiled by Bloomberg.

On average, about $8.9 billion of municipal bonds are changing hands each day, the least since 2001.

The dearth of activity is likely a side effect of the massive influx of cash into the $4 trillion municipal securities market, with mutual funds receiving an average of about $2 billion each week since the start of the year, according to Investment Company Institute figures.

As a result, money managers have faced brisk competition to get in on new bond deals and yields have held near the lowest in decades. And it seems those who own the securities are, on the whole, not eager to sell.

"Overall a lot more investors, whether they are participating in new issues or not, they are just holding on to their paper," Jonathan Law, a portfolio manager at Advisors Asset Management, said in an interview Wednesday.

It doesn't look like the gulf between supply and demand will narrow much soon. Over the next month, there's about $10.6 billion of new municipal debt sales scheduled so far, according to data compiled by Bloomberg. That's about $14.3 billion less than the amount of cash bondholders will receive from debt that's being paid off, which they typically seek to reinvest.

Bloomberg Markets

By Shruti Singh and Skylar Woodhouse

August 25, 2021

— With assistance by Natalia Lenkiewicz

Municipal Bonds Are the Apple of Fixed Income Investors' Eyes.

Fixed income investors can't get enough of municipal bonds, putting exchange traded funds (ETFs) like the Vanguard Tax-Exempt Bond ETF (VTEB) in focus.

Even in the current challenging rate environment, investors aren't thinking twice about picking up municipal bond exposure.

"The yield on the S&P Municipal Bond Index this summer fell below 1% for the first time since it was created in 1998," a Wall Street Journal report said. "The index tracks returns on a selection of core municipal bonds from across the market and assumes any interest thrown off is reinvested. The yield in question—known as yield to worst—is the lowest rate the investor can expect to earn short of a default."

"Still, investors can't get enough of the bonds," the article said, noting the high interest in munis. "Prices have surged even though outstanding muni debt has swelled by more than $100 billion in the year ended March 31, according to Federal Reserve data. Cities and states could probably sell an additional $89 billion in bonds without meaningfully driving down prices, according to an analysis of lending capacity by Municipal Market Analytics."

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

What's Driving Demand for Munis?

One of the factors driving the strong demand for municipal bonds is their inherent tax advantages. That's especially the case given the current U.S. presidential administration's proclivity for raising taxes.

As such, getting tax-free income is a prime option to lower investors' tax burdens. The other reason driving demand for munis is the relative stability of local government debt.

Local governments have been able to successfully stave off the effects of the pandemic, making municipal bonds a prime option for investors looking for a stable debt market.

"Meanwhile, many states, cities and counties have weathered the Covid-19 pandemic far better than expected, assuaging investor concerns that pandemic-related budget pressures could drive down the value of some local-government debt," the Wall Street Journal article said. "Moody's Investors Service raised its outlook on state and local governments to "stable" from "negative" in March, citing better-than-expected revenues and federal stimulus."

ETF TRENDS

BEN HERNANDEZ

AUGUST 26, 2021

[If You Bought Municipal Bonds a Long Time Ago, This Is a Great Time.]

Prices surge, hurting yields for new investors, as Biden comments ignite tax-increase fears and local governments weather Covid-19

Everyone wants state and local-government bonds. That's a good thing if you already own muni debt, and a bad thing if you're trying to get your hands on some.

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Still, investors can't get enough of the bonds. Prices have surged even though outstanding muni debt has swelled by more than $100 billion in the year ended March 31, according to Federal Reserve data. Cities and states could probably sell an additional $89 billion in bonds without meaningfully driving down prices, according to an analysis of lending capacity by Municipal Market Analytics. Bond yields rise as prices fall.

"If you're sitting on bonds that were issued three to five years ago I would ride it out," said Greg Zandlo, president of Minneapolis-based North East Asset Management. "It's absolute gold."

There are several factors driving the surging demand in munis.

Among them are concerns that President Biden and the Democratic-controlled Congress will raise taxes. Mr. Biden spoke about the possibility on the campaign trail; his comments have since made muni bonds and the tax-free income they provide more precious to many investors.

Meanwhile, many states, cities and counties have weathered the Covid-19 pandemic far better than expected, assuaging investor concerns that pandemic-related budget pressures could drive down the value of some local-government debt. Moody's Investors Service raised its outlook on state and local governments to "stable" from "negative" in March, citing better-than-expected revenues and federal stimulus.

The surge in muni prices comes at the same time demand is high across markets, driving up prices for homes, equities and a range of other assets.

The nearly unending demand is crushing returns for prospective investors who want to earn tax-free interest. Still, bondholders who got into the market years ago are sitting on hefty returns.

Minnesota local-government bonds that Mr. Zandlo bought for clients about a decade ago yielded more than 3% annually until they were paid off recently, he said. Bonds he bought in the past few years are now trading at 10% to 15% more than the price he paid.

An investor who bought the bonds reflected in the S&P Municipal Bond Index 10 years ago and reinvested the interest he earned would have seen his investment grow 50%, said Brian Luke, head of fixed-income at S&P Dow Jones Indices.

The stampede into munis has pushed yields even below previous lows in February 2020, when investors spooked by early reports about Covid-19 viewed munis as a haven and rushed in.

Though prices plummeted briefly the following month amid a multimarket liquidity crisis, the pandemic hasn't interrupted a decadelong slide in government borrowing costs. The median amount of annual interest state governments are paying as a percentage of their total outstanding debt fell to 3.4% in 2020 from 4.2% in 2010, according to preliminary data from Merritt Research Services.

Public officials have taken advantage, issuing $186.5 billion in new debt this year through Aug. 18, a 35% increase from last year and the highest since at least 2007, according to data from Refinitiv.

When the Chicago suburb of Lincolnwood, Ill., sold $9 million in bonds this month to pay for road and water-system improvements, officials expected to pay as much as 3%, said Finance Director Denise Joseph. Four bidders competed for the debt, she said, and the village ultimately agreed to yields ranging from 0.2% to 2.16% for bonds with maturities ranging from one to 20 years, sale documents show.

“It was a nice surprise,” Ms. Joseph said.

Much of the competition for munis is coming from asset managers charged with deploying an unceasing stream of investor cash. From the start of the year through the end of July, investors poured a total of $69 billion into municipal-bond mutual and exchange-traded funds, the most of any year since record-keeping began in 1992, according to data from Refinitiv Lipper.

In a recent New York City bond sale, institutional investors put in orders for about 70% more bonds than were available to them, allowing the city to slightly shave down interest costs, according to the city comptroller’s office.

“Every time a new deal comes to market, there’s this food fight from the institutional investors to grab as many bonds as they can get,” said Eric Friedland, director of municipal-bond research at asset manager Lord Abbett & Co.

The Wall Street Journal

By Heather Gillers

Aug. 24, 2021

Flood of Cash Into Muni Bonds Drives ETFs to Record Year Already.

- **Muni-bond ETFs have pulled in $14.5 billion year-to-date**
- **Investors have become more comfortable with muni ETFs**

Municipal-bond exchange-traded funds are attracting a record-breaking amount of cash in 2021 as investors get more comfortable with the investment tool and buyers flock to state and local debt.

The funds have pulled in $14.5 billion year-to-date, more than last year’s total of $14.4 billion, according to data compiled by Bloomberg. That’s the highest annual total on record since 2007.

Todd Rosenbluth, head of ETF and mutual fund research at CFRA Research, said the funds are benefiting from increasing investor familiarity with bond ETFs. “This is a continuation of the adoption of ETFs as more investors are getting comfortable using fixed-income ETFs,” he said.

The influx into the funds also comes as investors continue to flock to the market for state and local debt, which pays interest that’s tax free and offers a shelter for wealthy Americans worried about higher taxes.

Mutual funds focused on municipal securities have seen inflows for 25 straight weeks, with investors adding about $1.87 billion to municipal-bond mutual funds during the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data.

Within muni ETFs, the biggest, passively-run products continue to dominate inflows. The Vanguard Tax-Exempt Bond ETF, a $13.9 billion fund that trades off the ticker VTEB, has seen $3.5 billion of inflows this year, already an annual record for the fund and more than any other muni ETF tracked by Bloomberg. It’s also the cheapest muni ETF, with an expense ratio of just 0.06%.

Rosenbluth said buyers have continued to look to “extremely cheap” funds like VTEB that offer broad exposure to the municipal market. But he noted that the space is diversifying, with other funds starting to gain more sizable inflows.

For example, the nearly $2.1 billion JPMorgan Ultra-Short Municipal Income ETF, which is actively run and launched in 2018, has seen $941 million of inflows this year, the fourth-most of any muni ETF tracked by Bloomberg. And 40 of the 67 muni ETFs tracked by Bloomberg have more than $100 million in assets, Bloomberg data show.

“I’m particularly encouraged to see the breadth of ETF products that are gaining meaningful traction,” Rosenbluth said.

Bloomberg Markets

By Amanda Albright

August 27, 2021, 9:38 AM PDT

Junk Munis Head for First Drop in Six Months on Slowing Demand.

- **Bloomberg Barclays high-yield index is down 0.09% this month**
- **Despite slowing inflows, Parametric not expecting outflows yet**

The riskiest debt in the $4 trillion municipal-bond market is headed for its first monthly drop since February as the resurgence in Covid-19 cases in the U.S. increases uncertainty around the nation’s economic recovery.

The Bloomberg Barclays High Yield Index, which includes debt from convention centers and airline-backed projects, is down 0.09% this month. Investor appetite for the riskiest state and local debt is showing signs of slowing as inflows into high-yield muni mutual funds have fallen in five of the past six weeks, according to Refinitiv Lipper US Fund Flows data. High-yield muni mutual funds saw a $389 million inflow for the week through Aug. 18, the lowest in seven weeks.

“What caused the weakness is simply the Treasury yields rose a little bit and you have more uncertainty about the virus,” Kathleen McNamara, senior municipal investment strategist at UBS Global Wealth Management, said in an interview. “Those two things weighed on the market. It was due to take a little bit of a breather.”

High-yield munis have delivered outsized returns all year as the market rallied while yields on top-rated state and local debt stayed near record lows. Junk muni bonds surged as the U.S. economy reopened earlier this year and more Americans boarded planes, conventions restarted and office workers returned to high-rises thanks to the vaccine roll out. Now the resurgence of Covid-19 amid a slowdown in vaccinations and the emergence of the delta variant, is raising questions about the return to normal.

Last week, Nuveen said it plans to shut its high-yield municipal bond fund, the biggest focused on state and local government junk bonds, to new investors after the end of next month. The move follows a similar step by rival Invesco Ltd., which closed its $11 billion high-yield muni fund to new investors.

After five straight months of high-yield muni index returns topping 1%, “it’s not surprising to see some fatigue in August,” said Gabe Diederich, a portfolio manager for Robert W. Baird, which has $9.6 billion in muni assets.

“The tailwind of improved fundamentals, cash inflows, reopening and potential tax hikes set up lower quality municipals for a strong performance run,” Diederich said. “In recent trading sessions, it does seem as though the market is looking for additional clues on economic openness as well as monetary and fiscal policy.”

Some high-yield bonds are seeing spreads widen from just two months ago. For example, the spread on 30-year bonds issued in March 2020 by Illinois’s Metropolitan Pier & Exposition Authority for the expansion of McCormick Place, the largest convention center in North America, was 55 basis points over benchmark on Aug. 16, compared to 46 basis points in June.

The decline in high-yield munis could be temporary, according to Nisha Patel, a portfolio manager at Parametric Portfolio Associates LLC. They are still the best performing class within fixed income. There’s the prospect for higher tax rates, which bodes well, and lots of cash waiting to be invested as supply of new debt has lagged demand, she said.

“Outside of economic data deterioration, I don’t see how we see massive outflows as of now,” Patel said.

“Investors are just taking some pause here,” Patel said. “Munis are having a hard time continuing to grind lower in spreads” because investors are starting to question if the income they are getting is worth the higher risk, she said.

Bloomberg Markets

By Shruti Singh

August 23, 2021

— With assistance by Martin Z Braun

SIFMA State-by-State Capital Markets Database.

Explore the companies and municipalities accessing capital markets to drive economic growth in this state-by-state database.

View the SIFMA database.

This Week in Federal Funding.

In the latest edition, we talk with Shamiah Kerney, director of Baltimore’s new Office of Recovery Programs. Also, updates from St. Louis, Hoboken, N.J., and Memphis.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

AUGUST 17, 2021

Billions From Biden Aid Plan Left Untapped by Cash-Flush States.

At least 10 states haven't spent any of the aid from the American Rescue Plan legislation as officials grapple with how to use the unprecedented federal relief that Congress approved almost six months ago.

Tens of billions of dollars that U.S. states got as a lifeline from the Biden administration is sitting idle in local coffers already flush with cash.

Michigan has budgeted just 7% of its $6.5 billion allocation and hadn't spent any as of last week. South Dakota officials haven't even gotten around to asking for their $974 million allotted under the White House's American Rescue Plan legislation. In West Virginia, a state website says detailed plans for its $1.35 billion are "COMING SOON."

Officials nationwide are grappling with how to spend an unprecedented infusion at a time when their coffers have been replenished by a rebounding economy that in many cases is generating billions more in tax revenue than budgeted for.

Continue reading.

Bloomberg CityLab

By Amanda Albright and Danielle Moran

August 17, 2021, 6:54 AM MDT

S&P: Could The Western U.S. Drought Threaten Municipal Credit Stability?

Key Takeaways

- Water supply challenges could create credit pressure for municipal utilities, irrigation districts, and local governments resulting from either a materially unfavorable shift in cost or if the service area economy stagnates due to insufficient supply.
- Managing water demand, procuring drought-resistant supply, and maintaining storage will be critical to managing fluctuations in hydrology. Issuers with prudent rate structures and strong balance sheets will be best positioned to absorb disruptions in operations or revenue collections from hydrological variability.
- Drought-related credit pressures for local governments include potential limits on economic growth, heat waves that require assistance for residents, and climate change-induced hydrological volatility that weakens levees and leads to flash flooding and mudslides.
- Extreme hydrological variability has been a pervasive challenge across the West. As droughts become more prolonged or expansive, there could be credit pressure. We expect well-defined

climate adaption policies, credible long-range resource plans, and achievable supply and demand management strategies will support stable credit quality. Many of these plans will be part of issuers' ESG planning as they address what could become the "new normal" across the West.

Continue reading. (Registration required.)

18 Aug, 2021

S&P: Ten U.S. Cities Successfully Weathering The Pandemic Thanks To Strong Management, Federal Support

Key Takeaways

- Although COVID-19 had a significant effect on major U.S. cities, strong management conditions and considerable federal support prevented credit deterioration.
- The sudden stop recession was shorter, and the economic rebound stronger, than anticipated, leading to more robust revenue for local governments than originally expected.
- Unprecedented federal relief was a lifeline and abated liquidity pressure.
- Current challenges for big cities include the delta variant, changing work/school patterns, and an uptick in violent crime.

Continue reading. (Registration required.)

19 Aug, 2021

Transit Leaders See New Federal Money as a Bridge, Not the End of the Line.

Bus, subway and local rail systems nearly shut down when the pandemic first struck. Now they're trying to find a new way forward.

Congress pulled public transit agencies from the brink of financial collapse during the darkest days of the pandemic, and it is getting closer to helping them upgrade their physical assets too. But that doesn't mean the agencies running buses and trains are in the clear yet.

The actual impact could vary greatly from one agency to the next, but overall, the industry is still worried about whether ridership will return to pre-pandemic levels.

Recent estimates show that ridership levels are now about 58 percent of what they were before the pandemic. Many agencies hope to see that number climb as offices reopen after Labor Day. If not, agencies may have to change the services they offer, make spending cuts or find new sources of funding to make up the difference.

Continue reading.

ROUTE FIFTY

by DANIEL C. VOCK

AUGUST 21, 2021

S&P Credit FAQ: Global Not-For-Profit Transportation Criteria Implementation Results Show How Operational Risk And Tax Support Influence Ratings

Key Takeaways

- The implementation of S&P Global Ratings' updated not-for-profit transportation infrastructure enterprise (TIE) criteria resulted in 22 rating actions (15 upgrades and seven downgrades) where the TIE criteria were the primary criteria applied; and four priority-lien rating upgrades where the updated TIE criteria were used to determine the obligor's creditworthiness for 32 priority-lien ratings of 21 different mass transit obligors that issued sales tax-backed obligations.
- For operating revenue-backed ratings on TIEs, positive rating changes were due to the added financial stability and flexibility from receiving significant tax revenues (like property or sales taxes) that do not fluctuate with transportation activity levels; for sales tax-backed ratings on TIEs where our priority-lien tax revenue debt criteria are applied, positive rating changes were generally due to an improvement in the linked obligor's creditworthiness, which incorporates pledged tax revenues that were generally resilient, as further evidenced during the COVID-19 pandemic; and for property tax-backed ratings on TIEs, negative rating changes were largely attributed to our incorporation of operating risk exposure for debt issued by TIE entities as well as weakened market positions for those issuers sensitive to changes in transit ridership or air travel volumes.
- Twenty-nine TIE entities benefiting from tax support received one to three notches of rating uplift; 14 received one notch of uplift, 13 receiving two notches of uplift, and two received three notches of uplift. Key considerations behind the amount of uplift were the significance of the tax revenue relative to total revenues, the type of tax (for example, sales versus property taxes), tax base characteristics as measured by diversity and stability, and a demonstrated willingness and ability to increase the tax levy.

Continue reading. (Registration required.)

17 Aug, 2021

S&P Global Mass Transit Ratings And Outlooks As Of Aug. 16, 2021.

Read the S&P list of ratings.

Bonding Time Podcast – Infrastructure Analysis and Muni Bonds with Tom Kozlik and Brett Bolton

In this installment of Bonding Time featuring Tom Kozlik of HilltopSecurities, we discuss the ongoing infrastructure deliberations in Congress and likely next steps for the bipartisan bill as well as the budget reconciliation package that will potentially provide an additional $3.5 trillion in infrastructure spending.

We also take a look at the debt ceiling and the recent extraordinary measures implemented by Secretary Yellen halting the sale of SLGS and the potential credit ramifications of default.

Click here for audio.

Bond Dealers of America

rcrodriguez

August 18, 2021

House Returns to Debate Infrastructure Legislation – MBFA and BDA Continue to Advocate for Muni Priorities.

Today, the House returns from August recess for a week-long session to debate budget reconciliation instructions and voting rights legislation. At this time, House leadership remains steadfast in their position that the Chamber will not debate the Senate bipartisan infrastructure package until the budget reconciliation package, which will serve as a vehicle for additional infrastructure spending potentially including key muni priorities, becomes law– likely a months-long process.

In response to Leadership's position, a group of 9 rank-and-file Democrats demanded the House pass the bipartisan infrastructure package prior to advancing the budget reconciliation outline. This weekend, the group remained staunch in their legislative opposition penning an op-ed laying out their position.

At this time, House Leadership does not have the votes to pass the budget reconciliation instructions, setting up a likely legislative showdown in the next 48 hours. While it is too early to predict outcomes for this week's process, the MBFA and BDA believe both the bipartisan infrastructure package and a narrowed budget reconciliation package focused on the Biden Build Back Better infrastructure agenda will become law by year-end regardless of procedural hiccups.

Muni Priorities Update

The BDA and MBFA continue to press for the inclusion of key muni priorities in the budget reconciliation package. The MBFA recently met with Senior Staff in Rep. Terri Sewell's (D-AL) office to discuss the Congresswoman's muni package, the LIFT Act, and possible inclusion in the draft budget bill. The MBFA plans to continue meeting with key offices leading up to the introduction of legislative text promoting all muni priorities including:

- The reinstatement of tax-exempt advance refundings,
- Raise the BQ debt limit, and
- Creation of a new direct-pay bond exempt from sequestration.

The MBFA and BDA will continue to provide updates as they become available.

Bond Dealers of America

August 23, 2021

The Infrastructure Bill Shows Why Congress Must Stop Enabling Bad Behavior by Cities and States.

Under America's constitutional system, states and cities are responsible for maintaining public infrastructure such as streets, schools, parks, and water and sewer facilities. Yet even as Congress moves ahead with the $1 trillion Infrastructure Investment and Jobs Act, and even as calls increase for more federal assistance to ease burdens on local taxpayers, it's clear that the legislative branch largely fails to understand how states and municipalities manage their budgets.

This lack of understanding—or willful ignorance—is a critical shortcoming that should be addressed promptly, given the enormous amount the federal government already spends to subsidize state and local governments. In 2019, such subsidies accounted for 22% of those governments' operating expenditures of $3.5 trillion, according to U.S Census data. Federal tax deductions on interest on most municipal bonds, the financing vehicles that cities and towns use to build roads, bridges, and schools, will cost $334 billion in forgone federal revenue from 2021 to 2030, U.S. Treasury projections show. Federal aid and tax breaks also help support the jobs of 19 million schoolteachers, police officers, firefighters, public health workers, and other state and local employees whose roles have been so critical during the COVID-19 crisis.

If the infrastructure bill and a proposed $3.5 trillion budget resolution become law, federal assistance to states and municipalities will swell even further, with Congress on the hook for much of the cost of everything from roads and bridges to broadband Internet installations, in the process helping states and localities avoid taking on massive amounts of new debt beyond the $4 trillion they have already borrowed.

Continue reading.

Yahoo Finance

by William Glasgall & Richard Ravitch

August 19, 2021,

BlackRock: Infrastructure Spending Will Continue To Be A 'Ballast' for Municipal Bonds

BlackRock Municipal Bonds Group Head Peter Hayes joins Yahoo Finance to explain the municipal bonds outlook.

Video Transcript:

EMILY MCCORMICK: Welcome back to "Yahoo Finance Live." US Treasury Secretary Janet Yellen doubled down on her support for President Joe Biden's infrastructure investment plans in an op-ed published to Yahoo Finance earlier today. The plans include the $1 trillion infrastructure bill passed by the Senate last week, and the $3.5 trillion budget plan to expand the social safety net, which the

Senate also approved the blueprint for last week. Here to discuss infrastructure, the outlook for the Fed, the markets and more is Peter Hayes, BlackRock's Municipal Bonds Group Head.

And Peter, I want to start off with that op-ed and those remarks from Janet Yellen. She highlighted several points to make the case for the spending now. And from your vantage point, how could investors be thinking about municipal bonds, specifically as a way to trade this increased government spending?

PETER HAYES: I think in general, first of all, thanks for having me, great to be back. I'll say that in general, there's been an awful lot of stimulus since the start of the pandemic on the part of both the Fed and Congress. And this is just another element. So I think it probably gives a tailwind to assets in general. But certainly adds a big balance to the municipal bond market. When you think about the spending that's occurred at the state and local level, it's been really beneficial on top of actually surprisingly strong tax revenues that have occurred.

Remember, most states and cities were really talking about large budget deficits, and actually what we've seen, is large budget surpluses. I think I saw today where the state of New York, their July revenue collections are up 21% from a year ago. New York City, 14%. Many states have not even touched these billions of dollars that they've received from the federal government. So all of this investment, all of this infrastructure spending will continue to be a ballast I think to the economic environment and the municipal market going forward over even, probably the next two years.

ADAM SHAPIRO: Peter, it's always good to see you. When we talk about going forward, I realize that you and the team, the bonds group deal in much larger numbers, but I'm going to ask a question from the kind of perspective of a lot of people who might be 45 years and older looking at the future. If they had say $500,000 saved up for retirement, how do you advise them?

Because it used to be a chunk of that you might want to put into municipal bonds. And you noted in the note that 27% of the supply was taxable issuance, because we're seeing the refinancing of what had been tax exempt muni bonds by cities and municipalities into taxable. What would you say to that potential woman or man regarding the future for them?

PETER HAYES: I'd say a lot of it is around, how much do you want to protect from taxes? And that's one of the reasons we've seen such strong inflows into the asset class this year. We've seen $62 billion in mutual fund inflow. So that's about the strongest that I can remember going back into the '90s. And I think a lot of that is because the fear of taxes going up. Now it's likely that the marginal tax rate for individuals, perhaps it goes back to 39.6%. So the benefit there is somewhat incremental. I think the bigger fear is corporate taxes. But clearly, for that individual looking to shelter income and not pay taxes on that income, municipal bonds will continue to provide, I think will provide that benefit.

The other element that sometimes is forgotten, is you look, if you think interest rates are going to rise, municipal bonds tend to do better. Well, look at this year. Year to date, the municipal index is up 1.6%. Most fixed income asset classes are actually negative. We'll use the Barclays ag. That's down negative 70 basis points. So a fair amount of outperformance. But it provides you some insulation if you really believe interest rates are going to rise.

And the other one is, it's a great hedge against equity risk. It's always done very well when you see volatility in the equity markets. Municipal bonds tend to be a safe haven for that. So it's really got kind of a three-pronged benefit to that investor, and that's what I would tell them. Adam.

ADAM SHAPIRO: In fact, the S&P municipal bond index, to reiterate what you said, has you said in the note, year to date, total return of about 1.9%, almost 2%. The other thing that's great about your note, is how everything is connected. You talk about climate change impacting revenue to utilities, especially the water utilities. Out West, which are now going to have to restrict demand, and you ended that part of the note by saying, we anticipate water usage limitations will become stricter and more widespread through year end. What kind of pressure does that put on the utilities to make good on their notes? I don't think anyone's going to default, but does it put pressure on them?

PETER HAYES: Well, I'll start with your comment. No one's going to default. I think that's very important. Sometimes they see these headlines and they think that means that an issuer is not going to repay their debt. That's never happened. California in particular has had a long history of drought. And even, and you look in some other areas of the US where droughts have been an issue over the years, water utility systems have always been very resourceful. They could cut water usage, they could raise rates. There's a lot of ways that they can actually utilize to repay their debt.

And the other one is just general utilities. So you talk about A, water restrictions. We saw I think in the Southwest yesterday for the first time they're going to cut the water usage in the Southwest to the Colorado River. And then the other is just general utilities. We saw today where I think PG&E is going to basically cut power to a certain part of their population in Northern California. That can impact revenues in the utility sector.

But again, they have a lot of tools at their disposal that they can ultimately use to help repay the debt. So it's not a default issue. Sometimes it's a rating issue, but it hasn't even really been that. Sometimes they go on negative watch, but again, investors shouldn't be necessarily very concerned about that on a going forward basis.

ADAM SHAPIRO: Peter, just quickly on interest rates. What are you expecting from the Fed meeting minutes tomorrow and Jackson Hole next week? When do you expect that tapering announcement and the actual start of tapering?

PETER HAYES: That's the $64,000 question that the bond market I think would love to know. I think our feeling generally is that interest rates have to rise. When you look at the, something you asked at the outset about the economic stimulus that's occurred, when you look at some of the supply chain disruptions and you look at the impact it's had on inflation, the notion that it's transitory is probably under, I think probably overvalued to some degree. This is here to stay for a while. So interest rates have to rise. It's a matter of when, and that goes to your question.

I think Jackson Hole is going to be somewhat of a non-event. I think the market may be expecting more out of Jackson Hole. Probably not likely to see anything there. I think it's more likely to occur in the coming months after that when we get by this Delta variant. The Fed wants to see what the impact will be on the economy. And then I think if we can get through that, if there's some clarity around the booster, and is a 2022 to restart to the economy, then you have to think more seriously about the Fed tapering, beginning to raise short-term interest rates, all of which are more likely to occur in 2022.

ADAM SHAPIRO: Peter Hayes, BlackRock Municipal Bonds Group Head, thank you so much.

August 17, 2021

Munis In Focus: NJ Megamall Sinking In Debt (Bloomberg Radio)

Joe Mysak, Editor of Bloomberg Brief: Municipal Market, discusses the latest news from the muni market. Hosted by Paul Sweeney and Matt Miller. (Taylor Riggs fills in for Paul Sweeney)

Play Episode

Bloomberg Markets

August 20, 2021

Convention Centers Face Risks as Delta Ramps Up Threat to Crowds.

- **S&P warns of slow recovery, trouble reaching pre-Covid levels**
- **Texas borrowers have convention center deals on calendar**

The Delta strain is dealing a setback to the convention industry's fragile recovery.

Some big gatherings are being shut down as the number of coronavirus cases surges again, dealing a fresh hit to a business that was already struggling to revive from the era of social distancing and working from home. The New York International Automobile Show was canceled this month for the second year in a row because of concerns over the pandemic. In Florida, the epicenter of the U.S. outbreak, the North American Association of Food Equipment Manufacturers and the Global Surgical Conference called off their events, with organizers of the later, citing the "dramatic surge" in the state's cases.

"It is very hard to pull a group of people and make sure that they are all comfortable in meeting together," S&P Global Ratings credit analyst Safina Ali said in an interview. "To an extent, they might not even get back to pre-Covid" levels, she said, referring to convention centers.

Bond-financed convention centers have seen their businesses dry up since the pandemic struck the U.S. in early 2020. The Center for Exhibition and Industry Research reported that the industry has shriveled to $24 billion, down $77 billion from 2019.

"There is not going to be a light switch and everybody is able to go back and go to events," said Brad Mayne, president and chief executive officer of the International Association of Venue Managers.

Still there isn't much distress right now for convention center debt, said Eric Kazatsky, senior U.S. municipals strategist at Bloomberg Intelligence. Many of these had pretty solid cash on hand going into the pandemic and decent credit quality.

"They had some cash to burn," Kazatsky said. "Things aren't at a total zero. They've just declined. There are still conventions being held."

Plus the muni market is searching for supply amid ongoing investor demand, and there is appetite for new projects, he said.

About $1.5 billion of municipal bonds for convention centers have been sold so far this year, down from $2.4 billion in the same period in 2020, according to data compiled by Bloomberg. There are some upcoming municipal bond deals that may offer a look at how investors view the risk.

The city of Abilene, Texas, through the Abilene Convention Center Hotel Development Corp., is looking to finance the construction for a full-service, upscale 200-room hotel and conference center

150 miles (241 kilometers) west of the Dallas-Fort Worth area. S&P considers the $19.5 million first-lien bonds BBB-, one step above junk. Additionally, the corporation is also selling $24.7 million of second-lien bonds for the project.

Also in Texas, the Baytown Municipal Development District outside of Houston plans to sell about $61 million in bonds to finance the development of the Baytown Convention Center Hotel with about 208 rooms, according to bond documents.

Yet such deals may belie the risks posed the industry's slowdown. Earlier this week, S&P said it expects Overland Park Development Corp. in Overland Park, Kansas to draw on $530,000 debt service reserves to cover a portion of its Sept. 1 interest payment.

"If revenue fails to meaningfully improve over the remainder of 2021, particularly given the additional uncertainty imposed by the Delta variant, credit quality could deteriorate," S&P said in the report on Tuesday on the Overland debt.

Cooper Howard, director of fixed-income strategy at the Schwab Center for Financial Research, said the impact of the pandemic on convention centers is about "looking at the liquidity and health of the region that they are located in. "Right now the delta variant doesn't appear to be posing a major risk to this sector, longer term it is something that yes, we will be watching," Howard said.

Bloomberg Business

By Skylar Woodhouse

August 19, 2021, 12:30 PM MDT

— With assistance by Natalia Lenkiewicz

Municipal Bonds Are Still a Solid Summer Bet for Retirees.

Municipal bond yields aren't exactly thrilling these days, but the asset class remains an important income-generator and risk-reducer for investors in retirement.

While yields are broadly low today in the municipal bond space, there are some positive points for retirement investors to consider, and the asset class is proving sturdy even as the delta variant of the coronavirus vexes investors.

"Municipals maintained their seasonal trend and posted strong performance throughout the month of July. The market benefited from a favorable supply-demand backdrop and rallying interest rates due to excess liquidity, short covering, and Delta variant fears," according to BlackRock research.

More recently, longer duration munis and those with lower credit ratings delivered upside for investors as muni market participants sought to embrace credit and duration risk. A recent decline in supply could be another factor supporting municipal bonds.

"Supply moderated from the robust levels experienced in June and trended more in line with historical expectations. Issuance of $35 billion was down -26% month-over-month but just 5% above the 5-year average, bringing the year-to-date total to $255 billion," notes BlackRock.

While yields are low within the broader municipal bond universe, investors are still displaying enthusiasm for this form of debt, with flows to related funds, including exchange traded funds, poised to hit records this year.

"Demand remained firm with the asset class garnering continued inflows. While fund flows slowed slightly into month end amid lower absolute yields, 2021 remains on pace to eclipse 2019 as the best fund flow year on record," continues BlackRock.

The asset manager recommends underweighting munis tied to "speculative projects with weak sponsorship, unproven technology, or unsound feasibility studies," as well as senior and assisted living facilities in markets that already have plenty of those establishments. However, BlackRock is bullish on munis issued by states in strong fiscal positions as well as munis issued by cities and school boards with robust property tax bases. The fund issuer also likes some high-yield munis.

ETF Trends

AUG 16, 2021

Muni Feeding Frenzy Seen Lasting as New Sales Lag Investor Cash.

- **One-third of outstanding debt will be paid off by end of 2026**
- **Investors already face 'a very challenging muni environment'**

Municipal-fund managers awash with cash are struggling to find bonds to buy, a situation that may persist for the next few years if new issues continue to fall short of the demand.

About 21% of outstanding tax-exempt debt will mature or be called by the end of 2024, according to data compiled by Bloomberg. That rises to 31% by the end of 2026. The figures are higher than those seen historically and exacerbate the challenge bondholders have in reinvesting their payments, said Matt Fabian, partner at Municipal Market Analytics. Meanwhile, new dollars continue to flow apace into mutual funds.

So far this year, issuers have sold $289 billion in long-term municipal debt, higher than the $267 billion over the same period last year, according to data compiled by Bloomberg. While the federal infrastructure bill in the works may drive more sales of new debt, it's unclear if it will be "enough to offset the giant sucking sound of the pending maturity schedule," Fabian said.

"We need to see a material increase in new money projects, if only for the market to stand still," he said.

The dynamic underscores the strength of the municipal-bond market, which is notching positive returns even as several other corners of the fixed-income universe are down for the year. Investors are shifting into the tax haven as President Joe Biden's administration pushes to raise income taxes on the highest earners. Meanwhile, Biden's stimulus packages easing the impact of the coronavirus pandemic have boosted the credit quality of local government borrowers such as cities and transit systems.

Investors have plowed a record amount into municipal-bond funds for the first seven months of the year, totaling more than $69 billion, according to Refinitiv Lipper US Fund Flows data. The wall of cash has led Nuveen to turn new investors away from its high-yield municipal bond fund, the market's biggest.

The demand from mutual funds and those seeking to redeploy their principal payments will likely keep spreads at tight spreads, Fabian said.

"This is a context in which spreads are not going to widen absent some kind of surprise," he said. "We need some big city to file for bankruptcy, or some kind of major reversal of revenue trends."

Meanwhile, portfolio managers are left scrambling to get a piece of new deals, which receive so many orders that underwriters are able to lower yields that the buyers feel compelled to accept.

"What starts off looking attractive, by the time it comes to you, it's okay," said Sweta Singh, portfolio manager at City Different Holdings LP. "It is a very challenging muni environment, for sure."

Bloomberg Markets

By Romy Varghese

August 20, 2021, 10:00 AM MDT

— With assistance by Natalia Lenkiewicz

Muni Buyers Grab Billions in Bonds They Won't See for Months.

- **Sales with later delivery head for record as rate risk rises**
- **Ban on tax-exempt advance refundings lifts popularity of tool**

State and local governments barred from a key refinancing tactic are turning more than ever to a funding tool that helps them avoid the risk of rising interest rates.

Sales of municipal bonds that won't be delivered to investors until months after they price have reached about $10.5 billion in 2021, up 174% from the same period a year ago and on pace for a record, according to data compiled by Bloomberg. California issued the largest ever so-called delayed-delivery bond four months ago, while deals by issuers from across the country are set to price in the weeks ahead.

The structure allows state and local governments to lock in interest rates in anticipation of refinancing higher costing debt that's not yet eligible to be called back. It's an attractive tool for governments that believe rates are going to rise, said Vikram Rai, head of municipal strategy for Citigroup Inc. The structure has grown in popularity since a clause included as part of former President Donald Trump's 2017 tax cuts banned the sale of tax-exempt bonds to refinance debt ahead of the call date.

"It's a rate call," Rai said in an interview. "Rates are low and I find it difficult to believe that they will go lower."

California sold nearly $1.1 billion in April to be delivered next month, and the state plans to sell $372 million of the same structure in October. The Phoenix Children's Hospital is selling $150.4 million through the Arizona Industrial Development Authority that will be delivered in November. And Connecticut's Health and Educational Facilities Authority sold $206 million Wednesday that will be delivered no earlier than April.

The rising volume of forward sales comes as demand outpaces the supply of new bonds in the $4 trillion muni market, leaving yield-hungry investors willing to take on more risk to boost returns.

Rising inflation, the potential for Treasury yields to climb higher and the possibility the Federal Reserve starts tightening monetary policy could all shift future pricing for state and local governments. Ten-year top rated municipal benchmark bonds currently yield about 0.9%, according to Bloomberg BVAL pricing.

“What’s in it for us is we get the advantage of low rates,” Tim Schaefer, the deputy treasurer of public finance for the state of California, said in an interview. The state began issuing large chunks of bonds for forward delivery last October, and while it doesn’t make interest-rate predictions, it wants to benefit from the low-yield environment, he said. “All of our risk of rate fluctuation beyond the date we sign the contract is thus eliminated. We have certainty.”

Forward-delivery bonds offer extra yield to investors to compensate for the risks associated with waiting months to get your bonds. Rai, the Citigroup analyst, estimates the premium is about 3 to 4 basis points per month, meaning the further out the settlement date, the higher cost of selling the debt.

“This structure is seen as a win-win for issuers which can lower their cost of capital while investors will usually get some modest additional spread on forward delivery deals,” said Erin Ortiz, managing director for municipal credit at Janney Montgomery Scott. “In fact, investors appear as being comfortable with forward delivery deals settling much longer out, even some over one year, as opposed to three or even six months.”

Illinois’s Metropolitan Pier and Exposition Authority sold about $811 million forward delivery bonds in July to take advantage of “favorable” interest rates, said Jason Bormann, chief financial officer of the agency. A bond that matures in 2052 priced at a yield of 97 basis points over the Bloomberg BVAL benchmark, according to data compiled by Bloomberg. It generated $140 million of present value savings, the authority said. The bonds won’t be delivered to investors until March.

“I don’t see the demand changing on the issuer side unless the advance refund rules change,” Bormann said.

Bloomberg Markets

By Shruti Singh and Danielle Moran

August 18, 2021, 11:56 AM MDT Updated on August 18, 2021, 1:04 PM MDT

— With assistance by Skylar Woodhouse

Demand, Supply Fundamentals Are in Muni Bond ETFs’ Favor.

Long-term fundamentals could support municipal bond exchange traded funds as investment demand could fall short of new muni issuances.

About 21% of outstanding tax-exempt debt will mature or be called by the end of 2024, Bloomberg reports. The amount rises to 31% by the end of 2026.

Matt Fabian, partner at Municipal Market Analytics, warned that the amount of money maturing or set to be called is higher than that which is experienced historically, and could prove challenging for those trying to reinvest their payments, especially as new dollars continue to flow into the space with an aging population.

Meanwhile, on the supply side, issuers have sold $289 billion in long-term municipal debt so far in 2021, which was slightly higher than the $267 billion over the same period last year. Additionally, while the federal infrastructure bill could stimulate greater sales of new debt, it's unclear if it will be "enough to offset the giant sucking sound of the pending maturity schedule," Fabian told Bloomberg.

"We need to see a material increase in new money projects, if only for the market to stand still," Fabian said.

The difference between supply and demand in the muni market has helped this pocket of the fixed income space turn a positive return in 2021, even as other areas of the debt markets are down for the year. Additionally, investors have been targeting the tax-exempt debt as President Joe Biden's administration seeks to hike income tax rates on high earners and stimulus packages have helped ease the negative impact from the coronavirus pandemic on local government borrowers.

Investors have so far funneled a record $69 billion into municipal bond funds for the first seven months of the year, according to Refinitiv Lipper US Fund Flows data.

Looking ahead, Fabian warned that the demand for muni funds and those trying to redeploy principal payments will keep spreads tight.

"This is a context in which spreads are not going to widen absent some kind of surprise," he added. "We need some big city to file for bankruptcy, or some kind of major reversal of revenue trends."

ETF investors who are interested in the munis space can also consider targeted ETF strategies, such as the popular iShares National Muni Bond ETF (NYSEArca: MUB), Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB), and SPDR Nuveen Bloomberg Barclays Municipal Bond ETF (NYSEArca: TFI).

ETF TRENDS

AUG 23, 2021

High-Yield Munis Remain Sturdy Despite an Uptick in Defaults.

The federal government heaped billions of dollars on states to help them tidy up their balance sheets in the wake of the coronavirus pandemic.

However, municipal default rates ticked higher in 2020 and to this point this year. Yet that's not damping the case for high-yield municipal bonds and the VanEck Vectors High Yield Muni ETF (HYD), one of the dominant exchange traded funds providing exposure to junk-rated munis.

The $4 billion HYD follows the Bloomberg Barclays Municipal Custom High Yield Composite Index and turns 13 years old next February. As of Aug. 12, it yields 2.17% on a 30-day SEC basis. These days, that's elevated in the municipal bond universe, but it's not cause for alarm. As Tamara Lowin, VanEck senior municipal research analyst, points out, investors should dig into where exactly the muni defaults are coming from.

“While default rates increased in several sectors, the healthcare sector is responsible for most of the spike, doubling its five-year average,” she said in a recent note. “The healthcare sector is known as one of the riskiest sectors historically, mainly due to the senior-living sub-category, which includes nursing homes, assisting living facilities, and continuing care retirement communities. This category was directly impacted by the pandemic and hit harder than any other municipal sector. The nation saw occupancy levels fall, broken supply-chains, and a loss of employees, which devastated them financially.”

HYD has a 19% weight to healthcare munis – its largest segment allocation. That exposure isn’t hindering the ETF this year. Year-to-date, HYD is higher by 3.35% while the widely followed S&P National AMT-Free Municipal Bond Index is flat on the year.

That’s a sign that the concentration of muni defaults in one corner of the market isn’t denting the thesis for this asset class in general.

“The concentration of defaults in one sector affirms our belief in the strength of high yield municipal bonds overall,” adds Lowin. “The shock to the system did not result in widespread staggering defaults, but instead targeted borrowers most vulnerable to a sudden health-event shift. It is no surprise that the sector most directly impacted by the Coronavirus continues to struggle through instability. However, the size and brevity of the disruption in the remaining sectors speaks to the continued strength of high yield municipal bonds.”

Of HYD’s top four state exposures – California, Illinois, New York, and New Jersey – only Illinois appears somewhat financially strained at the moment. California, the ETF’s largest state exposure, is doing well when it comes to tax collection and is running a massive budget surplus.

ETF TRENDS

TOM LYDON AUGUST 16, 2021

Nuveen to Close Top High-Yield Muni Fund to New Investors.

- **Investors have flocked to muni junk bond funds for high yields**
- **Nuveen fund has gained over 14% in the past year, data shows**

Nuveen said it plans to shut its high-yield municipal bond fund to new investors after the end of next month.

The fund is the biggest focused on state and local government junk bonds, a corner of the market that’s received a massive influx of cash at a time when the pace of new debt sales has struggled to keep up.

High-yield municipal funds have drawn in new cash week after week this year as the market rallied, delivering out-sized returns at a time when yields on the safest state and local government bonds are holding not far from record lows.

Investors have added nearly $17 billion of new money to such funds since the start of the year, according to Refinitiv Lipper US Fund Flows data.

That influx has created challenges for fund managers forced to compete against each other to get in on new bond offerings. At the same time, surging economic growth and the massive federal rescue package has left local government credit ratings broadly on the rise.

Nuveen's High Yield Municipal Bond Fund, run by John Miller, is not only the market's behemoth, with more than $24 billion of assets, but one that has also consistently outperformed its rivals. It has returned more than 14% over the past year, better than all but 2% of its peers, according to data compiled by Bloomberg.

The fund is closely watched by municipal-bond investors, given its track record and size. A spokesperson said Miller was unavailable to comment.

Nuveen is also closing its California high-yield muni fund to new investors after Sept. 30, the company said in a statement and filings with the Securities and Exchange Commission. Those with stakes by then will still be allowed to keep investing.

The step follows a similar move by rival Invesco Ltd., which closed its $11 billion high-yield muni fund to new investors.

"Nuveen investment and product teams will closely monitor market conditions and other fund-specific factors and will actively look to reopen the funds when it is deemed to be in the best interest of shareholders," Nuveen said in a statement to Bloomberg News.

Bloomberg Markets

By Danielle Moran

August 19, 2021, 2:45 PM MDT Updated on August 19, 2021, 3:40 PM MDT

— With assistance by Romy Varghese

Investors Flock To Municipal Bonds For Tax Savings.

Wealthy investors are shoveling more money into municipal-bond exchange-traded funds as they seek shelter from expected higher tax rates.

Municipal-bond ETFs have already experienced $13.8 billion in net inflows this year. The current trajectory is set to outpace the $14.5 billion gathered by muni-bond ETFs for all of 2020.

The U.S. Senate recently approved a $1 trillion infrastructure spending package. That's on top of the $1.9 trillion Covid-19 relief bill passed earlier this year, plus $2.2 trillion more spending via the CARES Act in 2020. The surge in government spending has alarmed many affluent households and financial advisors who are bracing for higher income tax rates.

Income generated from municipal bonds is exempt from federal taxes and from state income taxes, so long as the bonds purchased are from a taxpayer's home state. In certain cases, income from in-state municipal bonds could be subject to state taxes.

There are 65 U.S.-listed municipal-bond ETFs with $78.5 billion in combined assets, according to ETFAction.com. The Denver-based firm is seeing a big pickup in demand for muni-bond ETFs.

ETFs that own higher yielding, lower credit quality municipal bonds have been among the biggest beneficiaries of surging investor demand. Over $1.25 billion has already flooded into high-yield muni-bond ETFs this year, which is more than 10 times greater than the $111 million of assets gathered in 2020.

The $3.9 billion VanEck Vectors High Yield Muni ETF (HYD) is among the funds within the high-yield category that's seen an uptick in asset flows. HYD carries a 30-day SEC yield of 2.18% which equates to a 3.46% taxable equivalent yield for investors in the highest 37% tax bracket. The fund distributes income payments monthly and charges 0.35% annually.

Muni-bond ETFs that are exempt from the federal alternative minimum tax, or AMT, have become another popular target for investors.

With $8.7 billion in combined assets, ETFs tied to municipal bonds with AMT-free income represents the largest segment within the overall municipal-bond ETF category. Within this group, the Invesco National AMT-Free Municipal Bond ETF (PZA) owns at least 80% of its assets in muni bonds that are exempt from the AMT.

The AMT disallows certain deductions that are permitted in the ordinary income-tax code. After calculating taxes under both ordinary income and AMT rates, taxpayers must pay whichever rate is higher. The 2017 tax law change under the Tax Cuts and Jobs Act increased the phase-out thresholds, meaning fewer tax filers are subject to AMT.

FINANCIAL ADVISOR

AUGUST 17, 2021 • RON DELEGGE

Should You Rethink Your Muni Ladders?

Municipal bond ladders are a common strategy to mitigate interest rate risk. If interest rates rise, you can reinvest bonds coming due in higher-yielding bonds. If interest rates fall, you always have a good number of bonds locked in at higher rates. The problem is that the current environment introduces a lot of uncertainties.

Let's look at why muni bond investors face a challenging reinvestment environment and alternative strategies to consider.

Demand Outstrips Supply

The municipal bond market has become a fixed-income safe-haven. After a tumultuous winter, the federal government's stimulus spending has padded state and local budgets. Meanwhile, the swift economic recovery alleviated many concerns of future budget shortfalls. These trends have eliminated the need for new muni bond issues to raise capital.

Continue reading.

dividend.com

by Justin Kuepper

Aug 18, 2021

[Municipal CUSIP Request Volumes Slow in July, Ending 5-Month Growth Streak.]

NEW YORK, Aug. 13, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for July 2021. 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 significant monthly decrease in request volume for new municipal identifiers and a slight increase in request volume for new corporate identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt edged higher in July versus June totals. The monthly increase was driven largely by medium-term note and Canadian corporate issuance. On a year-over-year basis, corporate CUSIP request volume was down 1.3%.

Monthly municipal volume decreased in July, the first monthly decline in muni CUSIP request volume since January of this year. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 18.7% versus June totals. On an annualized basis, municipal CUSIP identifier request volumes were up 4.2% through July. New York led state-level municipal request volume with a total of 196 new CUSIP requests in July, followed by Texas with 195 and California with 93.

"Municipalities have been busy with new debt issuance this year, and while the volume of new requests has slowed this month, it's important to note that seasonality could be playing a role in the trend. June is peak short-term notes season, so it stands to reason that we'd see a tough comparison in July," said Gerard Faulkner, Director of Operations for CGS. "With interest rates still holding at historic lows and state governments very much in need of cash flow, we expect issuance volume to stay healthy for the near term."

Requests for international equity and debt CUSIPs both declined in July. International equity CUSIP requests were down 4.6% versus June. International debt CUSIPs were down 24% on a monthly basis.

To view the full CUSIP Issuance Trends report for July, [click here].

[More Muni Issuers Are Making Banks Compete to Win Bond Deals.]

- **So-called competitive deals are up 32% to highest since 2016**
- **Competitive sales were down a year ago following market crash**

In a stark contrast to a year ago when states and local governments hit by the pandemic had to woo skittish investors, more issuers are selling municipal bonds through competitive auctions that put the risk on underwriters.

The amount of long-term bonds sold through competitive deals has risen to $64.6 billion so far this year, a 32% increase from the same period of 2020 and the highest for the year-to-date period since 2016, according to data compiled by Bloomberg. Meanwhile, the volume of long-term bonds sold through a negotiated offering — still the bulk of the market — has gained 2.7% to about $211.8 billion, the data show.

In a competitively priced deal, underwriters bid for and buy the bonds and then have to sell them no matter the market conditions. In negotiated offerings, banks are hired in advance to set the interest rates and line up buyers for the securities.

Right now, investor demand for tax-exempt debt is so great that the extra legwork by underwriters and marketing time needed with negotiated deals to attract buyers isn't as necessary, according to Vikram Rai, a municipal analyst for Citigroup Inc. Munis have proven to be an oasis in the fixed-income universe in 2021, outperforming Treasuries.

"Negotiated deals are more popular when the market has a slightly weaker tone," Rao said. "When demand is strong we see competitive deals increase."

The rise in competitive deals is a big shift from a year ago, when negotiated sales spiked as the market coped with the impact of business shutdowns at the start of the pandemic and spooked investors pulled record amounts of cash from mutual funds. Last year through mid-August, competitive deals were down about 18% from the same stretch of 2019, while negotiated deals jumped 35%.

The supply of muni bonds expected to be issued in the next 30 days is short of the amount available for reinvestment by $14.9 billion, up 10% from a year ago, according to data compiled by Bloomberg. Mutual funds for tax-exempt bonds have seen inflows of almost $60 billion this year as investors look for income amid historically low interest rates, and there have been no meaningful outflows for almost 66 weeks.

Right now, the market is leaning more toward competitive deals than last year because "issuers, and their financial advisors, see the uneven landscape between supply and demand," said Bloomberg Intelligence analyst Eric Kazatsky. "To help drive the best deal for their clients, advisors help navigate them towards the competitive market, where they can save on costs of issuance and have many firms bid on their debt."

Also boosting the rise in competitive sales, recent rate volatility has eroded some of the benefits of refunding offerings, which are largely priced through negotiated sales, according to Kimberly Olsan, senior vice president of municipal bond trading for FHN Financial. Refunding deals are down while new money sales, which are usually sold via a competitive auction are up, she said.

Still, the surge in competitive deals may be a "temporary phenomenon," according to Citi's Rai. "If there is any letup in demand, the needle will turn toward negotiated deals," he said.

Bloomberg Markets

By Shruti Sing

August 13, 2021

— With assistance by Danielle Moran

[Fitch Ratings Updates State Revolving Fund and Muni Finance Pool Program Criteria.]

Fitch Ratings-Austin-11 August 2021: Fitch Ratings has published an update to its "State Revolving

Fund and Municipal Finance Pool Program Criteria." This report replaces the previous report of the same title last published on March 3, 2021.

The fundamentals of these criteria remain unchanged. However, on Aug. 9, 2021, Fitch published an exposure draft for its "CLOs and Corporate CDOs Rating Criteria (CDO Criteria)" that proposes a calibration update to its Portfolio Credit Model, including probability of default assumptions, confidence intervals, and correlation.

Given the relationship of these criteria to the CDO criteria, for new ratings, Fitch will utilize a modified version of its Portfolio Stress Model incorporating similar changes as those proposed in the CDO criteria exposure draft. With respect to the surveillance of existing ratings, Fitch will utilize the existing version of the Portfolio Stress Model without modification. Following the consultation period and publication of the new CDO Criteria, this SRF criteria and the Portfolio Stress Model will be updated accordingly.

Fitch does not expect any ratings changes as a result of these updates.

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Fitch: USPF Exposed to the Same Factors Pressuring the US Sovereign

Fitch Ratings-New York-12 August 2021: US Public Finance (USPF) ratings are subjected to the same macroeconomic and structural factors that underlie the Negative Outlook on the United States' Long-Term Foreign Currency Issuer Default Rating (IDR) of 'AAA' says Fitch Ratings. Most USPF ratings are not explicitly tied to the US sovereign rating, except when bond repayment depends on federal agencies or instruments. However, federal policy actions have direct and indirect ramifications for the operating environment of states, local governments, and revenue-supported entities, which over time could influence the risk profile of the sector.

The Negative Outlook on the US sovereign rating reflects ongoing risks from fiscal deficits and real interest rates to its public finances and debt trajectory. A further meaningful increase in debt could lead to a downgrade. Deterioration in governance represents a further risk, reflecting in part a lack of bipartisanship and difficulty in formulating policy and passing laws in Congress.

Although there are numerous policy and funding links between USPF issuers and the federal government, USPF issuers benefit from the significant autonomy inherent in the US federal structure. Legal and fiscal powers enshrined in the US Constitution devolve broad powers to states, most notably fiscal powers. Government frameworks below the state level follow similar patterns, with substantial fiscal powers delegated to local governments to deliver general services and to public and not-for-profit entities to fund public services through their own revenue powers.

Future actions by the US government to rein in the nation's very high debt burden by curtailing spending could directly affect USPF credits that rely on federal funding for certain programs, particularly Medicaid, housing subsidies and grants, higher education grants and student loans, and the Highway Trust Fund. USPF ratings assume sufficient flexibility to respond to reduced federal funding, although service mandates or decisions to backfill lost federal funds with own-source resources could affect operating performance over time.

Local governments bear the added risk of absorbing both federal spending cuts and state tightening that could follow a round of federal spending cuts but their typically broad budgetary tools and high reserves help offset this constraint. Lower infrastructure investment could also affect credits longer term if states, local governments and revenue-supported entities must ultimately bear the full burden for expansion or restoration of infrastructure.

Beyond funding effects, a weakening of the US government's credit quality could have wider reverberations on USPF finances. Higher interest rates would make debt issuance costlier for USPF issuers. Weaker public finances could diminish the reach and effectiveness of countercyclical actions, leaving USPF issuers vulnerable to deeper downturns and slower recoveries.

A limited number of ratings with direct links to, or dependence on, the US sovereign credit retain the Negative Outlook on their 'AAA' rating, unless there are mitigants that reduce US sovereign exposure. These ratings with US rating links are municipal housing bonds currently rated 'AAA' and secured entirely, or predominately, by Fannie Mae and Freddie Mac mortgage-backed securities and pre-refunded municipal bonds where escrowed funds deposited with a trustee to advance refund the bonds are invested in US government obligations. Ratings on the latter bonds depend on the rating assigned to those securities, which are generally US treasuries or other bonds directly guaranteed by a US federal agency.

S&P: Uncovering Local-level Risk Factors for Municipal Exposures

The Muni Landscape

Municipal securities, or "muni bonds", issued by states, cities, counties and other governmental entities in order to fund infrastructure, schools and other projects represent an extensive marketplace. As of the first quarter of 2021, there was $4 trillion in outstanding issuance, accounting for over 50,000 issuers.

Muni bonds come in two varieties: general obligation and revenue bonds. General obligation bonds are used to finance public projects that aren't linked to a particular revenue stream. Revenue bonds, by contrast, are bonds whose interest and principal are backed by the revenues of a specific project that the bonds are funding, such as toll roads and universities.

Often, revenue bonds are issued through a conduit, which is usually a government agency or government-sanctioned entity that issues debt to raise funds for large-scale projects, such as hospitals and airports, on behalf of a borrower. Conduits typically are not responsible for the payment of principle or interest for the issue(s) in question, as this falls to the borrower. In addition, conduits are often not located in the same geographic area as the projects they are funding.

The Rise of ESG Concerns are Impacting Munis Too

Environmental, social and governance (ESG) factors are taking center stage and playing an increasingly important role in the evaluation of risks associated with investments. In March of this year, for example, the European Union's Sustainable Finance Disclosure Regulation ("SFDR") came into force requiring certain asset managers and financial advisers to make ESG disclosures to potential and current investors. This new regulation also impacts large U.S. firms that market funds in Europe.

To fully understand potential ESG risks, it is imperative to know where assets are located. This applies to muni bonds, as well, but there are three major challenges here:

1. Conduit issues are assigned to the state where the conduit issuer resides, not where the actual projects are located.
2. Revenue bond issues often represent projects that are located across numerous cities, counties and even states, but are assigned to a single state at issuance.
3. Many revenue bond issuers (e.g., hospital obligated groups, gas districts and water districts) cover multiple locations, and it is important to map these multiple entities to the issuer in question in order to effectively assess ESG risks.

To address these challenges, CUSIP Global Services (CGS) partnered with ISS ESG[2] to create a location mapping solution.

Shining a Light on Municipalities to Assess Potential Risks

CUSIPs are nine-character alphanumeric security identifiers that capture the unique attributes of issuers and their financial instruments throughout the U.S. and Canada. In the muni bond market, a CUSIP is used by investors to uniquely identify and track municipal securities and link them with the underlying issuing entity. This represents approximately 1.5 million CUSIPs today.

Working with ISS ESG, CGS has created a mapping file that links the first six characters of the unique CUSIP identifier for each municipal issue with the geographic identifier (GEOID) hierarchy for the issuer, including state, county, city and school district. The GEOID is a unique geographic identifier assigned by the U.S. Census Bureau to administrative/legal and statistical geographic areas.

ISS ESG has also developed its Muni QualityScore based on socioeconomic, environmental, health and crime data, which can be accessed through a separate mapping and is updated quarterly. The GEOID-level detail enables muni bond identifiers to be paired with these ESG scores, giving market participants insight into the level of exposure their municipal securities have to certain ESG attributes.

This new capability addresses a longstanding challenge in the U.S. muni bond market, where interested parties could not easily make the link between underlying issuer and related census, socioeconomic, climate change and crime data. Through this partnership, CGS and ISS ESG are able to deliver more transparency into the muni bond market, facilitating links to data that can be used to inform risk models and values-based investment strategies.

Click here for more information on the CGS/ISS ESG solution.

Pimco Veterans Look to Shake Up 'Old School' Muni Loan Market.

- **Alpha Ledger's blockchain-based platform offers loan auctions**
- **Firm aims to move into business of public muni debt in 2022**

After breaking new ground in exchange-traded funds for Pimco more than a decade ago, Manish Dutta and Tammie Arnold have set their sights on one of the more opaque corners of municipal finance.

Their company, Alpha Ledger Technologies, is seeking to modernize the market for direct lending to municipalities through a platform based on blockchain, the technology used for verifying and recording transactions that's at the heart of Bitcoin.

The firm's system lets cities and localities auction their loans, allowing a wide group of investors — such as regional banks — to bid, potentially reducing borrowing costs on these relatively small, private financings. The other benefit is that the system provides an online account of the bids and the deal — a novelty for localities used to maintaining paper records.

It amounts to a shift from the "old-school" process of underwriting, where the decision to pick a bank and the terms of a loan can be private, said Dutta, Alpha Ledger's chief executive officer. Fifty banks have used the platform, including community, regional and national banks, he said.

"On our platform, it's an open, direct, transparent market," he said.

In July, the Poulsbo, Washington-based company, which was founded in 2019, made further inroads when California's Coachella Valley Unified School District borrowed through its platform. It was one of five loan transactions Alpha Ledger has completed this year, after two in 2020.

Banks held about $197 billion of direct loans to municipalities as of the second quarter, according to research firm Municipal Market Analytics. Alpha Ledger wants to move into the public-debt arena — which accounts for the brunt of municipal borrowing — some time in 2022.

The muni market, with annual bond and note issuance of about $400 billion, has proved to be tough to disrupt. In one example, Neighborly, a venture that tried to sell muni bonds in smaller pieces than the typical $5,000, abandoned that effort in 2019.

Dutta, who worked on technology development at Pacific Investment Management Co., co-founded the company with Christopher Wade and brought on former colleagues like Arnold and Don Suskind, who worked on ETF products at Pimco.

'Nothing But Competition'
Traditionally with municipal loans, borrowers hire advisers who seek bids from banks. Municipalities

can also approach banks directly. With direct loans, officials have found they can borrow at rates comparable to those on bonds without the fees or disclosure requirements associated with public-debt offerings.

Alan Crain, chief financial officer of Kitsap Bank in Port Orchard, Washington, said his bank joined the platform even though he knew it was “nothing but competition” in the lending market.

“My recognition was that if we don’t work with them to do this, someone else will,” he said. “I’d rather work with them and understand how to pivot our business, rather than be left out in the cold.”

Kitsap manages a portfolio of about $280 million of municipal debt including the loans, and has participated in four transactions on the platform. Crain said that he’s seen the bidding process deliver lower rates for borrowers as well as more flexible terms for them, and said it helps improve transparency around pricing.

“When banks compete, you win” as a borrower, he said.

ETFs to Blockchain

Arnold and Dutta met in 2008, when Arnold was tasked with starting Pimco’s actively managed bond ETF products, an effort that she said stretched existing technology around compliance, trading and disclosure.

For example, the money manager had to address issues with pricing of ETFs, which updates instantly because the funds trade on an exchange, while mutual funds can sort out net asset values overnight if needed, she said.

Arnold’s request for more help with technology led to her connection with Dutta. Both spent roughly two decades at Pimco. She says ETFs were instructive in how to make small transactions financially viable, given that they had to be available for investors at a much lower cost than mutual funds, for example.

That’s now relevant to Alpha Ledger’s strategy of focusing on municipal loans, which tend to be smaller. The average size of loans the company has worked on is about $3 million.

“This is an exercise in small transaction size access and economics,” said Arnold, the company’s head of business strategy.

Alpha Ledger charges what it calls a technology fee, that is fixed regardless of loan size and which the company declined to share. The company is working with municipal advisers and bond counsel as it seeks new business, Dutta said.

‘Digitizing Everything’

David Ulbricht, director of advisory services for SDAO Advisory Services, which advises Oregon-based issuers, said he researched blockchain for two years after first meeting with the company in 2019. He wanted to make sure it would be a good product for his clients, which include special districts, cities, school districts and counties.

“It’s basically digitizing everything,” he said. “You realize, OK, this is kind of where things are going.”

The platform helps banks hear about transactions — and as a result, the terms of the financings under the platform are "very, very" competitive and can cut out costs like bank counsel fees, something that ultimately benefits borrowers, Ulbricht said.

The platform also offers a debt-management tool, which appealed to Oregon's Port of Astoria, which operates an airport in Warrenton, Oregon. It obtained a $1.3 million loan through the platform in April, and plans to put its $14 million loan portfolio on the platform, said Melanie Howard, the port's accounting and business services manager.

The port typically monitored its loans on a spreadsheet, while the blockchain technology offered a way for both the port and the banks to have easily accessible details on the loans, she said.

"It ties a better relationship between the lender and borrower," she said.

Bloomberg Markets

By Amanda Albright

August 16, 2021, 10:00 AM MDT

— With assistance by Martin Z Braun

Schools Brace for More Cyberattacks After Record in 2020.

Reported hacking incidents have increased nearly fivefold since 2016. Virtual learning during the pandemic created even more access points for attackers.

Cyber criminals are targeting U.S. schools at an increasing rate after remote learning during the pandemic left them more vulnerable to hacks, and the risk shows no sign of abating as students and teachers head back to the classroom this month.

The number of publicly disclosed computer attacks on schools has exploded since 2016 to a record 408 in 2020, according to the K-12 Security Information Exchange, a nonprofit that tracks such incidents, and those figures are almost certainly an undercount because many go unreported. While schools are opening back up across the country for in-person instruction, many are expected to retain virtual learning as an option and that means more access points for potential intrusion with financial consequences for districts that are already facing increased costs to bring students back.

The growing frequency of hacks — averaging more than two per school day last year — has school officials worried about the potential for the theft of students' identities and the added cost to insure against attacks and repair breaches. In Del Rio, Texas, the district comptroller mistakenly wired more than $2 million to a hacker's account. About 170 miles (274 kilometers) away, a district in Live Oak, Texas, paid an undisclosed ransom amount to regain control of some computer platforms, and in Broward County, Florida, thousands of stolen files, including some confidential information, were published after district officials refused to pay a $40 million ransom, according to local reports.

Continue reading.

Bloomberg CityLab

By Nic Querolo and Shruti Singh

August 9, 2021, 12:06 PM MDT

[Cut in Infrastructure Money for Communities Hurt by Highways Disappoints Advocates.]

The Reconnecting Communities Initiative aimed to help cities rectify damage caused by highways built through minority neighborhoods. The bipartisan infrastructure bill cut it by 95 percent.

Shawn Dunwoody and Suzanne Mayer can remember when Democratic Sens. Kristen Gillibrand and Chuck Schumer of New York went to Rochester's Inner Loop at the end of June and emphasized the need to fund projects that reconnected neighborhoods bisected by highways.

The senators' advocacy meant the world, said Dunwoody and Mayer, who created a group called Hinge Neighbors. Their goal was to fill in the Inner Loop, a part of Interstate 490 that the federal government built after it plowed through minority neighborhoods in the 1950s, destroying hundreds of homes and businesses.

They said the words of support feel confusing now that they have seen the details of the bipartisan infrastructure bill. The Reconnecting Communities Initiative — which began as a bill written by Gillibrand and Schumer, whose offices did not respond to requests for comment — was cut from a proposed $20 billion in the American Jobs Plan to $1 billion in the recently proposed legislation.

Continue reading.

nbcnews.com

By Phil McCausland

Aug. 5, 2021

[What's In the Infrastructure Plan for Rural America?]

Here's a deep dive into the final bipartisan infrastructure deal approved by the Senate impacting those in agriculture.

The U.S. Senate's passage of the more than 2,700-page Infrastructure Investment and Jobs Act offers many important provisions that those in rural America were seeking. The bill provides $548 billion in additional spending. When combined with existing baseline infrastructure spending, total funding for infrastructure will be approximately $944 billion over five years and $1.2 trillion over eight years.

The House has already passed its own version of an infrastructure bill – the INVEST In America Act, also in H.R. 3684, which the Senate replaced with this plan. The House could take up the Senate's version, but it's unlikely given House Transportation and Infrastructure Chairman Peter DeFazio, D-Ore., concerns with missing provisions after he spent months on his own plan.

The Infrastructure Investment and Jobs Act represents a highlight reel of the Senate's bipartisan work. It includes several bills that have already won bipartisan action in the Senate, including a must-pass highway bill to extend programs set to expire this fall.

Continue reading.

farmprogress.com

Jacqui Fatka | Aug 11, 2021

What Works? Evidence and Evaluation Key as States and Localities Spend Aid.

The federal government is urging states and localities to study the results of their American Rescue Plan Act spending and to adopt programs with proven track records.

As state and local governments get started spending billions in federal recovery dollars, public officials are making bold predictions about how far the money will go to help their communities with issues like homelessness, upgrading infrastructure and job training.

But to know how well these investments are paying off, it will be necessary to have systems in place to assess whether they're meeting their goals. With this in mind, the federal government is pushing states and localities receiving American Rescue Plan Act funds to think about ways to evaluate the results of their spending, and also to pursue "evidence-based" programs.

"Evaluation lets us understand if something is working as intended, why and for who," Diana Epstein, who leads a team focused on evidence-based policymaking at the White House Office of Management and Budget, said during an online seminar the Treasury Department held this week to discuss program evaluation and other issues tied to ARPA's state and local aid funding.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

AUGUST 12, 2021

Public-Private Partnerships Promoted in Bipartisan Infrastructure Package: Nossaman

Yesterday, the Senate released legislative text for its highly anticipated bipartisan infrastructure package, titled the Infrastructure Investment and Jobs Act. Negotiations have been ongoing for months, and while several political and policy hurdles remain before this proposal can arrive on the President's desk for his signature, agreement on this bipartisan package is a hugely positive development. Project sponsors and practitioners have closely tracked the development of this package not only with respect to overall funding levels and policies but also with an eye towards specific provisions relevant to public-private partnerships ("P3s") and other alternative delivery methods. The bipartisan package includes three provisions, in particular, that will provide tremendous benefit to P3s if enacted.

First, Section 80403 would raise the cap on private activity bonds (commonly known as "PABs") for highway and surface freight transfer facilities from $15 billion to $30 billion. PABs allow private entities to benefit from tax-exempt bond treatment to finance certain public works improvements. However, the federal $15 billion allocation of highway and surface freight transfer facility PABs has been exhausted, eliminating the ability of private entities to access tax-exempt bonds for these projects. Increasing the cap from $15 billion to $30 billion would address current demand and lower the cost of private financing on future P3 projects.

Second, Section 71001 would provide $100 million in grants to project sponsors for technical assistance with P3 procurements. While this may seem a bit esoteric, it is incredibly challenging for a public agency with needs that outweigh resources to consider P3 delivery without technical support, especially if the project sponsor has never used this delivery method before. These grants would provide particular benefit to agencies with significant infrastructure needs but without the internal capacity or resources to engage experts to assist in P3 delivery.

Third, Section 70701 would require a value-for-money ("VfM") analysis for any project seeking credit assistance under the TIFIA or Railroad Rehabilitation & Improvement Financing ("RRIF") programs with estimated capital costs of $750 million or more. A VfM analysis evaluates the benefits of P3 delivery for a certain project against conventional delivery, looking across the spectrum of project costs during the lifecycle of the asset. While P3 delivery will not be the most efficient option for every project, this VfM requirement will ensure that projects receiving TIFIA and RRIF credit assistance evaluate whether P3 delivery would provide public benefit over conventional delivery.

While the future of this legislation is not yet clear, inclusion of these three provisions marks a positive step for federal P3 policy and would provide tremendous benefit to the industry if enacted.

By Shant Boyajian on 08.02.2021

Nossaman LLP

[The Senate Infrastructure Bill's Four Interconnected Broadband Components.]

In 1934, Congress mandated the newly created Federal Communications Commission (FCC) "to make available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and world-wide wire and radio communication service"—but left it largely up to the FCC and the states to figure out how to do so. In 1996, Congress expanded that universal service goal to include access to "advanced services," meaning high-speed internet, and explicitly established a goal of "affordable" services, including to "low-income consumers." There, too, Congress declined to provide appropriations to achieve those goals.

Now in 2021, Congress has done a lot more than just set goals for access to these services—it finally provided the funding to do so.

[Continue reading.]

The Brookings Institution

by Blair Levin

Friday, August 13, 2021

[House Expected to Return Early for Infrastructure Debate – MBFA Meets with Key House Office]

Next week, the House is expected to return from August Recess early for a week-long session to debate multiple infrastructure packages' processes and potential passage. **This includes the Senate passed bipartisan 1 trillion dollar infrastructure package that includes $600 billion in new money and relies heavily on PAB financing.** The Chamber also passed a budget reconciliation resolution, an outline paving the way for an additional $3.5 trillion in infrastructure spending this year. Both items are now awaiting review in the House.

In response to a group of 9 rank-and-file Democrats demanding the House pass the bipartisan infrastructure package before advancing the budget reconciliation outline, House Leadership has taken steps to pass a rule allowing for the Chamber to take up the bipartisan infrastructure bill alongside the budget outline. It seems this is the most likely path to be followed next week, however, the Rule needed to attempt this gambit has yet to be drafted or approved.

House Leadership has set a deadline of September 15th for Committee Chairs to submit legislative priorities for the budget reconciliation infrastructure package, setting up a fall debate on the $3.5 trillion package.

The BDA and MBFA continue to press for the inclusion of key muni priorities in the budget reconciliation package. Last week, the MBFA met with Senior Staff in Rep. Terri Sewell's (D-AL) office to discuss [the Congresswoman's muni package, the LIFT Act], and possible inclusion in the draft budget bill. The MBFA plans to continue meeting with key offices leading up to the introduction of legislative text promoting all muni priorities including:

- The reinstatement of tax-exempt advance refundings,
- Raise the BQ debt limit, and
- Creation of a new direct-pay bond exempt from sequestration.

The MBFA and BDA will continue to provide updates as they become available

Bond Dealers of America

August 17, 2021

[US History Shows Spending On Infrastructure Doesn't Always End Well.]

The lasting problems of infrastructure aren't of need or construction, but of overbuilding, delayed costs and the challenges of thinking ahead.

Over the past two centuries, federal, state and municipal governments across the U.S. have launched wave after wave of infrastructure projects.

They built canals to move freight in the 1830s and 1840s. Governments subsidized railroads in the mid- and late 19th century. They created local sewage and water systems in the late 19th and early 20th centuries, and then dams and irrigation systems through much of the 20th century. During World War II, massive amounts of public money were spent building and expanding ports, factories, airfields and shipyards. And after the war, highway construction – long a state and local project – became a federal endeavor.

Many of these projects did not end well. The problem wasn't that the country didn't need infrastructure – it did. And the troubles weren't the result of technical failures: By and large, Americans successfully built what they intended, and much of what they built still stands.

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governing.com

August 15, 2021 | Richard White

A PE Windfall from Infrastructure Package is No Sure Thing.

The US Senate this week passed a sweeping $1.2 trillion infrastructure bill, marking President Biden's biggest legislative victory to date. But it remains unclear if the bill will be a win for a US private equity industry that has raised hundreds of billions over the past decade to rebuild the country's roads, bridges, utilities and more.

Public-private partnerships, also known as P3s, have struggled to gain traction in the US, even as the country's infrastructure has slowly crumbled. The Senate bill, which totals some 2,700 pages, attempts to change that by directing states and municipalities to consider instituting public-private agreements. Part of the infrastructure bill requires local governments seeking federal funding for a project of over $750 million to run a cost analysis on a private partnership.

But the bill reportedly doesn't require local governments to actually create public-private partnerships. That means investors that have raised billions for infrastructure deals could be in the precarious position of having ample dry powder but few opportunities to spend.

And the bill still needs to pass a divided House of Representatives before being signed into law.

Investment is needed. The American Society of Civil Engineers gave the country's infrastructure a "C-" grade in a 2021 report card, reportedly estimating that it would cost almost $2.6 trillion to implement the necessary repairs and earn a "B" grade.

Some within the private equity industry have sounded an optimistic tone about the legislation. Adam Bernstein, a managing director at infrastructure and impact investor North Sky Capital, said the bill could open the door for more investment in electrical vehicle infrastructure, renewables and the electrical grid. And that could open the door for mega-deals.

"You're going to have to take some big swings," Bernstein explained. "And you would just have to think that a larger infrastructure fund would be able to participate in that."

Over the past decade, infrastructure fundraising has climbed, albeit in fits and starts, with the total raised peaking at more than $46 billion in 2018, according to PitchBook data.

Private equity firms have turned to infrastructure deals in part because they are often immune to the level of volatility seen by fixed income or equities, for instance. And the contracts can often last decades, providing steady returns regardless of broader market trends.

In 2017, Blackstone announced it would raise $40 billion for an infrastructure fund, with $20 billion coming from the Public Investment Fund of Saudi Arabia. But the vehicle has struggled to get off the ground. In Blackstone's fourth quarter earnings call, president Jonathan Gray said the vehicle had raised around $14 billion, well short of its original target.

Over the past few years, there's been growing angst about allowing private equity firms to dip their beaks into public works projects. In Bayonne, N.J., water bills spiked 28% after KKR invested in the city's public water systems, according to an analysis by The New York Times. Other cities including Missoula, Mont. have actually sued to buy back their water systems.

Private equity investments in public utilities haven't always gone well for the firms, either. In 2014, electricity company Energy Future Holdings filed for Chapter 11 bankruptcy protection, bogged down by more than $40 billion in debt after TPG, KKR and the private equity arm of Goldman Sachs took the company private in 2007 in a $45 billion deal.

At the time, The Wall Street Journal reported it was the eighth largest bankruptcy in the history of the US. And it's one of the most high-profile LBOs to ever fail, with the firms reportedly losing a combined $8 billion of their invested capital.

"Overall, a lot of money has been raised, and that's commensurate with the capital needs of the amount of infrastructure spending," Bernstein said. "That, of course, doesn't guarantee it'll end up being a good investment."

For local and state governments, it's not always easy to know whether or not to partner with PE. Governments often tap the $4 trillion municipal bond market for financing. This allows them to keep more of the profits from massive infrastructure projects to themselves, but they are then responsible for any cost overruns.

For North Sky, Bernstein sees an opportunity to pour more capital into lower-middle-market infrastructure projects, with investments ranging between $15 million and $20 million and on a shorter timeline than the typical private equity holding period, which can extend up to seven years.

"Where we see the opportunity is to really partner with those smaller counties [and] cities that may not necessarily need 100 MW solar or wind farms or electricity, but may need to refurbish a recycling facility, or a water treatment plant, or a smaller, renewable electricity facility," he said. "And those are the kinds of transactions that aren't going to get attention from some of the larger players."

Yahoo Finance

August 14, 2021

Understanding the Infrastructure Bills.

What's in them and what could happen next

By a vote of 69 to 30, including 19 Republicans and all 50 Democrats, the U.S. Senate passed a $1.2 trillion infrastructure package, known as the Infrastructure Investment and Jobs Act, on Tues., Aug. 10, 2021.1 Following passage, the proposed legislation was sent to the House of Representatives where further adjustments are expected. Should the bill pass, the House and Senate will need to consolidate their respective versions for a final bill to go to President Biden for his signature.

Tuesday's bill is one of two pieces of infrastructure legislation under consideration in the Senate. In addition to the $1.2 trillion bipartisan bill, a second $3.5 trillion Democratic proposal is in play.

On Aug. 9, Senate Majority Leader Chuck Schumer addressed this second bill in a letter to colleagues saying, "I will immediately move to the FY2022 Budget Resolution with reconciliation instructions."2 Reconciliation means the $3.5 trillion bill could pass the Senate by a simple majority vote avoiding the risk of a filibuster. And some House progressives had said they would not support the bipartisan plan unless the Senate moved quickly on the second bill.

Continue reading.

INVESTOPEDIA

By JIM PROBASCO Updated Aug 11, 2021

The Rise of Sustainable Bonds for Affordable Housing.

The pandemic worsened the U.S. affordable-housing crisis. Increasingly, public and private entities are tapping the bond market to finance development.

The shortage of affordable housing has long plagued low-income families in the U.S., and racial inequity is one significant factor that's contributed to the crisis. Minority groups, especially Blacks and Hispanics, suffer higher rates of housing insecurity due to homeownership discrimination—particularly in the mortgage application process—which leaves them disproportionately exposed to the increasingly unaffordable rental market, according to a recent Morgan Stanley Research report.1

The affordable housing deficit has only worsened since the pandemic. The country now lacks as many as 6.8 million homes for households with income at or below the poverty guideline, or 30% of the local median income. That's nearly double the 3.6 million shortfall in 2019, according to a recent report from the National Low Income Housing Coalition.2

"The housing affordability crisis in the U.S. has grown acute over the years, and only became more so during the pandemic, amid the spike in unemployment and homelessness," says Joan Tally, Managing Director in Morgan Stanley's Community Development Finance, which helps the firm meet obligations to lend, invest in and provide services to low- and moderate-income communities.

The long-term solution entails an obvious, if costly, solution: Build more affordable housing. One increasingly promising model of financing taps into the growing investor appetite for sustainable bonds, especially those that target projects tied to social equality. That's prompted more issuers of this debt to enter the market, including state housing finance agencies, community development financial institutions (CDFIs), affordable-housing developers and corporations.

DEMAND FOR AFFORDABLE-HOUSING BONDSThe focus on racial and economic justice during the pandemic has elevated social bonds and sustainability bonds in this space. Traditionally, allocators financed affordable housing projects through green bonds tailored to deliver positive environmental impact through LEED certification or energy-saving infrastructure to combat climate change.

Now, affordable housing is also included in social and sustainability bonds. In 2020, green, social and sustainability bonds raised more than $600 billion from investors, nearly double the $326 billion issued in 2019; the majority of growth came from an increase in social and sustainability bonds.3 In particular, robust demand came from investors who prioritized financing for social inequities exacerbated by COVID-19, such as decreased nonprofit funding, falling health-care system revenues and unequal access to resources and opportunities.

“Affordable-housing finance has been an important part of the ‘E’ in ESG—environmental, social and governance—investing for more than 15 years,” says Geoff Proulx, Managing Director and Co-Head of the Affordable Housing and Community Development Group in the Public Finance Banking Group within the Fixed Income Division at Morgan Stanley. “Now the ‘S’ is emerging as a driver of demand for those interested in investing in affordable housing.”

NEW ISSUERS IN THE SUSTAINABLE BOND MARKETSome nontraditional organizations also have started to tap capital markets to fund affordable housing. CDFIs, Treasury-certified private financial institutions, are increasingly turning to the bond market to raise money for affordable-housing projects, according to Grace Chionuma, Executive Director and Co-Head of the Public Finance Affordable Housing and Community Development Group.

Only in recent years have CDFIs issued bonds to access longer-term capital. In 2017, Local Initiatives Support Corp. issued the first-ever CDFI bond—a $100 million offering underwritten by Morgan Stanley to help fuel new businesses, jobs and large-scale redevelopment efforts. Since then, Morgan Stanley has underwritten four other bond offerings for CDFIs, totaling $332 million, as investors sought new and additional forms of sustainable investing, Chionuma says.

Other entities continue to broaden the sustainability bond market. In December, Morgan Stanley underwrote the first taxable social bond by BRIDGE Housing, a nonprofit affordable-housing developer that builds, owns and manages properties in high-cost, high-density areas on the West Coast, including San Francisco, San Diego, Los Angeles, Seattle and Portland. The proceeds of that $100 million issue will go toward developing and acquiring multifamily affordable housing, transit-oriented development, green building and energy efficiency.4

“Demand is extreme for this type of housing in areas that have average median incomes at these levels,” says Chionuma, and the goal is to help facilitate more capital to additional nonprofit affordable-housing developers like BRIDGE Housing. “Given the maturity of the sector, with the right execution, we’ll be able to enable more capital flow from public markets into these projects,” she says.

HOMEOWNER LENDING AND SINGLE-FAMILY HOUSINGSocial bonds are also starting to fund homeownership programs that extend affordable loans to first-time homebuyers, says Proulx, with many programs devoting a significant portion of lending specifically to minority homeowners. Examples of housing finance agencies that aim to help mitigate the racial homeownership gap include the Massachusetts Housing Finance Agency, Florida Housing Finance Corp. and Rhode Island’s RIHousing, he says.

In the past year, Morgan Stanley has facilitated inaugural bonds to finance single-family affordable housing by underwriting social bonds for agencies in several states, including Iowa, Florida, Massachusetts, Rhode Island and New York, Proulx says. A recent example is the Massachusetts Housing Finance Agency’s first-ever social bond, which Morgan Stanley underwrote in December. Proceeds will fund new mortgages, including down-payment assistance loans to first-time homebuyers for owner-occupied, single-family affordable housing for low- and moderate-income households throughout the state.

MORE CORPORATES ISSUE AFFORDABLE-HOUSING BONDSCompanies have also issued affordable-housing bonds in response to growing investor demand, according to Cristina Lacaci, Morgan Stanley's Head of ESG Structuring in Global Capital Markets. "Investor desire, especially from younger generations, is driving the growth of sustainable investing in both mainstream funds and sustainability funds," she says.

One recent example: last August, Alphabet issued a $10 billion offering, underwritten by Morgan Stanley, that included $5.75 billion of sustainability bonds, the largest-ever corporate sustainable financing deal. A portion of the proceeds from the sustainability bonds will finance the repurposing of land owned by Alphabet to develop affordable housing across the Bay Area.

And Morgan Stanley offered its own inaugural $1 billion social bond in October to finance housing at affordable rates for low- or moderate-income individuals or families. Proceeds will support a range of affordable housing developments across the U.S., including a project for homeless veterans in Washington, D.C., and the construction of new affordable homes close to high quality public transit in South Salt Lake, Utah.

"As the recovery from the pandemic continues, our clients and our firm have a unique opportunity to address issues of systemic injustice through the capital markets," says Audrey Choi, Morgan Stanley's Chief Sustainability Officer. "Morgan Stanley is excited about our ability to both underwrite and issue innovative financial solutions like social bonds that continue to gain traction with investors demanding to address societal challenges by providing capital that makes a positive impact on a large scale."

Morgan Stanley's social bond is one of the most recent examples of the firm's decade-long leadership in sustainable finance, which includes the establishment in 2013 of the Institute for Sustainable Investing, which accelerates the mainstream adoption of sustainable investing. That same year, Morgan Stanley helped support the first corporate green bond and, in 2017, priced the first public market bond deal for a CDFI to help advance economic opportunity in underserved neighborhoods in the U.S.

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1 American Community Survey (ACS), Home Mortgage Disclosure Act (HMDA), Morgan Stanley Research.

2 https://reports.nlihc.org/sites/default/files/gap/Gap-Report_2019.pdf

3 https://www.environmental-finance.com/assets/files/research/sustainable-bonds-insight-2021.pdf

4 https://bridgehousing.com/press_releases/bridge-housing-issues-100m-in-serie--2020-sustainability-bonds/

Morgan Stanley

August 10, 2021,

Second Half Tailwinds for Municipal Bonds.

After a strong start to 2021, more tailwinds could keep the momentum going for municipal bonds and the Vanguard Tax-Exempt Bond ETF (VTEB).

The expectation of higher taxes next year could spur a flight to municipal bonds in the second half of 2021. Thus far, the threat of inflation and potentially higher rates hasn't turned investors away from municipal bond products.

"During the first half of the year, municipal bonds (munis) shrugged off the rise in long-term U.S. interest rates and crushed their taxable counterparts," an Advisor Perspectives article noted. "Expectations for higher taxes in 2022 that could be included in a potential stimulus package have kept demand high, while muni net supply was constrained the last few months."

As the stock market continues to flux up and down on Covid news, municipal bonds can provide some level of stability. Municipal bonds are traditionally less volatile than their corporate bond counterparts.

VTEB tracks the Standard & Poor's National AMT-Free Municipal Bond Index, which measures the performance of the investment-grade segment of the U.S. municipal bond market. MUB seeks to track the investment results of the S&P National AMT-Free Municipal Bond Index, which also measures the performance of the investment-grade segment of the U.S. municipal bond market.

The sampling approach means that both funds hold a subset of bonds within the index to replicate the debt's yield, duration, and credit quality. This method allows the funds to avoid trading expensive bonds that could harm performance. It also minimizes tracking errors.

Continued Strength for Munis

Passage of the trillion-dollar infrastructure could also give municipal bonds a boost. Local government infrastructure projects are typically funded by municipal bonds.

"The driving force for the rest of the year should continue to be technical demand, driven largely by the U.S. government's fiscal plan," the Advisor Perspectives article said further. "Barring a total derailment of the infrastructure and social-stimulus packages, we can expect this demand to stay high and muni yields to remain tight to Treasuries, with returns approximating muni market yields. Any strong selloff in munis is likely to quickly snap back as investors jump in to capture value."

ETFTRENDS.COM

by BEN HERNANDEZ

AUGUST 9, 2021

Munis In Focus: Jobs, Plane Hangars, Field Of Dreams (Bloomberg Radio)

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

Listen to audio.

Bloomberg Radio

August 13, 2021

Big Banks' Big 2Q; Solar Heats Up; Tax Exempts Roar (Podcast)

In this week's broadcast featuring Bloomberg Intelligence analysts and their research, Alison Williams assesses the state of big bank equities trading and M&A fees, Rob Barnett breaks down the pace of solar capacity additions this year and Eric Kazatsky discusses the hot run by tax-exempt municipal bonds. Michael Halen digs into casual dining's recovery from the pandemic and Kevin Ryan explains how insurers may benefit from the cyberthreats exposed by Covid-19.

Hosts: Alix Steel and Paul Sweeney. Producer: Tim Herro.

The BI Radio show podcasts through Apple's iTunes, Spotify and Luminary. It broadcasts on Saturdays and Sundays at noon on Bloomberg's flagship station WBBR (1130 AM) in New York, 106.1 FM/1330 AM in Boston, 99.1 FM in Washington, 960 AM in the San Francisco area, channel 119 on SiriusXM, www.bloombergradio.com, and iPhone and Android mobile apps.

Bloomberg Intelligence, the research arm of Bloomberg L.P., provides in-depth analysis and data on more than 2,000 companies and 130 industries. On the Bloomberg terminal, run BI .

Listen to audio.

Bloomberg

August 6, 2021

ESG Related ETF Filings Flourish.

The summer has seen a wave of ESG-related filings, with the focuses ranging from traditional environmental, social and governance (ESG) to political affiliations to alternative energy to female empowerment.

Roughly 100 new filings were made for ETFs or ETF families since the end of May, and at least 25 of those have an ESG element.

Climate Change Funds Emerging

The largest group of these funds are focused on climate change and carbon emissions, with the most notable being FlexShares' family of five "ESG & Climate" ETFs covering various core asset classes and tracking in-house indexes. That family includes the following funds:

Continue reading.

etf.com

by Heather Bell

August 16, 2021

Municipal Bonds Are Still a Solid Summer Bet for Retirees.

Municipal bond yields aren't exactly thrilling these days, but the asset class remains an important income-generator and risk-reducer for investors in retirement.

While yields are broadly low today in the municipal bond space, there are some positive points for retirement investors to consider, and the asset class is proving sturdy even as the delta variant of the coronavirus vexes investors.

"Municipals maintained their seasonal trend and posted strong performance throughout the month of July. The market benefited from a favorable supply-demand backdrop and rallying interest rates due to excess liquidity, short covering, and Delta variant fears," according to BlackRock research.

More recently, longer duration munis and those with lower credit ratings delivered upside for investors as muni market participants sought to embrace credit and duration risk. A recent decline in supply could be another factor supporting municipal bonds.

"Supply moderated from the robust levels experienced in June and trended more in line with historical expectations. Issuance of $35 billion was down -26% month-over-month but just 5% above the 5-year average, bringing the year-to-date total to $255 billion," notes BlackRock.

While yields are low within the broader municipal bond universe, investors are still displaying enthusiasm for this form of debt, with flows to related funds, including exchange traded funds, poised to hit records this year.

"Demand remained firm with the asset class garnering continued inflows. While fund flows slowed slightly into month end amid lower absolute yields, 2021 remains on pace to eclipse 2019 as the best fund flow year on record," continues BlackRock.

The asset manager recommends underweighting munis tied to "speculative projects with weak sponsorship, unproven technology, or unsound feasibility studies," as well as senior and assisted living facilities in markets that already have plenty of those establishments. However, BlackRock is bullish on munis issued by states in strong fiscal positions as well as munis issued by cities and school boards with robust property tax bases. The fund issuer also likes some high-yield munis.

ETF TRENDS

TOM LYDON | AUGUST 16, 2021

Strategies to Deal with Potential Capital Gains Tax Increases.

President Biden's proposal to raise taxes on capital gains has many investors concerned. But before you make any rash decisions with your own portfolio, it's important to understand whether you'll be among those affected — because not everyone will be — and if so, what steps you can take to help minimize the impact.

In addition, if you own investments you're looking to leave to your heirs, you should also be aware of a possible change in estate tax treatment that could mean a higher tax bill for your loved ones that could be somewhat avoidable if you take action.

Managing Your Capital Gains Taxes

Before digging into the possible changes, it may be helpful to recap what capital gains taxes are. Capital gains taxes simply are taxes levied on profits from selling an investment. So, if you buy $10,000 in stock and sell those shares five years later for $20,000, you will likely owe taxes on your $10,000 capital gain, unless the investment is held in a tax-deferred account, such as a 401(k) or an IRA.

Under President Biden's proposal, the highest tax rate for capital gains would increase to 39.6%, up from a top rate of 20% currently. But because the higher tax rate as proposed would only impact investors earning more than $1 million a year, most people wouldn't be affected. Also, it's important to note that the proposed changes may evolve as they move through the legislative process.

Still, if you would be impacted by this change, or are just looking to reduce your potential capital gains tax exposure, consider these actions:

- **Invest in municipal bonds.** These are generally exempt from federal income tax, and they are also exempt from state income taxes if the bond issuer is from the investor's home state, making them appealing to investors in high-tax states. Still, be sure to also consider out-of-state municipal bonds, which provide portfolio diversification and can provide higher after-tax yields.
- **Max out what you contribute to your tax-deferred retirement accounts**, including your 401(k) and IRAs. Any capital gains you earn from investments in these accounts will be tax-deferred until you begin withdrawing the funds in retirement.
- **Utilize tax-loss harvesting to help lessen the tax bite from capital gains.** Under this strategy, you can sell an investment that's fallen in value and use that loss to reduce any taxable gains. If you'd like, you can then reinvest your proceeds into a similar type of investment to maintain your asset allocation but beware of the Wash Sale Rule if you reinvest within 30 days of the sale because the loss may be disallowed. Note that only $3,000 of capital losses can be used to offset ordinary income over and above offsetting any capital gains in the same tax year –any remaining losses can be carried forward to any future tax year, indefinitely, until exhausted. So, for example, if you sell a stock that's declined in value by $20,000, that loss can reduce a $10,000 capital gain to $0 and help lessen your overall tax burden. In addition, $3,000 of unused capital losses can be used to offset your ordinary income. Finally, the remaining $7,000 in unused losses can be carried forward and used to offset future taxable gains and up to $3,000 in ordinary income.
- **Consider investing in separately managed accounts** (SMAs) as an alternative to mutual funds. Fund investors are often surprised to receive taxable gains statements at the end of the year, even when they didn't sell any shares of the funds. SMAs do not have embedded capital gains, unlike mutual funds. And because an investor who invests in an SMA owns the portfolio's securities directly, they can take advantage of tax-loss harvesting.

Managing the Potential Elimination of Step-Up in Basis for Inherited Assets

Another potentially important change to be aware of is the proposed elimination of the step-up in basis for inherited assets. Currently, the step-up provision means that the cost basis of the inherited asset is adjusted (stepped-up) to reflect the fair market value of the asset at the time of the owner's death. For example, if you inherited shares worth $100,000 from a deceased loved one and then sold those assets, you wouldn't owe capital gains on that sale, even if the stock appreciated in value from an original purchase price of say $10,000.

Under President Biden's proposal, when someone passes away, their death would trigger capital gains taxes on appreciated assets for their heirs, either at the time of death or when their heirs sell the assets. So, as with the previous example, if you inherited shares worth $100,000 that had been purchased for $10,000, you'd owe capital gains on the $90,000 worth of appreciation.

Buy-and-hold investors who own assets that have appreciated considerably in value may want to speak with an attorney or tax adviser to shrink the size of their estate. You may simply choose to realize the gains at the current lower capital gains tax rates and re-establish the basis by purchasing the same security again if the goal is to continue to hold the investments and pass them to your heirs. When repurchasing the security, be careful of the wash-sale rule, which may affect your ability to claim a deduction if you sold at a loss.

In addition, possible strategies you may want to consider include:

Annual gifting of assets to heirs. You can give up to $15,000 per person during the year without having to pay any tax, and if you are married, your spouse also can give $15,000 to the same person, for a total of $30,000 per beneficiary per year.

- Donating appreciated assets to charity.
- Placing assets into a trust.
- Purchasing a life insurance policy. The funds from a life insurance policy can help replace the loss of funds from an estate due to estate taxes or capital gains if the step-up in basis is eliminated.

Note that you should discuss your particular situation with a trusted accountant or tax adviser.

Revisit Your Plan with Your Financial Adviser

Tax laws are always evolving, and what's proposed is often not the same as what becomes law. It's important to add that these are proposals made by the administration, but also need to be passed by Congress. Regardless of what happens with taxes, consider meeting with your financial adviser. The past year has brought many developments, and it's worth revisiting your overall plan in light of any changes COVID-19, a new administration or your personal situation may mean to your financial plan.

Yahoo Finance

Chuck Cavanaugh, Head of Wealth Planning

Sun, August 15, 2021

The HYD ETF: Elevate Your Municipal Bond Income

Yields are low across the fixed income spectrum and municipal bonds aren't being spared. The positive is that bond prices are appreciating, but when yields get too low, investors are often compelled to embrace riskier fixed income assets.

Investors looking for high yields with some protection and tax benefits in the municipal bond universe have a friend in the VanEck Vectors High Yield Muni ETF (HYD). HYD, which tracks the Bloomberg Barclays Municipal Custom High Yield Composite Index, sports a 30-day SEC yield of 2.17%. That's not the high yield investors are accustomed to with junk-rated corporates, but it's well in excess of standard muni benchmarks.

HYD isn't just about yield. More speculative munis are outperforming their investment-grade counterparts, and improving state finances support the case for this asset class.

Continue reading.

etftrends.com

by TOM LYDON

AUGUST 10, 2021

BDA Fixed Income Insights Digital Magazine – Summer 2021

The BDA's quarterly digital magazine, Fixed Income Insights, is now available right here by clicking here.

It can also be viewed on the new BDA app, which can be downloaded in the Apple store, Google play store, and Amazon app store.

This month's edition contains articles by the industry's top contributors and relevant topics:

- **Cover Story** – A conversation with US Senator Roger Wicker (R-MS) on Infrastructure and Municipal Bonds
- **Municipal Markets** – Articles from DPC Data and Hilltop Securities
- **Taxable Markets** – Kevin McPartland of Greenwich Associates
- **BDA Member Profile** – Ted Karn, President and Founder of The Karn Group

If you are unable to access the online version, a pdf can be found here.

If you have any questions or about the magazine or the new app, please contact Rebecca Rodriguez at rcrodriguez@bdamerica.org

Bond Dealers of America

August 6, 2021

A Municipal Finance Tool to Avert Another Deadly Condo Collapse.

Local governments could turn to special assessment districts to cost-effectively assure safety improvements, bypassing occupants' foot-dragging and dysfunctional homeowners' associations.

Experts have yet to determine the precise causes of the June 24 collapse of a Surfside, Fla., condominium tower in which 98 residents died. But policymakers don't need to wait for engineering reports to tell us what is painfully obvious: Condo ownership associations and their volunteer boards are ill-equipped to tackle serious safety deficiencies in high-rise buildings. Of the 160,000 condominium buildings in the U.S., tens of thousands are precariously underfunded.

The public finance profession has long understood the "tragedy of the commons," in which everybody enjoys the benefits of community property but their self-interested collective neglect leads to its demise. In the Surfside property, the homeowners' association had been delivered a clear warning that structural defects were mounting and collective remedial action was required. Yet the building's HOA board became so frustrated with securing unit owners' consent that many of its members resigned, and costs kept mounting. A problem that might have been solved a few years ago expanded — "exponentially," in the words of an inspector — to the point of no return. The Champlain Towers South disaster goes down as one of American history's most horrific and insightful examples of the tragedy of the commons.

Finger-pointing and blame-laying will go on for months, and undoubtedly there will be new laws to require more frequent safety inspections. But where local governments also need to focus their policy reforms is on the remediation process itself, to provide a cost-effective mandatory protocol for timely funding of structural repairs in isolated cases when private ownership fails.

Anybody who's lived in a residential community with HOA fees knows how much carping goes on over dues assessments to advance-fund repairs and replacements of common facilities. "Why should we pay now for benefits that will be enjoyed by future owners?" is the all-too-familiar complaint of the tightwads and procrastinators. Even if an HOA is able to borrow money for necessary repairs and bill the owners through installments, there will be defaults and delinquencies. In the Champlain Towers case, the cost per unit for remediation was estimated to be six figures, a staggering cost for some occupants. Would you want to serve on an HOA board facing such opposition and likely litigation from all ends?

A SAD Opportunity

Fortunately, there is a legal and financial tool that can be adapted to solve the problem of the tragedy of the condominium commons: special assessment districts. In California, they are known as Mello-Roos districts, and most states have laws on the books that authorize municipalities to levy a special charge on properties for a wide variety of public improvements that benefit the owners within a designated district, or in some cases even a single building. The bill can be per owner or (in some states) ad valorem based on property values. The municipality that establishes such SADs, as they are known, can take out bank loans or sell bonds, often at lower tax-exempt interest rates, to finance the improvements that are secured by the liens on the properties. In the case of condos, the special financing bonds would have to be secured by a senior tax lien on the underlying land, and in some states, new laws may be needed for single-building districts.

Few condo boards can ever hope to attain long-term financing at such low costs. Most importantly, the SAD tax collections are liens on property and payable by installments so that owners don't have to cough up the full cost of repairs immediately. When a unit is sold, some states and escrow companies require that the entire assessment be paid off to remove the lien, and the new owner essentially absorbs that cost in the mortgage. But however they are structured, SADs can accomplish what HOAs sometimes cannot.

Of course there are drawbacks. For municipal finance departments and property tax collectors, administering these special districts poses a thankless task. Most assessment districts are relatively small and clutter the books, so many localities charge modest administrative fees to compensate for the staff work they require. Unless consolidated into an annual debt issue, the litter of small individual SAD debt issues can become a fiscal management nuisance — but nothing in comparison with the resources demanded of a municipality that suffers a building collapse. It's important to retain perspective here and put safety before bureaucracy.

When Lives Are at Risk

This brings us to the implementation process, which will require thoughtful policy design. In some localities, existing laws and policies may require tweaking. One example is how timely intervention could be triggered proactively by the municipal governing body, either upon recommendation of the building inspection department or the HOA board. Usually such municipal actions require a public hearing, but the authority ultimately resides with the municipal governing body. Typically the project work is performed by the local government by contract, which raises questions about eminent domain, indemnification, property access and possibly [private activity bond tax rules]() that may require updated laws and local policies.

Those laws and policies should establish criteria for declaring a demonstrable and documented public safety interest in mandatory improvements to a privately owned building. Doing this [without stigmatizing the property]() is an issue to address. By state law, an intervening local government should be indemnified, given the legal jeopardy and certified structural risks. Statutory or written criteria could provide a checklist for local officials to follow before instigating public intervention.

Perhaps every new high-rise building's land-use permit and periodic recertification should require creation of a dormant special assessment district that can be activated and invoked immediately upon certification of major structural remediation requirements. If time allows and depending on the severity of defects and risks, the HOA could be given a short grace period to undertake repairs on its own. But the community interest should not be hamstrung by time-wasting protocols or stalling tactics, especially when lives are at risk. In some cases, precautionary evacuations may be necessary, with temporary housing allowances added to an owner's amortized project assessment.

This financial tool is no panacea, and should be used only in rare cases. But its availability will provide a safety net. Municipal attorneys, along with policy and professional organizations, can guide the way for precautionary enabling legislation and local risk management policies.

governing.com

August 3, 2021 • Girard Miller

[Quick Thoughts: Are You Pricing in Water Risk?]()

Our Chief Market Strategist, Stephen Dover, believes that water risk is global now—devastating floods, unseasonal hurricanes, droughts, megafires, and more demonstrate this. The economic implications of risks related to water are significant and should be considered when investing.

Devastating floods, unseasonal hurricanes, excessive droughts, megafires, and more demonstrate how extreme water risk is global now. From an investor's perspective, the economic implications of risks related to water are significant and should be a consideration when investing.

- By 2030, the global population will likely exceed nine billion and the world will require 40% more fresh water than it does today.1 The global supply of accessible freshwater accounts for less than 1% of water supplies.
- In my view, risks associated with water affect economic policies, constrain economic growth, and should be incorporated along with other climate-related market risks. Critical investments in water purification, reuse, efficiency, and delivery infrastructure are required on a global scale and could provide opportunity to investors.
- The projected declines in freshwater availability will likely affect gross-domestic-product (GDP) growth, present wide-ranging risks for investors across all asset classes, and encompass a broad

range of sectors, from those with logical connections, like agriculture and utilities, to those that may not be so apparent, like packaging and semiconductors.
- Communities and companies must consider how to plan for and mitigate water risk. Companies that lack a full understanding of water risk, lag in disclosing water risk, or postpone adjustments to regulatory reforms, present long-term risks for both the communities and investors that invest in those companies.
- Infrastructure investment opportunities may be found globally as governments and municipalities prioritize managing water risk. China's Maritime Silk Road and Russia's Ice Silk Road expand their water infrastructure. The US bipartisan infrastructure proposals include investment in sewage systems, water supplies, and replacing lead pipes.

There are also opportunities in identifying companies that can provide solutions to deal with water scarcity, water sanitation, and water efficiency. Water impacts the day-to-day operations of companies and how they think through their business models. For details on water risk and investing, read "Water Disruption: Investment Risk From Multiple Angles," a 2020 research epitome from Franklin Templeton and K2 Advisors. In "Muni Market View on the American Jobs Plan," Jennifer Johnston, Director of Research, Franklin Templeton Municipal Bonds, discusses how infrastructure funding could filter through the US municipal bond market.

What Are the Risks?

All investments involve risk, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Special risks are associated with foreign investing, including currency fluctuations, economic instability and political developments; investments in emerging markets involve heightened risks related to the same factors. To the extent a strategy focuses on particular countries, regions, industries, sectors or types of investment from time to time, it may be subject to greater risks of adverse developments in such areas of focus than a strategy that invests in a wider variety of countries, regions, industries, sectors or investments.

China may be subject to considerable degrees of economic, political and social instability. Investments in securities of Chinese issuers involve risks that are specific to China, including certain legal, regulatory, political and economic risks.

Important Legal Information

The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized. The value of investments and the income from them can go down as well as up and you may not get back the full amount that you invested. Past performance is not necessarily indicative nor a guarantee of future performance. All investments involve risks, including possible loss of principal.

by Stephen Dover of Franklin Templeton, 8/5/21

Fitch: U.S. Labor Market Job Loss Mismatch to Persist Through 2022

Fitch Ratings-New York-04 August 2021: Employment recovery is far from complete and largely unequal, with a new Fitch Ratings report pointing to how the pandemic is disproportionately hitting relatively lower-wage service jobs where human interaction is essential.

There are early signs of this labor market mismatch in some states. For instance, while the labor market is very tight in Vermont and New Hampshire, the labor market is showing more slack in Hawaii, California and New York. Relatively low wage service jobs in the leisure and hospitality sector are accounting for a disproportionate share of these job losses, a disconnect that will likely remain in place at least through the end of next year.

“It would be hard to design a labor market shock that more drastically targeted low-wage workers. We’re seeing widening of existing inequalities and a rise in the risk of long-term labor force detachment and economic scarring in the most affected states,” said Fitch Senior Director Olu Sonola. ‘The segment of the population that has been unemployed for an extended period of time is most at risk for the impending government support cliff.’

This mismatch shines more of a light on the employment to population ratio (EPR), which Fitch views as a more holistic measure of disequilibrium than the unemployment rate because it combines the impact of both labor force participation and unemployment. South Dakota, Kansas and Mississippi are the only states that are now back to pre-pandemic EPR levels. However, despite significant recovery, Mississippi, West Virginia and New Mexico have the lowest three EPR levels. This suggests that that the long-term economic growth trajectory of these states will likely continue to be slower, relative to other states, absent offsetting productivity gains. ‘U.S. States Labor Market: Disparities in Pandemic Job Losses to Persist Beyond 2022’ is available at ‘www.fitchratings.com’.

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Fitch: Coronavirus Aftershock to Widen Ratings Divide for U.S. NFP Hospitals

Fitch Ratings-Austin-03 August 2021: U.S. vaccination efforts have placed early coronavirus fears in the rear-view mirror, though Fitch Ratings' latest median report for the sector says operational stress will still likely be felt by healthcare providers for the foreseeable future, and there is looming concern over the rise of the Delta variant.

Medians were mixed for U.S. not-for-profit hospitals and health systems amidst the fallout of the global pandemic, yet proved the sector's resiliency. That said, expenses are still quite high for NFP hospitals. "Capital spending post-pandemic will increase slightly seeing as organizations necessarily curtailed capex during the height of the pandemic," said Fitch Senior Director Kevin Holloran. "Higher expenses are likely here to stay, as is an emerging credit split between stronger and weaker hospitals, which could spur more M&A and expansion activity."

"That said, hospital finances would have taken a more serious drubbing were it not for stimulus relief and re-bounding elective procedural volumes," said Holloran.

2021 median operating margins and operating EBITDA decreased incrementally to 1.5% and 7.3%, respectively, from 2.3% and 8.7% in the prior year. Yet days cash on hand improved to 241.4 days, compared with 219.8 in the prior year.

The 2021 medians largely reflect the direct coronavirus shock to hospitals and health systems. "Health organizations continue to be hampered by traditional fee-for-service reimbursement due to their experience during the coronavirus pandemic, which resulted in "no services and no fees," said Holloran.

Fitch's '2021 Median Ratios: Not-for-Profit Hospitals and Healthcare Systems' is available at 'www.fitchratings.com'.

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Fitch: ESG-Labelled Debt Can Address Climate Funding Gap in Infrastructure

Fitch Ratings-Hong Kong/New York-02 August 2021: Issuance of green infrastructure and project finance bonds is expected to rise as more governments adopt a net-zero carbon emission target by 2050, says Fitch Ratings in a new report. This will be supported by strong investor demand for ESG-labelled bonds. We believe the bulk of financing required to address climate transition and adaptation will be allocated to sustainable infrastructure assets, such as renewable energy, and to upgrade existing assets to function in a 2°C temperature increase scenario.

The achievement of net-zero emissions by 2050 will require a plunge in fossil-fuel consumption. This will affect infrastructure associated in the production, transport and use of fossil fuels and could constrain medium- to long-term profitability and capital access for infrastructure asset owners. Fitch considers oil production and refining, liquids transportation, oilfield services and coal-fired power generation to be highly vulnerable to climate-related financial risk.

Climate change mitigation could require investment upwards of USD13 trillion by 2030, but the International Energy Agency estimates that current investment levels are one-third of that required. Infrastructure also faces adaptation costs for the physical risks caused by climate change. Changes in precipitation, temperature, sea levels and more extreme weather events can affect the operation and performance of infrastructure assets. Roads, railways, airports, seaports as well as coastal and urban infrastructure are among the most exposed sectors.

There has been consistent demand for high-quality green bonds in recent years. Green project finance bonds can limit an investor's exposure to non-green activities compared with green corporate bonds, where the issuer may have carbon-intensive operations outside of the bond's specific use of proceeds. As banks increasingly impose negative screening policies on fossil-fuel related activities, reallocation of capital towards sustainable investments can meet requirements under new climate-focused financial regulations.

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Bipartisan Infrastructure Package Set to Pass Senate – Bill Includes Expansion of PABs

By tomorrow, the Senate bipartisan infrastructure bill is expected to pass the Senate, setting up a September fight to get the package through the House prior to the Highway Trustfund running out of funding on September 30th. While the American Infrastructure Bond amendment did not receive a vote during the prolonged debate, the package includes multiple bond financing provisions that expand the usage of PABs, including:

- The Rural Broadband Financing Flexibility Act (S.1676) is the template for adding broadband as an allowable use for private activity bonds (PABs). This would allow states to issue PABs to finance broadband deployment, specifically for projects in rural areas where a majority of households do not have access to broadband.
- Carbon Capture Improvement Act (S. 1829) allows carbon capture and direct air capture (DAC) technologies to be eligible for PAB financing. Private activity bond financing encourages commercial deployment, which is essential for bringing costs down and developing these technologies to scale. **These bonds would be outside the volume cap.**
- The bill increases the current cap of tax-exempt highway or surface freight transfer facility bonds from $15 billion to $30 billion as proposed by the bipartisan BUILD Act (S.881). Currently, $14,989,529,000 billion of the $15 billion caps has been issued or allocated. Increasing the cap will allow state and local governments to enter into additional public-private partnerships to supplement future surface transportation projects with private investment.

Budget Reconciliation–Additional Opportunities for Munis

Later today Senate Budget Chairman Bernie Sanders (I-VT) is expected to release the $3.5 trillion dollar budget outline, setting up the next infrastructure fight for later this fall in the House. The Senate is expected to pass the bare budget outline this week prior to adjuring for August recess, without policy detail included. This package will provide additional opportunities for the passage of key muni priorities.

The MBFA and BDA have learned through conversations with senior Administration staff and key Capitol Hill contacts that muni provisions remain a priority for Congressional tax writers as Democrats eye the next spending opportunity this fall.

These muni provisions under consideration include:

- The restoration of tax-exempt advance refundings;
- Raising the BQ limit; and
- The direct-pay American Infrastructure Bond.

The MBFA and BDA will continue to provide updates as they become available.

Bond Dealers of America

August 9, 2021

What Is in the New Bipartisan Infrastructure Bill?

State and local governments are set to receive billions if the legislation passes, including funding to support cybersecurity, broadband, transit, roads, water and more. Here are the details.

A bipartisan infrastructure bill now under debate in the U.S. Senate promises more than $500 billion in new spending — including massive programs that will benefit state and local government.

The spending, contained in a 2,700-page bill passed by the House of Representatives and going through amendments in the Senate now, covers a wide range of programs but delivers the bulk of the funding to roads, bridges, transit and water. Here are the broad funding areas, as outlined in a

White House fact sheet:

Continue reading.

governing.com

August 6, 2021 • Ben Miller

Direct Pay Amendment Introduced in Senate.

Today, Senator Roger Wicker (R-MS) introduced an amendment to the bipartisan infrastructure agreement that would create a new direct-pay bond, the American Infrastructure Bond. The AIB's would have a flat 28% reimbursement rate. While not exempt from sequestration, the text provides the ability to increase reimbursement rates to offset any potential negative impacts in the case of sequestration. The Infrastructure Financing Authority provision in the original agreement was removed after an outcry from muni advocates, including the MBFA and BDA before the text was released. At this time, there was no amendment to reintroduce the federal government bond bank that has been submitted.

At this time it is unknown which amendments will receive consideration.

The MBFA and BDA will continue to provide updates this week as the legislation and amendments debate develops further.

Bipartisan Infrastructure Agreement

Last week, the Senate voted 67-32 to move the bipartisan infrastructure agreement to debate without full legislative text-a a key step in advancing the 1 trillion dollar package. This vote sets up an extensive debate process, kick-starting a week's worth of debate and more compromise, to get the package across the finish line in the Senate before sending across the Capitol to the House for an early fall vote. While this is an important first step in the legislative process, expect many hiccups to arise over the next few weeks.

The updated agreement includes multiple private activity bond provisions. These provisions include:

- The Rural Broadband Financing Flexibility Act (S.1676) is the template for adding broadband as an allowable use for private activity bonds (PABs). This would allow states to issue PABs to finance broadband deployment, specifically for projects in rural areas where a majority of households do not have broadband access.
- Carbon Capture Improvement Act (S. 1829) allows carbon capture and direct air capture (DAC) technologies to be eligible for PAB financing. Private activity bond financing encourages commercial deployment, which is essential for bringing costs down and developing these technologies to scale. **These bonds would be outside the volume cap.**
- The framework increases the current cap of tax-exempt highway or surface freight transfer facility bonds from $15 billion to $30 billion as proposed by the bipartisan BUILD Act (S.881). Currently, $14,989,529,000 billion of the $15 billion caps has been issued or allocated. Increasing the cap will allow state and local governments to enter into additional public-private partnerships to supplement future surface transportation projects with private investment.

Update on Other Muni Provisions

The original bipartisan agreement included a provision that would create a new direct-pay bond the American Infrastructure Bond. The provision was removed as a way to find needed revenue to ensure the package would be "revenue neutral." This offer was publicly rejected by both Republican and some Democratic negotiators, and we continue to work with our partners on the Hill and in the Administration promoting these key financing options. The next steps for the package at this time remain murky, with portions of the upcoming August recess likely to be cut short.

The MBFA and BDA have learned through conversations with senior Administration staff and key Capitol Hill contacts that muni provisions remain a priority for Congressional tax writers as Democrats eye the next spending opportunity, the likely $3+ trillion-dollar budget reconciliation package later this summer.

These muni provisions under consideration include:

- The restoration of tax-exempt advance refundings;
- Raising the BQ limit;
- The direct-pay American Infrastructure Bond;

Bond Dealers of America

August 3, 2021

[How Governments Can Best Manage Federal Relief Funds.]

There are a lot of challenges to spending the $350 million allocated to states and localities, but effective centralization and standardization can better ensure economic recovery.

Across the nation, grant dollars are playing a vital role in fiscal recovery and delivering impact to those who need it most–from getting PPE to hospitals, equipping homeless shelters with more beds, to helping local businesses stay afloat. While the Covid-19 pandemic has emphasized its urgency, the focus on grant funding as a revenue source has been steadily growing. Just over the last five years, federal grant spending grew from $576 billion in 2014 to more than $800 billion in 2020.

In the latest federal stimulus package, $350 billion has been allocated to state and local governments. All those extra grant dollars sound great, right? While the funds and the possibilities they bring are welcome, they also pose many challenges for local governments. Lower head count, remote work environments and existing grant management responsibilities (including those involving previous Covid-19 relief funds), complicate already tedious efforts to ensure funding is well managed and has the desired impact.

Ensuring that funding is spent transparently and according to federal requirements laid out in Uniform Grant Guidance is a feat in itself. According to the Government Accountability Office, one in every six grant dollars is mismanaged.

While the challenges are many, so are the possibilities when it comes to delivering impact through grants. Yet, those possibilities can only be realized if local governments master a few critical areas: planning ahead as much as possible, ensuring cross-departmental coordination, agreeing upon priorities, carefully tracking project finances, and creating a system of accountability. Here's how:

Centralizing With Priorities and Targets

Whether it's a large team of 15 or more, or a small but mighty team of two, cities should aim to have at least one grant manager overseeing all grant portfolio activities. This person should know the details of funding requirements and help to ensure compliance. If possible, teams can bring in a senior procurement officer to help stay on top of procurement regulations and processes while supporting purchasing contracts and subawards. In addition, an internal auditor can be essential to helping the team establish and monitor a clear audit trail and stay on top of all grant activities to ensure compliance.

It's also important to align grant funding with the priorities that matter most to target communities by ensuring prioritized, data-driven projects and programs actually meet community needs in advance of receiving funds. One way cities and local jurisdictions can get ahead is by holding comprehensive preplanning and kickoff meetings for all staff across departments before funds start arriving. This will help the grant team to know where to focus incoming funding and where it will deliver the most impact.

To effectively execute current and new emergency grant programs, grant teams must also understand how much has been spent by creating a system of internal controls to help track future spending. To accomplish this, teams should separate budgets into two groups: Covid-19 relief funding and reallocation of previous awards for other projects. This will help teams track grants better while staying ahead of new federal guidelines and reporting requirements.

Once these two groups are identified, it's important to document expenditure data to support cost allocation plans and indirect cost rates on an ongoing basis. This will inform teams so they know how much has already been spent before executing any emergency grant programs. Then, teams can prepare additional appropriation and spending plans in order to respond quickly to new emergency appropriations, contingency appropriations, and special appropriations.

Standardizing Through Digitization

In addition to a sound strategy that standardizes grant management processes, local governments need the proper tools to execute their plans. Many are turning to cloud-based grant management tools to help aggregate data, increase visibility throughout their organizations, support remote collaboration, and ensure compliance with federal grant requirements.

A digital grant management solution can help government administrators, grant managers and staff save time, reduce redundancies, streamline data entry, and mitigate compliance risk. Rather than spending time on the administrative work of grants, teams can focus on tracking where grant dollars are going and ensure they are meeting departmental goals, mayoral goals, and identified needs in the community.

Delivering Economic Recovery and Real Impact

Ultimately, there are many challenges for grant management, but the possibilities that come with innovating these processes are even greater. If governments start the important work of centralizing, standardizing, and digitizing their grant processes now, they will better ensure economic recovery for the future while streamlining grant dollars to quickly get them into the hands of those that need it the most.

Route Fifty

By James Ha

AUGUST 6, 2021

How Should Cities Spend Billions in Aid? Ask People Who Live There.

Some state and local governments are turning to Zoom and Survey Monkey polls to ask residents how to use their federal Covid relief aid.

As America's states and cities decide how to spend their share of the $350 billion in Covid relief funds they're getting from the federal government, some are asking residents for ideas. Richmond, Virginia, turned to Survey Monkey.

Through a web page using the popular survey tool that can be accessed via a QR code, Richmond has found plenty of ideas to choose from, with about 750 people responding in its first two days online. The results aren't public yet. "This should be an exciting question to answer," said Sam Schwartzkopf of the city's Office of Public Information and Engagement. "People really seem to be taking interest in it."

Government officials across the U.S. have set out to gather ideas from citizens on how to spend the money that's part of the $1.9 trillion American Rescue Plan. The ideas, both big and small, speak to the unusual position that cities and states find themselves in after the federal government provided them with an unprecedented amount of cash. The funds will help local governments take an active role in the recovery and avoid the municipal budget cuts that weighed on the economy after the 2008 recession.

Continue reading.

Bloomberg CityLab

By Amanda Albright and Skylar Woodhouse

August 5, 2021, 8:13 AM PDT