Munis In Focus: Recovery Winners (Bloomberg Radio)

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses muni market news. Hosted by Paul Sweeney and Matt Miller. (Renita Young fills in for Matt Miller)

Listen to audio.

August 6, 2021

What are Build America Bonds or Direct-Pay Municipal Bonds?

Interest on many municipal bonds issued by local and state governments and some non-profits is exempt from federal income taxes. As a result, investors, mainly high-income individuals, are willing to lend money to issuers at a lower interest rate than they would demand if the bonds were taxable. Build America Bonds (known as BABs or direct-pay bonds) were created by the American Recovery and Reinvestment Act of 2009 as an alternative way for the federal government to subsidize local and state government borrowing. Instead of making the interest on those bonds exempt from federal income taxes, the federal government provided a subsidy directly.

The BABs program ended in 2010, but the concept has been part of the 2021 debate over financing increased federal infrastructure spending. Here is a primer on these bonds.

HOW DID BABS WORK?

Because the interest investors earn on municipal bonds is generally exempt from federal income taxes, an investor in the top income tax bracket can earn the same after-tax return on a lower-yielding municipal bond as on a higher-yielding taxable bond. For example, for an investor in the top tax bracket, the after-tax return on a 1.3% tax-exempt bond is the same as on a 2.15% taxable bond.

Continue reading.

The Brookings Institution

by Nasiha Salwati and David Wessel

August 4, 2021

Munis In Focus: Water Parks & Infrastructure (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.

Play Episode

July 30, 2021

Building an Inflation Strategy With Munis.

Back in March, Warren Buffett warned that fixed-income investors "face a bleak future.". A few months later, inflation is starting to rear its ugly head, and fixed-income investors feel the pain. The bond market has recovered from the pandemic and yields remain low, but rising inflation means that bond yields could move higher over the coming years.

There are many ways to shield a portfolio from inflation, but investors that rely on a fixed income cannot always avoid bonds. Fortunately, municipal bonds may provide an attractive safe haven from inflation, particularly for high net worth investors maximizing their tax advantages. The challenge is finding the right opportunities in a highly competitive market.

Let's look at the current state of inflation and how muni bonds may help protect your portfolio.

Continue reading.

dividend.com

by Justin Kuepper

Aug 04, 2021

HYD: I Feel Comfortable Buying High Yield Munis

Summary

- State and local governments saw much stronger fiscal performance coming out of the pandemic than many might have expected.
- Part of the reason we have not seen many credit downgrades has been because of massive federal support. This has improved the outlook for general obligation bonds, and also revenue bonds.
- High-yield munis tend to perform well in a rising rate environment since that correlates with a strong macro environment. As I expect higher rates in 2022, high-yield munis are helping me prepare.
- This idea was discussed in more depth with members of my private investing community, CEF/ETF Income Laboratory.

Continue reading.

Seeking Alpha

Aug. 08, 2021

Defaulted California Plant Turns to Burned Muni Holders for Cash.

- **Venture that turns rice straw into panels needs $18 million**
- **High board prices, surging demand for junk muni debt pave way**

In the heart of California's rice country, a project that dealt municipal-bond investors one of the biggest high-yield defaults of the past decade is about to ask them for more cash. And there's every reason to expect burned debtholders to go along.

After years of delay and setbacks including the pandemic and a fire, CalPlant I LLC last year finally finished building a facility that produces a unique type of fiberboard made from a rice-cultivation byproduct called rice straw. The company has equity backing from entities including a subsidiary of the Teachers Insurance & Annuity Association of America and has already borrowed $344 million since 2017 through sales of unrated tax-free debt, most of which is in default.

Still, the plant, which started making panels in November, needs about $18 million more to fully scale up to commercial operations. Bondholders appear to have faith, despite the missed debt payments. The company is poised to win final approval from California officials on Aug. 11 to sell that amount of new securities, most of which will likely go to the existing investors.

The quest for additional financing comes at an opportune time for the borrower: Portfolio managers have plenty of room to plow more money into a struggling venture because there's so much cash in the $4 trillion muni market seeking tax-free income with a bit of yield. There are other forces at work, too: The residential construction boom has lifted the prices of materials that go into furniture and cabinets. And investors have an incentive to lay out more money if it helps ensure the project succeeds instead of getting caught up in an uncertain bankruptcy process.

It makes sense for bondholders to keep the plant going, said Matt Fabian, a partner at research firm Municipal Market Analytics.

"They're already educated and exposed and they have money to burn," he said. "So why not invest it in more CalPlant if that creates a positive outcome? If they remain constructive on the project, then pricing on their bonds remains constructive as well."

Farmer's Dream

Leaning again on debt investors could help achieve the dream of CalPlant co-founder Jerry Uhland, who quit rice farming to bring the patented idea to fruition at a site in Glenn County, north of Sacramento. The company says it's producing the world's first medium-density fiberboard made from rice straw.

"I have no hair left, but other than that, things are going better than they were a year ago," Uhland, speaking from the facility's straw yard, told board members of a California agency in a virtual meeting in July. "I believe the light at the end of the tunnel is nearing."

Uhland and other executives didn't respond to requests for comment. But in updates posted online for bondholders, they describe difficulties such as worker injuries and construction disputes. And they cited cause for optimism, such as rising prices for fiberboard.

They also spell out the need for more money: Talks with more potential equity investors haven't progressed and the company will run out of cash in November, according to recent monthly reports.

Such tribulations may be expected given the unique nature of the project, which seeks to turn the tons of debris cast off by California's rice growers into an environmentally friendly, profitable product that the company has dubbed Eureka MDF.

The fiberboard market shows the potential for CalPlant should it finally achieve full commercial operations, which it's anticipating by the end of 2023. Average prices in July were 27% higher than the five-year average ending in 2020, according to industry publication Fastmarkets Random Lengths.

"The market for medium-density fiberboard is very hot, and we expect it to remain that hot for at least the next 18 months to two years," said Andy O'Hare, president of the Composite Panel Association.

Jane Abernethy, chief sustainability officer of Humanscale, a New York-based maker of ergonomic office furniture, said she's interested in Eureka MDF. Depending on factors such as durability, it's possible Humanscale might pay a premium for it, she said.

"They have a very good shot at ramping up and getting into production," she said. "It sends the signal for others to see that finding innovative ways of reusing material that could be waste, that people do value it."

Default History

The company first sold unrated municipal bonds in 2017 to build the factory, issuing $228 million of debt. Two years later, it sold about $74 million, and soon ran into trouble. It alerted bondholders in December 2019 that it would tap reserves to make debt payments. It ultimately defaulted on those two borrowings by mid-2020. It's the third-largest high-yield muni default of the last decade, according to Municipal Market Analytics. CalPlant in October 2020 raised a third round of debt, totaling $42 million and due in 2032. It priced to yield 8.17%, at a time when rates on top-rated munis with a similar maturity were roughly 1%, data compiled by Bloomberg show.

The bid to sell more tax-exempt debt won approval on July 20 from the California Pollution Control Financing Authority. One more sign-off remains from another agency, the state's Debt Limit Allocation Committee, whose board has the same voting members and which determines what projects get access to the low-cost financing. Uhland said in the July meeting that the amount may be less than the requested $18 million as talks with the senior bondholder group, who signed a forbearance agreement, continue.

Municipal junk-bond funds pulled in a record amount of money in the first half of the year, and underwriters of new deals have often been swamped with orders that are multiples of what's available.

"The demand side is so strong that you're able to get most deals done," said Terry Goode, a senior portfolio manager at Wells Capital Management, which doesn't hold CalPlant bonds. "That includes some that have had challenging credit stories or even defaulted securities."

The top three bondholders — Franklin Resources, Invesco Ltd. and Sun Life Financial — hold a combined $162 million, according to the most recently available data compiled by Bloomberg. Spokespeople for the three firms declined to comment.

"None of us bondholders want to see the project fail," said Jim Colby, senior municipal strategist at Van Eck Associates Corp., which says it holds about $28 million of CalPlant debt.

Bloomberg Finance

By Romy Varghese

August 4, 2021, 7:00 AM PDT

— With assistance by Natalia Lenkiewicz, Philip Brian Tabuas, and Kenneth Hughes

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Strengthening Economy, Federal Aid, and Responsible Fiscal Management Helps Lead to Revenue Gains for Most States in Fiscal 2021.

Most states saw revenue growth in fiscal 2021 primarily resulting from a strengthening national economy and federal stimulus programs. The revenue gains in fiscal 2021 were in contrast to fiscal 2020, when states saw revenues decline after nine consecutive years of growth. Overall, revenues have outperformed projections from earlier in the pandemic (when most states enacted their fiscal 2021 budgets). Several factors help explain recent improvements in states' revenue outlooks, including: federal stimulus measures have put a lot of additional money into the economy, which helped to lessen state revenue losses; high-income earners have been relatively insulated from the pandemic's economic effects, which has limited impacts on personal income tax collections; the types of consumption most curtailed by the pandemic comprise a relatively small portion of states' sales tax bases; and the enabling of online sales tax collections following the U.S. Supreme Court decision in Wayfair v. South Dakota.

Fiscal 2021 revenue collections were also impacted by the shifting of the 2020 tax deadline from April 15 to July 15. According to NASBO's Spring 2021 Fiscal Survey of States, nineteen states reported that they recognized these delayed revenues due to the deadline shift in fiscal 2021 instead of fiscal 2020, depressing fiscal 2020 revenues and leading to greater growth in fiscal 2021.

As a result of the preceding factors, most states saw strong year-over-year growth in overall tax collections for fiscal 2021, with a number of states reporting double digit increases. Many states reported that revenue from all major taxes, including sales, personal income, and corporate income, experienced gains in fiscal 2021 compared to fiscal 2020. In addition, most states saw revenues exceed earlier projections leading to budget surpluses. States have begun identifying possible uses of their fiscal 2021 budget surpluses, including: bolstering rainy day funds; restoring prior spending cuts; increasing education funding; additional roads funding; increasing the Medicaid trust fund; additional contributions to retirement funds; paying down future obligations for employee and retiree health care; providing more money to cover the cost of unemployment benefits; repaying federal loans for jobless benefits; refundable income tax credits; property tax relief; and other tax reforms. NASBO's 2021 Budget Processes in the States report details states' legal requirements and policies for determining how to handle a general fund budget surplus in Table 15.

Continue reading.

NASBO

Climate Risk is Hitting Home for State and Local Governments.

Does the U.S. need a coordinated national response or will it be every city for itself?

In 1988, Congressional testimony from NASA's Dr. James Hansen helped cement the words "climate change" in the national consciousness. In 2015, nearly 200 countries met in Paris to pledge to address the problem. But 2020, the year the skies over San Francisco turned a sick shade of orange, the Earth's temperature hit its highest ever, the Atlantic hurricane season smashed records, and nearly every state west of the Mississippi suffered severe drought, may well be remembered as the year it finally hit home.

Across the U.S., state and local governments and the bond market that helps them do business are coming to grips with a situation that can't be ignored any longer. They're taking increasingly proactive, if piecemeal, steps toward making their communities ready for extreme weather and pollution scenarios that once seemed unimaginable.

"I feel like there's been a revolution in the past year in terms of thinking about climate change," said Kevin DeGood, director of infrastructure policy at the left-leaning Center for American Progress. "What's that old saying — everything seems impossible until it happens, and then it feels inevitable?"

Continue reading.

marketwatch.com

By Andrea Riquier

July 30, 2021

Bipartisan Infrastructure Package Clears First Hurdle in Senate – Current Agreement Includes Multiple PAB Provisions.

Last night, the Senate voted 67-32 to move the bipartisan infrastructure agreement to debate without full legislative text – 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, in an effort to get the package across the finish line in the Senate prior to 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 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 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 publically 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;
- Further consideration of expanding PABS.

Bond Dealers of America

July 29, 2021

No Muni Provisions in Latest Infrastructure Counter Offer – Bipartisan Infrastructure Talks Falter Searching for Offsets.

This weekend, bipartisan infrastructure negotiations continued with Senate Democrats and the White House presenting their "global offer," an extensive list of revenue compromises, **which includes removing all bond provisions from the agreement outline amongst other changes to the spending plan**.

The original bipartisan agreement included provisions that would raise the PABs cap for transportation purposes and create a new direct-pay bond the American Infrastructure Bond. The provisions were 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.

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These muni provisions under consideration include:

- The restoration of tax-exempt advance refundings
- Raising the BQ limit;
- The direct-pay American Infrastructure Bond;
- Further consideration of expanding PABS.

The MBFA is in the process of setting up virtual meetings with key Hill staff during August recess to discuss these and other municipal bond priorities for infrastructure. More details are expected later this week.

If you are interested in participating, please email Brett Bolton at brettbolton@munibondsforamerica.org

Bond Dealers of America

July 27, 2021

The Bipartisan Infrastructure Plan Avoids Tax Increases, Undermines User-Pay Principle, and Misses Chance to Modernize Obsolete Programs.

The Senate has begun deliberations over a bipartisan plan to provide $550 billion in new spending for a wide range of infrastructure projects, including roads, bridges, public transit, broadband, and the electrical grid. The good news is that lawmakers avoided raising taxes to cover the cost of the new spending and instead used some reasonable fees and asset sales. The bad news is that half of the offsets come from unused, debt-financed COVID-19 relief funds and the economic return on many of these investments is questionable.

Let's first review some of the budgetary offsets and then assess the economic value of the various infrastructure projects.

Continue reading.

Tax Foundation

by Scott A. Hodge

July 30, 2021

How the Infrastructure Proposal Would Fund Roads, Bridges and Public Transit.

The proposal puts $150 billion in new funding toward surface transportation and transit, but won't close the backlog in maintenance and capital costs.

Update: The Senate released the 2,700-page bipartisan infrastructure bill Sunday night. The text of the bill can be found here.

The bipartisan infrastructure package working its way through the Senate will provide nearly $150 billion in new surface transportation and transit funding, part of a broader $1.2 trillion plan the White House has called a "once-in-a-generation investment."

While the investment would rank among the largest in transportation infrastructure in the nation's history, experts say it will not uniformly close the gap in funding needed to address structural deficiencies.

Public transit systems, for example, have a $176 billion backlog in funding, according to a report by the American Society of Civil Engineers. The infrastructure package would provide $39 billion in funding for transit over five years. That's $10 billion less for public transit than was initially proposed in the initial infrastructure framework.

Continue reading.

Route Fifty

By Andrea Noble

JULY 30, 2021

Infrastructure Bill Advanced with $550 Billion in New Spending.

Vote caps weeks of negotiations, but challenges await in the House

The Senate on Wednesday voted to advance bipartisan infrastructure legislation, capping weeks of late-night negotiations and launching the next step in what has become one of President Joe Biden's key domestic priorities — even as challenges await the measure in the House.

By a 67-32 vote, the Senate moved to invoke cloture on a motion to proceed to the legislative vehicle for a bipartisan infrastructure plan with $550 billion in new spending. Seventeen Republicans, seven more than the 10 needed to invoke cloture in a 50-50 Senate, joined Democrats to vote to move forward.

Among the Republicans who voted to invoke cloture were members of the negotiating team, including Sens. Mitt Romney of Utah, Rob Portman of Ohio, Susan Collins of Maine and Lisa Murkowski of Alaska, as well as some relative surprises: Sens. Jim Risch of Idaho, Charles E. Grassley of Iowa, Shelley Moore Capito of West Virginia and Lindsey Graham of South Carolina.

The negotiators, who stood in a huddle on the floor, cheered at one surprise yes vote: John Hoeven of North Dakota. Collins grinned widely throughout the vote, while at one point, Sen. Kyrsten Sinema of Arizona, the lead Democratic negotiator, did what appeared to be a restrained happy dance.

Also voting yes was Minority Leader Mitch McConnell, who tweeted his support earlier in the day.

Doubts in House

Although Senate negotiators were celebratory in a post-vote news conference, the bill's future is already in question in the House, where Speaker Nancy Pelosi has vowed not to take it up until after the Senate approves a $3.5 trillion budget reconciliation package that includes many of Biden's other domestic priorities.

Democratic hopes for a package of that size dimmed a little Wednesday when Sinema said she won't support a price tag that high.

House progressives, meanwhile, say they're not willing to advance one without the other.

On Wednesday, Rep. Pramila Jayapal, D-Wash., the chair of the Congressional Progressive Caucus said, "Progressives have been clear from the beginning: a small and narrow bipartisan infrastructure bill does not have a path forward in the House of Representatives unless it has a reconciliation package, with our priorities, alongside it."

The final version was $29 billion lower than the original $579 billion legislative framework agreed upon by White House and Senate negotiators in June and would be a one-time supplemental appropriation.

A source familiar with the revisions said the lower topline number resulted in part from decreasing a one-time infusion into public transit systems from $48.5 billion to $39.2 billion. Negotiators also agreed to eliminate a $20 billion infrastructure bank.

Portman, the GOP's lead negotiator, described the legislation as a major infrastructure package that would be popular both inside and outside Washington. For weeks, 11 Republicans and 11 Democrats have been involved in the talks with White House officials.

"It's going to help with regard to our roads and our bridges and our ports and our waterways," Portman said. "It also helps expand the digital infrastructure of broadband."

In a statement Wednesday afternoon, Biden said the deal "signals to the world that our democracy can function, deliver, and do big things. As we did with the transcontinental railroad and the interstate highway, we will once again transform America and propel us into the future."

Offsets

A summary released by the White House said the spending would be "financed through a combination of redirecting unspent emergency relief funds, targeted corporate user fees, strengthening tax enforcement when it comes to crypto currencies, and other bipartisan measures, in addition to the revenue generated from higher economic growth as a result of the investments."

A list of offsets circulating among lobbyists and confirmed by congressional sources included $53 billion from some states returning unused enhanced unemployment insurance benefits, $20 billion from sales of future spectrum auctions, $56 billion in economic growth from a 33 percent return on investments and $2.9 billion from extending available interest rate smoothing options for defined benefit pension plans.

The offsets also included $49 billion stemming from a partial delay of a Trump-era rule limiting drug manufacturer rebates to pharmacy benefit managers, $8.7 billion from extending statutory sequester cuts to Medicare and $3 billion from requiring drugmakers to reimburse Medicare for certain wasted medications.

Another $205 billion would come from repurposing unused COVID-19 relief funds, although three lobbyist sources said that reportedly excludes money set aside for hospitals and medical providers.

Medical provider funds

Senate Finance Chair Ron Wyden, D-Ore., told reporters that people he spoke to, including White House staff, indicated the medical provider relief fund is off the table but stressed that wasn't totally clear yet.

"We woke up this morning in Oregon today with a headline of hospitalizations up 25 percent, so I've been very concerned about that," he told reporters.

Left out from the latest list is a ban on spread pricing, in which pharmacy benefit managers pocket the difference between what they charge insurance companies and what they paid for a drug. The provision was initially floated as a potential offset last week.

The White House summary listed spending provisions included in the deal, headlined by its $110 billion for roads, bridges and major projects.

The deal includes $39 billion for modernizing transit infrastructure and addresses a backlog of rail cars, stations and tracks that need replacement while improving accessibility, according to the summary.

The White House touted the historic nature of that spending despite the fact that some Democrats had been pushing for even higher levels. The deal also has $66 billion to address Amtrak's maintenance backlog, modernize its Northeast Corridor and expand rail service to other parts of the country.

Spending

The deal — which calls for $944 billion in new and baseline spending over five years, according to a GOP aide close to the negotiations — would devote $7.5 billion to building out a national network of electrical vehicle charging stations, a key agenda item for the Biden administration. It seeks to address climate change while creating domestic manufacturing jobs. The deal also would spend $2.5 billion each for zero-emission buses, low-emission buses and ferries.

It would spend more than $50 billion on improving the resiliency of U.S. infrastructure to protect against droughts, floods and other natural disasters, as well as cyberattacks.

It would spend $21 billion on cleaning up polluted areas, including money to reclaim abandoned mines and cap orphaned gas wells. And it would spend $73 billion on upgrading the nation's power infrastructure, emphasizing renewable energy sources.

It would provide $55 billion for drinking and wastewater infrastructure, with money specifically to replace poisonous lead service lines, and would invest $65 billion in improving access to broadband internet.

Sen. Thomas R. Carper, D-Del., the Environment and Public Works Committee chairman, voted Wednesday to take up the bill but criticized it for not going far enough in addressing environmental justice and climate change.

"That's why I will continue to fight for more to be done in our upcoming reconciliation bill and work to get assurances from the White House and Senate leadership to ensure that it includes the policy and the resources we need to take bold, transformative action to invest in climate change and environmental justice," Carper said in a statement. "There is no time to waste on this existential threat."

rollcall.com

By Joseph Morton, Jessica Wehrman, and Lauren Clason

Posted July 28, 2021 at 1:08pm, Updated at 9:29pm

Fitch: US Healthcare System to Expand, Adapt to Long-Term COVID-19 Fallout

Fitch Ratings-New York-28 July 2021: Fitch Ratings expects follow-on health implications related to COVID-19 to continue to drive elevated health system utilization long after the acute phase of the pandemic has concluded, likely leading to increasing costs and higher insurance premiums for decades. These costs will emerge from the necessary addition to mostly outpatient capacity that is expected to come on line as needed to deal with ongoing treatment of chronic conditions related to potentially permanent damage caused by COVID-19.

The magnitude of these effects is currently inestimable, and will include tangential health issues related to deferred diagnostic testing and treatment during the pandemic. As related conditions are likely to develop over time, Fitch does not anticipate these issues to directly affect the credit profile of issuers in the U.S. healthcare system.

In the near term, health insurers have been able to incorporate expanding COVID-19 claims data, estimates of infection trends and pent-up demand for previously deferred care into 2021 premium rates, which should benefit cost management and pricing this year and next. However, for healthcare providers, the expansion of the healthcare system over the long term will likely exacerbate traditional pressures on operating performance such as tight labor and wage markets for experienced staff, rising pharmaceutical expenses and supply costs in general.

Although the U.S. has glimpsed signs of the pandemic's potential end over the past couple of months, the ultimate story of the pandemic is still being told. The infection rate is once again trending up, presumably due to a combination of factors including a dramatic reduction in demand for new vaccinations, the rapid spread of the more infectious Delta variant in the U.S., as well as the reduction in mitigation measures.

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S&P Updated Activity Estimates For U.S. Transportation Infrastructure Show Recovery For Air Travel Demand Accelerating And Public Transit Lagging.

Key Takeaways

- The combination of federal stimulus aid, vaccine progress, easing mobility restrictions, strong economic growth, and pent-up demand is improving the recovery curves for our activity estimates among certain asset classes like air travel, while the prospect of a continued or permanent shift to remote or hybrid work and the growth of online shopping will limit the recovery in public transit ridership for the foreseeable future.
- The U.S. public transit and airport sectors still face the longest recovery relative to other U.S. transportation subsectors, with our current baseline activity estimates for 2021 showing public transit recapturing 45% and airports 70% of pre-pandemic activity levels.
- We see public transit ridership recovering to only 80% of pre-pandemic levels by the end of 2023 and full U.S. systemwide enplanements not returning to near pre-pandemic levels until late 2023 or early 2024, with the international component lagging the broader domestic rebound.
- The threat of coronavirus variants or weakening consumer confidence could slow or stall the recovery for certain modes of transportation, like transit or air travel. However, S&P Global Economics forecasts that U.S. economic activity and growth will accelerate in 2021 as mobility increases and business activity catches up to the reopening demand surge.
- Any upgrades to individual transportation debt ratings lowered in the past 12-18 months will depend on our assessment of the staying power of current recovery trends along with issuer forecasts demonstrating a return to sustainable financial performance metrics consistent with their pre-pandemic levels.

Continue reading.

29 Jul, 2021

Fitch: Record US Cargo Port Volumes Cause Bottlenecks, Boost Revenue

Fitch Ratings-New York-29 July 2021: Record volume at US cargo ports has led much stronger financial performance than pandemic expectations, Fitch Ratings says. However, maintaining operational efficiency is more challenging as bottlenecks increase due to pressured supply chains, mismatched rolling stock, capacity-strained logistics networks and coronavirus shutdowns at Chinese ports. Ports will continue to see congestion pressures well into the upcoming peak shipping season, with throughput patterns not expected to normalize until the beginning of 2022.

West Coast ports have seen exceptionally high volumes through the pandemic, driven by robust goods consumption. The Port of Long Beach's (POLB, AA/AA- Stable) total fiscal 2021 YTD 20-foot equivalent units (TEUs) through June have grown 33% over the same nine-month period a year prior. POLB saw a dip in its June 2021 throughput as a result of the shutdown of Yantian, one of China's key export hubs, in May. Yantian recently resumed full operations, but the ripple effects will also be seen at other ports in summer throughput as it will take time to unwind the resulting cargo backup.

Port of Los Angeles' (POLA, AA) YTD TEUs through May were up 48.2% versus the same period in 2020. Fitch-tracked West Coast port TEUs were up 37% through May 2021 from the same period in 2020, and up 17% from the same period in 2019. Port volumes generally track GDP, and Fitch expects 2021 US and China GDP growth of 6.8% and 8.4%, respectively.

Both POLA's and POLB's ability to handle larger ships, sizable local market shares and strong representation across shipping alliances continue to position them favorably amid shipping volatility. POLA showed strong financial results for the nine months ending March 2021, with operating revenues up 22% and operating expenses increasing modestly by 1% yoy. Operating income increased a robust 44% yoy.

Minimum annual guarantees accounted for 88% and 80% of POLB's and POLA's operating revenues in fiscal 2020, respectively, consistent with prior years, insulating the ports from trade-related revenue volatility. Counterparties have largely continued to honor their agreements despite coronavirus-related volatility. Volumes have heavily favored imports, generating challenges for US agricultural exports as shippers prefer to send empty containers to China rather than waiting for export loads, which are constrained by higher shipping costs. US lawmakers are drafting legislation to force ocean carriers to accept exports.

Although the San Pedro Bay Port Complex has more overall capacity than any other US port with faster routes to Asia, congestion has led some ships to be rerouted, benefiting ports such as Oakland as shippers add additional direct services. Some East Coast and Gulf Coast ports have also seen large increases in container volumes, with the Port of Savannah (GA) growing the fastest (up 31% through May 2021 versus 2020, and up 21% as compared with 2019). East Coast port TEUs were up 23% through May 2021 versus the same period in 2020, and up 16% from the same period in 2019. Cargo volume increases at these ports are constrained by capacity limitations, Panama Canal ship size restrictions and comparatively more congested inland transportation networks.

Congestion is expected to persist through YE 2021 and possibly into 2022, with peak shipping season beginning at the end of the summer with back-to-school and office shopping and continuing through the holiday season. Volume growth will ebb as supply catches up with demand toward YE 2021 and will likely continue at lower rates into 2022. Outbreaks of coronavirus variants that lead to revived restrictions and further shutdowns along the supply chain may further affect volumes. Margins could be pressured if congestion persists well into 2022 with decreases in yard efficiency and increases in labor costs.

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What Will It Take to Defend Public Water from Cyber Attacks?

Water may be among the least cyber-defended critical infrastructure sectors. Keeping it safe may include channeling more funds and training to tiny agencies and establishing voluntary guidelines.

Public water systems are exceptionally vulnerable to cyber attack, said senators during a U.S. Senate Committee on Environment and Public Works hearing July 21.

The White House has deemed sixteen industry sectors as essential to the nation's health, safety economy and/or security. Among them, the financial services sector has emerged with particularly robust defenses, while drinking water and wastewater systems may be among the most loosely protected.

Water systems on both coasts were hit by digital tampering efforts this year, in incidents that did not ultimately harm residents but which nonetheless raised alarm bells about the utilities' cyber preparedness. Criminals broke into a Bay Area California water facility's systems to delete programs involved in treating drinking water, a former employee allegedly used remote access to shut down a Kansas water system's cleaning and disinfection processes and hackers seemingly tried to poison Oldsmar, Fla., residents by elevating the amount of the lye used during water treatment — before staff detected and reversed that attempt.

Continue reading.

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July 27, 2021 | Jule Pattison-Gordon

FERC Revises Filing Requirements for Certain Small Hydroelectric Facilities.

On July 15, 2021, the Federal Energy Regulatory Commission ("Commission" or "FERC") issued a Final Rule amending its regulations pertaining to: (1) the information required to be filed with a notice of intent to construct a qualifying conduit facility and (2) the licensing requirements applicable to major projects up to 10 megawatts (MW). The Final Rule was issued to align the Commission's regulations with changes to the Federal Power Act ("FPA") that were made as part of the Hydropower Regulatory Efficiency Act ("HREA") of 2013.

Enacted in August 2013, the HREA amended section 30 of the FPA to create a subset of small conduit hydroelectric facilities that are excluded from the jurisdiction of the FPA. Under those amendments, any party proposing to construct a "qualifying conduit hydropower facility"—a facility that uses "only the hydroelectric potential of a non-federally owned conduit,"—must file a notice of intent with FERC, demonstrating that the proposed project meets certain qualifying criteria. In instances where a dam would be constructed as part of the facility, the Commission required an applicant's notice of intent to include a profile drawing showing that the conduit—rather than the dam—creates the hydroelectric potential. The Commission clarified this requirement in a 2015 order, Soldier Canyon Filter Plant, in which it concluded that the relevant factor in its consideration of qualifying conduit facilities is whether the facility would use water "within a conduit operated for the distribution of water for agricultural, municipal, or industrial consumption and not primarily for the generation of electricity," and that the presence of an upstream dam is not relevant to this determination, even where the head from the dam contributes to the facility's generating potential.

A separate provision of the HREA amended section 405 of the Public Utility Regulatory Policies Act of 1978 ("PURPA"), which provided that certain hydropower projects that produce 5 MW or less were exempted from the licensing requirements of Part I of the FPA. The HREA amended section 405 to increase the limit for exemptions to 10 MW.

On February 18, 2021, the Commission issued a Notice of Proposed Rulemaking ("NOPR") in which it proposed revisions to its regulations that would: (1) remove the requirement that a notice of intent to construct a qualifying conduit include a profile drawing depicting the source of hydroelectric potential, in cases where a dam would be constructed as part of the facility; and (2) extend the licensing requirements previously applicable to major projects up to 5 MW to major projects 10 MW or less, pursuant to the revised definition of a "small hydroelectric power project" enacted in the HREA 2013.

In its Final Rule, the Commission adopted the changes set forth in the NOPR. It noted that, based on the language in Soldier Canyon Filter Plant, the profile drawings of dams would no longer be required as part of the notice of intent submittal for qualifying conduits. The Final Rule also included changes to the licensing and amendment filing requirements in Parts 4 and 5 of the Commission's regulations to extend the requirements that previously applied to major projects up to 5 MW to major projects 10 MW or less, to be consistent with the revised definition of a "small hydroelectric power project" under the 2013 HREA. The Commission's Final Rule provided that such a change is appropriate to "expedite hydropower development by easing the burden of preparing an application for license and by assisting the Commission in more rapid processing of applications." As part of the Final Rule, the Commission made revisions to 18 C.F.R §§ 4.40–41; 18 C.F.R. §§ 4.50–51; 18 C.F.R. §§ 4.60–61; 18 C.F.R. §§ 4.70–71; 18 C.F.R. §§ 4.200–202.

As of this drafting, the Final Rule had not yet been published in the Federal Register. The Final Rule will be effective 60 days after such publication.

Troutman Pepper – Elizabeth J. McCormick

July 26 2021

[Federal Energy Regulatory Commission Advances Major Initiative to Overhaul Transmission Planning, Cost Allocation and Generator Interconnection Processes: Day Pitney]

On July 15, 2021, in Docket No. RM21-17-000, the Federal Energy Regulatory Commission (FERC or the Commission) issued an Advance Notice of Proposed Rulemaking (ANOPR) pursuant to its authority under Section 206 of the Federal Power Act to consider various reforms to improve the electric regional transmission planning, cost allocation and generator interconnection processes.[1] The ANOPR was published in the Federal Register on July 27, 2021. Initial comments are due October 12, 2021 and reply comments are due November 9, 2021.

The ANOPR is an ambitious, early-stage rulemaking that seems to be an attempt to establish the necessary groundwork for potential reforms to transmission planning, cost allocation and the generator interconnection processes. The ANOPR touches on a wide array of issues and will certainly generate a multitude of comments from a wide range of stakeholders.

Need for Reform
The Commission identifies the continuing evolution of the wholesale electric industry since the issuance more than 10 years ago of major orders on transmission planning and cost allocation (Order Nos. 890 and 1000) and generator interconnection (Order No. 2003), including the changing generation fleet, the effects of state policies, the anticipation of future generation projects, and the ability of current processes to plan and pay for the transmission and generator interconnection as major factors in the potential need for reform. The Commission notes that “regional transmission planning processes may not adequately model future scenarios to ensure that those scenarios incorporate sufficiently long-term and comprehensive forecasts of future transmission needs.”[2] The Commission concludes that a system that fails to account for future scenarios does not capture economies of scale and leads to infrastructure development that may not be efficient or cost-effective and may not satisfy the Commission’s statutory mandate or its policies in Order Nos. 890, 1000 and 2003.

The Commission also notes that when Order No. 2003 was issued, it was less likely that interconnection customers would be responsible for significant transmission-related upgrades associated with the interconnection of their project. “Now, however, there is little remaining existing interconnection capacity on the transmission system … that may require new resources to fund [upgrades] that are more extensive and, as a result, more expensive.” The Commission questions whether these upgrades benefit more than just the interconnection customer. Given that the Commission’s cost allocation precedent requires that costs be allocated on a basis roughly commensurate with benefits, failing to adequately capture the benefits of a project could lead to unjust and unreasonable rates.

Proposed Potential Reforms[3]
Generally, the ANOPR reflects the Commission’s goal to “ensure the development of regional transmission facilities needed to meet the transmission needs of the changing resource mix occurs in a more efficient or cost-effective manner, at just and reasonable rates” while maintaining reliability.[4] The Commission proposes several reforms consistent with this goal and makes numerous requests for comment related to these proposals. The proposals range across three main themes: (1) regional transmission planning and cost allocation processes, (2) identification of cost and responsibility for regional transmission facilities and interconnection-related network upgrades, and (3) enhanced transmission oversight.

Regional Transmission Planning and Cost Allocation Processes

The Commission proposes reforms to plan for the future needs of anticipated generation and to coordinate between the regional transmission planning, cost allocation and generator interconnection processes. First, the Commission discusses a few potential reforms to anticipate future generation and requests comment on the following, among other issues:

- Changing the modeling scenarios for transmission planning, proposing to examine factors using a longer-term outlook and to incorporate new factors such as state and local climate and clean energy regulation.
- Requiring transmission providers in each region to establish a process to identify geographic zones that would potentially support large amounts of renewable generation and to plan transmission investment to facilitate the integration of renewable generation in those zones.
- Incentivizing the development of regional transmission facilities that may offer a solution that is more efficient or cost-effective than a local alternative.
- Increasing interregional and state-to-state coordination that may be necessary for reforming the transmission planning and cost allocation processes.

Additionally, the Commission seeks comment on coordination between the regional transmission planning, cost allocation and generator interconnection processes.

Cost and Responsibility for Regional Transmission Facilities and Interconnection-Related Network Upgrades

The Commission devotes a significant portion of the ANOPR to a discussion of cost allocation and to the participant funding and crediting policy approaches to funding interconnection-related network upgrades.

With regard to cost allocation, the ANOPR notes that an existing cost allocation approach that considers only a single category of needs (reliability, economic or public policy) may fail to consider all relevant benefits and therefore fail to allocate costs commensurate with benefits. Thus, the Commission proposes to require a more “holistic” or “portfolio” approach for regional transmission planning.[5] The ANOPR does note, however, that this type of holistic approach may produce benefits that are very difficult to quantify, and it seeks comments on how to account for these benefits while still ensuring that both transmission and interconnection customers benefiting from the facilities pay their fair shares under the cost-allocation regime.

On the issue of funding, the ANOPR focuses on the current provisions for participant funding and crediting for interconnection-related network upgrades. The Commission suggests that the participant funding model, under which the interconnection customer pays all the costs of the network upgrades, may no longer be just and reasonable. The Commission proposes eliminating or reducing participant funding for such upgrades and, correspondingly, revisiting the crediting policy (under which the interconnection customer funds the interconnection facilities and the interconnection-related network upgrades subject to reimbursement for the network upgrades through transmission service credits). The Commission proposes the following alternatives to this form of funding and seeks comment on these alternatives:

- Each transmission provider provides upfront funding for all interconnection-related upgrades on its transmission system and, once the interconnection-related network upgrade is in service, rolls the cost of that interconnection-related network upgrade into its transmission service rate base paid by all customers.
- Interconnection customers contribute to the upfront funding of interconnection-related network

upgrades through payment of a fee.
- Transmission providers provide upfront funding for only higher-voltage interconnection-related network upgrades, and interconnection customers fund the cost of interconnection-related network upgrades below the threshold and are reimbursed through transmission service credits pursuant to the crediting policy.
- The upfront costs of interconnection-related network upgrades are allocated to the interconnection customer on a percentage basis that could be less than 100%.

Enhanced Transmission Oversight

Finally, in recognition of the fact that other suggested proposals in the ANOPR could result in major transmission infrastructure upgrades, the Commission presented two potential approaches to enhance transmission oversight: (1) establish an independent transmission monitor on a regional or multiregional basis to review and provide input on transmission planning and spending, and (2) provide for an increased role for state involvement in regional transmission planning through structures like regional state committees. The Commission seeks comment on both of these proposals.

Commissioner Concurrences

The ANOPR was approved unanimously by all participating commissioners, but separate concurrences were issued.

In a joint concurrence, Chairman Glick and Commissioner Clements discussed the change in the resource mix in the United States and the pressing need for updates to the transmission planning process to accommodate renewable resources and state policies, while ensuring just and reasonable rates. Commissioner Danly wrote a separate concurrence to emphasize the potential limits of the Commission’s jurisdictional authority for each of the ANOPR proposals and to bring attention to the potential effect on ratepayers. Commissioner Christie issued a concurrence emphasizing the importance of comments in this proceeding and supporting the Commission’s approach in the ANOPR seeking comments on a broad range of proposals.

Conclusion

The ANOPR is an ambitious, early-stage rulemaking that has the potential to generate voluminous comments. Since the change in administration, the Commission has taken on many complex and aggressive issues, such as cybersecurity and reliability, the integration of distributed energy resources, and carbon pricing, and the priority to be placed on this issue is not entirely clear. The history of prior ANOPRs is mixed, with some not even advancing to proposed rules and others resulting in major reforms to existing rules and the creation of new rules on regional transmission planning, cost allocation and generator interconnection. Given the changing composition of the Commission and policymakers’ emphasis on infrastructure, it seems more likely than not that some of this ANOPR will evolve into major rule changes for the industry.

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[1] See Building for the Future Through Electric Regional Transmission Planning and Cost Allocation and Generator Interconnection, Advance Notice of Proposed Rulemaking, 176 FERC ¶ 61,024 (2021) (ANOPR); see also 16 U.S.C. § 824e (requiring that the Commission ensure that transmission rates are just and reasonable and not unduly discriminatory or preferential). The ANOPR can be found at https://elibrary.ferc.gov/eLibrary/filedownload?fileid=15829875.

[2] ANOPR at P 31.

[3] The Commission notes specifically that it “has not predetermined that any specific proposal

discussed herein shall or should be made or in what final form"; rather, it seeks comment on the proposals. ANOPR at P 4.

[4] ANOPR at P 70.

[5] ANOPR at P 86.

Day Pitney Advisory

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July 27, 2021

Munis In Focus: Water Parks & Infrastructure (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

July 30, 2021

Munis In Focus: YTD Muni Issuance (Bloomberg Radio)

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

July 26, 2021

S&P U.S. Public Finance Mid-Year Outlook: Beyond COVID?

Key Takeaways

- Credit stability has returned for U.S. public finance and we expect it to continue for the remainder of the year.
- Strong economic growth has translated to positive revenue performance for most issuers and the economic outlook for the rest of the year is favorable.
- The unprecedented federal response to the pandemic with multiple rounds of stimulus has supported the economy and finances of issuers.
- Active management by issuers has supported credit quality across all sectors and will continue to

be important as COVID-19 lingers and other ESG related risks present fiscal challenges.

Continue reading. [Registration required.]

22 Jul, 2021

Feds Reveal Programs For $3B in Local Economic Development Funds.

State and local governments will have access to the money, which is flowing from the Economic Development Administration.

A federal economic development agency provided more details on Thursday about how it plans to invest $3 billion in American Rescue Plan Act funds, money that state and local governments will be able to tap into. Department of Commerce Secretary Gina Raimondo during a press conference described the suite of programs as one of the largest economic development initiatives in the department's history and said it would create jobs.

"Millions of Americans continue to struggle. … Ensuring that these $3 billion are distributed equitably is core to our investment strategy," she said. "We know that equity is good for workers, good for business, and good for the economy."

The Economic Development Administration, housed within Commerce, said the new Investing in America's Communities initiative will provide:

Continue reading.

ROUTE FIFTY

By Jean Dimeo

JULY 22, 2021

The Federal Windfall That Cities Can't Afford to Waste.

Washington is sending cities a gigantic fiscal gift. They have to produce results. The danger is that the money will be squandered. Republicans are watching all that generosity with skepticism.

Urban advocates have long sought more federal money for cities. Now, they are getting it – bigtime. The aid being provided to cities under the coronavirus relief act represents a major test of the thesis that federal aid can be transformative for urban America. Cities should make the most of this opportunity. If they can use these funds to move the needle on substantial change, this would create a strong case for future aid. But if the money is simply frittered away, there's no reason to expect such extensive help in the future.

The American Rescue Plan contains $350 billion in funding for state and local governments. This includes $45.6 billion for large metropolitan areas. The quantity of funds for these bigger metro areas is significant. Birmingham, Ala., is getting $141 million, Phoenix nearly $400 million, Chicago a bit less than $2 billion.

These are very large sums, particularly when county-level funding is also taken into account. In the merged government of Louisville-Jefferson County, Ky., the “city” is collecting $240 million, plus another $149 million in “county” funding, a bit less than $400 million total. The independent city of St. Louis is getting almost $500 million.

While the rules around how this money can be spent are not entirely clear, there is no mistaking the scope of the grants. Louisville’s annual budget is about $1 billion. That means its allocation is equivalent to 40 percent of its entire annual budget.

It is imperative that cities use this money to produce tangible and material benefits. The all too real danger is that instead it will be wasted. An example is excessive “state of good repair” spending on public transit. The highly respected global transit analyst Alon Levy has described state of good repair as “a racket permitting agencies to spend vast sums of money with nothing to show for it.”

It is very possible that cities will end up spreading their funding across a variety of programs such that billions of dollars are spent, but the material impact is limited, either in physical improvements or moving the needle on social or economic progress.

What should the money be spent on? There are many potential ways that this funding could be directed to making a big impact. It could be used to pay for a major residential street and sidewalk program, thus wiping out a major portion of a city’s infrastructure maintenance backlog. Or it could put a new or renovated playground within walking distance of most kids in the city. It could create more supportive housing units for the homeless. The details will vary from city to city and will depend on federal guidelines around what can be done with the money. The key is to focus on delivering real, material change that is proportionate to the large sums invested.

The imperative to spend the money well is increased by the way that Democrats structured the aid to favor deep blue cities. Money to metropolitan areas was allocated using HUD formulas that greatly privileged deep blue central cities over red or purple suburbs.

For example, in Indiana, South Bend, Evansville, Carmel and Fishers are all about the same size in population. But Evansville is getting $64.5 million and South Bend $58.9 million, while Carmel is getting $7.5 million and Fishers only $6.9 million. The former two vote strongly Democratic while Carmel and Fishers are more conservative suburbs. On a rough per capita basis, Evansville is getting $546 per person and South Bend $577, but Carmel only $74 per person and Fishers $72. This is a difference of about 7.5 times per capita. School funding from the recovery act has been even more lopsided.

With Democrats having shoveled the bulk of the money into their own strongholds, Republicans at both the federal and state level will rightly be looking at this generosity with skepticism. Quite apart from political considerations, however, they should be watching to see whether the money does any real good. If it does, they should be willing to look beyond politics and provide more investment funds to places that have spent previous money wisely. If it doesn’t, if these very large sums deliver little to show for them, there’s no reason for cities to expect more money like this ever again.

governing.com

Aaron M. Renn

July 22, 2021

Fitch: Relentless Cyber Attacks to Pressure NFP Hospitals' Operations

Fitch Ratings-Austin/New York-22 July 2021: Ever-increasing cyberattacks on the US public healthcare sector will place material revenue and expense pressures on not-for-profit (NFP) hospitals and health systems, Fitch Ratings says. The healthcare sector has seen a historic increase in the number and severity of cyber assaults over the past 18 months. The sector is viewed as a target-rich environment due to the large amount of sensitive data that healthcare entities maintain for patient care and operations.

Cyber-crime accelerated during the pandemic as cyber criminals took advantage of the crisis, causing immense disruption to the healthcare sector at a time when it was facing enormous patient care demands. Ransomware pay-outs and efforts to protect or "harden" healthcare systems and cyber defenses are affecting hospital financial flexibility by increasing on-going operating expenses. Attacks may also hinder revenue generation and the ability to recover costs in a timely manner, particularly if they affect a hospital's ability to bill patients when financial records are compromised or systems become locked. The recovery time and costs associated with breaches of critical data not only pose significant financial burdens but also hamper the ability of healthcare institutions to provide care, which could ultimately have human costs.

The US Department of Health and Human Services estimates that sizable cyber breaches in 2020 exposed patient data of more than 22 million Americans. Cyberattacks against US healthcare entities rose by over 55% in 2020 compared with the previous year according to the cloud security firm Bitglass. Attacks also increased in sophistication and scale, with more than a 16% increase in the average cost to recover each patient record in 2020 versus 2019. Restoration of systems to pre-attack status took an average 236 days.

Hospital and health system databases are a treasure trove of critical and sensitive patient data, which are highly sought after by cyber criminals for ransomware and double extortion schemes. In the US, patient data is considered confidential, and the maintenance and disclosure of such data are governed by patient confidentiality laws, e.g., Health Insurance Portability and Accountability Act (HIPAA), on the federal and state levels. Cyber breaches that disclose patient information carry the risk of loss of consumer confidence, litigation costs and federal enforcement actions due to regulations around patient confidentiality.

Remote work for nonessential staff opened up opportunities for infiltration, as did the sector's increased use of integrated technology, such as smart medical monitoring devices, telehealth and other virtual care capabilities. Software for such devices and heavy medical equipment such as CT scanners and MRI machines are often proprietary and designed with patient care and not necessarily cyber risk in mind. Thus, such software may not always be fully integrated in the institutional cyber defense framework. Additionally, the large costs of such equipment generally mean that institutions, particularly smaller hospitals, may rely on these devices for many years, even with outdated or unsupported software, leading to gaps in institutional security systems.

Fitch includes cybersecurity in its analysis of the sector and as part of its corporate-wide Environmental, Social and Governance (ESG) framework. Cyber risk is both a social risk in terms of safety and security, and a governance risk in terms of management effectiveness. A hospital's ESG Relevance Score would be elevated if cyber risk were deemed to be material to the rating.

Fitch ESG in Credit White Paper 2021.

Read the White Paper.

20 Jul, 2021

The Future of ESG Strategy in Municipal Finances.

We often hear phrases like environmentally friendly, social and equitably beneficial, and financial transparency when it comes to assessing the forward-looking strategy of companies in both the private and public sector. However, in recent years, we have been hearing these phrases cross into local and state government operations such as debt issuances and other financial reporting.

The acronym ESG refers to 'Environmental, Social, and Governance Evaluation' often focuses on a local government's ability to sustainably manage the future risks and opportunities related to its current governance structure along with opportunities to reduce its carbon footprint through the green projects/initiatives that will have a positive social or environmental impact; for example, renewable energy projects, smart infrastructure, affordable housing, and clean transportation.

In this article, we will take a closer look at the ESG efforts related to local government operations, the review of rating agencies, and how it can be mutually beneficial for both issuers and investors.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jul 21, 2021

SEC Commissioner Pierce Criticizes Proposed ESG Regulations: Mintz Levin

Yesterday, SEC Commissioner Pierce–one of two Republicans serving as an SEC Commissioner–delivered a speech criticizing the "potential ESG rulemaking."

Specifically, Commissioner Pierce propounded ten theses questioning the SEC's focus on this issue:

"I. ESG as a category of topics is ill-suited, and perhaps inherently antithetical, to the establishment of clear boundaries and internal cohesion.

II. Many ESG issues lack a clear tie to financial materiality and therefore do not warrant inclusion in SEC-mandated disclosure.

III. The biggest ESG advocates are not investors, but stakeholders.

IV. ESG rulemaking is high-stakes because so many people stand to gain from it.

V. “Good” in ESG is subjective, so writing a rule to highlight the good, the bad, and the ugly will be hard.

VI. An ESG rulemaking cannot resolve the many debates around ESG models, methodologies, and metrics.

VII. Emotions around ESG issues may push us to write rules outside our area of authority.

VIII. ESG issues are inherently political, which means than an ESG rulemaking could drag the SEC and issuers into territory that is best left to political and civil society institutions.

IX. ESG disclosure requirements may direct capital flows to favored industries in a way that runs counter to our historically agnostic approach.

X. An ESG rulemaking could play a role in undermining financial and economic stability.”

Notably, many of these critiques–which are explored in depth in her speech–identify potential legal flaws with the SEC’s approach to ESG rulemaking (e.g., “many ESG items may not be material to the issuer making the disclosure . . . .”), which could provide a roadmap to future challenges to any such regulations. The venue of the speech is also noteworthy–Commissioner Pierce delivered it at the Brookings Institution, a respected think tank that is generally perceived as non-partisan, indicating that this issue is seen as worthy of debate, and not merely where each side retreats to its partisan corner.

This speech is merely the latest volley in a longstanding war of words between the Republican and Democratic SEC Commissioners concerning whether the SEC should promulgate rules concerning ESG disclosures, and, if it does so, the nature of such disclosures. The particular significance of this speech is twofold. First, Commissioner Pierce identifies legal theories that could be used to challenge this SEC rulemaking (e.g., that the SEC acted ultra vires) should the ESG disclosure regulations be enacted. Second, Commissioner Pierce has continued to challenge the propriety (as well as the extent) of this potential ESG rulemaking by the SEC even after the SEC requested public comment on the proposal and Chairman Gensler identified ESG financial disclosures as a top priority for the Biden Administration’s SEC. In other words, Commissioner Pierce’s continued dissent indicates that this regulatory arena will continue to be the site of frequent battles between these opposing viewpoints.

> Rather than embarking on a prescriptive ESG rule that departs from and undermines our agency’s limited, but important, role, we could work within our existing regulatory framework. We could put out updated guidance to help issuers think through how the existing disclosure regime already reaches many ESG topics and to address frequently asked questions that arise in connection with the application of the existing disclosure regime.[61] We also might consider whether we can give any Commission-level comfort about forward-looking statements along the lines of what former Chairman Clayton, Corporation Finance Director Bill Hinman, and Office of Municipal Disclosure Director Rebecca Olsen did in connection with COVID-19.[62] Finally, we can work with investment advisers using ESG strategies and products to ensure that investors understand what that adviser’s brand of ESG means in theory and practice.[63]

Mintz – Jacob H. Hupart

July 22 2021

Going Green Could Be the Next Big Thing in Municipal Bonds.

The municipal bond market is one of the largest segments of the overall bond market, and it’s a favored destination for investors seeking steady, low-risk income.

Muni bonds are not, however, often thought of as creative or inventive. That could be changing, and could carry with it implications for the VanEck Vectors Green Bond ETF (NYSEArca: GRNB). GRNB, the original exchange traded fund focusing on green bonds, currently doesn’t feature much exposure to government debt, just 5.8% according to issuer data, but that figure could increase over time.

“While dozens of green-bond strategies have emerged over the last several years, significantly fewer have arisen with a specific focus on the municipal market,” writes Morningstar analyst Gabriel Denis. “This may be surprising for some given that the U.S. muni market, where many issuers have been offering debt that supports environmentally responsible infrastructure projects for decades, appears a natural fit for green bonds.”

Green Space in the Muni Arena

Green bonds are a small, but growing part of the fixed income market. Explaining that growth and investors’ increasing enthusiasm for such debt, green bonds are issued by companies or governments for the sole purpose of funding environmentally friendly projects.

For example, a state that wants to develop a new wind farm can issue green bonds to that effect, and it’s possible those bonds will eventually be included in GRNB’s roster.

“The green-bond market within the U.S. has grown quite rapidly over the last few years. According to the Climate Bond Initiative, a nonprofit that certifies green bonds, total U.S. green-bond issuance grew from $12.8 billion over the 2015 calendar year to $61.5 billion over 2020,” adds Denis.

The bulk of green bonds are taxable issues from companies, essentially making those bonds corporate debt, but last year, green munis accounted for almost a third of the market – a figure that’s forecast to grow alongside the broader green debt arena. As that happens, GRNB’s muni exposure could increase.

If that happens, it would jibe with GRNB’s mostly low-risk roster. Over three-quarters of the fund’s holdings carry investment-grade ratings and of that group, over 51% are rated AAA, AA, or A, confirming robust credit quality and low credit risk.

“The green-bond market within the U.S. has grown quite rapidly over the last few years. According to the Climate Bond Initiative, a nonprofit that certifies green bonds, total U.S. green-bond issuance grew from $12.8 billion over the 2015 calendar year to $61.5 billion over 2020,” concludes Morningstar’s Denis.

ETF TRENDS

TOM LYDON

JULY 22, 2021

Green Muni Bonds Are Blooming Slowly.

What does the market for green muni bonds look like, and where is it going?

Investors today can expect to see a plethora of gardening-related puns when reading about the blossoming green-bond market. Green bonds, fixed-income instruments whose use of proceeds are specifically linked to the undertaking of environmentally sustainable projects, have surged in size over the previous decade. We dug into this topic in our recent white paper, including assessing the growth of the green-bond market itself, how asset managers both in the United States and in Europe are seeking to take advantage of this new market, and whether these bonds belong in your portfolio.

While dozens of green-bond strategies have emerged over the last several years, significantly fewer have arisen with a specific focus on the municipal market. This may be surprising for some given that the U.S. muni market, where many issuers have been offering debt that supports environmentally responsible infrastructure projects for decades, appears a natural fit for green bonds. Why are there not more green-bond muni strategies for investors to consider? Should tax-free investors keep their eyes peeled for such an option? Here, we dig further into the green-muni-bond market to learn more.

Green Munis: Growing, but Still a Tiny Part of a Niche Market
As with many areas of the world, the green-bond market within the U.S. has grown quite rapidly over the last few years. According to the Climate Bond Initiative, a nonprofit that certifies green bonds, total U.S. green-bond issuance grew from $12.8 billion over the 2015 calendar year to $61.5 billion over 2020.[1] The majority of this issuance stems from taxable issuers, including from major securitized players like Fannie Mae and from corporations like Apple and Coca-Cola. Yet muni bonds are no small part of this market: of the $61.5 billion of total issuance over 2020, 25% ($15 billion) stemmed from muni issuers.[2] This too represents a substantial increase over the same period; in a 2017 analysis, Nuveen Asset Management cited Bloomberg data showing that green muni issuance was just over $4 billion over calendar 2015.[3]

This growth is impressive but represents merely a drop in the bucket of total U.S. muni issuance. According to the Securities Industry and Financial Markets Association, the U.S. muni market reached just shy of $4 trillion outstanding at the end of 2020, with $485 billion alone issued over 2020[4]; the $15 billion in green muni debt cited earlier represents just 3% of that total issuance. Most of this debt is held directly by individual investors or through mutual fund strategies. Additionally, the market remains fragmented and less liquid than the U.S. corporate bond market as there are about 1 million outstanding muni securities, and only between 30,000 and 40,000 of them trade on an average day.

Certifying Green Munis Remains Tricky
Investors should also note that there’s currently substantial uncertainty in the market over how to determine which muni bonds are truly “green.” “Greenwashing,” wherein companies advertise stronger environmental, social, and governance standards than they are truly practicing, is a serious concern for sustainability-minded investors across asset classes. Within munis, part of the problem is that most muni issuers have arguably been working alongside green principles long before green bonds emerged as an asset class. Organizations like CBI, which offers its own certification service for green bonds, and the International Capital Markets Association, which since 2014 has published a set of voluntary reporting principles for green bonds, seek to minimize the risk of greenwashing by providing issuers a framework through which to prove their proceeds are going to environmental projects. A plethora of second-party opinion organizations, including Kestrel Verifiers and

Morningstar-owned Sustainalytics, have emerged over the same period offering to substantiate which issuers are offering truly "green debt." Many muni issuers, whether or not they are intentionally adhering to these frameworks, might be issuing debt that qualifies for consideration but are just not seeking out those green designations. A substantial part of the muni market over the past several decades has been debt issued by states and local authorities to finance construction of capital infrastructure projects, including improvements to water mains, new water and sewer treatment facilities, renewed roads and bridges, and energy-efficient electric utilities. Many of these projects would likely fulfill the use-of-proceeds requirement of a green mandate but just aren't labeled as such.

Even so, caution is warranted in determining which muni bonds are truly green. In a 2019 opinion piece in the *Bond Buyer*, Dana Villanova and Monica Reid of Kestrel Verifiers noted that while the ICMA and CBI encourage issuers to undergo independent external reviews, muni issuers are still able to "self-label" their debt as being green, and there is no mechanism for removing the green label from a muni bond that does not meet its original output goals as long as the funds are used for their original purpose.[5] With these factors under consideration, both CBI certification and additional verification from SPOs have become quite popular in the taxable green-bond market as investors seek ways to determine which bonds are truly following ICMA and other green-bond principles.

Within munis, however, this type of work remains somewhat stunted in comparison. The managers of Wells Fargo Municipal Sustainability (WMSAX), a strategy focused on investing in muni bonds with strong ESG characteristics, noted that CBI certifications and SPO verifications are rarer in the muni market given the budgetary restraints of the issuers themselves. U.S. municipalities, the majority of which are smaller agencies, often operate with limited budgets, and staff and may struggle to justify the added expenses of tracking bond proceeds and preparing annual disclosures to meet green certification requirements. This problem is compounded by the fact that green muni bonds themselves don't appear to trade with the same price premium (often dubbed a "greenium") exhibited by taxable issuance. To varying degrees of intensity, many market observers have noted that when issuers issue both a green and a nongreen bond with otherwise identical characteristics, the green bond will trade with a higher price (and thus lower yield) than its nongreen equivalent. Generally, this would suggest that investors are willing to be compensated less in their quest for investing sustainably, and issuers can expect to pay less over time for a green bond than a nongreen bond. Wells Fargo, for their part, stated that it did not see evidence for a greenium within the muni market. Furthermore, in a 2020 study entitled "Where's the Greenium?", David Larcker and Edward Watts, Stanford and Yale academics writing for the *Journal of Accounting and Economic*s, concluded that investors appeared unwilling to pay more for green munis than their traditional equivalents and suggested that there was no greenium within the muni market.[6] While muni issuers may have an incentive to self-label their bonds as being green in some circumstances, the financial incentive to undergo a formal certification and verification process through a third-party appears less clear.

All things considered, investors may therefore want to take the headline growth of the green muni market with a grain of salt. Even with third-party certification and SPO verification, there is room for additional due diligence to ascertain which green bonds are truly meeting sustainability objectives across the broad fixed-income market. Given the additional certification challenges within munis, investors should be doubly cautious while considering this asset class.

What Are Your Investing Options?

Perhaps in part because of these challenges, the investing universe for green muni strategies remains limited in 2021. As of July 2021, there are only two strategies available to U.S. investors that focus exclusively on green muni bonds: Franklin Municipal Green Bond (FGBKX), incepted in

October 2019, and Green California Tax-Free Income (CFNTX), incepted in December 1985 but rebranded as a green-bond fund in 2019. Franklin Municipal Green Bond defines green bonds as those funding projects linked to environmental sustainability. The fund's prospectus, however, acknowledges that while the managers may consider external reports (such as those provided by CBI certification or by an SPO) while determining which bonds are green, ultimately they can choose to invest in any issuers they determine as meeting their stated requirements of a green bond. The strategy has a limited record given its relative youth and remains small: The fund's AUM was just $8 million as of May 2021, and it held only 55 individual securities as of that date. Green California Tax-Free Income is larger and has a longer track record but has applied ESG screens to its investment process only since 2019; while the strategy seeks to be a "green-bond fund" according to its prospectus, it can invest in any issues it judges as meeting its proprietary ESG screens.

These two strategies, both actively managed, do not have any passive competitors. The market for green muni indexes remains quite slim, with the S&P U.S. Municipal Green Bond Index being the only one extant as of July 2021. This index tracks muni bonds which are judged to be green via a certification from CBI. VanEck mentioned this index in the context of its launch of VanEck Vectors Green Bond ETF (GRNB), which tracks the S&P U.S. Select Green Bond Index. The managers there determined that while the universe of U.S.-domiciled, CBI-certified taxable green bonds (which the latter index tracks) was broad and developed enough to support a passive product, the muni market remained too small and concentrated to support a muni-focused product. The amount of issuers in the green muni bond index versus the broader S&P Municipal Bond Index underscores that fact: Whereas the S&P Municipal Bond Index tracked more than 200,000 constituents for a total market cap of $2.7 billion as of June 2021, the S&P U.S. Municipal Green Bond Index tracked just over 2,850 constituents for a market cap of $53 million.[7]

The path forward for the green muni bond investor is uncertain, with both the current strategy options and the incentives for green muni bonds limited. Yet there is optimism that the market for both green muni bonds and for the strategies that invest in them will grow substantially in the years to come. Lauren Kashmanian of Parametric Portfolio Associates, in an interview with Bloomberg News, anticipated that total green muni debt issuance could balloon to $30 billion-35 billion in the wake of additional federal stimulus for U.S. infrastructure.[8] Should the market continue to expand, however, green muni investors should consider their options with a discerning eye and seek to invest with managers with proven teams, sensible processes, and low fees.

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[7] S&P Dow Jones Indices.

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morningstar.com

by Gabriel Denis

Jul 19, 2021

Morningstar’s Green Bonds Landscape.

In this report, you will learn:

- A comprehensive analysis of green bonds’ asset flows and growth
- Our view of the catalogue of green bond indexes
- How green bonds fit into a conventional bond portfolio

Download report.

BDA Fixed Income Insights Digital Magazine – Summer 2021

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Bond Dealers of America

July 20, 2021

One Last Obstacle to an Infrastructure Deal: Public Transit Funding

Negotiators looking to finalize a $1 trillion bipartisan infrastructure deal say they're getting close, but funding for transit remains a hangup — and frustrations are starting to show as the talks drag on.

Republicans and Democrats are at odds over funding for highways and public transit. The bipartisan negotiators had seemingly agreed for the most part on an increase in funding for public transit, but Sen. Pat Toomey (R-PA), the top Republican on the Banking Committee, which has jurisdiction over transit, reportedly objected. Now Republicans are looking to change a long-standing 80-20 split of money going to roads versus that going to rail and bus systems, according to reports.

"The split — giving transit one dollar for each four that highways get — has its roots in the 1980s, but has only been sustained by an uneasy truce between lawmakers,' The Washington Post's Ian Duncan reports. "Republicans have sometimes proposed scaling back transit funding, while Democrats have hoped to increase its share. The dispute has arisen again as a group of senators tries to wrap up the infrastructure package."

Republicans reportedly want to cut the transit share from 20% to 18%, arguing that transit agencies already got some $70 billion in Covid relief funds and that the funding split in recent years has seen more than 82% go to highways.

An infrastructure bill without transit? Sen. Rob Portman (R-OH) suggested dropping transit funding from the infrastructure package entirely. "Transit funding has not yet been resolved. That's important, but if we can't resolve it then we could leave that out. I hope not," he said, according to The Hill. Portman, the lead GOP negotiator on the deal, told reporters that Democrats "are not being reasonable in their requests right now.

Sen. Chris Coons (D-DE), an ally of President Joe Biden's, told CNN Friday that he would support the package even if it excluded the transit portion because Democrats could add transit funding to the budget reconciliation package they plan to pass. But other Democrats have made clear they won't go for that.

Democratic Sens. Sherrod Brown of Ohio and Tom Carper of Delaware said Thursday that they won't vote for a package that lowers transit funds. "Robust funding for transit must be included in the legislation," they said in a statement. "We will not support any package that neglects this fundamental part of our nation's infrastructure." Brown reportedly accused Republicans of stalling the talks in an effort to derail Biden's agenda.

Why it matters: "The question of transit funding underscores different ideas among Republicans and Democrats about what infrastructure spending should achieve," writes the Post's Ian Duncan. "Democrats argue that boosting transit funding would encourage more Americans to use buses and trains, reducing carbon emissions from cars and tackling congestion without building new road lanes."

The bottom line: The transit issue isn't the only remaining difference, making it unclear if negotiators will be able to finalize a deal by early next week. But given how far they've gotten, it's far too soon to think any of the remaining hurdles will scuttle a deal.

Yahoo Finance

by Yuval Rosenberg

July 23, 2021

Multifamily Private Activity Bond Issuance Reached Record High of $16.4 billion in 2019.

Overview

The Council of Development Finance Agencies (CDFA) reports that in 2019 housing finance agencies issued a record $16.4 billion in multifamily private activity bonds (PABs), a $1.69 billion or11.5% increase from 2018. Furthermore, $9.48 in single family mortgage revenue bonds were issued, a $2.12 billion or 22.4% gain from 2018. A combined $25.9 billion in multifamily and single-family housing bonds were issued; while this was a $3.81 billion increase in numeric terms, it was a reduction as a proportion of total PAB issuance ($30.8 billion), falling from 91.5% in 2018 to 84.1% in 2019. Six states reported no multifamily PAB issuance (another two states failed to report), repeating 2018's historic low. This number has been trending down since 2011 when 32 states issued no multifamily PABs.

Continue reading.

Novogradac

Published by Peter Lawrence on Tuesday, July 20, 2021 – 12:00am

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FERC Revises Filing Requirements for Certain Small Hydroelectric Facilities.

On July 15, 2021, the Federal Energy Regulatory Commission ("Commission" or "FERC") issued a Final Rule amending its regulations pertaining to: (1) the information required to be filed with a notice of intent to construct a qualifying conduit facility and (2) the licensing requirements applicable to major projects up to 10 megawatts (MW). The Final Rule was issued to align the Commission's regulations with changes to the Federal Power Act ("FPA") that were made as part of the Hydropower Regulatory Efficiency Act ("HREA") of 2013.

Enacted in August 2013, the HREA amended section 30 of the FPA to create a subset of small conduit hydroelectric facilities that are excluded from the jurisdiction of the FPA. Under those amendments, any party proposing to construct a "qualifying conduit hydropower facility"—a facility that uses "only the hydroelectric potential of a non-federally owned conduit,"—must file a notice of intent with FERC, demonstrating that the proposed project meets certain qualifying criteria. In instances where a dam would be constructed as part of the facility, the Commission required an applicant's notice of intent to include a profile drawing showing that the conduit—rather than the dam—creates the hydroelectric potential. The Commission clarified this requirement in a 2015 order, Soldier Canyon Filter Plant, in which it concluded that the relevant factor in its consideration of qualifying conduit facilities is whether the facility would use water "within a conduit operated for the distribution of water for agricultural, municipal, or industrial consumption and not primarily for the generation of electricity," and that the presence of an upstream dam is not relevant to this determination, even where the head from the dam contributes to the facility's generating potential.

A separate provision of the HREA amended section 405 of the Public Utility Regulatory Policies Act of 1978 ("PURPA"), which provided that certain hydropower projects that produce 5 MW or less were exempted from the licensing requirements of Part I of the FPA. The HREA amended section 405 to increase the limit for exemptions to 10 MW.

On February 18, 2021, the Commission issued a Notice of Proposed Rulemaking ("NOPR") in which it proposed revisions to its regulations that would: (1) remove the requirement that a notice of intent to construct a qualifying conduit include a profile drawing depicting the source of hydroelectric potential, in cases where a dam would be constructed as part of the facility; and (2) extend the licensing requirements previously applicable to major projects up to 5 MW to major projects 10 MW or less, pursuant to the revised definition of a "small hydroelectric power project" enacted in the HREA 2013.

In its Final Rule, the Commission adopted the changes set forth in the NOPR. It noted that, based on the language in Soldier Canyon Filter Plant, the profile drawings of dams would no longer be required as part of the notice of intent submittal for qualifying conduits. The Final Rule also included changes to the licensing and amendment filing requirements in Parts 4 and 5 of the Commission's regulations to extend the requirements that previously applied to major projects up to 5 MW to major projects 10 MW or less, to be consistent with the revised definition of a "small hydroelectric power project" under the 2013 HREA. The Commission's Final Rule provided that such a change is appropriate to "expedite hydropower development by easing the burden of preparing an application for license and by assisting the Commission in more rapid processing of applications." As part of the Final Rule, the Commission made revisions to 18 C.F.R §§ 4.40–41; 18 C.F.R. §§ 4.50–51; 18 C.F.R. §§ 4.60–61; 18 C.F.R. §§ 4.70–71; 18 C.F.R. §§ 4.200–202.

As of this drafting, the Final Rule had not yet been published in the Federal Register. The Final Rule will be effective 60 days after such publication.

Troutman Pepper – Elizabeth J. McCormick

July 26 2021

As Bond Yields Plunge, the Case for Owning Individual Bonds Over Funds Grows.

If you have a client with a goal to earn a specific level of income every year, how does it look when the payout on her bond funds declines with interest rates? Or, what if interest rates rise, and the fund's value drops instead?

For these reasons, some advisors favor buying individual bonds for clients instead of bond funds. Now seems a particularly compelling time to employ this strategy.

Rates on most bonds are so low that finding safe individual ones that yield a little extra that you can hold until maturity makes sense, especially if rates kick back up again. (Bond prices move inversely with rates so that existing bonds' yields can match those of newly issued ones with higher payouts.) That way, an investor won't lose any principal.

Year to date the average bond fund in Morningstar's popular Intermediate Core Bond category is down 0.6%, while the Long-Term Bond category is down 0.8%. That isn't appealing for investors seeking a steady fixed payout and return of their principal at their goal's end date. "Interest rates are near all-time lows, but a bond fund is a bet that interest rates will fall," says Stan Richelson, a Bluebell, Pa.-based advisor and co-author of Bonds: The Unbeaten Path to Secure Investment Growth.

Richelson and his wife Hildy — his fellow advisor and president of Scarsdale Investment Group — often buy individual municipal bonds with high credit ratings for clients and ladder their portfolios by holding issues of different maturities. That way, if rates rise as bonds with shorter maturities mature, clients get their principal back and it can be reinvested in new bonds with higher yields. They generally hold bonds until maturity so there is no potential for a loss from a rate shift, like in a bond fund. Because they're buy-and-hold investors, they also don't encounter the trading costs of mutual funds buying and selling bonds constantly as new money flows into a fund or old money exits.

Many clients also like the transparency and consistency of buying individual muni bonds, especially from their home state where they can get not only a federal but a state tax exemption. By contrast, many single-state funds only invest in the largest states like California and New York and often aren't the purest or safest plays in those states. "If you looked at these single-state funds, you'd never buy them now because they have huge numbers of low-rated bonds," Richelson says. "In the past, they were loaded with Puerto Rico [which defaulted on its debt] and Virgin Island bonds because they had a tax exemption, like the same state."

Building a bond portfolio requires more time and research than buying a single fund. The Richelsons have invested in individual bonds and written about bonds for some 30 years. The less experienced may require outside help. "It's way easier just to put somebody in a bond fund or an ETF," says advisor David Haverstick at Ables, Iannone, Moore & Associates, which has built individual bond and stock portfolios for clients since its founding in Savannah, Ga., in 2003. "You can click the button and be done with it. For us, we think the specific [bonds and stocks] that we can bring to clients' portfolios is where our value is. But you have to have time, and the resources to be able to do that," he says.

Despite his experience, Haverstick still relies on outside research and analyst reports to pick primarily individual corporate bonds for clients. Though he won't disclose his analytical sources, free bond research is available at most brokers and more detailed research can be bought from ratings services like Moody's Analytics and S&P Global Ratings.

The main concern with an individual bond portfolio is default or credit risk since such portfolios generally aren't as diversified as funds. Although Haverstick doesn't have a standard bond account size, he says the larger the better, since a portfolio can diversify into more bonds. As for Richelson, he says the high-quality muni issues he generally buys—which are often state issues or general obligations, as opposed to local revenue bonds dependent on a single project, such as a hospital's or school's finances—telegraph problems well in advance of a potential default. For instance, he sold out of Illinois municipal bonds seven years ago, based on its history of problems funding government employee pensions. Only in 2020's pandemic did the state's debt get downgraded to near-junk-bond levels.

Moreover, because states have the ability to raise taxes to pay debts, defaults have been rare. Since 1970, the default rate for high-quality or investment-grade muni bonds has only been 0.1%, versus 2.3% for similarly rated corporate bonds.

If picking bonds is too much work, one alternative is to invest clients' assets in a private account of individual bonds run by a professional money manager. For instance, Pimco, one of the world's largest bond fund managers, also runs private accounts for high-net-worth investors in its Global Wealth Management division, which oversees $381 billion (as of March 31). The minimum account size to build a basic muni or corporate bond ladder is $150,000 but as high as $1 million for more active strategies, says Mark Thomas, an account manager at Pimco's Global Wealth Management group. "The minimums are important, because we need to make sure that we get access to a diversified pool of assets," he says.

Outsourcing adds an extra layer of fees for clients. How much depends on the level of account customization. "Fees are commensurate to the work we're doing," Thomas says. If the account is a buy-and-hold bond ladder, fees "generally compare pretty well to ETFs, and on the active [bond] account side, they would be comparable to our active mutual funds."

In other words, if clients want individual bond portfolios, there are competitively priced solutions.

Barron's

By Lewis Braham

July 20, 2021

Muni Risks Papered Over by Federal Aid Threaten to Reappear.

- **'Some of this sunshine is artificial,' investor Venditti says**
- **Money managers' dilemma is that cash keeps pouring in**

The influx of federal aid to U.S. municipal-bond issuers has papered over longstanding credit risks that threaten to come back to bite investors when the relief runs dry.

States, local governments and other borrowers are receiving $350 billion through the American Rescue Plan, a short-term infusion meant to cover revenue lost to the pandemic or offset its economic toll. The aid, combined with a rebound in tax revenue, has boosted confidence across the municipal market and helped some lower-rated credits reach lofty valuations.

Some investors say parts of the market — from states and cities with chronic fiscal strains to small private colleges grappling with affordability and demographic pressures — still face abundant challenges. The risk, the money managers say, is that fiscal headwinds such as underfunded pensions and budget deficits will resurface and weigh on portfolios after the aid is spent.

The federal funds "stabilized every balance sheet of every municipality everywhere, but eventually the money will bleed out," said Nicholos Venditti, a senior portfolio manager at Wells Fargo Asset Management Corp. "I'm largely bullish on munis, but I don't think investors should ignore that some of this sunshine is artificial."

Wall Street strategists are already talking about the rally in munis running out of gas. The bonds have offered an oasis in 2021, at a time when most parts of fixed income have delivered losses. The outperformance is due in part to a push by the Biden administration to hike taxes on the wealthy, bolstering demand for tax-exempt funds that have been luring heaps of cash.

The dilemma for asset managers is that they have to put the money to work in the face of ever-rising prices on even the riskiest debt. There's been a big reward to trading down in credit quality. Junk and non-rated munis have earned 7.1% this year, compared with 1.7% for the broad muni market, Bloomberg Barclays index data show. Treasuries have lost 2.3%.

‘So Expensive’

Investors have to decide how much more spreads can narrow, Venditti said. When the aid runs out, bonds sold by the more challenged issuers will likely trade back to values more consistent with their underlying risk, producing losses, he said.

“You don’t need a default to have a bad day as a muni investor,” he said. “Just because they’re going to survive doesn’t mean you want to buy them today, because they’re just so expensive.”

Case in point: At one point this month, yields on 10-year Illinois general-obligation bonds were barely 50 basis points above those on top-rated debt, the lowest gap in Bloomberg data going back to 2013 and almost 400 basis points narrower than in May 2020.

The state, among those logging better-than-expected revenue collections, has been allocated $8.1 billion of aid from the federal rescue plan. It had its credit rating upgraded by Moody’s Investors Service and S&P Global Ratings in recent weeks, bringing it back from the brink of junk. Yet it’s still the lowest-rated state, its pensions are only roughly 40% funded and it’s bleeding residents.

Not Buying

Eve Lando, a portfolio manager at Thornburg Investment Management, said she’s not buying Illinois bonds at current levels.

“They have been helped definitely by the stimulus, but I feel like people overbuy there thinking that it can only go up,” she said. “I don’t think it reflects the correct state of affairs.”

Lando said that when she and her team evaluate bonds, they “discount” the stimulus aid a borrower may have gotten, to make sure the credit can stand on its own.

Chicago is another issuer that has seen yields decline in the face of fiscal woes. Citigroup Inc. analysts say that while they’ve historically been bullish on the city, they’ve recently turned more hesitant because of its unfunded pension liability and a limited ability to raise revenue given its already-high combined state and local sales-tax rate.

“Now, we run the risk of becoming bearish on Chicago” despite the federal aid package, the group led by Vikram Rai wrote in a mid-year outlook report late last month. The junk-rated city received $1.9 billion in relief funds. “It is a legislative success story in the near-term, but structural issues are yet to be tackled.”

‘Priced to Perfection’

For Craig Brothers, a portfolio manager at Bel Air Investment Advisors, the relief funds afford a reprieve, but the structural challenges some governments face are evident. He said he’s avoiding reaching down in credit quality, a view that Mellon Investments Corp. is taking as well.

“Everything is just really priced to perfection,” Brothers said.

The stimulus has had a “tremendous” impact on the municipal market, said Susan Courtney, head of the municipal-bond team at PGIM Fixed Income. “But with certain credits that had specific challenges pre-pandemic, those still exist. They don’t just go away.”

Bloomberg Mrkets

By Danielle Moran

July 14, 2021, 9:30 AM PDT Updated on July 14, 2021, 12:17 PM PDT

— With assistance by Michael B Marois

The Art and Science of Prepaying Bonds.

It is always a good thing when you can replace your existing home mortgage loan with one having a lower interest rate. My original mortgage loan in 1981, for my house I still live in, had an interest rate of 16.25%. Fortunately, I was able to refinance it a few times into lower and lower interest rates, and finally – one of the few benefits of getting older – I paid it off!

If you are a governmental entity, the same thing is true when you refund your existing bonds with lower interest rate refunding bonds. In 1981, tax-exempt municipal bonds were bearing interest at 13%. For a governmental issuer, the ability to prepay debt is one of the most important terms in a financing; the issuer should look askance at any structure that materially limits the ability of the issuer to refinance its debt.

First Call Date. The ability of the issuer to prepay bonds is referred to in the legal documents as an "optional redemption." There are certain basic conventions. A bond issue typically has a "no call" period during which the bonds cannot be optionally redeemed. In most cases the "first call date" is about 10 years after the bonds are issued. In my state of Pennsylvania, small bond issues under $10 million in principal amount often have a five-year first call date. This "no call" period ensures the bond purchaser that it will be able to take advantage of its interest rate for a minimum set period of time without worrying about having its bond optionally redeemed by the issuer.

The Price of the Call. Most municipal bonds, when they reach their first call date, are redeemable "at par." That means the bonds are prepaid at 100% of the principal amount plus any accrued interest to the redemption date. Some bonds, particularly for issuers with lower credit ratings, are prepayable at "par plus a premium." For example, a nursing home bond issue may have a 10- year no call period, then be callable at 103% of principal amount in year 11, 102% of principal amount in year 12, 101% of principal amount in year 13, and at par in year 14 and thereafter (in all cases plus accrued interest to the redemption date). From the issuer's perspective, a redemption premium makes the refunding more expensive and requires rates to go even lower before a refunding makes economic sense.

Issuer Beware: Noncallable Bonds. In the world of finance, everything has a price. If you as an issuer are willing to forgo any optional redemption right (that is, the bond purchasers know their bonds will never be optionally redeemed), then you will probably be able to sell your debt at lower interest rates than an issue with a normal call feature. That is initially good for the issuer, but the issuer will never be able to take advantage of potentially even lower rates in the future. There is nothing more frustrating to an issuer than to have noncallable, high interest rate bonds in a declining interest rate environment.

Issuer Beware: CABs. In the late 1990's the hot technique du jour was capital appreciation bonds or "CABs". Normal fixed- rate municipal bonds pay accrued interest semiannually. CABs have no periodic interest payments. Interest accrues on the CABs, but the principal amount and all accrued interest are not payable to the bondholder until the maturity date of the bond. CABs are noncallable and they carry a "yield penalty" to the issuer (the investor wants higher interest to compensate for no payments received prior to maturity). After the CABs are issued, if you are an issuer who needs to pay off its existing debt (to eliminate a trust indenture with problematic covenants, or to be able to sell a sewer system financed with the CABs), the existence of your CABs is a major financial and legal headache.

Issuer Beware: Make-whole calls. The corporate bond world has different prepayment conventions. Rather than pricing a call at par or at par plus a fixed percentage premium, corporate bond calls are usually priced using a "make-whole" premium. The premium is calculated using a formula that gives the bondholder the benefit of a declining interest rate environment. If the rate environment is declining, then the amount of the make-whole premium increases when the issuer optionally redeems the bond. This is essentially the deal: "Go ahead issuer, you can optionally redeem this bond, but you will do so at a price that will make the bondholder whole based on current market conditions. That means you will lose the savings you would otherwise achieve in the refunding."

Governmental issuers sometimes find it advantageous to issue taxable bonds rather than tax-exempt bonds (usually because certain uses of bond proceeds do not conform to the tax-exempt bond regulations, or because the issuer wants to do an advance refunding it cannot do on a tax-exempt basis (see below)). In such cases, their call features will usually employ the make-whole prepayment structure, because the potential bond purchasers are used to, and want, the corporate bond structures. But if a governmental issuer is issuing tax-exempt debt, it should be wary of anyone who recommends using a make-whole prepayment structure. This is particularly true when an issuer is obtaining a tax-exempt loan from a bank – often the bank will ask for a make-whole prepayment structure.

Issuer Beware: Synthetic fixed-rate bonds. In the decade after the heyday of CABs, the new product du jour was interest rate swaps. Where do I begin on this topic? Here was the pitch: "Hello, issuer – instead of issuing regular fixed rate bonds at 5.00%, issue variable rate bonds and enter into a variable-to-fixed rate interest rate swap, and you will end up with a "synthetic fixed rate" of 4.75%." These structures were based on certain market assumptions and involved novel risk allocations. When the Great Recession hit in 2008 and 2009, the market assumptions went kaput, and supposedly "remote" risks came home to roost with a vengeance on issuers. For purposes of this article, the relevant point is: interest rate swaps can be very expensive to get out of. If the issuer wants to terminate a swap, it could have to pay a large termination fee calculated in a similar fashion to the make-whole calls described above. It may make it practically impossible to prepay the variable rate bonds and associated swap.

The Important Point: Issuer beware. I am a bond lawyer not a municipal advisor. I do not pretend to understand all the mathematical and market nuances involved in these matters. But I have seen issuers be seriously hamstrung by bonds that do not have traditional fixed-rate bond prepayment features. Issuers should be wary of anyone who shows up at their door selling "noncallable bonds" or "CABs" or "make-whole calls" or "interest rate swaps" or "synthetic fixed rate bonds." This does not mean that these products are always bad. They might be good in specific situations for specific issuers. But they can be so complicated that the issuer is unlikely to know the difference between good and bad without assistance. If you, as an issuer, hear these magic words uttered, it is time to call in your municipal advisor to help you sort through them. And if you are dealing with a swap, make sure your municipal advisor has expertise in swaps as well as bonds.

Variable-rate bonds. Most of the concepts described above relate to fixed rate municipal bonds. In the 1980s, municipal issuers, tired of high fixed rates, started issuing variable rate bonds. These bonds typically can be put on short notice by the bondholders to the issuer to be remarketed, and they bear interest at a much lower variable rate. Variable rate debt is typically prepayable by the issuer at par plus accrued interest at any time with no “no call” period. But the variable rate debt can become difficult to prepay if it is tied to a swap (see synthetic fixed rate bonds above).

The issuer should also consult closely with its municipal advisor on any variable rate debt structures. There was a Wall Street-created variant of variable rate debt called “auction rate bonds” that went completely kaput in the Great Recession. Once again, issuer beware!

Bond Pricing and Prepayment. When fixed rate bonds are priced during their initial issuance, they can be sold at par (at 100% of principal amount), at a discount (less than 100% of principal amount) or at a premium (over 100% of principal amount). The rate on a bond is called the “coupon rate”. A bond sold at a discount may have a coupon rate of 4.00%; but because the bondholder buys it at a discount (less than 100 cents on the dollar), the bond has a yield to the bondholder higher (say, 4.10%) than the coupon rate. A bond sold at a premium may have a coupon rate of 4.00%; but because the bondholder buys it a premium (more than 100 cents on the dollar), the bond has a yield to the bondholder lower (say, 3.90%) than the coupon rate.

Many municipal bonds are purchased by municipal bond funds. For reasons related to the marketing of those funds, the funds do not like to buy bonds with low coupon rates. So, the funds may say, “I want to buy this bond at 4.00% even though the market rate is lower, and I’m willing to pay a premium to buy the bond at that coupon rate.” With rates going lower and lower in the last few decades, many refunding bonds have been marketed with relatively high coupon rates and lots of premium. As a result, when five or 10 years later we come up to the first call date, the artificially high coupon rates on the existing bonds means they can be refunded at a substantial savings. That is why, even if market rates went lower in small increments over the five to 10 years, the savings could still be substantial.

Current Refundings and Advance Refundings. A current refunding is a refunding in which the refunded bonds are redeemed within 90 days of the issuance of the refunding bonds. An advance refunding is a refunding in which the refunded bonds are redeemed more than 90 days after the issuance of the refunding bonds. In either case, the redemption usually occurs as soon as possible after the refunded bonds’ first call date.

When an advance refunding occurs, for a period of time until the first call date on the refunded bonds, there are two sets of bonds outstanding with respect to the original project. So, if an issuer issues $10 million of bonds with a ten-year call to finance a capital project, and then four years later issues $10 million of bonds to advance refund the original bonds, the result is that for the next six years there are about $20 million of bonds outstanding relating to a $10 million capital project. If both series of bonds are tax-exempt, the U.S. Treasury hates this – bondholders are getting twice the tax-exempt interest benefit they should be getting for a $10 million project.

When I was a young bond lawyer in 1981, I told the senior partner I worked for that I was nervous because we were doing so few bond deals that year. He told me, “Don’t worry, Dave, every new deal we do in this 13% interest rate environment, we will be able to advance refund three or four times over the next decade.” I remember one advance refunding deal in which, between the sale date and the closing date, interest rates were taking such a dive that it already made sense to advance refund the advance refunding bonds we had not yet closed.

The U.S. Treasury and Congress clamped down on tax-exempt advance refundings, first in the 1986 tax act, and then again a few years ago to totally eliminate them. There is now a movement in Congress to liberalize the advance refunding rules again. Back to the future.

Issuers should recognize that their ability to prepay debt they are entering into is an extremely important term, and they should consult with their municipal advisors to achieve the most liberal prepayment term consistent with the type of financing they are doing. This becomes important when, down the road, the issuer wants to take advantage of a lower interest rate environment, or the issuer needs to get out of certain existing debt for other business reasons.

By David Unkovic

BY SOURCEMEDIA | MUNICIPAL | 07/19/21 12:09 PM EDT

OMB Backs Off Change to 'City' Definition.

The threshold to be considered a 'metropolitan statistical area' will not be doubled

The Office of Management and Budget on Tuesday backed off from a proposed change to the federal definition of "city" that could have scrambled billions of dollars in federal spending for more than 100 communities across the country.

Each decade, OMB tweaks the definition of "metropolitan statistical area," but it hit a sore spot in January when it proposed doubling the threshold from 50,000 to 100,000 people. Members of Congress, business leaders and communities themselves pushed back, arguing the agency's proposed change would have an impact on programs ranging from housing to health care.

In a news release Tuesday, OMB said it would announce in a Federal Register notice on Friday that it would back off the proposed doubling of the threshold and instead make "modest revisions" to 2010 definition standards.

At a House Budget Committee hearing last month, acting OMB Director Shalanda Young acknowledged the resistance the agency has received, saying that "this issue shows bipartisanship is alive."

Originally a statistical marker, the MSA has grown into a designation used in funding decisions for hundreds of federal programs, including Community Development Block Grant programs, which distributed $3.4 billion this fiscal year.

The National League of Cities and other organizations have argued that OMB hasn't done enough research on the potential impact of changing the MSA threshold, which could cause a ripple effect and disrupt Department of Transportation grants, Medicare reimbursements, rent calculations and more.

The Senate Homeland Security and Governmental Affairs Committee was scheduled to mark up a bill on the issue Wednesday that would mandate that OMB study the effects of the change.

Committee Chairman Gary Peters, D-Mich., one of the bill's sponsors, in a statement Tuesday praised OMB for dropping the "potentially harmful proposal."

"Communities of all sizes across Michigan and the United States are counting on federal resources to recover from the ongoing unprecedented public health and economic crisis," he said.

Nearly two dozen senators raised concerns about the issue in a March letter to OMB.

A federal interagency Metropolitan and Micropolitan Statistical Area Standards Review Committee, which recommended OMB make the change, argued that the country's population has more than doubled since the standards were established in 1950, making them due for an update.

The final register notice from the White House agency noted that the vast majority of comments opposed the proposed change.

The new MSA definition will not touch the 50,000 threshold but will make other adjustments to the definition. OMB will adopt a public update schedule for changes and make more use of the American Community Survey conducted by the Census Bureau, according to the notice.

The MSA threshold issue has not gone away, however, as the agency said it intends to take another look at the definitions after the 2030 census.

"Recognizing the committee's concern that MSA thresholds have not kept pace with population growth, OMB will work with the Standards Review Committee to conduct research and stakeholder outreach to inform the 2030 standards update," the OMB news release said.

The Hill

By Michael Macagnone

Posted July 13, 2021 at 6:34pm

Cities Awash in Rescue Cash Seek to Use It to Pay Down Debts.

- **Cities, lobbying groups ask Treasury to loosen limits on aid**
- **Biden stance reflects effort to ensure funds boost the economy**

America's states and cities are receiving $350 billion from Washington, an unprecedented move to head off a fiscal crisis that could have derailed the economic recovery.

But at least two dozen local governments and lobbying groups are pushing President Joe Biden's administration to allow the federal funds to be used for something the Treasury Department hadn't envisioned: paying down debt or socking it away.

Among them is Oceanside, a 176,000-person city on the Southern California coast. Michael Gossman, assistant city manager, wants to be able to use the federal aid to replenish reserves drawn down last year so the city could increase services for the homeless and deliver meals to the elderly during the pandemic.

"It's not that we're asking for a blank check," he said.

The push shows a small rift that's opened as the economy surges back from the pandemic, saving governments from facing the type of crippling budget deficits that lingered for years after the last recession. With their finances broadly on the mend, some officials want to use it to replenish depleted savings accounts or pay off debt run up last year to stay afloat as much of the nation shut down. That's put them at odds with Treasury regulations seeking to ensure the funds are plowed back into the economy.

Bounty of Cash

Marc Goldwein, senior vice president for the Committee for a Responsible Federal Budget, a nonpartisan think tank, said push-back against the administration’s rules reflect the fact that governments were given more “than they know what to do with.”

Overall, states and cities have been eager to put the aid to work, using it to fund direct relief for small businesses, upgrades to water and sewer infrastructure, and even local experiments with universal basic income. And the wide range of spending on which the aid can be used can easily free up locally generated funds for paying down debt or bolstering savings. Both Illinois and New Jersey, for example, have used unexpectedly large tax collections to chip away at their debts.

Even so, cities including Philadelphia and lobbying groups like the National League of Cities have asked the Biden administration to relax some of the restrictions. Treasury officials could make changes to its rules after accepting comments that are due Friday.

Stoking the Recovery

The Treasury’s initial guidance emphasizes potential uses of the money like rehiring workers and helping lower-income and minority communities hardest hit by the pandemic. It also included a variety of restrictions, including a ban on using it to offset tax cuts. Those rules were designed to encourage states and cities to spend the money quickly, said Dan White, director of public sector research for Moody’s Analytics.

Putting the money in rainy day funds is “not going to do anything to increase GDP or job growth today,” White said.

It’s unclear how much of an economic impact it would have if the Treasury rolled back some of the limits. But many governments sold debt in the early days of the pandemic as they prepared for tax revenues to tumble. In the second half of 2020, for example, at least one quarter of state and local government debt sales over $100 million included a material element of deficit financing, according to Municipal Market Analytics.

“We had to balance our books. We had to issue debt,” said Gary Dickson, town supervisor for West Seneca, New York, which took out a loan of $600,000 last year.

While he said the aid is “fungible,” giving the town flexibility to pay off the loan with other funds, loosening the restrictions would make things easier, he said.

Philadelphia’s finance director, Rob Dubow, told Treasury that helping local governments rebuild their finances would prepare them for the next economic downturn, according to a letter to the department. Philadelphia, which drew heavily on reserves during the pandemic, is projecting that its general-fund balance will fall to a surplus of $78.7 million from $438 million before the pandemic, according to a city spokesperson.

Rebecca Rhynhart, the city’s controller, wants part of the rescue funds earmarked for future tax shortfalls. She said other funds should be used for combating gun violence, reducing poverty, addressing the opioid epidemic and business growth.

“We need to make sure we are fiscally sound,” she said. “At the same time, significant amounts of money needs to be used for investments to tackle these challenges.”

Chicago has seen a political debate over how to best divvy up the aid. Before the Treasury rules were released, Mayor Lori Lightfoot’s administration floated using it to pay down a loan taken to help close a nearly $800 million deficit and cancel a debt refinancing plan, which together would take up almost half of the $1.9 billion in recovery funds the city expects to receive.

She's faced pressure from progressive politicians like Alderwoman Rossana Rodriguez Sanchez, who said it would be a waste to pay down debt given a spike in violence and an uneven recovery that's leaving behind people of color and lower-income communities.

"This is the moment to make an argument for the massive injection of resources," she said.

Bloomberg Politics

By Amanda Albright and Shruti Singh

July 16, 2021, 8:00 AM PDT

— With assistance by Madeline Campbell, and Michelle Kaske

Expectations for Municipals and Infrastructure.

Congress continues to take steps towards introducing bipartisan infrastructure legislation. This week, Senators are expected to meet and discuss potential pay-for planning to finish drafting the legislative package by next week. News of some muni provisions being included in the initial outline is a step in the right direction, however many questions remain regarding the potential legislation's reliance on private and state, and local investment as well as what additional provisions may be added to the draft.

While this likely package presents a great opportunity to advance BDA and MBFA priorities, it is potentially the first of many infrastructure spending bills that Congress will work to pass during the remainder of 2021.

What does this mean for municipals in 2021? Below is a legislative update of the status of individual muni priorities.

Expectations for Municipal and Infrastructure

New Direct Pay Bond Exempt from Sequestration

Included in the bipartisan infrastructure agreement, a new category of tax-preferred financing for state and local governments to be known as American Infrastructure Bonds (AIBs). Similar to the previous Build America Bonds program, AIBs would be an alternative to tax-exempt financing. The Senate American Infrastructure Bond is exempt from sequestration and has a flat 28% reimbursement rate while the House is not while varied reimbursement. There is a general consensus that the new AIB will be included in any infrastructure package passed, however, sequestration provisions remain in flux.

**Included in Bipartisan Infrastructure Agreement

Expand the Usage of PAB's

As a priority for the Administration, the expansion of PABs for transportation purposes was included in the initial bipartisan agreement. This follows the calls from the Biden Administration for an increase in the PAB limit for transportation infrastructure, doubling the limit to $30 billion dollars.

There is legislation in the Senate that would expand the usage of affordable housing amongst other provisions. PABs for GSE use has also been a popular discussion item, but little legislative text has been produced and this has yet to be tied to the existing proposal.

** Included in Bipartisan Infrastructure Agreement

Restoration Tax-Exempt Advance Refundings

As a top legislative priority for the municipal market, the restoration of tax-exempt advance refundings remains in a strong position for advancement this year. The legislative text was reintroduced by the House Municipal Finance Caucus earlier this year (the bill was identical to the version introduced in the 116th Congress) and absorbed in the later introduced LIFT Act. Following the House release, Senators Wicker (R-MS) and Stabenow (D-MI) introduced the LOCAL Infrastructure Act which much like the House companion, would fully restore tax-exempt advance refundings to their pre-2018 form.

**Not Included in Bipartisan Infrastructure Agreement-Slight Possibility for Inclusion in Final Draft–Stronger Likelihood for Inclusion in Additional Infrastructure Package

Raise BQ Debt Limit

Much like AR, legislation was introduced in the House this Congress and absorbed into the LIFT Act. However, there has yet to be a Senate companion introduced, a potential hurdle in advancement.

**Not Included in Bipartisan Infrastructure Agreement–Slight Possibility for Inclusion in Final Draft–Average Likelihood for Inclusion in Additional Infrastructure Package

Bond Dealers of America

July 13, 2021

The Washington Weekly: Deal or No Deal?

Following the 4th of July holiday recess, the Senate is back in Washington, DC, and has already failed to meet its self-imposed deadline to turn the bipartisan infrastructure agreement into legislative text–a key next step in the legislative progress. While this may not be detrimental to the long-term prospects of the deal, every day that passes further complicates the tightrope act that Congressional Democrats are embarking on.

Following news of a delayed release of the bipartisan package, this week Senate Budget Chairman Bernie Sanders (I-VT) released budget instructions for the potential infrastructure budget reconciliation bill that includes an additional $3.5 trillion of spending. The plan will likely include portions of the American Jobs Act and the American Families Act that are unable to be agreed upon in the bipartisan agreement amongst many other provisions such as the expansion of Medicaid.

Few details exist beyond the broad outline that the budget agreement presents, however, this package will provide an additional opportunity for BDA and MBFA priorities that may not be included in the bipartisan package.

While the draft legislative text has yet to be produced for either potential package,

included in the original bipartisan outline were two muni provisions:

- **A new BAB like a direct-pay bond, the American Infrastructure Bond, with a flat 28% reimbursement rate likely exempt from sequestration (not included in the text, but the bills Sponsor Sen. Wicker (R-MS) says that is his intention), and**
- **Expansion of PAB limit for transportation infrastructure, doubling the limit to $30 billion dollars**

The BDA and MBFA continue to press our partners on Capitol Hill to include key additional provisions in either package including:

- **The reinstatement of tax-exempt advance refundings, and**
- **Raising of the BQ debt limit tying to inflation.**

House and Senate Democratic Leadership as noted above continue working on a two-track approach: ensuring that the bipartisan agreement remains intact while developing the massive budget reconciliation package without losing a single vote of their narrow Senate majority. On the Republican side, Senate Minority Leader Mitch McConnell (R-KY) appears ready to allow passage of the bipartisan package, while messaging against the massive reconciliation package–an effort to gain traction heading into the 2022 election cycle.

At this time, it is too early to predict the outcomes of each package, however, we remain confident that munis will continue to receive ample consideration and are in a good position for passage.

Bond Dealers of America

July 16, 2021

Fitch Revises US Air Traffic Assumptions Upward For Airlines and Airports.

Fitch Ratings-Austin/New York/Chicago-12 July 2021: We are revising upward our forward-looking US air traffic assumptions due to the strong rebound in domestic air travel driven by increased US vaccinations and a surge in US leisure air traffic since March 2020, Fitch Ratings says. Travel volumes are expected to see additional growth in 2H21 and beyond, as business and international travel climbs from pandemic lows.

Risks remain for the industry, primarily uncertainties around the pace and timing of air traffic recovery, the potential impact of virus variants, and lagging business and international travel. However, the financial risk to airports that are on Negative Outlook has considerably diminished due to improving passenger volumes, effective management oversight of budgets and the three rounds of federal aid that appear to be sufficient to cover revenue losses. Growing revenues will help cover costs and restore metrics to levels consistent with current rating levels. Several airports were revised to Stable Outlook during 1H21, and more airports could be positioned for a restoration of a Stable Outlook due to the new traffic assumptions.

In contrast, most US airlines continue to have Negative Outlooks, reflecting the relatively greater impact that the pandemic had on airline balance sheets compared with airports. While most airlines have Negative Outlooks, there have been a few stabilizations, and we believe that domestic- and leisure-focused carriers are poised to benefit from stronger US domestic traffic in 2H21. Additional ratings stabilization for the airlines will depend on their ability to sustainably return to positive cash flow and address pandemic-related debt balances.

Continue reading.

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

Table of Contents

S&P Global Ratings maintained 67 ratings and took 42 rating actions in the U.S. not-for-profit higher education sector in the second quarter of 2021. The 42 rating actions are broken out as follows:

- Three downgrades
- Five upgrades
- 22 outlook revisions to stable
- Six outlook revisions to negative
- Two outlook revisions to positive
- Four new ratings

Of the 22 outlooks revised to stable, 15 had been revised to negative in April 2020 as part of S&P Global Ratings' response to the heightened social and economic risks associated with the COVID-19 pandemic. In addition, in the second quarter of 2021, we lowered the rating on Methodist University to 'BB' with a stable outlook; the outlook had been revised to negative from stable in April 2020.

Continue reading.

14 Jul, 2021

S&P U.S. Charter Schools Rating Actions, Second-Quarter 2021

During the second quarter of 2021 (April 1-June 30), S&P Global Ratings changed its rating or revised its outlook on 29 U.S. charter schools (seven of these were new ratings that were initially assigned) while maintaining 80 ratings. Rating actions spanned across all rating levels.

Positive rating actions matched negative rating actions in the second quarter, reflecting the mixed recovery picture as schools end an unprecedented 2020-2021 school year. Most of the ten negative rating actions, which included two downgrades and eight negative outlook revisions, were characterized by ongoing enrollment declines, often preceding, but perhaps exacerbated by, the pandemic. For charter schools, these demand pressures often translate to slimmer operations and weaker balance sheets.

The second quarter's ten positive rating actions tell a different story. These schools earned successful charter renewals, grew cash, strengthened coverage, or improved demand metrics. New charter school ratings in 2021 rival last year, with 13 new ratings assigned year-to-date, compared to 23 new ratings assigned in 2020. S&P Global Ratings revised the charter school sector view back to stable in March 2021 following the steady improvement in economic conditions and the third round of federal stimulus monies. We believe ESSER I, II, and III funds will likely bolster schools' operations in the coming fiscal years. Federal aid to states should also flow through to our rated charter schools, supporting steady-to-growing per-pupil funding in the near term, which we view positively.

The following tables summarize S&P Global Ratings' quarterly rating actions, outlook revisions, and maintained ratings for U.S. charter schools. The rating actions, outlook revisions, and maintained ratings are based on our "U.S. Public Finance Charter Schools: Methodology And Assumptions" criteria, published Jan. 3, 2017, on RatingsDirect.

Continue reading.

13 Jul, 2021

Municipal CUSIP Request Volumes Climb for Fifth Straight Month.

NEW YORK, July 13, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for June 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 increase in request volume for new municipal identifiers and a slight decline in request volume for new corporate identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt declined 3.3% in June from last month. The monthly decrease was driven largely by U.S. corporate debt identifier requests, which declined by 5.7%. On a year-over-year basis, corporate CUSIP requests were down 6.4%.

Monthly municipal volume increased for a fifth straight month in June. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 14.3% versus May totals. On an annualized basis, municipal CUSIP identifier request volumes were up 7.2% through June. New York led state-level municipal request volume with a total of 226 new CUSIP requests in June, followed by Texas with 211 and California with 108.

"Municipalities continue to issue new debt offerings at a rapid clip, especially during the peak short-term notes season, suggesting opportunistic capital raising in a largely favorable rate environment," said Gerard Faulkner, Director of Operations for CGS. "The recent slowdown in corporate activity has been notable, however, and will be important to watch over the course of the coming months."

Requests for international equity and debt CUSIPs were mixed in June. International equity CUSIP requests were down 9.2% versus May. International debt CUSIPs increased by 14.3% on a monthly basis.

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

Munis In Focus: Stretched Valuations (Radio)

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller. (Taylor Riggs fills in for

Matt Miller)

Listen to audio.

Bloomberg Radio

July 16, 2021

What's Next for Municipal Bonds After a Strong First Half of the Year?

As summer hits its stride, here are some musings about municipal bond performance to mull over as you unwind at the beach or on the couch (no judging!).

Market review and outlook

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. 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.

However, we believe it will be tough for munis to deliver the same outperformance versus taxable bonds during the second half of the year. Why? Muni yields started the year at much higher levels versus Treasuries (representing value); this differential is much less now, diminishing the relative value of munis versus Treasuries. 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 (more on this below). 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.

Continue reading.

advisorperspectives.com

by Albert Jalso of Russell Investments, 7/15/21

Could Banking Magic Save Cities From Climate Disaster?

A flawed but historically robust emergency response to the Covid-19 pandemic by Congress and our nation's central bank helped America avoid the second Great Depression that so many prominent economists feared. Still, few progressives are declaring mission accomplished: The Biden administration and Democratic legislators are mired in political trench warfare over how to pay for desperately needed infrastructure and a climate change package.

President Biden has so far ruled out any measure that would increase deficit levels. And Republicans are arguing against any new taxes on the affluent or businesses. Because many states and cities now report surpluses rather than the yawning deficits that were predicted last year, most conservatives say Congress should use as-yet unspent local aid dollars from spring's American Rescue Plan to pay for the infrastructure, rather than issue new spending.

The standoff is a microcosm of a much larger dilemma that we'll be stuck with for years: For America to tackle climate change, it most likely needs not only to expand federal efforts but also to build up state and local governments' capacities to make their cities more eco-friendly and build things like new flood walls or drainage systems. Yet for such efforts to be politically viable, policymakers probably have to avoid burdening people with unpopular middle-class tax hikes. (This knowledge has led President Biden to pledge, first as a candidate and now as president, that he will never increase taxes on families earning under $400,000 annually.)

Continue reading.

The New York Times

By Alex Yablon

July 16, 2021

Mr. Yablon, a journalist who writes about policy and economics, is a contributing opinion writer for Business Insider.

SIFMA US Municipal Bonds Statistics.

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

YTD statistics include:

Issuance (as of June) $228.2 billion, +8.5% Y/Y
Trading (as of June) $9.3 billion ADV, -33.8% Y/Y
Outstanding (as of 1Q21) $4.0 trillion, +2.7% Y/Y

Download XLS

July 6, 2021

States Finalize Fiscal 2022 Budgets (Updated 7/9)

As of July 9, 46 states have enacted a full-year budget for fiscal 2022. States have been enacting fiscal 2022 budgets during a time when fiscal conditions continue to strengthen as the economy recovers from the pandemic and additional federal aid flows to state and local governments. As noted in NASBO's Spring 2021 Fiscal Survey of States, 40 out of 50 states saw revenue declines compared to pre-pandemic projections over the two-year period from fiscal 2020 to fiscal 2021. However, most states' enacted fiscal 2022 budgets include an increase in both state spending and revenue.

Forty-six states began their fiscal years on July 1. New York starts its fiscal year on April 1; Texas begins on September 1; and Alabama and Michigan start their fiscal years on October 1. Forty-eight states are enacting a new budget for fiscal 2022. Virginia and Wyoming, which both enacted two-year budgets for fiscal 2021 and fiscal 2022 in calendar year 2020, approved budget adjustments to their biennial budgets. Kentucky, which would normally have passed a two-year budget in calendar year 2020, passed a one-year budget only for fiscal 2021 due to revenue uncertainty created by COVID-19, and enacted a new budget for fiscal 2022 this year. Of the 48 states passing a new budget for fiscal 2022, 17 states are enacting a biennial budget for both fiscal 2022 and fiscal 2023.

Below is additional information on the states that have yet to enact a full-year budget for fiscal 2022:

1. **Massachusetts** – The legislature finalized the budget of July 9, and the governor has ten days to act on the bill.
2. **Michigan** – The state's fiscal year does not begin until October 1. The legislature is finalizing the budget.
3. **North Carolina** – The Senate passed the budget on June 25 and the House is now considering the bill. State law allows spending to continue at current levels until a new budget is enacted.
4. **Oregon** – The governor is completing acting on agency budget bills. The state is currently operating under a continuing resolution for the unsigned bills.

Please click here for links to proposed and enacted budgets, as well as prior budget summaries.

NASBO

By Brian Sigritz

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

View the Current List.

S&P: COVID-19 Activity In U.S. Public Finance

Here are links to coronavirus-related activity in U.S. public finance. This file will be updated regularly.

Download

Fitch Ratings Revises Outlook for U.S. Colleges and Universities to Stable.

Fitch Ratings-Chicago-07 July 2021: U.S. colleges and universities are heading into the second half of this year with more cautious optimism as they plan for largely in-person instruction heading into the 2021–2022 academic year, according to Fitch Ratings in a new report.

Fitch has revised both the sector and Rating Outlook to Stable with affirmations likely to dominate rating activity for colleges and universities in the coming months.

‘The $76 billion federal stimulus offset tuition and auxiliary losses associated with the coronavirus pandemic, as well as unplanned coronavirus expenses,’ said Fitch Senior Director Emily Wadhwani. ‘The application pipeline is growing, especially for top choice schools, while improved revenue prospects for state budgets could lead to improved auxiliary and student fee revenues in the coming academic year as students return to campus.’

Areas of risk still remain. The benefits of federal stimulus continue to prop up operations and have aided in improving state budget conditions and funding expectations. Some near-term downgrades are possible for institutions with persistent and insurmountable operating and cash flow pressures due to constrained revenues from enrollment, auxiliary systems, fundraising and state appropriations.

Enrollment will be a key area to watch, with undergraduate enrollment likely to recover somewhat this fall. A rise in test-optional admissions has led to a meaningful increase in applications, though FAFSA application rates have lagged, forcing some institutions to extend their application deadlines. A more uncertain fall 2021 admissions cycle may disproportionately affect regional public colleges/universities and less selective private institutions.

‘Although the risk of a resurgence in the pandemic remains, colleges and universities are generally better positioned to navigate these conditions after a year of hybrid delivery,’ said Wadhwani.

‘Fitch Ratings 2H21 Outlook: U.S. Public Finance Colleges and Universities’ is available at ‘www.fitchratings.com.’

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[Fitch: Post-Coronavirus Pressures to Worsen Credit Gap for U.S. Colleges]

Fitch Ratings-Chicago/New York-07 July 2021: Elevated revenue pressure and slowing tuition growth will exacerbate an already widening credit gap for U.S. colleges and universities, according to Fitch Ratings in its annual medians report for the sector.

The annual change in net tuition revenue was the lowest in recent history at 1.9% for private institutions, and the median student fee percentage of total revenue fell to 34.5% for public institutions, its lowest since fiscal 2011. Colleges rated ‘BBB’ and below are the most vulnerable to rating pressure in the coming months. According to Fitch Senior Director Emily Wadhwani, ‘These colleges are often smaller in enrollment size, have limited endowments and tend to attract more local and regional students.’

Conversely, median ratings were steadier at ‘AA’ for public institutions and ‘A–’ for private institutions. Notably, the ‘A’ rating category had some of the strongest operating and cash flow margins in fiscal 2020, as this group has very little healthcare-oriented services, which were significantly pressured by the pandemic at the end of fiscal 2020.

Liquidity has improved while leverage is holding steady for colleges, both of which have helped the sector in recent months. The Biden administration’s American Rescue Plan (ARP), American Jobs Plan (AJP) and American Families Plan (AFP) has also helped to blunt the pandemic’s impact for colleges, but this temporary aid will run off beyond 2022. Most revenue from of the three federal stimulus rounds to higher education will be recognized in fiscal years 2021 and 2022.

‘While federal stimulus provided a significant boost to the sector, the likelihood of additional direct aid authorizations in the event of a resurgence in the pandemic is unlikely,’ said Wadhwani.

Fitch’s ‘Fiscal 2020 Median Ratios for U.S. Colleges and Universities’ is available at ‘www.fitchratings.com’.

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How the West’s Searing Heat Wave Could Affect Muni Bonds.

It probably isn’t the first asset class investors think about with regard to climate change and scorching temperatures, but municipal bonds may be worth closely monitoring as soaring temperatures punish the western part of the U.S.

Still, the iShares National Muni Bond ETF (NYSEArca: MUB) is modestly higher over the past month. All things considered, that’s a solid showing, particularly against the backdrop of 44 million Americans living in drought-ravaged regions. As Charles Schwab’s Cooper Howard points out, severe droughts and other heat-related conditions could carry negative implications for some issuers of municipal debt.

“The drought and severe heat wave could lead to negative credit implications for some muni issuers, but we anticipate that most issuers will be able to adequately manage through the risks,” notes Howard. “The drought and heat wave could impact issuers in numerous ways, such economic disruption leading to reduced revenues, increased expenses due to recovery efforts, damage to physical infrastructure, increased energy demands, and the potential for outmigration."

That's relevant for investors considering MUB or any number of municipal bond exchange traded funds because California, as one of the largest issuers of municipal debt, is often among the biggest state exposures in muni ETFs. It's one of five states – the others are New York, Texas, Florida, and Illinois – that combine for half of outstanding muni bonds.

California's current drought is so severe that some almond farmers are simply giving up. Additionally, there's ongoing debate about water rights in the Golden State, as some towns are without water entirely and customers in other locations are complaining about the quality of their drinking water.

Fortunately, California's drought won't kill the case for municipal bonds, particularly for investors accessing these bonds via broad-based ETFs.

"We do not expect the drought to affect returns for the broad municipal bond market. Historically, no issuer that Moody's rates has ever defaulted, or missed an interest or principal payment, due to a natural disaster, which includes wildfires. Moreover, the geographical diversity of the muni market helps to mitigate the impact of the severe heat and the drought," notes Howard.

California is home to one of the largest state budget surpluses in the country, which could help it avoid muni defaults, if they arise by way of droughts and wildfires. Another avenue for investors to consider is to focusing on shorter-duration munis.

"Focusing on shorter-term bonds can help to reduce the risk that outmigration and an erosion of the tax base may have on muni issuers," according to Howard.

ETF TRENDS

by TOM LYDON

JULY 7, 2021

Congress Fails Schoolkids Struggling to Learn Online.

The pandemic exposed the gaps in the U.S. broadband infrastructure.

The Covid-19 pandemic exposed the weaknesses of the U.S. broadband infrastructure — a problem that hit schoolchildren especially hard. Millions of them had to struggle through online learning with little internet access, or none at all.

The compromise infrastructure package announced last month by a bipartisan Senate committee and supported by President Joe Biden includes $65 billion for much-needed broadband expansion. That would help solve the problem, but gaps would remain.

In wide swaths of the U.S., many children live in households without internet access at home; in some places the number exceeds 50%. Among those that have access, download speeds often do not meet the Federal Communication Commission's minimum standard for broadband, defined as download speeds of 25 megabits per second and upload speeds of 3 mbps.

[Continue reading.](#)

Bloomberg Opinion

By Andrea Gabor

July 9, 2021, 4:00 AM PDT

How Governments Can Leverage Federal Funds to Partner With Local Nonprofits.

The American Rescue Plan allows states and localities to funnel federal relief dollars to nonprofit organizations, which the National Council of Nonprofits says could be key to local economic recovery.

State and local governments can use federal coronavirus relief funds to partner with nonprofit organizations in their communities, aiding local recovery efforts by expanding existing programs or creating new ones, the National Council of Nonprofits advises in a new report.

“Nonprofits and governments are natural partners, serving the same constituents in the same communities,” the document says. “Partnerships between the sectors allow for leveraging of resources, relationships, and strengths to serve those communities even better.”

The report seeks to serve as a resource for government officials who may not know that the guidelines for relief funds distributed through the American Rescue Plan Act specifically allow for assistance to nonprofit organizations. That funding is desperately needed, as most nonprofits have seen increased need from constituents while also facing layoffs and reduced donations during the pandemic, said Tiffany Carter, policy counsel at the National Council of Nonprofits and the report’s lead author.

Continue reading.

Route Fifty

By Kate Elizabeth Queram

JULY 2, 2021

Fitch Ratings Updates Public Finance and Global Infrastructure ESG Dashboard.

Fitch Ratings-New York/London-08 July 2021: Fitch Ratings has updated the interactive ESG dashboard for public finance and global infrastructure and its interactive ESG relevance heatmap for 2Q21.

The dashboard is a tool that shows the distribution of Fitch’s ESG Relevance Scores (ESG.RS) for 2,750 issuers and transactions across the Global Infrastructure Group (Infrastructure), International Public Finance Local and Regional Governments (IPF LRG), IPF Government Related Entities (IPF

GRE), and U.S. Public Finance Tax Supported (USPF Tax) and USPF Revenue sectors.

The heatmap shows the highest ESG.RS for a given ESG issue that applies to a minimum percentage of rated issuers within a given sector.

We updated scores for 529 issuers and transactions in 2Q21. IPF LRG had 117 issuers updated with two entities with a decrease from a ‘4’ to a low impact (‘3’) in the environmental and social categories.

USPF Tax had 280 updates with two entities seeing increased ESG.RS to ‘4’ in governance issues for ‘Rule of Law, Institutional & Regulatory Quality, Control of Corruption’. USPF Revenue had 316 updates, with seven increases to an ESG.RS of ‘4’ or ‘5’. Most of the changes were seen in governance issues, followed by environmental and one in social issues.

Infrastructure had 99 updates with one entity decreasing from a ‘4’ to a low impact (‘1’ to ‘3’) in governance.

IPF GRE had 56 updates and remained stable in ESG.RS changes.

The reports, ‘ESG Public Finance Interactive Dashboard – 2Q21’ and ‘Public Finance ESG Relevance Heatmap – 2Q21’, are available at fitchratings.com.

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Covid Stimulus Offers Trove of Cash for Infrastructure.

Talks over a spending deal are dragging on in Washington. The good news is, the fine print in the latest pandemic relief package already sets up an influx of funds for critical projects.

When it comes to fixing the nation’s crumbling roads and sewers, all eyes are on a $579 billion bipartisan framework brokered by the White House last month. Like most things in Washington, the path forward for that spending bill is riddled with political potholes. The good news for manufacturers, though, is that the U.S. has actually already signed off on a potentially meaningful influx of fresh infrastructure spending through the latest $1.9 trillion Covid stimulus program passed in March.

The American Rescue Plan — Congress's sixth bout of fiscal stimulus to combat the pandemic by my count — is better known for its $1,400 stimulus checks and the extension of enhanced unemployment benefits. But the package also includes $123 billion in K-12 education-related spending and $350 billion in state and local aid, among other things. The first priority for this money is fighting the virus and its myriad effects on the economy, but infrastructure-related expenditures — such as air-conditioning upgrades and investments in improving the quality of drinking water — are also among the acceptable uses for those two buckets of funds. Because the total appropriations are so large, even a partial contribution to water and education-facility projects could translate into a level of extra infrastructure spending that's comparable or larger than what was included in the 2009 financial crisis bailout, Bank of America Corp. analyst Andrew Obin wrote in an April report.

[Continue reading.]

Bloomberg Opinion

By Brooke Sutherland

July 9, 2021, 6:00 AM PDT

[Infrastructure Legislation And Its Impact On The Municipal Market.]

Summary

- While political forces could alter their course, we believe that passage of these infrastructure bills would have a positive impact on the municipal market.
- If enacted into law, taxes for high income earners are likely to increase, which could fuel additional demand for tax-free municipal bonds, particularly in high tax states.
- In short, we believe infrastructure legislation would provide investors with new and expanded investment opportunities and issuers with additional opportunities to issue debt in a cost-effective manner.

[Continue reading.]

Seeking Alpha

Jul. 09, 2021

[What Regional Leaders Want From Biden's Infrastructure Bill.]

Federal infrastructure policy has the power to transform America's cities and suburbs, including where they grow and who benefits from federal investments. But leaders in Washington can't achieve that transformative impact without understanding the needs of regional leaders who grapple with infrastructure challenges every day.

Today, we are living with the legacies of the federal government's last grand infrastructure vision developed over the past century. Transportation investments such as the interstate highway system and port expansions boosted business competitiveness and accelerated the development of suburban housing, but also uprooted families and increased pollution. The National Flood Insurance Program and other environmental regulations aimed to reduce climate risks in neighborhoods, but often failed to insulate households from harm—particularly, homes constructed in flood plains and sensitive coastal areas. Too often, 20th century federal policies incentivized metropolitan economies to expand outward but did not offer enough flexible resources to help independent jurisdictions coordinate regional strategies.

Now with a major congressional negotiation on infrastructure underway and a new presidential administration in place, federal leaders have a historic opportunity to revisit past policies to better support today's metropolitan leaders and their contemporary ambitions. That process, though, must start with a clear understanding of what regional leaders need—and not just infrastructure agencies, but also the business leadership and community groups that all collaborate to build competitive, inclusive, and resilient economies.

Continue reading.

The Brookings Institution

by Adie Tomer, Joseph W. Kane, and Caroline George

Thursday, July 8, 2021

'Trying to Strangle Local Governments:' What Happens When States and Their Cities Become Adversaries?

'The relationship and potential antagonism between a city and its state is widely underinvestigated,' says one public-finance analyst

Last September, presenting his proposed 2021 budget, Milwaukee Mayor Tom Barrett laid out a somber picture of his city's finances.

Even before COVID-19 hit, Barrett said, "our budget challenges reached a crescendo." Just weeks earlier, the city sustained a debt-rating downgrade, in part because it was spending down reserves.

"We've [spent those reserves] to maintain our vital services without any growing revenue," Barrett continued. "This, of course, is a direct result of our relationship with the state of Wisconsin and legislature in particular."

Continue reading.

MarketWatch

By Andrea Riquier

July 8, 2021

A Look at What's Driving Muni Bonds in 2H 2021.

Municipal bonds have always been an attractive fixed income asset class thanks to their

tax-advantaged status and government safety net – especially for investors that fall into higher tax brackets. These benefits have become even more pronounced with potential capital gains tax increases for high earners and rising inflation.

According to Municipal Market Analytics, investors snapped up more than $40 billion worth of muni bonds during the first half of the year, which was the most over the same period since 2008.

Let’s look at these trends and three reasons they are poised to continue into the second half of the year.

Stabilizing Quality

Moody’s Investors Service raised its outlook for state and local governments to “stable” from “negative” after the $1.9 trillion pandemic relief bill passed in March, saying that the funds would stabilize state finances and help avoid local government funding cuts. The upgrade helped draw many investors back into muni bonds after the sell-off.

State governments have also been able to raise billions of dollars on highly favorable terms in recent months. For example, Illinois saved millions of dollars when it borrowed $1.26 billion in mid-March, paying just 1.09% compared to 3.42% on comparable bonds. These sales have helped increase supply, while refinancing has improved credit ratings.

Rising Interest Rates

Interest rates have been on the rise over the past year. For instance, 10-year Treasury yields have risen from a low of nearly 0.5% during the middle of last year to about 1.75% earlier this year. In addition, annual inflation rates have been running at about 5%, thanks to a nearly 50% increase in lumber prices and a 30% increase in energy prices.

Municipal bonds aren’t nearly as sensitive to interest rates as Treasuries or corporate bonds. This is because many investors hold the bonds until maturity, creating stickier prices unless rates truly start to accelerate. The tax-advantaged status of muni bonds also offsets some interest rate risks, as many investors prefer to avoid taxes – even if rates rise.

Taxes & Incentives

The Biden administration’s proposed tax changes could make municipal bonds even more attractive to investors. In particular, the president’s proposal to hike top capital gains rates to 39.6% could make after-tax muni yields attractive. After all, the after-tax yield of a 5% muni bond is closer to an 8% corporate bond for investors in the 35% tax bracket.

The latest bipartisan infrastructure plans could incentivize municipalities to issue more public-private bonds, private activity bonds and direct-pay bonds on the supply side. While Build America Bonds have been popular since 2009, there is substantial demand for additional types of bonds that could offer higher interest rates than general obligation issues.

Risks Remain

There are many different types of municipal bonds. Each bond has its issuer, structure, creditworthiness, income potential and other factors that investors must consider. During today’s low-yield environment and supply-demand imbalance, investors cannot rely on high-quality municipal bonds to meet income requirements.

High-quality state general obligation bonds may not have a lot of upside in today's environment, which means investors may have to seek out sectors where post-pandemic recoveries still offer the potential for improvements. These higher-yielding opportunities provide more cushion against rising rates but come at potentially greater risk.

The Bottom Line

Municipal bonds have always been an attractive asset class due to their unique tax advantages and government safety net. That said, with rising interest rates, improving credit quality and the prospect of higher taxes, these bonds have become even more attractive in recent months, setting the stage for further outperformance during 2H 2021.

Other trends could continue driving the sector higher beyond 2021. For example, the rise of impact investments has boosted interest in climate and social change muni bonds, from bonds funding K-12 schools in underserved communities to alternative energy investments. These trends could accelerate in 2022 and beyond.

dividend.com

by Justin Kuepper

Jul 07, 2021

[Janney Set to Be Ousted From Stalled N.J. Water Park Muni Deal.]

- **Developer seeks to draw families to East Coast gambling hub**
- **Debt sale pushed back as underwriter pitched deal to buyers**

Janney Montgomery Scott LLC is set to be ousted as the underwriter of $95 million of municipal bonds that will finance the construction of an indoor water park in Atlantic City, New Jersey, after the sale failed to close as planned.

Developer Bart Blatstein said in an interview Monday that he would like to hire Citigroup Inc., which he termed "better equipped to handle such a large and unique transaction." The bonds would be issued through the Atlantic County Improvement Authority, which would have to approve the new appointment.

Such a change in underwriters after a deal has already been set to price is rare in the municipal bond market, where recently even the riskiest securities have easily found buyers as cash pours into high-yield funds. The Atlantic City bonds were initially set to be sold in late May but were shifted to so-called day-to-day status, a step underwriters take when they need more time to drum up buyers.

"Investor demand has not been as robust as hoped," Jeffrey Winitsky, a lawyer at Parker McCay, the developer's counsel, wrote in an email on Wednesday. He said the deal was pulled with the expectation that a new underwriter would be hired to "give the transaction a fresh perspective and marketing effort."

Citigroup is the municipal market's second-largest underwriter and, like other big Wall Street banks, has a broad national reach. The Philadelphia-based Janney is a regional investment bank ranked 31 this year, underwriting a fraction of what Citigroup has, according to data compiled by Bloomberg.

The project marks a wager by the Philadelphia developer that more families can be lured to the struggling gambling city, which has seen its one-time monopoly on gambling in the East Coast steadily erode as other states legalized casinos. That forced several to shut down in Atlantic City and drove New Jersey to rescue the city from bankruptcy in 2016.

But Blatstein said he's optimistic about the city's prospects. "I'm incredibly bullish on Atlantic City," he said, adding that he expected to buy $10 million of the new bonds.

Citi spokesperson Scott Helfman said via email that the bank had no comment. Janney spokesperson Bradd DelMuto also said via email that the bank had no comment.

The original deal for the 100,000-square foot "Island Water Park" was unrated and being offered only to accredited investors and qualified institutional buyers capable of bearing the risk, according to the preliminary offering memorandum dated May 18 and posted on the MuniOS website. The bonds will be repaid with revenue from the park's operations.

The theme park will include a looping "lazy river," multiple water slides, three pools and five bars, including a swim-up bar and a two-level treehouse bar. The feasibility study attached to the original deal, by William L. Haralson & Associates, projected attendance at 626,523 in its first year of operation, rising to 773,523 in year five. Admission would range from $99.99 for adults to $69.99 for children, and there would be off-peak rates and hotel package discounts. The park was expected to be ready by May 31, 2022.

Bloomberg Business

By Joseph Mysak Jr

July 7, 2021, 8:49 AM PDT

Yankees Spat With Nuveen Over Spaces Delays Parking Deal.

- **City says club wanted last minute change to bond restructuring**
- **Deal would remove obstacle to new soccer arena in the Bronx**

A deal to restructure $240 million of municipal bonds sold for underutilized parking garages at Yankee Stadium is on hold because of a spat over parking spaces.

New York last month delayed a Bronx Borough Board vote on a preliminary deal to resolve the long-running default after the New York Yankees sought to change key terms just days before the meeting, city officials said. The team wanted Nuveen LLC, the majority holder of debt for the underused garages, to guarantee 5,500 parking spaces for events, a provision that wasn't included in a term sheet signed by Nuveen, the Yankees and the city.

"After years of negotiations with the Yankees and other parties, we are disappointed they will not commit to promises already made to the city and the community," said Rachel Loeb, president and chief executive officer of New York's Economic Development Corporation in a statement. "The underutilized parking lots around Yankee Stadium can be so much more than they are today, and the South Bronx deserves a plan to build a healthier and stronger community."

The debt restructuring would remove an obstacle to the construction of a new soccer arena for

Major League Soccer's New York City Football Club as part of a $1 billion development project. Municipal bonds issued in 2007 to finance the construction of three garages and the renovation of other parking facilities at the new baseball stadium have been in default for eight years. The garages never generated enough revenue to pay the debt or rent to the city as fans preferred public transportation or ride-sharing services or sought out cheaper spots to park.

The preliminary agreement called for the city to split the current lease for 13 parking facilities near the stadium between Nuveen and Maddd Equities, which has proposed building the 25,000-seat soccer arena, affordable housing and a hotel on parking lots near the stadium.

Maddd would pay bondholders $46.3 million for its share of the current lease and bondholders would retain the lease for the remaining four parking garages and two lots, which have 5,611 spaces, according to the city, a number the Yankees dispute. Nuveen, which held $156 million of the parking debt as of May 31, intends to hire a firm to operate the remaining facilities.

The parking garage bonds last traded June 7 in blocks at 82 cents on the dollar. The trades, which came days after the preliminary restructuring deal was disclosed, were almost 70% higher than May.

City officials said that from the start Nuveen told the Yankees that the investment firm wouldn't provide additional rights beyond those in the current lease. However, Yankees president Randy Levine maintains that city had provided a guarantee for the number of spaces to be used at team events.

"I am extremely disappointed and heartbroken over the city's reneging on guaranteeing parking spots for Yankee stadium events and the community," Levine said in a telephone interview. "The whole purpose of the bond issuance was to provide for parking spots for Yankee stadium events and the community."

Jessica Greaney, a Nuveen spokeswoman, said Nuveen remains committed to a deal "set forth in the term sheet and looks forward to a continued strong relationship with the Yankees and the City." The parties have been working on a plan to build the soccer stadium and resolve the bond default for more than two years.

City officials also said they were committed to reaching a resolution with the parties that benefits the Bronx and the city. New York delayed a Bronx Borough Board vote on the lease until the fall to give the parties more time to negotiate.

Bloomberg Markets

By Martin Z Braun

July 8, 2021, 9:17 AM PDT Updated on July 8, 2021, 2:12 PM PDT

Munis In Focus: Latest On Stalled N.J. Waterpark Deal (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

July 9, 2021

[High-Yield Munis Still Have ‘Room to Go’: Columbia Threadneedle's Stienstra]

Catherine Stienstra, head of municipal investments at Columbia Threadneedle Investments, says BBB rated and other high-yield municipal bonds could still have “room to go” on “Bloomberg Markets: The Close.” (Source: Bloomberg)

Watch video.

Bloomberg Markets: The Close

July 7th, 2021, 1:28 PM PDT

States Finalize Fiscal 2022 Budgets: NASBO

As of July 1, 44 states have enacted a full-year budget for fiscal 2022. States have been enacting fiscal 2022 budgets during a time when fiscal conditions continue to strengthen as the economy recovers from the pandemic and additional federal aid flows to state and local governments. As noted in NASBO’s Spring 2021 Fiscal Survey of States, 40 out of 50 states saw revenue declines compared to pre-pandemic projections over the two-year period from fiscal 2020 to fiscal 2021. However, most states’ enacted fiscal 2022 budgets include an increase in both state spending and revenue.

Forty-six states began their fiscal years on July 1. New York starts its fiscal year on April 1; Texas begins on September 1; and Alabama and Michigan start their fiscal years on October 1. Forty-eight states are enacting a new budget for fiscal 2022. Virginia and Wyoming, which both enacted two-year budgets for fiscal 2021 and fiscal 2022 in calendar year 2020, approved budget adjustments to their biennial budgets. Kentucky, which would normally have passed a two-year budget in calendar year 2020, passed a one-year budget only for fiscal 2021 due to revenue uncertainty created by COVID-19, and enacted a new budget for fiscal 2022 this year. Of the 48 states passing a new budget for fiscal 2022, 17 states are enacting a biennial budget for both fiscal 2022 and fiscal 2023.

Below is additional information on the states that have yet to enact a full-year budget for fiscal 2022:

1. **Massachusetts** – The governor signed a temporary budget for the month of July.
2. **Michigan** – The state’s fiscal year does not begin until October 1. The legislature is finalizing the budget.
3. **North Carolina** – The Senate passed the budget on June 25 and the House is now considering the bill. State law allows spending to continue at current levels until a new budget is enacted.
4. **Oregon** – The governor is completing acting on agency budget bills. The state is currently operating under a continuing resolution for the unsigned bills.
5. **Rhode Island** – The House approved the budget on June 24 which is now headed to the Senate. The state will enter fiscal 2022 authorized to spend 1/12 of fiscal 2021’s budget amount each month.

6. **Wisconsin** – The Senate approved the budget on June 30 and the governor is currently reviewing the budget bill. The state is operating under spending levels from the previous two-year budget cycle.

Please click here for links to proposed and enacted budgets, as well as prior budget summaries.

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

View the S&P list.

30 Jun, 2021

S&P: U.S. State Fiscal 2022 Budget Negotiations Are More Manageable Than Last Year Given The Stronger Economy

Key Takeaways

- The accelerating pace of the economic recovery and extraordinary federal resources has given U.S. states a reprieve from pandemic headwinds.
- Thirteen states with fiscal years that end on June 30 have yet to enact their 2022 budgets, but many are on track to cross the finish line before the start of fiscal year 2021.
- Sharper focus on structural balance will remain essential to minimize growing budgets outside of future revenue estimates.

Continue reading.

30 Jun, 2021

Fitch Ratings UCO Status Update: Rated LPCs Weathering Coronavirus Fallout Well So Far

Fitch Ratings-New York/Austin-28 June 2021: U.S. life plan communities (LPCs) are proving to be quite resilient so far against the coronavirus, though Fitch Ratings says that the sector is not out of the woods yet.

'Healthy residential real estate markets and increased market interest in life plan communities are translating into consistent demand for retirement living, ' said Fitch Director Margaret Johnson. 'Sales of independent living units have also accelerated following a slowdown in resale activity throughout 2020 due to the coronavirus and related governmental lockdown measures.'

Of the 87 LPC rating actions year-to-date (not including names placed Under Criteria Observation [UCO]), 55 (63%) were rating affirmations. Fitch has downgraded nine (10%) communities due largely to LPCs borrowing additional debt to finance expansion projects, rather than operational pressures.

In March, Fitch released revised LPC rating criteria. Following that release, Fitch placed 22 LPCs UCO. Fitch has so far resolved nine of the UCO ratings, all of which were affirmations, except for two downgrades — one driven solely by credit reasons (a large additional borrowing) and one driven by a combination of criteria and credit factors. Updated review status of UCO names is available in the special report linked above.

Rising operating costs remain the most significant pressure, especially with regulatory requirements for long-term care facilities likely to become stricter and staffing shortages being experienced across the industry. 'The debate over making the COVID-19 vaccine a condition of employment could increase staff turnover and operating expenses for life plan communities,' said Johnson. 'That said, voluntary vaccination rates among employees at Fitch-rated life plan communities are reportedly very high.'

As the sector emerges from the pandemic, Fitch expects life plan communities will continue to consolidate over the next few years. Lower-rated communities with high exposure to skilled nursing operations, undergoing expansions and that are in areas heavily affected by subsequent waves of the pandemic will be most susceptible to rating pressure.

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Fitch Ratings Updates U.S. Public Finance Prepaid Energy Transaction Rating Criteria.

Fitch Ratings-Austin/New York-29 June 2021: Fitch Ratings has published the following report: "U.S. Public Finance Prepaid Energy Transaction Rating Criteria." This report updates and replaces the prior report published on July 14, 2020.

Primary revisions to the criteria include a slight revision of Fitch's stressed gas price assumption to $8.60 per million British thermal units (MMBtu) from $8.70 per MMBtu and a clarification of Fitch's use of Private Ratings and Credit Opinions in the prepay transaction counterparty credit analysis.

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

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Regulating Public Utility Performance: The Law of Market Structure, Pricing and Jurisdiction, Second Edition - ABA

Written for newcomers and veterans alike, this book examines the foundations of public utility law and applies them to future challenges. Mixing case narratives and doctrine drawn from all legal sources, its analysis of the complexities of public utility regulation covers market structure, pricing, and jurisdiction.

Click here to learn more and to purchase.

Treasury Updates FAQs for the CSLFRF/ERA.

Last Thursday, the Treasury released updated FAQs for the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) and the Emergency Rental Assistance (ERA) program. New additions to the CSLFRF FAQs provide clarification on eligible expenditures regarding small businesses, community violence, eviction and housing stability services, government services, as well as revenue loss.

Updates to the ERA FAQs mostly consist of revisions to a handful of existing questions regarding reporting requirements, administrative expenses, and housing stability services. New additions focus on eviction prevention, promoting access to eligible households, and payments.

Click here to view the updated FAQs for the CSLFRF.

Click here to view the updated FAQs for the ERA.

GFOA will continue to monitor the programs for additional updates.

[S&P: P&C Insurance Industry Reverses Trend, Increases Municipal Bond Holdings in 2020]

Property and casualty insurers boosted their stakes in municipal holdings in 2020 for the first time in several years amid a positive climate for government-issued debt securities.

Insurance companies hold significant investments in municipal bonds, with the P&C space being the largest holder by sector. Since at least 2016, the P&C industry has been reducing its positions in municipal bonds, though they have remained a significant part of the industry's investable assets.

Year-end 2020, municipal bonds accounted for roughly 13.5% of the P&C industry's investable assets, with a reported carrying value of $271.47 billion, an S&P Global Market Intelligence analysis shows. The year-end 2020 values were up $11 billion compared to the previous year, but down nearly $60 billion versus 2016. Full-year statutory insurance data from late filing companies, as well as group-level calculations, are not available until at least April of each year.

Continue reading.

2 Jul, 2021

S&P: What Is The Next Stop For U.S. Mass Transit In A Post-COVID Era?

Key Takeaways

- Potential displacement of ridership bases, a persistent shift toward remote work, hybrid work schedules, and online shopping pose the greatest risks to traditional public transit operating models in general.
- Voters continue to support transit at the ballot box, providing vital funding for systems that rely on dedicated tax revenue for operations despite declining ridership trends pre-pandemic.
- Significant federal aid, prudent management, and tax support have provided much-needed credit stability, giving providers time to achieve sustainable and balanced operations in a post-pandemic world as ridership recovers and may stabilize at levels meaningfully lower than before the pandemic.
- Public transit figures prominently in the current debate on infrastructure investment as the industry faces evolving challenges related to cybersecurity, climate change, and increased emphasis on social equity and role of transit operators in facilitating regional economic opportunity.

Continue reading.

1 Jul, 2021

Fitch: Leisure & Hospitality Jobs Returning for U.S. Metros.

Fitch Ratings-New York-30 June 2021: Amid overall flat job growth for U.S. metropolitan cities, Fitch Ratings' latest U.S. Metros Job Tracker report shows leisure and hospitality jobs are returning in greater numbers.

Loosening pandemic restrictions and increasing vaccination rates are helping to add jobs back for leisure and hospitality with Miami and New Orleans seeing relatively strong improvement from prior months. Miami has recovered 61% of leisure and hospitality employment, while New Orleans has recovered 42%. That said, ‘leisure and hospitality is still responsible for roughly 40% of all major metro jobs lost between February 2020 and April of this year,’ said Senior Director Olu Sonola.

From a regional standpoint, the median recovery rate for major Midwest metros rose to 68% in April from 66% in February. Eight out of nine major metros in the Midwest had employment recovery rates above 50%, the lone outlier being Chicago. By contrast, the employment recovery rate for major southern MSAs fell to 65% in April from 68% in March, the only region to experience a decrease in its median recovery rate. ‘Richmond, New Orleans and Orlando remain particularly challenged by the current economic environment with employment recovery rates below 50%,’ said Sonola.

New York City remains the only northeastern metro to have recovered less than 50% of jobs lost at the start of the pandemic, and the employment recovery rate remained flat at 48% between March and April. One ray of light, however, was mobility to work. ‘New York City was the only major northeastern metro where mobility to work improved between March and April, a possible harbinger for improving job growth for New York City as the economy reopens,’ said Sonola.

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

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Munis in Focus with Joe Mysak (Radio)

Joe Mysak, Editor of Bloomberg Brief: Municipal Market, discusses the municipal bond markets. Hosted by Paul Sweeney and Matt Miller.

Play Episode

Bloomberg Radio

July 2, 2021

Biden, Senators Agree to Roughly $1 Trillion Infrastructure Plan.

Plan secures bipartisan agreement on overhauling the nation's transportation, water and broadband infrastructure

WASHINGTON—President Biden and a group of 10 centrist senators agreed to a roughly $1 trillion infrastructure plan Thursday, securing a long-sought bipartisan deal that lawmakers and the White House will now attempt to shepherd through Congress alongside a broader package sought by Democrats.

Mr. Biden and Democratic leaders said that advancing the deal on transportation, water and broadband infrastructure will hinge on the passage of more elements of Mr. Biden's $4 trillion economic agenda. The two-track process sets up weeks of delicate negotiations to gather support for both the bipartisan plan and a separate Democratic proposal, a challenging task in the 50-50 Senate and the narrowly Democratic-controlled House.

"What we agreed on today is what we could agree on. The physical infrastructure. There's no agreement on the rest," said Mr. Biden, who said he wouldn't sign the bipartisan deal into law until a bill containing the rest of his agenda also is on his desk. "If this is the only one that comes to me, I'm not signing it."

With $579 billion of spending above expected federal levels and a total of $973 billion of investment over five years and $1.2 trillion if continued over eight, the agreement will make new investments in the electrical grid, transit, roads and bridges and other forms of infrastructure.

The cost of the spending will be covered by repurposing existing federal funds, public-private partnerships and revenue collected from enhanced enforcement at the Internal Revenue Service, according to a list distributed by the White House. The list also included sales from the strategic petroleum reserve and wireless-spectrum auction sales among the other revenue raisers.

Emerging from a noontime meeting at the White House to announce the deal, Republicans and Democrats cast the agreement as proof that bipartisan progress is still possible in a polarized Washington.

"We've agreed on the price tag, the scope and how to pay for it," said Sen. Susan Collins (R., Maine) on Thursday. "It was not easy to get agreement on all three, but it was essential."

Mr. Biden framed the infrastructure investment as critical to compete with global rivals. "We're in a race with China and the rest of the world for the 21st century," he said. "This agreement signals to the world that we can function, deliver and do significant things."

In trading Thursday, shares of machinery giant Caterpillar Inc., building-materials supplier Martin Marietta Materials Inc. and construction-aggregates producer Vulcan Materials Co. moved higher on news of the agreement.

President Biden's infrastructure plan calls for non-traditional projects like the removal of some highways. What Democrats want for cities like Baltimore says a lot about the President's goals in the next wave of development. Photo: Carlos Waters/WSJ
While the framework between the bipartisan group of lawmakers and the White House marks an important step toward a final agreement, passing the legislation will require top Democrats to walk a tightrope between maintaining Republican support for one package and unifying Democrats

around a second.

Senate Majority Leader Chuck Schumer (D., N.Y.) has said the Senate will simultaneously move forward with both a bipartisan agreement and a larger bill that includes spending on education, healthcare, and antipoverty efforts. Democrats can skirt the 60-vote threshold for advancing most Senate legislation through a budget process called reconciliation, which requires only a simple majority.

House Speaker Nancy Pelosi (D., Calif.) said that the House won't take up the bipartisan agreement until the Senate approves a package through reconciliation.

"I said there won't be an infrastructure bill unless we have a reconciliation bill, plain and simple," Mrs. Pelosi said.

Senate Majority Whip Dick Durbin (D., Ill.) said passing two complex bills through different procedures at the same time would be challenging. The reconciliation process alone is time-consuming and complicated, he noted.

"I don't know that it's possible, but we'll see," he said. Mr. Durbin added that he wasn't sure how Democratic leaders would be able to give liberal Democrats the reassurance they are seeking, given the procedural complexities. "That's the tough part," he said.

If some Democrats ultimately oppose the bipartisan infrastructure package, Republicans would need to sign on in larger numbers to ensure its passage. A group of 21 Senators, including 11 Republicans, have previously lent their support to the bipartisan efforts, though some of those lawmakers said Thursday they were still reviewing details of the emerging deal.

Sen. Rob Portman (R., Ohio), the lead Republican negotiator, spoke with Senate Minority Leader Mitch McConnell (R., Ky.) and other top Republicans Thursday morning to discuss the agreement. Mr. Portman said Mr. McConnell told him he was open-minded about the framework.

But late Thursday, Mr. McConnell criticized Mr. Biden's decision to commit to passing a separate, broader package.

"Less than two hours after publicly commending our colleagues and actually endorsing the bipartisan agreement, the president took the extraordinary step of threatening to veto it," Mr. McConnell said.

"That's not the way to show you're serious about getting a bipartisan outcome," he added.

A previous effort to craft an infrastructure agreement between the White House and a separate group of Senate Republicans fell apart earlier this month, with the GOP group proposing roughly $300 billion in funding above baseline levels.

Sen. John Thune (R., S.D.), the No. 2 Senate Republican, said the plan's funding for transit was potentially a problem for him. He said wasn't yet sure if the plan would win 60 votes and would need to discuss it with other Republicans. "We're going to have to socialize that," Mr. Thune said.

Much of the negotiations between the bipartisan group and the White House, which took place in marathon sessions in rooms around the Capitol in recent weeks, focused on the question of how to finance the spending. The White House had originally proposed paying for the infrastructure spending with tax increases on corporations, part of a broader tax agenda that also included rate increases on high earners.

But Republicans rejected any tax increases that would alter elements of the 2017 tax law, passed with only GOP votes, and the bipartisan group instead included indexing the gas tax to inflation and charging fees on electric vehicles in drafts of their plan. The White House staunchly opposed those two ideas, though, with the group debating alternatives, including how much money could be raised from enhanced IRS enforcement.

Lawmakers expect to raise about $100 billion through public-private partnerships and direct-pay municipal bonds, according to someone familiar with the discussions, and generate a net of about $100 billion by investing $40 billion in the IRS to collect taxes that are owed but not paid. They also repurpose about $80 billion from prior pandemic relief bills to pay for the package, which Mr. Portman said would increase to about $125 billion in repurposed prior aid, when including previously approved broadband funding and money from states returning unused unemployment benefits.

The plan also includes $20 billion in funding for an infrastructure financing authority, which Sen. Mark Warner (D., Va.), one of the negotiators, said would yield $180 billion in infrastructure spending.

Lawmakers and aides expect bringing all 50 Democrats together on a second, reconciliation package to be a complicated, lengthy process. Sen. Bernie Sanders (I., Vt.), the chairman of the Senate Budget Committee, has floated a $6 trillion package Democrats could consider through reconciliation, proposing investments beyond what Mr. Biden has included in his agenda.

Two centrist Democrats who have emphasized bipartisanship, Sen. Joe Manchin of West Virginia and Arizona Sen. Kyrsten Sinema, indicated Thursday they would be willing to work with party colleagues on helping craft a reconciliation plan.

But Mr. Manchin signaled discomfort with its proposed multitrillion-dollar cost, of which half is expected to be paid for with new revenue. “That sounds extremely, extremely high, for us to take on that much debt,” he said.

Mr. Warner said that completing the overall agreement will take some time.

“Until it’s signed by the president, anything can happen,” he said.

The Wall Street Journal

By Andrew Duehren, Kristina Peterson and Sabrina Siddiqui

Updated June 24, 2021 5:54 pm ET

Financing Plan for Infrastructure Agreement Called into Question.

Finance experts say the plan to pay for the infrastructure proposal, in part by clawing back unspent covid relief funds, is unlikely to cover the full cost.

The White House and a bipartisan group of senators heralded agreement on an infrastructure package framework as a major breakthrough. But policy and finance experts say the real breakthrough will come if lawmakers find a way to pay for the proposal.

President Biden has promised not to raise taxes on people earning less than $400,000 while senators said the infrastructure proposal would not include new taxes. Details about the financing of the $1.2 trillion proposal are limited, and experts have questioned whether the mishmash of possible funding sources outlined in a White House proposal will be enough to pay for the project.

Continue reading.

Route Fifty

By Andrea Noble

JULY 2, 2021

FACT SHEET: President Biden Announces Support for the Bipartisan Infrastructure Framework

Today, President Biden and Vice President Harris announced their support for the Bipartisan Infrastructure Framework, the largest long-term investment in our infrastructure and competitiveness in nearly a century – an investment that will make our economy more sustainable, resilient, and just.

The President came into office promising to find common ground to get things done – and he's delivering on that promise.

The $1.2 trillion Bipartisan Infrastructure Framework is a critical step in implementing President Biden's Build Back Better vision. The Plan makes transformational and historic investments in clean transportation infrastructure, clean water infrastructure, universal broadband infrastructure, clean power infrastructure, remediation of legacy pollution, and resilience to the changing climate. Cumulatively across these areas, the Framework invests two-thirds of the resources that the President proposed in his American Jobs Plan.

Continue reading.

JUNE 24, 2021

Muni Bonds Gain Traction for Climate and Social Change.

KEY POINTS

- With built-in tax benefits and relatively low default risk, municipal bonds have grown more popular amid the threat of tax hikes.
- There's also a surge in interest for muni bonds among impact-driven investors seeking funds for climate and social change.
- Experts at the CNBC Financial Advisor Summit covered what to know about these muni bond trends.

Many investors already know about the tax benefits of municipal bonds — also known as muni bonds or "munis." Now these assets have also become popular among those who want to have an impact on climate and social change.

In addition to tax savings and relatively low risk, muni bonds may be attractive to those seeking funds in areas such as renewable energy, clean water, low-carbon transportation or infrastructure.

The muni bond market increased by $474 billion in 2020, with $27.6 billion issued for green, social or sustainable bonds, more than double the numbers from 2019, according to S&P Global Ratings.

"We expect growth in the green bond market to also be driven by a renewed focus on climate change and the aging state of the nation's infrastructure," said Laura Levenstein, chief risk officer at Build America Mutual, speaking at the CNBC Financial Advisor Summit on Tuesday.

As the muni bond market explodes for retail, institutional and international investors, experts at the FA Summit shared the latest updates.

Labeled vs. unlabeled muni bonds

One of the biggest challenges for investors is finding legitimate green or social muni options, as there may be labeling inconsistencies across the bond market.

Some are wary of "greenwashing," whereby issuers misrepresent their bonds' environmental impact for marketing purposes. However, there are also some muni bonds funding climate or social projects without the impact label.

"We see a lot of unlabeled impact [bonds] in the muni market, especially on the social side," said Michael Kashani, global head of ESG portfolio management at Goldman Sachs Asset Management and panelist at the FA Summit.

For example, there may be muni bonds funding the construction or expansion of K-12 schools in underserved communities without the "impact" label, he said.

Build America Mutual, the largest provider for external green bond verifications, has identified about 175 green U.S. municipal bonds worth about $2.5 billion, Levenstein said.

Over time, more social, green and sustainable bonds have aligned with one of the United Nations' 17 sustainable development goals, she said.

"I think the alignment provides further comfort to investors that they're buying legitimate green, social and sustainable bonds," said Levenstein. "And that's sort of where we see the market going in the next year."

Impact investing returns

While many impact-driven investors want to support green or social projects, portfolio returns are still the top concern, Kashani said.

But with approximately 50,000 municipal bond issuers and 1 million securities, there are endless ways to customize a client's portfolio based on individual preferences, he said.

"There's a lot of flexibility and variability, depending on how deep a client wants to go," Kashani said.

For example, some clients may prefer higher percentages of impact funds for specific sectors, which may affect returns. However, there are many options to bring "economic, environmental justice, transparency and equality" across their portfolio, without sacrificing their goals, said Kashani.

With current yields above Treasurys, muni bonds — which generally bypass federal levies on interest — have been a refuge for those worried about impending tax hikes from President Joe Biden.

Muni bonds, already known for relatively low default risk, scored a credit boost in 2021 as state and local governments received billions in federal stimulus money.

cnbc.com

by Kate Dore

JUN 30 2021

[The Power of the Muni-Bond Market for Impact Investing.]

A Q&A with Adasina Social Capital and Activest on muni bonds as the intersection of finance and policy.

Investors may not think of the municipal-bond market when it comes to building an impact portfolio around racial justice, but it's one area where their dollars can have a direct connection with public policy.

We spoke about this intersection of social impact investing and public finance with Rachel Robasciotti, founder of Adasina Social Capital, Ryan Bowers, co-founder of Activest, and Chelsea McDaniel, a senior fellow at Activest. Adasina and Activest work together on the Adasina Fiscal Justice Municipal Strategy.

Q: Rachel, Ryan, Chelsea, thanks for joining us. Let's start at the beginning. Why municipal bonds?

Ryan: The municipal market is supposed to be not only low risk but also public purpose. But we're seeing things in the market that are neither good for a city's fiscal health or its residents.

Continue reading.

morningstar.com

by Tom Lauricella

Jun 28, 2021

S&P Top 10 Management Characteristics Of Highly Rated State And Local Borrowers: Through The ESG Lens

Read the S&P report.

29 Jun, 2021

S&P ESG Brief: Cyber Risk Management In U.S. Public Finance

Read the S&P Brief.

[Registration required]

28 Jun, 2021

Fitch Named Most Transparent Credit Rating Agency for ESG for Third Successive Year.

Fitch Ratings-London-28 June 2021: Fitch Ratings has been named the most transparent credit rating agency (CRA) for ESG for the third successive year by key industry publication "Environmental Finance" in its 2021 Sustainable Investment Awards. Fitch has won the award each year since it was established in 2019.

In its award citation, Environmental Finance magazine said the judges again rewarded Fitch for the breadth of its ESG Relevance Scores, which now cover all asset classes. The citation highlighted work undertaken on two degree centigrade scenario-based ESG Vulnerability Scores, which evaluate the vulnerability of sectors' and entities' creditworthiness to ESG-driven risks in a two degree warming scenario to 2050. The citation also highlighted the introduction of ESG 'heat maps' and the provision of Fitch's ESG research free-of-charge through a dedicated ESG website.

"We are very pleased to receive this continued external recognition of our work," said Andrew Steel, Head of Fitch Ratings' Sustainable Finance Group. "In 2021 we have our sights set on further increasing our presence and reach in ESG, while maintaining our reputation for quality, in-depth and independent insights and opinions."

Environmental Finance's full citation for the award can be by clicking on this link.

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Vanguard, BlackRock Muni ETFs Reap Bonanza in Record Cash Inflow.

- **About $5.8 billion added to muni ETFs in second quarter**
- **Two biggest funds received nearly half of this year's inflows**

Exchange-traded funds focused on municipal bonds are raking in unprecedented amounts of cash.

The funds have seen a record $5.8 billion of inflows in the second quarter, according to data compiled by Bloomberg, driving this year's haul to about $11 billion. That has been a boon to the two biggest ETFs, run by BlackRock Inc. and Vanguard Group, which received nearly half of the funds.

ETFs are a small-but-growing force in the $4 trillion state and local government debt market, with about $75 billion of assets. The funds are benefiting from a broader influx of demand for municipal securities this year as President Joe Biden pushes to raise taxes on the highest earners, driving investors to look for ways to shield income from taxes.

During the summer months, the market also typically benefits from a wave of debt payments that bondholders typically seek to reinvest. Issuers are scheduled to pay $41.5 billion of principal and interest on July 1, adding to the cash hitting the market, according to a June 28 note by CreditSights strategists Patrick Luby and John Ceffalio.

The Vanguard Tax-Exempt Bond ETF, the second-biggest muni ETF with over $13 billion of assets, has seen $2.8 billion of inflows year-to-date, more than any other state and local debt ETF tracked by Bloomberg. And BlackRock's iShares National Muni Bond ETF, the biggest muni ETF with $22.7 billion of assets, has notched inflows of $2.2 billion so far this year.

Bloomberg Markets

By Amanda Albright

June 29, 2021, 8:03 AM PDT

NASBO Spring 2021 Fiscal Survey of States.

With data gathered from all 50 state budget offices, this semi-annual report provides a narrative analysis of the fiscal condition of the states and data summaries of state general fund revenues, expenditures, and balances. The spring edition details governors' proposed budgets; the fall edition details enacted budgets.

Overview – Spring 2021

State general fund spending is projected to grow **5.0 percent** in fiscal 2022 compared to fiscal 2021 levels, with 39 states proposing spending increases according to governors' budgets. While the effects of COVID-19 on state budgets were not as severe as anticipated earlier in the crisis, both general fund spending and revenue levels remain below pre-pandemic projections, based on estimates at the time of data collection.

Other key highlights from the report:

- Estimated general fund spending is on track to grow **3.0 percent** in fiscal 2021 but is 2 percent below pre-pandemic spending projections.
- **38 states** reported fiscal 2021 general fund revenue collections are exceeding original budgeted revenue projections.
- Fiscal 2021 general fund revenue is estimated to grow **3.7 percent**, or **1.4 percent** after accounting for the tax deadline shift that occurred in calendar year 2020.
- Governors' budgets are based on forecasted general fund revenue growth of **2.3 percent** in fiscal 2022, or **3.4 percent** after adjusting for the impact of the tax deadline shift that occurred in calendar year 2020.
- States are on track to collect **2.8 percent** less over fiscal 2020 and fiscal 2021 compared to what they were expecting before the COVID-19 crisis, with **40 out of 50 states** seeing declines compared to pre-pandemic projections over the two-year period.
- Rainy day fund use has been uneven across states, with the median balance holding fairly steady at **8.4 percent** in fiscal 2020, **7.6 percent** in fiscal 2021, and **8.3 percent** in fiscal 2022.
- Medicaid spending is forecasted to continue growing in fiscal 2022 but at a slower rate of 5.2 percent, after growing an estimated 12.5 percent in fiscal 2021.

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GFOA: Prioritizing Community Values in Capital Budgeting

Over the past year, many communities have started to understand the ways in which local policies have the potential to affect communities. Whether it be policies on imposed fees and fines, zoning or land use regulations, economic development incentives, or policing strategies, there is potential for disadvantaged neighborhoods and select demographics to face challenges not found in the larger population.

READ CITY OF OAKLAND CASE STUDY

The Market's Not Paying Enough Attention to the Infrastructure Deal.

Democrats and Republicans finally agreed on an infrastructure deal, something the market desperately wanted.

Or did it? The remarkable aspect of the announcement of a bipartisan infrastructure bill agreement is that there wasn't much market reaction at all.

Yes, the Dow Jones Industrial Average got a bit of a bump, and the S&P 500 ended at a high, but it's done that 30 times this year. But there were no fireworks in the bond market, and the currency markets were quiet, too.

True, the agreement still has to go through the process of becoming law, and that's easier said than done. But given the monthslong behind-the-scenes maneuvering, there's a decent chance the legislation will make it to the finish line.

One could argue that infrastructure was already priced in, but the announcement wasn't greeted with sell-the-news behavior, either. So you're left with two conclusions.

One is that the markets are so perfectly in tune with Washington that major spending initiatives are precisely baked in.

The other is that financial markets are so obsessed with the Federal Reserve and monetary policy that they're willing to shrug off the equally potent economic force of fiscal policy.

Don't be surprised if that starts to change.

Barron's

by Al Root

June 25, 2021

[S&P: U.S. Not-For-Profit Health Care Sector View Revised To Stable From Negative]

Key Takeaways

- The revision reflects a trend of revenue recovery, ongoing balance sheet strength, and proactive management teams' focus on maintaining financial stability.
- While there are still meaningful headwinds in the sector, we believe the risk level has declined and is consistent with prior years when the outlook was stable.
- Federal funds through the CARES Act have provided significant support over the last 15 months to providers and helped limit the negative financial and downside risk from the pandemic.
- Currently around 85% of our rated health care organizations carry stable or positive outlooks, which further supports our decision.

Continue reading.

23 Jun, 2021

[S&P U.S. Not-For-Profit Private College And University Fiscal 2020 Median Ratios: Metrics Start To Demonstrate Effects Of The Pandemic]

Key Takeaways

- Enrollment pressures persist for many institutions in the private higher education sector with the exception of a small pool of higher-rated colleges and universities, indicating widening divergence within the industry.
- On average, private colleges and universities were able to limit the negative effects of the COVID-19 pandemic on operating performance in fiscal 2020 through expense management and the use of emergency federal relief funds.
- Median debt levels increased across the rating spectrum, spurred by low borrowing costs and efforts to boost liquidity cushions during the pandemic, especially among higher-rated issuers.
- As of June 15, 2021, 30% of S&P Global Ratings' outlooks on private colleges and universities ratings are negative, and only 1% of outlooks are positive.

Continue reading.

23 Jun, 2021

S&P U.S. Not-For-Profit Public College And University Fiscal 2020 Median Ratios: The Pandemic Presents New Challenges In An Increasingly Competitive Landscape

Key Takeaways

- Full-time equivalent (FTE) enrollment declines persist, particularly in areas facing demographic challenges.
- Public colleges and universities were, on average, able to maintain similar operations in fiscal 2020 despite the COVID-19 pandemic.
- Lower-rated public colleges and universities continue to face more pressure than higher-rated institutions, which have generally been able to continue increasing enrollment, maintain positive operations, and sustain solid available resource ratios.
- As of June 15, 2021, 32% of rating outlooks on public colleges and universities remain negative.

Continue reading.

23 Jun, 2021

Fitch: Pandemic Exacerbating U.S. Affordable Housing Stresses

Fitch Ratings-New York/San Francisco/Chicago-24 June 2021: The coronavirus pandemic is creating new cracks in the already fragile foundation of affordable housing, according to Fitch Ratings in a new report.

Low-income households have been facing daunting affordability with over 10 million low-income renter households facing economic stress and substandard housing for several years. After the onset of the pandemic, "COVID-19 caused an economic contraction felt among millions of American of many economic strata, and those at the most vulnerable level of the economic scale saw their tenuous grip loosen on housing security," said Senior Director Mikiyon Alexander.

The pandemic has intensified rising input costs, generational shifts in demand, changes in regulations and slower wage growth already in place that have all led to supply deficits and rising home prices that affect U.S. housing affordability. Affordable housing stock has decreased, causing demand to outstrip supply, and leaving a gap that particularly pressures the affordable housing segment.

The root of the affordable housing issues rests with a deficiency in the general housing supply. Only seven homes were built for every 10 households formed from 2010 to 2016. This creates a strong competition for the existing affordable housing supply for both homeownership and rental housing. This intensifying competition, according to Alexander, “makes the housing shortage more acute for those in the market for affordable housing.”

Renters are facing similar struggles. Among the 10.8 million renter households with incomes at or below the poverty line, these extremely-low income households faced a shortage of nearly seven million rental homes. Just 37 affordable homes are available for every 100 extremely low-income rental households.

“COVID-19 Complicates Housing Affordability: Defining the Gaps for 2021” is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

Fitch: Covid-19 Complicates Housing Affordability (Defining the Gaps for 2021)

Read the Fitch Special Report.

Thu 24 Jun, 2021

Fitch: Higher US Military Housing Maintenance Costs Pressure Ratings

Fitch Ratings-New York-24 June 2021: Continued elevated expenses due to moisture remediation could lead to further negative ratings pressure for US military housing bonds with exposure to environmental issues, Fitch Ratings says. Some military housing operators have been accused of neglecting routine maintenance, allowing unsafe housing conditions to develop. Over the past year, Outlooks for 11 of 13 rated military housing transactions have been revised to Negative from Stable due to liquidity erosion and increased expenses.

In 2020 and 2021, Fitch downgraded and placed on Negative Outlook four transactions with Negative Outlooks because of large increases in operating expenses that negatively affected debt service coverage ratios (DSCR). Fiscal 2019 operating expenses increased substantially from 2018, in many cases by double digits, as a result of maintenance and repairs tied to environmental remediation. DSCRs continue to decline from historically high levels in 2018.

The operator’s ability to maintain housing quality, sustain strong occupancy levels and control project operating expenses is important to project cash flow stability. Military housing transactions also benefit from cash reserves, usually sized at maximum annual debt service, to guard against cash flow volatility. Some transactions have reinvestment funds to offset some of the increased expenses that are only to be spent with the approval of the appropriate service branch. Reinvestment funds are quickly being depleted, and should they be exhausted, the DSCR could plummet.

Military housing operators have been hit with a number of lawsuits in Texas and Washington alleging unsafe housing conditions. Operator revenue is often based in part on meeting performance objectives set forth in contracts with the applicable service branch. Two former employees of Balfour Beatty pleaded guilty to fraud for covering up military housing issues between 2013 and 2016 at Lackland, Travis, Vandenberg, Tinker and Fairchild Air Force Bases (AFBs). Maintenance documents were falsified to allow the company qualify for incentive payments received upon meeting certain maintenance targets. Capmark Military Housing Trust XXXIX AMC West (which covers Travis, Tinker and Fairchild AFBs) was downgraded last July to ‘A+’/Outlook Negative from ‘AA’/Outlook Stable.

Military bases saw a rise in insurance premium expenses. Some incident claims are coded as uninsured losses until it is determined whether the claim will be covered. Once bases receive reimbursement, Fitch may attribute insurance payments to cash flows when invested back into the project.

Higher expenses and marginal basic allowance for housing (BAH) increases can result in some deals having less than break-even coverage, per Fitch’s Military Housing Criteria break-even thresholds for investment-grade ratings. Most military housing project revenue is derived from the BAH, which is informed in part by the rental rates in the community. Given the reliance on federal appropriations, BAH may be impacted in the longer-term by the uncertainty of future federal programmatic spending on housing programs. The median BAH rate for all military service members across all installations increased 3% from 2020 to 2021, similar to the 2.7% increase from 2019 to 2020. For Fitch-rated military housing projects, median rates increased 1.1% from 2020 to 2021.

Sustained declines in occupancy could also pressure ratings. Project vacancy rates have increased, primarily driven by increased remediation and the Department of Defence’s freeze of Permanent Change of Station during the pandemic. This resulted in a subsequent decline in rental revenues for the duration of the freeze, which was lifted in June 2020.

Military housing projects with a Negative Outlook or Watch have been assigned elevated environmental, social and governance (ESG) relevance scores of ‘5’, reflecting the concerns regarding exposure to environmental site risk and associated remediation costs.

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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.

Top 10 Airports to Receive $2.4 Billion in U.S. Virus Relief.

- **FAA announces grants from airport rescue plan enacted in March**
- **Aid is part of $8 billion approved for airports, businesses**

The top 10 U.S. commercial airports will receive almost $2.4 billion in pandemic relief funds based on a formula set by Congress earlier this year.

The Federal Aviation Administration on Tuesday announced it is providing $7.4 billion to scores of airports as well as the restaurants, shops and other businesses that have suffered as the coronavirus severely cut air travel, starting in early 2020. Another roughly $600 million will be disbursed to airports through existing grant programs, the agency said.

“The Airport Rescue Grants keep workers employed and help the aviation sector recover as more Americans get vaccinated and begin traveling again,” Transportation Secretary Pete Buttigieg said in a release.

The funds are part of President Joe Biden’s $1.9 trillion Covid-19 relief package. Passage of the legislation in March helped prompt a rally in airport municipal bonds.

The largest grants were based on passengers, and Atlanta’s Hartsfield-Jackson International, the busiest U.S. hub, will get the most of any airport, about $370 million, according to FAA data.

After falling 96% of pre-pandemic levels in April 2020, air travel has gradually ramped up. In recent days, airline passenger numbers are about 27% below the equivalent period before the virus hit, according to Transportation Security Administration data.

Bloomberg Politics

By Alan Levin

June 22, 2021, 5:00 AM PDT Updated on June 22, 2021, 6:20 AM PDT

— With assistance by Nic Querolo

America Needs an Infrastructure Bank.

As Republicans and Democrats argue over the size and funding of an infrastructure bill, the idea of a national infrastructure bank is back on the table—and not a moment too soon. It is the right way to fund our infrastructure by bringing private investment to bear, and to break the partisan standoff that threatens our ability to solve our infrastructure crisis. The dire condition of our roads, bridges, public transport, water supply, and power grid threatens our economic growth.

What is the infrastructure bank? It has taken different forms in proposals since 2007. But simply put, the proposal is to create a government-sponsored institution, such as Fannie Mae, alongside private money that consolidates funds and distributes them to public projects in the form of loans or direct equity investments.

The bank needs to be of a size and scope to provide for long-term strategic infrastructure investment on a national scale and with a long-term time horizon. It should have $100 billion in equity capital and a $1 trillion balance sheet, sufficient to galvanize the capital markets and generate funding on a sustainable long-term basis. It can also play additional critical roles: Removing structural barriers to infrastructure funding—there are a surprising number—and providing expertise in planning and project management that exceeds what existing state and municipal resources can accomplish.

There are several compelling reasons for committing to the infrastructure bank. The first has simply to do with the scale of the infrastructure emergency. The $2.3 trillion proposed for infrastructure investment under President Biden’s first American Jobs Plan sounds enormous, as does the $1.7 trillion in the administration’s later proposal and the $1.2 trillion in the bipartisan deal under discussion today. Unfortunately, these figures are not as big as they seem. While the initial plan is bold, necessary and ambitious—it aims for nothing less than to transform infrastructure for the 21st century and revitalize American productivity for decades to come—the proposed expenditure is not nearly adequate. The latest bipartisan deal would add only $600 billion in new spending over five years. The American Society of Civil Engineers has called for $2.59 trillion in infrastructure spending just to bring our existing infrastructure into a state of adequate repair—that is, without starting any new projects. A true modernization and revitalization would cost dramatically more.

Public funding options are limited by political reality. The current stalemate over the Biden infrastructure plan is driven partly by how infrastructure should be defined, but primarily by how it should be paid for. The proposed mechanisms—higher taxes or a bigger deficit—are politically unpopular. One can argue that taxation is an appropriate way to pay for public projects, but it is a hard sell for politicians. There are other disadvantages to public funding. Government budgets are short-term and subject to political whims. Infrastructure needs a long-term planning horizon.

The alternative is to turn to private investment. The good news is that ample private funding is available. U.S. pension funds had over $18 trillion in assets under management at the end of 2019. Add in overseas pension funds and that total climbs to over $40 trillion. Private equity funds and overseas sovereign wealth funds bring the total still higher. There might even at some future point be a dedicated Infrastructure IRA as I have proposed. All of these investors would benefit greatly from exposure to infrastructure, which is highly predictable and generates stable, predictable cash flows that are maintained over the decades-long life of the investment.

Still, raising dedicated private funds and channeling them to infrastructure projects is no easy matter. That’s where the infrastructure bank comes in.

The hard but surprising truth is that there is currently no direct path for private investment in infrastructure. Many pension funds and other private investors want to invest in infrastructure. But they have a hard time finding projects in the labyrinth of federal, state, and local entities that control the nation's infrastructure. Even when projects can be found, they are often not designed for private investment. They are largely funded by federal grants and state and municipal bond issues. There is limited equity opportunity through public-private partnerships, but not nearly enough.

The bank's first task is simply to take in both federal and private funds—at massive scale—and direct them to state and local infrastructure projects. And, working in the other direction, it brings the most promising projects to the attention of investors. Like Fannie Mae, it brings liquidity and transparency to an illiquid, opaque market.

An infrastructure bank can do more. It can provide project management and oversight. Developing projects via public-private partnerships is complex and time-consuming—beyond the capacity of many state and local agencies. The bank can recruit and deploy experts and staff. It can help local agencies with the strategic and day-to-day demands of project management: permitting and contracting, helping define and then oversee major technical elements, determining concession timeframes that structure public-private partnerships, and monitoring contractor performance.

The bank can support the underserved, by investing in regions such as inner cities or low population density towns that because of acute needs and weak revenues are unable to fund infrastructure on their own. As a government-sponsored bank, it can plow back profits to subsidize projects in less wealthy areas at lower returns. Think of this U.S. infrastructure bank as the equivalent of the World Bank but for the 50 states and thousands of municipalities that need the help to devise and execute on long-term infrastructure plans.

In the face of the infrastructure crisis—and of our political paralysis—innovative and bipartisan solutions are needed. The bank is one such innovation. The idea has been in circulation long enough. It is time to act to make it a reality.

Barron's

By Sadek Wahba

June 24, 2021

Sadek Wahba is a senior fellow at the Development Research Institute of New York University. He is also chairman and managing partner of I Squared Capital, an infrastructure investment company. The views expressed in this commentary do not necessarily reflect those of either organization.

What Does President Biden's Infrastructure Push Mean for Local and State Governments?

Earlier this year, President Biden introduced one of the largest-ever U.S infrastructure plans, roughly $2 trillion investment over a decade, to address the aging and underfunded infrastructure, which has often been neglected through the years.

This infrastructure push entails efforts to revamp the transportation sector, roads and highways, shift to green energy, and more importantly the aging sewage systems throughout the U.S. It's also important to note the timing of this expenditure plan, which comes after the United States government has already distributed over $6 trillion in COVID-19 economic relief funds in the form of direct impact payments, state and local government aid and extended unemployment benefits.

The funding for the infrastructure plan is expected and proposed to come from a potential increase in the corporate tax rate that'll take the tax rate back up from 21% to 28%. Although the plan focuses on many different areas of American infrastructure – including manufacturing, commercial and residential construction, veterans' hospitals, schools, digital infrastructure, airports and creating well-paying American jobs – in this article, we will take a closer look at how the proposed transportation revamp and fixing the water infrastructure fits into the overall strategy of President Biden's overall vision.

Push for Transportation Revamp

One of the central pieces of President Biden's plan is to bring the American transportation infrastructure into the 21st century, to not only compete with other international powers but also meet the growing demand of the American travel industry – mainly airports and modernizing the rail infrastructure.

In addition, the plan also entails a strong push for the allocation of a significant amount of funds to fix economically significant bridges, highways, roads and main streets. The plan also allocates over $85 billion dollars to modernize transit agencies throughout the United States; this push will bring much-needed funding for repair backlogs and modernizing existing infrastructure, especially coming out of the COVID-19 downturn and low ridership.

We can decipher two main areas of the transit infrastructure push that will require joint efforts from multiple local governments and jurisdictions: public-private partnerships and public debt financings in the sector to fund certain projects and then potentially seek reimbursements from the federal programs.

Let's take a look at some prominent issues in the public infrastructure spaces that are currently issuing private activity bonds (PABs). Public-private partnerships have been in place for quite some time and are increasingly utilized for transit projects to access the tax-free capital markets. The issuance of PAB bonds in southern California by the city of Long Beach for major improvements at the Long Beach airport is a prime example of this type of venture, which was taken in conjunction with the local government and resulted in two debt financings (private and governmental) totaling over $61 million. In another example, Denver, Colorado Transit District issued $396 million in debt for its rail line expansion project and it was made successful through the public-private partnership between a local transit agency and a private firm.

President Biden's plan also highlights the proposition to accelerate the shift to electric vehicles by building more charging stations and providing certain incentives to purchase American-made electric vehicles – this push will not only go in-line with the green infrastructure push, but also reduce oil dependency.

America's Aging Water and Wastewater Infrastructure

Another big push in President Biden's plan is to ensure clean, safe drinking water and the treatment of wastewater that's safe for the environment. The recent White House publication regarding the water infrastructure push states, "An estimated six to ten million homes still receive drinking water through lead pipes and service lines. The President's investments in improving water infrastructure and replacing lead service lines will create good jobs, including union and prevailing wage jobs. President Biden's plan invests $111 billion to address these issues".

From the public debt financing view, the water utilities and various local governments have often used public debt for traditional infrastructure financings like centralized water and wastewater plants, pipes, pumps and other treatment plants. With the renewed focus on these areas, we are likely to see more of these financings, which may be funded collectively by both the public debt and by the federal grant monies.

We are also seeing local and state governments starting their own programs that are more environmentally friendly and curb excess water usage.

The Bottom Line

President Biden's ambitious view on revamping America's infrastructure will inevitably face its own political roadblocks in different levels of governments, but it will likely be a give-and-take proposition for both political parties for a larger good. In recent years, we have already seen local governments and transit agencies pushing their respective governing bodies for considerations that are in line with the American infrastructure plan; furthermore, investors will likely see an increase in municipal capital market activity related to the infrastructure push and issuance of debt.

dividend.com

by Jayden Sangha

Jun 23, 2021

Rethinking Climate Finance to Improve Infrastructure Resilience.

The impacts of a changing climate are no longer a hypothetical. Each year, extreme events such as hurricanes, droughts, fires, and freezes grow more frequent and more intense—destroying homes, disrupting businesses, and damaging the natural world along the way. Chronic challenges—including gradually rising temperatures, precipitation, and flooding—are adding even more stress. Minimizing and adapting to these impacts must be a priority for every unit of government and every sector of the economy.

Financial markets represent one of the most powerful ways to drive public and private action on climate resilience, as reflected in a May executive order from the Biden administration. The order calls for the Office of Management and Budget, the Department of the Treasury, and other federal agencies to better measure and address financial risks resulting from climate change.

The order's core intent is for federal agencies and businesses—including financial service firms and insurance companies—to proactively account for and respond to climate risks, including the physical destruction of buildings and the disruption of business operations. Doing so can "promote the flow of capital toward climate-aligned investments and away from high-carbon investments," as the White House said this April.

Continue reading.

The Brookings Institute

Joseph W. Kane, Adie Tomer, and Caroline George

June 22, 2021

[Infrastructure Financing Authority Opposed by Municipal Securities Groups.]

Municipal securities dealer groups said Friday they are opposed to the creation of a $20 billion Infrastructure Financing Authority as part of a $1.2 trillion bipartisan infrastructure framework announced Thursday.

Other public finance groups have varying positions.

National Association of Counties spokesman Paul Guequierre said in an email, “Counties support federal investments in infrastructure using a variety of financing tools, including but not limited to, a national infrastructure bank.”

The National Association of Health & Educational Facilities Finance Authorities has not taken a position, said Charles Samuels of Mintz Levin of Mintz Levin, who serves as the group’s legal counsel.

“In my personal opinion it’s of marginal uncertain value,” said Samuels. “I don’t know what the gap is in current state and local financing that this is supposed to fill.”

Samuels said he agrees with state and local government groups that the focus should be on reinstating tax-exempt advance refunding bonds and expanding the current financing tools.

Other state and local government groups did not immediately announce their positions.

Emily Brock, director of the federal liaison center for the Government Finance Officers Association, said she was trying to determine whether there will be room for inclusion of the other municipal financing priorities in the package.

Some of the measures are not big-ticket items and the framework announced Thursday does not yet have legislative language.

An increase for small issuers to $30 million from $10 million of the amount of tax-exempt bonds they can sell to banks can buy under favorable terms as bank-qualified would cost only $118 million over 10 years, according to an estimate last year by the nonpartisan congressional Joint Tax Committee. Bank qualified debt, also known as BQ debt and bank eligible, allows the bank to deduct the carrying cost of that debt as a business cost.

The framework announced by President Biden and a bipartisan group of senators has $312 billion for transportation. It includes $109 billion for roads and bridges, $11 billion for safety, $49 billion for public transit, and $66 billion for passenger and rail freight.

That’s $16 billion more for road, rail and transit spending than the transportation bill passed by the House Transportation and Infrastructure Committee, according to an analysis by the independent Eno Center for Transportation.

There’s also $25 billion for airport infrastructure, $16 billion for ports and waterways, $7.5 billion for electric vehicle charging stations, and $7.5 billion for electric buses and other transit.

Other areas of infrastructure spending include $73 billion for electric grid, $65 billion for broadband, $55 billion for water projects, $47 billion for resilience, $21 billion for environmental remediation, and $5 billion for Western water storage.

It was not immediately clear how the categories listed by the White House compare to legislation the House and Senate are working on. For instance, the bipartisan agreement lists $55 billion for water projects. The Senate recently voted overwhelmingly to approve the $35 billion Drinking Water and Wastewater Infrastructure Act of 2021. And the House version of the water bill is for $50 billion.

The House Democratic leadership, meanwhile, is sticking with its plan to move its own surface transportation bill. House Majority Leader Steny Hoyer, D-Md., said Thursday the Democrats' INVEST in America Act will be brought to a floor vote the week of June 28.

The House bill includes $343 billion for roads, bridges and safety, another $109 billion for transit and $95 billion for freight and passenger rail.

Despite the apparently higher spending in Biden's deal with the bipartisan Senate group, the proposal for a new federal financing bureaucracy met with immediate and strong opposition from Municipal Bonds for America, the Bond Dealers of America and the American Securities Association.

"By nationalizing federal investment in local infrastructure via an infrastructure bank, the provision would minimize a centuries-long partnership among federal, state and local governments in infrastructure investment," said BDA and Municipal Bonds for America in a joint statement.

The two groups said that Congress and the administration instead should empower state and local governments to make additional investments by "reinstating tax-exempt advance refundings, expanding private activity bonds, raising the limit of bank qualified debt and creating a new direct pay bond, the American Infrastructure Bond exempt from sequestration."

ASA CEO Chris Iacovella said the proposed federal financing authority is based on a misguided bill called the Repair Act (S. 1499) authored by Sen. Mark Warner, D-Va.

Warner's bipartisan bill would create a new federal entity to finance projects of regional or national significance, including the construction, consolidation, alteration, or repair of airports and air traffic control systems, highway facilities, and transmission or distribution pipelines.

Cosponsors include three Republicans led by Sen. Roy Blunt of Missouri.

"Rather than creating a centralized bureaucracy to dictate funding from Washington, the federal government should instead promote and encourage the use of taxable municipal bonds for infrastructure projects," Iacovella said in a press statement. "ASA's regional financial services members have a long history of successfully financing "hard" infrastructure investments and are more than ready to do so again."

The bond financing provisions of the Moving Forward Act that was advanced by House Democrats last year totaled $83.9 billion over 10 years, so the deal announced by Biden for a $20 billion financing authority is less than one-quarter of that.

Biden said Thursday he is committed to a two-track process in which his American Families Plan moves simultaneously through the budget reconciliation process with Democrats-only support.

"The bipartisan bill from the very beginning was understood there's going to have to be the second part of it," Biden said. "Not just signing the bipartisan bill and forgetting about the rest I have I proposed."

That other legislation is expected to include a number of tax provisions, including an increase in the corporate tax rate and an increase in the top personal income tax to 39.6%.

Muni provisions could conceivably be included in that Democrats-only bill. The Moving Forward Act passed by the House last year had provisions for school bond financing and multifamily housing private activity bonds that would be more suited to that legislation.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 06/25/21 01:49 PM EDT

What's in the Bipartisan Infrastructure Plan?

Package includes funding for roads, bridges, transit, airports and broadband

A core bipartisan group of 10 senators reached a deal with the White House on Thursday to spend $973 billion over five years, and $1.2 trillion if continued over eight years, on a package that would fund improvements to roads, bridges, transit, airports and enhanced infrastructure for broadband, water and electric vehicles. It leaves out many of President Biden's top priorities for "human infrastructure" such as child care, elder care, and education provisions.

The bipartisan plan's authors describe it as a framework, and note that some of the details remain to be ironed out, though they agreed on the major pieces and how to pay for them. Here's what's in the agreement, and what comes next.

Continue reading.

The Wall Street Journal

By Gabriel T. Rubin

June 24, 2021

Infrastructure Deal Within Reach – Muni Provisions Remain a Priority

A bipartisan group of 21 Senators has come to a soft agreement with the Biden Administration on a $1 trillion infrastructure package. While the deal has yet to receive support from Congressional Leadership, this is a promising step. The group plans to meet with the President this afternoon.

The framework includes nearly $600 billion in new spending and relies heavily on muni provisions such as the expansion of Private Activity Bonds and creates a new direct pay bond, the American Infrastructure Bond. The AIB legislation introduced by Senators Wicker (R-MS) and Bennet (D-CO) would create a new direct-pay bond with a flat 28% reimbursement rate. In the original legislation, the AIB would be exempt from sequestration, however, no details on the sequestration treatment were included in the original document.

While there was no direct mention of the reinstatement of tax-exempt advance refundings or raising the BQ debt limit, the MBFA and BDA remain committed to ensuring all

priorities be included in the final package once Congress and the Administration begin to write legislative text.

Bond Dealers of America

June 24, 2021

[Munis In Focus: Impact Of Infrastructure (Radio)]

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Markets

June 25, 2021

Lawmakers Tap Budget Maneuvers to Make Infrastructure Plan Work.

- **$125 billion comes from re-purposing money from other bills**
- **Bill could take weeks to finalize as details are hashed out**

A bipartisan Senate group succeeded in finding $579 billion to pay for their infrastructure framework by relying on tried-and-true budget maneuvers that have yet to be scrutinized by Congress's official scorekeepers.

The spending on roads, bridges, public transit and other items in the deal is offset by a hodgepodge of revenue-raising measures, economic-impact assumptions and projected savings from eliminating waste.

It's the result of weeks haggling over where to find hundreds of billions of dollars without reversing the 2017 tax cuts — a red line for Republicans — or increasing levies on households making less than $400,000, a Democratic priority.

The bipartisan deal uses budgetary maneuvers to close the gap by finding the most money from politically palatable sources that both parties can agree to, including special municipal bonds, selling spectrum, and imposing a fee on chemical polluters.

"This deal is the usual host of not-wildly-innovative, plain-vanilla pay-fors that have been used in the past," Gordon Gray, a former Senate Budget Committee aide, said. "There's not a conspicuous tax increase or a conspicuous spending cut."

Reused Funding

The plan relies on repurposing some funding allocated in already passed legislation, as well as factoring in economic growth and associated revenue that would come about as a result of the infrastructure investment. The recycled funds include unspent money for broadband and federal unemployment benefits leftover from states that ended early some $300 a week in supplemental jobless payments.

“It all adds up to $125 billion that comes out of Covid funding repurposed,” Senator Rob Portman, an Ohio Republican who was one of the leaders of the negotiations, said.

However, that money isn’t “free,” said Gray, now with the right-leaning think tank American Action Forum. “They want to have benefits without costs, but those costs happened at some point.”

The plan also is offset by $58 billion generated by extra economic growth, something known in budget circles as dynamic scoring. Portman called that estimate “conservative,” though he acknowledged the Congressional Budget Office had not completed its modeling of the dynamic impact of the spending on the economy.

‘Feedback Loop’

“Every economist has looked at this and said, this is not spending on social programs. This is spending on long-term capital assets that make the economy more efficient, and therefore add to the productivity of the country,” he said. “It also obviously adds jobs. And there’s a feedback loop there for revenue.”

But not all economists are as optimistic as the lawmakers, saying some figures could be overly rosy. That could mean that members of Congress may have to find more revenue or agree to deficit-finance a portion of the plan if the CBO doesn’t agree with their estimates.

“There are some good policies in here. I’m concerned that they only cover a fraction of the cost,” Marc Goldwein, senior vice president for the think tank, Committee for Responsible Federal Budget, said. “A lot of the numbers seem inflated from what I would expect.”

For example, the lawmakers are projecting that strengthening federal programs against fraud and waste will raise $72 billion, according to a draft of the deal obtained by PBS. That’s a lot higher than previous estimates, Goldwein said, noting that Biden’s budget proposal in May projected that so-called integrity initiatives would raise $12 billion over five years, or $45 billion over 10.

Tougher IRS

One of the thorniest issues for lawmakers was how much money could be raised from giving the Internal Revenue Service $40 billion to ramp up audits and enforcement on wealthy taxpayers. Republicans had pointed to a CBO report from last year that said a $40 billion proposal would generate an additional $103 billion, for a net $63 billion. Democrats had pushed for more. The group compromised on a net $100 billion raised, which was done in consultation with the CBO, Portman said.

The additional money could also help improve customer service at the IRS and help the IRS deal with Bitcoin and digital currencies, he said.

The deal also calls for $100 billion to come from private investment, including public-private partnerships. That money could be used to build private highways or bridges that would also likely mean user fees or tolls for drivers using the new roadways.

More than half of the bill has already been written but will likely take weeks to finalize, Portman said.

Bloomberg Politics

By Laura Davison and Steven T. Dennis

June 24, 2021, 2:48 PM PDT

— With assistance by Erik Wasson

[Small Cities Can't Manage the High Cost of Old Infrastructure.]

Without federal help, cities in the Northeast and Midwest face heavy cost burdens to upgrade aging roads, bridges and water systems. Younger municipalities in the South and West are beginning to have similar problems.

Woodward Avenue is the most storied roadway in Michigan, and arguably in America. This 27-mile stretch of asphalt runs from central Detroit through its northwestern suburbs and up to the city of Pontiac. In 1909, a single mile of it in the city, between Six Mile Road and Seven Mile Road, became the first stretch of paved street in the U.S.

For Ferndale Mayor Melanie Piana, however, her two miles of Woodward Avenue are a constant source of concern. The eight-lane roadway slices through her downtown, and she constantly hears from residents who feel endangered when they cross this thoroughfare in her otherwise pedestrian-friendly town.

"The No. 1 reason people move to Ferndale is because of our walkability," says Piana, "and the No. 1 complaint I get from residents is they feel uncomfortable and unsafe getting across this eight-lane corridor."

Continue reading.

governing.com

June 24, 2021 • Jake Blumgart

What Does President Biden's Infrastructure Push Mean for Local and State Governments?

Earlier this year, President Biden introduced one of the largest-ever U.S infrastructure plans, roughly $2 trillion investment over a decade, to address the aging and underfunded infrastructure, which has often been neglected through the years.

This infrastructure push entails efforts to revamp the transportation sector, roads and highways, shift to green energy, and more importantly the aging sewage systems throughout the U.S. It's also important to note the timing of this expenditure plan, which comes after the United States government has already distributed over $6 trillion in COVID-19 economic relief funds in the form of direct impact payments, state and local government aid and extended unemployment benefits.

The funding for the infrastructure plan is expected and proposed to come from a potential increase in the corporate tax rate that'll take the tax rate back up from 21% to 28%. Although the plan focuses on many different areas of American infrastructure – including manufacturing, commercial and residential construction, veterans' hospitals, schools, digital infrastructure, airports and creating well-paying American jobs – in this article, we will take a closer look at how the proposed transportation revamp and fixing the water infrastructure fits into the overall strategy of President Biden's overall vision.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jun 23, 2021

Bonding Time Podcast – Credit Analysis with Tom Kozlik

This installment of Bonding Time featuring Tom Kozlik of HilltopSecurities discusses the continued debate over a potential federal infrastructure spending package, and the possibilities of achieving bipartisanship. The podcast also debates potential pay-for and the increased push to repurpose COVID state and local funds to pay for the package as outlined in a recent BondBuyer op-ed.

Bonding Time will continue to feature a selection of market experts to discuss the current state of the municipal market combined with Federal legislative and regulatory policies impacting muni market structure.

Topics will include:

- Continued Infrastructure Debate
- How to Pay for New Spending
- Fight to Keep State and Local COVID Funds
- Federal Policy Outlook, with Brett Bolton of the BDA

Click here for podcast.

Bond Dealers of America

June 24, 2021

Agencies Release List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies.

The Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation today announced the availability of the 2021 list of distressed or underserved nonmetropolitan middle-income geographies. These are geographic areas where revitalization or stabilization activities are eligible to receive Community Reinvestment Act (CRA) consideration under the community development definition.

Distressed nonmetropolitan middle-income geographies and underserved nonmetropolitan middle-income geographies are designated by the agencies in accordance with their CRA regulations. The criteria for designating these areas are available on the Federal Financial Institutions Examination Council (FFIEC) website (http://www.ffiec.gov/cra). The designations continue to reflect local economic conditions, including unemployment, poverty, and population changes.

As with past releases, the agencies apply a one-year lag period for geographies that were listed in 2020 but are no longer designated as distressed or underserved in the current release. Revitalization or stabilization activities in these geographies are eligible to receive CRA consideration under the community development definition for 12 months after publication of the current list.

The current and previous years' lists can be found on the FFIEC website, along with information about the data sources used to generate those lists.

2021 List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies (PDF)

Source Information and Methodology (PDF)

June 25, 2021

The American Jobs Plan's Effect on the Municipal Bond Market – Taxable Direct Pay Bond

Although there are several versions of the American Jobs Plan at this point, nearly all include a provision to refurbish the nation's crumbling infrastructure, including roads, bridges, public transit, airports, clean water, rail, and ports. Most of the components of these bills contain an element that may affect the municipal market. The three most talked about ideas include tax-exempt bonds, private activity bonds and taxable direct pay bonds. The focus of this article will be to explore the taxable direct pay bonds.

The government's last involvement in taxable direct pay bond issues date back to 2009 and 2010, when the Build America Bond program was introduced. Build America Bonds (BABs) were issued as part of the American Recovery and Reinvestment Act (ARRA). Some $180 Billion of debt was issued using two types of BABs, Tax Credit and Direct Payment.

Tax Credit bonds gave bondholders a 35% federal subsidy on the interest paid through refundable tax credits which could be carried forward. Direct Payment offered a rebate that was paid to the bond issuer. This feature allowed municipalities to issue fully taxable municipal bonds with the Federal Government reimbursing the issuer with a tax subsidy of 35% of the issuers interest expense owed to investors.

Many issuers realized that short-term tax-exempt rates had lower interest costs than the 35% subsidy. Consequently, a hybrid approach was utilized. Shorter maturities were issued as tax-exempt, and as the rebate made it more advantageous, longer maturities were structured using the BABs program. Payments ran smoothly until 2013 when budget spending cuts forced the IRS to reduce the allowable 35% interest subsidy. In 2013 it declined to 26.3% and is currently at 29.3% which is anticipated to remain in effect until 2030 without further congressional actions.

Municipal issuers now realize that without appropriations by Congress the rebate can be affected, and they may be hesitant to utilize the program without those agreements. The taxable direct pay bond programs currently under discussion are trying to overcome obstacles such as sequestration and debit limit ceilings. We believe, depending on market conditions, any future taxable direct pay programs will likely include both tax-exempt and taxable bonds.

The effect on the municipal bond market could be increased issuance which could satisfy the demand from both individual and corporate investors. Depending on the plan adopted by Congress and the President, other changes could be in store for the municipal market.

by Aquila Distributors LLC of Aquila Group of Funds

6/24/21

Risky Muni Yields Hit Decade Low.

The typically sleepy market for municipal bonds is on a hot streak.

Investors have piled into muni bonds, sending yields to historically low levels. The yield on the Bloomberg Barclays Municipal Bond High Yield Index, which tracks riskier muni borrowers, fell to 3.11% last week as bond prices rallied, the lowest level of the past decade, FactSet data show. They've hovered in that range since, settling at 3.14% on Tuesday.

Borrowers like state and local governments as well as universities and local school districts tap the muni market to fund projects.

The high-yield corner of the market is typically reserved for lower-rated borrowers like retirement communities and charter schools, which don't have the backing of a state or local government. It has boomed in recent years as investors have searched for higher returns, with Treasurys and other safer debt offering meager yields. The run in high-yield munis comes as Treasury yields have tumbled, falling for five consecutive weeks.

Investors have piled into riskier munis and extended a lifeline to some troubled corners of the market, helping the sector, according to research firm Municipal Market Analytics. That's kept some projects from running into trouble and kept default rates surprisingly low.

As a result, the high yield muni market has swelled to 13% of the muni market, up from 10% last year, the firm said.

The Wall Street Journal

By Gunjan Banerji

Jun 23, 2021

How to Craft an Inflation Strategy Using Muni Bonds.

KEY POINTS

- As inflation ticks higher, retirees may worry about the rising cost of living.
- To fight inflation, investors may consider muni bonds, an option with built-in tax benefits and relatively low default risk.
- Still, buyers may need guidance to manage interest rates and credit risks, financial experts say.

Continue reading.

cnbc.com

by Kate Dore

JUN 24 2021

Q&A: Municipal Bonds in the Wake of COVID-19

Municipal governments have proven more resilient than anticipated.

When the COVID-19 pandemic hit in 2020, municipal bond investors braced for a slew of defaults by overburdened state and local governments. But more than a year later, these municipalities are holding up better than expected.

With the help of stimulus payments, tax revenues from workers who were able to continue working remotely, and quick rallies in the stock and real estate markets, some states (California, for one) are even showing budget surpluses for the fiscal year starting in 2020. The result was far fewer state and local municipal bond defaults than anticipated.

To get a clearer picture of the municipal bond market and where financial advisors and investors can look for investment opportunities in the sector today, we spoke with Catherine Stienstra, senior portfolio manager and head of municipal bond investments at Columbia Threadneedle Investments.

Continue reading.

usnews.com

By Coryanne Hicks

June 23, 2021, at 3:43 p.m.

Municipal Bonds Still Key in the Retirement Income Puzzle.

In spite of this year’s challenging fixed income environment, bonds remain vital portfolio components for retirement investors. How the bonds are deployed in retirees’ portfolios is meaningful as well.

For investors with tax-advantaged accounts, embracing a taxable bond fund makes sense, but for those with the bulk of their assets in a taxable account, municipal bonds and funds are practical ideas due to the tax benefits associated with the asset class.

"Municipal bonds, which are issued by state and local governments, offer tax advantages to investors in higher tax brackets," writes Morningstar's Susan Dziubinski. "So even though a muni-bond fund's yield may look shrimpy when you compare it against the yield on a similar quality and similar term taxable-bond fund, that muni fund's yield doesn't reflect the tax advantages that may apply to you."

The tax benefits offered by municipal bonds could take on added importance if Congress is successful in passing the White House's proposed capital gains tax hike.

While it remains to be seen what happens on that front, it's clear the outlook for municipal bonds is solid. State and local finances were pinched at the height of the coronavirus pandemic, but the punishment was never as severe as originally feared. Plus, the federal government stepped up to support state finances, effectively reducing muni default risk.

With credit risk of minimal concern over the near- to medium-term, investors considering municipal bond funds still need to make rate risk part of the evaluation equation. Muni funds with longer durations could be susceptible to spikes in long-term interest rates.

"If there is in fact a tax advantage for you, you can begin the search for a muni-bond fund with the term and interest-rate sensitivity that meets your time horizon and appetite for risk," adds Dziubinski.

Morningstar has "gold" ratings on nine municipal bond funds, one of which is an ETF – the Vanguard Tax-Exempt Bond ETF (VTEB).

VTEB, which follows the Standard & Poor's National AMT-Free Municipal Bond Index, holds nearly 5,800 bonds with an average duration of 5.2 years. It's also cost-effective. With an annual fee of just 0.06%, or $6 on a $10,000 investment, VTEB is one of the least expensive funds in its category.

ETF TRENDS

TOM LYDON

JUNE 24, 2021

Rotation Choices For Expensive Muni CEFs.

Summary

- The muni CEF sector has continued to rally this year due to the resilience of municipal bond yields and tight CEF discounts.
- A number of funds, however, have grown to premium valuations that are unlikely to prove sustainable.
- In this article, we take a look at a number of these funds such as BKN, NUV and PML, and highlight potential alternatives.

Continue reading.

Seeking Alpha

Jun. 22, 2021

Municipal CUSIP Request Volumes Climb for Fourth Straight Month.

NEW YORK, June 16, 2021 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for May 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 increase in request volume for new municipal identifiers and a significant decline in request volume for new corporate identifiers.

CUSIP identifier requests for the broad category of U.S. and Canadian corporate equity and debt declined 24.8% in May from last month. The monthly decrease was driven largely by U.S. corporate debt and equity identifier requests, which declined by 18.5% and 7.8%, respectively. On a year-ove--year basis, corporate CUSIP requests were down 16.9%, reflecting a significant year-over-year decline in January of 2021.

Monthly municipal volume increased in May. The aggregate total of all municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – rose 5.0% versus April totals. On an annualized basis, municipal CUSIP identifier request volumes were up 7.9% through May. Texas led state-level municipal request volume with a total of 180 new CUSIP requests in May, followed by California with 96 and New York and Oklahoma, which each had 90.

"Though we're starting to see some volatility in corporate request volume as the prospect of a Fed taper looms, there is still a great deal of debt and capital markets activity taking place – particularly in the municipal sector," said Gerard Faulkner, Director of Operations for CGS. "The next several months will be an important indicator of the continued liquidity of the markets in a possible rising rate environment."

Requests for international equity and debt CUSIPs were mixed in May. International equity CUSIP requests were up 2.1% versus April. International debt CUSIPs decreased by 13.0% on a monthly basis.

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

Muni Market Worries Build America Bonds Redux Could Prove Costly.

- **Direct-pay bonds are part of bipartisan infrastructure plan**
- **States, cities want to know size of U.S. subsidy of the debt**

A reprisal of Build America Bonds, the popular Obama-era infrastructure financing tool, is part of a bipartisan plan gaining traction in Congress, but states and cities are reluctant to show support without knowing their share of the cost.

A group of 21 Senators propose including so-called direct-pay municipal bonds in a $579 billion package designed to spur construction on roads, bridges and other projects, and its bipartisan sponsorship is raising hopes of passage. The direct-pay provision is being closely watched by municipal borrowers, investors and bankers because of its similarities to the Build America Bonds program, which spawned $180 billion of debt sales in 2009 and 2010.

But municipal finance has changed in the last decade. Then, the fact that Build America Bonds were taxable, unlike traditional muni bonds that pay tax-free interest, opened the market to a broader group of investors and promised reduced borrowing costs. Now, tax-free bond yields are near historic lows compared to taxable securities, meaning states and municipalities want the federal government to provide a generous subsidy as an incentive to use the borrowing program.

For a taxable bond program to compete with the cost of capital in the tax-free muni market, an average subsidy covering around 50% of interest costs for AA-rated borrowers is needed, said Peter DeGroot, head of municipal strategy for JPMorgan Chase & Co. For BBB rated issuers, the subsidy would need to be around 35%, he estimates.

"The higher the subsidy rate, the lower the cost of capital to the bond issuer," DeGroot said. "Yields in the tax-exempt market are so low relative to taxable rates that issuers would need a very high cost of capital subsidy to compete with the tax-exempt bond market."

He said that those subsidy rates are higher than what was offered in a Senate bill earlier this year. The legislation introduced in April by Senator Roger Wicker, a Republican from Mississippi, and Michael Bennet, a Democrat from Colorado, offered a subsidy of 28% of the bond's interest. In April, JPMorgan released an analysis estimating "modest utilization" of the proposal at current market levels.

Ben Watkins, director of the Florida Division of Bond Finance, said the subsidy rate will help determine the attractiveness of the program.

"They have to sweeten the pot and make it cheaper for me," Watkins said. "It better be deep in the money or otherwise I'm not playing."

The bipartisan Senate plan was scant on details about the direct-pay bonds. The financing mechanisms listed also included the use of private activity bonds, something that businesses can use to raise money in the $3.9 trillion muni bond market.

Getting state and local support for the plan, which would affect its chance of becoming law, is made more difficult by the latter history of the Build America Bonds program. Borrowers shied away from using them after the federal government adopted sequestration that forced budget cuts, including reduction in the subsidy payments that Build America Bond issuers received starting in 2013.

"I think it's a hard sell," Watkins said of the current push to revive the bonds. "I think people have been made aware of the risks associated with relying on D.C. to come through on their promises."

While state and local lobbying groups generally support the revival of a Build America Bonds-type tool, they've stressed that they'd like the process to be exempt from sequestration. David Moore, director of municipal research at American Century Investments, said usage of the bonds could depend on it.

"Issuers are still going to have a hard time taking that seriously" if the program doesn't include an exemption from sequestration, he said.

Moore said that a federally-subsidized bonding plan would provide issuers with more flexibility, which would be helpful to them if the tax-exempt market became weaker, he added. "It really is another tool in the toolbox for them," he said.

Bloomberg Markets

By Amanda Albright

June 17, 2021, 11:20 AM PDT

— With assistance by Erik Wasson

Fitch: US Supreme Court ACA Decision Neutral to NFP Hospital Ratings

Fitch Ratings-San Francisco/New York-17 June 2021: The outcome of the US Supreme Court ruling in the case of California v. Texas is neutral to not-for-profit hospitals and healthcare system ratings, Fitch Ratings says. The Court rejected the challenge to the Affordable Care Act (ACA) on the basis that the plaintiff states do not have legal standing to bring the suit. The Court did not rule on the validity of the ACA without the individual mandate requiring Americans to obtain insurance. The ruling maintains the status quo that has existed since the tax penalty for not obtaining health insurance was set at zero in 2017.

Today's ruling maintains healthcare coverage for tens of millions of Americans under the ACA, and we expect this to prevent a decline in operating margins associated with a shift in payor mix that would have reversed the positive margin trend evidenced at hospitals in the years following the ACA rollout. Fitch's not-for-profit (NFP) hospital operating margin median rose during those years the ACA was fully implemented, increasing from 2.2% in 2013 to 3.0% in 2014 and again in 2015 to 3.5%. Operating margins have continued to benefit since then, due to the incremental revenue from patients enrolled in the healthcare exchanges or under expanded Medicaid programs.

Rated hospitals saw a significant decrease in self-pay during 2014-2016, particularly at hospitals in Medicaid expansion states, which now number 38 plus Washington, DC. The Kaiser Family Foundation reports that the US saw a significant drop in the number of non-elderly uninsured to 26.7 million in 2016 from 44.4 million in 2013 following the enactment of the ACA in 2010 and implementation of key provisions in 2014, before increasing to 28.9 million in 2019 after the individual mandate was eliminated.

Premium subsidies and tax credits provided under the American Rescue Plan Act of 2021 that intend to make marketplace coverage plans more affordable are expected to modestly increase the number of insured. Insurance coverage affordability is the major concern for those who remain uninsured in the US.

Today's decision to uphold the ACA resolves another significant Supreme Court challenge to the law. It may also signal growing reluctance to invalidate a law that has become an important aspect of the US healthcare system by providing coverage to millions of Americans under Medicaid or private insurance. With the Supreme Court's ruling, we continue to believe that the ACA is likely to remain the law, even if portions of it are enhanced or diminished in future legislation.

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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.

[These States Lead the Way on Pension Reform.]

Arizona, Michigan and Texas are showing how to create resilient systems for government retirees.

State and municipal debt has tripled since 2000, with unfunded public pension liabilities mostly to blame. After 20 years of inadequate funding policies, failure to meet overly optimistic investment return targets, and other factors, state and local government pension systems are now $1.5 trillion in debt.

That debt is ultimately borne by taxpayers, and like any debt, when unfunded pension liabilities rise, so do the costs of servicing it. As pension debt payments start to siphon money away from other government priorities, such as education and infrastructure, some lawmakers are now pushing for much-needed reforms.

In Texas, the state Legislature passed a major pension reform that tackles the Employees Retirement System of Texas' nearly $15 billion in pension debt. The ERS serves more than 300,000 current and retired Texas government workers. But driven largely by rosy investment-return assumptions and a history of underfunding by the state, the system's unfunded liabilities have skyrocketed. The ERS's consulting actuary says the plan will be insolvent by 2061 even if it meets its lofty long-term investment return goals, and as early as 2047 if it doesn't.

The reform legislation commits Texas to paying the bill for retirement benefits promised to workers by shifting the ERS to actuarially based funding and a fixed payoff schedule. The new law also enters all future employees into a new low-risk "cash balance" retirement plan that provides a guaranteed minimum 4% return on investment along with the portability of a 401(k). In short, the reforms would enable Texas to keep the promises made to current and retired workers but would stop making unsustainable pension promises to workers in the future.

The pension reform bill will become law this weekend if Gov. Greg Abbott doesn't veto it, which he hasn't indicated he will do. Texas will then join a growing list of states—including Michigan, Arizona, Pennsylvania and Colorado—that have created or expanded retirement plans that reduce financial risks for governments and can help avoid burdening future taxpayers with more unfunded liabilities.

Arizona and Michigan have enacted more than a dozen substantive pension reform bills over the past five years. Credit-rating agencies and national retirement experts have cited Arizona's public-safety pension reforms. Moody's Investors Service gave Michigan's teacher retirement reform a "credit positive" review because the state and participating local governments "will no longer carry the entire burden of investment performance risk for new employee pensions."

Pension reform need not be partisan. After gaining input and buy-in from unions for police officers, firefighters and other public employees, New Mexico Gov. Michelle Lujan Grisham, a Democrat, overhauled her state's public-employee pension plan for workers who aren't teachers. "We must make changes now—the alternative is to saddle New Mexicans with unacceptable risk," Ms. Grisham said, urging fellow Democrats to pass reforms. In 2018, Colorado legislators bridged their differences in a divided government to pass comprehensive reforms that increased employee and employer contributions, reduced cost-of-living adjustments, raised the retirement age, and expanded the use of defined-contribution plans for future employees to address the chronic structural underfunding of the state's main public pension system.

Public pension reforms aren't politically easy. With Republicans in control of Florida's state government and the Florida Retirement System $36 billion in debt, the state Senate passed a bill that would have closed the state pension plan to new hires. But the bill died in the House because lawmakers couldn't agree on how to pay down the state's pension debt.

Meaningful pension reforms are difficult to accomplish but will be increasingly necessary as state and municipal pension debt service eats up larger chunks of government budgets. State and local leaders seeking to make lasting improvements to government finances should look to Texas, Arizona and Michigan. These states are showing that it's possible to create resilient retirement systems that can promote long-term financial security for taxpayers and public employees alike.

The Wall Street Journal

By Leonard Gilroy and Steven Gassenberger

June 18, 2021 1:55 pm ET

Mr. Gilroy is vice president of Reason Foundation and senior managing director of its Pension Integrity Project. Mr. Gassenberger is a policy analyst at Reason Foundation.

Fitch: U.S. Public Power Peer Review Highlights Resilient Credit Quality

Fitch Ratings-New York-21 June 2021: U.S. public power utilities are generally seeing a continuation of strong financial trends and improving credit quality, according to Fitch Ratings' 2021 U.S. Public Power Peer Review.

"The latest peer review shows that modest ratios of capital investment to depreciation and improving coverage medians again contributed to low leverage and improving credit quality throughout the public power sector in 2020," said Dennis Pidherny, Managing Director, U.S. Public Finance. "These results are particularly surprising given the impact of the coronavirus outbreak and the related economic contraction. They further illustrate the sector's operating and financial resilience, and its ability to record strong performance even through a very challenging period."

Trends highlighted in the 2021 peer review include:

- Median ratios for coverage of full obligations improved for both wholesale and retail systems, sustaining an upward trend.
- The median capex-to-depreciation ratio for wholesale systems continued its downward trend, falling to 71%. The median ratio has been below at or below 100% for five of the last seven years. The median ratio for retail systems improved to 149%, a level last observed in 2010.
- Cash on hand medians for retail and wholesale systems improved yet again, rising to the highest levels observed in a decade. This build-up of excess cash likely remains attributable to modest levels of capital investment, stronger than anticipated demand through the coronavirus pandemic, and disciplined rate setting initiatives.
- Leverage metrics across the entire portfolio were largely unchanged. A modest increase in leverage metrics for retail systems was offset by a modest decline in metrics for wholesale systems. The 2020 figures continue a trend of deleveraging that began over a decade ago.

Fitch's U.S. Public Power Peer Review is a point-in-time assessment of Fitch-rated public power utilities. It assists market participants in making their own comparisons among the recent financial performance of wholesale and retail public power systems, and rural electric cooperatives. It is accompanied by the 2021 Fitch Analytical Comparative Tool (FACT) for Public Power, an interactive tool that provides enhanced trend analysis and peer comparison tables.

The full report, "2021 U.S. Public Power Peer Review," is available at www.fitchratings.com.

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Fitch U.S. Public Power -- Peer Review

Fitch Ratings presents the 2021 edition of its annual U.S. Public Power — Peer Review. This report compares the recent financial performance of wholesale and retail public power systems, as well as rural electric cooperatives. The ratios highlighted in this report are some of the financial calculations used in comparing utility systems in Fitch's committee process, and can assist market participants in making their own comparisons. Financial metrics represent only one key component among others in Fitch's utility credit analysis. To review Fitch's full public power criteria, please see U.S. Public Power Rating Criteria. The U.S. Public Power — Peer Review is a point-in-time assessment of Fitch-rated public power utilities. The ratios for each issuer are calculated using audited information. While more than half the audits used in this study are dated Dec. 31, 2020, different audit dates may skew the ratio distribution. Financial ratios and metrics detailed in the report may occasionally differ from those reported in new issue and rating reports. This can be a result of adjustments made by Fitch during the rating review process to reflect additional information received from the issuer and circumstances unique to the credit. In each case, Fitch seeks to highlight these adjustments for the benefit of the reader in the reports and press releases it publishes during the rating process.

ACCESS REPORT

Everything You Need to Know About the Infrastructure Bills Traveling Through Congress.

There are eight of them.

As a new infrastructure week begins, we've reached the peak confusion stage in Washington. It is genuinely difficult to keep straight all the gangs, working groups, and bipartisan agreements on bills that fall under the rubric of infrastructure. So let this be a public service straightening all that out. There are actually eight infrastructure bills floating out there right now, though none of them appears at this moment to have the votes needed to pass into law. Walking through them can illuminate what the Biden administration's strategy should be going forward.

First, you have the surface transportation bills, one each in the House and Senate. The House bill, called the INVEST in America Act, is a five-year, $547 billion package that passed the House Transportation and Infrastructure Committee last Thursday along mostly party lines; just one Republican, Brian Fitzpatrick (R-PA), voted for it in committee. (The House passed largely the same bill last year; it didn't go anywhere.) The Senate has its own surface transportation bill, which was introduced on a bipartisan basis in May by two Democratic and two Republican members of the Environment and Public Works Committee. That bill has $303.5 billion for highways, roads, and bridges; the House bill reserves $334.2 billion for that purpose.

It's important to understand that these surface transportation bills represent no new federal spending on infrastructure; they are reauthorizations of the money Congress sends out to the states for infrastructure projects routinely. And it has to be reauthorized by September 30, or all federal spending on infrastructure would expire.

Continue reading.

THE AMERICAN PROSPECT

BY DAVID DAYEN

JUNE 14, 2021

Munis In Focus: Infrastructure and Lagging Treasuries (Radio)

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

Listen to audio.

Bloomberg Radio

June 18, 2021

[Violent Crime Poses Credit Risk to U.S. Cities, Hilltop Says.]

- **Uptick in homicide rate pre-dates Covid-19 pandemic by years**
- **In NYC, murders are up about 14% year to date, city data show**

A rise in violent crime is a concern for some municipal-bond investors watching the economic recovery of U.S. cities, according to Hilltop Securities Inc.

The uptick, which pre-dates the pandemic, marks a reversal from decades of improvement. From the early 1990s to 2014, the rate of murders fell by more than half, but since 2014, the rate has slowly begun to climb, according to data compiled by the Federal Bureau of Investigation.

The resurgence represents another potential credit risk for urban hubs already grappling with Covid-19 recovery efforts and outmigration. Taken together with the prospect of higher taxes and more flexible work-from-home policies, cities run the risk of losing residents, handicapping their revenue. About 40% of urban officials have seen an increase in crime over the past year, a higher rate than non-urban communities, according to a survey by the National League of Cities.

“What I’m most concerned about is all of these variables building on top of each other in the near to medium term.” said Tom Kozlik, head of municipal strategy and credit at Hilltop Securities Inc. “This is something that investors are looking at and reacting to.”

The recovery and attractiveness of cities has been a cultural flashpoint throughout the pandemic, spurring impassioned opinion pieces from critics and defenders, and a migration of some Wall Street jobs to the warmer weather of Florida.

Crime has the potential to play a role in residents’ decisions to leave, or return to, their urban office setups. In New York City, the year-to-date murder rate in 2021 increased 13.5% compared to the prior year, the highest in about a decade, according to data from the New York City Police Department. Chicago has seen murders and shootings climb in 2021, though total crime is down since 2017.

Even though the statistics aren’t uniform across cities, Gallup surveys show perceptions of crime in the U.S. are at their highest since 1993, largely driven by Republicans, the polling company found.

”It has the potential to have some, at the very least, indirect impact on municipal finance if there is even just the perception of a permanent increase in crime in a city,” said Patrick Luby, senior municipal strategist at CreditSights.

Luby said there is broad variation in the data, which still generally shows rates lower than 15 years ago, and that is probably not as big of a factor on municipal bonds as the working-from-home trend.“All of those things have the potential to impact prices, tax revenues, and therefore the resources available to a city,” Luby said.

There is greater awareness of crime as more people are home and cities are emptier, according to Luby.

“We believe that rising violent crime has the potential to negatively impact municipal credit quality, and this is especially true for the medium and larger cities,” Kozlik wrote in a note this month. “Even if all types of crime rates are not rising, the perception of a rise in crime matters. This perception is enough to have political and fiscal consequences.”

Bloomberg Markets

By Nic Querolo

June 16, 2021, 12:00 PM PDT

— With assistance by Peyton Forte

The Upheaval in Municipal Bonds Shows No Signs of Slowing.

As the municipal bond market absorbs more inflows. assets like the IQ MacKay Municipal Intermediate ETF (MMIT) are worth considering.

Per a Financial Times article, more investors are “pouring into the $4tn US municipal bond market, pushing yields on debt issued by state and local governments across the country to the lowest level on record. The voracious investor appetite has helped state agencies and governments lock in low borrowing costs and at times raise more money than bankers working on the projects initially anticipated.”

Per the fund description, MMIT seeks current income exempt from federal income tax. The fund is an actively managed ETF and thus does not seek to replicate the performance of a specific index.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

JUNE 21, 2021

Municipal-Bond ETF Inflows Post Another Record.

Mutual-fund inflows are hot too

Municipal-bond exchange-traded funds took in the most money on record in the week ending June 16, as investors continue to snatch up debt issued by U.S. local governments.

Muni ETF inflows totaled $704 million, according to Refinitiv Lipper, the biggest weekly haul since September 2007, when those records begin. It was their sixteenth straight week of inflows.

One fund, the iShares National Municipal Bond ETF MUB, -0.01%, took in nearly half of the weekly total at $316 million. The fund has posted a total return of 1.17% in the year to date, according to FactSet data.

Investors have flocked to municipal bonds this year as the prospect of tax increases gathers pace. Unlike sovereigns and corporate bonds, munis offer tax advantages. What’s more, the local governments that issue the bonds aren’t just good credit risks: in some cases, they have more money than they know what to do with.

Demand for munis has been so strong that one mutual fund recently closed to new investors. Refinitiv Lipper data show that such funds had their eleventh consecutive week of inflows, picking up $1.1 billion in the most recent week.

MarketWatch

By Andrea Riquier

June 18, 2021

['We’ve Seen a Really Good Rally in Municipal Bonds': BlackRock Municipal Bond Group Head]()

Peter Hayes, Head of BlackRock’s Municipal Bonds Group joined Yahoo Finance Live to break down his thoughts on the municipal bond market.

Video Transcript

SEANA SMITH: Peter, it’s great to see you again. And we know the muni bond market has been attracting pretty significant inflows so far this year, right around $49 billion so far. So now that it seems like we have some progress at least on infrastructure talks, is that going to be enough do you think to keep this rally going in the muni market?

PETER HAYES: Yeah, I think, I mean, look, there’s a lot of positive things and from a fundamental credit standpoint, it’s about as constructive as I’ve seen in the market perhaps ever. You think about the stimulus, the accommodative Fed policy, all that has really been a boon to state and local revenues. Even many of the revenue sectors, like transportation are coming back as the economy reopens. So all that’s positive. And I think even talk of infrastructure, some kind of package will ultimately lead to some degree of increased issuance in the market.

But the demand is just insatiable. It’s on track to be more than we saw in 2019, which is probably the largest we’ve ever seen in terms of those flows that you spoke about. So I don’t think an infrastructure package necessarily derails the market rally that we’ve seen. I think it’s more what we see it going on in the bond market, and that’s interest rates being a bit volatile here.

ADAM SHAPIRO: In regards to the volatile interest rates, Peter, and it’s good to see you, a lot of us are approaching that age where we need to start looking at ways to protect future retirement income with less risky assets. Muni bonds would be one of the ways to do that. But you wrote here in your most recent note that long duration, lower credit quality bonds outperform as coupon return drove performance.

A lot of us get that. But then you added, as a result, the yield toward the S&P municipal bond high yield index pushed to a new all time low. Give us a 101 from the investor standpoint. What are you talking about here? Because a lot of us really do want to protect future income.

PETER HAYES: As most people know, that interest rates and prices have an inverse relationship. So as yields go down, prices go up. So we've seen, as Seana mentioned, we've seen a really good rally in municipal bonds really that began in April of last year, and it's continued again through this year, which means the higher prices go, the lower yields go. So you're taking more risk obviously the further out the curve you go to get some of that incremental income.

And it's interesting, when you break down the flows this year, a lot of those flows have gone to the long-term category and the high yield category, which means people are taking more duration risk, they're taking more credit risk. And what happens when interest rates go up, is the value of their investments actually go down. So it's a precarious situation, because yields are so low and as people stretch for that income. So I think you've got to be careful about where we are in the cycle, what are interest rates likely to do. It may not be a bad time to just sit in cash, sit in very low duration, protect some of that principal, wait for a better opportunity ahead.

SEANA SMITH: Peter, how about state finances? Because going back what, 16 months ago, 15 months ago to the start of the pandemic, there was lots of questions, lots of uncertainty about how state finances were going to be impacted. And I know the last time we spoke with you, they were actually faring much better than we had initially anticipated. Is that still the case right now?

PETER HAYES: It is. The bounce-back has been incredible. I think about a year ago came on the show, we were talking about California projecting the potential for a $56 billion deficit given the impact of the shutdown of the US economy and what that means for state and local government. And here, we're actually talking about a $75 billion surplus. That's an enormous swing.

And we've seen that in other states as well, not just California. Some states that are a little bit more reliant on tourism haven't fared quite as well. But in general, when you think about what the stock market had done and you think about the housing market, incomes have done well. People have spent. They've spent differently, but that means sales taxes are up as well. So I would say yes, fundamental credit picture in the muni market is as good as we've seen it in some time.

ADAM SHAPIRO: And Peter, we've talked about the tax implications with muni bonds. With the current discussion about changing the tax code in the United States, are you hearing anything pro or con coming out of Washington which will impact again, those people I talk about who may be looking at protecting capital going forward?

PETER HAYES: We have. And I think that the marginal rate going from its current 37% to 39.6% is certainly a possibility as they figure out ways to pay for this infrastructure package, but at the margin. Does 2 and 1/2 percentage points make a big difference in the after tax value of municipals? Probably not. I think people are already anticipating that, and that's why we've seen this tremendous demand materialize.

The other aspect is the corporate rate. After the 2017 tax change, we went from a 35% corporate rate to 21%. And we did see corporations, who are often big buyers of municipals, pare back their holdings. So we saw some selling. If that rate were to go back up to 25% however, you wouldn't see all that demand materialize.

You wouldn't see all that selling that took place in 2018 all of a sudden turn into buying. One of the reasons is that our valuations are very, very stretched, and they could probably do better by buying corporates or other fixed income asset classes. So I don't think the change in the tax code is necessarily going to be a big benefit or a game changer for munis any time this year.

Yahoo Finance

June 17, 2021

[Munis Are the 'Valedvictorian' of Fixed-Income: Newfleet's Heaney]

Tim Heaney, a senior managing director at Newfleet Asset Management, favors higher-quality municipals that have fallen out of favor as investors shift into riskier assets, he said on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg MarketsTV Shows

June 15th, 2021, 1:50 PM PDT

[Improving Public Pension Returns Add to Case for Muni Bond ETFs.]

On the back of surprisingly strong tax collection, state and local finances are solidifying and that’s constructive for municipal bonds.

The VanEck Vectors CEF Municipal Income ETF (XMPT) is higher by nearly 2% over the past month, an impressive feat in that time frame for a municipal bond exchange traded fund. The $194.5 million XMPT, which is just a few weeks away from its tenth anniversary, follows the S-Network Municipal Bond Closed-End Fund Index. That benchmark is a basket of closed-end municipal bond funds focusing on dollar-denominated tax-exempt debt.

For investors considering XMPT and other muni bond ETFs, it’s encouraging that states and cities are thriving on the tax collection front. Another positive is that public pension returns are perking up.

“With under a month left until their fiscal 2021 year end on 30 June, many US public pension systems are on pace to post exceptional, and potentially record-setting investment returns,” according to Moody’s Investors Service. “Such strong investment returns would broadly improve near-term funding, lessen negative non-investment cash flow (NICF) relative to retirement system assets and provide governments with a respite from growth in annual costs.”

Why It’s Important to XMPT

Many novice muni bond investors may be apt to simply assess a state’s economic health when venturing into individual issuers or funds such as XMPT, but public pension health is vital to investor outcomes in this asset class as well.

Several state public pension systems, including CalPERS and CalSTRS, are among the largest pension investors in the world. Additionally, some states are grappling with the scenario of lavish benefits to plan participants that guaranteed young retirement ages (in some cases in a worker’s early 50s) and increasingly long life expectancies.

Municipalities can issue pension obligation bonds (POBs) to fill shortfalls in their contributions to public pension systems, but too much of that type of issuance can prompt rising pension risk, potentially leading to downgrades or higher interest rates on new issues. Over the near-term, those ominous scenarios don't appear to be cause for concern for investors considering XMPT.

"With the 30 June fiscal year end for many US public pension systems, we project that investment returns are approaching 25%-30%for many if market conditions maintain their strength in the coming weeks, based on our composite of market indices meant to represent typical US public pension system asset allocations," adds Moody's.

XMPT, which yields 3.89%, is up 6.06% year-to-date, an advantage of nearly 400 basis points over the widely followed S&P National AMT-Free Municipal Bond Index.

ETF TRENDS

by TOM LYDON

JUNE 16, 2021

'Food Fight' in the Municipal-Bond Market as Demand Devours all Supply.

'Money just keeps pouring in'

The U.S. municipal bond market is known for being many things: staid, stuffy, well-suited to capital preservation, if not growthy opportunity. But now, lopsided metrics of supply and demand, with no relief in sight, suggest it might be outright shrinking.

Investors have poured record amounts of money into muni funds, even as a series of events have conspired to keep state and local government entities from issuing enough debt to satisfy investors. Some corners of the market are so tight that funds are turning money away, noted Brian Steeves, portfolio manager for Rye Brook, New York-based Belle Haven Investments.

"It's a food fight," Steeves told MarketWatch.

Continue reading.

MarketWatch

By Andrea Riquier

June 11, 2021

Muni-Bond Hunters Left Empty-Handed With Trading at 16-Year Low.

- **Average number of daily trades has been at lowest since 2005**
- **With cash pouring in, 'there are not a lot of options'**

For municipal-bond fund managers flush with cash, it's not easy finding something to buy.

The amount of debt changing hands in the secondary market has become unusually thin, with investors holding on to their bonds after a rally that drove a key measure of valuations to a record high.

There were an average of about 32,500 municipal-bond trades every day since the start of the year, the smallest average over the same time period since 2005, according to Municipal Security Rulemaking Board transaction data. That added up to about $9.3 billion worth changing hands each day, the lowest over that same time period in two decades.

Continue reading.

Bloomberg Markets

By Danielle Moran

June 10, 2021, 10:01 AM PDT

Lofty Muni Valuations Show No Sign of Ebbing in Demand Onslaught.

- **30-year muni yields are near historic low versus Treasuries**
- **'Technical tailwinds' set to support prices, LPL's Gillum says**

The strength of the municipal-bond market shows no sign of fading in the next few months, sustaining the securities' historic valuations with investors plowing money into funds that buy tax-exempt debt.

Amid robust demand as lawmakers in Washington debate higher taxes on the wealthy, munis have offered shelter in a tough year overall for fixed-income securities. They've eked out a positive return in 2021, while most parts of the bond market have lost money.

The outperformance relative to Treasuries has been historic. Yields on 30-year state and local bonds are about as low as they've ever been compared with their federal counterparts. The upshot is that it's an appealing time to borrow for issuers of all stripes. In just one example, American Samoa is bringing junk-rated debt to market this month, in its first offering in years.

"Yes, munis are expensive, but there's a lot of technical tailwinds that could help support those prices, at least on a near-term basis," said Lawrence Gillum, fixed-income strategist at LPL Financial. "Valuations in and of themselves don't mean that markets need to sell off, especially if there's a technical tailwind and that's certainly what we're seeing in the municipal market."

Municipal mutual funds and exchange-traded funds have seen a flood of cash in 2021. The ETFs have pulled in $9.4 billion this year, on track to beat the record set in 2020, data compiled by Bloomberg show. With investors hunting for extra yield, junk muni funds have seen 13 straight weeks of inflows, according to Refinitiv Lipper US Fund Flows data.

In the U.S. summer months, the state and local debt market also typically benefits from a surge of principal and interest payments, adding to demand as buyers look to reinvest.

It's all happening against an improving credit backdrop as the economy reopens from the pandemic and as municipalities receive an influx of federal aid through President Joe Biden's American Rescue Plan Act. The president's pitch for higher levies helps as well.

"The market is preparing for the current administration to spend and lay out their tax plan," said

Debra Crovicz, a portfolio manager at Chilton Investment Co. "If tax rates go up, I still think we're going to see inflows into this sector because June, July and August coupon reinvestments will typically outstrip the amount of supply."

Bloomberg Markets

By Peyton Forte

June 9, 2021, 11:15 AM PDT

— With assistance by Amanda Albright

Munis Hit $100 Billion in Net Inflows from January to May.

The appetite for municipal bond exchange traded funds (ETFs) has been readily apparent, with the start of the year through May bringing in over $100 billion in net inflows, further fueling funds like the Invesco National AMT-Free Municipal Bond ETF (PZA).

"More than a dozen municipal bond ETFs each gathered over $100 million of net inflows year-t--date through May 2021 highlighting the diversity of popular offerings," CFRA Research noted in an email. "The sub-category gathered $8.6 billion of new money and is on pace to exceed 2020's flows."

PZA seeks to track the investment results of the ICE BofAML National Long-Term Core Plus Municipal Securities Index. The fund generally will invest at least 80% of its total assets in the components of the index.

The index is composed of U.S. dollar-denominated, tax-exempt municipal debt publicly issued by U.S. states and territories and their political subdivisions in the U.S. domestic market. PZA's expense ratio comes in at 0.28%.

A "Food Fight" in the Muni Space

While municipal bonds may not have the risk appeal of high-yield debt, investors remain interested. An influx of investor capital came as U.S. president Joe Biden presented his massive infrastructure plan, which would require state and local debt funding.

"The U.S. municipal bond market is known for being many things: staid, stuffy, well-suited to capital preservation, if not growthy opportunity," a MarketWatch article said. "But now, lopsided metrics of supply and demand, with no relief in sight, suggest it might be outright shrinking."

The article also noted: "Investors have poured record amounts of money into muni funds, even as a series of events have conspired to keep state and local government entities from issuing enough debt to satisfy investors. Some corners of the market are so tight that funds are turning money away, noted Brian Steeves, portfolio manager for Rye Brook, New York-based Belle Haven Investments."

"It's a food fight," Steeves told MarketWatch.

How long this proverbial food fight can last remains to be seen. For now, municipal bonds have been the toast of the town in the debt market.

“Bankers and buyers may both see less activity than needed, the influx of Federal cash and surging state and local revenues cut borrowers’ needs for working capital,” wrote analysts at Municipal Market Analytics in a June 7 note. “State and local governments, which are not yet showing a strong rebound in hiring, are also likely a few quarters away from restarting traditional new money infrastructure plans in earnest.”

ETF TRENDS

by BEN HERNANDEZ

JUNE 14, 2021

Investors Are Backing ‘BAB’ as State and Local Finances Solidify.

Investors could be forgiven if, at the height of the coronavirus pandemic, they grew jittery over municipal bonds.

Back then, concerns about some states’ and municipalities’ finances were exposed amid economic shutdowns and accelerating unemployment. Fast forward to 2021 and the darkest of scenarios didn’t come to pass for municipal bonds, indicating that debt and exchange traded funds such as the Invesco Taxable Municipal Bond Fund (NYSEArca: BAB) are on firm footing.

“Higher-earning individuals remained disproportionately employed, and real estate and equity markets bounced back fairly quickly—all of which helped buoy tax revenues in certain states,” writes Charles Schwab’s Cooper Howard. “As a result, the municipal bonds issued by state and local governments proved similarly resilient, with defaults in 2020 tracking well below the totals realized in the wake of the Great Recession.”

Some of the progress on the state and local financing front is starting to be reflected in BAB’s price action. The Invesco ETF gained 1.07% last week and resides just 2.36% below its 52-week high.

Building Back Better with BAB

There are other encouraging signs for muni bonds and BAB. As Schwab’s Howard notes, despite the pandemic, almost half the 50 states actually collected more in taxes during the April through December 2020 period than they did in year-earlier time frame. Plus, municipal bond credit risk appears benign for now.

“Indeed, credit risks in the muni market are waning, largely due to the recently passed $1.9 trillion relief package, which provided substantial direct aid to many muni issuers,” said Howard. “It also contained a number of provisions to help support economic growth, which should eventually flow to many municipalities via higher income, sales, and other tax revenues.”

On the credit quality front, BAB is ideal for conservative investors because 85% of its 585 holdings are rated AAA, AA, or A on the S&P scale, according to Invesco data.

Even if state finances suddenly sour, which doesn’t appear likely at the moment, prevailing wisdom is that the worst-case scenario is ratings downgrades, not defaults. With the economic recovery gaining traction, neither outcome appears likely. Additionally, BAB’s credit profile is ideally positioned for an environment in which the unexpected could arrive at any moment.

“Although credit risks are lower now, it’s wise to focus the bulk of your portfolio on issuers rated A/A and higher, with some exposure to issuers at the lower end of the investment-grade spectrum (BBB/Baa) if your risk tolerance allows it,” concludes Howard.

ETF TRENDS

JUN 14, 2021

Junk Bonds Are Dominating Even One of America’s Safe Havens.

- **High-yield muni returns beat broad market by most since 2014**
- **Drives yields to lowest on record, quickens pace of new deals**

The municipal junk-bond boom is roaring back.

With the economy rebounding swiftly from the pandemic, interest rates on high-yield state and local government securities have tumbled to the lowest in over two decades. Cash is pouring into mutual funds focused on the junk-rated debt so quickly that money managers are fighting to get in on new deals. And prices have rallied, driving high-yield bonds to their biggest run of outperformance since 2014.

The demand is so strong that a California agency sold 35-year bonds for the development of a senior-living community at a yield of 4.43%, about two-and-a-half percentage points less than bankers initially anticipated. The price went on to surge 8% in secondary trading.

“We couldn’t think of a better time to come to market,” said Sarkis Garabedian, an investment banker at Ziegler, the underwriter on the bonds. He said the firm hadn’t seen such interest in a transaction for a new senior living campus since they started tracking the metrics in the 1980s. “We really hit the sweet spot here.”

Recent bond sales have raised money for an ethanol production facility in North Dakota, a bevy of charter schools, and a youth-sports complex in Arizona. American Samoa, a junk-rated territory, is tapping the market for the first time since 2018. And the owner of a plant that recycles rice waste into fiberboard may sell more debt even though it has already been driven to default.

The dynamics show how much the municipal-bond market has been swept up in the global push into higher yield assets as central banks worldwide hold interest rates low to stoke the economic recovery.

That’s fueled a surge in debt sales by corporations and governments battered by virus lockdowns. And for the state and local government debt market, it has revived the years-long rally in junk bonds that was only temporarily derailed by the coronavirus lockdowns.

So far this year, government agencies across the U.S. have sold more than $6.5 billion of bonds that can only be marketed to institutional investors able to bear the risk, driving such issuance toward the biggest year on record, according to data compiled by Bloomberg.

Cynthia Clemson, co-director of municipal investments at Eaton Vance, said the flood of demand means it’s harder for buyers to push for better protections on such deals.

“It’s definitely an issuer-driven market right now as opposed to a lender-driven market,” she said.

Emboldened Borrowers

Junk or unrated municipal bonds are often sold by governments or public agencies on behalf of businesses like real estate developers, clean-energy factories and others that are qualified to borrow in the tax-exempt market.

“I’ve never seen a market environment more favorable to borrowers than this one,” said Charles Peck, head of public finance investment banking for Wells Fargo & Co.

Buyers may be emboldened by the experience during the pandemic, when defaults remained rare even as the economic shutdowns threatened many industries that have raised money in the municipal market. Only a little over $3 billion of bonds defaulted in 2020 and 2021, a small share of the $3.9 trillion market, according to data compiled by Bloomberg Intelligence.

“Through Covid and into today, market defaults continue to be exceedingly, exceedingly low,” said Ben Barber, head of municipal investing at Franklin Templeton. “A lot of sectors that caused great concern have survived in pretty remarkable fashion.”

‘Full-blown Return’

After a steep downturn when the pandemic first hit in 2020, high-yield municipal bonds have rallied strongly back, delivering a return of 5.8% so far this year. That’s over 4 percentage points more than the broader market, the biggest gap in returns since 2014, according to Bloomberg Barclays indexes.

Nuveen’s Anders Persson and John Miller highlighted the demand for high-yield municipals in a note this week, saying that some offerings have been as much as 30 times oversubscribed.

There seems to be little sign that demand is slowing. High-yield funds have absorbed a fourth of the $44.7 billion of inflows into muni funds this year, according to Refinitiv Lipper US Fund Flows data.

“We are on the precipice of going into full-blown return to normal and the commensurate economic boost as a result of that,” Nuveen’s Miller said in an interview this month.

“There is a lot of cash coming in and not that many bonds,” he said. “In that environment, I think spreads are going to keep tightening, bottom line.”

Bloomberg Markets

By Amanda Albright and Danielle Moran

June 10, 2021, 7:00 AM PDT Updated on June 10, 2021, 7:26 AM PDT

— With assistance by Shruti Singh, and Nic Querolo

[Munis In Focus: Buyers HODL As Spread Ship Hits Iceberg (Radio)]()

Eric Kazatsky, Senior Municipal Strategist for Bloomberg Intelligence, discusses the latest news from the municipal bond market.

[Listen to audio.]()

Bloomberg Radio

June 11, 2021

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

View the Current List.

11 Jun, 2021

S&P: History Of U.S. State Ratings

View the history.

11 Jun, 2021

S&P: How U.S. CDFIs Meet Financial And Social Missions, And The Rating Implications That Follow

View the S&P report.

10 Jun, 2021

S&P: U.S. States' And Transit Debt Hit Emergency Brake During Pandemic As Infrastructure Needs Accelerated

Key Takeaways

- Most states' debt levels are sustainable and continuing to moderate compared to the peak in 2012. Unlike past recessions, only three states issued debt for budgetary or deficit purposes in fiscal 2020.
- Infrastructure needs exceed what states and transportation agencies can finance if credit quality is to be maintained. A large federal plan could propel their recovery and make a substantial down payment on a decade-long $1.5 trillion underinvestment.
- Mass transit systems, key to the economic recovery in some states, are beginning to regain ridership, but pandemic-delayed projects will have riders returning to systems with continued costly infrastructure needs.
- Aligning infrastructure and capital borrowing with sustainability principles is gaining momentum.

Continue reading.

Cities Need More Than Rescue Aid to Fix Their Roads.

Nearly a quarter of municipalities surveyed by the National League of Cities took on fewer infrastructure upgrades over the past year, and projects are still in need of funding.

The White House's multibillion-dollar rescue package to U.S. cities won't solve their infrastructure challenges, underscoring the case for more support as Congress debates a federal infrastructure plan, according to a report by the National League of Cities.

The lobbying group released its State of the Cities report on Thursday that uses survey data from about 600 communities and mayoral speeches, finding that some city infrastructure upgrades have fallen by the wayside during the pandemic. Funding for those projects ranked as one of the top challenges facing cities and a top mayoral priority for 2021, according to the report.

The findings bolster the case for more federal funding for roads, bridges and other projects, with nearly a quarter of cities experiencing fewer infrastructure upgrades over the last year, according to the group. The path to a bipartisan plan got more complicated this week after talks ended between President Joe Biden and Republican Senator Shelley Moore Capito, who couldn't agree on the scope of spending or how to pay for it.

Continue reading.

Bloomberg CityLab

By Amanda Albright

June 10, 2021, 7:00 AM PDT

Finding the Revenues to Pay for Infrastructure.

The warring camps in Washington are unlikely to find a middle ground on their own. Governors and mayors need to take a seat at the adult tax-policy table.

It's too early to predict which, how or whether any of the competing federal infrastructure proposals now bouncing between the White House and Capitol Hill will eventually become law. Perhaps a bipartisan deal can be reached on at least the physical infrastructure features that are of utmost importance to states and localities, but Senate GOP resistance to "pay-for" rollbacks of the 2017 corporate tax breaks could be a deal-killer. Republicans' recent shell-game pitch to fund $300 billion worth of projects by "repurposing" aid committed to the states and municipalities in the American Rescue Plan Act has rankled most local officials as disingenuous.

As various counterproposals ping-pong up and down Pennsylvania Avenue, the partisan dynamics are clear: Democrats might be able to cram a bill through by using the budget reconciliation process, if they can hold together all 50 blue votes in the Senate. But if they are unable to take the reconciliation route, they will need at least 10 GOP senators' votes to achieve a bipartisan compromise.

If Democrats decide to go it alone, it's pretty clear that they will include a host of progressive tax features to pay for some or much of the deal. Meanwhile, GOP leaders aligned with business and wealth lobbyists oppose both a corporate tax hike and deficit financing for infrastructure.

Continue reading.

governing.com

June 8, 2021 • Girard Miller

Fitch: Public Infrastructure Cyberattacks May Pose Broad Financial Risk

Fitch Ratings-Austin/New York-09 June 2021: The recent Colonial Pipeline cyberattack illustrates the broader financial effects that can result from attacks on critical public infrastructure, Fitch Ratings says. A breach of critical assets, such as power or water supply or public transportation, that halts service could result in widespread public and private sector shutdowns if utilities cannot provide service or employees are not able to commute to their places of work.

Infrastructure that has been compromised can directly affect state and municipal government finances in the near term through ransom payments and/or the costs of remediation and restoration of data and service, as well as over the longer term, as a result of broad economic disruption that leads to loss of tax revenue.

The highly public nature and necessity of critical public infrastructure marks it as an extremely tempting target for cyber criminals, where the rewards for successful breaches can be significant. Public safety and security and the direct accountability of government entities to their citizens make infrastructure attacks attractive to those who seek to maximize headline risk.

The Biden administration issued exploratory executive orders directing federal agencies to look into ways to strengthen cyber defenses in recognition of the threat to public works. The comprehensive federal regulations around grid security are a prime example of the focus on national security and economic and public safety concerns. Public power entities are required to maintain the cyber best practices of the North American Electric Reliability Corporation.

The trend of global cybercrime has been undergoing a metamorphosis in the past two years. Criminals are now more focused on pivoting from the direct theft of data to disrupting critical operations using ransomware and exfiltrating information. Making systems more resilient to evolving cyberattacks requires ongoing and robust capital investment in digital defenses to ensure operational security and physical safety. Employee and management vigilance remains an important guard against cybercrime.

Remote work and the use of technology in the operation of public critical infrastructure has created new cyber challenges and vulnerabilities. Service and safety were not jeopardized in the recent attacks on the Metropolitan Transportation Authority of New York (transportation revenue bonds rated 'A-'/Negative) and the Massachusetts Steamship Authority (not rated by Fitch), but the breaches pointed to the need for robust digital security.

Attacks on the water infrastructure in the City of Oldsmar, Florida and Post Rock Rural Water District, Kansas (neither rated by Fitch) evidence the importance of manual redundancies and safeguards if cyber defenses are breached. Management was able to limit damage at these utilities, even though the control systems of water treatment plants were compromised.

Fitch considers cybersecurity in its review of public sector credits and as part of its global environmental, social and governance (ESG) framework. Cyber breaches pose significant social risks in terms of public safety and security, as well as a governance risk in terms of management effectiveness. An entity's ESG Relevance Score (ESG.RS) for Customer Welfare – Fair Messaging, Privacy & Data Security (SCW), could be elevated if cyber risk were deemed to be material to the rating, such as the score assigned to Marriott International, prior to the issuer's rating withdrawal in September 2020, in recognition of the widescale data breach of their systems in 2018, and to Capital One (COF; 'A-'/Stable) following a July 2019 data breach. COF's elevated ESG.RS for SCW was reduced in May 2021, as the breach did not result in any noticeable damage to COF's franchise.

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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.

American Rescue Plan Revenue Replacement Calculator Now Available: GFOA

For governments considering spending under eligible use category C, "*for government services to the extent that there was a reduction in revenue*," calculating the jurisdiction's base revenue, revenue loss and growth rate are among the first steps of the process.

Learn more.

Governors Begin Proposing Uses of American Rescue Plan Act Funds.

The American Rescue Plan Act (ARPA) of 2021 was signed into law by President Biden on March 11. The bill includes $350 billion in emergency funding for state, local, territorial, and Tribal governments. These State and Local Fiscal Recovery Funds are to remain available until December 31, 2024. The legislation details certain eligible use of the funds including responding to the public health emergency or its negative economic impacts, providing premium pay for essential front-line workers, replacing revenue losses due to the COVID-19 public health emergency, and necessary investments in water, sewer, or broadband infrastructure. Meanwhile, restrictions include using the funds to either directly or indirectly offset a reduction in net tax revenue or depositing the funds into any pension fund. Governors' initial plans for spending ARPA funds have included: **continued efforts to address COVID-19; economic recovery and relief; public health and other health initiatives; education; workforce training; promoting economic development and tourism; bonuses for first responders; shoring up the Unemployment Insurance Trust Fund; housing assistance; and infrastructure including broadband, water, and sewer.**

Continue reading.

National Association of State Budget Officers

By Brian Sigritz

Muni Strategies For An Inflationary Climate.

Summary

- With the post-pandemic US economy on the mend, a new threat has emerged: inflation.
- A confluence of pent-up consumer demand, record household savings, low inventories and global shortages has ignited the sharpest near-term price hikes in decades.
- Effective inflation-protection strategies should shield municipal portfolios from surges in actual inflation and outperform ordinary municipals if expectations rise further.

Continue reading.

Seeking Alpha

Jun. 11, 2021

Municipal Bond ETFs Are On the Up.

Conservative income-seeking investors, including plenty of retirees, often flock to municipal bonds. However, the asset class encountered some headwinds earlier this year as 10-year Treasury yields spiked.

Fortunately, those yields are steadying and the iShares National Muni Bond ETF (NYSEArca: MUB) is getting its groove back. MUB, the largest municipal bond exchange traded fund by assets, is higher by almost 1% over the past month. In muni bond terms, that's good work in such a short time frame.

"Municipals posted a third consecutive month of positive performance in May amid a backdrop of rangebound interest rates and favorable supply-demand dynamics," according to BlackRock research.

Continue reading.

ETF TRENDS

by TODD SHRIBER

JUNE 11, 2021

RMI: Muni Fund With A Unique Approach

Summary

- RMI invests some of their portfolio in the muni space through investing in other muni CEFs – a 'fund of funds' approach.
- Other individual municipal bonds also make up a majority of the fund's holdings.
- This is a bit of a hybrid approach to investing in the muni space, where the fund can take advantage of discounts on discounts.
- This idea was discussed in more depth with members of my private investing community, CEF/ETF Income Laboratory.

Continue reading.

Seeking Alpha

Jun. 12, 2021

Bond Funds/ETFs Can Deliver Meaningful Returns; Cash Can't.

Summary

- In my July 2020 article on this site, I urged investors to shun money market funds in favor of bonds for the portion of their portfolios not invested in stocks.
- Over 11 months later, cash has returned close to nothing while bond funds I recommended have returned 3.69%, not annualized.
- With the Fed on hold, interest rates are unlikely to go up in the near future meaning that bond funds can return at least their dividends, if not more.
- Finally, I discuss different categories of bond funds and my estimation of their future prospects.

Continue reading.

Seeking Alpha

Jun. 12, 2021

SIFMA US Municipal Bonds Statistics.

Want to learn more about the current landscape for U.S. municipal bonds market? SIFMA Research tracks issuance, trading, and outstanding data. 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. Download monthly, quarterly and annual statistics with trend analysis below. YTD statistics include:

Issuance (as of May) $177.7 billion, +12.5% Y/Y
Trading (as of May) $9.4 billion ADV, -36.3% Y/Y
Outstanding (as of 4Q20) $3.9 trillion, +2.2% Y/Y

Download XLS.

S&P ESG Brief: Emerging Themes In U.S. Public Finance

As the health and safety crisis resulting from the pandemic wanes in the U.S., S&P Global Ratings believes U.S. public finance (USPF) issuers will face challenges adapting to a rapidly evolving environmental, social, and governance (ESG) landscape while adjusting to a sharp shift in federal policies under the Biden administration. We believe these issues will shape emerging risks or opportunities with the potential to alter USPF issuers' credit fundamentals. In this inaugural ESG Brief, we provide an overview of these themes and examples of forward-looking analytical considerations.

Continue reading.

Distressed Muni Borrowers Are Still Piling Up in Pandemic's Wake.

- **Last week's tally of 8 issuers lifts 2021 total to 76: MMA**
- **Two in five borrowers that draw support eventually default**

The wave of U.S. municipal-bond distress set off by the pandemic is still spreading even as the economy recovers from the devastation of the outbreak.

Eight muni borrowers became distressed last week, lifting this year's tally to 76, according to Municipal Market Analytics. That puts 2021 on track to exceed almost every year since 2012 in terms of impairments. Only 2020, when the coronavirus caused some of the worst market turmoil on record, was worse.

The isolated cases of deterioration in certain smaller, typically lower-rated or unrated issuers stand at odds with the optimism in statehouses nationwide, which have been buoyed by strong tax revenue and federal stimulus. It's been a banner year for munis, with tax-exempt yields near record lows relative to those on Treasuries. Any defaults have mostly been confined to a corner of the market where businesses borrow through government agencies.

"While credit conditions are clearly better than at this time last year, they are by no means fully corrected," Matt Fabian, a partner at Municipal Market Analytics, wrote in a Wednesday note.

Overall muni credit health is on the mend as the economy revives. And the tally of issuers in distress is a drop in the bucket when compared to the tens of thousands of separate borrowers that compose the $3.9 trillion market.

'Last Throes'

Eric Kazatsky, senior U.S. municipals strategist for Bloomberg Intelligence, sees the trajectory relative to last year as a sign of growing strength.

"You have to take things with a grain of salt given the fact that we are coming out of the last throes of a global pandemic," he said. Total distress and default activity is running at about half of last year's rate, which "shows there is a lot of resiliency, there are less credit issues lingering."

Fabian cited concern for a few areas: smaller senior-living projects that are struggling to survive the pandemic and its aftermath as well as smaller hospitals and colleges.

MMA defines a distressed issuer as one that defaulted, used support measures, like emergency means to cover debt service, violated a covenant or had a developer that went insolvent.

Default Flag

Emergency borrowing can be an indicator of more severe distress down the line in a market where defaults are rare, with about two in five impaired muni borrowers ultimately falling into default.

Last week's impairments included five land-secured districts and three retirement projects. This year, retirement facilities have accounted for the largest segment of outstanding bonds with impairments, excluding Puerto Rico, at about $6.5 billion.

A Reno, Nevada, bond deal is also showing signs of lingering financial pain from the pandemic, drawing on a supplemental reserve account to pay bondholders on June 1, according to a regulatory filing.

The hotel-tax bonds were undermined by a drop in tourism to the area and pandemic-mandated closures of casinos and hotels, according to the filing.

Bloomberg Markets

By Nic Querolo

June 3, 2021, 10:44 AM PDT

— With assistance by Amanda Albright

Bipartisan Infrastructure Talks Falter House Muni Caucus Adds Republican Co-Chair.

Following a White House meeting between President Biden and Senator Shelly Moore Capito (R-WV) yesterday afternoon, time is running out on hopes for a large-bipartisan infrastructure package. Key differences remain between negotiating parties such as what actually constitutes infrastructure and how to pay for such a large spending package. Following the meeting, Administration officials made it clear that they will proceed with robust action regardless if their Republican counterparts join, so we expect in the next few weeks for the next steps to be taken. A follow-up discussion between the two parties is scheduled for Friday afternoon.

As we noted last week, there are many scenarios in which infrastructure can be addressed

over the next 6 months. Regardless of the legislative path chosen, the MBFA and BDA remain bullish for key muni priorities being enacted into law in 2021.

New Muni Co-Chair Announced

Yesterday, Rep. Dutch Ruppersberger (D-MD) announced that Rep. Jackie Walorski (R-IN) will replace former co-chair Steve Stivers (R-OH) who recently resigned his Congressional seat. The caucus remains vitally important to the promotion of municipal bonds in the House, including the recent reintroduction of legislation that would reinstate tax-exempt advance refundings, legislation that the group also introduced in the prior Congress.

The MBFA and BDA are planning outreach to the new Co-Chair and will continue to work with our partner in the House Muni Finance Caucus to promote municipal bonds in the contract of infrastructure.

Bond Dealers of America

June 3, 2021

Infrastructure and Municipals Expectations and Predictions for the Remainder of 2021.

Many questions remain unanswered as we enter the 6th month of infrastructure discussions with little tangible accomplishments achieved. While some compromise has been reached in recent weeks, frankly, both parties remain miles apart and the most likely outcome is an infrastructure spending bill passed via reconciliation with only Democratic votes. However, that as well remains in flux.

News of a recent shift in tactics has also been discussed. Senate Democratic Leadership may be shifting course in the short term on the size and scope of infrastructure spending to focus on a 2 part legislative push-allowing the President to continue to pursue some bipartisan solutions, while planning for a more robust party-line package either later this fall or early in 2022.

What does this mean for municipals in 2021? Are MBFA and BDA priorities still on track for enactment in this legislative year?

Expectations for Remainder of 2021
Following the introduction of the LIFT Act in the House and several companion pieces of legislation in the Senate, legislators made their intentions clear to promote infrastructure financing through municipal bonds a priority. Below is an outlook for municipal provisions that both the MBFA and BDA have advocated for:

Restoration Tax-Exempt Advance Refundings
As a top legislative priority for the municipal market, the restoration of tax-exempt advance refundings remains in a strong position for advancement this year. The legislative text was reintroduced by the House Municipal Finance Caucus earlier this year (the bill was identical to the version introduced in the 116th Congress) and absorbed in the later introduced LIFT Act. Following the House release, Senators Wicker (R-MS) and Stabenow (D-MI) introduced the LOCAL Infrastructure Act which much like the House companion, would fully restore tax-exempt advance refundings to their pre-2018 form.

Sentiment on Passage: BULLISH

Raise BQ Debt Limit
Much like AR, legislation was introduced in the House this Congress and absorbed into the LIFT Act. However, there has yet to be a Senate companion introduced, a potential hurdle in advancement. We still feel there is an above-average chance for passage this year, however believe it falls short of the bullish sentiment of other provisions.

Sentiment on Passage: NEUTRAL

New Direct Pay Bond Exempt from Sequestration
Legislation has been introduced in both chambers of Congress and promoted by the Administration that would establish a new category of tax-preferred financing for state and local governments to be known as American Infrastructure Bonds (AIBs). Similar to the previous Build America Bonds program, AIBs would be an alternative to tax-exempt financing. The Senate American Infrastructure Bond is exempt from sequestration and has a flat 28% reimbursement rate while the House is not while varied reimbursement. There is a general consensus that the new AIB will be included in any infrastructure package passed, however, sequestration provisions remain in flux.

Sentiment on Passage: BULLISH (with a caveat on sequestration exemption)

Expand the Usage of PAB's
Although PABs are not part of the LIFT Act, they continue to receive ample attention from both Congress and the Administration. Last week, the Biden Administration called for an increase in the PAB limit for transportation infrastructure, doubling the limit to $30 billion dollars. This build off pending Senate legislation that would expand the usage for affordable housing amongst other provisions. PABs for GSE use has also been a popular discussion item, but little legislative text has been produced.

Sentiment on Passage: BULLISH

Bond Dealers of America

June 4, 2021

[Fitch: U.S. Toll Roads and the Pandemic (Near-Term Impacts Likely to Fade)]

This report explores the facets of society that changed during the coronavirus pandemic as it relates to toll roads and how we work, play, shop, learn and live. Some longer term trends, such as telecommuting and e-commerce, were accelerated by the crisis. However, many of the largest shifts, such as the dramatic losses in transit and aviation, are likely to be shorter term, as society regains aspects of its pre-coronavirus footing.How We Work Telecommuting among U.S. workers more than doubled at the pandemic's peak, especially for white collar jobs, which are better positioned to transition to telework than blue collar jobs. Consequently, toll roads serving affluent commuter regions, such as Northern Virginia and Silicon Valley, suffered some of the largest declines, a major difference compared with prior recessions. The prevalence of telecommuting is waning as the crisis begins to ebb. However, a permanent but more modest share will remain.How We PlayModes of leisure travel involving multiple occupants in close quarters, especially aviation, experienced significant declines. While some losses stem from canceled trips, a proportion of trips shifted to single-occupant vehicles as a safer alternative. This dynamic benefited some toll roads, such as facilities that serve outdoor leisure destinations accessible by car.

[ACCESS REPORT]

Wed 02 Jun, 2021 – 8:53 AM ET

Fitch: Post-Pandemic New Normal Uneven for U.S. Toll Roads

Fitch Ratings-New York/San Francisco-02 June 2021: With daily lives dramatically altered as a result of the global pandemic, a Fitch Ratings special report points to an uneven recovery for U.S. toll roads as people adjust to new ways of working, playing, shopping and living.

“The pandemic is a test like no other that crippled or dislocated economies, commuting behavior and social patterns,” said Senior Director Scott Monroe. “The sector’s recovery reinforces the importance of the road network, especially the highway network, to the functioning of society.”

Telecommuting is waning as the crisis begins to ebb, although it will stabilize at a higher baseline, which will act as a long-term drag on traffic levels. Less ridesharing is pushing traffic and revenues down for urban toll roads while less carpooling may benefit some networks if two or more individuals who previously carpooled are now driving solo. “It will be interesting to see how toll roads serving affluent commuter regions like Northern Virginia and Silicon Valley fare over time, as they were amongst the hardest hit by traffic declines once the pandemic took hold,” said Monroe.

The same uneven outlook applies to toll roads as they pertain to schooling with some districts returning to full in-person learning, others using full distance learning and many districts falling in between. “Toll roads in areas where schools are returning to full in-class learning are likely to benefit from a faster traffic recovery,” said Monroe.

As for travel, the shift away from long-distance destinations via airplane toward outdoor leisure destinations accessible via car will continue to be a plus for toll roads. The prevalence of e-commerce was already in place before the pandemic rapidly accelerated the move away from shopping in brick-and-mortar locations. That said, it is more difficult to know what the net impact will be on overall traffic. “Roads near distribution centers stand to benefit while those near malls may experience declining traffic,” said Monroe.

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GFOA Coronavirus State and Local Fiscal Recovery Fund Guidance FAQs.

GFOA's Federal Liasion Center continues to update CSLFRF Guidance FAQs based on the most common inquiries received from members.

LEARN MORE

How U.S. States Should Spend Their $350 Billion Windfall.

Many of America's governors and mayors suddenly have a surplus of cash, giving them a chance to showcase their priorities.

Governors and mayors across the U.S. have had to grapple with previously unthinkable questions over the past year. Do I shut down my economy and upend livelihoods or try to press forward and risk a public-health crisis? How do I pitch my state or city over others when employees and executives are growing more comfortable with the possibility of working from anywhere? How can I most effectively distribute critical vaccines across disparate communities?

After all that, you might say they deserve an easy question. For instance: How would you spend $350 billion?

That, of course, is the amount of aid for state, local and tribal governments included in the $1.9 trillion American Rescue Plan. It was enough for Moody's Investors Service to brighten its outlook across municipal finance sectors, arguing that the money "will help stabilize state finances." A strange thing happened along the way, however: Revenue in a majority of states rebounded entirely from the pandemic, with California's stunning $76 billion surplus as the most prominent example. In the aggregate, total state tax receipts were virtually unchanged in the period from March 2020 through February 2021 relative to the same months a year earlier, according to preliminary monthly data from the Urban Institute.

Continue reading.

Bloomberg Opinion

By Brian Chappatta

June 2, 2021, 3:30 AM PDT

Nation's Mayors, Cities and Counties Send Joint Letter to House and Senate Leaders Opposing Clawback Proposals to Repurpose ARP Funds.

WASHINGTON —The U.S. Conference of Mayors, National League of Cities and National Association of Counties sent a joint letter to Senate Majority Leader Schumer, Republican Leader McConnell, House Speaker Pelosi and Republican Leader McCarthy adamantly opposing any proposal that would repurpose urgently needed coronavirus relief funds for other activities. A copy of the letter was also sent to all members of Congress.

Signed into law in March, the American Rescue Plan Act provides critical direct aid to local governments on the front lines of the coronavirus pandemic to help pave the way for economic recovery and adequately address rising expenses to fight the virus, growing budget deficits and increasing demand for support services. As President Biden's proposed FY22 budget prioritizes infrastructure investments and the push for a bipartisan infrastructure package continues, there remains a need in communities for both coronavirus response, relief and recovery, as well as a need to rebuild infrastructure.

The letter read in part:

> America's cities and counties – who are on the front lines of this pandemic – have been working hard since enactment of the American Rescue Plan Act to develop implementation plans that will help spur an equitable economic recovery across the nation. Local governments are using these critical recovery funds to invest in public safety, vaccine distribution, housing and rental assistance, local economic support, economic and workforce development, broadband expansion, social safety-net services, hospitality and tourism development, and hazard pay for public employees.
>
> "Despite the obvious and critical need for these dollars, there have been recent Congressional proposals to clawback these funds. We oppose these proposals, both in general and as a pay-for for infrastructure.
>
> "In order to help our economy further recover and compete globally for decades to come, we continue to urge Congress to pass a comprehensive infrastructure package that addresses our nation's transportation, water, clean energy, broadband and workforce development needs, but not at the expense of reducing funds already authorized under the American Rescue Plan Act."

The full text of the letter can be found here.

naco.org

Jun. 1, 2021

The Exacerbation of the Opioid Crisis during the COVID-19 Pandemic and the Strain on Local Government Resources.

The strength of a local economy and its economic activity is directly tied to the health of its population, which affects leading economic indicators like unemployment rates, consumer spending power, and, more importantly, per capita income levels.

It's widely seen in communities with a widespread opioid dependency or other substance abuse that local and state governments are not only forced to stretch their already thin revenue source, but the greater need for health and safety services aren't able to be adequately provided. These challenges have been exacerbated during the current pandemic.

In recently published data from the Centers for Disease Control (CDC), prescribed and synthetic drug overdose deaths have accelerated during COVID-19. It states, “Over 81,000 drug overdose deaths occurred in the United States in the 12 months ending in May 2020, the highest number of overdose deaths ever recorded in a 12-month period.”

In this article, we will take a closer look at the inverse relation between the opioid crisis and the economic prosperity of local governments.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jun 02, 2021

Panel Explores City Budgeting Priorities Amid Continued Economic Uncertainty.

Mood is cautiously optimistic as the pandemic fades and federal aid arrives

City governments were forced to make difficult decisions in the spring of 2020 when COVID-19 upended their normal budget processes. Now, many of those cities are developing new spending plans for the year ahead. Although uncertainties remain, officials feel a sense of cautious optimism, thanks to the infusion of federal funds and the lessons learned since the start of the pandemic.

This was a key takeaway from a recent virtual panel discussion organized by The Pew Charitable Trusts’ Philadelphia research and policy initiative. Among the themes voiced by city budget representatives and experts on municipal finance were:

- Uncertainty about revenues—and, to a lesser extent, expenditures—will be a challenge for the foreseeable future, but effective use of federal aid from the American Rescue Plan Act can help.
- Cities’ problems are often complex and affect multiple city agencies. But the budgeting process is hampered by being largely siloed from the rest of city government—and by individual departments being siloed from one another.
- Investments in enhancing equity should be embedded in the budgetary process and informed by data. Policies and practices adopted to address pandemic-related issues can help advance inclusive economic growth.

“When you’re in uncertain and unprecedented environments, there is a need to forecast more, to monitor more, to report more, and be very transparent with assumptions,” said Matthew Stitt, a director at PFM, a public finance firm based in Philadelphia that works with state and local governments. “If your city was already in growth mode, their investment decisions tend to be more about inclusion. But if you were in a city that was in decline structurally, you have to think of not only ways of including everyone in your investment strategies but also how do you grow the economic pie.”

Three officials from Philadelphia also took part in the panel discussion—Finance Director Rob

Dubow, Budget Director Marisa Waxman, and City Council Chief Financial Officer Robert McDermott—as well as Detroit's Budget Director Steven Watson and Shayne Kavanagh, senior manager of research at the Government Finance Officers Association. The April 27 conversation before an online audience of city policymakers, public finance experts, and other stakeholders was part of Pew's examination of Philadelphia's fiscal health in the wake of the pandemic.

The start of the COVID-19 pandemic in early 2020 forced cities to deal with uncertainty in revenues and expenditures—not just in creating budgets, but in managing them throughout the current and future fiscal years. The subject of a virtual convening hosted by Pew last July, this challenge has continued as cities have been developing budgets and financial plans for the upcoming fiscal year and beyond.

"You can't get rid of the uncertainty; you can only plan for it," said Dubow. One priority for Philadelphia, he said, is to rebuild year-end fund balances as a way of giving the city budget flexibility in the coming years. To partially close the budget shortfall for the current year, Philadelphia used $229 million from its reserves. That means it will have far less in reserve when this fiscal year ends on June 30.

Like Philadelphia, Detroit develops long-term financial plans as part of its yearly budget process. To assess the potential long-term impacts of the pandemic, the city has partnered with three universities to create Detroit-specific data and economic forecasts and is working with the Michigan Treasury Department to use tax data to better understand the local economy and tax base.

"Much like before the pandemic, it is all that much more important to focus investment and funding on building economic opportunities for Detroiters," Watson said.

Federal aid from the American Rescue Plan Act will help cities reduce uncertainty and close the budget gaps that have resulted from decreased revenues. In Philadelphia's case, an influx of $1.4 billion helped to close most of the budget shortfall for fiscal year 2022, which begins this July 1. Officials noted the need to spread these dollars over several years, as they can be used through the end of 2024—with additional federal aid unlikely.

In addition to the need to address uncertainty, participants noted that the pandemic highlighted the often-siloed nature of the budgeting process in comparison with the interdisciplinary nature of the issues facing many cities. When an initiative doesn't fit neatly into any one department, it may struggle to survive, even if it is effective. The challenge, said Kavanaugh of the finance officers association, is "how do we organize ourselves around solving problems and bring in actors from different sectors to do it?"

Waxman, Philadelphia's budget director, agreed that the ways in which budgets are set up can complicate spending decisions. For example, "there are still some challenges syncing the collaborative, interlocking nature of the work with traditional budgeting," she said, referring to the money spent on anti-violence initiatives in her city.

Finally, the participants cited the need to embed equity into budgeting—both as a process and an outcome—moving forward. Waxman cited Philadelphia's efforts to be more intentional about who is involved in the budget process and who benefits from specific programs. McDermott emphasized the importance of using data, including geospatial data, to inform spending decisions, saying that effective use of such data can effectively target equity outcomes at the neighborhood level.

The speakers agreed that the next several years will be challenging for city budgets, as local officials learn which of the pandemic-spurred economic changes fade away and which are longer-lasting.

They also agreed that the one-time federal relief presents a unique opportunity to invest in future growth.

The Pew Charitable Trusts

June 2, 202

Elinor Haider directs the Philadelphia research and policy initiative at The Pew Charitable Trusts. Anjali Chainani is a senior adviser to the What Works Cities' City Budgeting for Equity and Recovery program.

Biden's Big Plans Bypass Green-Linked Debt That Investors Crave.

Joe Biden wants to spend his way to a greener and more sustainable future for America. For now though, he'll probably be financing it the old-fashioned way — with taxes and traditional bonds.

None of the $21 trillion Treasuries market includes bonds linked to the funding of environmentally-friendly projects, despite a seemingly insatiable investor hunger for these new types of ethical assets.

Germany, France and Italy have capitalized on it, and the U.K. and Canada are both planning debuts. In the U.S., municipalities have been selling record amounts of green bonds, but the world's largest seller of debt is conspicuously absent.

It's more than a little ironic. Biden needs trillions of dollars and global investors are only too happy to pour cash into the world's safest bonds. Such debt could be splashed on new power grids to avoid the kind of chaos seen in the Texan deep freeze this year, or electric-vehicle charging for the fleet of Tesla Inc. devotees.

Yet officials haven't publicly floated the idea of green Treasuries, with Treasury Secretary Janet Yellen saying private capital must fill most of the funding gap.

Biden's infrastructure plans and climate agenda come at a time when green bonds have become one of the fastest-growing corners of international finance, with issuance above $200 billion so far this year.

The coronavirus crisis has accelerated the trend, since governments and companies are trying to spend their way to a recovery as well as transition to lower carbon economies. While the administration could easily raise funds from existing borrowing and taxes, debt linked to sustainability projects is a way for many issuers to signal that the money is going into good causes.

Green debt "fits the Biden agenda and investor demand would be strong," said Ronald van Steenweghen, a money manager at Degroof Petercam Asset Management in Brussels.

In the absence of a move from the federal government, regional administrations in America have already pushed ahead.

Last year saw a record of around $20 billion of green bonds, according to data compiled by Bloomberg show and the municipal debt market may be headed for a second straight year of unprecedented environmental debt issuance, spurred in part by the conversation around Biden's plans.

The Washington Metropolitan Area Transit Authority just sold $874 million in green bonds, while the New York Metropolitan Transportation Authority is one of the biggest issuers.

Still, that's a small slice of the $3.9 trillion U.S. municipal market, where states and localities raise money for transport, schools and housing. And it's minuscule compared to the behemoth that is the funding done by the U.S. Treasury, which has historically tended to take a very long time to ponder any changes to its debt lineup.

Proposals to extend bond market maturities beyond the current limit of around 30 years have been floated repeatedly and gone by the wayside, while the idea of issuing debt linked to a replacement for the discredited Libor benchmark has been kicked around for more than a year.

Green Treasurieies seem "quite far away at the moment," said Gennadiy Goldberg, senior rates strategist at Toronto-Dominion Bank. "I wouldn't be surprised to see the Treasury explore the issue at one of their upcoming refunding meetings, but would suspect even such exploration would take a back seat to more timely issues."

Treasury department spokeswoman Lily Adams declined to comment on whether the U.S. was considering issuing green bonds.

Slow Hurdles

The lack of commitment hasn't stopped investors from salivating over the prospect of the world's biggest borrower joining the green rush in coming years. Issuers are managing to lower their costs, since the scramble for these assets creates a so-called "greenium", as well as boost their image.

To start issuing, the U.S. Treasury would need to create a mechanism to separate the funds raised from green securities from those in the general account, and a framework for what the money could be spent on. That would also take time.

In the European Union, set to become the world's biggest green issuer, technocrats aim to publish green bond standards this summer, after political leaders first proposed the debt back in September.

Political divisions within government could also prove a roadblock. There is a risk that any future administration would discontinue the program, undermining the Treasury's "stable and predictable" mantra, Toronto-Dominion's Goldberg said. Officials are also likely to be aware of the potential liquidity implications, he added.

Some senators are pushing for muni-bond subsidies for infrastructure, similar to former President Barack Obama's "Build America" bonds that were sold in 2009 and 2010 to help the economy recover from the financial crisis. Others are trying to create a national green bank.

"Another Build America Bond type program would be the easiest way to get a green type bond out there," said Amar Reganti, a managing director at Wellington Management and a former deputy director of the Treasury's Office of Debt Management. "The government could kick start a green bond type program through state and local governments, getting those expenditures out faster."

Ultimately it may come down to how much top-level political support there is for green Treasuries. In the case of the U.K., last year its debt office appeared uncertain over the need for separate green debt, but a push by parliamentarians and ministers looks set to deliver green gilts before the U.K. hosts a major United Nations climate summer this year.

Biden needs to prove to the world that the U.S. is showing climate leadership to overcome a credibility gap, after his predecessor Donald Trump pulled out of the Paris accord on greenhouse gas emissions.

His plans have drawn criticism from the likes of Alexandria Ocasio-Cortez for not going far enough on the environment, so green debt could be a way to show the government is putting its money where its mouth is.

“No other administration has ever talked about climate and the environment as much as this group,” said Ian Katz, an analyst at Capital Alpha Partners in Washington. “The way this administration approaches things on ESG and climate is ‘let’s go as far as we can.’

ThinkAdvisor

by John Ainger and Liz Capo McCormick

June 02, 2021

Munis in Focus (Bloomberg Radio)

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

Play Episode

June 4, 2021

Municipal Bond ETFs: A Safer Alternative to High Yield.

Credit spreads are tightening, which could be causing investors to shy away from the extra risk associated with high yield, but there are safer options like municipal bonds and the Vanguard Tax-Exempt Bond ETF (VTEB).

The past month saw equities get racked with a bout of volatility as inflation fears put investors in a state of unease. Given that rates are still low by historical standards, fixed income investors may be starting to weigh in the risks of higher yield.

“The US junk bond market has begun wavering on rising inflation worries, raising the risk that the powerful rally since the depths of the pandemic in the debt issued by the riskiest corporate borrowers may be coming to an end,” a Financial Times article noted. “The high-yield bond market has been a shelter for investors seeking to avoid the volatility in stocks and government bonds this year, but these riskier assets have now begun flashing signs of caution.”

In the meantime, investors can check out municipal bonds, which are more stable. Default odds for municipal bonds are lower given that municipal bonds are backed by state and local governments.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

JUNE 4, 2021

Municipal Bonds: Breaking Down The Strength In The Market In 2021.

In 2021, municipal ("muni") bonds have been a tough asset class to manage due to overwhelming demand and limited supply in the market. Fundamentally, there are a few reasons for these conditions, and we'll take a look at some data points to bring the bigger picture into focus.

1. Investor expectations of higher taxes have been a primary underlying force behind the surge of cash flowing into municipals. Asset allocation models for investors in a higher tax bracket have likely been adjusted to reflect a higher tax rate because mutual funds and ETFs (exchange-traded funds) in the municipal space are flush with new money.
2. The stimulus bill signed in March pledged $350 billion for state and local governments, $170 billion for education and $20 billion for public transit. If we are looking at muni yields as a percentage of Treasury yields, the stimulus package seems to have assuaged many of the COVID-19-related credit concerns that were at the forefront throughout 2020. Muni prices have sustained the recent increase in treasury volatility extremely well pushing AAA muni/Treasury ratios to historic lows.

Continue reading.

Advisor Perspectives

by Michael Landrum of Advisors Asset Management, 6/3/21

How To Profit From The Currently Insatiable Demand For Municipal Bonds.

Cash coming back to investors from municipal bond coupons and maturities in June, July and August will far outstrip new issues. The municipal bond market is more sensitive to changes in supply and demand than any other sector of the bond market. This will be the summer of municipal bond imbalances.

Every week there' a relentless surge of money going into municipal bond funds of all types. Lipper Fund Flow says 2021 has ran the biggest influx of new money in municipal bond funds since 2000. The numbers as reported by Bloomberg for redemptions and calls look like this:

· $40.5 billion munis maturing in June

· $34.9 billion in July

· $43.9 billion in August

· Perhaps another $10 billion in bond calls in each of these three months.

This creates a good selling opportunity for those who need to raise cash. On the other hand, it isn't so good for buyers. Buyers should not jump into the feeding frenzy. Patience and easing into the municipal bond market makes much more sense as new issue volume ramps up in the Fall.

I recognize how counter intuitive this may seem, considering the historically low bond yields we've experienced since 2020. But factor in potentially higher tax rates and the municipal bond buying frenzy makes sense.

Investors don't like paying increased federal tax. But that's where we are heading. Washington wants to boost top personal tax rates to 39.6%. Glom on to that state income tax from the greediest states like California, Hawaii, New York, New Jersey, Oregon and Minnesota that fall between 9.85% and 13.30% for the highest earners. What you've got is a rush to munis to lessen the tax burden.

With $28.2 trillion in existing Treasury debt, continuing Federal Reserve debt purchases, and inflation, some may think investing in munis is a death wish. Not at all.

The Federal Reserve has, and will continue to, monetize our debt. They will keep rates low in order to manage the cost of government borrowing. The Fed controls interest rates. All this as individual and corporate tax rates increase.

Once the media gurus touted REITs and dividend paying stocks as the "new bonds." That is, until many companies reduced or omitted their dividends. This happened to companies like AT&T T +0.1%, Disney DIS +0.5%, Southwest Airlines LUV +0.5%, Halliburton HAL +0.1%, Royal Dutch Shell, Harley Davidson HOG -1.9%, and Expedia, to name just a few. Municipal issuers don't have that luxury. Skipping a municipal bond coupon means the issuer is bankrupt—a rare occurrence indeed. So *viva le difference*. Stocks are here to increase wealth. Municipal bonds exist to preserve wealth.

The drum beat you hear is the government relentlessly marching toward higher tax rates. Be a tax-smart investor and take heed.

Forbes

by Marilyn Cohen

Jun 1, 2021,

Do State and Local Governments Need to Worry About Inflation?

Much depends on their tax structures, particularly if Prop. 13-style tax caps are in place. But inflation-driven pressure for wage increases could squeeze budgets and crush pension funds.

Wall Street is abuzz about inflation. Recent Consumer Price Index data showing a 4.2 percent rise from a year ago spooked investors briefly as costs spiked for food, energy, used cars and commodities ranging from microprocessors to lumber. But one or two hot readouts alone do not signal persistent inflation — or at least that is what White House and Federal Reserve officials are preaching. Should state and local leaders brace for something worse?

Let's be optimistic and assume that Congress eventually passes some kind of physical infrastructure bill paid for with tax increases and user charges. That's unlikely to stir up inflation by itself. But the remainder of the Biden agenda, which includes "soft" infrastructure and the American Family Plan's social spending, seems unlikely to secure enough votes for offsetting tax increases to avoid yet more deficit spending. Add to that the certainty that a big blue health-care bill will surface next year, and the recipe for inflationary deficits is bubbling in the federal fiscal kitchen.

Continue reading.

governing.com

May 25, 2021 • Girard Miller

[Biden's Internet Plan Pits Cities Against Dominant Carriers.]

Industry has long opposed municipal broadband, but the idea has gained momentum this year with help from Washington.

After years of unhappy reliance on Comcast Corp. and other carriers, Pleasant Grove, on Utah's Wasatch Front, is turning to a new broadband option: a municipally owned company called Utopia Fiber. The choice follows a pandemic year that showed just how much households need fast, reliable internet connections for jobs, schooling, and medical care.

To reach homes that lack good service, or have none at all, President Joe Biden has proposed funding networks such as Utopia Fiber that are run by cities and nonprofits. That's not sitting well with Comcast, AT&T, Verizon Communications, and other dominant carriers, which don't like the prospect of facing subsidized competitors.

Pleasant Grove shows why established carriers might be vulnerable. With 38,000 residents, it's nestled between the Wasatch Range and the Great Salt Lake Basin, just south of Salt Lake City. When it asked residents about their broadband, almost two-thirds of respondents said they wouldn't recommend their cable service. Almost 90% wanted the city to pursue broadband alternatives.

"We could sit and wait for the private sector to do this—we just didn't really know when that would be," says City Administrator Scott Darrington. Residents have complained of slow broadband, and Utopia's fiber network holds out the promise of fast speeds that don't lag as more households log on, Darrington says. It will also reach areas not served by current providers.

Continue reading.

Bloomberg Businessweek

By Todd Shields

May 27, 2021

[American Cities and States have Issued $72B of Pension Bonds. Here's What That Means.]

Pension bonds are sometimes likened to weight-loss surgery: a drastic step that only works with real discipline afterward

Pension obligation bonds are a municipal red flag.

When a state or local government's liability to its pension system grows beyond what seems manageable, officials are often tempted to issue debt to pay down some or much of that amount. Bonds have fixed interest rates, and they've been near long-time lows for the past decade.

In contrast, a pension liability can fluctuate from year to year — and usually just gets bigger as the necessary annual budget contribution gets added to an existing funding hole.

Continue reading.

MarketWatch

By Andrea Riquier

May 26, 2021

S&P: 'Back To School' Will Take On New Meaning This Fall

Key Takeaways

- COVID-19 caused unprecedented drops in college and university enrollment numbers, but not all schools were affected similarly.
- Public universities fared better than private universities, on average, in fall 2020.
- Many schools will admit more students for fall 2021 to ensure their freshmen class, but the most selective schools will admit fewer and remain very competitive.
- The increased rate of vaccinations will reduce the spread of COVID, which will help enrollments.
- Credit quality disparity between higher rated and lower rated institutions continues to grow.

Continue reading.

27 May, 2021

Biden's American Rescue Plan Boosting Munis, 'BAB'

Capitol Hill and Wall Street are in two different cities, but when they interact on a regular basis, the results can beneficial for investors.

A prime example of investors deriving benefit from a policy push is the recent passage of the American Rescue Plan, which fixed income market observers view as a plus for municipal bonds. There could be benefits for taxable munis, which are accessible with the Invesco Taxable Municipal Bond Fund (NYSEArca: BAB).

Most municipal bonds are tax exempt, but the 584 holdings in BAB are taxable. These bonds are usually issued by a state or city or county when the federal government won't assist with funding.

Usually, taxable munis raise capital for projects that don't benefit the public at large, such as a sports stadiums or private real estate projects.

That's not a detriment for BAB. In fact, the case for the Invesco ETF is bolstered by the American Rescue Plan.

"State and local governments are receiving $350 billion of direct aid from the American Rescue Plan," writes Charles Schwab's Cooper Howard. "The restrictions on what the aid can or cannot be used on are much less stringent than the aid provided under the CARES Act that was signed into law in March 2020."

BAB: A Solid Bond Bet

While BAB lacks the tax benefits that come with traditional municipal bond ETFs, the Invesco fund makes up for it in other areas. For example, BAB has outperformed the S&P National AMT-Free Municipal Bond Index by 820 basis points over the past three years.

BAB also offers a higher level of income. It yields 2.88%, 77 basis points higher than the yield on the S&P National AMT-Free Municipal Bond Index. That's an important point because the American Rescue Plan jumpstarted muni bond prices, meaning yields declined.

"Prior to the COVID-19 crisis, the five- and 10-year municipals over bonds (MOB) spreads averaged 88.9% and 94.5%, respectively. They quickly spiked in March 2020 due to the COVID-19 crisis and have since fallen. In fact, both the five- and 10-year tenors are the lowest going back to 2001," according to Schwab's Howard.

Over 28% of BAB's components have maturities of one to five years or five to 10 years. BAB has a modified duration of 9.49 years, according to issuer data. Eighty-four percent of the ETF's portfolio is rated AAA, AA, or A on the S&P scale.

ETF TRENDS

by TOM LYDON

MAY 26, 2021

Biden's Infrastructure Plan Could Push More Cities to Offer Internet Service Directly.

Under the surface of Washington's negotiations over infrastructure – and buried in jargon like "municipal networks" and "overbuilding" – is a debate about how Americans may get their internet in the years ahead.

Will your broadband bill come from a purely private company or will it be more like a public utility?

The Biden administration wants to at least nudge the country toward the latter.

The effort is being led by Vice President Kamala Harris and one aspect of the administration's plan would encourage government-owned broadband networks. In other words, they want to prod more cities to set up shop and offer service directly.

Continue reading.

Yahoo Finance

by Ben Werschkul

May 26, 2021

Reversing Corporate Tax Cuts to Fund Infrastructure Would Boost Equity and Growth.

President Biden's American Jobs Plan, which would finance high-return infrastructure investments partly by undoing some of the dramatic 2017 corporate tax cuts, would make the tax code fairer and raise substantial revenue without undermining economic growth. Our newly updated paper has the details, including analyses from Moody's Analytics and International Monetary Fund (IMF) researchers with further evidence on the equity and growth benefits of this approach.

The 2017 law slashed the corporate rate from 35 to 21 percent. The Jobs Plan would raise the rate to 28 percent and reduce tax incentives for companies to shift profits and investments overseas.

Critics of progressive tax changes like these often don't acknowledge the benefits of the investments that the added revenue makes possible. In contrast, a recent analysis by Mark Zandi and Bernard Yaros of Moody's Analytics estimated the combined effects of the Jobs Plan's infrastructure investments — in broadband, roads and bridges, and research and development — and its corporate tax increases. Using a model similar to those used by the Congressional Budget Office and Federal Reserve Board, they found that:

Continue reading.

Center on Budget and Policy Proposals

by George Fenton

MAY 25, 2021

U.S. Airline Flyers Creep Up Toward 2 Million in Travel Rebound.

- **Passenger levels jump almost sevenfold from Memorial Day 2020**
- **TSA screening data reflect progress against Covid-19 pandemic**

U.S. airlines carried the most passengers in almost 15 months on Friday, rebounding from the pandemic as travelers took advantage of relaxed restrictions and expanding vaccinations to take off for Memorial Day weekend.

The Transportation Security Administration reported that it screened almost 1.96 million people at airports, compared with 1.85 million on Thursday. That's the most since March 7, 2020, when the Covid-19 pandemic was in its early stages.

The U.S. Centers for Disease Control and Prevention eased its guidance on wearing masks in public this month, saying fully vaccinated people could generally do without face coverings. Masks while flying or riding public transit remain a CDC recommendation.

While airline passenger numbers have yet to reach pre-pandemic levels, they are much improved this year. The number of people who passed through TSA checkpoints during last year's Memorial Day weekend averaged slightly more than 300,000, according to data on the agency's website.

Growing traveler numbers have buoyed airline stocks this year. Moody's this month lifted the credit outlook for municipal bonds sold on behalf of U.S. airports.

Bloomberg Business

By Miles Weiss

May 29, 2021, 11:22 AM PDT

Municipal Bonds: The Next Sustainable Opportunity

View the charts & graphs.

Visual Capitalist

By Jenna Ross

May 26, 2021

Bipartisan Highway Bill Advances in Senate, Offering a Path Through Infrastructure Morass.

The bill approved unanimously Wednesday by the Senate Environment and Public Works Committee would allocate $311 billion over five years for roads and highways.

A bipartisan proposal to spend hundreds of billions of dollars on highways advanced through a Senate committee Wednesday even as negotiations on a much bigger package continued to struggle — offering a possible off-ramp for Congress to make some progress on infrastructure this year.

The bill approved unanimously Wednesday by the Senate Environment and Public Works Committee would allocate $311 billion over five years for roads and highways. Its bipartisan approval stands in contrast to floundering efforts to broker a deal between Senate Republicans and the White House on a multitrillion-dollar package that would fund everything from roads to broadband to blunting climate change.

A bipartisan deal on anything resembling President Joe Biden's $2.2 trillion American Jobs Plan, with the parties so far apart on core issues, was never a good bet. And on Wednesday, Republicans seized on the committee's action to say that bolsters their arguments that a package limited to "traditional" infrastructure like roads can get strong bipartisan support.

“Our success this morning shows that we can accomplish a lot when we work together and focus on real transportation infrastructure,” said Sen. Joni Ernst (R-Iowa) as the markup ended.

Even Democrats said it offered fresh momentum to the other committees that need to weigh in on a transportation-centered bill. Those include the Senate Banking Committee, which has to craft a portion dealing with transit, and the Finance Committee, which needs to decide how to pay for it all.

“It won’t be the final version,” EPW Chair Tom Carper (D-Del.) said of the bill his committee passed Wednesday. “It’s not going according to anybody’s plan, but at least we’re going forward.”

Sen. Shelley Moore Capito (R-W.Va.), ranking member of EPW and lead GOP negotiator on the broader push, said the bill approved Wednesday can serve as an “anchor” for broader efforts. She said she plans to return to the White House on Thursday to plead her case that the bill, along with earlier approval of a water infrastructure package, S. 914 (117), by the full Senate, shows the possibilities of a narrowly-tailored infrastructure package.

“Those are two significant pieces of what we agree is physical for infrastructure, so we’re gonna take that back to the White House and see what we can build on,” she told reporters. “What we’ve shown is that the regular order through the committee’s can really work a lot of the priorities and I think that’s significant.”

Senate Minority Leader Mitch McConnell said the EPW committee bill is “modeling the approach that would let Congress build a successful big-picture infrastructure bill this year.”

People involved in the infrastructure effort have largely viewed it as inevitable that Congress would pass a bipartisan transportation bill and the rest would fall to a reconciliation package that Democrats could enact without GOP support. Lawmakers have a Sept. 30 deadline to pass a “surface” transportation bill that includes highways, transit and likely rail.

“If they can get a deal on [surface transportation reauthorization] I think that’s just fine,” said one transportation industry lobbyist. “And you take that off of what would then go into reconciliation, and that’s good. I still think Biden’s going for reconciliation no matter what.”

Another lobbyist said he was “optimistic as far as where things are both on the surface bill and on the macro package.”

Asked if he was expecting reconciliation, the lobbyist said: “Sure. What’s wrong with that, though? We still get one big package that could be bipartisan, and then one big package that won’t be bipartisan. At the end of the day you still get a lot of money for infrastructure.”

Of course, the bill approved Wednesday by the EPW committee is the easiest lift — due to legislative jurisdiction, the bill only can cover roads — and there is additionally a storied history of bipartisan collaboration in the space. Political opposites like Sen. Jim Inhofe (R-Okla.) and former Sen. Barbara Boxer (D-Calif.) regularly bridged their divides to generate bills.

Whether that can translate to other panels is an open question.

Some progressives say the bipartisan highway bill should in no way be seen as a ceiling for the scale of their ultimate ambitions on infrastructure and climate change legislation.

“It’s always been the premise that whatever we agreed to with the Republicans on infrastructure would be the limit on the bipartisan bill, but not the limit on what we accomplish. And that reconciliation would allow us to go beyond it,” Sen. Sheldon Whitehouse (D-R.I.) told POLITICO.

“The important thing is that we not allow Republicans to limit our aspirations.”

Outside environmental groups echoed that disappointment. Will Anderson, associate director of legislative advocacy for Sierra Club’s Clean Transportation for All campaign, called the legislation a “noteworthy start, but much, much more is needed to act on climate and fund the transformative change needed in our transportation systems.”

In contrast, Republicans have already jumped to declare EPW’s moves as an example of the proper way to produce infrastructure legislation, a message they elevated at their weekly leadership news conference on Tuesday.

“We are hopeful that the president will look at the work we have done in EPW … use that as the basis of an infrastructure package and we can move it forward,” Ernst said. “This is what Americans think of as infrastructure: roads, bridges, waterways, locks and dams — and throw in some broadband and we’ve got a bill.”

Even amid those calls, Carper is framing Wednesday’s movement as a step he hopes will prod other committees into moving.

“I’m encouraged by the kind of conversations that are going on — bipartisan conversations — in Finance, in Banking, in Commerce,” he said. “My hope is what we’re doing here today will encourage them to speed up.”

POLITICO

By ANTHONY ADRAGNA

05/26/2021

Tanya Snyder contributed to this report.

To Fix America's Infrastructure, Start Here.

Take a road trip from New York to California to see infrastructure projects with the potential to make cities more livable and equitable.

In 2011, then-President Barack Obama stood in front of the deteriorating Brent Spence Bridge linking Ohio and Kentucky with a plea to Republican leadership: Pass the jobs bill to rebuild America. (It did not pass.) Six years later, when asked about the same bridge, then-President Donald Trump answered “we’re going to get it fixed.” (It did not get fixed.)

It took two trucks colliding on the Brent Spence’s lower deck — leading to a massive fire — just before 3 a.m. on Nov. 11, 2020, for work to begin. A post-crash inspection found the bridge structurally sound, and more than $3 million in repairs were made by year-end. But with traffic volume at around double its intended capacity, much more work is needed to alleviate persistent jams and accidents.

Such has been the state of infrastructure in the U.S. for decades — fixes get put off until they’re absolutely necessary, and U.S. airports, roads and public transportation draw frequent comparisons to those in nations with far fewer resources. Meanwhile, countries in Europe, Asia and the Middle

East have leapt ahead with so-called smart cities, high-speed trains and eco-friendly buildings. In 2019, the U.S. ranked 13th in the world in a broad measure of infrastructure quality — down from fifth place in 2002, according to the World Economic Forum's Global Competitiveness Report.

Continue reading.

Bloomberg CityLab

May 27, 2021, 6:00 AM

Who Will Pay for the Roads?

Key Findings

- The future of funding for America's highways has been the topic of much political discussion for decades. While many states have increased motor fuel tax rates over the last decade, the federal government has not updated the gas tax since 1993.
- The motor fuel tax is a relatively well-designed tax which acts as a user fee by raising revenue to fund the highway system. The tax also aims to counter the negative side effects caused by driving petroleum-burning motor vehicles and their contribution to congestion.
- Tax revenues per vehicle mile traveled (VMT) are decreasing in real terms while expenditures are increasing in real terms. In 1994, a passenger car averaged 20.7 miles per gallon (MPG) and drivers paid 3.2 cents in state and federal tax per VMT. In 2018, a passenger car averaged 24.4 MPG and drivers only paid 2.1 cents per VMT.
- Discrepancies between tax revenues and highway expenditures will get worse as fuel economy improves, if tax rates are not indexed to inflation, or if share of electric vehicles (EVs) grows.
- One solution is to fund highways by taxing vehicle miles traveled. Rather than using taxes on cars or motor fuel as a proxy for transportation, a tax levied directly on miles gets closer to capturing the externalities and approximating the road maintenance cost of each vehicle.
- A federal VMT tax rate must average 1.7 cents per mile to cover the highway fund's expenditures. The actual rate per vehicle should be differentiated based on weight per axle.

Continue reading.

Tax Foundation

by Ulrik Boesen

August 25, 2020

Senate Leadership Waivers on Infrastructure Process – Munis Remain a Bipartisan Priority.

Early this week, news began to emerge from Capitol Hill that Senate Democratic Leadership may be shifting course in the short term on the size and scope of infrastructure spending for this year due to a budgetary time crunch. While details are still being worked out, at this time it seems that infrastructure may come in a 2 part legislative push-allowing the President to continue to pursue some bipartisan solutions, while planning for a more robust party-line package either later this fall or early in 2022.

The MBFA and BDA continue to work to ensure that muni priorities are included in the initial infrastructure package. Many of these provisions, such as those included in the LIFT Act, have received bipartisan praise in the last weeks, and are in a good position for inclusion.

Expected Process

September 30th will remain a crucial date no matter which path Congress decides to take on infrastructure spending this year. On that date, the Surface Transportation Reauthorization Act of 2021(or funding from the prior year to be extended) is required to be enacted as well the FY 2021 budget resolution has to be passed. This opens the door to a multi-part process:

- Use the highway reauthorization bill to try and get a slimmed-down bipartisan compromise on infrastructure; and
- Use the FY 2022 budget to pass the remainder of the 4+ trillion of the American Jobs Plan and the American Family Plan next year by a party-line vote.

This leaves multiple opportunities for the advancement of MBFA and BDA priorities to become law. At this time it is unclear which vehicle Congressional Leaders prefer for these provisions, however, we will provide more details in the coming days when the process becomes clearer.

If you would like to get more involved with the MBFA, please contact Brett Bolton at brettbolton@munibondsforamerica.org

Bond Dealers of America

May 25, 2021

The Smartest Way to Finance Clean Energy that You've Never Heard Of.

A national green bank could be a game changer.

In the United States, financing infrastructure and clean energy projects is often contingent on the quirks of partisan dealmaking in Congress. But there may be a better way.

A green bank model has been successful in several other countries. The United Kingdom's green bank funded much of its offshore wind boom before the government sold it in 2017. (The current UK government is exploring bringing it back.) Through Australia's green bank, the largest in the world, the country has invested in wind, solar, and hydrogen development in addition to financing the construction of energy-efficient homes.

A green bank isn't government grants, and it's not tax credits — which are the primary federal drivers of clean energy development in the United States. Instead, these banks typically take the form of either a government-owned or quasi-public bank that takes a set amount of government money to launch and then leverages private money to fund different projects. And like private banks, green banks expect to be paid back.

Continue reading.

vox.com

By Ella Nilsen

Jun 1, 2021, 10:00am EDT

Credit Quality Has Substantially Improved: Zezas (Radio)

Michael Zezas, Managing Director, Head of U.S. Public Policy Research and Municipal Credit Strategy, discusses the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

May 25, 2021

The Municipal Market May Be on the Brink of a Dramatic Shift.

We believe the municipal bond market is on the brink of major changes. The Biden administration has proposed legislation that, if passed, could meaningfully increase both taxable and tax-exempt supply in the municipal bond market. While this potential shift could cause some short-term disruption, we believe it could result in more balanced supply and demand over the medium term.

Revisiting Trump's Tax Cuts and Jobs Act

To explain the impact of the proposed changes, we need to revisit how the Tax Cuts and Jobs Act (TCJA) of 2017 affected the municipal bond market. In our view, the TCJA significantly changed supply and demand in the municipal market in three key ways:

- Tax-exempt issuance fell sharply because the TCJA prohibited advance refunding of tax-exempt debt with tax-exempt issuance.
- Taxable issuance rose more than four-fold as supply shifted from the tax-exempt market to the taxable market.
- The State and Local Tax (SALT) deduction limitation fueled demand from individual investors in high-tax states.

Continue reading.

advisorperspectives.com

by Jim Grabovac of Loomis, Sayles & Co., 5/24/21

Why Have Municipal Bonds Grown So Popular?

U.S. president Joe Biden's $2 trillion infrastructure proposal was expected to give municipal bonds a boost, and so far, the proof is in the pudding. Data from municipal bond space show that inflows have been surging, giving exchange traded fund (ETF) investors something to cheer about.

With Biden's proposal, local and state government bonds are expected to help fund the ambitious plan to improve the country's infrastructure. From the traditional roads and bridges to new initiatives to bolster internet access and renewable energy sources, municipal bonds will be at the forefront of the plan's funding.

This, in turn, is fueling investor demand for munis. Rather than hold individual debt issues, fixed income investors can get access to the municipal debt market through the ETF wrapper.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

MAY 26, 2021

Will Municipal Bond ETFs Shatter Records in 2021?

Fixed income investors are looking into municipal bonds and their related exchange traded funds this year.

Investment interest for the munis market has increased this year as rising taxes, the search for more attractive yields, and bets that states and municipalities would benefit from the new stimulus measures have all contributed to rising demand, MarketWatch reports.

According to Refinitiv Lipper data, investors funneled $41.7 billion into muni bond funds for the year through mid-May or nearly the same amount as for all of 2020, putting 2021 on pace to be one of the best years for muni funds ever.

Weekly inflows have also touched records multiple times this year, according to Lipper data, even as such funds underperformed.

Investor demand for muni bonds has been a boon for state and local governments, which still face a backlog of large spending needs from construction projects to systems modernization.

As a way to focus on the muni bond market, fixed income investors can look to the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF). The American Century Diversified Municipal Bond ETF is an actively managed municipal bond fund that combines investments in thoroughly researched high yield and investment grade municipal bonds. Designed for investors seeking current income, the fund dynamically adjusts investment grade and high yield exposures based on prevailing market conditions.

Additionally, the more recently launched Avantis Core Municipal Fixed Income ETF (AVMU) invests primarily in investment grade quality municipal debt obligations from a diverse group of issuers. The actively managed fund's investment process uses an analytical framework, including assessing securities' expected income and capital appreciation, to seek securities with high expected returns.

ETF TRENDS

by MAX CHEN

MAY 25, 2021

[High Yield Munis And The Tax Debate.]()

Summary

- We believe the investing public appears to already be anticipating higher taxes and are currently favoring tax-exempt income solutions, based on fund inflows.
- Currently, high yield municipal bond defaults are actually on the decline as cities and states re-emerge from some COVID-19 restrictions.
- By imbedding the portfolios into an ETF structure represented by shares traded on an exchange, we believe the liquidity for buyers and sellers is enhanced.

[Continue reading.]()

Seeking Alpha

May 26, 2021

[As Tax Talks Ramp Up, Investors Turning to High-Yield Munis.]()

The Biden Administration is proposing significant increases to capital gains taxes, and while those levies are aimed at big earners and the wealthy, the debate is bringing renewed attention to tax-advantaged asset classes.

That group includes municipal bonds. While some municipal bonds are taxable, the bulk of the debt issued by states, cities, and counties come with tax breaks. Not only is the new tax debate stirring talk of investments with tax perks, some market observers believe it will continue to boost assets like the VanEck Vectors High Yield Muni ETF (HYD) and the VanEck Vectors Short High Yield Muni ETF (SHYD).

Municipal bonds in junk territory usually aren't as risky as high-yield corporate counterparts and the muni space has seen limited defaults in recent years, adding to the allure of funds like HYD and SHYD. Bolstering the case for the VanEck funds is that, in today's low-yield environment, investors want high-yield munis, but supply isn't particularly abundant.

"For the past two to three years, demand for municipal bonds has been increasing. Moreover, certain legislation passed to limit issuance of some types of bonds as well as a generally conservative approach by states and cities to hold down spending have led to insufficient bonds being issued to meet demand," says VanEck portfolio manager Jim Colby. "Even as demand has grown in high yield, according to fund flow data from Morningstar, MSRB new issuance supply has not been strong enough to prevent spreads from narrowing."

More Tailwinds for High-Yield Munis

Enhancing the case for municipal bonds is the American Rescue Plan. That recently passed legislation is helping states shore up their fiscal houses as needed.

While the bill doesn't allow states to plug gaps in public pensions, previously a source of consternation for the municipal bond market, it is providing cash for other purposes. That liquidity is reassuring some muni market participants.

In the case of SHYD, an effective duration of 4.24 years is a plus if Treasury yields continue to rise. The ETF boasts $322 million under its belt.

"SHYD seeks to provide a certain degree of protection against interest rate moves with a lower duration profile than HYD—generally from 1.25 years to 3 years. Its average credit quality, by design, is slightly higher, historically offering a higher liquidity profile," adds Colby.

ETF TRENDS

by TOM LYDON

MAY 27, 2021

[Bond ETF Demand By Insurers Rising.]()

Key Takeaways

- Fixed income ETFs represented an above-average 35% share of insurance company assets at the end of 2020, according to S&P Dow Jones analysis. Insurers were net sellers of equity ETFs last year despite a strong recovery from first-quarter lows, but the industry collectively added $5 billion to fixed income ETFs.
- BlackRock (BLK) managed more than half of the insurance company ETF assets, aided by usage of its fixed income products and stronger exposure than peers to life insurers.
- Corporate bond ETFs were widely purchased by the insurance industry, led by a doubling of year-end assets held in the iShares iBoxx USD Investment Grade Corporate Bond ETF (LQD). At year-end, approximately 9% of LQD were owned by insurers.

[Continue reading.]()

ETF Trends

by Todd Rosenbluth

May 27, 2021

[Pandemic Population Change Across Metro America: Accelerated Migration,]()

Less Immigration, Fewer Births and More Deaths

There has been much speculation about the impact that COVID-19 has had on population changes across the country since the pandemic began in the early part of 2020. Most of this discussion has been focused on the ways COVID-19 has affected moves across the US—from large metropolitan areas to smaller ones, and from cities to suburbs—largely reflecting a "flight from density" and greater capabilities to telecommute.

Yet, there are other demographic components that have been impacted by the pandemic and hold important consequences for these shifts—a marked downturn in immigration to the U.S. from abroad, along with well documented reductions in the number of births and rising number of deaths. Changes in each of these components since the pandemic began have affected population growth in much of the U.S., especially in large metropolitan areas and their urban core areas.

The analysis below examines annual population changes for metropolitan area and core counties resulting from each of these demographic components based on recently released Census Bureau data showing annual population changes from July 1, 2019 to July 1, 2020.[1] As such, it provides the first comprehensive assessment of how domestic migration, international migration, and natural increase (the excess of births over deaths) impacted area population change during the year that the pandemic hit.

Continue reading.

The Brookings Institution

by William H. Frey

May 20, 2021

Fiscal Justice Rating Firm Will Judge Cities' Inequity Risks.

- **Researcher Activest to weigh credit impact of policing, fines**
- **Racial justice emerging as key theme for ESG-focused investors**

A startup bond rating firm is working on quantifying how much social injustices such as police brutality could end up costing cities and states.

The Fiscal Justice Credit Rating Agency is looking to sell research and ratings to investors one year after the murder of George Floyd in Minneapolis galvanized the Black Lives Matter movement and spurred many money management firms to look more closely at social issues. The debt grader, a new arm of municipal market researcher Activest LLC, plans to start issuing ratings as soon as next month, and will have to persuade bondholders to buy such research even as cases of injustice typically don't hurt bond prices.

But expenses linked to injustice can weigh on a city's budget, strain its finances and erode its economic growth, exposing investors to risk they may not be getting paid for, said Ryan Bowers, a co-founder of the firm. That's happened at least once, when Ferguson, Missouri saw its credit rating cut seven notches to junk in the fallout from the police killing of an unarmed black 18-year-old in 2014. Protests and litigation ensued, and the city had to reduce its reliance on traffic tickets and court fees to help balance its budget after entering a federal consent decree.

“These issues add up,” Bowers said in an interview. “They are not small. While a single incident won’t necessarily result in a downgrade, they do have a cumulative effect that increases the risk and volatility for bondholders and residents.”

Investor Buy-in

Convincing money managers to pay may not be easy. For many cities and states, expenses like police brutality settlements as well as fines and fees that disproportionately burden minority communities may represent a small portion of annual budgets or may not be fully understood.

Bonds and debt sellers rarely take a hit when these problems emerge. When Minneapolis sold bonds in September, for example, months after a city police officer killed Floyd and riots had erupted in its streets, it saw borrowing costs still below the levels it paid in 2019.

And getting investors to pay for analysis in general has proven difficult since at least 2003, when Eliot Spitzer tried to tame conflicts in brokerage research, and is only getting harder after European rules have forced brokerages to separate trading and research costs.

But investors are starting to pay more attention to social issues and their financial implications, both for specialized portfolios of socially responsible investments and for their broader holdings. The major bond grading firms are further along with their efforts to research environmental risks than they are with racial or social issues, said Eric Glass, a portfolio manager and lead on the municipal impact investment policy group for AllianceBernstein LP, which has about $52 billion of municipal assets under management.

Firms such as the Fiscal Justice Credit Rating Agency may be able to fill that niche, according to Glass.

“There’s going to be a class of investor that’s going to want this information and seek it out,” Glass said.

Emerging Issue

Activest was started in 2016 by Bowers and Napoleon Wallace, a former high-yield bond trader at Wells Fargo. They started the firm in wake of their analysis on Ferguson, Missouri. In fall 2020, Activest worked to advise 29 city mayors and budget directors on equitable Covid-19 fiscal recovery efforts with Bloomberg Philanthropies, the charitable organization founded by Michael Bloomberg, founder and majority owner of Bloomberg News parent company Bloomberg LP.

Data and other information about potential social justice problems at cities and states can be hard to come by, while those making budget decisions may not even be thinking about these issues, said Witold Henisz, a professor of management at the University of Pennsylvania’s Wharton School. Henisz has been working on a project analyzing the impact of environment, social and governance issues on the municipal bond market.

“This issue is still a new and emerging one in the muni market,” Henisz said. “It’s not as developed as ESG issues are in equities or corporate bonds.”

Injustice can be costly, according to Activest. Municipalities, for example, pay $1.5 billion a year for police misconduct settlements, according to the firm. People of color end up paying around $7 billion in extra fines and fees because of issues including unequal policing, Chelsea McDaniel, a senior fellow with Washington, D.C.-based Activest said during a congressional hearing on April 28. That revenue could disappear if governments embrace more equitable policies.

‘Regressive Expenses’

For decades, municipal bonds have helped exacerbate inequality, according to Destin Jenkins, an assistant professor of history at the University of Chicago and author of “The Bonds of Inequality: Debt and the Making of the American City.”

“Since racism is structural, then racial, social, and economic justice demand structural solutions across all sectors and markets, including the field of municipal research and the municipal bond market,” Jenkins said in an email.

Now, some in the municipal market are paying more attention. S&P Global Ratings is working to make social and racial justice a bigger part of its efforts to evaluate cities’ and states’ credit profiles, with issuers volunteering more information and its analysts asking more questions, said Nora Wittstruck, the ESG lead for S&P’s U.S. Public Finance group.

The firm did cut the outlook for the city of Minneapolis to negative from stable in September, signaling there’s at least a one-in-three chance of a downgrade from its AAA credit rating in the next one to two years. S&P cited factors including settlement payments related to George Floyd’s death, expenditures for police reforms, and a budget gap created by Covid-19, for example, she said.

Credit Negative

Intense social unrest is a negative for credit, according to an October report from Moody’s Investors Service, especially if it leads to long-term costs, tax-base declines or economic disruption. That said, such incidents over the past few decades have generally had a “muted credit impact,” according to the report.

Some local government officials want bond investors and bond graders to pay more attention to social injustice as well. Philadelphia Controller Rebecca Rhynhart and other municipal finance professionals and Pennsylvania elected officials sent a letter in January to S&P, Moody’s and Fitch Ratings, calling on them to look more closely at how equitable city and state revenue collection policies are and how much they rely on fines and fees.

Even if cities’ and states’ expenses from injustice aren’t high in the near term, they can sting in the long run, said Activest’s Bowers.

“These fiscal justice issues have very long tails,” Bowers said. He said that information about such issues is “important for investors who are taking on uncompensated risk.”

Bloomberg Equality

By Shruti Singh and Saijel Kishan

May 19, 2021, 8:54 AM MDT

[Fitch Ratings Publishes ESG Discovery Tool for Public Finance and Global Infrastructure.]()

Fitch Ratings-New York/London-21 May 2021: Fitch Ratings’ new ESG Sector Discovery Tool for Public Finance and Global Infrastructure provides a top-down view of the credit relevance and materiality of ESG issues across regions and sub-sectors.

The tool shows the distribution of Fitch’s ESG Relevance Scores (ESG.RS) for Global Infrastructure and Project Finance, International Public Finance (IPF) Local and Regional Governments (LRG) and Government-Related Entities (GRE), US Public Finance (USPF) Revenue-Supported issuers (Revenue), and USPF Tax-Supported issuers (Tax) with the ability to see changes in ESG scores between 4Q19 and 4Q20.

It highlights trends and allows users to visualise where ESG issues are affecting portfolios. For example, issuers were overwhelmingly assigned a score of ‘3’ for “Biodiversity and Natural Resources Management’ but there are increased exposures for issuers in the US, Russia and Argentina, with several entities scored with a ‘4’ and one with a ‘5’. The elevated scores are mainly due to the impact of natural resources management on the economy and governmental operations.

‘Human Rights, Community Relations, Access & Affordability’ shows increased impacts for USPF Revenue where eight entities scored a ‘4’ and one a ‘5’. These were led by product affordability and access concerns, which has a significant rating impact.

‘Rule of Law, Institutional & Regulatory Quality, Control of Corruption’ in USPF Tax had seven entities scored a ‘4’ due to governmental effectiveness concerns surrounding budget management decisions that created financial strains. Three entities had a score of ‘5’ that was due to events that also impacted capital management.

Fitch recently published a special report entitled ‘Where ESG Matters in U.S. Public Finance’ and expects to follow this with similar reports for the Global Infrastructure and International Public Finance groups.

The report, ‘Public Finance ESG Sector Discovery Tool’, is available at fitchratings.com.

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[Emerging Environmental, Social, and Governance Trends in the Municipal Bond Market.]

Background

The environmental, social, and governance (ESG) movement has been newly adapted as a best practice for disclosure in the municipal market. ESG encompasses many facets of investing, including investments focused on sustainability, such as a green bond, or social improvement, such as a social bond. ESG provides an expansive framework for viewing both risks and opportunities. It may be utilized as a tool for consideration by issuers, rating agencies, and investors to view existing risk factors through a modern lens.

Green Bonds and Social Bonds

Investors' views of ESG as a broader social movement are represented by the targeted funding of projects that align with specific ESG goals through the emergence and popularization of bond designations, primarily green bonds and social bonds, which are based upon intended project impact. Investors are attracted to these specifically designated bonds because they allow them to better target the impact of their financial investment based upon their personal beliefs and interests. While no formal process for issuing such green or social bonds currently exists, the market has established standards, as published by the International Capital Market Association (ICMA).[1] These standards are fourfold:

1. *Use of Proceeds* for a clear environmental or social benefit;
2. *Process for Project Evaluation and Selection* should be described to the investors;
3. *Management of Proceeds* should be allocated to green or social projects; and
4. *Reporting* annually on use of proceeds to investors.

Additionally, ICMA recommends external review to verify the issuer's green or social claims through second opinion, verification, certification, and/or scoring or rating as a green or social bond.

ESG Disclosure as a Best Practice

According to Moody's, the "ability to address ESG risk will increasingly differentiate credit quality after [the COVID-19] pandemic."[2] The rating agency discusses how in a post-pandemic world, limited resources and an increase for services will challenge the public issuer's ability to operate while maintaining a strong financial outlook. Climate risks, if not addressed and properly prepared for, will likely affect credit ratings in the long term. Issuers need to consider which costs may be deferred and which are most critical, as well as which resources are most critical to ensure disaster preparedness due to increased climate risks, such as extreme weather and increased flooding. The pandemic forced social inequities into public view, especially healthcare and racial inequities. Further, demographic trends may play a role in increasing demands upon the healthcare system, while also potentially reducing revenue for higher education institutions. Such social factors are likely to increase the pressure on governments for more public services and intervention amidst sinking revenues and strained budgets. Governance is key to proper budgeting and financial planning, as well as a mechanism for addressing such climate and social issues.

Recent publications by both the Securities and Exchange Commission (SEC) and the Government Finance Officers Association (GFOA) have signaled requirements for ESG disclosures. On March 8, 2021, the GFOA adopted ESG disclosures as a best practice for inclusion in municipal bond offering documents.[3] The GFOA recommends three elements in crafting a suitable ESG disclosure:

“(1) vulnerability assessment, or recognition of ESG related risks, (2) plans/preparedness for mitigating such risks, and (3) progress updates, including impacts of recent ESG elements/events and how they shape future response.”[4]

In a March 11 public statement, Acting Director of the SEC’s Division of Corporation Finance John Coates said, “Going forward, I believe SEC policy on ESG disclosures will need to be both adaptive and innovative. We can and should continue to adapt existing rules and standards to the realities of climate risk. . . We will also need to be open to and supportive of innovation – in both institutions and policies on the content, format and process for developing ESG disclosures.”[5] As ESG grows in significance in both the corporate and municipal worlds, municipal issuers can look to guidance from public bodies, as well as corporate issuers and filings.

This burgeoning trend in disclosure has not been widely incorporated in municipal offering documents. As such, issuers may struggle to determine the materiality of ESG-related issues and disclosures. The GFOA acknowledges such disclosure should be considered a case-by-case basis based on the characteristics of the issuer, noting: “The key for municipal issuers is to determine which ESG factors are material to their own credit profile and relevant to investors.”[6] The GFOA does not provide any standard disclosure language.

Takeaways

Bond markets will likely continue to see a growth in various ESG-targeted bonds, as well as a continued discourse related to ESG issues. Municipal issuers should begin to consider ESG disclosures, if material, as part of their offering documents for the project to be financed, and, more broadly, the ESG factors related to the municipality. Within the ESG risk analysis framework, municipalities and other public issuers must determine which ESG risks or opportunities are material, providing necessary disclosure, but also a mechanism for fostering financial resiliency.

Frost Brown Todd LLC

by Emma H. Mulvaney

May 20, 2021

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[1] Green Bond Principles, International Capital Market Association, June 2018; Social Bond Principles, International Capital Market Association, June 2020

[2] Sector In-Depth – Public-Finance-US – 30Oct20.pdf (cdfa.net)

[3] https://www.gfoa.org/materials/esg-disclosure (While the GFOA recommends including ESG disclosure information as part of primary offering documents, it also notes that material factors are already required to be included in such documents).

[4] GFOA, ESG Considerations for Governmental Issuers

[5] SEC.gov | ESG Disclosure – Keeping Pace with Developments Affecting Investors, Public Companies and the Capital Markets

[6] GFOA, ESG Considerations for Governmental Issuers

[US Supreme Court Allows Oil and Gas Companies to Appeal Jurisdictional Issues in Baltimore Climate Suit.]

In a decision with important implications for climate change tort cases, the US Supreme Court held that federal courts of appeal can consider all potential grounds for federal jurisdiction in certain appeals of district court remand orders.

Since 2017, the companies defending climate change tort suits brought by local municipalities have removed those cases to federal court. Every district court has ordered that the cases be remanded to state court, and every court of appeals has held that it had limited authority to review those remand orders. In a 7-1 decision on May 17, the US Supreme Court rejected the appellate courts' view of their jurisdiction. The Court held that the courts of appeals must consider every argument the defendants raised in support of removal. Though the decision is a technical one about the scope of appellate review, it sets the stage for many circuit courts to weigh in on the critical question whether these cases must be litigated in state or federal court and the related question whether the municipalities' claims arise under state or federal law.

Background

In 2018, the City of Baltimore filed suit against 23 oil and gas companies in Maryland state court. Baltimore alleged that the defendants had improperly concealed the environmental harms of fossil fuels. The defendants removed the case to federal court on several grounds. The defendants argued that Baltimore's claims, though framed as state-law claims, actually arise under federal law; the defendants also argued that Baltimore's claims implicated the defendants' work for the federal government and are removable under the federal-officer removal statute, 28 U.S.C. § 1442.

Baltimore moved to remand the case to Maryland court, and the district court rejected all of the defendants' arguments in support of federal jurisdiction. The defendants appealed to the US Court of Appeals for the Fourth Circuit. By statute, remand orders are normally unappealable, but the statute expressly allows for an appeal if a case is removed on federal-officer grounds. See 28 U.S.C. § 1447(d). The Fourth Circuit interpreted the removal statute as giving it jurisdiction to consider only the defendants' federal-officer ground for removal, which the Fourth Circuit held lacked merit. The Fourth Circuit therefore refused to consider whether Baltimore's case arose under federal law.

The Opinion

The Supreme Court reversed. Writing for a 7-1 majority, Justice Neil Gorsuch held that the plain language of the removal statute authorizes appellate review of the entire remand order as long as the federal-officer statute is one ground for removal. Justice Gorsuch rejected Baltimore's contention that this result will incentivize parties to add frivolous federal-officer grounds for removal arguments, because litigants can be sanctioned for frivolous claims or ordered to pay the costs of removal proceedings. Accordingly, because the removal statute requires appellate review of "an order remanding a case to state court," the Supreme Court remanded for the Fourth Circuit to address all of the arguments the defendants raised in support of federal jurisdiction.

Implications

The Supreme Court's ruling sets the table for the regional courts of appeals to decide a question critical to the pending climate change tort suits—whether the municipalities' claims, though nominally based on state law, actually arise under federal law. The defendants have long contended that climate change is inherently a subject of federal regulation and that, therefore, the municipalities' claims arise either in whole or in part under federal law.

The stakes are high because, if federal jurisdiction exists, it is more likely that the municipalities' claims will ultimately fail. New York City's case exemplifies this. New York filed its climate change claims in federal court, obviating the jurisdictional questions pending in other courts. After the Southern District of New York held that New York's claims are preempted on the merits, the Second Circuit affirmed.

Oakland's case exemplifies the other side and confirms the significance of the threshold question of federal jurisdiction. Oakland's case was removed to the Northern District of California. That court did not remand because it found that the city's claims arose under federal law and, similar to the Southern District of New York, dismissed the claims as preempted. On appeal, the Ninth Circuit did not address preemption because it instead held that Oakland's claims did not arise under federal law and should not have been removed in the first place.

Now that all the circuit courts cannot avoid the issue, there is a greater likelihood that the courts of appeals will split over the right answer to the jurisdictional question and, therefore, a greater likelihood that one of the municipal climate-change cases ends up back at the Supreme Court in one or two years.

Morgan, Lewis & Bockius LLP – Bryan M. Killian and Douglas A. Hastings

May 21 2021

Fitch Affirms U.S. Municipal Standalone GARVEE Ratings.

Fitch Ratings – New York – 19 May 2021: Fitch Ratings has affirmed the ratings for the following standalone grant anticipation revenue vehicle (GARVEE) bonds:

–Florida Department of Transportation (FL) at 'A+';

–Georgia State Road and Tollway Authority at 'A+';

–Idaho Housing and Finance Association at 'A+';

–Kentucky Asset Liability Commission at 'A+';

–Maine Municipal Bond Bank at 'A+';

–State of North Carolina at 'A+';

–State of Ohio at 'A+'.

The Rating Outlook on all of the bonds is Stable.

Fitch Ratings also affirmed the ratings for the New Jersey Transportation Trust Fund Authority's (NJTTFA) GARVEE bonds at 'BBB+'. The Outlook on NJTTFA's bonds remains Negative.

RATING RATIONALE
Ratings for standalone GARVEE bonds are derived in large part from the nature of the federal

surface transportation funding program (the program). While there is a projected shortfall in the current revenue generating ability of the program when compared with expected outlays, there has traditionally been a short- to medium-term legislative solution to meet funding needs. The program has proven to be an essential investment for the federal government with funding disseminated in a formulaic nature across states. The ratings further reflect the broad revenue pledge of all of the Department of Transportation's (DOT) or Transit Agency's federal receipts and leverage covenants that help to mitigate the risk of diminished federal transportation receipts. To a lesser extent, the ratings also consider other resources and financial flexibility available to specific DOTs or Transit Agencies that provide financial cushion to the extent there is a delay in federal funding. In instances where state appropriation policies may affect the distribution of federally received funds, standalone GARVEE ratings are capped below the state rating to reflect appropriation risk.

With the upcoming expiration of the FAST Act at the end of federal fiscal year (FFY) 2021, Fitch will monitor measures taken by Congress that could impact the program, including any multi-year reauthorizing acts or forms of interim funding. Although there is no assurance a reauthorization will pass, the possibility that Congress does not reauthorize the program has historically been remote. Additionally, a reduction in overall vehicle-miles-travelled (VMT) as result of the coronavirus pandemic is likely to reduce fuel tax revenues in the Highway Trust Fund (HTF) for 2021. While there may be competing policy and funding priorities placed on the federal government as a result of the pandemic, Fitch believes that the inherent essentiality of the program will result in supportive funding levels in the future.

KEY RATING DRIVERS
Dependence on General Fund Transfers (Nature of the Federal Program: Midrange)

In Fitch's view, what was once a formula-driven program funded on a multiyear basis has now morphed into a program where future policy is less certain, and funding levels are less predictable. The Highway Trust Fund (HTF) has been supported by short-term funding authorizations relying upon general fund transfers, which do not address the long-term disparity between revenues and outlays. The essential nature of the investment in addition to the reliable formulaic distribution of funds underpins the ratings on GARVEE bonds backed by future federal receipts from the HTF.

Significant Funding Flexibility – Structural Features: Stronger (Highway GARVEEs)

The standalone highway GARVEE bonds in Fitch's portfolio benefit from a first lien on all legally available federal transportation funding. In the case of reimbursement GARVEE bonds, this is accomplished by a pledge of all legally available federal transportation funds with early set-aside. Alternatively, in the case of direct-pay GARVEEs the broad pledge is accomplished through a covenant to de-obligate and redirect federal funds. In addition, highway GARVEEs benefit from leverage limitations of at least 3x, which provides the ability to retain sufficient flexibility generally at the 'A+' level in the event of a decline in federal revenues.

Reduced Leverage Test Provisions – Structural Features: Weaker (Transit GARVEEs)

The transit GARVEEs in Fitch's portfolio benefit from a broad pledge of federal transportation funding. However, in contrast to highway GARVEEs, the transit GARVEEs rated by Fitch have materially lower additional bonds test (ABT) requirements of around 1.5x and thus have less protection against declines in federal program revenues should agencies fully lever up to their ABT.

Resources of the DOT/Transit Agency:

In the event of a funding shortfall or a delay in federal funding due to a lapse in authorization the financial resources of the DOT and Transit Agency can provide financial cushion to meet GARVEE payment obligations. Fitch's assessment of the resources available is derived from several factors including the DOT/Transit Agency's amount of working capital, size of their capital program, access to liquidity, and their sources of funding. Assessments of this for credits in the portfolio range from stronger, midrange, to weaker; however, it is not the primary driver of standalone GARVEE ratings.

PEER GROUP
Fitch's standalone highway GARVEE bonds, all of which are in the 'A' category, tend to have strong additional leverage limitations of at least 3.0x current receipts to pay debt service. In contrast, standalone transit GARVEE bonds have materially lower leverage limitations of 1.5x, giving them less financial flexibility to protect against declines in federal program revenues, and are thus rated 'BBB'. Similar to other highway GARVEEs, NJTTFA's rating of 'BBB+' reflects appropriation risk, which is lower given the state of New Jersey's comparatively weaker Issuer Default Rating.

RATING SENSITIVITIES
Factors that could, individually or collectively, lead to positive/negative rating action/upgrade/downgrade:

With the upcoming expiration of the FAST Act at the end of FFY 2021, a new funding proposal that results in a change in Fitch's view of the nature of the federal program to Weaker or Stronger from Midrange could lead to a rating downgrade, or upgrade, respectively.

–For the case of NJTTFA, a change in Fitch's view of the state of New Jersey's IDR.

BEST/WORST CASE RATING SCENARIO
International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT UPDATE
HTF expenditures have been exceeding revenues over the past decade. The longer-term structural imbalance of the HTF was not addressed by the FAST Act passed in early December 2015, instead relying on general fund and Federal Reserve transfers to keep the program afloat through FFY 2020. On Sept. 30, 2020, Congress reached agreement on a Continuing Resolution (CR) to provide current appropriations through Dec. 11, 2020 and a one-year extension of the FAST Act keeping the program afloat for an additional year; however, the extension does not address the longer-term shortfall. Although continued fund transfers have underscored the relative importance of transportation funding within the federal budget, they do not guarantee future commitments. The current administration seeks to invest in infrastructure, but funding remains unclear and difficult to predict beyond FFY 2021. However, it is Fitch's view that significant changes are needed either on the expenditure side or on the revenue side (potentially through an increase in the motor fuel tax, additional tax revenues or surcharges at federal and state levels, increased toll usage, expanded user fees, or some other alternative revenue source) to put the program on a sustainable trajectory.

Fitch acknowledges the upcoming expiration of the FAST Act at the end of FFY 2021, and continues to monitor any new developments and potential legislative actions that could affect the program.

Although there is no assurance a reauthorization will pass, the possibility that Congress does not reauthorize the program has historically been remote. Though highly tentative at this point, lawmakers have proposed potential solutions, which include various methods to raise the motor fuel tax, charging fees related to VMT, applying tolls to federal-aid highway projects, and/or possibly cutting outlays for certain projects.

Fitch also recognizes there will continue to be competing policy and funding priorities placed on the federal government as result of the coronavirus pandemic and the trajectory of recovery efforts. This potentially makes funding decisions regarding the HTF more difficult and Congress may choose to reduce federal highway spending or postpone a longer-term commitment to stabilizing HTF funding. Given the evolving nature of the coronavirus, it is important to note that, in most cases, GARVEE bonds benefit from the broad revenue pledge of all of a department of transportation's or transit agency's federal receipts. GARVEE structures also tend to have covenants to obligate first dollars in that pledge to mitigate the risk of diminished federal transportation receipts. Fitch's analysis of the GARVEE portfolio indicates an ability to withstand a material decline in federal funding and still maintain adequate financial metrics.

FINANCIAL ANALYSIS
Fitch performed an analysis of the federal grant program that assumes the latest CBO projection for outlays, translating into a 2.4% compound annual growth rate (CAGR) in HTF spending through 2031. HTF revenues are projected to grow at a CAGR of 1.5% for the same period. Under such a scenario, the annual gap between HTF spending and receipts averages roughly $19.5 billion from 2022-2031. Under the scenario above, the Federal Highway Administration (FHWA) would have to cut outlays to the states on average by 30% from fiscal 2022 through fiscal 2031 in order to match the revenues coming into the HTF.

Fitch's base case utilizes reasonable sponsor projections and assumes federal receipts remain flat at the latest available projected year, or otherwise assumes receipts are flat at the 2020 level, which produces strong maximum annual debt service (MADS) coverage across highway and transit GARVEEs.

Fitch's rating case on all standalone GARVEEs assumes federal transportation spending is cut to keep the HTF solvent (i.e. outflows match inflows). Fitch applied a permanent 30% haircut to receipts beginning in 2022 following expiration of the FAST Act, based on the average required annual reduction mentioned above, and holds receipts flat at that level. A haircut of this size would still result in MADS coverage across the board in excess of 2x for highway GARVEEs. The same reduction for transit GARVEEs would result in similar MADS coverage levels in the mid-2x range.

Fitch also ran an additional one-time breakeven scenario for all GARVEEs. Assuming a permanent reduction in 2022 followed by zero growth, federal receipts for debt service could withstand declines ranging from a minimum of 71% to upwards of 95%, and still meet 1.0x coverage through the life of the debt. The analyses also include the burden of future debt issuances and associated debt service, if any, showing high resilience should a potential decline or lapse in federal funding occur

Should state DOTs and transit agencies fully leverage their GARVEE programs up to their ABT, debt service coverage ratios on GARVEEs could drop significantly lower than current levels. Given their narrower ABT requirements, standalone transit GARVEEs are more susceptible to significant declines or delays in federal funding.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS
Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of ‘3’. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch’s ESG Relevance Scores, visit www.fitchratings.com/esg

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S&P: Recent Developments In The Tobacco Securitization Market

Key Takeaways

- There have been a number of recent key developments in the tobacco settlement securitization market.
- These include cigarette shipment volume fluctuations, the New York State tribal pack adjustment, and potential menthol ban and nicotine reduction mandates.
- Despite the ever-changing nature of this sector, we believe our current rating methodologies and assumptions have already accounted for the potential impacts from these developments, and we are not changing our views at this time.

Continue reading.

Fitch: Uncertain Return to Cruising Pressures US Port Revenues

Fitch Ratings-New York-19 May 2021: Recently updated cruise guidance from the Centers for Disease Control and Prevention (CDC) provides a more concrete path to potentially resuming some US cruises in July, which would help stabilize cruise port financial performance and ratings, Fitch Ratings says. Port revenues from cruise operations declined sharply over the last year in the US, with cruise ports recovery at a standstill.

Cruise ports have not been collecting revenues from normally stable cruise operations for over a year now. While other leisure and travel sectors started to recover from coronavirus-driven slumps, the CDC moratorium on cruises prevents a recovery in the US cruise sector. Liquidity and diversification from cargo revenues provided some cash flow relief but protracted delays in the resumption of cruising add pressure to port performance the longer they continue.

Should cruise activity not resume until July or later, port revenue streams from cruise-related activity will remain stalled into a second cruising season. Ports with diversified operations are under less pressure, as cargo port operations performed strongly through the pandemic.

Continue reading.

Municipal Finance Tools are Getting Extensive Consideration by Congress.

The extensive consideration that municipal finance tools are getting as Congress considers infrastructure legislation is producing growing optimism among public finance and local government groups.

Lawmakers have voiced bipartisan and bicameral support for a revival of direct-pay Build America Bonds, reinstating tax-exempt advance refundings and raising the limit on tax-exempt bank-qualified debt to $30 million for nonprofit borrowers.

The Biden administration is scheduled to weigh in on May 28 with its detailed tax proposals as part of its 2022 budget.

“My interpretation is that if they didn’t have a pay-for problem, then they would have bipartisan agreement,” said Charles Samuels of Mintz Levin, counsel to the National Association of Health & Educational Facilities Finance Authorities.

Brett Bolton, spokesman for the Bond Dealers of America and Municipal Bonds for America, said both groups remain optimistic Congress can take robust action on infrastructure.

“We hope that Congress and the administration are able to work through the gridlock and find a pay-for solution,” Bolton said. “We will continue to work with our partners on the Hill, in the administration and within the issuer community.”

The municipal finance tools such as reinstatement of tax-exempt advance refunding represent small costs next to the trillions that have been spent on COVID relief and other emergency spending since last year.

“Relative to these mega packages that have been passed in the last couple of years, all of a sudden something like advance refundings don’t look that big,” said Samuels. “It all becomes sort of relative.”

Reinstatement of tax-exempt advance refunding of bonds appears to have the broadest support among lawmakers because of its nearly universal impact on state and local issuers as well as nonprofits.

“The talks are continuing in a bipartisan fashion which, of course, is positive,” said Eryn Hurley, associate legislative director for the National Association of Counties. “There is some momentum. And the Biden administration did put forward a plan to pay for it.”

Hurley said NACo has seen “a lot of great provisions” on the spending side of the so-called skinny budget outline released earlier by the administration and remains optimistic about the full budget and tax proposals that will be released next week.

Among some of the provisions in the skinny budget NACo has highlighted to its members are:

A $20 billion increase in Department of Education Title I grants to high poverty schools; a $2.5 billion increase in special education funding through the Individuals with Disabilities in Education Act (IDEA), a $1.6 billion increase in the Community Mental Health Services Block Grant; a $1.5 billion increase in the Child Care and Development Block Grant; and a $65 million increase for the Reconnect Program which provides a down payment for grants and a $500 million increase for the Home Investment Partnerships (HOME) program.

But the Biden administration has not yet officially weighed in on the tax provisions that could spur infrastructure investments such as increasing the $15 billion limit on transportation-related private activity bonds.

Transportation Secretary Peter Buttigieg referred to that cap Thursday while testifying before the Senate Banking Committee.

“We do think there’s a lot more potential here and would welcome opportunities to work with you on building that out,” Buttigieg said in response to a question from Sen. Bill Hagerty, R-Tenn.

Republican Rep. Devin Nunes of California also suggested raising the $15 billion cap during a House Ways and Means Committee hearing a day earlier.

National Association of Bond Lawyers President Teri Guarnaccia, a partner at Ballard Spahr, said NABL has been “encouraged by the level of attention given to municipal market tools at both the House and Senate hearings.”

?With additional assistance from the administration and Congress, these tools would be an integral part of the infrastructure package under development by Congress,? Guarnaccia said.

Guarnaccia, Samuels and NACo’s spokeswoman said that if the Biden administration also advocates for enactment of these municipal finance tools, it will cement the likelihood of them becoming part of any infrastructure legislation that is enacted.

By Brian Tumulty

BY SOURCEMEDIA | MUNICIPAL | 05/20/21 02:31 PM EDT

‘Build America Bonds’ Revival Draws Bipartisan Support in Congress.

- **Obama-era subsidized debt raised more than $180 billion**
- **‘An outbreak of major bipartisanship around’ subsidizing bonds**

Democrats and Republicans in Congress are in favor of reviving an Obama-era bond program for states and cities to help spur increased spending on infrastructure projects.

Senator Ron Wyden, a Democrat from Oregon who chairs the Senate Finance committee, said at a hearing of the panel Tuesday that there is bipartisan support for creating a new borrowing program akin to Build America Bonds as President Joe Biden seeks to enact a major infrastructure spending plan. The federal government paid some of the interest bill for such securities under a temporary program enacted after the last recession.

“We’re only 19 minutes into this morning hearing, and we have already had an outbreak of major bipartisanship around Build America Bonds,” said Wyden, who advocated for the creation of the financing tool in 2007.

The hearing on infrastructure financing is promising sign for Wall Street and local government groups that have pushed for the revival of a directly subsidized bond program.

The Build America Bonds program unleashed a wave of debt sales by municipalities, with more than $180 billion of the securities sold before the program lapsed at the end of 2010, according to data compiled by Bloomberg. The securities were a taxable alternative to traditional tax-exempt bonds, which both took the pressure off the municipal-debt market and allowed underwriters to market them to overseas investors and others who don’t typically buy state and local government debt.

In April, a group of Senators including Roger Wicker, a Republican from Mississippi, and Michael Bennet, a Democrat from Colorado, reintroduced a bill that would create similar securities called American Infrastructure Bonds. In the House, Representative Terri Sewell, a Democrat from

Alabama, also introduced a bill that would create the tool.

State and local lobbying groups have also pushed for the return of tax-exempt advance refundings, a key debt refinancing tool that was curbed as part of the GOP's 2017 tax overhaul. Senator Debbie Stabenow, a Democrat from Michigan, said during the hearing that she'd like to see that refinancing tool included in the next infrastructure package.

Bennet, a sponsor of the American Infrastructure Bonds bill, said at the hearing that the comments on Build America Bonds gave him "hope."

Bloomberg Politics

By Amanda Albright and Kaustuv Basu

May 18, 2021, 10:31 AM MDT

Munis In Focus: Build America Bonds (Radio)

Joe Mysak, Bloomberg Brief: Municipal Market Editor, talks the latest on the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

May 21, 2021

Washington Wants to Bring Back Build America Bonds. The Muni Market Isn't Buying It.

The muni market is already 'flooded with demand,' says Matt Fabian, partner with Municipal Market Analytics

Washington lawmakers considering President Joe Biden's $2.3 trillion infrastructure package are interested in reviving a program born out of the response to the last recession, even as the state and local governments that it's meant to help are much more cool on the idea.

The Build America Bond program, created as part of the 2009 American Recovery and Reinvestment Act, allowed municipal entities to issue debt with a federal subsidy. Over nearly two years, about $181 billion of bonds were sold for infrastructure needs, ranging from storm-water capital improvements in the city of Tampa, to building new school buildings in Omaha, Neb.

Unlike most of the $3.9 trillion municipal market, so-called BABs were taxable. That was a positive, because it made muni bonds attractive to a much wider range of investors, said Eric Kim, head of U.S. state government ratings for Fitch. Meanwhile, the federal subsidy –– 35% of the interest cost –– was meant to help state and local governments coming out of a grinding recession finance their projects.

“Democrats and Republicans are in agreement about bringing back the financing tool of tax credit bonds a la Build America Bonds,” wrote Washington-based Beacon Policy Advisors in a May 19 note. “It’s something that is supported by both Senate Finance Committee Chair Ron Wyden (D-Ore.) and Ranking Member Mike Crapo (R-Idaho) and is also a major priority for House Ways and Means Committee Chair Richard Neal (D-Mass.).”

But municipal-market participants are less enthusiastic.

“State and local issuers are deeply ambivalent about the BABs program,” said Matt Fabian, a partner with Municipal Market Analytics. “It’s being talked about like it’s the core of the infrastructure program, but issuers in general don’t care because demand for tax-exempt bonds is now the strongest it’s ever been,” he said.

“We are flooded with demand,” Fabian said.

The yield on the S&P Municipal Bond General Obligation Index is currently about 1.93%, among the lowest on record back to 2009. Bond yields and prices move in opposite directions.

While Washington lawmakers may believe that a lower interest rate would help issuers, thereby boosting the amount of overall spending on infrastructure, MMA’s calculations show the federal subsidy would have to be at least as high as 50% to make BAB issuance worth it.

More to the point, Fabian told MarketWatch, “state and local infrastructure spending is a zero-sum game.” Governments only have so much in revenues to pay back bonds, no matter how low the interest rate.”

The legacy of the BABs program also suffers from a self-inflicted wound. Sequestration, the automatic budget cuts that kicked in when Congress couldn’t agree on a budget in 2012, also reduced the federal subsidies governments had relied on when they issued the debt.

“There will definitely be some hesitancy on the part of governments to participate in a program that has any kind of ongoing subsidy from the federal government because of what happened with sequestration,” Kim said.

Ratings agencies like Fitch are watching the growing backlog of infrastructure needs for states and locals, Kim said in an interview, and it’s clear governments will need to think creatively about solutions, whether by joining with the private sector, requesting outright grants from the federal government, or even raising taxes on their own.

MarketWatch

By Andrea Riquier

May 20, 2021
