Muni Bonds Reach Cheapest Level Since 2020 as Citigroup Says It's Time to Buy.

- **Citigroup strategists say munis 'past the point of peak pain'**
- **'Ratios look pretty good,' says Breckinridge's Pease**

It's been a bleak stretch in the $4 trillion municipal-bond market, with returns slumping, retail investors dumping bonds and volatility giving issuers pause. But some portfolio managers are jumping into the fray.

They're dipping into cash piles with munis brushing up against their cheapest levels since 2020 relative to Treasuries, which are outperforming amid haven demand fueled by the war in Ukraine. While both markets are down in 2022 ahead of an expected Federal Reserve rate hike this month, the losses in munis are steeper.

Citigroup Inc. strategists said in a note Monday that the muni market is "past the point of peak pain" and recommended buying. They noted that the Fed has backed off its hawkish stance given the Ukraine conflict, the sort of crisis that tends to bolster muni performance. Traders still expect a quarter-point Fed rate increase next week amid elevated inflation, having stepped back from bets on a half-point boost.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," said Evgenia Lando, a portfolio manager for Thornburg Investment Management. Last year, before the market selloff, Lando built up cash given what she saw as a lack of buying opportunities, with credit spreads staying tight.

Lando said she put in orders for a bond offering last week from the Lower Colorado River Authority. The agency sold about $343 million of debt, including a 2032 maturity that priced to yield 2.02%, while a 10-year segment it sold a year earlier priced to yield 0.96%. Spreads were wider on the latest sale than a year ago.

Kevin Danckwerth, head of muni trading at Citigroup, said the cash cushion that mutual funds built up before the selloff means they can be both buyers and sellers in the current environment.

'Both Sides'

Last year, municipal funds attracted more than $96 billion of cash, while outflows this year have totaled $12.1 billion through March 3, according to Refinitiv Lipper data.

"Most mutual funds are on both sides of the trade right now," Danckwerth said. "They came into the year in a good position from a cash perspective."

Customer buying averaged about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to statistics from the Municipal Securities Rulemaking Board.

It may be a sign that retail buyers are also tempted by the higher yields, even as munis enter what is often a rough stretch because of selling related to tax payments before the mid-April U.S. filing deadline.

“Ratios look pretty good considering where we’ve been,” said Ben Pease, head of muni trading at Breckinridge Capital Advisors, who said his team was comfortable adding exposure to municipals. “There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields.”

Barclays Plc said a muni-Treasury ratio of 90% may cause some investors to begin dipping their toes in. But they noted the challenges of doing so amid volatile markets.

“This year, investors are faced with some of the hardest market conditions in recent history, as muni-Treasury ratios keep oscillating, and rate volatility is never conducive to risk-taking,” strategists led by Mikhail Foux said in a March 4 note. “The belly of the curve has adjusted enough that it is starting to get interesting versus Treasuries.”

Bloomberg Markets

By Amanda Albright

March 7, 2022

Global Economic Ramifications of the Eastern European Conflict.

As local and state economies were starting to emerge from the COVID-19 grip, the economic outlook was hit with supply chain issues due to the slow revival of the manufacturing sector and other related issues. In recent weeks, the Eastern European conflict has made the global economic forecast even more grim with certain sectors of the economy bearing the brunt of Russia’s invasion of Ukraine, with the global energy sector being the prime example.

As a retaliatory measure, global sanctions will not only serve as a detrimental blow but also have long-lasting impacts on Russia’s economy. However, the effects of the Russian economic downfall will likely also be felt at the global level for years to come.

In this article, we will take a closer look at the domestic and global ramifications, especially in the financial and energy markets, of the Eastern European conflict and the world’s retaliation.

Continue reading.

municipalbonds.com

by ..Jayden Sangha

Mar 02, 2022

Vanguard’s Muni Head Sees Risk-Off Mood Prevailing With Fed Hiking.

- **Tone may persist ‘until you re-establish the inflow pattern’**
- **Signposts to follow include reduced volatility, Malloy says**

Municipal-bond investors have plenty to absorb lately, from soaring oil prices to accelerating inflation. But Vanguard Group’s Paul Malloy says the focus should be on market volatility and the path of the Federal Reserve.

With investors bracing for the central bank to start lifting interest rates next week to combat the highest inflation in decades, munis have joined a broad bond-market slump. The Bloomberg Municipal Bond Index is down 3.9% in 2022, trailing a 3.4% drop in Treasuries, which have benefited from haven buying amid the war in Ukraine.

As Vanguard sees it, the turbulence roiling markets from equities to Treasuries has spooked muni investors, a mostly risk-averse group that focuses on generating tax-exempt income from assets that don’t swing much. Investors have pulled about $12.1 billion from muni funds this year through March 3, Refinitiv Lipper data show. The outflows may persist until volatility ebbs and investors get a clearer idea of when the Fed’s anticipated rate hikes will end, Malloy says.

“They are in a risk-off mood because of rising interest rates,” Malloy, whose firm held about $258 billion of muni assets as of Feb. 28, said in an interview Thursday. Volatility also “means risk-off for the time being. There’s just a lot of uncertainty out there until you re-establish the inflow pattern back into the municipal market.”

Malloy spoke on a day of losses for Treasuries, with 30-year yields reaching the highest since May after the latest inflation data. With munis underperforming, the market for state and city debt has cheapened in relative terms. Citigroup Inc. said this week that it may be time to buy.

Malloy sees munis as being closer to fair value, but he’s reluctant to call them cheap because Treasury yields have been a moving target, which makes assessing value more difficult. He says munis also become harder to hedge given that volatility.

And with retail buyers still balking, that leaves money managers waiting for stability in markets to assess when the tide will change.

“You are looking at signposts,” Malloy said. “The signposts are reduction in volatility, a little bit more clarity on the Fed hiking path, which we have not even started yet.”

Bloomberg Markets

By Shruti Singh

March 10, 2022

How Recent Rate Volatility Impacts Municipal Bonds

Clinton Investment Management CEO Andrew Clinton discusses the outlook for the municipal bond market with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

March 9th, 2022, 12:51 PM PST

UBS: Muni Credit Quality is Resilient Amid Uncertainty

Municipal bonds have had a rough start to the year in the wake of rising inflation and geopolitical tensions. While market returns have been unfavorable year to date, the fundamental credit quality of key sectors such as states, local governments, transportation agencies and utilities remains robust and overall credit downgrade and default risks remain low.

If history is any guide, investors should note that the high inflation periods of the late 70s and early 80s saw very few defaults even as the value of municipal bonds declined significantly during that period.

Municipal credit quality has improved from the pandemic-induced disruption in 2020. Rating upgrades outpaced downgrades in 2021 in the wake of federal financial assistance, which stabilized the balance sheets of many municipal obligors.

Although, rating changes are usually a lagging indicator, we expect overall credit quality to remain stable in 2022 despite market headwinds and a tapering off of federal fiscal support. Municipal finances are generally better insulated from global events than other asset classes and most municipal issuers entered this period of high volatility with substantial financial strength. Moreover, the US economy's oil intensity is much lower than it used to be in the 70s and 80s. State and local tax revenues remain robust coming out of the pandemic.

Stellar investment returns in 2021 bolstered underfunded state and local pension plans, although some of that benefit has been clawed back by recent market declines. High essentiality sectors with rate autonomy, such as water sewer and electric utilities, have strong pricing power to combat inflationary pressures. Toll roads have historically demonstrated strong ability and willingness to adjust toll rates in line with inflation. However, some sectors such as not-for-profit hospitals and private colleges will continue to experience margin pressures in 2022, especially smaller issuers with low pricing power. However, there may be some buying opportunities in high quality healthcare issuers.

While high inflation in the near term will have limited credit impact, prolonged and unrestrained inflation over the longer term (which we don't expect), would indeed pressure municipal credit quality. In our view, strong credit fundamentals support good entry points for long-term buy and hold investors currently, as outlined in our blog Municipal market performance update.

by UBS Editorial Team

11 Mar 2022

Muni Investments Amid Inflation (Bloomberg Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. Hosted by Matt Miller and Kriti Gupta.

Listen to audio.

Bloomberg Radio

Mar 11, 2022

It May Be a Good Time to Take a Second Look at Muni Bond ETFs.

The municipal bond market and related exchange traded funds have taken a beating ahead of the Federal Reserve's multiple interest rate hike outlook for 2022, but some have waded back into munis market, arguing that this could be a cheap entry point.

Some portfolio managers highlighted municipal debt trading at their cheapest level since 2020 relative to U.S. Treasuries, Bloomberg reports. While both Treasuries and munis have retreated ahead of any Fed monetary policy tightening, the losses in municipal bonds have been much more severe.

Consequently, Citigroup Inc. strategists argued in a recent note that the muni market is "past the point of peak pain" and recommended buying the asset category.

Citi analysts also pointed out favorable trends that could help munis turn around, such as the fact that the Fed is taking a softer tone from its previously hawkish stance due to the uncertainty fueled by the Russia-Ukraine conflict, which is the sort of crisis that tends to support safe-haven, quality debt like munis.

Nevertheless, the markets still anticipate a quarter-point Fed rate hike at its next weekly meeting to help cap some rising inflationary pressures, but it is still a step back from bets on a half-point increase.

"This is a good, opportunistic time for people to engage in the market and be able to pick up yield, something we haven't seen since March 2020," Evgenia Lando, a portfolio manager for Thornburg Investment Management, told Bloomberg.

Investors are also buying and showed an average purchase of about $6.1 billion daily from Jan. 21 through March 4, while selling averaged $4 billion, according to Municipal Securities Rulemaking Board data.

"Ratios look pretty good considering where we've been," Ben Pease, head of muni trading at Breckinridge Capital Advisors, told Bloomberg. "There were people tripping over themselves a year ago for significantly worse ratios and significantly worse yields."

ETF investors who are interested in the munis space can also consider targeted ETF strategies, such as the popular iShares National Muni Bond ETF (NYSEArca: MUB), the Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB), and the SPDR Nuveen Bloomberg Municipal Bond ETF (NYSEArca: TFI).

ETF TRENDS

by MAX CHEN

MARCH 7, 2022

S&P Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors

Key Takeaways

- S&P Global Ratings incorporates environmental, social, and governance (ESG) risks and opportunities into the credit rating analysis of U.S. public finance (USPF) entities based on factors embedded in our sector-specific criteria.
- ESG credit factors can materially influence the creditworthiness of a rated entity or issue when we have sufficient visibility and certainty to include in our credit rating analysis.
- Our long-term credit ratings do not have a pre-determined time horizon and ESG credit factors incorporate qualitative and quantitative analysis to determine materiality within our credit rating analysis.
- Even as additional data become available, reflecting ESG risks and opportunities within our credit rating analysis will require a qualitative view of an entity's capacity to anticipate and plan for a variety of emerging risks that could disrupt its credit fundamentals.
- We have updated this sector-by-sector analysis originally published in April 2020 to provide additional insight on how ESG credit factors intersect with aspects of our criteria frameworks shown throughout this article. The examples are not exhaustive and represent where the risks could be most material to our credit rating analysis.

Continue reading. [Free registration required.]

2 Mar, 2022

Muni Investors Seek Proof From Governments Selling ESG Debt.

- **Allowing money managers to track goals could cut funding costs**
- **Regulator MSRB is looking at developing ESG standards**

But some governments are reluctant to spend more money tracking and reporting whether their projects are meeting environmental, social, or governance goals. The Municipal Securities Rulemaking Board, the market's industry-funded regulator, is looking at developing standards related to ESG disclosure. Still, only around half of muni ESG issuance is subject to outside verification, data compiled by Bloomberg show.

Getting this right is critical for the development of the ESG portion of the $4 trillion market for muni bonds. Until issuers and investors can determine standards that both can live with, governments likely won't be able to cut their funding costs by selling muni ESG bonds, because money managers won't pay extra for the securities.

"We haven't been willing to pay more because we haven't been receiving the information that we're looking for," said Alexa Gordon, head of municipal ESG at Goldman Sachs Asset Management LP, speaking on a February panel about ESG practices in the muni bond market. "I could care less if someone slaps a green label on a bond, what we care about is the ongoing commitment to an eventual impact."

The market for muni ESG debt has been growing fast from a small base. About $50 billion of bonds were sold with social, green or sustainability labels in 2021, around 11% of overall issuance and nearly a twofold increase from the year prior, according to data compiled by Bloomberg. S&P Global Ratings projects that the market will continue to expand, with issuance likely topping $60 billion in 2022.

Progress is slower than in other markets, such as in corporate and sovereign debt, where global issuance last year topped $1 trillion.

Sally Bednar, head of municipal ESG solutions at Wells Fargo, says that her group is "beginning to see signs" of a pricing benefit for issues that carry ESG labels, but there's not enough evidence to say there's a definitive link.

"We do know that as more investors increase their focus on ESG bonds, the ESG label can lead to a broader universe of investor interest, which can drive demand for the bonds," she said.

Investor Pressure

About half of all new municipal bonds labeled as having an environmental, social or governance benefit in the last two years are verified by an outside company, up from just 35% in 2019, according to data compiled by Bloomberg. And in 2021 more than three-quarters of governments selling the debt had committed to continually updating investors for years, the data show.

That is in response to investor pressure, but the muni bond market is fragmented, which has made it difficult to develop standard disclosure or labeling practices, said Daniel Rabasco, head of municipal bonds at Insight Investment Management Ltd. There are about 1 million municipal securities outstanding divvied among tens of thousands of issuers.

"The muni market moves at a snail's pace," he said. He said he's fielding more and more queries from clients on how to factor ESG into their investments, especially as wealth continues to transfer to a younger generation.

"We all intuitively know that municipal governments have a lot of sustainable requirements and what muni bonds finance in many cases we know are ESG projects, but investors are demanding the data to back it up," he said.

'Overly Burdensome'

The MSRB last year asked issuers, investors, broker-dealers and municipal advisers for suggestions to improve disclosure of ESG related risks and labels.

Cities and states have reservations about being required to take specific steps. In its response to the MSRB inquiry, the city of Detroit said that standardized ESG disclosures would be "overly burdensome" and "costly," potentially inhibiting borrowers from using the designations.

But for investors to be willing to accept slightly lower yields on the debt, they have to be confident their money is actually serving an ESG purpose, said Goldman Sachs Asset Management's Gordon.

"When bonds are labeled without an independent certification, there is a lot less confidence that industry standards are being met," she said.

Bloomberg Markets

By Danielle Moran

March 4, 2022

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

View the Current List.

2 Mar, 2022

Fitch: US Public Finance AAA Downgrades Rare, Spike During Recessions

Fitch Ratings-New York-01 March 2022: US Public Finance (USPF) ‘AAA’ downgrades during 2008 through 1H21 have been rare, in line with high rating stability rates observed in the sector, says Fitch Ratings in its report Downgrading from the Top (Frequency, Drivers and Magnitude of USPF ‘AAA’ Downgrades Since 2008).

The majority of the 97 downgrades recorded over the observed period were for debt issued by local governments and water and sewer entities. More than one-third reflected criteria updates rather than deterioration in the issuer’s credit fundamentals. Local government ‘AAA’ downgrades due to credit deterioration were largely driven by insufficient reserve levels and deteriorating gap-closing capacity, while high leverage was the main factor driving water and sewer utilities downgrades.

Continue reading.

Fitch: Material ARPA Funds for Water Projects Bolster Utility Credit

Fitch Ratings-Austin/New York-02 March 2022: Allocations under the American Rescue Plan Act (ARPA) to water and sewer utilities will provide a material infusion of cash that will boost capex and improve water supplies and infrastructure resilience, supporting credit quality, Fitch Ratings says. Water, sewer and stormwater projects are set to receive a meaningful amount of the $350 billion designated for cities and counties under ARPA’s State and Local Fiscal Recovery Fund. Water/sewer is the largest subcategory of planned infrastructure spending under ARPA, according to initial reporting from the ARPA Investment Tracker, a partnership of the National League of Cities, the National Association of Counties and Brookings Metro.

Under the Treasury Department’s final rule for ARPA published in January, eligible projects include those meeting the Environmental Protection Agency’s (EPA) requirements for the Clean Water State Revolving Fund and Drinking Water State Revolving Fund. The rule further expands eligible projects to include culvert repair, removal and replacement of storm sewers and other stormwater infrastructure, dam and reservoir rehabilitation for drinking water supplies, along with lead remediation projections such as testing and lead service line replacement. Governments must commit ARPA funds by 2024 and spend them by 2026.

Federal funds under ARPA, combined with the unprecedented $55 billion allocated primarily to the state revolving funds under the Infrastructure Investment and Jobs Act, will allow water and sewer utilities to accelerate capital projects to meet critical needs and address maintenance and plant improvements, improving a utility's life-cycle ratio and annual capex/depreciation, which we consider as part of a utility's operating risk profile. Moreover, these funds could also temper rate increases or the need for additional debt to cover capex.

A number of water and sewer utilities have already received sizable ARPA allocations, which are expected to help systems preserve cash and potentially limit additional debt. In Florida, for example, the Okaloosa County water and sewer system received about $12 million in ARPA funds, which is about 18% of their budgeted capex between fiscals 2021-2025. Roughly 16% of the Polk County utility system's five-year, $230 million capital improvement plan is supported by ARPA funds. Broward County plans to use $21.4 million of ARPA funds for a septic tank elimination project, and Palm Beach County has allocated $75.0 million for various improvements, including septic-to-sewer conversion.

ARPA aid and, in some cases, rate increases will help alleviate pressures on operating margins. Water and sewer utilities face higher operating and capex costs due in part to federal mandates and inflation. Costs associated with per- and polyfluoroalkyl substances (PFAS) remediation and the EPA's Lead and Copper Rule will likely be realized over the next few years. Government construction prices were up 10.5% yoy in January and construction wages rose 3.8% yoy at YE 2021.

According to the ARPA Investment Tracker, 45% of all U.S. large cities and counties with populations of at least 250,000, 152 entities in total, have reported and designated funding for specific projects. So far, about $885.6 million has been allocated for water and sewer improvements. Another 185 such entities have not specified projects or have not reported. Smaller cities and counties do not need to report on their uses of ARPA funds until April 30, 2022.

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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.

Why Cities Need to Prepare for Climate Migration.

In October 2017, weeks after Hurricane Maria's winds peeled Dachiramarie Vila's wood and zinc house off its foundation, the water and food she had stored began to run out. Supermarkets in her hometown of Las Piedras, Puerto Rico, started rationing goods. Gasoline became scarce. Clean drinking water was hard to come by.

Soon, mosquito bites would dot her children's bodies. Then Vila's son fell ill, most likely with an infection from contaminated water. The boy's pediatrician told her he couldn't conduct any tests to verify; the laboratory had been destroyed in the storm. That's when, sitting with the doctor in an unlit hospital corridor, flashlight in hand, Vila broke down.

"I'm going," she said she later told her family. "I can't do anything else. I can't live like this anymore." Vila, her husband, and their two children—along with eight extended family members—fled to Orlando, Florida.

Continue reading.

The Urban Institute

February 28, 2022

Muni Bonds Reach Cheapest Level Since 2020 as Citigroup Says It's Time to Buy.

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Ukraine conflict, the sort of crisis that tends to bolster muni performance. Traders still expect a quarter-point Fed rate increase next week amid elevated inflation, having stepped back from bets on a half-point boost.

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Bloomberg Markets

By Amanda Albright

March 7, 2022

[The Irresistible Appeal of the 'Post-Industrial Park']

In *Parks for Profit*, a sociologist argues that glitzy urban parks that rely on private funders can trigger displacement and drain resources from other public spaces.

An on-again, off-again romance smolders between nature and the American city. It's complicated.

The original matchmaker was 19th century landscape architect Frederick Law Olmsted, whose picturesque green spaces like New York City's Central Park offered urbanites an idealized experience of nature. During the Great Depression, the Works Progress Administration built smaller neighborhood parks for the industrial working classes (though these, of course, were racially segregated and unequal).

But as urban centers deindustrialized and white residents left for the suburbs, local governments often stopped maintaining parks, surrendering them, along with the industrial infrastructure these green spaces offered a reprieve from, to overgrowth and disrepair.

Continue reading.

Bloomberg CityLab

by Michael Friedrich

March 5, 2022

Munis Lag Sharp Swings Seen in Taxable Bond Markets.

In February, munis continued to lag the abrupt moves seen in the taxable bond markets prompted by heightened geopolitical risk and anxiety over inflation and monetary policy.

Keeping tabs on performance

For the first two months of 2022, tax-exempt paper (-3.2%) had underperformed an index of US Treasury securities (-2.6%) in the midst of high rate volatility. By contrast, munis held up better than investment grade corporate debt which witnessed steeper losses of over 5% on a year-to-date basis. We attribute the better performance from munis vis à vis corporate debt in large part to subdued new issuance. Thus far in 2022, the pace of new municipal bond sales is down by about 20% compared to the same time last year, as an example.

Outflows persist

The spike in rate volatility in the early weeks of 2022 had prompted municipal mutual fund inflows to reverse course. Munis have now posted losses for two straight months. And, muni mutual funds have witnessed net cash outflows for five consecutive weeks totaling roughly USD 10.6bn according to the Investment Company Institute (ICI). In the near-term, we anticipate outflows to continue leading up to the Fed meeting taking place in two weeks.

Portfolio themes

In the midst of heightened volatility, we recommend that muni investors consider the following portfolio strategies:

- **Consider short-dated munis for liquidity strategy.** Investors seeking opportunities to position assets for a liquidity strategy may now find better absolute values in short-dated munis. Yields on high grade AA munis at the two-year spot have jumped to now rest at over 1%, up from only 25bps in the first week of January.
- **Position in high coupon premium bonds at the longer part of the curve.** We prefer 4% to 5% premium bonds for their defensive characteristics. By contrast, low coupon bonds (2.5% to 3%) are more sensitive to interest rate changes and are vulnerable to become market discount bonds subject to unfavorable tax treatment.
- **Practice municipal sector diversification**. CIO provides detailed research coverage for 601 municipal obligors nationwide. This coverage spans across nine different sectors and serves as a useful guide for investors seeking diversification opportunities in the midst of volatile markets.

by UBS Editorial Team

02 Mar 2022

Main contributor: Kathleen McNamara, CFA, CFP, Sr. Municipal Investment Strategist Americas

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A Shift Back to Safe Havens Is Fueling an Appetite for Munis.

As the situation between Russia and Ukraine continues to play out, investors are heading into municipal bonds to help pad their portfolios amid the volatility. In the meantime, a sustained moved towards munis continues, according to a Bloomberg report.

Whether it was the long or short end of the yield curve, muni yields fell based on Bloomberg BVAL data. In the case of the benchmark 10-year yield, it experienced its largest drop since the November 2020 U.S. presidential election.

Meanwhile, equities investors have been experiencing bouts of seasickness the way stocks have been moving up and down. This is causing investors to seek safe havens such as municipal debt.

Continue reading.

ETF TRENDS

by BEN HERNANDEZ

FEBRUARY 28, 2022

Municipal Bonds and Rising Rates: 3 Considerations for Investors

Muni bonds have successfully weathered periods of rising rates—and delivered consistently positive performance—through the years.

Key Takeaways

· Municipal bonds have a history of consistently positive performance though a variety of interest-rate environments.

· Based on historical and current tax-exempt yields, municipal bonds continue to offer compelling relative value.

· Municipal bonds have featured low correlations with other asset classes and have experienced less frequent and smaller yield moves than taxable bonds.

Continue reading.

Lord Abbett

By Daniel S. Solender, Philip B. Herman, Gregory M. Shuman

March 1, 2022

Rising Rates Hit Munis.

Worries about Federal Reserve interest-rate increases hit state and local debt, even as concerns about municipal finances retreat

Municipal-bond investors spent more than a decade fretting about state and local government finances. Now they are worried about interest rates.

Municipal budgets are in far better shape than during the aftermath of the 2007-09 financial crisis or the early-Covid shutdowns when investors fled munis in droves. But the expectation that the Federal Reserve will begin ending pandemic stimulus measures has driven yields on state and local debt, which rise when bond prices fall, to their highest levels since April 2020.

“Credit has just not been the boogeyman that anyone thought it might be,” said Matt Fabian, a partner with Municipal Market Analytics. “The real risk in the sector at least for now is rates.”

Investors seek munis for their stable, often tax-free payments, considered low-risk because they are typically backed by taxes or fees on essential government services. Over the past decade, with yields remaining fairly stable, even a small drop in a town’s credit rating could cause a relatively significant change in the price of its bonds.

Many now consider the prospect of rising rates a more immediate threat, reducing the appeal of outstanding debt by offering better returns on newly issued bonds.

Benchmark 10-year, triple-A general-obligation bonds were trading at 1.65% Friday, according to Refinitiv MMD, up from 1.04% at the start of the year.

The premium investors pay for gold-plated, triple-A rated bonds compared with more speculative triple-B debt has shrunk to 0.7 percentage point from 0.83 percentage point a year ago, according to Refinitiv MMD data for 10-year, general-obligation munis.

The finances of America’s towns, counties and school districts are looking increasingly stable, with governments raking in revenue thanks to federal aid and the stimulus-fueled economic recovery. At the state level, budgets are so flush that officials are topping up state pension funds and giving residents tax rebates.

The bustling economy has served as a rising tide that lifted a range of municipal credits. There were 238 more upgrades of municipal borrowers than downgrades in 2021 by ratings firm S&P Global, not including housing projects. In 2020, there were 676 more downgrades than upgrades. There are now fewer government entities working their way through bankruptcy than at almost any time in the past 10 years, according to Municipal Market Analytics.

Defaults are rare for municipal borrowers, aside from speculative projects like nursing homes that are allowed to issue municipal bonds because they are perceived to have some public benefit. Now postcrisis restructurings by cities like Detroit and San Bernardino, Calif., are in the rearview mirror. Puerto Rico last month emerged from bankruptcy—the largest municipal issuer ever to restructure.

Longer-term threats to municipal finances remain, including climate change, underfunded pension liabilities and population loss in older cities in the Northeast and Midwest. But current risks to the value of bonds issued by states and cities are generally coming from larger market forces, analysts said.

Investors have pulled a net $6.7 billion from municipal-bond funds so far this year, according to Refinitiv Lipper, the most sustained outflows since March and April 2020, when early-pandemic shutdowns left investors panicked that cities and towns would struggle to pay bills. That loss of confidence drove yields on 10-year, tax-exempt, triple-A general-obligation munis to a high of 2.8% on March 23, 2020, when 10-year Treasurys were yielding 0.75%.

Now muni yields are rising alongside Treasury yields as investors try to game out the volatility in global markets and the intentions of world leaders.

“It’s sometimes very hard to read the tea leaves when you’ve got geopolitical risk, Covid, a Fed that is going to be raising rates and inflation that may or may not be transitory,” said Cynthia Clemson, co-director of municipal investments at Eaton Vance Management.

“Municipal credit is in good shape,” Ms. Clemson said. “Everyone’s trying to think ‘What are rates going to do?’”

The Wall Street Journal

By Heather Gillers

Feb. 22, 2022

Write to Heather Gillers at heather.gillers@wsj.com

Municipal Bond Investors' Fears Turn to Rising Tates.

- After municipal government finances weathered the COVID-19 pandemic, thanks to federal government aid and better-than-expected revenue during the pandemic, municipal bond investors are now concerned about interest rates rising, the *Wall Street Journal* reports.
- As the Federal Reserve starts removing pandemic stimulus measures, yields on state and local debt are rising. And in bond markets, yields move inversely to bond prices, so rising yields indicate falling bond prices.

- “Credit has just not been the boogeyman that anyone thought it might be,” Matt Fabian, a partner with Municipal Market Analytics, told the WSJ. “The real risk in the sector, at least for now, is rates.”
- Rising rates make outstanding debt less attractive to investors, because, by contrast, newly issued bonds offer better returns. Benchmark 10-year, triple-A general obligation (GO) bonds were trading at 1.65% on Friday, up from 1.04% a the beginning of the year, WSJ said, citing Refinitiv MMD data.
- So far this year, investors have pulled a net $6.7B from municipal bond funds, the most consistent outflows since March-April 2020, when early in the pandemic investors worried that local governments would have a hard time paying their bills.
- That plunge in confidence pushed yields on 10-year tax-exempt triple-A GO munis to a high of 2.8% on March 23, 2020, while 10-year Teasurys yielded 0.75%.
- By contrast, this year muni yields are rising along with Treasurys as investors try to divine global market volatility and word leaders’ actions.
- “It’s sometimes very hard to read the tea leaves when you’ve got geopolitical risk, COVID, a Fed that is going to be raising rates and inflation that may or may not be transitory,” Cynthia Clemson, co-director of municipal investments at Eaton Vance Management, told the WSJ. “Municipal credit is in good shape,” she added. “Everyone’s trying to think ‘What are rates going to do?'”
- In the past six months, the Vanguard Municipal Tax Exempt Bond ETF (NYSEARCA:VTEB) has dropped 4.0% and the VanEck High-Yield Muni ETF (BATS:HYD) has fallen 6.2% vs. the S&P 500’s -0.5% decline as seen in this chart, while the iShares IBoxx $ Investment Grade Corporate Bond ETF (NYSEARCA:LQD) declined by 8.3%.
- For the week ended Feb. 16, money market funds (-$41.9B), taxable bond funds (-$8.1B), and tax-exempt bond funds (-$1.3B) suffered significant outflows, according to Refinitiv Lipper data. Equity funds (+4.8B) were the only macro group that brought in new capital during the week.

Seeking Alpha

by Liz Kiesche

Feb. 22, 2022

S&P: Inflation Could Weigh On U.S. Not-For-Profit Utilities’ Credit Ratings

Key Takeaways

- Inflation–which has reached levels not seen in decades–can adversely influence utilities’ operating costs, add to the material and labor costs underlying capital projects, amplify borrowing needs, and expose utilities to higher borrowing costs.
- The effects of inflation are manifest in consumers’ utility bills and expensive utility bills add to the other growing pressures on consumers’ pocketbooks.
- Inflation can sap some of the benefits not-for-profit utilities derive from autonomous ratemaking authority if it is the catalyst for consumer and political resistance to utility retail rate adjustments needed to maintain a sound alignment among revenues, expenses, and debt service in the face higher operating and capital costs.

Continue reading.

24 Feb, 2022

Munis Shed Sleepy Reputation With Biggest Swings in 10 Months.

- **Gauge of 30-day volatility reaches highest since early April**
- **Retail buyer base has 'inherent fear of rates rising'**

The often-sleepy municipal-bond market is increasingly turbulent in the lead-up to the Federal Reserve's widely expected move to start lifting interest rates next month.

A gauge of 30-day volatility tied to Bloomberg's municipal-bond index is the highest since early April 2021. It's coming amid a global bond selloff that's driving the municipal market to a second straight monthly decline, for a 3.3% loss to start the year, according to Bloomberg indexes.

The swings are an opportunity for some investors, but are spooking others: Investors pulled about $1.3 billion from muni mutual funds during the week ended Wednesday, Refinitiv Lipper US Fund Flows data show.

Nicholas Foley, a portfolio manager at Segall Bryant & Hamill, said the market could see volatility climb even more as the Fed begins hiking rates. Municipals are especially vulnerable because they depend on retail buyers, and there's an "inherent fear of rates rising always," he said.

UBS Group AG strategists say the muni turbulence may persist until calm returns to Treasuries, where a measure of volatility reached the highest since March 2020 this month. Benefiting in part from their haven status amid rising geopolitical tension, Treasuries have fared better than munis to start the year, losing about 3%.

For Foley, municipals are still relatively expensive compared to Treasuries, leaving them more at risk of a selloff. Liquidity in the market is "thin," and when investors put bonds out for sale there can be few bids, he said.

"I'm a little surprised they've held as well as they have," he said.

Supply Threat

The market could also see supply start to increase, which could further weigh on performance. Barclays Plc strategists led by Mikhail Foux said the market remains vulnerable.

"Fund outflows and rate volatility have not been conducive for risk-taking; if supply picks up, munis may underperform even more," they said.

Still, investors aren't all bemoaning the volatility. Foley has been selling into the short end of the market, where demand has stayed strong as investors look to shield themselves from higher interest rates.

Meanwhile, he's bought long-duration debt that has cheapened. Those securities have been hit hard because that area of the market is dominated by institutional investors like mutual funds that are dealing with outflows, he said.

"For a smaller active manager, it's much easier to find value and add value in these types of markets," he said.

Bloomberg Markets

By Amanda Albright

February 22, 2022

[Fitch: Airports, Lessors Lead Global Aviation Recovery, Airlines Lag]

Fitch Ratings-Chicago/New York-18 February 2022: The global pandemic was the worst event-driven crisis in modern aviation history, having a material negative effect on the financial and credit metrics of airlines, aircraft lessors and airports, and the performance of aircraft and engine asset-backed securities (ABS). While pandemic-related risks remain, a marked rebound in traffic is driving a recovery, albeit with the pace and extent varying by sector, says Fitch Ratings.

Airports and aircraft lessors have led the aviation sector's recovery, while airlines remain the most challenged subsector with full recovery potentially taking years. At the trough in 2Q20, revenue passenger kilometres (RPKs) fell by nearly 90% year-over-year. Traffic has since recovered, but the latest data for December 2021 show RPKs still down 45% versus December 2019.

Continue reading.

Fitch ESG in Credit –Customer-Related Issues

Regulations Drive Standardisation and Disclosures on Customer-Related Social Issues

View the Fitch report.

Sustainable Fitch: Eco Material's Green Bond Aligned with ICMA Green Bond Principles

Read the full report: Eco Material Technologies Inc.

Sustainable Fitch, using its proprietary ESG Ratings methodology, has provided its second party opinion on the green bond and associated framework issued by Eco Material Technologies Inc.. The transaction is compliant with the four pillars of the ICMA Green Bond Principles and is also aligned with the "eco-efficient and/or circular economy adapted products, production technologies and processes" ICMA category, Sustainable Fitch says in a new report.

We have assigned a Framework Rating of '2' (on a scale from '1' through '5', where '1' is strongest) to the bond in our second party opinion, which indicates that the instrument has a better than average framework alignment for an instrument of this type.

Eco Material will use the proceeds of the issuance to fund the acquisition of Boral Resources LLC, a North American subsidiary of Boral Limited that is the leading distributor of fly ash in the US with a 50% market share.

We believe that Eco Material's core product line of supplementary cementitious materials, including fly ash, represent low carbon material alternatives to Portland cement and that these materials can significantly contribute to the decarbonisation of the cement industry, which currently accounts for 8% of global CO_2 emissions.

Fly ash reduces the carbon footprint of the cement industry as the share of cement supplemented by fly ash is directly proportional to the CO_2 emissions savings. Furthermore, Sustainable Fitch believes that the fly-ash business that Eco Material intends to acquire from Boral Resources generates additional environmental benefits by contributing to the circular economy as it repurposes a by-product of coal power plants that would otherwise be treated as waste.

Boral Resources reprocesses about 7 million tonnes of fly ash a year, which prevents it being stored in landfills and reduces fly ash's health hazards and water contamination; therefore, it is Sustainable Fitch's assessment that the transaction contributes to UN Sustainable Development Goal 12.5: "By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse".

Eco Material intends to provide an impact report, which will include the CO_2 savings from the use of its products, on an annual basis as part of its sustainability or other reports available to investors.

Wed 26 Jan, 2022

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Additional information is available on https://www.sustainablefitch.com.

State and Local Public Pension Plan Funding Up.

The amount of money in government plans grew from 2020 to 2021 because of strong investment returns and required contributions, a new report shows.

The "funded status" of state and local government pension plans nationwide increased to 75% in 2021, up from 72% in 2020, because of strong investment returns and more governments making required plan contributions. according to the latest Public Plans Database Snapshot analysis from MissionSquare Research Institute.

According to Investopedia, funded status is a pension fund's financial status measured by subtracting its obligations from its assets. This is useful for understanding how many employees will be covered in a worst-case scenario should their government or company be forced to pay all retirement benefits at once.

Key Findings

Here are some of the key findings from the December Public Plan Database Snapshot:

- Most state and local pension plans contribute nearly all or more than the full actuarially determined employer contribution.
- The mix of pension fund investments has changed immensely since 2005. The share of total portfolios invested in real estate, hedge funds, commodities and alternative investments increased from 9% in 2001 to about 29% in 2020.
- The ratio of active workers to plan beneficiaries is decreasing across all public plan sizes. Factors contributing to this trend include the ongoing retirement of baby boomers and the departure of other employees amid the "Great Resignation."

MissionSquare established the snapshot in 2007 as a detailed look at state and local pension plans. It is a collaborative effort with the Center for Retirement Research at Boston College, the Government Finance Officers Association and the National Association of State Retirement Administrators.

The database is updated every quarter with the most recently reported funded ratios, investment income and other information for 210 of the largest plans in the U.S., representing 95% of state and local pension assets, the report says.

For more information from the MissionSquare Research Institute pension plan analysis click here.

Route Fifty

By Andre Claudio

FEB 22, 2022

Baby Bonds May Gain National Momentum.

Following the passage of so-called "baby bond" legislation in Connecticut and Washington, D.C., and a slew of other states considering such legislation, congressional and public finance leaders including Connecticut Treasurer Shawn Wooden, and Sen. Cory Booker of New Jersey, are pushing for a federal baby bond law to help narrow the racial wealth divide.

"We need to put forward a bold, aspirational vision for racial and economic justice in this country [and] I think baby bonds are a foundational piece of that," Booker said.

Booker made the statement via video during a webinar last week hosted by Prosperity Now and the New School Institute on race, power and political economy.

Last year, Booker and Rep. Ayanna Pressley, D-Mass., reintroduced the American Opportunity Accounts Act. The legislation, which would create a federally funded savings account for every American child at birth that would grow each year depending on family income, now has 15 cosponsors including Senate Majority Leader Chuck Schumer.

"I'm excited about the possibility of getting this passed," Booker said.

Wooden, who has championed baby bonds for some time, expressed a similar view – that the political climate may be right for passing federal baby bond legislation.

“We’re in a moment in this country where my thinking and the thinking of others is that we’ve got to go bold, we’ve got to go big with racial disparities and the wealth gap expanding,” Wooden said, adding, “We’re at a moment where America’s watching, the citizens of Connecticut are watching and so we have the political space to go bigger and bolder.”

In July of last year, Connecticut became the first state to enact a baby bond law. Its baby bonds are funded through state general obligation bonds, with $50 million to be authorized each year for 12 years.

Wooden, who was sworn in this year as the National Association of State Treasurers president, said that Connecticut’s program was generally modeled after the American Opportunity Accounts Act with some key distinctions.

For example, “the program had to be very targeted and so is just directed at poor children” – meaning “the mom who is giving birth qualifies for state Medicaid,” Wooden explained.

Connecticut’s baby bond accounts are seeded with $3,200, which is automatically invested on the child’s behalf. When the children reach age 18, they can use the funds for postsecondary education, purchase of a home in the state, or other specified investments.

Wooden also talked about the process that Connecticut went through to implement its baby bond program saying that it involved a lot of basic organizing and conversations with key stakeholders. That feedback, Wooden said, later informed the baby bond program design and in the end, Connecticut’s program passed with bipartisan support.

Washington’s baby bonds program, enacted in October through a unanimous vote, similarly stemmed from significant community involvement and “building a large tent,” according to D.C. councilmember Kenyan McDuffie.

McDuffie introduced the bill and also spoke during the webinar.

Under Washington’s program, a trust fund is created with $500 for each child born into a lower-income family after October 1, 2021. An additional $1,000 is added to the account each year that the parents of the child have income below three times the poverty level.

Similar to Connecticut’s program, children have access to the funds when they reach the age of 18 but can only use the money for specified activities like purchasing a home, investing, starting a business and paying for education.

In a paper advocating for states and cities to embrace baby bonds, Prosperity Now policy fellow Shira Markoff outlined essential elements of a baby bond program. These include a substantial monetary endowment and automatic enrollment.

Additionally, Markoff noted that baby bond funds should be restricted to wealth-generating assets, and the accounts should be structured with an emphasis on endowments and have a sustainable funding source. The baby bonds should ideally also be excluded from state income asset limits.

Addressing the “why” behind baby bonds, racial justice advocate and New School economics and urban policy professor, Darrick Hamilton, said that baby bond programs take on wealth inequality head-on.

"The problem with wealth inequality is that some people are born with capital and some people aren't. The critical ingredient to building wealth is wealth," Hamilton explained, adding, "We need a public sector that levels the playing field in a more just way – not simply by just giving people something but rather by empowering people."

Overall, Hamilton agreed that baby bonds are foundational to combating wealth inequality and he applauded states and communities for taking their own steps to bring baby bonds to fruition.

Thus far, in addition to the programs in Connecticut and Washington, baby bond legislation has been proposed in Iowa, New Jersey, New York and Wisconsin.

"It's exciting to see that states and cities are not waiting for the federal government," Hamilton said.

By Kelley R. Taylor

BY SOURCEMEDIA | MUNICIPAL | 02/24/22 12:54 PM EST

A Simple Solution to Policing for Profit.

Brookside, Ala., issued so many speeding tickets that police had to direct traffic around the courthouse.

Everyone knows the speed trap: a sudden speed-limit drop, often poorly marked, with police waiting to pounce and local courts ready to assess fines for the local treasury. This has now gone mainstream, as communities large and small across the U.S. adopt policies that make citizens targets to be squeezed, not constituents to be protected.

This destructive exploitation is due in part to state and federal laws that allow jurisdictions—and sometimes law-enforcement agencies themselves—to keep the proceeds from fines, forfeitures and court costs. Fortunately, there is a simple fix.

In some places, police prey on citizens. In Brookside, Ala., as Birmingham News columnist John Archibald recently reported, from 2018 to 2020 "revenues from fines and forfeitures soared more than 640 percent and now make up half the city's total income."

So many tickets are issued that police have to direct traffic around the courthouse. Forfeitures—in which property is seized by police on suspicion of a crime, requiring the owner to prove his innocence in court to regain his property—are out of control. In 2020, taking advantage of its 1½ miles of Interstate 22, the town of about 1,250 residents had more misdemeanor arrests than residents. That year it collected $487 in traffic fine and forfeiture revenue for each resident, quite an achievement for a town with no traffic lights. Total town income more than doubled on proceeds from fines and forfeitures. Brookside's police chief recently resigned under pressure from state lawmakers and the public.

A Justice Department investigation of Ferguson, Mo., found similar forms of policing for profit, and other jurisdictions around the country, from Doraville, Ga., to Chicago have faced lawsuits over such tactics. What was once limited to sleazy rural jurisdictions is now common. And it isn't just fines. According to the Institute for Justice, the government now seizes more property from citizens than burglars do.

It is easy to see the appeal for government officials. Voters may punish politicians at the polls when taxes are raised to fund government, but when those same expenditures are funded by fines, forfeitures and court costs paid by those who "violate" the law, politicians face less risk. Some targets may be out-of-towners, but too often those targeted are poor and minority citizens who may be less likely to vote.

What is at risk, however, is the legitimacy of law enforcement. Policing for profit produces a predatory relationship between officers and citizens. Policing is no longer about protecting people, but about extracting money from them. This also promotes hostile interactions between police and citizens, which increases the likelihood of violence. The entire system winds up being corrupted. Can an accused person expect fair treatment when everyone in the system knows that its well-being depends on revenue from convictions?

The U.S. Supreme Court held in *Tumey v. Ohio* (1927) that when judicial officials profit directly from fines, defendants are denied due process. It also held, in *Ward v. Village of Monroeville* (1972), that if those administering the fines benefit indirectly from boosting municipal budgets, then due process is violated.

Two 2019 decisions from the Fifth U.S. Circuit Court of Appeals, *Cain v. White* and *Caliste v. Cantrell*, applied the due-process requirement that judges be entirely disinterested in the outcome. Noting that money from fines and fees went into a slush fund that covered judicial personnel and travel, the court held that judges' knowledge that their day-to-day comfort depended on revenue from convictions was enough to bias them unacceptably, denying defendants the neutral decision makers to which they were entitled.

We agree. As municipalities' and law enforcement's reliance on revenue from fines, fees and forfeitures grows, the chance that defendants will get a fair shake falls. Judges are supposed to avoid even the appearance of impropriety, and relying on people targeted by law enforcement as a revenue source makes the entire process appear improper.

What to do? One would hope for greater judicial scrutiny, but the judiciary is part of the problem. Appellate courts and the U.S. Supreme Court should provide more supervision. So should state legislatures and Congress.

The solution is to send the money from fines, fees and forfeitures elsewhere. If that money went to a state's general fund, municipalities would have no incentive to target people for extra revenue and could focus simply on public safety. Even if the state returned the money to municipalities based on a neutral formula, the incentive to engage in financially motivated law enforcement would vanish.

For law enforcement to flourish, it must hold the moral high ground. Redirecting the flow of funds to remove the temptation for predatory policing would be a good first step.

The Wall Street Journal

By Penny J. White and Glenn Harlan Reynolds

Feb. 21, 2022 1:03 pm ET

Ms. White and Mr. Reynolds are law professors at the University of Tennessee.

Making DEI the Cornerstone of the Public Finance Workforce.

COMMENTARY | There is an opportunity to create a more diverse public finance sector with the expected increases in employee turnover in the coming years.

Diversity, equity and inclusion is a central tenet of Black History Month. As president of the National Association of State Treasurers, a bipartisan group of state treasurers and public financial officers from across the nation, one of my key initiatives this year is to facilitate a bipartisan discussion about how we can create a workforce that is inclusive.

Prioritizing diversity, equity and inclusion is sound fiscal policy and key to creating sustainable economic growth. A 2019 McKinsey study concluded that addressing racial economic disparities and closing the racial wealth gap can help grow our economy by $1 trillion to $1.5 trillion, or increase GDP by 4 to 6 points by 2028. As this research shows, there is a direct correlation between diverse investment talent and enhanced performance.

Continue reading.

Route Fifty

By Shawn T. Wooden

FEB 24, 2022

How Muni Investments Are Faring In 2022 (Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. He talks about municipal bond supply and treasuries responding to the crisis in Ukraine. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Feb 25, 2022

Munis at Risk of Rough March as Tax Season Seen Spurring Sales.

- **Investors with big capital gains often dump munis to pay bills**
- **March and April are weakest months for inflows: Barclays**

The $4 trillion municipal bond market may be in for a rough road the next couple of months, after a brief respite from its 2022 losses amid haven buying fueled by the Ukraine conflict.

March and April are typically the weakest months for muni-fund inflows because investors tend to unload some holdings to pay tax bills ahead of the mid-April U.S. filing deadline, Barclays Plc strategists say.

The phenomenon may be more pronounced this year because the biggest bouts of tax-induced selling come in years after strong stock market performance, according to Barclays. The S&P 500 Index gained about 27% in 2021 and finished the year near record highs. By selling bonds now, investors can also take advantage of the market's 2022 declines to harvest any tax losses.

"Those two things could make March relatively ugly in terms of technicals," said Mikhail Foux, head of municipal strategy at Barclays. Add potential volatility because of the war in Ukraine and the lead-up to the Federal Reserve's widely expected move to start lifting interest rates next month, and the market could be in for a rocky stretch.

Investors have already pulled almost $8 billion from municipal-bond funds this year, according to Refinitiv Lipper US Fund Flows data, driven by elevated inflation and a hawkish Fed. Investment-grade municipal bonds have lost 3% in 2022, on pace for the worst start to a year since 2008, according to the Bloomberg U.S. Municipal Index. The broader U.S. bond market is down 4.1% in 2022.

There have been past periods of cash exiting munis during abrupt bond-market selloffs, or when concern about municipal credit was prevalent, such as in the aftermath of the 2008 credit crisis. But tax-induced selling has been the spark for multiple outflow cycles over the past decade or so, according to Barclays.

Since 2010, investment-grade muni funds have had 11 periods of outflows, and six started in the stretch from January to April, according to the bank. The biggest such episodes took place in 2011, 2013, 2015 and 2018, following a strong performance by risky assets, according to Barclays.

"Last year's performance was great pretty much across all assets," Foux said.

The muni market is also set to see a key source of demand ebb.

The amount of cash investors will receive from municipal bond payments in the next three months will be "significantly" less than February, according to CreditSights. The research firm estimates bondholders will receive $22.7 billion in principal and interest payments in March, compared with $34.2 billion this month. It estimates April and May payments at $16.3 billion and $22.2 billion, respectively.

"If we see a continuation of even a dribble of outflows from mutual funds and then you've lost the influx of cash and reinvestment demand, it's just another headwind," said Pat Luby, CreditSights senior municipal strategist.

Bloomberg Markets

By Martin Z Braun

February 25, 2022

Munis Gain Most Since 2020 as Global Markets Move to Haven Assets.

- **Benchmark 10-year yield declines 7 basis points to 1.58%**
- **At least two small competitive deals postponed Thursday**

Benchmark municipal bonds are rallying the most since late 2020, and at least two small deals were postponed, after Russia began a full-scale invasion of Ukraine, spurring a move into haven assets.

Benchmark state and local-government yields dropped across the curve, falling as much as 8 basis points, according to Bloomberg BVAL data. Ten-year yields slid 7 basis points to 1.58%, in the biggest decline since the aftermath of the November 2020 U.S. presidential election.

The day's events roiled global markets as stocks slid, with the S&P 500 index down about 1% after mid-day in New York. U.S. 10-year Treasury yields tumbled almost 15 basis points and then pared the move, with yields down 7 basis points to 1.92%. Federal debt is likely to set the tone for city and state securities as the day goes on.

"The direct implication is going to be a similar flight to quality in munis," said Nisha Patel, a managing director at Parametric Portfolio Associates LLC.

The muni rally may continue as valuations relative to Treasuries have cheapened in recent weeks, she said. Ten-year muni yields have been climbing closer to Treasury yields since the start of January. As of Wednesday, the muni rates were about 84% of those on comparable-maturity Treasuries, compared with the 12-month average of 69%. The higher the ratio, the cheaper munis are in comparison.

The advance pares munis' 2022 loss, which has been fueled by inflation concern and the prospect of Federal Reserve rate hikes. Munis have lost 3.3% to start the year through Wednesday, an unusually poor performance for a period that typically sees the market gain amid reinvestment demand and a relatively thin calendar of new bond sales. Treasuries are down 3.5% in 2022.

Lyle Fitterer, co-head of municipal investments at Robert W. Baird & Co., said the Treasury market is absorbing how the conflict will impact the U.S. economy: It may depress economic growth, but there's also a potential inflationary dynamic as commodity prices surge. Municipals will likely follow suit as Treasury gains have faded, he said.

"As the day has gone on, there seems to be lots of bid lists showing up in the market," he said.

Postponed Deals

In the primary market for munis, Oakland, California, sold $212 million of debt Thursday in a competitive sale, data compiled by Bloomberg show.

But two deals slated for competitive auctions, a $16.5 million sale from an Indiana school-building corporation and a $865,000 offering from a district in Oklahoma, were postponed. There was a similar tone in the corporate market, with companies postponing sales in U.S. and Europe on Thursday.

"We felt that with everything that was going on with Russia and Ukraine and the volatility in the market it made sense to take a step back," said Tim Sutton, director of bond pricing at Baker Tilly Municipal Advisors, the advisor for the Indiana deal. The issuer, the Western Boone Multi-School Building Corporation, plans to be back in the market next week, Sutton said.

"Our concern is that we weren't going to have as many eyes on the deal given the overnight situation," he said.

Bloomberg Markets

By Danielle Moran

February 24, 2022

— With assistance by Joseph Mysak Jr

Opportunities Grow to Help Fixed-Income Investors Use ESG.

Asset owners are integrating environmental, social and governance views into their fixed-income portfolios, but aligning bond portfolios with ESG principles can be complicated.

Joshua Palmer, the head of sustainable credit research at Willis Towers Watson PLC in London, said incorporating ESG views into a fixed-income portfolio starts with two steps.

“Step one is recognizing that ESG risks and opportunities are relevant for fixed income. And step two is seeing that you have influence. It may not be as concrete (as with equities) but you can definitely engage on behalf of your clients and help reduce ESG risks and see opportunities that way,” he said.

Continue reading.

Pensions & Investments

by TRILBE WYNNE

February 28, 2022

Municipal CEF Market Update: A Much-Improved Valuation Profile

Summary

- 2022 has not been kind to municipal bonds so far with an unusually sharp drawdown to kick off the year, driven by persistent inflation and a hawkish Fed.
- Sector valuations in absolute yield terms, relative to Treasuries and in CEF discount terms, are all now much more attractive than they were in 2021.
- Fundamentals remain robust with a supportive supply picture and am improving fiscal stance.
- Rising leverage costs will be a key headwind for the CEF sector this year and higher Treasury yields remain an ever-present risk, though much is priced in already.
- We have made a number of rotations in our Muni Income Portfolio by shifting from “dryer-powder” holdings to take advantage of this dislocation.

Continue reading.

Seeking Alpha

Feb. 27, 2022

Municipal Bond ETFs Could Be Heading Toward a Rough Patch.

Municipal bond exchange traded funds are having a tough time, and the immediate outlook doesn't appear too promising, either.

Year-to-date, the iShares National Muni Bond ETF (NYSEArca: MUB) fell 3.0%, the Vanguard Tax-Exempt Bond ETF (NYSEArca: VTEB) dropped 3.1% and the SPDR Nuveen Bloomberg Municipal Bond ETF (NYSEArca: TFI) declined 3.7%.

Looking ahead, municipal bonds could be heading toward a rough patch as March and April have historically been the weakest months for muni fund inflows, with investors usually unloading some positions to help pay tax bills ahead of the mid-April U.S. filing deadline, Bloomberg reports.

This seasonal weakness may be especially pronounced this year, since the biggest tax-induced selling usually follows a year with strong stock market performances, like what we saw in 2021, according to Barclays Plc. strategists. The S&P 500 Index surged about 27% in 2021 and finished the year around record highs. Furthermore, by selling bonds now, investors can capitalize on the market's 2022 declines to implement some tax-loss harvesting.

"Those two things could make March relatively ugly in terms of technicals," Mikhail Foux, head of municipal strategy at Barclays, told Bloomberg, adding that the potential volatility due to the war in Ukraine and the Federal Reserve's widely anticipated interest rate hikes could further fuel volatility.

So far in 2022, investors have already yanked almost $8 billion from municipal bond funds, according to Refinitiv Lipper U.S. Fund Flows data, due to elevated inflationary pressures and a hawkish Fed outlook. Meanwhile, investment-grade municipal bonds have declined 3% in 2022 so far, mirroring their worst start to a year since 2008, according to the Bloomberg U.S. Municipal Index.

CreditSights also warned that the amount of cash that investors will generate from municipal bond payouts in the next few months ahead will be "significantly" less than what was generated in February.

"If we see a continuation of even a dribble of outflows from mutual funds and then you've lost the influx of cash and reinvestment demand, it's just another headwind," Pat Luby, CreditSights senior municipal strategist, told Bloomberg.

ETF TRENDS

FEB 25, 2022 4:04PM EST

Corporate and Municipal CUSIP Request Volumes Get Off to Strong Start in 2022.

Year-Over-Year Request Volume Rises Versus 2021

NEW YORK, Feb. 14, 2022 /PRNewswire/ — CUSIP Global Services (CGS) today announced the release of its CUSIP Issuance Trends Report for January 2022. 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 year-over-year increase in request volume for new corporate and municipal identifiers.

North American corporate requests totaled 4,583 in January 2022. While that number is down 19.4% from December 2021 totals, it is up significantly versus the historical norm for January, which tends to be a slower month for overall CUSIP request volume. Year-over-year gains were driven by U.S. corporate equity and debt identifier requests, and partially by bank certificates of deposit volume.

Municipal request volume also declined on a month-to-month basis in January but was higher than January 2021. The aggregate total of identifier requests for new municipal securities – including municipal bonds, long-term and short-term notes, and commercial paper – fell 13.9% versus December totals. On a year-over-year basis, however, overall municipal volumes were up 1.3%. Texas led state-level municipal request volume with a total of 129 new CUSIP requests in January, followed by Illinois with 50 and California and Florida, each with 45.

"There is always some seasonality reflected in CUSIP request volumes for January, but when we look at the data over the long-term historical average, we're seeing a strong start to 2022," said Gerard Faulkner, Director of Operations for CGS. "Right now, the bet on rising rates can be seen in year-over-year volumes for certificates of deposit. It will be interesting to see how this trend shapes up as the Fed prepares to raise interest rates."

Requests for international equity and debt CUSIPs were mixed in January. International equity CUSIP requests were down 12.3% versus December. International debt CUSIPs were up 18.7% on a monthly basis.

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

GFOA Launches Infrastructure Law Resource Page.

With the late 2021 enactment of the Infrastructure Investment and Jobs Act (IIJA), a.k.a. the Bipartisan Infrastructure Law (BIL), various federal agencies are currently working to roll out funding in existing programs as well as develop guidelines to start up new programs under the law.

LEARN MORE

Tax-Exempt Lending to Governments and Nonprofits; Bank Loans and Direct Purchases of Municipal Securities: Orrick

Commercial banks and other financial institutions ("lender" or "lenders") have historically provided financing to both governmental entities and nonprofits on a tax-exempt basis through loans and direct purchases of municipal securities. The purchase of municipal securities by a lender is generally referred to as a direct purchase or direct placement. Since bank loans to governmental entities and nonprofit borrowers are generally private transactions not subject to the same reporting requirements applicable to municipal securities, there is less historical and empirical data to track the volume. However, loan reporting provided by large banks to the Federal Reserve reflecting the amount of bank loans to municipalities is significant. Direct purchases and bank holdings of municipal securities are tracked and, prior to the Tax Reform Act of 1986, lenders held almost 40% of outstanding municipal issues of tax-exempt debt. After the Tax Reform Act of 1986 and prior to the 2008 financial crisis, lenders shifted much of their participation in the tax-exempt market through products that provided credit enhancement and liquidity. After the 2008 financial crisis, due to multiple factors, the tax-exempt market once again experienced an increase in bank loans and direct purchases of municipal securities by lenders.

The purpose of this booklet is to provide a roadmap for lenders who are considering lending on a tax-exempt basis and for governmental entities and nonprofit organizations considering incurring tax-exempt debt through a bank loan or a direct placement. Each incurrence or issuance of tax-exempt debt should be reviewed by a qualified bond counsel such as the Orrick Public Finance Group listed on the inside back cover of this booklet.

View pdf.

Orrick, Herrington & Sutcliffe LLP

February 16, 2022

Why ESG Bonds and Green Bonds May Help Colleges and Universities with Their Sustainability Plans: McNeese

As colleges and universities develop and implement sustainability plans to reduce their carbon footprint, there remains the question as to how to fund these sustainability plans. Some colleges and universities look to federal and state grants for a portion of this funding and some look to donors. In addition to these options, there is a new development in the debt market which could also lead to lower interest rates for issuers as a result of increased demand: ESG bonds and Green bonds.

Universities such as Stanford University used ESG Bonds to fund projects that support the emission-reduction goals set forth in its sustainability initiative. Oberlin College used Green Bonds to convert its energy system to geothermal power. During the financing Oberlin College priced bonds with and without the Green label and found that the Green Bonds provided a better price. The ability to borrow money at lower interest rates means colleges and universities may be able supplement any donor funds and/or federal funds received with additional funding sources.

ESG bonds and Green bonds are increasingly attractive to investors as the concept and practice of socially responsible investing is recognized as valuable in the bond markets. Currently, these types of socially responsible bonds only make up approximately 2% of the municipal bond market, but the demand is increasing from investors. In the past decade, issuance of ESG bonds and Green bonds has increased substantially — but so has demand.

The term ESG bonds stands for Environmental, Social and Governance bonds. They are a type of debt instrument in which an issuer has identified certain environmental, social or governance criteria for the use of the bond proceeds. In general, colleges and universities have been developing and providing environmentally friendly and socially responsible projects, so the ability to borrow at a lower interest rate to continue to provide these services is a big benefit.

Colleges and universities may issue these ESG bonds for a wide variety of types of projects. Many issuers appreciate the flexibility that this type of offering provides. Examples of projects funded with ESG bonds by colleges and universities are include renewable energy, smart buildings, and expanded research facilities. These types of projects may be partially funded with federal and state funds pledged for sustainable infrastructure and the remaining funding may come from ESG bonds.

In addition to the environmental components, ESG bond financings may focus on social or governance projects. Examples of social projects include a college or university's plan for safety management, workplace diversity initiatives, and health and safety of employees or citizens. Examples of governance projects include the everyday operations of a college or university, ensuring financial transparency, and establishing internal policies and procedures.

The term "Green bonds" means a type of debt instrument used to support environmental- and climate-focused projects. Green bonds may be used to raise funds for specific environmental and climate projects in areas such as energy (projects such as wind or solar) and buildings (projects such as efficient buildings and low carbon materials).

In order to issue either ESG bonds or Green bonds, the issuer's counsel and the underwriter's counsel will work with ESG specialists to determine and draft the framework of the criteria used by the issuer as the basis for this designation. The counsel will work together to evaluate the request for either general funding or project-specific funding and then determine which type of bonds best fit the required funding request. The issuer's counsel and the underwriter's counsel may also work with the ESG specialist to determine if there will be a continued reporting obligation on behalf of the issuer following the issuance of the bonds.

In response to questions regarding the qualifications as either an ESG bond or a Green bond, the International Capital Market Association (ICMA) published "Social Bond Principles" and "Green Bond Principles" to provide issuers with guidance on criteria for these issuances (www.icmagroup.org). While the Securities and Exchange Commission (SEC) is considering establishing a standard set of principles regarding ESG bonds and Green bonds, no other standards exists except for the voluntary guidelines described in the Social Bond Principles and the Green Bond Principles. As these guidelines are voluntary, issuers do not need to follow them. However, they are generally accepted as a framework to evaluate the socially responsible principles of these bonds.

The "Social Bond Principles" and "Green Bond Principles" guidance is based on four main components: (1) use of proceeds; (2) process for project evaluation and selection; (3) management of proceeds; and (4) reporting. The Green Bond Principles focus on climate-related or environmental projects including investments related to clean energy or pollution reduction. The Social Bond Principles focus on projects "that address or mitigate a special social issue and/or seek to achieve positive social outcomes." The third qualification for ESG bonds is governance, and it is broadly understood to mean the way in which an organization's internal system of rules, policies, and procedures are managed.

Prior to marketing either an ESG bond or a Green bond, an issuer will post the framework that the issuer used to make the determination as to why this financing qualifies as either type of bond in accordance with either the Social Bond Principles or the Green Bond Principles. This disclosure is important for investors to understand the reasoning behind either of these designations. Once this disclosure has been made to potential investors, the investors are able to analyze each component to determine whether the disclosure meets the investors' specific socially responsible investing requirements and guidelines.

In addition to the initial disclosure, there may be a continued obligation to report on the impact of the ESG bond proceeds or the Green bond proceeds depending on the issuer and the investor. Some issuers may hire a third party to track the spending of the ESG bond proceeds or the Green bond proceeds to ensure that the funds are creating the outcomes desired by the issuer and the investor. Until such time as there is a standard requirement for either the designation of ESG bonds or Green bonds, the disclosure and reporting obligations will remain subject to the discretion of the issuer and the demands of the investors.

The Securities and Exchange Commission has taken an active role in monitoring ESG bonds and Green bonds to identify any type of misconduct. In March 2021, the Climate and ESG Task Force (the "Task Force") in the SEC's Division of Enforcement was created in response to the increasing investor interest in these types of bonds (www.sec.gov/news/press-release/2021-42). The Task Force evaluates certain concerns regarding the criteria used for establishing these issuer frameworks by identifying any disclosure gaps. In addition, the Task Force will monitor the continued compliance requirements associated with ESG bonds and Green bonds.

As this market continues to grow, issuers are finding an opportunity to move forward with socially responsible projects and investors are supporting these projects.

by Erica Wible & Frannie Reilly

February 16, 2022

McNees Wallace & Nurick LLC

The Fed Is 'Normalizing.' Here's What Public Financiers Need to Know.

To combat inflation, the central bank will be raising interest rates and shedding a big chunk of its $8 trillion bond portfolio. Its actions will ripple through the world of state and local finance.

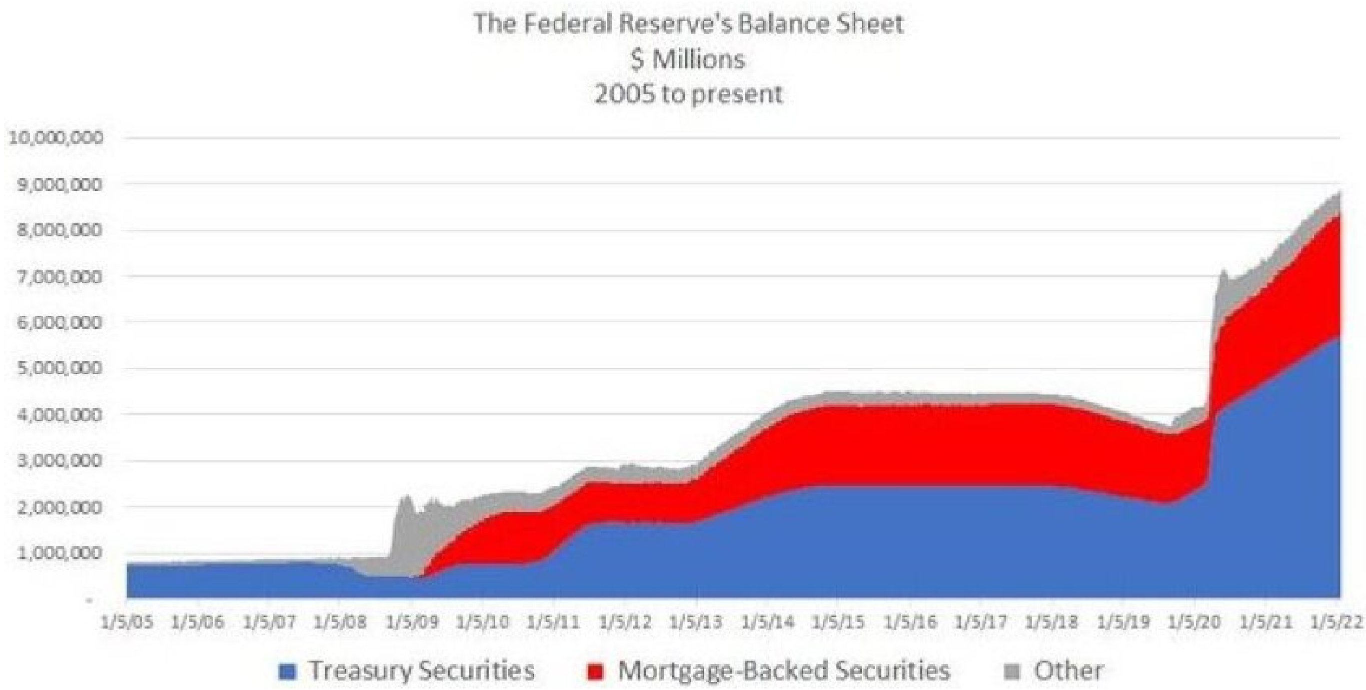
After two years of stimulating the economy to head off a crash that just about everybody thought the pandemic would usher in, the Federal Reserve now is preparing to move to curb inflation and "normalize" interest rates. As the central bank acts on several fronts, state and local treasurers, cash managers, finance directors, budget officials and pension trustees will need to remain alert and adjust their strategies dynamically to preserve and protect the public's money.

To control short-term interest rates, the Fed's primary active policy tool is the overnight fed funds rate. Our central bank, like all others, dictates those interest rates by flooding the market with buy or sell orders for overnight loans with its primary dealers, which instantly changes money market rates. Right now, those rates are still near zero, but if inflation is to be reined in they likely need to increase systematically to two or even three percent by sometime in 2023. I personally would favor sooner and faster rather than slower and later, to show markets and consumers that the Fed will not tolerate abnormal inflation beyond this year, even as kinks in the supply chain are worked out.

Beyond that, the most important and misunderstood aspect of the Fed's toolkit is the now-essential "runoff" of its bloated bond portfolio. During the first two years of the pandemic, the Fed engaged in unprecedented levels of "quantitative easing" by purchasing a walloping $4 trillion worth of government bonds and notes. That doubled its portfolio holdings and exploded our banking system's "high-powered" money supply — the sum of banks' cash reserves and currency in circulation.

The Fed must now shrink that overgrown part of the monetary base by allowing its portfolio holdings to shrink over time. That way, the monetary pig can work its way out of the U.S. economic python without fueling persistent inflation. The Fed doesn't need to aggressively sell those bonds to push yields higher; without new Fed purchases, interest rates will go up as the Treasury auctions more new bonds to fewer buyers. The Fed just needs to stand back and collect principal repayments as scheduled without buying any more, until inflation subsides. Those bond repayments in turn reduce Fed system credits at member banks, and thereby shrink the money supply along with its balance sheet. This is Washington's least painful way to curb inflation. Politicians just need to get out of the way and let the Fed do its work.

Of the $8.3 trillion of liquid marketable securities in the Fed's portfolio (see the chart below), 37 percent are overnight repos and Treasury securities maturing in one year or less, 26 percent are T-notes maturing in one to five years, and another 30 percent are mortgage-backed securities issued by Fannie Mae and Freddie Mac, which pay down principal and interest monthly. So all it takes to pull back the excessive monetary stimulus left over from the COVID-relief era is to let such holdings roll off in 2022-24 without replacing them with new purchases. Operationally, it's really not rocket science — it's just a matter of conviction and messaging. Unlike the rising stairstep expected in the Fed's overnight rates, its bond portfolio runoff won't make nightly news headlines; it's like watching paint dry. In this regard, doing nothing is actually doing something quite constructive on the inflation front, despite the lack of fanfare.



Source: American Action Forum, from St. Louis Federal Reserve data

What would be the impact on interest rates? Little doubt they must go higher, barring an exogenous shock like a global virus lockdown or a Ukraine-war flight-to-safety. The key question is really how much higher, and how fast. My best guess is that markets have recently discounted about one-third of the potential move higher in long-term rates.

The Impact of Rising Mortgage Rates

One way to think about this is to ask what level of mortgage interest rates would snuff out the housing market, making starter homeownership unaffordable. Obviously, this has a direct bearing on local governments that rely on property taxes as a principal revenue source. The answer is that the Fed is not mindless or cavalier: It must stop short of provoking a housing crash like 2008's and will keep a keen eye on mortgage rates and residential property prices. By increasing buyers' monthly interest payments, mortgage rates above five percent would take something like 10 percent off the market price for a starter home. That would unsettle but not crush the broader housing market.

Beyond that point, the Fed may have to replace at least some of its mortgage securities as they mature to avert a housing recession. If so, that puts more upward pressure on short-term rates as the remaining policy tool, should the CPI keep running hot. If mortgage rates do hit five percent, then money market rates must rise well above levels that traders now anticipate, potentially to around four percent before the banking sector's foundations start to shake and traders smell a recession coming. By then, I suspect that inflation can normalize as markets, consumers and producers pull in their horns just enough for prices to stabilize.

As for the short-term rates that are the focus of public treasurers and cash managers, there is little reason to believe that money market rates will skate through the year 2023 below two or even three percent. The latter becomes more likely if CPI inflation remains above four percent this December. Futures markets have the direction right, although they remain short-sighted on magnitude. Over decades of market history, the three-month T-bill rate has typically traded at levels much closer to the prevailing inflation rate. A monetary hardhead would say that anything less falls short of "normalization." Budget officers who include cash management interest income in their forecasts can realistically expect higher revenues from their jurisdictions' 2023 cash balances, though hardly enough to offset the payroll cost inflation they can expect this year and next.

In coming months, public cash managers will increasingly yank cash from money market funds and ultra-short investment pools and begin investing in higher-yielding paper directly. State investment pools could see outflows unless they are able to load up on higher-yielding paper by stretching their underlying maturities into the second half of this year. But that invites underperformance should they jump the gun on rising rates. If short rates rise more abruptly than traders have already priced in, expect to hear chatter about who's in and out of sync with SEC rules and other controversial changes to money market fund regulations.

Higher Costs for Muni Bond Issuers

In the municipal bond market, the yields paid to investors unfortunately must go higher, as I explained in my 2022 new-year outlook. Tax-exempt yields for all maturities are still too low, and issuers will face higher costs as the year progresses; the recent uptick in yields is just a prelude of more to come. AAA-rated muni yields below three percent are just not sustainable when the economy is running this hot, and ultimately interest compensation must exceed investor expectations of long-term inflation rates.

Fortunately, for most bond issuers, this will not shut their projects out of the market — it just increases their debt-service costs for general infrastructure, which will slow spending elsewhere. Most revenue-based projects should see tolls and other user fees escalating sufficiently to cover their higher interest costs, at least for now.

Meanwhile, more headwinds are on the way for public pension funds in 2022. Markets are already spooked by higher rates, with many stocks down 20 percent or more. The single best thing the Fed can do for the stock market is to signal that it now considers inflation control to be Job 1. Prompt action causing a short-term swoon in stock and bond prices is ultimately less harmful to pension funds in the long run than runaway inflation, especially when actuaries smooth out asset prices in their reports and calculate the present value of inflated future benefits payouts.

Significant stock appreciation remains unlikely until inflation shifts decisively lower on a credible path to three percent or less. Meanwhile, a rate-normalization washout of naïve speculators in 2022 will not itself cause a recession; assets will simply shift from weak hands to strong ones. Better to tap the brakes now than to slam on them later.

Just as with American politics, investors are yearning for “normal” economics. On the inflation front, that won’t be achieved by just blaming the supply chain. The limitless spenders’ Modern Monetary Theory fad has now been shown to be an inflationary pipe dream, especially given that tax hikes and balanced budgets are politically unachievable on Capitol Hill.

The Fed must — and will — step in. Hopefully, the central bank’s officials and the White House will both start using the word “normalization” persistently. Public financiers and their elected bosses should be prepared for the Fed’s portfolio runoff scenario outlined here, and both understand and appreciate why it’s happening.

governing.com

Feb. 15, 2022 | Girard Miller

Muni-Bond Buyers Join Commuters in Avoiding Public Transportation.

- **Barclays says to avoid transit debt amid weak ridership**
- **Office occupancy rates remain well below pre-Covid levels**

It’s not just rank and file commuters who are eschewing trains and buses — so are municipal-bond buyers.

Barclays strategists Clare Pickering, Mayur Patel and Mikhail Foux advised clients to steer clear of bonds issued by public transit agencies, even as they touted some airport and toll road debt. That’s because of the systems’ weak ridership and the uncertainty of it reviving to pre-pandemic levels.

“Systems are even more dependent on federal support and significantly revived tax and fare collections to sustain operations and long term capital programs,” they said in a report Thursday.

The recommendation underscores the winners and losers of the pandemic trade. Even as some sectors such as airlines rebound from the depths of the initial Covid selloff in 2020, others remain under pressure. The embrace of remote work means less revenue for agencies as large as New York’s Metropolitan Transportation Authority and for those servicing less-populous areas.

“Smaller systems are also struggling,” said Dora Lee, director of research at Belle Haven Investments. She urged wariness of mass transit bonds without backstops such as a secondary pledge of special taxes. “It’s just that their shortfalls aren’t well in into the billions.”

While political leaders such as New York City Mayor Eric Adams exhort chief executives to bring bodies back behind desks, firms are facing labor shortages and the desire from their employees for flexibility. Less than a third of office workers were back in their buildings as of Feb. 9, according to an index of 10 of the largest U.S. business districts compiled by security company Kastle Systems.

In contrast, pent-up demand for travel and rising vaccination rates mean airports will fare better, S&P Global Ratings said in a report last month. The company expects U.S. enplanements returning to near pre-pandemic levels in the second quarter of 2023, but that mass transit will lag significantly. Its baseline scenario sees public ridership hitting only 75% of its previous volume by the end of 2024.

To be sure, the $69.5 billion in aid to transit systems from the federal government buys them time in avoiding a default. And if spreads widen enough, the Barclays strategists said that may even present a buying opportunity. But the aid will run out.

“Mass transit has always needed to rely on government funding to operate,” Lee said. “Once the infrastructure money runs out, they’ll have to figure out how to fill in the gaps again.”

Bloomberg Markets

By Romy Varghese

February 18, 2022, 9:12 AM MST

— With assistance by Joseph Mysak Jr

S&P U.S. Not-For-Profit Health Care Rating Actions, January 2022

S&P Global Ratings affirmed 16 ratings without revising the outlooks and took three rating actions in the U.S. not-for-profit health care sector in January 2022. We also placed Providence St. Joseph Health on CreditWatch with negative implications. There were four new sales in January. The three rating and outlook actions consist of the following:

- Two downgrades, on two stand-alone hospitals; and
- One unfavorable outlook revision to stable from positive.

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

Continue reading.

15 Feb, 2022

S&P Global Ratings To Enhance Transparency In U.S. Public Finance Credit Analysis With ESG Credit Indicators.

Key Takeaways

- We will begin publishing ESG Credit Indicators for rated entities in U.S. public finance this spring. We expect the sector-by-sector implementation to extend into 2023.
- ESG Credit Indicators do not affect existing credit ratings. Rather, they reflect how influential ESG factors are to our credit analysis.
- We will host a live webcast on March 3 at 2:00 p.m. ET to discuss ESG Credit Indicators. Please see below for registration.

Continue reading. [Free registration required.]

16 Feb, 2022

[S&P Outlook For U.S. Independent Schools Is Stable; Medians Demonstrate Resiliency Despite The Pandemic]

Sector View: Stable

Our stable sector view reflects the resilience of independent school issuers, with steady credit quality expected in 2022. Generally favorable demand and enrollment trends, supported by more flexibility for in-person learning, along with a recovering economy, healthy fundraising trends, and record endowment returns, support our sector view. As some risks persist, schools must plan long-term around affordability and expense pressures to maintain credit quality. We believe that lower-rated schools remain vulnerable due to limited demand and operating flexibility, while higher-rated issuers will continue to see stability, supported by healthy demand and resources.

Continue reading.

17 Feb, 2022

Fitch: Negligible Omicron Effect on Job Loss Recovery as Most U.S. States See Solid Growth

Fitch Ratings-New York-17 February 2022: Most states reported solid employment growth in December 2021 despite the emergence of Omicron, with the state median jobs recovery rate hitting 80 percent, according to Fitch Ratings.

“Notable effects from Omicron on U.S. employment statistics have not yet been observed,” said Olu Sonola, Head of U.S. Regional Economics. “Montana achieved full recovery in December 2021, joining Utah, Idaho, Texas and Arizona.”

California and New York both experienced a 2.0 percentage point recovery rate increase, reaching 72 percent and 63 percent, respectively. Iowa, West Virginia and Montana led continuing employment recoveries, increasing by 6.6 percentage points, 5.5 percentage points and 5.0 percentage points, respectively. South Dakota and North Dakota reflected the most significant employment recovery decelerations, declining from 85 to 82 percent and from 64 to 62 percent, respectively.

Employment recovery in Maine and Vermont has remained largely stagnant, ranging between 70 and 75 percent since June 2021. This contrasts with a median recovery rate gain of approximately 14 percentage points over the six-month timeframe.

The median Fitch Ratings-adjusted unemployment rate, which reclassifies those who have left the labor force as unemployed, declined marginally to 5.5 percent in December, from 5.8 percent in November. This rate remains above the current median state official unemployment rate of 3.9 percent, which declined from 4.2 percent in November.

Notable Fitch-adjusted unemployment rate increases between July 2021 and December 2021 include

New Hampshire (from 5.4 to 6.0 percent) and Nevada (from 9.0 to 9.5 percent), largely due to a decline in the labor force in the two states. Only Vermont had a Fitch-adjusted unemployment rate that was more than five percentage points above the official unemployment rate.

For more information, a special report titled "U.S. States Labor Markets Tracker" is available at www.fitchratings.com.

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Additional information is available on www.fitchratings.com

[Fitch: Major Metro Job Recoveries Hit 81%; South Leads Nation at 90%]

Fitch Ratings-New York-17 February 2022: The December 2021 median jobs recovery rate among major metropolitan statistical areas (MSAs) rose to 81%, with Southern MSAs leading the nation with a 90% recovery, according to Fitch Ratings.

"The declining trend further indicates robust recovery in employment and some improvements in labor force participation in major metros," said Olu Sonola, Head of U.S. Regional Economics. "All regions except the Midwest posted major metro median recovery rate gains for December, and the South led all regions with an increase of 4.1 percentage points."

The median Fitch-adjusted monthly unemployment rate for major metros, which reclassifies employees who have left the labor force since the pandemic's onset as unemployed, was 4.4% in December, down from 4.7% in November.

The median recovery rate for MSAs with populations under one million was 80.7% compared to 80.8% for major metros. Major metros, which saw more severe declines than their smaller peers, have almost entirely closed the gap with nonmajor metros after months of relative underperformance.

Payrolls in major metros remained below their February 2020 levels by 3.2 million jobs.

Regional trends include:

Midwest: The median recovery rate for MSAs fell to 81% from 81.5%. Milwaukee had the highest recovery rate increase at 4.0 percentage points. The median Fitch-Adjusted Unemployment Rate fell to 4.3% from 4.8%.

West: The median recovery rate for MSAs was 81%, slightly above the 78% recovery rate in

November. Tucson posted the region's largest recovery rate improvement, up 7.0 percentage points. The median Fitch-Adjusted Unemployment Rate is 4.3%.

Northeast: The median recovery rate for MSAs rose to 74% from 72%. The Northeast has the lowest recovery rate. New York City notched a recovery rate improvement of 2.0 percentage points, while Boston posted a 3.1 percentage point recovery. The Northeast had the highest regional median Fitch-Adjusted Unemployment Rate at 7.2%.

South: The median recovery rate for MSAs rose slightly to 90% from 86%. The South's median employment recovery rate remains the highest. New Orleans finally passed the 50% employment recovery rate mark, and Raleigh is the latest metro to cross the threshold for full recovery of pandemic job losses, now at 103% of pre-pandemic employment. The median Fitch-Adjusted Unemployment Rate was 3.8%.

Fitch's full report titled "U.S. Metro Labor Markets Tracker" is available at www.fitchratings.com.

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Fitch: Airports, Lessors Lead Global Aviation Recovery, Airlines Lag

Fitch Ratings-Chicago/New York-18 February 2022: The global pandemic was the worst event-driven crisis in modern aviation history, having a material negative effect on the financial and credit metrics of airlines, aircraft lessors and airports, and the performance of aircraft and engine asset-backed securities (ABS). While pandemic-related risks remain, a marked rebound in traffic is driving a recovery, albeit with the pace and extent varying by sector, says Fitch Ratings.

Airports and aircraft lessors have led the aviation sector's recovery, while airlines remain the most challenged subsector with full recovery potentially taking years. At the trough in 2Q20, revenue passenger kilometres (RPKs) fell by nearly 90% year-over-year. Traffic has since recovered, but the latest data for December 2021 show RPKs still down 45% versus December 2019.

Continue reading.

US Agencies Fall Short on Cyber Risk Management, GAO Report Finds.

Several US federal agencies tasked with measuring and assessing cybersecurity standards have neglected duties in this area, a report recently published by the Government Accountability Office (GAO) said.

The report follows a 2013 presidential directive that passed into law in last year's US defense policy bill, handing responsibility for cyber risk management to nine agencies across 16 critical infrastructure sectors. Those agencies include the departments of Agriculture, Defense, Energy, Health and Human Services, Transportation, Treasury and Homeland Security, as well as the Environmental Protection Agency, and the General Services Administration.

Yet, of the 16 critical infrastructure sectors the departments were meant to assess for the adoption of cybersecurity standards, 13 where found to consist of incomplete checks, as reported by Government Executive.

Specifically, GAO said agencies had failed to confirm sectors' compliance with a framework known as the National Institute for Standards and Technology's Framework for Improving Critical Infrastructure Cybersecurity (NIST). Agencies for nine of the sectors were found not to have taken steps to determine this framework adoption. These sectors included chemical emergency services, healthcare and public health, financial services, commercial facilities, communications, nuclear reactor, materials and waste.

The report took note of the perspective of some of the agencies as to why these duties went unfulfilled.

"Officials from [US Department of Health and Human Services] stated that other priorities, such as the COVID-19 response and managing response planning and recovery from an increase in ransomware attacks, have stretched resources thin and shifted the focus away from determining adoption of the framework," the report said.

Some agencies fared better than others. For example, the Department of Energy had made a start of tracking requests for sector-based cybersecurity toolkits. Despite this however, most agencies did not succeed in tracking and assessing levels of implementation.

Juggling priorities

GAO clarified that the purpose of its report was to respond to the increasing threat of cyber attacks "like the May 2021 ransomware cyberattack on an American oil pipeline system that led to regional gas shortages", adding that such events represent "a significant national security challenge".

It said NIST was launched "to better protect against cyber threats", providing a programme with core security functions and technical safeguards to manage risks of vulnerabilities and intrusions.

Implementation of the NIST standards is voluntary however, which the report cited as another reason some agencies said their assessments fell in priority. Other difficulties they faced included "developing precise measurements of improvement" when measuring adoption.

The report offered recommendations, including that agencies work to "develop metrics to assess the effectiveness of its framework promotion efforts". It said the Department of Homeland Security (DHS) agreed with the recommendation, and had started taking steps to implement it.

Commenting on the measures already taken to improve the rate of assessment, GAO said NIST launched an information security measurement programme in 2020, while the DHS had set up an information network allowing sectors to “share best practices”.

GAO also said it had made efforts to encourage agencies to develop methods for determining the level of framework adoption and reporting sector-wide improvements. However, it added: “most agencies have not yet implemented these recommendations”.

“Implementing GAO’s prior recommendations on framework adoption and improvements are key factors that can lead to sectors pursuing further protection against cybersecurity threats,” it said.

globalgovernmentforum.com

By Jack Aldane on 20/02/2022 | Updated on 20/02/2022

Muni-Bond Investors Yank Out Cash for Fourth Week This Year.

Municipal-bond mutual funds saw outflows resume for the fourth week this year, with investors pulling about $1.3 billion in the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data.

The exodus comes after the previous week’s gain of $216 million. High-yield funds also saw one of their biggest outflows on record. The prospect of Federal Reserve rate hikes next month, as well as growing geopolitical uncertainty, is sidelining some investors.

“Until more certainty and stability return to the markets, which admittedly could take some time, we expect to see continued episodic outflows,” Jeff Lipton, head of municipal credit and market strategy at Oppenheimer & Co., said Thursday. “But again, even though we do not foresee the consistently active deposits of 2021, we are not expecting an extended period of sustained and swelling cash withdrawals.”

Benchmark 10-year muni bonds are yielding 1.67%, climbing about 70 basis points since the end of December, data compiled by Bloomberg show.

Investors pulled $776 million from high-yield funds, the 14th largest weekly outflow, while intermediate funds lost $114 million.

Bloomberg Markets

By Romy Varghese

February 17, 2022

BlackRock Says Muni-Bond Pain Sets Up Long-Term Gains.

- **Municipal-Treasury ratio is up significantly from 2021 average**
- **Recent decline has restored value to asset class, firm writes**

The world's largest asset manager sees opportunity in municipal bonds after state and local government debt posted the worst start to a year on record.

"The recent declines have restored value to the asset class, with municipal to Treasury ratios now on par with their five year averages," wrote BlackRock's Peter Hayes, James Schwartz and Sean Carney in a research note. The trio oversees about $187 billion of municipal assets. "While the market will likely face additional near term volatility, we anticipate buying on weakness."

Municipal bonds have lost about 3.3% since the beginning of January, following a global fixed-income rout driven by a concern that the Federal Reserve could hike interest rates as early as March.

Muni bonds cheapen compared to Treasury debt in volatile start to year

That has caused state and local government debt valuations to cheapen, providing a more attractive entry point than the near-record-rich levels seen for much of 2021. Ten-year benchmark municipal bond yields are hovering around 83% of comparable Treasury debt, with the municipal-Treasury ratio, a key measure of relative value, up significantly from it's 2021 average of about 68%, the data shows.

BlackRock said that an increase in yields and strong credit fundamentals have "significantly improved the relative value of municipal bonds."

BlackRock has shifted to a long-duration stance in February from a more neutral positioning last month. The group prefers higher quality bonds overall but is looking to add "select" lower-quality credits while valuations look attractive.

They are overweight states and essential service revenue bonds, school districts and local governments supported by property taxes, flagship universities and health systems, and select high-yield credits. The group underweights speculative project finance deals, senior living and long-term care facilities in saturated markets.

"Any forced selling due to negative fund flows should be viewed as an occasion to source cheap bonds in the secondary market."

Bloomberg Markets

By Danielle Moran

February 15, 2022

BofA Says Worst of Muni Selloff May Be Over as Fed's Path Clears.

- **First quarter likely absorbing most of year's bearish move**
- **Risk removed unless 10-year Treasury yield surpasses 2.5%**

Bank of America Corp. says the worst of this year's selloff in the municipal bond market might already be over, though there may be some additional pain in March after the Federal Reserve's rate decision.

With the timing of expected policy tightening at the central bank now shifted to next month, the first quarter should absorb most of the bearish price action, analysts led by Yingchen Li wrote in a note Friday. And the more the Fed lifts rates at its next meeting, the clearer the path of rates will be in 2022, they said.

Benchmark municipal yields have already priced in a 10-year Treasury yield as high as 2.5%, and unless Treasuries unexpectedly move beyond that, the risk of higher muni AAA rates should be largely removed, Li said.

“At this point, we believe investors should enter the market, and keep in mind the possibility that either the peak 10-year AAA was already delivered in January, or at worst, another retest might be in March,” Li wrote. Tax-exempt money market rates even “appear to be quite cheap.”

Munis selloff may be over but analysts warn of March retest

Meanwhile, municipal analysts at Ramirez & Co. say they expect the market to underperfrom for another few weeks as “markets remain unsettled and investors re-evaluate allocations to the muni asset class.”

Munis have lost about 3.2% in 2022, while Treasuries have fared a bit better, declining 3.1%, Bloomberg index data show. The result is that benchmark muni yields have risen relative to Treasury yields, making them cheaper on a relative basis.

Investors added $216 million to municipal-bond funds in the week ended last Wednesday, with some investors seizing the opportunity to snap up bonds with higher yields.

“Retail participation increased as current levels are seen as attractive, especially when viewed in ratio terms,” Bank of America’s Li wrote. “However, general cautiousness still persists, as is typical during Fed tightening cycles and around market turns.”

Bloomberg Markets

By Skylar Woodhouse

February 14, 2022

Transportation And Hybrid Work (Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news on the municipal bond market. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Feb 11, 2022

For Greenification in Munis, Try SMI.

With sustainability a prime focus that's here to stay for many asset allocators and investors, more fund issuers are looking for ways to meet this growing demand.

The vast fixed income market is fertile ground for green fund innovation. Some of that innovation is already arriving. Consider the case of the VanEck HIP Sustainable Muni ETF (SMI), which debuted last September as the first exchange traded fund dedicated to green municipal bonds.

The actively managed SMI is managed by HIP Investments — a pioneer in the green municipal bond space. HIP Investments' pedigree is relevant to investors because for many income investors, munis are a staple asset class, but most aren't yet acquainted with green muni bonds.

"HIP Investor Ratings are data-driven, evidence-based, and research-linked. Specifically, HIP Ratings incorporate research that shows which variables are key to improving outcomes. Then, HIP tracks data and metrics related to evidence-based targets and goal," said HIP Investors founder and CEO Paul Herman in a recent note.

SMI, which sports a 30-day SEC yield of 1.27%, holds just 44 municipal bonds. That's the result of a high bar for entry created by HIP Investor's stringent investment criteria and the newness of green municipal bonds. None of the ETF's holdings exceed a weight of 4.77%.

"HIP Investor's methodology, which precedes the term 'ESG' by several years, uses five pillars based on Maslow's hierarchy of needs. These five pillars — Health, Wealth, Earth, Equality, and Trust – can be mapped to ESG as well," adds Herman.

Additionally, the HIP's methodology features a dual-pronged approach that focuses on sustainability and education. As a result, some of the fund's holdings are issued by transportation authorities and other typical muni issuers while others are issued by education entities, including colleges and school districts.

"In SMI, HIP Ratings also track the UN Sustainable Development Goals (SDG) framework,2 as well as a Climate Threat Resilience score," notes Herman. "To value areas that need access to education, HIP tracks the number of opportunity zones that are served by the geography covered by the school district."

California and New York municipal bonds combine for 60.6% of the ETF's weight. SMI has an effective duration of 5.77 years, and 84% of its holdings carry investment-grade ratings.

ETF TRENDS

by TOM LYDON

FEBRUARY 16, 2022

Muni CEFs: Back Up The Truck On NVG And NZF

Summary

- It's been awhile since I wrote about municipal bond CEFs but considering the collapse they have seen in the last 6 weeks, it seems appropriate.
- When CEFs drop -15% since the beginning-of-the-year and yet only own a leveraged-portfolio of

probably the most conservative investments you can own next to treasuries, you have to think "opportunity."
- Yes, higher interest rates and leverage conspire to work against most any fixed-income CEF and most sectors have already lost considerable value, but I don't get the continued selling of muni CEFs now.
- Maybe they're just reacting to the fall-out in other fixed-income sectors, and maybe it's just retail income shareholders getting out of anything bond related, but with municipal bond CEFs at up to -9% discounts and well over 5% market yields now, I think this is overdone.
- 5%+ Federal tax-free yields can translate to over an 8% tax-equivalent yield depending on tax-bracket. And though it may not matter which one you buy, here are a couple of Nuveen muni bond CEFs to consider.

Continue reading.

Seeking Alpha

Feb. 16, 2022

Paying For Stadiums And Debt In Puerto Rico (Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news from the municipal bond market. He talks about a new football stadium in Washington and Puerto Rico debt.

Listen to audio.

Bloomberg Radio

Feb 18, 2022

SIFMA Fixed Income Chart.

America's capital markets are the largest and most robust in the world. Explore this interactive data visualization on our bond markets to understand trends in issuance and outstanding securities.

View the Chart.

Feb 7, 2022

S&P: U.S. Municipal Sustainable Debt Issuance Could Surpass $60 Billion In 2022

Key Takeaways

- We expect the municipal sustainable debt market will surpass $60 billion in 2022 as labeled debt grabs a larger share of total municipal issuances.

- Disclosure and transparency considerations associated with environmental, social and governance (ESG) issuances continue to evolve for all transactions. This will likely drive an increasing share of municipal sustainable debt issuers to seek external review.
- Massive growth in social and sustainability bonds issued for affordable housing projects drove the segment in 2021, led by a single entity issuing $4.2 billion in 54 unique social-labeled bonds.
- The green label continues to grow and diversify, led by issuers financing green buildings, water and wastewater utilities, and mass transit operators. We expect the 2021 passage of the Bipartisan Infrastructure Law (BIL) to advance projects with a sustainability focus.

Continue reading.

10 Feb, 2022

How Communities are Investing American Rescue Plan Funds With the Local Government ARPA Investment Tracker.

In the 10 months since the passage of the $1.9 trillion American Rescue Plan Act (ARPA), cities and counties have been working to prioritize and execute investing of their portion of the act's $350 billion in flexible State and Local Fiscal Recovery Fund (SLFRF) dollars. And as recent Treasury Department guidance made clear, local leaders have myriad options to use these resources to address the direct health and economic impacts of the COVID-19 pandemic, as well as to confront the underlying challenges that exacerbated the pandemic's negative effects on vulnerable individuals, businesses, and communities.

To illuminate the many options at communities' disposal, we are introducing the Local Government ARPA Investment Tracker, a joint project of Brookings Metro, the National Association of Counties (NACo), and the National League of Cities (NLC). This tool adds to other important efforts to understand local ARPA implementation, including Results for America's ARP Data and Evidence Dashboard, and the Treasury Department's analysis of highlights from initial SLFRF reports.

Communities have until 2024 to fully plan for and commit their funds, and until 2026 to spend them. Local governments' initial SLFRF expenditure reports contain useful roadmaps on where they are heading with ARPA funds; large cities and counties (those with populations of at least 250,000) have also delivered the first in a series of annual plans that outline their intended and actual uses of SLFRF dollars. Together, these reports detail thousands of projects across dozens of eligible expenditure categories and form the data behind the Local Government ARPA Investment Tracker.

Continue reading.

The Brookings Institution

by Alan Berube, Christiana K. McFarland, and Teryn Zmuda

Thursday, February 3, 2022

How the Local Government Credit Ratings Strengthened in 2021.

In the midst of the COVID-19 public health emergency and tumultuous economic outlooks, local governments managed to build onto their fiscal strength—credit to federal economic stimuluses and diverse revenue sources that helped them to weather the COVID-19 storm.

Furthermore, Standard & Poor's (S&P) views all local government sectors as having a positive/stable outlook going into 2022, except for high education; these local government sectors were viewed with a negative outlook by S&P ratings in the beginning of 2021. However, the undeniable long-lasting impacts of COVID-19 are likely here to stay: employers adjusting to their workforce working from home, changing travel patterns for domestic and international travel, dynamic consumer behaviors, and students adjusting to remote learning.

In this article, we will take a closer look at the fiscal health of local governments going into 2022 and how they will need to adjust to changing market patterns.

Continue reading.

municipalbonds.com

by Jayden Sangha

Feb 09, 2022

A Gun Law That Shut Wall Street From Texas Muni Market Is Now Spreading.

- **Proposed GOP bills in six states block banks that limit guns**
- **As in Texas, the aim is to punish Wall Street for gun policies**

These are strange times for Wall Street as bankers watch one of their most reliable business lines — lending to U.S. states and cities — turn into a political weapon.

GOP lawmakers in Arizona, Kentucky, Missouri, Ohio, South Dakota and West Virginia have introduced legislation conceived by an influential gun group, the National Shooting Sports Foundation, that aims to punish Wall Street for what it deems to be restrictive gun policies.

The measures, the latest of which was put forward last week, target banks' work with states and cities. They follow the lead of a GOP-backed law in Texas that has successfully cut off banks like Bank of America Corp., Goldman Sachs Group Inc. and JPMorgan Chase & Co. from a key public-finance market. Several banking groups are lobbying against the legislation, but they may face an uphill battle given five of the six states are Republican-controlled.

Continue reading.

Bloomberg Markets

By Amanda Albright and Danielle Moran

February 10, 2022, 4:00 AM PST

Fitch: Most Toll Road Traffic to Recover to Pre-Covid Levels by 2H22

Fitch Ratings-Madrid-10 February 2022: The coronavirus pandemic is still affecting the global economy and the transportation sector, Fitch Ratings says. However, thanks to the absence of strict mobility restrictions in the countries covered and with the help of the vaccine rollout, traffic is progressively recovering. The relationship between coronavirus cases and traffic has weakened, which underpins our new approach of comparing traffic to hospital beds needed for coronavirus patients.

As in previous quarterly reports, Fitch monitors the recovery of major toll road and highways networks globally and compares their performance. Fitch expects traffic in the majority of countries to recover by 2H22, based on the latest Fitch rating cases. This is unchanged from the two previous iterations of this report.

Toll road traffic in half of the countries in this report has already recovered to 2019 levels. The average maximum monthly traffic decline is around 60% from January 2020. There is variation, however, with European countries' traffic levels falling significantly, while traffic levels in the US and LatAm have declined less.

The maximum 2020 annual traffic decline was about 36% (Melbourne region). The smallest declines were around 9% in the Sydney region due to strict, timely lockdowns allowing subsequent fast reopening, and in Brazil, although, conversely, this was due to looser lockdown restrictions throughout the pandemic. For most of the European countries in this report, 2021 traffic is still at around 10% below 2019 levels, whereas both LatAm and US traffic levels are nearly recovered to pre-crisis levels.

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Attacks On Charter Schools Place Their Muni Bonds In Jeopardy.

University Heights Charter School in Newark NJ appears to have become the victim of New Jersey's teachers union fight to end charter schools in that state. In this case, it is at the cost of bondholders as well as the students. The school has a $14.9 million municipal bond issue by the New Jersey Economic Development Authority (CUSIP 645912EN2).

The school has not missed any interest payments but has been found guilty of various technical violations of the bond indenture pertaining to debt coverage ratio and cash on hand. It has also been put on probation by the state due to a decline in student performance and behavioral problems observed by a state inspector and other paperwork violations, none of which are not grounds for a default. Also cited are debt coverage ratio and cash on hand violations, all of which was discussed at various confidential meetings with bondholders over the last two years. It finally leading to a threat to accelerate the bonds and the filing of a request with the Superior Court of New Jersey to appoint a receiver. The hearing has been scheduled for February 19, 2022 and is being opposed by the school.

In over 30 years of tracking some 4300 defaults, I can't recall, where a trustee went to court and threatened to accelerate the bonds on such technicalities. Also, there appears to be insider trading here since almost $3 million of bonds were sold at 103 while the discussions with bondholders were going on, discussions which eventually lead to the present course of action. The fact that the bonds traded at or above par value is a clear indication that the buyers was not informed of what was afoot. The trustee UMB Bank has exposure here since they kept the meetings information confidential for no clear reason. At a minimum they should advise all participating bondholders that selling their bonds without informing the buyer of events not yet disclosed is a criminal violation on the sellers part.

We don't know the extent of the decline in student performance but would seriously doubt it was below that of the public schools in the Newark area. A charter school that doesn't provide serious improvement in learning will die a quick death all on its own. Killing it because it competes too well against union sponsored schools is shameful.

Forbes

by Richard Lehmann

Feb 13, 2022

[FBI: Ransomware Attackers Have Code to Halt Critical Infrastructure]

Monitoring remote access technology will be especially important for limiting the reach of malicious actors, allied cybersecurity agencies said in a report on trends they've observed over the last year in a booming ransomware industry.

Cyber attackers who hold a victim's system hostage by encrypting its data until their demands are met may be laying off "big game" in the U.S., but they've been working on code that could threaten a lot more real-world damage against those they do choose to target, according to a joint advisory from the FBI and domestic and international partner agencies.

"Although most ransomware incidents against critical infrastructure affect business information and technology systems, the FBI observed that several ransomware groups have developed code designed to stop critical infrastructure or industrial processes," reads the advisory released Wednesday.

The joint advisory, released along with the National Security Agency and Cybersecurity and Infrastructure Security Agency, as well as their counterparts in Australia and the United Kingdom, examines ransomware trends that emerged in 2021 and offers mitigation strategies for network defenders.

In May, after Colonial Pipeline paid ransomware attackers $5 million to release their system, the company said it had proactively disconnected the operational technology—think valves, and pressure gauges—that control its physical processes, and federal agencies said there was no evidence the hackers got beyond their information technology realm.

As OT and IT have become increasingly intertwined to create greater efficiency of industrial control systems, the sector has become a frequent target of ransomware perpetrators and other malicious actors. One high-profile example of the kind of damage cyber adversaries can do by manipulating OT came last year when an attack attempted to change the chemicals in a Florida water treatment plant to levels that would be unsafe for the community it serves.

The ransomware business model that has allowed for large scale commoditization of exploits has only continued to advance over last year, according to the joint advisory.

“The market for ransomware became increasingly ‘professional’ in 2021, and the criminal business model of ransomware is now well established,” the agencies wrote. “In addition to their increased use of ransomware-as-a-service, ransomware threat actors employed independent services to negotiate payments, assist victims with making payments and arbitrate payment disputes between themselves and other cyber criminals.”

That could be especially bad news for owners and operators of slightly smaller critical infrastructure sectors that rely on industrial control systems. The advisory notes—at least in the U.S.—ransomware perpetrators appear to be staying away from “big game” targets like Colonial Pipeline after U.S. authorities subsequently disrupted their operations.

“The FBI observed some ransomware threat actors redirecting ransomware efforts away from ‘big-game’ and toward mid-sized victims to reduce scrutiny,” the advisory reads.

The advisory shares a host of recommendations for mitigating meaner ransomware attacks to come, including reduced reliance on remote access technology and tightly monitoring their use if it can’t be avoided.

Route Fifty

By Mariam Baksh

FEBRUARY 10, 2022

Fitch: US Federal Cyber Plan Could Help Mitigate Water Utility Cyber Risk

Fitch Ratings-Austin/New York-10 February 2022: Recent steps taken by the US federal government to bolster cyber resiliency across the water sector are an important start in mitigating rising cyber risks for publicly-owned utility systems, Fitch Ratings says.

The White House and Environmental Protection Agency (EPA) announced on Jan. 27 a new “action plan" that aims to encourage water utilities to adopt technology that detects cyber threats to industrial control systems (ICS), such as supervisory control and data acquisition (SCADA) applications. ICS systems were not generally engineered with cyber resiliency in mind and remain vulnerable to cyber intrusions. The federal plan recognizes that the reliance of the water sector on ICS, and the susceptibility of these systems to infiltration, constitutes a national security concern.

The federal government will initially pilot the program with utilities serving the largest population centers. The program will help utilities in their efforts identify, report and address cyber vulnerabilities, with support from the EPA and the Cybersecurity and Infrastructure Security Agency (CISA). Although the federal plan is unfunded, collaboration with the EPA and CISA may keep cyber security costs lower for utilities than if they were responsible for implementing cyber protections on their own. Technology improvement costs ultimately will be borne by the utilities and recovered from ratepayers.

The public water sector has not historically benefitted from coordinated federal cyber defense strategy or support, with limited national mandatory standards to ensure progress on a nationwide basis. As a result, the levels of cyber resiliency and risk preparedness at the nation's roughly 50,000 public water and wastewater systems vary widely. Water sector associations, such as the American Water Works Association (AWWA) and the Water Risk & Resilience Organization (WRRO), provided valuable cyber security guidance to their members in recent years but the programs have only a limited effect without robust legislative support.

In contrast, the power sector has been the focus of federal support and regulation for grid security and cyber resiliency for over a decade. Federal requirements for power utility cyber resiliency are set by the North American Electric Reliability Council (NERC) as part of their critical infrastructure protection (CIP) standards. The NERC-CIP standards have long been an effective bulwark of cyber resiliency for critical infrastructure and resulted in robust planning, regular federal investment and lower risk for the power sector.

Cyber risk can be an important consideration in our assessment of municipal utility systems' credit quality. Cyberattacks that halt service, delay revenue generation, require ransomware payments, or necessitate unexpected capital costs could negatively affect utility financial performance and result in widespread public and private sector shutdowns. Critical utilities are tempting targets for cybercrime, where successful breaches can be high impact, disruptive and lucrative.

Fitch considers whether utilities maintain cyber security policies and conduct training; budget for necessary cyber security investment; maintain adequate insurance against cyberattack; and have protocols for addressing cyber incidents. The inability to adequately protect infrastructure from an attack is considered in our public utility criteria as part of our assessment of the quality of management and governance, which is an asymmetric risk where weaker characteristics may constrain a rating.

The federal effort to bolster water utility cyber resiliency is timely, as the US Department of Homeland Security (DHS) warned in a Jan. 23 memorandum that operators of public infrastructure could be increasingly targeted as a result of geopolitical tensions. Similar warnings were issued by the US Federal Bureau of Investigation and CISA in the past several weeks as global conflicts intensified.

The Cities Turning To Crypto For Grassroots Fundraising.

Local governments have been interested in cryptocurrency like Bitcoin and Ethereum for years, and some have begun accepting it as a form of payment for certain transactions. But come places are taking it a step further.

Last month, Berkeley, Calif., announced it was moving forward on a long anticipated project to sell "microbonds" in the municipal market. City leaders initially had the idea in 2018, and are working with UC Berkeley's blockchain accelerator lab, Blockchain at Berkeley.

The project is the brainchild of Mayor Jesse Arreguín and Councilmember Ben Bartlett and would issue municipal bonds using the blockchain technology that underpins cryptocurrency. This would allow municipal microbonds to be issued in denominations as low as $5 or $10, as opposed to the minimum $5,000 bond denomination that's common today.

"In expanding access to community investments by way of microbonds, Berkeley will simultaneously crowdsource additional funding for public projects while providing more individuals with investment opportunities," Arreguín said in a statement.

Meanwhile, CityCoins offers cities a different approach to raise revenue with digital currency. The nonprofit has a platform that allows its users to mine for new tokens and then select a participating city to support. A computer program allocates 30% of the mined cryptocurrency to that city, while users get the other 70%.

In December, Austin became the latest city to strike a deal with the startup, joining Miami and New York City. So far, Miami has received more than $7 million in value. According to CityCoins, Las Vegas, Los Angeles and San Francisco are also poised to have their own digital currencies.

Last, Reno Mayor Hillary Schieve is working on a plan that would allow city residents to receive cryptocurrency that corresponds to the value of certain city-owned parcels. People could buy and sell their stakes, and if the land were leased or sold, they would all share in the proceeds. The idea is just one of many blockchain enthusiast Schieve has for marketing the "biggest little city" as more youthful and vibrant.

These approaches have one big thing in common: they are rooted in grassroots fundraising, albeit with a 21st Century twist. Berkeley's approach, for example, seeks to democratize the municipal market, something that has long been talked about, but never really achieved.

Big picture, the advent of microbonds and cryptocurrency in general gives regular folks (and ideally, residents) a chance to buy a stake in their city and potentially profit from it. As Schieve put it to Wired, "Anything that could make your community better is worth trying."

Forbes

by Liz Farmer

Feb 11, 2022

Philly-Branded Cryptocurrency Being Considered as Vehicle to Fund Civic

Projects.

The city may enter into a partnership with CityCoin, which has already started minting municipal currencies in Miami and New York City

Bitcoin, Ethereum and the more than 10,000 other cryptocurrencies in existence have made some lucky investors very wealthy. Now, some American cities, including Philly, are considering minting their own branded electronic currencies as a way to help cover municipal expenses.

Mayor Jim Kenney has given his staff the go-ahead to start exploring a partnership with CityCoins, a non-profit which creates cryptocurrencies that local governments can use to generate revenue. New York City and Miami are already have their own currencies with the firm.

For CityCoins, the process begins with crypto enthusiasts voting on which municipalities they'd like to see represented. If a city is selected, the mayor must endorse the project publicly and formally accept the digital wallet the coins would be sent to.

Then the minting process begins. Miners, who don't have to be city residents, run "smart contract" software on their personal computers to mint new coins for the company. They're then entered into a lottery for the chance to win some of the coins. Thirty percent of what's minted goes to the city's wallet and the rest is distributed back to the miners by CityCoins.

Continue reading.

Philly Voice

by Noah Zucker

FEBRUARY 12, 2022

Muni Bonds Log Worst Start to the Year Ever as Fed Gets Set to Hike Interest Rates.

Analysts expect the market to find some equilibrium soon

The municipal bond market is having the worst start to any year on record, as market participants brace for the Federal Reserve to hike interest rates and investors shy away from bonds that had grown too expensive and yielded too little given the risk.

The Bloomberg Municipal Bond Index has lost 2.5% so far this year, its worst performance ever. Plus, $5.8 billion has flowed out of municipal bond funds, according to Refinitiv Lipper data.

But muni analysts think a pullback is to be expected after the heated demand of last year. Most expect the asset class to fare better than others, once through the initial choppiness.

"Munis were the best of the fixed-income buckets to be in last month," said Eric Kazatsky, head of municipal strategy for Bloomberg Intelligence, whose data are shown below. "There weren't a lot of places to hide in fixed income in January."

It's a sharp contrast to 2021, which saw investors clamor for municipal bonds so aggressively that weekly inflows smashed records throughout the year. That demand was buoyed by investor confidence in state and local borrowers, which received ample federal stimulus. For their part, municipal issuers with cash on hand saw little reason to sell debt, which kept supply lean.

Those "incredibly rich valuations with low yields" made investors more wary by the turn of the year, said Justin Hoogendoorn, head of fixed income strategy and analytics at Hilltop Securities, and with the central bank signaling it's turned more hawkish than many market participants had expected, the muni market was ripe for a sell-off.

Bond yields fall as prices rise.

But in past rate-hike cycles, the muni market has traditionally outperformed the Treasury market. "Munis are often viewed as a bit of a defensive vehicle," Hoogendoorn told MarketWatch.

A key metric to watch is how much a typical municipal bond yields versus a comparable Treasury note TMUBMUSD10Y, 1.917%. On Monday, that ratio, of 10-year securities, was at 75%. As it starts to climb and munis become more attractive —likely around the 80-85% threshold — additional buyers will flood into the market, Hoogendoorn predicts.

Kazatsky thinks some investors might be more cautious. "No one wants to catch a falling knife when it comes to how high rates are going to go," he said in an interview. Still, he noted, muni bonds are the only option for investors looking for tax-exempt income.

So far, higher rates haven't had much of an impact on issuance this year. Bloomberg data show the volume of paper coming to market has fallen about 6% compared to the same period in 2021. Still, the muni market is made up of thousands of individual jurisdictions, and issuing bonds at even a slightly higher rate than expected can be uncomfortable for local governments and taxpayers.

MarketWatch

By Andrea Riquier

Feb. 8, 2022

Closed-End Muni Funds Have Been Slammed. Here Are 9 Bargains.

Municipal bonds have suffered this year along with every other financial sector as the Federal Reserve prepares to unwind its ultra-accommodative monetary policy. The good news for fixed-income investors is that the sell-off has produced some bargains, especially among closed-end muni funds, some of which got hit as hard as the tech-heavy Nasdaq Composite.

Last year saw heavy buying of tax-exempt bond funds, but investors turned tail in recent weeks as they relearned (or learned for the first time) the ineluctable fixed-income math: When yields rise, bond prices fall. In the most recent week, they sold nearly $3 billion of muni funds, the most since the pandemic-fueled broad market meltdown in March 2020, according to Refinitiv Lipper data reported by The Bond Buyer.

Muni yields also have risen far more sharply than those of comparable Treasury securities. Over the past month, 10-year top-grade muni yields climbed by 38 basis points, to 1.48%, from a month earlier, according to Bloomberg data. For 30-year maturities, they increased 32 basis points, to

1.91%. (A basis point is 1/100 of a percentage point.)

Continue reading.

Barron's

By Randall W. Forsyth

Feb. 8, 2022

Muni-Bond Funds Post First Weekly Inflow in a Month.

Investors added $216 million to municipal-bond mutual funds in the week ended Wednesday, a reversal after one of the largest outflows on record last week, according to Refinitiv Lipper US Fund Flows data.

The inflow snaps three straight weeks of outflows, including last week's $2.9 billion exodus, the seventh-largest on record. The market has stabilized recently, with some investors seizing the opportunity to snap up bonds with higher yields.

"The market was recovering last week," said Mikhail Foux, head of municipal strategy at Barclays Plc. He expects a higher chance of outflows next week, and said flows this month and next are likely to remain negative overall. This will be especially true as tax season nears, a typically weak time for the market as investors sell bonds to pay their bills, Foux said.

Investors continue to be skittish amid rising inflation and the prospect of Federal Reserve rate hikes next month. Benchmark 10-year bonds are yielding 1.54%, climbing about 50 basis points since the end of December, data compiled by Bloomberg show.

Investors pulled $86 million from intermediate-dated funds and $66 million from high-yield funds. Long-term funds gained $223 million.

Bloomberg Markets

By Romy Varghese

February 10, 2022, 11:53 AM PST

Muni Manager Lind Starts High-Yield Fund With Quarterly Buybacks.

- **Closed-end offering is an interval fund, limits withdrawals**
- **For investors, it's another way to buy less-liquid securities**

Lind Capital Partners is introducing a so-called interval fund that focuses on high-yield state and local debt and limits investors' ability to withdraw money, adding to an emerging structure in the U.S. municipal market.

The fund, which is open to investors as of this week, is a type of closed-end fund that doesn't trade on an exchange. It will allow investors to cash out on a quarterly basis by selling back shares, according to Bob Lind, principal and founder of the Evanston, Illinois-based firm. The fund is called the Lind Capital Partners Municipal Credit Income Fund.

“The quarterly liquidity provides some certainty to the portfolio management team as we think about demand and liquidity,” he said. Lind Capital Partners, founded in 2008, has about $205 million under management.

The interval structure helps asset managers avoid the liquidity crunch and distressed sales that traditional mutual funds can see during sharp selloffs as investors rush to withdraw money. That’s what happened during the market’s rout in March 2020, which hit high-yield securities especially hard.

Cathie Wood’s firm last week filed for an interval fund that would expand her strategy into harder-to-trade assets.

For investors, it’s another way to access less-liquid alternative investments like real estate and mortgage-backed securities. In the muni market, many junk bonds — which are frequently sold by government agencies on behalf of businesses — are issued in small amounts and infrequently traded. The funds appeal to sophisticated investors looking for higher absolute returns, and who can withstand the restricted redemptions, Citigroup Inc. said in a report this month.

Interval funds are still small players in the municipal market, with assets tallying around $1.7 billion, according to data compiled by Refinitiv Lipper as of Jan. 31. Last year, Nuveen introduced an interval fund called the Nuveen Enhanced High Yield Municipal Bond Fund, which has about $64 million in assets.

“We feel very, very strongly that the interval-fund structure protects investors in the fund from the volatility created by open-end fund flows,” Lind said.

Bloomberg Markets

ByAmanda Albright

February 10, 2022, 7:00 AM PST

[BlackRock's Carney Taking Defensive Approach to Munis.]

Sean Carney, BlackRock’s head of municipal strategy, discusses how he is playing the recent volatility in the municipal bond market with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

[Watch video.]

Bloomberg Markets: The Close

February 9th, 2022

Talking Tax Collections With Muni Bond ETF TAXF.

Municipal bonds and the related exchange traded funds are encountering some headwinds to start 2022, the bulk of which stem from the Federal Reserve's plans to imminently boost interest rates.

On the other hand, there's still a strong fundamental case for munis even with Fed tightening looming as soon as next month, indicating that rate hike jitters could provide opportunity with ETFs such as the American Century Diversified Municipal Bond ETF (NYSEArca: TAXF).

As seasoned municipal bond investors, one of the primary factors to consider when evaluating this corner of the bond market is the ability of issuers, including cities and states, to collect taxes. Fortunately, things are bright on that front.

"In a report released (last month), MacKay Shields' municipal-bond team noted that higher price pressures can mean municipalities are collecting more in taxes that support bond repayment. For example, toll road operators often adjust their debt service coverage levels to inflation as part of their bond covenants," reports Amanada Albright for Bloomberg.

The actively managed TAXF features exposure to munis issued by a variety of states with its top five state exposures being California, Texas, New York, Florida, and Arizona, as of the end of last year. Arizona, Florida, and Texas are three of the fastest-growing states in the country. Translation: Tax bases in those states are expanding, potentially highlighting long-term appeal with TAXF.

As for California, the state is replacing some of the jobs lost during the coronavirus pandemic, and state coffers appear mostly healthy today, indicating that TAXF's California holdings should be steady for the foreseeable future.

"Among the the greater threats from rising interest rates will be the hit to low-coupon bonds. Over the past few years, low-coupon bonds have been embraced by investors because they can offer higher yields, but their longer duration can be a risk during rate hikes," according to Bloomberg.

For its part, TAXF, which holds 413 municipal bonds, has modest high-yield exposure. Over 71% of the ETF's holdings are rated AAA, AA, or A. TAXF also minimizes interest rate risk. The fund's duration is 6.12 years, according to issuer data. That puts it firmly in intermediate-term territory, the segment of the municipal bond space that some experts believe is best-suited to deal with rising interest rates.

ETF TRENDS

by TOM LYDON

FEBRUARY 11, 2022

FY2023 Proposed Budget Summaries.

Overview

Over the coming months, governors in 33 states will propose a new budget for fiscal 2023. 30 states will approve a one-year budget for fiscal 2023, while 3 states (Kentucky, Virginia, and Wyoming) will consider a two-year budget for fiscal 2023 and fiscal 2024. Seventeen states previously enacted a biennial budget for both fiscal 2022 and fiscal 2023; in some of these states, the governor will propose a revised or supplemental budget. 46 states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1).

Continue reading.

National Association of State Budget Officers

Fitch Ratings Updates the ESG Sector Template Compendium.

Fitch Ratings-London-03 February 2022: Fitch Ratings has updated the Environmental, Social and Governance (ESG) sector template compendium and increased the number of unique ESG sector templates to 106.The templates are used by credit analysts across analytical groups in their assessment of an entity, transaction or programme when assigning ESG Relevance Scores (ESG.RS).

The templates assist analysts in identifying the ESG elements that affect fundamental credit at a sector level, by helping them clearly identify and display which ESG risk elements have played a part in each entity's credit rating decision. The templates contain a set of standardised general-issue risk categories for ESG risks.

Each sector template then identifies and displays the sector-specific credit risks most relevant to these general risk categories for entities rated in that particular sector. These sector-specific ESG issues are then scored by the analyst for their impact on the credit profiles for individual entities within a sector – the ESG.RS for the entity.

Fitch also identifies the specific rating criteria factors that are referenced by the corresponding sector-specific ESG issues (reference column), informing users where ESG issues are captured in Fitch's credit analysis.

For access to issuer-level ESG.RS data, a data feed is available. Please contact joo-yung.lee@fitchsolutions.com for further information.

'ESG Template Compendium 2022' is available at fitchratings.com.

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Additional information is available on www.fitchratings.com

S&P: Five Public Pension And OPEB Credit Considerations To Watch In 2022

Key Takeaways

- Pension funding in the U.S. public finance sector improved after very strong market returns in 2021, although a decrease in contributions could negate some of this progress.
- High inflation could affect pensions long term but is unlikely to lead to significant short-term changes to liability or costs.
- Pension obligation bonds (POBs) will likely continue to increase if bond rates remain low, but anticipated rate hikes could disrupt issuance plans.
- Demographic impacts from the COVID-19 pandemic could be felt for some time, but despite increased mortality from the coronavirus, we expect limited pension funding relief.
- Environmental, social, and governance (ESG) considerations, including contribution and benefit reforms, will continue to affect pension management.

Continue reading.

1 Feb, 2022

Fitch: Slow US Higher Education Jobs Recovery Reflects Revenue Pressures

Fitch Ratings-New York/Chicago-02 February 2022: Employment recovery in higher education following the disruptive 2020-2021 school year is lagging that of the broader national jobs recovery, Fitch Ratings says. With lower enrollment and declining tuition, room and board, and athletic and other fee revenues, schools are taking measures to reduce costs to preserve financial health. Improvement in job recovery levels is not expected until enrollment evidences recovery to pre-pandemic levels, which is plausible beginning in the 2022-2023 academic year.

Colleges and universities received federal aid during the pandemic, but these one-off payments are not intended to address recurring expenses. For some community colleges and smaller private colleges in particular, the pandemic served to accelerate previously negative enrollment and revenue trends. Those institutions without donor or endowment support may face greater pressures to cut programs or staff. Schools with ongoing enrollment pressures face greater credit stress, particularly in an inflationary cost environment and without prospects for additional federal stimulus aid.

Jobs recovery in higher education has stagnated since June 2021, hovering 6.5% to 8.0% below February 2020 levels. Cumulative job losses were 7.6% and 6.8% as of November 2021 for public and private universities, respectively. This is not the result of a labor supply shortage in the sector; job vacancies in education are the lowest of any sector other than construction. Similarly, the quit rates for private and public education are among the lowest of any sector and are in line with pre-pandemic levels.

Continue reading.

Latest Sign of Muni Distress Comes From Kansas City Hotel Bonds.

- **City agency sold nearly $63 million of bonds in 2018**
- **Trustee used reserve funds to make $1.6 million bond payment**

Municipal bonds sold for a large hotel complex in Kansas City, Missouri, are showing signs of stress as the pandemic's impact on the hospitality and convention center industry persists.

The bonds were sold through a local agency in 2018 to help finance the Loews Kansas City Hotel, which opened amid the pandemic in June 2020. The trustee on the debt said it had to take $446,430.90 this month from a debt-service reserve fund to make a $1.6 million bond payment, according to a regulatory filing.

The hotel, located right next to a convention center, was meant to help bolster the city's capacity to host lucrative conventions and events, according to the Economic Development Corporation of Kansas City. The hotel has 60,000 square feet of meeting and event space and 800 guest rooms and will feature an indoor lap pool and spa, its website says.

Bond-financed hotels that cater to convention attendees have been hard-hit by the pandemic, which has reduced hotel occupancy. A January report by the American Hotel and Lodging Association said that little more than half of meetings and events are likely to return in 2022.

The unrated tax-increment financing bonds are secured through revenue from economic activity taxes in the area, including tax revenue from hotel room sales, 2018 bond documents show.

Heather Brown, interim president of the Economic Development Corporation of Kansas City, and Sarah Murov, a spokesperson for Loews, did not have an immediate comment.

The complex, which includes parking, was financed through a variety of funding sources, including two bond sales. The reserve withdrawal affected series B bonds. The proceeds of the nearly $63 million bond sale were used to finance parking and meeting space associated with the hotel.

Municipal bond-finance projects that are most reliant on people congregating will continue to see challenges, said Eric Kazatsky, municipal strategist for Bloomberg Intelligence. He said it's too early to say how the pandemic will alter travel habits longer-term and what the implications will be for municipal borrowers.

"When it comes to malls and when it comes to convention centers and hotels, that behavior pattern has changed," he said. "We just don't know what it looks like going forward."

Bloomberg Markets

By Amanda Albright

February 4, 2022

— With assistance by Joseph Mysak Jr, and Shruti Singh

[Green Bonds Still Have a Long Way to Go to Dent Climate Crisis.]

For all the money that companies and governments are raising in the green-bond market to fund environmental projects globally, there's still a long way to go to adequately fund the fight against climate change, according to the Climate Bonds Initiative.

Global sales of green bonds — the largest category of sustainable debt by dollar volume — hit a record $513 billion last year, according to data compiled by Bloomberg. Sales could reach fresh highs of between $900 billion and $1 trillion by the end of this year and up to $5 trillion by 2025, the London-based Climate Bonds Initiative estimates.

Borrowers around the world, nonetheless, will have to raise even more money to tackle climate change, with a recent analysis from McKinsey & Co. estimating $9.2 trillion a year annually through 2050 in investment needed to reach net zero. There's a need to shift more capital to greener initiatives — in addition to raising new debt — to achieve the trillions of dollars needed, according to Sean Kidney, chief executive officer of the non-profit CBI.

Continue reading.

Advisor Perspectives

by Caleb Mutua, 2/1/22

Rethinking Revenue: Segmented Pricing for Fines and Fees - GFOA

Cities and counties across the U.S. increasingly rely on fines and fees to balance their budgets. However, fines and fees disproportionally fall on low-income residents who often are strained to pay. Therefore, local governments must become savvier about how they manage fines and fees.

LEARN MORE

Congressional Gridlock is Threatening to Hold up $40B in Infrastructure Funding.

States, localities and transit agencies worry an impasse over a year-long spending deal could delay the dollars.

About $40 billion in transportation funding from President Biden's infrastructure bill that's supposed to flow to state and local governments could become stuck in a quagmire on Capitol Hill if Congress is unable to agree on a year-long spending bill in the next couple of weeks.

A stalemate between congressional Democrats and Republicans over how much to increase spending for defense compared to domestic programs could tie up Infrastructure Investment and Jobs Act dollars for projects like installing energy-efficient streetlights, protecting highways, particularly on evacuation routes from storms, and helping transit agencies catch up on a backlog in needed repairs that the U.S. Transportation Department pegs at more than $100 billion.

State and local agencies in Texas could see as much as $3.1 billion held up. Another $2.9 billion that's supposed to be headed to California could stall as well.

Continue reading.

Route Fifty

By Kery Murakami

FEB 3, 2022

Black-Owned Firms Hired to Distribute Bond Issuances.

Citi announced that it worked exclusively with five Black-owned firms to distribute a $2.5 billion bond issuance, reinforcing the firm's commitment to increasing racial equity in the capital markets and the broader financial services industry. The firms included Blaylock Van, LLC; CastleOak Securities, L.P.; Global Oak Capital Markets, Loop Capital Markets, LLC and Security Capital Brokerage, Inc.

"This bond issuance is a win-win for Citi. Through our partnership with these minority-owned firms, we further enhance our best-in-class capital market distribution capabilities, while also financing affordable housing projects," said Citi Treasurer Michael Verdeschi.

In November, Citi and the Citi Foundation announced that one year into a three-year commitment, the Action for Racial Equity initiative had already invested $1 billion in strategic initiatives to help close the racial wealth gap and increase economic mobility in America. Citi is on track to surpass its original $1.1 billion commitment which includes goals to strengthen their own policies and practices, including the expansion of the firm's core business activities with minority-owned brokers, dealers, and depository institutions.

With Citi's long-standing commitment to increase affordable housing, proceeds from the bond will finance construction, rehabilitation and the preservation of quality, affordable housing for low and moderate-income populations throughout the U.S.

"Safe and affordable housing is an important platform for financial stability and economic mobility, yet it is scarce and too expensive in many urban areas across the country," said Citi CFO Mark Mason. "Citi has been the #1 affordable housing development lender in the U.S. for the past 11 years and this bond issuance is reflective of our commitment to increase the availability of affordable housing units within the communities we live and work."

Mason referenced Dr. Martin Luther King and his impact on the passage of the Fair Housing Act, and touched on how privileged he was that Citi is continuing to leverage their business capabilities in order to help achieve equity within the housing market.

The $2.5 billion dual transaction priced on January 18th and settled on January 25th. For this specific transaction, Citi hired five Black-owned financial firms to underwrite and distribute bonds to investors, in addition to Citigroup Global Markets Inc.

“Security Capital is proud to have been part of this transaction,” said Nathan L. Lewis, President and CEO of Security Capital Brokerage. “We truly appreciate the opportunity to partner with Citi in supporting affordable housing and look forward future opportunities to work together.”

Since 2015, Citi has worked with over 30 firms owned by underrepresented minorities, women and veterans totaling more than $150 billion in bond issuance.

Bipartisan Infrastructure Law Guidebook.

View the Guidebook.

The White House | Jan. 31

“Administrative History?” – President Releases Guidebook for Infrastructure Law - Squire Patton Boggs

Following in the footsteps of pioneers such as Matthew Lesko, the White House has released a guidebook to the funding available under the Infrastructure Investment and Jobs Act. (It should be at least somewhat more authoritative than *Gobs and Gobs of Free Stuff*,[1] at least as it pertains to the legislation in question.)

The approach in the Infrastructure Investment and Jobs Act to providing funding for state and local infrastructure focused on grants and direct aid, and new borrowing programs were somewhat limited. While its precedential status in the courts remains an open question, the guidebook is an essential tool for state and local governments in determining whether their projects are eligible for federal funds and, if so, how much money they can get. The guidebook weighs in at a doorstop-y 465 pages, but the real star of the show is the sortable spreadsheet of programs, which is available here. We are known here for our unrepentant bias in favor of spreadsheets, but the efficiency of the spreadsheet of programs will be obvious to even the most ardent skeptic.

[1] 3rd ed. (August 1, 1996).

By Johnny Hutchinson on February 7, 2022

The Public Finance Tax Blog

Squire Patton Boggs

What Happens to Munis When the Fed Hikes Rates?

The Federal Reserve has indicated it plans to start raising short-term interest rates soon. Because bond yields and bond prices generally move opposite one another, investors may assume that rate hikes lead to negative returns for municipal bonds. However, that hasn’t been the case during the three most recent cycles.

While each cycle is unique and this time may be different, we don't think the prospect of Fed rate hikes is a reason to wait to invest in munis.

No two rate-hike periods have been identical. The table below illustrates how the economic situation varied at the start of each period. However, we can still draw some conclusions. For example, the most recent rate-rising cycle began in December 2015, a period during which the Fed raised the federal funds rate target nine times. The federal funds rate (the rate at which commercial banks borrow and lend their excess reserves to each other overnight) rose from the zero-to-0.25% range to the 2.25%-to-2.50% range over the course of three years. The Fed raised rates despite stubbornly low inflation and relatively weak economic growth in an attempt to bring the rate back to a more normal level following the 2008 credit crisis.

Continue reading.

Advisor Perspectives

by Cooper Howard of Charles Schwab, 2/2/22

S&P: How Inflation Has Mixed Effects On U.S. State And Local Government Credit Quality

Key Takeaways

- Inflation will affect U.S. state and local government issuers in a variety of ways, and the extent to which credit quality is pressured will be determined largely by the duration of elevated inflation growth.
- We don't expect all the changes brought by higher inflation to be detrimental to credit quality. The extent to which it could be a net positive will be driven largely by state law and revenue mix.
- Despite any short-term revenue increases that some issuers may see, the pressures inflation puts on the macroeconomy, including rising interest rates, could slow growth and exacerbate income inequality, leading to higher social service spending.
- Given strong revenue collections and significant support from federal stimulus over the past two years, we see states and local governments as being well positioned to face the challenges brought by high inflation without pressuring credit quality, at least in the short term.

Continue reading.

3 Feb, 2022

Investors Sour on Muni Funds.

Expectations for rising interest rates spur outflows; returns have fallen

Investors pulled $1.4 billion from municipal bond funds in the week ended last Wednesday, the biggest weekly outflow since the early days of the pandemic, according to Refinitiv Lipper.

Municipal bond yields, which rise as prices fall, climbed last week after the Federal Reserve signaled it would begin steadily raising interest rates in mid-March, reducing the appeal of outstanding debt. Yields on the highest-rated state and local bonds jumped to 1.55% Monday from 1.34% last Tuesday, according to Refinitiv MMD.

Returns on the S&P Municipal Bond Index have fallen to minus 2.33% this year through Jan. 28, counting price changes and interest payments, the lowest year-to-date returns in at least 16 years.

Continue reading.

The Wall Street Journal

By Heather Gillers

Updated Jan. 31, 2022 4:58 pm ET

What the Volatility in Treasuries Means for Munis.

Jennifer Johnston, Franklin Templeton's director of municipal bond research, discusses how the volatility in Treasuries impacts municipal bonds and where she is seeing the best opportunities in the credit market. She speaks with Bloomberg's Taylor Riggs on "Bloomberg Markets: The Close."

Watch video.

Bloomberg Markets: The Close

February 2nd, 2022, 12:28 PM PST

Muni Issuance in January Is Almost Typical Despite Yield Backup, Fed Fear.

- **January issuance almost typical despite yield backup, Fed fear**
- **Long-term money still costs municipalities less than 2%**

Fed fright? Check. Yield backup? Check. Fund outflows? Check. Worst performance in decades? Check. Municipal bond issuance for the month of January? Chugging right along.

While some issuers may have had to sweeten yields to entice buyers, states and localities have sold $23.9 billion in bonds this month, down about 9% from the $26.2 billion offered in January last year, with a few days still to go, data compiled by Bloomberg show. And this has been with all the trouble in the world, at least as trouble is delineated in a bond market: Rising interest rates.

The Federal Reserve has signaled that it is going to start raising rates, and the 10-year Treasury note has responded. It yields about 1.8%, up from 1.51% at the end of 2021. The 10-year triple-A muni benchmark has followed suit, and then some. At around 1.43%, it has increased almost 40 basis points.

For those obsessed with The Ratio, a gauge of relative value, the 10-year muni began the year yielding an almost unimaginable 69.5% of comparable-maturity Treasuries, and is now a still weird, and very expensive, 75%. In the old days, munis typically yielded in the 80s; in 2018, for example, they averaged 85.6% of Treasuries. That was considered normal. Yielding 100% or more of Treasuries was rare, and insane.

Deals Getting Done

And yet the steady rise in yields, which translates into higher borrowing costs, hasn't had an appreciable impact on municipal sales. Granted, municipal bonds may not be flying off the shelves like they were last year, but the deals are getting done. This month's issuance tally is just below the average of $25 billion in January in Bloomberg LEAG data since 2013.

This means that, generally speaking, governments borrow when they need to, regardless of where interest rates are. Issuers are "semi-rate-insensitive," according to Vikram Rai, head of the municipal strategy group at Citigroup Inc. This is especially true when rates are "bleeding higher" slowly, he said, rather than jumping higher. He said he's not changing his forecast of $520 billion in municipal issuance for this year, which would be a record.

Issuers have borrowed for everything this month, encompassing the full suite of stuff for which munis are sold, including charter schools, hotels, apartment complexes and retirement communities.

Jersey City, New Jersey, borrowed for a real estate redevelopment project. Sierra County, California, borrowed to finance a portion of its unfunded accrued actuarial liability to the California Public Employees' Retirement System. Cuyahoga County, Ohio, borrowed to refurbish the baseball stadium of the Cleveland Guardians, formerly the Indians. Los Angeles borrowed for improvements at the Los Angeles International Airport, including an automated people mover. Concord, New Hampshire, borrowed for a laundry list of things ranging from protective equipment to golf course and cemetery improvements.

So it doesn't look like higher interest rates are dissuading state and local governments from selling bonds to raise money for improvements, at least not yet. Top-rated borrowers can still access capital for 30 years for under 2%, which still seems pretty amazing to me.

Bloomberg Markets

By Joseph Mysak Jr

January 27, 2022, 9:08 AM PST

Baird, Thornburg Eye Muni Bonds That Increasingly Look Cheap.

- **Bonds have dropped 2.7% this month, worst January on record**
- **"It feels like everything is on sale," says Thornburg's Lando**

Municipal-bond investors are starting to look for bargain buys after the market saw its worst selloff since the first half of 2020.

As money managers get increasingly concerned about the Federal Reserve hiking rates as soon as March, yields have jumped, risk premiums have risen, and securities that looked expensive a few months ago look less so now. The benchmark for top-rated 10-year bonds yields more than 1.55%, a jump of around 0.5 percentage point from the start of the year, with levels weakening further on

Monday.

“It feels like everything is on sale,” said Eve Lando, a portfolio manager at Thornburg Investment Management Inc.

The flip side of that is losses for investors on existing holdings: Municipals have posted a 2.7% decline this month, the worst performance for the month of January on record, according to Bloomberg indexes. Still, the selloff is being driven by factors that are external to the muni market, which should provide investors some comfort, Lando said.

“Right now, all of this commotion is happening outside of our market, there wasn’t a bankruptcy or some unforeseen event in munis – this is outside forces,” she said. “Credit quality has been spectacular in the last year.”

Lando is adding exposure to existing names and actively playing in the primary market when new deals price. She said that her group looks closely at how a lingering pandemic might affect bonds, typically steering clear of debt sold by entities like convention centers that continue to be hurt by the virus. She also likes borrowers that can pass along higher inflationary costs instead of eroding underlying credit quality, like toll roads that can raise rates.

Boosting Yields

For months, municipal bonds were a seller’s market for issuers, and deals were routinely oversubscribed, allowing bankers to slash yields on offerings. Now, underwriters are often increasing the yields on offerings to lure buyers.

Thomas Jefferson University sold bonds last week due in 2056 yielding 3.01%. Kimberly Olsan, senior vice president of municipal bond trading at FHN Financial said in a Jan. 31 note that similar sales last year priced at yields that were 0.50 to 0.75 percentage point lower, adding that lower-rated deals are “being priced to attract buying interest.”

“The market is still trying to adjust to a yield range where more active buying can be developed,” she said.

Still, Barclays Plc strategists warned last week that investors shouldn’t rush back into the market to buy. “Patience is a virtue,” they titled a Jan. 28 note.

Longer-dated bonds may struggle with continued market volatility and investor redemptions, they said. Meanwhile, they said they are starting to see some more value in shorter-dated bonds for more defensive investors.

“Investors should be able to find some attractive opportunities in the near future but not be rushing to buy, although even at current levels some might start slowly adding exposure,” strategists led by Mikhail Foux said.

Averaging In

Phasing into the bonds may make sense because it’s hard to know precisely where the bottom is, according to municipal bond strategists at Citigroup.

“We are worried that the markets will stabilize and municipal yields will ratchet back down quickly, thereby denying us the opportunity to buy cheaper paper and realize better absolute returns for the calendar year,” the group led by Vikram Rai wrote in a note published Monday.

“We recommend buying some paper at current levels. Essentially, we are advocating the FOMO (Fear of Missing Out) trade! But, we also recommend keeping some cash handy, potentially for use later,” they said specifically recommending investors buy long-paper given that ratios have cheapened materially.

Duane McAllister, co-head of municipal investments at Baird, said that investors are looking to sell securities that will be the least painful for them to get rid of, such as bonds with shorter call dates, given those bonds will see fewer price declines than some longer-dated securities.

“We actually have been trying to take advantage of that,” he said.

Baird has been buying the 5 to 15 year part of the curve, which has gotten hit hardest, because it was the most expensive to begin with, said Lyle Fitterer, co-head of municipal investments at Baird, which oversees around $10.6 billion of the debt. Yields on some bonds are as much as 90 basis points higher than six to eight weeks ago.

“We are seeing some messages just now saying that buyers are stepping up,” Fitterer said on Friday. “The bids that are out this afternoon are getting a little better levels than what we saw this morning.”

“I think people are going to come around to the fact that valuations look a lot more attractive.”

Bloomberg Markets

By Danielle Moran and Amanda Albright

January 31, 2022, 9:38 AM PST

— With assistance by Martin Z Braun

Munis Seen Enduring Another Span of Underperformance Before Fed.

- **January’s 2.7% loss compared with 1.9% decline for Treasuries**
- **Muni fund outflows fueling ‘huge supply-demand imbalance’: Rai**

The municipal-bond market may extend its underperformance versus Treasuries through February as jittery investors yank money in advance of a widely expected Federal Reserve interest-rate increase next month.

U.S. state and city debt has joined a broad bond-market selloff to start 2022, triggered by elevated inflation and concern over the Fed’s path. Muni yields enter February close to the highest since April 2020, leaving the securities roughly the cheapest relative to Treasuries since late 2020, data compiled by Bloomberg show.

Munis have trailed Treasuries to start the year, after outperforming in 2021, as investors started cashing out. Muni mutual funds saw $1.4 billion withdrawn in the week ended Wednesday, the biggest outflow since April 2020, according to Refinitiv Lipper US Fund Flows data.

“It’s all about rates, right? Rates have sold off and fund outflows have started,” said Vikram Rai, head of the municipal strategy group at Citigroup Inc. “When mutual fund outflows start, it causes a huge supply-demand imbalance, meaning that demand kind of just disappears.”

As the market braces for a projected Fed hike as early as March, Rai says the underperformance could persist for the "next four weeks at least."

State and local debt posted a 2.7% loss in January, while Treasuries slid about 1.9%, according to Bloomberg index data.

That marks a reversal from 2021, when munis lured a flood of cash in part as federal lawmakers debated raising income levies on the wealthy. That backdrop helped keep municipal yields low and made the debt relatively expensive, said Peter Block, a managing director at Ramirez & Co.

Some money managers are starting to see an opportunity in the slide, especially with Treasury yields having plateaued in recent days, at least temporarily. Citgroup's Rai said he's telling clients to buy now, but to keep cash handy in case the market cheapens further.

In the market's favor, municipal credit remains robust, with the economy on the mend and federal pandemic relief replenishing the coffers of states and cities. And bond issuance continues at a steady clip, showing local governments have the need and confidence to take on new projects.

"Deal flow continues to be solid," Leslie Martin, a tax-exempt portfolio manager at Cavanal Hill Investment Management, said via email. "We expect this will continue as state and local governments have a backlog of delayed capital projects."

But some investors, especially individuals, may not be ready to dive back in just yet until they have a stronger sense that the bond market has stabilized.

"As investors see the negative total returns, they panic and pull money from munis," she said.

Bloomberg Markets

By Skylar Woodhouse

February 1, 2022, 9:47 AM PST

2022: A Year of Change and New Directions for Municipal Bonds

Can you remember a year where we as investors found ourselves staring, not only at the proverbial fork in the road, but also at a labyrinth of so many different possible outcomes, voiced by experts, that there seemed no clear path to choose? Where do we begin? Are we risk on or risk off, with: Omicron and Covid; global tensions with Russia and China; supply channels struggling to free themselves; the reforming of corporate America's employment base; a trillion dollar stimulus being inserted into the U.S. economy; a looming political shift in Washington, imperiling domestic programs as the nation recovers from lockdowns? These issues and more will play into the narrative of the year to follow.

What You Should Know

The near-term catalyst for change is the Federal Reserve. Whether they end the stimulus gradually or with a sudden stop, their policy has already set in motion changes for the market and country that will influence investment decisions. Their declaration of as many as four rate increases in 2022 acknowledges that both the pressures of inflation and the characteristics of a changing economy must not be ignored.

Continue reading.

VANECK

By Jim Colby
Portfolio Manager and Strategist, Municipal Bonds

FEBRUARY 6, 2022

Muni Bond ETFs Are Taking a Beating.

Fixed income investors are beginning to dump municipal bond exchange traded funds as the pullback in the muni market continues.

The iShares National Muni Bond ETF (NYSEArca: MUB), the largest muni-related ETF by assets, has declined 2.6% since its most recent high in late 2021.

Meanwhile, investors have yanked $1.4 billion from muni bond-related funds for the week that ended last Wednesday, the Wall Street Journal reports.

Muni bond yields, which rise as prices drop, surged last week after the Federal Reserve indicated that it would begin hiking interest rates starting mid-March, which has weighed on the attractiveness of current outstanding debt. Yields on the highest-rated state and local bonds increased to 1.55% on Friday from Tuesday’s 1.34%, according to Refinitiv MMD data.

Meanwhile, the S&P Municipal Bond Index has decreased to -1.98% for 2022 through January 27 based on price changes and interest payments, marking the benchmark’s lowest year-to-date return in at least 16 years.

“The message is getting increasingly clear that the timeline is shifting ahead and the Fed is going to be quicker,” Yingchen Li, co-head of municipal research at Bank of America, told the WSJ.

The sudden disinterest in munis is a stark reversal from 2021, when income-minded investors dumped money into muni bond funds to ride out the Federal Reserve’s accommodative monetary policies and rebounding state economies.

Further adding to the friction in a traditionally stable $4 trillion muni market, there is a long-term shift in the way that bonds are bought and sold, with individual investors likely to sell off bonds at falling prices, whereas bond dealers are not willing to pick up the slack, which could contribute to greater spreads or losses.

Investors would traditionally buy and hold municipal bonds until maturity to collect on the interest payments that are often tax-free. However, more investors are getting their muni exposure through mutual funds or ETFs, which can be quickly sold. Mutual funds and ETFs that track munis are now even bigger than they were at the start of the pandemic.

Meanwhile, after the financial crisis, dealers have been less inclined to hold muni debt on their balance sheets, so they are less likely to buy when individual investors sell.

"We literally had the discussion: OK guys, we've had now a week of outflows, what's our cash? Should we be taking that cash up?" said Lyle Fitterer, who manages about $6.5 billion in municipal bonds as co-head of the municipal bond team at Baird Advisors. "We do not want to be the people who are forced to sell into this environment."

ETF Trends

MAX CHEN JANUARY 31, 2022

HYD: Outlook Fading On High Yield, Will Be More Selective On Munis

Summary

- The municipal bond sector has broadly been under pressure over the past few quarters. This includes high yield munis, passive ETFs, and CEFs of all stripes.
- The causes are multi-fold. Rising yields, lack of movement on tax rates, and continued uncertainty on further legislative changes from Washington.
- As a result, the sell-off has opened up wider discounts in CEFs, as well as one-year lows for many muni bonds. This causes me to want to be more creative with munis.
- As a result, I am shifting my outlook on passive, high yield funds like HYD to a more cautious tone. Instead, I would focus more on IG CEFs that have begun to offer some real value.

Continue reading.

Seeking Alpha

Feb. 02, 2022

S&P Rates 2022 Muni Outlook Stable Despite Accelerating Inflation Risk.

- **Ratings group expects credit stability across U.S. munis**
- **Headwinds include inflation and rising interest rates**

S&P Global Ratings largely expects a stable outlook for muni credit this year even as it watches for new risk factors including inflation that could increase costs for state and local governments, according to Robin Prunty, the firm's chief analytical officer for U.S. Public Finance.

The credit ratings firm expects a favorable economic outlook for 2022 with steady revenue growth and federal stimulus continuing to support state and local finances, according to a report issued Wednesday. It foresees "credit stability in 2022 across U.S. public finance" despite headwinds from inflation, supply chain challenges, tight labor markets and rising interest rates.

Federal Reserve Chair Jerome Powell said on Wednesday the central bank was ready to raise interest rates in March and didn't rule out moving at every meeting to tackle the highest inflation in a generation.

The strength of the economy should support continued "positive momentum" for public finance, S&P said. However, the firm cautioned issuers from states, local governments, higher education, healthcare, utilities, charter schools and housing could face inflation pressures. Prunty said rising wages, the cost of materials and supply chain problems could weigh on munis for the first time in decades. Inflation could add to expenses for municipal budgets, but so far they've mostly benefited from increased income and sales tax revenue levied on rising wages as well as higher-priced goods and services, she said.

"It's been muted for the municipal sector but we see it as a risk in the future," Prunty said in an interview. "Inflation has accelerated as a risk but I don't think it's the only risk."

Threats such as new Covid-19 variants, pension costs, cybersecurity risks, demographic changes and climate change are all on the watch list, S&P said. Its muni sector views are stable except for the airport subsector, which is positive, while the parking subsector remains negative.

Bloomberg Markets

By Shruti Singh

January 26, 2022, 12:46 PM PST

S&P Credit Outlook For U.S. Public Finance: Positive Momentum Continues

Key Takeaways

- ***We expect credit stability across U.S. public finance in 2022.*** The economic outlook for 2022 is favorable despite headwinds related to inflation, supply chain challenges, tight labor markets, and rising interest rates. This should contribute to steady revenue growth and expansive federal stimulus will continue to support issuers' finances.
- ***Active management will support credit quality in all sectors.*** This has been an important credit consideration throughout the pandemic and will remain so given other that risks and challenges–many of them under the environmental, social, and governance (ESG) label–are testing issuers.
- ***Key questions relating to the pandemic and the economy will matter from a credit standpoint.*** Will the economic momentum continue? Will new COVID variants undermine confidence and recovery prospects? What will be the lasting implications of the pandemic? How will ESG challenges be met?

Continue reading.

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

View the S&P list.

28 Jan, 2022

[S&P History Of U.S. State Ratings.]

[View the S&P history.]

28 Jan, 2022

[In the Muni-Bond Bazaar, Quotes Are Invitation to Negotiate.]

- **Study finds price quotes are 0.15% higher than executed trade**
- **Majority of trades are at better prices than quotes: BondWave**

In the $4 trillion municipal-bond bazaar, it would be unwise to pay the quoted offer price.

Quoted prices for municipal bond offerings are on average 15 basis points higher than when a dealer subsequently buys them, according to a BondWave analysis of more than 400,000 municipal bonds that were offered on an electronic platform and then traded.

And the bigger the block of bonds, the more room you have to haggle. The study found that the offering price of a block of $5 million or more investment grade bonds was 41 basis points higher than the actual trade price; bonds sized $100,000 or less were offered at 14 basis points more.

Across all rating categorizes and sizes of muni bonds, the majority of dealer buys, 56.8%, occurred at prices better than the quote, while 30.4% of trades were at the same price, according to BondWave. Almost 13% of trades were worse than the offer.

"The way to really think of an offer is an invitation to negotiate," said Paul Daley, a managing director at BondWave, a financial technology company, and author of the report. "It's not like walking into the grocery store and the price on the shelf is the price you pay."

Trading Platforms

Unlike stocks that trade on an exchange, the over-the-counter bond market doesn't have a mechanism to aggregate quotes and calculate the highest bid price and the lowest offered price for a security. In recent years, electronic-trading platforms, or Alternative Trading Systems, have begun to post thousands of bonds for sale and help traders sort them to identify potential purchases.

The platforms, which rarely post standing bids for munis, accounted for more than 56% of all state and local debt trades between dealers from August 2016 to April 2021, according to data released by the Municipal Securities Rulemaking Board in August.

BondWave analyzed more than 400,000 dealer-to-dealer trades last year from Jan. 1 to Aug. 31. More than 80% of the trades were of investment grade bonds with trade sizes less than $100,000 par, mirroring the dominance of retail investors in the muni market.

The study found that high-yield municipal bonds have lower quote quality than investment grade bonds. High-yield offer prices for less than $100,000 bonds was 40 basis points higher than the executed trade, compared with 14 basis points for investment grade debt.

"With higher risk comes greater caution when posting bids and offers," Daley wrote in the report.

Bloomberg Markets

ByMartin Z Braun

January 26, 2022, 8:12 AM PST

From Stanford to Oberlin, Schools Rush to Tap the ESG Bond Market.

- **Colleges' 2021 issuance was almost quadruple the 2020 tally**
- **Bonds signal environmental commitment for issuers, investors**

Eager to show their commitment to mitigate climate change, U.S. colleges are touting their efforts in the bond market with a trendy financing tool.

Schools last year floated almost four times as much debt branded with green, sustainability or social labels as the year before, taking advantage of the hunger from investors who want securities that signal their own interest in the environment.

Perennial builders and repairers of their mini cities, colleges are funding projects that will reduce their carbon footprint — such as by converting a century-old energy system at Oberlin College. They're also helping cut future emissions by expanding research space and a track to test electric-car charging at Utah State University. Common projects on many campuses are new buildings that adhere to greener standards than older facilities.

Sales of so-called ESG bonds — for environmental, social and governance — are an emerging trend in the municipal market, where states, cities and public entities like colleges and hospitals raise money to finance capital projects. In 2021, municipal borrowers sold more than $50 billion of green-, social- or sustainability-labeled debt, far and away a record, according to data compiled by Bloomberg. And while colleges and universities accounted for a $1.7 billion sliver, the sharp upward trajectory mirrors the broader market.

Such bonds can include an external review which attests to the benefits of the funded activities, and adhere to International Capital Markets Association principles or the Climate Bonds Initiative's standards, which require outside-party verification. But green bonds don't necessarily need to be verified — issuers can simply claim the label and hope investors have faith.

The label represents the aspirations of colleges: to use social, financial, and educational capital to make the world a better place and improve their campuses, especially as infrastructure ages.

Early Entry

Ohio State University became an early entrant to the green-bond market when it borrowed $600 million in September for a new inpatient hospital in Columbus that promotes energy efficiency and conserves water.

The school will consider more green labels to lower the cost of future bonds, said Kurt Kauffman, assistant treasurer at the school.

"We think that benefit will grow over time as that ESG investor base matures," Kauffman said. "It may be a small benefit now but bigger in the future."

In the $4 trillion municipal-bond market, green-labeled bonds have funded mass-transit projects and clean water initiatives. Because the standards and disclosure accompanying such debt are inconsistent, not all environmentally friendly projects are branded as “green” and not all labeled debt adhere to the same criteria.

It’s difficult for investors to get the full picture because anyone can choose to self-label, said Alexa Gordon, head of ESG for the municipal fixed-income group at Goldman Sachs Asset Management.

“Until there’s consistency, it’s hard for issuers to have that incentive,” Gordon said.

Oberlin Experiment

Oberlin College, a liberal arts school about 35 miles (56 kilometers) southwest of Cleveland, essentially conducted its own price experiment in July when it sold debt with a climate-bond certification to convert its energy system to geothermal.

The school priced two bonds on the same day, with the same maturity and call structure. The $80.6 million green bond priced with a yield 90 basis points above the benchmark. The $30.4 million series, to refinance debt, priced with a spread of 95 basis points. Vice President for Finance Rebecca Vazquez-Skillings said the climate label gave the green bond a better price.

Stanford University sold $300 million of climate and sustainability bonds for projects that support the school’s emission-reduction goals.

Treasurer Karen Kearney said it’s unclear whether the green label meant a lower borrowing cost because Stanford’s debt is already in high demand from buyers eager to invest in the AAA rated school. Still, she said the April sale drew bids from new ESG-focused investors who hadn’t bought the school’s debt before.

Stanford used the designation partly because of what’s going on in the structures — research into inequities in health and affordable housing for students, faculty and staff in an expensive area.

Oberlin and Stanford both hired Kestrel Verifiers to ensure their projects meet sustainability goals, and they agreed to continue reporting on progress.

“It’s going to be the new normal,” said Melissa Winkler, a senior vice president at Kestrel.

Utah State used a different verifier for its project, which doesn’t shrink its campus carbon footprint, but will support research to reduce car emissions. Its debt is funding the expansion of a building that will help research car-charging systems at highway speeds, said Dave Cowley, vice president for business and finance.

Oberlin’s multi-year energy conversion will further its goal to become carbon neutral by 2025. President Carmen Twillie Ambar touts the effort at events with prospective students, saying that while construction can be inconvenient, it will make the campus better.

“I say you’re going to have to step over the sustainable infrastructure project,” she said. “It’s going to be here for four years.”

Bloomberg Green

By Janet Lorin and Danielle Moran

January 28, 2022, 9:00 AM PST

— With assistance by Kenneth Hughes

How Sea Level Rise Exposure Is Priced into Municipal Bonds.

Experts at Wharton and elsewhere have created a model that improves upon conventional approaches to understand how investors perceive the impact of climate risk on local economies. One important aspect of climate risk is sea level rise (SLR) — which is estimated to be as high as 8.2 feet by 2100 over 2000 levels — and how it affects coastal communities. In their paper titled "Sea Level Rise Exposure and Municipal Bond Yields," the experts used municipal bond prices as a proxy to estimate the impact of SLR risks.

"The way risk is priced into municipal bond prices is driven more by uncertainty over SLR risk than by the current values of assets – in this case, homes," said Wharton finance professor Michael Schwert, who co-authored the paper with Yale School of Management finance professor Paul Goldsmith-Pinkham, Penn State finance professor Matthew T. Gustafson and University of Colorado, Boulder, finance professor Ryan C. Lewis. For example, two houses that are across the street from each other may have different prices if one has more SLR exposure than the other, but that exposure is not reflected at the school-district level, he explained. "District-level house prices are unresponsive to SLR exposure and do not affect the estimates of the SLR premium in bonds," the paper stated.

"The municipal bond market is an ideal setting for assessing investors' expectations of the impact of climate risk on local economies," the paper stated. "This is because the sources of repayment for municipal bonds are tied to local economic conditions, especially so for the school district bonds that comprise our sample, which are commonly backed by local real estate taxes." The SLR exposure premium is larger for bonds whose school districts rely more on local property taxes for budgetary needs, the paper noted.

The researchers selected school district bonds to study the effects of SLR exposure; their sample covered nearly 60,000 bonds issued by 1,508 school districts between 2001 and 2017. Municipal bond markets began pricing in SLR risk around 2011, and by 2013, they found "a statistically significant" SLR exposure premium in municipal bond yields. "The rising premium – after 2013 – suggests that investors are taking account of these risks," said Schwert. "Given that the scientists seem to be getting more pessimistic [about climate risks], I would expect these pricing effects to persist and perhaps grow."

The researchers found that the increase in expected default losses attributable to SLR risk is low, but the economic impact is "non-trivial." They estimated that impact as equivalent to a reduction of 2.4% to 5.6% in the present value of local government cash flows.

Rating agencies were yet to begin factoring in SLR risks for municipal bonds as of 2017, although they have indicated that they would do so, Schwert said. "They'll probably end up having to downgrade some issuers in the future." But bond prices provide "more statistical power" in tracking SLR risk premiums than credit ratings, he noted. Furthermore, the research did not find an economically large increase in bond yields on account of SLR risk (0.05% annually). "It's not clear that this is a threshold that would cause a rating downgrade," he added.

Takeaways for Policymakers

Schwert said their study could help in the cost-benefit analysis of remediation measures by coastal communities exposed to SLR risk such as building seawalls. Those communities would be able to reduce their borrowing costs if climate remediation efforts could reduce uncertainty about the economic impact of SLR, he added.

Scientific evidence on SLR risks suggests that local governments in coastal communities would face an increasing burden in financing their remediation efforts, Schwert continued. “This would be a call for more state-level economic support for these communities or risk-sharing,” he said.

Schwert said that while SLR is only one aspect of climate risk, their research could be applied to other scenarios, too, such as wildfires. “As long as you have access to bond yields and a clear measure of geographic exposure to whatever risk you’re interested in [analyzing], this approach would be useful,” he added.

Wharton

Jan 25, 2022

Fitch: Major Metro Job Recoveries Hit 76%; South Leads Nation at 85%

Fitch Ratings-New York-24 January 2022: The November 2021 median jobs recovery rate among major metropolitan statistical areas (MSAs) rose to 76 percent, with Southern MSAs leading the nation with an 85 percent recovery, according to Fitch Ratings’ “U.S. Metro Labor Markets Tracker.”

“The emergence of the omicron variant delayed some return-to-office plans and magnified staffing shortages, but Fitch expects the wave of infections will crest soon and the labor market recovery will continue,” said Fitch Senior Director Olu Sonola.

The median Fitch-Adjusted Monthly Unemployment Rate for MSAs, which reclassifies employees who have left the labor force since the pandemic’s onset as unemployed, was 4.8 percent, down from 5.8 percent in October.

The median Fitch-Adjusted Unemployment Rate for MSAs was 4.8 percent for November, falling 1.0 percentage point from October.

Payrolls remained below their February 2020 levels by 3.5 million jobs.

Regional trends include:

–Midwest: The median recovery rate for MSAs rose to 82 percent, from 79 percent in October. Chicago had the highest recovery rate increase in November at 4.1 percentage points. The median Fitch-Adjusted Unemployment Rate fell to 4.8 percent from 6.4 percent in October.
–West: The median recovery rate for MSAs was 75 percent, slightly above 74 percent in October. Portland posted the region’s largest month-over-month recovery rate improvement, with a 5.5 percentage points advancement. The Adjusted Unemployment Rates is 4.9 percent.
–Northeast: The median recovery rate for MSAs rose to 73 percent, from 70 percent in October. The Northeast remains the region with the lowest recovery rate. New York City notched a recovery rate improvement of 2.2 percentage points. The Northeast had the highest regional median Fitch-Adjusted Unemployment Rate in November at 7.2 percent.
–South: The median recovery rate for MSAs rose slightly to 85 percent, from 83 percent in October. The South’s median employment recovery rate for MSAs remains the highest. Dallas and Austin posted the highest recovery rate improvements at 9.5 and 6.9 percentage points, respectively. The

Adjusted Unemployment Rate was 4.1 percent.

For more information, the special report “U.S. Metro Labor Markets Tracker” is available at www.fitchratings.com.

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Joint $4M Endeavor Seeks to Create Racial Equity in Municipal Bond Market.

From its inception, America’s history is one that’s rooted in racial prejudice and inequality. Cities have, historically, expanded and evolved within the confines of that segregated system through prejudicial laws and discriminatory practices like redlining.

A new endeavor launched this month by the Public Finance Initiative (PFI) and the National League of Cities (NLC), the Bond Markets and Racial Equity Project, seeks to create a more equitable society through the way municipal bonds are issued. The project is funded by a $4 million grant from the Robert Wood Johnson Foundation.

The project team will develop a range of tools for cities, public authorities and their financial advisors to elevate racial equity considerations in bond issuances, according to a press notice about the initiative.

“We have an opportunity to disrupt long-held patterns of inequality and segregation and to elevate racial equity in new arenas via a program of work that will begin by listening to issuers, investors and other market stakeholders in national focus groups that we will convene across America,” said Lourdes Germán, PFI’s executive director in a statement. “This project centers seeks to take what we learn and develop a program to help issuers center racial equity as a key consideration within the municipal bond market, enabling communities and investors to better understand how to effectively leverage the issuance process—and, with this funding, we will develop the metrics, measurement and reporting to make that possible.”

The statement notes that policymakers have long wondered how the $3.8 trillion municipal bond market addresses—or fails to address—race and equity. The municipal bond market is one of the largest pools of private investor capital flowing into America’s states and localities, and it thus shapes the character of the built environment in communities and directly impacts the social determinants of health and equity in a place.

Regulators, elected officials and other public leaders have called attention to the challenges at hand. For example, the recent $1.2 billion federal Infrastructure Investment and Jobs Act explicitly highlights the importance of centering equity across various functional areas of infrastructure investment and of acknowledging the legacy of systemic racism throughout the history of American infrastructure, construction and maintenance decisions.

Despite efforts to scale up such bonds and create guidance for issuers, however, no common framework currently exists to address racial equity in all phases of municipal bond issues. Additionally, bond issuers lack the training and resources to evaluate equity impacts associated with the infrastructure projects they fund, and they lack long-term data to measure how equity changes in a jurisdiction over time, particularly in low-resource settings with the highest needs.

In the effort to foster more equitable cities, "The Bond Markets and Racial Equity Project is a first-of-its-kind investigation into how public officials can center equity in bond issues in targeted ways that lead to improved social determinants in their communities," said Clarence Anthony, CEO and executive director at NLC."

Throughout this year, the organizations will convene city and public authority leaders through focus groups, online publications, research reports and more to explore how issuers center racial equity—or fail to do so—in the context of bond issuances or infrastructure projects. Future project outcomes will include a racial equity framework, data tools, research, technical assistance for low-resource jurisdictions, additional guidance on evaluation practices and other data-driven and impact-focused interventions, the statement says.

Initial lead project partners include the Excellence in Public Finance Program at the Milken Institute, the Urban Institute, the Government Alliance on Race and Equity (GARE) at Race Forward and Urban American City LLC. The Initiative for Responsible Investment at the Harvard Kennedy School's Center for Public Leadership will also serve as a sub-grantee.

American City & Country

Written by Andy Castillo

26th January 2022

Fitch: U.S. Military Housing Weathers Rising OpEx Environment

Fitch Ratings-New York/Chicago/San Francisco-27 January 2022: U.S. military housing metrics are primed for improvement this year after weathering the effects of rising operating expenses as well as navigating the global pandemic, according to Fitch Ratings in its annual peer review of the sector.

'Strong financial metrics for U.S. military housing projects attributed to the sector's preservation of high investment-grade ratings despite volatility in net operating income,' said Fitch Senior Director Mikiyon Alexander. 'The average increase in the 2022 basic allowance for housing rates may mitigate this volatility in 2022.'

The aforementioned volatility in net operating income was brought on by declining occupancy and increases in operating expenses outweighing growth in basic allowance for housing over the last several months. Fitch downgraded ratings on four military housing projects against one upgrade last year. Additionally, 72% of the outstanding ratings have Negative Outlooks (versus no projects with a Positive Outlook).

'While military housing projects are typically subject to annual fluctuations in basic allowance for housing rates, a larger increase in average rates for 2022 is pointing to more stability for the sector in the coming months,' said Alexander.

Fitch's 'U.S. Military Housing Peer Review', which analyzes 13 military projects representing a total of 28 bases, is available at 'www.fitchratings.com'.

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3 Ways to Solve Water Utility Finance Woes.

How to make utility finances less complex for stakeholders & council members

Humans are visual creatures; from infancy to early childhood, pictures and visual cues are paramount to our understanding of iconic stories like The Cat in the Hat or Where the Wild Things Are.

As we get older, we become able to interpret and understand larger and more complex stories and abstract ideas — but the visuals remain, except now they are in our minds instead of on paper. This leads to a difference in interpretation of information, even when two people read the exact same reference.

In municipal government that also exists, and the information we now interpret includes large, complex data sheets filled with numbers and dates. This disparity is at the crux of a much larger issue: getting finance, public works and engineering departments, as well as city council, on the same page about capital funding plans. When it comes to the world of municipal water systems, these complications can ultimately delay much needed upgrades in operation and infrastructure.

Continue reading.

WATER & WASTE DIGEST

BY JP JOLY

JAN 26, 2022

[Steps the States Should Take to Achieve the Infrastructure Bill's Broadband Goals.]

he recently signed Infrastructure Investment and Jobs Act (IIJA) makes the largest federal investment into broadband expansion in the nation's history. To accomplish the act's broadband goals, Congress made states the key decisionmakers, with the National Telecommunications and Information Administration (NTIA) providing oversight.

This piece lays out nine actions every state should take in the development and implementation of its broadband plan to achieve Congress' goal of universal connectivity.

Continue reading.

The Brookings Institution

by Blair Levin

Friday, January 21, 2022

Understanding the Outlook for U.S. Municipal Utilities.

All through the pandemic, U.S. municipal utilities have shown incredible fiscal resilience, prompting many credit rating agencies to reaffirm their positive outlook for this sector as we move into 2022.

This resilience is primarily attributed to a few key factors, such as continued planned rate hikes, deferred maintenance, and high recovery rates, which have sustained throughout COVID-19, contrary to original expectations. These trends have helped U.S. municipal utilities, especially water and sewer, build strong cash balances to address future challenges. However, aging infrastructure and inflationary pressures can present some potential challenges for these utilities.

In this article, we will take a closer look at some key indicators to assess the outlook for many municipal utilities in the United States.

Continue reading.

municipalbonds.com

by Jayden Sangha

Jan 24, 2022

Feds Open Application Process for $1.5B in Transportation Grants.

State and local governments will have a shot at securing a piece of $1.5 billion in transportation grant funding under an application process that the U.S. Department of Transportation kicked off on Friday.

The department issued a notice of funding opportunity for the Rebuilding American Infrastructure with Sustainability and Equity, or RAISE, program. RAISE is the latest incarnation of the popular competitive grant program once known as TIGER. Funding for the grants was included in the bipartisan infrastructure package President Biden signed into law last year.

“The RAISE program helps communities large and small fix and modernize their infrastructure,” Transportation Secretary Pete Buttigieg said in a statement.

He added that, this year, with boosted funding for the program approved in the public works law, the Transportation Department will be able to “support more projects than ever.”

RAISE is the first discretionary funding program included in the infrastructure package to accept applications, according to DOT. A variety of road, transit, rail and trail projects are eligible for funding.

The $1.5 billion for the program marks a 50% increase over the nearly $1 billion in grants that DOT awarded in November of last year under the previous round of the program. The department noted that demand for the money typically far outstrips how much is available, with about $10 in requests last year for every $1 available.

This year, based on provisions in the infrastructure law, DOT will factor in new criteria as it evaluates proposed projects.

This includes “mobility and community connectivity,” which the department explains as looking at “how the project will increase mobility and expand connectivity for all users of a project, particularly non-motorized travelers,” like pedestrians, cyclists and transit riders.

Meanwhile, at least $15 million is designated for projects in areas with persistent poverty, or that qualify as historically disadvantaged communities. Compared to past rounds of the program, the infrastructure law also expands the number of places eligible to receive a 100% federal share of funding for their projects, DOT noted.

The department is urging applicants to consider how their projects can address challenges around climate change, racial inequity and workforce development.

DOT also stressed that applicants “can be more competitive” if their projects create jobs that offer a “free and fair choice to join a union,” adhere to strong workplace standards, boost employment in underserved communities and support worker training opportunities.

Republican governors have bristled over the Biden administration’s attempts to pursue its climate and social agenda through infrastructure programs, with 16 of the GOP state leaders outlining their concerns in a letter to Biden last week.

Applications for the grants are due by April 14 and the department plans to announce grantees by Aug. 12.

The notice of funding opportunity can be found here.

ROUTE FIFTY

By Bill Lucia | JANUARY 28, 2022

Sagging Stocks Aren't the Only Threat to Pension Plans.

Last year, pension plans enjoyed big returns in the market, bringing their balances back to levels not seen since the Great Recession. They are still $1 trillion short, however.

Last year was a great time to manage a pension fund. Thanks to strong stock market gains, plans around the country pulled in returns that exceeded 30 percent in many places, bringing their overall funding levels almost back where they'd been before the Great Recession of 2007 to 2009.

"This is probably the best news that state and local pension plans have received in many years," says Richard Johnson, director of the retirement policy program at the Urban Institute. "These returns have greatly improved their funding levels."

It's hardly time to break out the champagne, however. What the stock market giveth, it can also taketh away. Major indices are down so far in 2022, suffering big drops six trading days in a row before registering slight gains on Monday.

Continue reading.

governing.com

Jan. 25, 2022 • Alan Greenblatt

U.S. Public Pension Funds May Turn to More 'Aggressive' Investment, Report Says.

NEW YORK, Jan 31 (Reuters) – U.S. public pension funds will likely have to switch to more aggressive investment strategies in the coming years to fill funding gaps despite assets held by sovereign investors having grown to record levels amid the 2021 equity market boom, a new report said.

On average, the difference between assets and liabilities at U.S. public pension funds, known as the "funded ratio," remains "unsatisfactory" at less than 75%, sovereign investor specialist Global SWF said in a report.

To boost returns, many will likely have to focus on alternative assets, including private equity and private credit, Diego Lopez at Global SWF told Reuters.

"Certain pockets of real assets including logistics properties and infrastructure may also benefit from increased interest, and hedge funds will continue to be an important part of US [public pension funds'] portfolios."

Assets held by sovereign wealth and public pension funds globally rose to a record $31.9 trillion in 2021, thanks to rising U.S. stock and oil prices, and investments rose to their highest for several years, Global SWF said in a previous report.

For pension funds, that means they have more assets to cover future liabilities.

For instance the California Public Employees' Retirement System (CalPERS), which manages the largest U.S. public pension fund, grew its assets more than $92 billion in the fiscal year ending in June 2021, according to its 2020-21 financial report.

That growth boosted the funded ratio of its Public Employees' Retirement Fund to an estimated 80% at the end of June last year from 70% a year earlier. CalPERS declined to comment.

But the U.S. national average for funded ratios – calculated as a comparison between public pension funds' actuarial valuation of their assets and liabilities – remains below 75%, with a $1.3 trillion shortfall, Global SWF said.

"To make things worse, the working population is expected to decrease from 64% to 57% by the end of the 21st century," it said, which is likely to exacerbate that funding gap.

Muni Issuance in January Is Almost Typical Despite Yield Backup, Fed Fear.

- **January issuance almost typical despite yield backup, Fed fear**
- **Long-term money still costs municipalities less than 2%**

Fed fright? Check. Yield backup? Check. Fund outflows? Check. Worst performance in decades? Check. Municipal bond issuance for the month of January? Chugging right along.

While some issuers may have had to sweeten yields to entice buyers, states and localities have sold $23.9 billion in bonds this month, down about 9% from the $26.2 billion offered in January last year, with a few days still to go, data compiled by Bloomberg show. And this has been with all the trouble in the world, at least as trouble is delineated in a bond market: Rising interest rates.

The Federal Reserve has signaled that it is going to start raising rates, and the 10-year Treasury note has responded. It yields about 1.8%, up from 1.51% at the end of 2021. The 10-year triple-A muni benchmark has followed suit, and then some. At around 1.43%, it has increased almost 40 basis points.

For those obsessed with The Ratio, a gauge of relative value, the 10-year muni began the year yielding an almost unimaginable 69.5% of comparable-maturity Treasuries, and is now a still weird, and very expensive, 75%. In the old days, munis typically yielded in the 80s; in 2018, for example, they averaged 85.6% of Treasuries. That was considered normal. Yielding 100% or more of Treasuries was rare, and insane.

Deals Getting Done

And yet the steady rise in yields, which translates into higher borrowing costs, hasn't had an appreciable impact on municipal sales. Granted, municipal bonds may not be flying off the shelves like they were last year, but the deals are getting done. This month's issuance tally is just below the average of $25 billion in January in Bloomberg LEAG data since 2013.

This means that, generally speaking, governments borrow when they need to, regardless of where interest rates are. Issuers are "semi-rate-insensitive," according to Vikram Rai, head of the municipal strategy group at Citigroup Inc. This is especially true when rates are "bleeding higher" slowly, he said, rather than jumping higher. He said he's not changing his forecast of $520 billion in municipal issuance for this year, which would be a record.

Issuers have borrowed for everything this month, encompassing the full suite of stuff for which munis are sold, including charter schools, hotels, apartment complexes and retirement communities.

Jersey City, New Jersey, borrowed for a real estate redevelopment project. Sierra County, California, borrowed to finance a portion of its unfunded accrued actuarial liability to the California Public Employees' Retirement System. Cuyahoga County, Ohio, borrowed to refurbish the baseball stadium of the Cleveland Guardians, formerly the Indians. Los Angeles borrowed for improvements at the Los Angeles International Airport, including an automated people mover. Concord, New Hampshire, borrowed for a laundry list of things ranging from protective equipment to golf course and cemetery improvements.

So it doesn't look like higher interest rates are dissuading state and local governments from selling bonds to raise money for improvements, at least not yet. Top-rated borrowers can still access capital for 30 years for under 2%, which still seems pretty amazing to me.

Bloomberg Markets

ByJoseph Mysak Jr

January 27, 2022

The Bond Market And La Guardia's Restoration (Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news on the municipal bond market. He talks about the Fed's takeoff and its impact on bonds and La Guardia airport's remaking. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Jan 28, 2022

Unprecedented January Muni-Market Losses Deepen on Fed Worries.

- **Bloomberg state and local bond index declines 1.46% this month**
- **Muni market on track for worst January performance since 1980**

The $4 trillion muni market, often a haven when other markets tumble, is suffering through its worst January on record as investors grow skittish about the prospect of Federal Reserve interest rate hikes.

The Bloomberg U.S. municipal bond index has fallen 1.46% this month through Monday, and is on track for its worst January performance in records dating back to 1980. Muni bonds often perform well in the first few weeks of the year, because investors usually have money to put to work thanks to year-end interest and principal payments, and states and cities often don't sell much in the way of new securities. Before 2022, the index had posted a loss only six times in January over four decades.

The weakness underscores how widely the expected Fed tightening cycle is hitting markets. Returns like these could jolt worried investors, said Nisha Patel, a managing director for Parametric Portfolio Associates, which holds $43 billion in muni assets.

"In the past during sharp moves in rates, retail investors have panicked and have created an outflow cycle," Patel said. "However, it is too soon to say yet if that comes to fruition."

Munis are hardly the worst-hit part of the bond market now. U.S. investment-grade corporate bonds have dropped 2.8% this year, and the Bloomberg U.S. Aggregate index is down 1.9%. And in stocks, it's far worse, with the S&P 500 down 7.4% on a total return basis through Monday's close.

Investors are now trying to figure out where to deploy cash, and whether to buy munis, said Erin Ortiz, managing director for municipal credit at Janney Montgomery Scott.

"Pretty much everything is red," she said.

On the one hand, the bonds offer higher income than they did just a few months ago: the yield for 10-year AAA muni benchmark securities has climbed about 30 basis points this month to 1.34% on Tuesday, the highest since May 2020.

But stock markets are whipsawing day to day and Treasury yields have fluctuated wildly as well. Bonds could broadly get hit as the Fed starts lifting rates and takes other steps to combat inflation. The central bank wraps up its two-day meeting on Wednesday.

Concerns about that possibility may be among reasons investors this month pulled cash out of municipal-bond mutual funds for the first time in 10 months, with $239 million withdrawn during the week ended Jan. 19, according to Refinitiv Lipper US Fund Flows data. The outflow ends 45 straight weeks of gains.

"There are several factors driving YTD performance, but the biggest impact is a more hawkish Fed," James D'Arcy, a senior portfolio manager for the municipal bond desk at Vanguard Group Inc., which holds about $267 billion of munis, said in an email.

Ortiz and Patel both noted that the outflows could be temporary.

"Cash may quickly come into the market," said Patel. "There is a lot of cash on the sidelines to put to work."

Bloomberg Markets

By Shruti Singh

January 25, 2022

[Wall Street and Muni Issuers Get Stung by Weak Market for New Deals.]

- **Demand ebbs amid bond-market slide as Fed rate hikes projected**
- **As buyers balk, 'deals are just going to have to get cheaper'**

Municipal bonds are no longer flying off the shelves, marking a major departure for the asset class as it's poised for the biggest monthly loss since the height of the pandemic-fueled market chaos in early 2020.

The selloff in the $4 trillion market is weighing on new bond offerings by U.S. states, cities and local agencies, stinging Wall Street underwriters and issuers alike. In just two examples, the Metropolitan Washington Airports Authority and the New York City Transitional Finance Authority saw weak demand for deals last week.

Investors are balking across the bond market as they brace for Federal Reserve rate hikes as soon as March. For municipal issuers, it's an abrupt shift from the rabid demand seen last year. Large, highly rated borrowers are finding it harder to price debt at initially offered yields, and some deals have had to cheapen, said Brad Libby, portfolio manager of the $2.1 billion Hartford Municipal Opportunities Fund.

"They have certainly struggled in the first couple of weeks of the year," he said. Higher-rated deals may be struggling more because that part of the market is relatively expensive, Libby said.

Muni issuers had the upper hand for most of last year as investors poured in cash, in part as lawmakers in Washington debated raising taxes on the wealthy. Now angst over the prospect of tighter monetary policy and elevated inflation have taken hold. The muni market has lost 1.7% in January, on pace for the steepest monthly losses since March 2020, Bloomberg index data show.

For the first time in 10 months, investors have pulled cash out of muni mutual funds, according to Refinitiv Lipper US Fund Flows data for the week ended Jan. 19. Offerings posted on Bloomberg's dealer offering system rose to $10.8 billion on Tuesday, compared with a one-year average of about $8 billion.

Unusual Dynamic

The weakness in the primary market is unusual, though it's not as severe as seen in March 2020, when deals were scuttled entirely.

Last week, the Metropolitan Washington Airports Authority had to offer a second order period as part of a toll-road bond sale, according to two people familiar with the matter who requested anonymity because discussions around the deal were private. That's a rarity for a market that became accustomed to deals being oversubscribed.

A spokesperson for the airport authority didn't have an immediate comment, nor did a spokesperson for Wells Fargo & Co., the underwriter.

Meanwhile, the New York City Transitional Finance Authority saw soft demand on a sale last week. Some debt was unsold at the end of the order period and yields on some maturities were increased from 1 to 3 basis points, according to a person familiar with the deal who asked not to be named because discussions around the deal were private.

JPMorgan Chase & Co., senior manager on the deal, had to step in to buy about $46.7 million of the $950 million tax-exempt portion, most of which has been sold since, the person said.

A spokesperson for the bank declined to comment.

'Get Cheaper'

The uncertainty around rates is making investors apathetic about new bond sales, said Peter Block, a managing director at Ramirez & Co.

"If there's enough people sitting on the sidelines, deals are just going to have to get cheaper," he said.

Nuveen noted the market weakness in a report this week, pointing to a AAA rated sale last week by a Virginia state agency on behalf of Chesterfield County. Bonds that priced to yield 0.66% in 2025 have since traded as high as 0.87%, data compiled by Bloomberg show.

A sense of ambivalence has entered investors' minds, said Vikram Rai, head of the municipal strategy group at Citigroup Inc.

"On the one hand, yes it's cheaper," he said. "On the other hand, could it get even cheaper? They'll invest some now and wait for better buying opportunities. The conflict is justified."

Bloomberg Markets

By Amanda Albright and Fola Akinnibi

January 26, 2022, 10:38 AM PST

Muni Market Woe Deepens With Biggest Outflow Since 2020 Rout.

Investors yanked the most cash out of municipal-bond mutual funds since April 2020 as they brace for Federal Reserve rate hikes as soon as March.

Muni mutual funds saw $1.4 billion withdrawn during the week ended Wednesday, according to Refinitiv Lipper US Fund Flows data. That follows last week's $239 million outflow, which ended 45 straight weeks of gains.

Investors pulled $454 million from high-yield funds, while intermediate-dated funds lost $158 million.

With the municipal market heading for the biggest monthly loss since the height of the pandemic-fueled market rout in early 2020, buyers are demanding more in compensation to own debt. Benchmark 10-year municipal bond yields climbed about 6 basis points on Thursday, the most since September, to 1.44%, according to Bloomberg BVAL pricing data. The yield is the highest since April 2020.

"Muni yields have been trending higher given the concerns over inflation and tighter monetary policy. We can expect to see more intermittent outflows," Jeff Lipton, head of municipal credit and market strategy at Oppenheimer & Co., said Thursday. "Much of the cash being pulled out of muni funds will just be added to an already huge pile of cash awaiting investment guidance."

Bloomberg Markets

By Romy Varghese and Danielle Moran

January 27, 2022, 10:56 AM PST Updated onJanuary 27, 2022, 11:34 AM PST

Munis Post Biggest Weekly Slump in 11 Months as Rate Hikes Loom.

State and local-government bonds are having their worst week in nearly a year, pushing yields to the highest since April 2020 as investors brace for tighter Federal Reserve policy.

Yields on 10-year benchmark municipal bonds have climbed 24 basis points this week to 1.53%, in the biggest jump since February 2021, according to data compiled by Bloomberg.

Munis have joined the broader bond-market selloff, falling 2.3% in January, for the worst monthly performance since March 2020, Bloomberg index data show. It's a steeper slide than seen in Treasuries, which are down about 1.9% this month.

Eve Lando, a portfolio manager at Thornburg Investment Management Inc., said state and local-government debt trails Treasuries moves often by multiple days.

"Munis are slow to start running and they're slower to stop," she said. With the Treasury market stabilizing, it'll probably take a few days for munis to catch up.

With munis underperformance, 10-year benchmark yields are now about 82% of comparable-maturity Treasuries, the most since 2020, showing state and city debt has cheapened on a relative basis.

Bloomberg Markets

ByDanielle Moran

January 28, 2022, 11:13 AM PST

Market Volatility 'Always Creates Better Value': BlackRock Head of Muni Bonds Group

Peter Hayes, Head of BlackRock's Muni Bonds Group, joins Yahoo Finance Live to discuss Fed policy and how it will affect fixed income investors and municipal bonds.

Video Transcript
– Welcome back. We want to dive deeper into the market reaction and specifically the fixed income market reaction to the Fed's latest statement and press conference. And for that, we have Peter Hayes, Head of BlackRock's Municipal Bonds Group joining us now.

Peter, thanks for joining us again. I went back through Powell's press conference from yesterday. And he used the word "uncertain" seven times over the course of that hour with regard to the uncertain economic outlook and future policy path forward on interest rates and the balance sheet. What do you think the bond market is pricing in right now in terms of what specifically the Fed may do this year?

PETER HAYES: Hello, Emily. Thanks for having me back. I appreciate it. Yeah, I think uncertain is the way to describe it. I think the Fed is uncertain as all of we are. We don't know what's going to happen with the virus, the economic bounce back, will there be future variants that will derail the economy. There's just so many things we don't know.

And he used the word, I think, "steadily and transparently" to describe the policy going forward. And I think the market needs to take that at face value. You can argue otherwise, but the equity markets have received an awful uplift from both accommodative fiscal and monetary policy over the last couple of years. Fiscal policy is dissipating and future programs are a bit uncertain. And the monetary policy they have to normalize at some point.

I think they would love to get back to a Fed funds rate that they had in 2019, which is in that 2 to 2 and 1/2 range. That's not going to happen anytime soon. They're walking a tightrope. It's a very delicate situation there. And you could see the reaction of the equity markets when they talk about tightening policy and hiking rates. So I think they're going to go very slow. They're going to see what the market reaction is, how the economy responds, what the data tells them, and then they'll act accordingly.

– Peter, when you say uncertainty and don't know, I think many of us as investors would take uncertainty and don't know from people at BlackRock much better than we would take it from anybody else. And I bring that up because as you head the muni bonds group, looking at this environment, a lot of people, the simple question we have is, what do I do with the cash I'm sitting on? I don't want to go into US treasuries because people don't get much of a return. So we look at muni bonds.

And yet I remember in a note, I think it was last month you pointed out, there's going to be a whole lot of maturity of tax exempt muni bonds coming to market or finishing in the next year or two. So how do we as investors position? And we probably come to someone like you at BlackRock to guide us so that we can make some money because the Fed makes a lot of people nervous.

PETER HAYES: Yeah, the Fed is making a lot of people nervous. And we see that. We see that in outflows. We've had, in the muni industry, we've had 45 straight weeks of inflows into municipal mutual funds. Last week, we were down about $280 million. This week, we're actually setting up for about $1.4 billion outflow, which will be the biggest since April of 2020.

So there is a lot of uncertainty on the part of investors, what to do. Financial assets, generally, whether it's equities or bonds, are not doing well so far to start the year. But I think the important thing to remember is whenever you see volatility, whenever you see down markets, that always creates better value. Of course, the depth of the sell-off will tell us how much value is created.

We've seen in munis yields since we last spoke at them. I think the yields are probably about 40 to 50 basis points higher. So prices have gone down, yields higher. That's good news. But I think we have a little bit more to go. I think the skepticism on the part of investors, what the Fed hiking rates will mean for the economy, what it will mean for housing what will it mean for credit card debt and spending, et cetera. So again, I think we have a little ways to go before we get some clarity on that.

It's not going to last all year. My guess is that a lot of this volatility increasing interest rates will be front end loaded, meaning it will probably be largely the first quarter of this year. Munis, no exception. We've seen the index is now down negative 2%. And last year, it was one of the few bright spots in fixed income markets returning about 1 and 1/2%. So we're sharing in the pain of rising rates, but ultimately, it does create better value.

So I think the short answer to your question, Adam, is I think we have to sit in cash. Be patient just a little bit longer.

– And when we think about fixed income more broadly, how do municipal bonds typically perform relative to other fixed income asset classes during a Fed rate hiking cycle? And do you expect that relative performance to be the same this year versus in past cycles?

PETER HAYES: I love that question. Great, great question because I think it's often lost on investors that when rates rise, when we're in a Fed hiking cycle, municipal bonds, because of their structure, because of their nature, tend to outperform other fixed income assets. And we saw that last year. I mentioned the 1 and 1/2% positive return. Not stellar. But when you look at other areas of fixed income, whether it be treasuries or corporate bonds, they outperform last year and the same holds true this year.

Even though we're down about 2%, treasuries are down more, corporate bonds are down more. So if you want to own some fixed income and a little bit of defense, munis are a good place to be. I think it's sort of an unknown feature of munis and rising rate environments.

– When we look forward to the March meeting, is any kind of language that you expect to hear from Jay Powell? We know we're going to get that first liftoff. That's what they've set us up for. But is there something that we might have missed just as average listeners to that press conference?

PETER HAYES: The one thing perhaps is maybe a little bit more clarity on how many tightenings they might undertake in 2022. He sort of left the door open a little bit, I think, at the conference yesterday. I think a little more clarity on that in March would probably give the markets a little bit of confidence and settle some of the volatility that we're seeing.

– All right. Peter Hayes is Head of BlackRock's Municipal Bonds Group, and we always appreciate having you on.

Yahoo Finance

Thu, January 27, 2022, 1:11 PM

GFOA ARPA Revenue Replacement Calculator Updated to Reflect Treasury Guidance.

As a response to Treasury's recently released Final Rule, which includes an optional standard deduction, increased growth rate of 5.2 percent, the inclusion of key revenue metrics and a calendar year/fiscal year calculation option, GFOA has updated our complimentary revenue replacement calculator to reflect those changes.

DOWNLOAD CALCULATOR

Fitch: State and Local ARPA Uses Illustrate Broad Budgetary Flexibility

Fitch Ratings-New York-18 January 2022: Initial allocations of the $350 billion in direct aid available via the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to state and local governments under the American Rescue Plan Act (ARPA) reflect the law's wide discretion and governments' generally robust ability to manage budgets, says Fitch Ratings. Many state and local governments are adjusting budgets to minimize potential credit risks of relying on one-time federal aid for operating support. Additionally, the majority of SLFRF remains unspent, providing governments with an important fiscal cushion.

Data regarding SLFRF appropriations remains difficult to compare accurately across jurisdictions with official reports somewhat dated. Fitch reviewed spending plans filed with the US Treasury Department (Treasury) last summer and ARPA spending compilations from the National Conference of State Legislatures, National Association of State Budget Officers, Council of State Governments and the Center on Budget and Policy Priorities. Additional data will become available following upcoming federal reporting deadlines on Jan. 31 (states and large locals) and April 30 (all others). Local government SLFRF allocation trends will be difficult to assess until then.

Fitch estimates approximately half of states' SLFRF funds have been programmed. A much smaller share has actually been spent, with most allocations spanning multiple years. Approximately 70% of the total $350 billion has been distributed by Treasury, with the remainder expected in 1H22. The final SLFRF rule published on Jan. 6 is largely consistent with the interim rule released last spring. Restrictions against directly using SLFRF for debt repayment and reserve replenishment remain in place.

Despite strong economic and fiscal recoveries, states have allocated between $10 billion to $20 billion for 'revenue replacement', the largest category to date of the four primary ARPA-authorized uses. Treasury guidance allows revenue replacement to cover any government services, a very broad authorization, and also allows for streamlined reporting and compliance with this designation. One-time revenue replacement poses the risk of creating fiscal cliffs for state and local governments if it directly funds recurring operating needs.

In many cases governments allocating SLFRF for revenue replacement are separately forecasting budget surpluses or significant one-time expenditures, thereby mitigating credit risk. Given the flexibility of revenue replacement uses, governments can apply SLFRF dollars to operating needs and subsequently apply state-source revenues to other uses, such as debt repayment or reserves.

California and Illinois are among the states that allocated the most toward revenue replacement, $8.6 billion and $2.0 billion, respectively, with California projecting large surpluses over the next few years and Illinois budgeting to use state dollars to pay down liabilities. California's Legislative Analyst Office projected operating surpluses of $3 billion to $8 billion annually through fiscal 2026 in its November 2021 fiscal outlook report. Illinois' fiscal 2022 enacted budget includes $1 billion to pay down federal pandemic loans, which the state completed earlier this month, and $900 million to repay interfund borrowing.

Up to 10 states have not made any allocations of SLFRF funds, as is the case with many local governments, and most allocated funds have not actually been spent. While Fitch anticipates continued economic and revenue growth in 2022 in the US, pandemic uncertainty and inflation remain downside risks, and the fiscal cushion provided by unallocated or unspent SLFRF will support state and local governments' fiscal resilience in the near term.

Disputes around SLFRF use, including lawsuits against Treasury's rule prohibiting the use of SLFRF to fund tax cuts and the federal government's challenge of Arizona's allocation of funds in ways that may conflict with federal public health guidance for schools, are not expected to affect credit as SLFRF funding is not a key rating driver for most governments.

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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.

GOP Governors Resist Biden's Attempts to Restrict Infrastructure Spending.

They're cautioning the White House against pushing "a social agenda" under the public works law.

Sixteen Republican governors pushed back at the Biden administration over its plans for how to dole out money coming from a new federal infrastructure law.

"We ask that your administration not burden states or private sector partners with needless and unnecessary red tape," the Republican governors wrote in a letter sent to Biden on Wednesday.

"Excessive consideration of equity, union memberships or climate as lenses to view suitable projects would be counterproductive. Your administration should not attempt to push a social agenda through hard infrastructure investments and instead should consider economically sound principles that align with state priorities," the Republican governors added.

Continue reading.

Route Fifty

By Daniel C. Vock

JANUARY 20, 2022

Biden's Infrastructure Czar Offers Tips for Cities Seeking Grants.

Mitch Landrieu, a former mayor, suggested that local governments can act now to prepare for competitive funding programs available under the new $1.2 trillion public works law.

The senior White House advisor tasked with overseeing the recently approved $1.2 trillion infrastructure package says there are immediate steps cities can take that could help them compete for grants federal agencies will award under the law.

"You don't have to wait," Mitch Landrieu, former mayor of New Orleans, told members of the U.S. Conference of Mayors on Friday.

For instance, he said city leaders should make sure proposed road and bridge projects are part of their regional planning organization's transportation improvement plan. Additionally, he said, they could determine where they'd like to install electric vehicle chargers, map and inventory lead pipes that need to be replaced, and work with states to identify broadband gaps.

He also suggested that mayors preparing to pursue grant funding should loop in their congressional representatives as allies—even if those lawmakers voted against the infrastructure legislation. "Even those that voted no, still want the dough," he quipped.

The mayors group was gathering in Washington, D.C. this week for its annual winter meeting.

Landrieu, who served as Conference of Mayors president from 2017-18 during his mayoral tenure, was sympathetic to concerns among city officials that major funding streams from the public works law will go to states, rather than directly to cities.

"I know that for some of you in this room the fact that the money has gone to the states gives you headaches … and it may not easily trickle down to your community," he said. "You've got to do your work on that level, to make that happen and to make your case."

Landrieu urged attendees to pick up a fact sheet available at the meeting in Washington, D.C. meant to provide a thorough list of the competitive grant programs that the infrastructure law includes for cities. He said a more detailed guide for states and localities, covering different programs in the package, would be released in the coming weeks.

And he said his team was working on developing a "technical assistance pipeline" to help cities through grant application processes, acknowledging that, especially for smaller cities with limited staff, applying for federal funding can be a heavy lift.

Route Fifty

By Bill Lucia

JANUARY 21, 2022

Will the OPEB Ostriches Ever Run Out of Excuses?

Many years ago, public financiers woke up to the problem of funding "other post-retirement benefits," but then some of them went back to sleep. Younger public employees

should demand an actuarial wake-up call.

Flash back to 2004, when the governmental accounting community began to seriously address the balance sheet and cost-accounting liabilities for "other post-employment benefits" such as retiree health care in particular, but also certain life insurance and deferred compensation arrangements — benefits provided in addition to pension distributions and known by CFOs as OPEB.

It was a time when pension accounting was moving to the corporate model for expensing the benefits when earned and booking the liabilities on employers' balance sheets, and the practice of actuarial funding through pension reserve funds was well established. Although most systems had unfunded pension liabilities, they at least had some assets on their books. Even the commonwealth of Massachusetts, once notorious for "pay-as-you-go" can-kicking, had migrated to the pension pre-funding model in the 1980s.

But there and elsewhere, OPEB benefits were largely unfunded as a matter of practice, with many public employers relying on future taxpayers to cover the costs. That's a classic violation of the concept of intergenerational equity.

Continue reading.

governing.com

by Girard Miller

Jan. 18, 2022

Fitch Ratings Updates Public Finance and Global Infrastructure ESG Dashboard and Other Tools for 4Q21.

Fitch Ratings-New York/London-19 January 2022: Fitch Ratings has updated the Interactive ESG Dashboard for Public Finance and Global Infrastructure, the ESG Relevance Heatmap, and the Discovery Tool for 4Q21.

The dashboard 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 US Public Finance Tax Supported (USPF Tax) and USPF Revenue Supported (USPF Revenue) sectors.

Mexico City's Airport Trust (Grupo Aeroportuario de la Ciudad de Mexico, S.A. de C.V. [GACM]; BBB-/Stable) had its ESG.RS for Financial Transparency revised to '3' from '4' to incorporate the observed improvement in the quality of financial disclosure. The improvement was concurrent with a revision to GACM's Outlook to Stable from Negative, which reflect improved cash flow performance above Fitch's rating-case assumptions.

Labour-related budget pressure led to several French IPF GRE hospitals receiving a '4' in 'Labor Relations and Practices'. Higher compensation for employees was intended to improve the appeal of public hospitals.

Three Argentinian LRGs had ESG.RS lowered to '4' from '5' for 'Creditor Rights', including the

Province of Neuquen (CC) and Municipality of Cordoba (CCC-), reflecting their improved willingness to service and repay debt obligations. The revision for the Province of Chubut (CC) reflected the completion of the province's distressed debt exchange in December 2020 and its adherence to the agreed-upon terms in 2021.

In USPF Revenue, North Miami Beach (FL) [Water Utility] (SCP: a+/Negative) had its ESG.RS revised to '5' from '3' for 'Management Strategy' due to an inefficient operational strategy that has resulted in rapidly escalating operating costs and variable financial performance.

The reports, 'ESG Public Finance Interactive Dashboard – 4Q21', 'Public Finance ESG Relevance Heatmap – 4Q21', 'Public Finance ESG Credit Discovery Tool – 4Q21', are available at fitchratings.com.

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Additional information is available on www.fitchratings.com

S&P: Navigating The Strengths, Challenges, And Best Practices In Sustainable Finance Frameworks And Transaction Documentation.

Key Takeaways

- Reaching $960 billion in 2021, sustainable debt issuance continues to climb to impressive heights, but the credibility and legitimacy of sustainable debt instruments is still sometimes murky.
- Because the issuer assigns the "sustainable" label to a transaction, there are several factors that can set transactions or financing frameworks apart as stronger or weaker in our sustainable financing opinion analysis. In use of proceeds transactions and frameworks, these could include risk management and reporting practices, while for sustainability-linked they include KPI relevance and SPT ambition.
- The strengths and weaknesses that we have identified thus far in the market may soon look very different, and we expect the transparency and detail disclosed in documentation to increasingly go beyond minimum requirements as the push toward greater granularity in disclosure, from issuers, investors, and intermediaries, accelerates.

Continue reading.

18 Jan, 2022

S&P Outlook For U.S. Public Finance Housing: Strong Metrics Will Hold Up The Roof In 2022

Sector View: Stable

Our view remains stable as issuers and providers have proven resilient in managing their loan or property portfolios, with generally stable financial results. We expect elevated nonperforming assets from the sharp downtown in 2020 will resolve this year, and that stable performance will continue despite headwinds from inflation, the coronavirus, rising rates, and employment and supply chain challenges.

Continue reading.

18 Jan, 2022

S&P: Amid Price Volatility, Cost Recovery And Risk Management Are Key To Rating Stability For U.S. Municipal Gas Utilities

Key Takeaways

- Under ordinary circumstances, municipal gas utilities effectively use pass-through mechanisms to recover volatile and sometimes high costs of the commodity they sell, which helps preserve credit ratings. The rating distribution for U.S. municipal gas utilities (with most ratings in the ‘A’ category) reflects the strength of management’s tools to mitigate price volatility.
- Extreme weather, such as this past February’s polar vortex, can exacerbate natural gas price volatility, result in extreme unbudgeted costs for U.S. Municipal Gas Utilities, and affect credit quality.
- Given the rise in natural gas prices this fall, the use of risk management strategies by many municipal gas utilities help shield utilities and their customers from price volatility. Examples of these strategies include the use of cost adjustment mechanisms, physical gas storage or other hedging practices, and maintenance of sufficient liquidity.

Continue reading.

18 Jan, 2022

S&P Outlook For U.S. Municipal Utilities: Stable, With Expanding Operating Margins

Sector View: Stable

Robust financial performance cushions the sector from near- and longer-term pressures. Rate-setting flexibility has long underpinned the strong financial performance that is the cornerstone of the sector; however, we believe affordability concerns could limit this strength for some. Asset resilience will be critical in meeting climate-related challenges.

Continue reading.

19 Jan, 2022

S&P Outlook For Global Not-For-Profit Higher Education: Out Of The Woods, But Not Yet In The Clear

U.S. Sector View: Stable

After four years of it being negative, we have revised our sector view for U.S. higher education to stable. Most colleges and universities have successfully responded to the pandemic, with significant help from federal emergency funding and record investment gains in fiscal 2021. A return to on-campus learning in fall 2021 buoyed tuition and auxiliary revenues, but the effectiveness of health and safety measures will be critical to continued in-person learning amid new variants. While financial flexibility has improved, additional risks remain, such as inflation and enrollment pressures. Schools with weaker demand and financial profiles still have less operating flexibility and could face credit deterioration. Notably, despite their worst crisis in decades, no rated colleges or universities defaulted on their debt.

Continue reading.

20 Jan, 2022

Federal Policies Help Spur Municipal Bond Market, but Headwinds Remain.

Analysts are generally optimistic about the stability of government finances, but lingering issues—Covid, inflation and supply chain bottlenecks—pose economic and fiscal risks in the short term.

Municipal bond analysts are generally optimistic about the stability of state and local government finances in 2022, largely thanks to the influx of federal funding over the past two years. But lingering issues including the rapid spread of the omicron variant, accelerating inflation and supply chain bottlenecks still pose economic and fiscal risks to governments in the short term.

Bond issuance last year totaled $476 billion, a slight decrease over 2020, which saw unusually heightened refinancing activity as governments tapped the market for cash to weather the onslaught of the pandemic. Ratings analysts expect government issuance this year to be comparable to 2021's total and predict that any year-over-year increase in activity is likely to be driven by new debt.

The $350 billion in fiscal recovery funds to governments from the American Rescue Plan has played a big role in stabilizing the revenue picture by providing money to offset decreases in revenue. More recently, the passage of the Infrastructure Investment and Jobs Act represents $550 billion in new, one-time funding that can either supplement state and local infrastructure project costs or pay for them outright.

Continue reading.

Route Fifty

by Liz Farmer

JAN 19, 2022

Muni Credit Improves With Upgrades Outpacing Downgrades in 2021.

- **Fitch Ratings recognizes slow but continued recovery**
- **Rates most muni sectors as stable heading into the new year**

More municipal bond borrowers were upgraded than downgraded last year, a shift from 2020 when state and local government credit took a hit in the early stages of the coronavirus pandemic.

In 2021, Fitch Ratings upgraded 95 U.S. public finance ratings and downgraded 91, compared to 101 and 181, respectively, in 2020, the company said in a report published Tuesday.

Last year was marked by "slow but continued recovery" after Covid-19 vaccines became widely available and many pandemic-related restrictions were lifted, wrote Arlene Bohner, head of U.S. public finance ratings, and her colleagues in the report. "Economic and fiscal recovery continued to out-pace projections in most locations, in some cases by considerable margins."

In the coming year, the company expects slower but above average U.S. economic growth with inflation and supply chain disruptions posing headwinds. In addition, the recent spike in virus infections poses risks to the leisure and travel industry; college and university enrollment; and staffing for hospitals and life plan communities, the group said.

The company is "stable" on most sectors of the $4 trillion municipal bond market with improving trends most evident in U.S. states, not-for-profit hospitals and higher education sectors. Fitch didn't downgrade any states in 2021, compared to cutting four ratings at the height of the pandemic in 2020. Four states — New Jersey, Ohio, Illinois and Michigan — had a positive outlook as of the end of the fourth quarter, as bottom lines were bolstered by strong tax collections and the White House's American Rescue Plan.

"States and local governments will benefit from their share of the hundreds of billions of dollars in direct aid provided under ARPA," the report said. "Fitch anticipates this aid, the vast majority of which remains unspent and even unallocated, will provide cushion in the event of unexpected economic or public health setbacks."

Bloomberg Markets

By Danielle Moran

January 18, 2022

Wall Street Stays Positive on Muni Debt as Retail Buyers Retreat.

- **State, local bond sales to pick up, with credit ratings solid**

- **Investors waver as imminent Fed rate increases sour demand**

The optimism Wall Street has for municipal bonds this year remains intact, even if the promise of higher interest rates is hitting munis almost as hard as other markets.

“There are aspects that are unique to the muni market and just looking at those, it’s poised to be a pretty good year,” said Daniel Solender, head of municipals at Lord Abbett & Co. “The economy is doing well, a lot of balance sheets are flush with cash from the stimulus. The true wild card is what is going to happen with rates.”

The $4 trillion municipal market is likely to benefit from a continued bounty of new bond sales and a strong credit environment, with states and localities bolstered by tax revenues and pandemic-era federal aid, a review of annual outlooks and interviews with analysts and investors at more than a dozen firms show.

The forecast for investor demand is less robust, with the Federal Reserve poised to raise rates to combat the fastest inflation in almost 40 years and U.S. tax increases less likely than anticipated last year. So far this year, tax-exempt municipal bonds have lost about 1.3%, after gaining 1.5% for all of 2021, and they are on track to post the worst monthly performance since February, according to Bloomberg’s benchmark index.

While January’s muni return isn’t all that attractive, it beats those of U.S. Treasury securities and investment-grade corporate debt, which have dropped 1.95% and 2.8% respectively, according to Bloomberg indexes.

“It’s likely that muni bonds won’t perform as well as they used to, but I don’t expect it to be a massively awful year,” said Cooper Howard, director of fixed income strategy at the Schwab Center for Financial Research.

A troubling sign is a recent drop in demand. Muni mutual funds saw $239 million withdrawn during the week ended Wednesday, halting a streak of 45 straight weeks of gains, according to Refinitiv Lipper US Fund Flows data. Municipal bond funds had a record amount of inflows in 2021, helped by anticipation of higher taxes from the Biden administration’s spending plans, some of which are now stalled in Congress.

“The likelihood that demand weakens is higher in 2022 than it was in 2021,” wrote Adam Stern, co-head of research at Breckinridge Capital Advisors in an outlook note published earlier this month.

In another signal of waning investor interest, about $1.4 billion of municipal bonds were being offered for bids from potential buyers on Thursday, the most since April 2020, according to a Bloomberg index.

“Treasuries are really in the driver’s seat,” Paul Malloy, head of municipals at Vanguard Group, said in an interview. “While fundamentals are really good, we expect munis to move alongside Treasuries.”

Still, most market professionals aren’t calling for a major retreat from the asset class.

“We believe that investors’ appetite toward munis will continue in 2022; however, should tax rates be lower than current expectation, there could be a mild pullback in demand,” according to Brian Rehling, Peter Wilson and Luis Alvarado at Wells Fargo Investment Institute, in a Jan. 18 strategy note. They have a “favorable” view of municipal bonds, saying that rising rate cycles by the Fed have historically been positive for the market.

Strong Issuance

Analysts agree that borrowing by state and local governments will continue apace. Municipalities sold a record of more than $460 billion of debt in 2021, according to data compiled by Bloomberg, and they're likely to match or exceed that total this year.

"We're off to a slow start but issuance will pick up," said Solender of Lord Abbett. "Issuers have a lot of cash on their balance sheets. That may make governments more confident in issuing more bonds."

States and local governments alone received $350 billion of stimulus aid from the federal government, not counting additional funds that flowed to other municipal borrowers like colleges and hospitals.

"Municipal credit enters the year on a strong footing, largely due to assistance of the federal government during the pandemic," wrote Patrick Luby and John Ceffalio, municipal analysts at CreditSights, in a 2022 outlook note published on Jan. 19. Their "base case" is that credit will continue to improve as the economy recovers and the worst of the pandemic passes.

Investment Strategies

Peter Hayes and Sean Carney, municipal heads at BlackRock Financial Management Inc., one of the largest municipal bond investors, say the market will continue to outperform other fixed-income assets, even if returns are muted.

"While broader bond markets tend to struggle during periods of rising rates, munis have proven relatively resilient to interest rate increases," Hayes and Carney wrote in a report to clients. "We will focus on defensive sectors and pay particular attention to bond structures, favoring those with higher coupons and shorter calls."

The BlackRock managers advise investors to avoid bonds sold to finance speculative projects, like private train lines and retail shopping centers. "Many of these deals are extremely risky, with bondholders ultimately assuming equity-like risk for mid single digit yields," they said. "We believe many of these projects are 'uninvestable' based on their upside down, risk reward profile."

Schwab's Howard recommends lower-investment grade debt, those in the A or BBB rating tiers, because "credit concerns are relatively low right now," he said. He doesn't think investors are being properly compensated for the risk of taking on junk or unrated bonds.

And in a nod toward coming interest-rate increases, Thornburg Investment Management Inc. portfolio managers are "invested in more floating-rate notes, which will serve as a buffer to protect the short end of our portfolio if rates move higher," wrote Eve Lando, David Ashley and John Bonnell, adding "since spreads have been very narrow, we have preferred higher-quality credits over lower-quality ones."

Bloomberg Markets

By Danielle Moran

January 21, 2022

[Bankruptcy Woe Ends for Puerto Rico, But Not Wall Street: Joe Mysak]

- **Judge says auditing certain bond issues would be 'helpful'**
- **Oversight board sought to cancel $6 billion of bonds in 2019**

The Puerto Rico bankruptcy isn't over for Wall Street.

The commonwealth is poised to exit its Title III debt restructuring, after Judge Laura Taylor Swain approved the debt-reduction plan of the island's oversight board this week. And now for the unfinished business.

It's mentioned briefly on page 29 of the Findings of Fact and Conclusions of Law filed by the judge, in a footnote that's easy to miss if you aren't looking for it.

"Many residents of Puerto Rico, political leaders, and investors have called for specific auditing of the bond issues and the application of the proceeds of certain bond issues and/or prosecution of individuals or entities that may have misapplied bond proceeds," the footnote states. "Such inquiries could be helpful to Puerto Rico as it grapples with its past and moves toward the future."

But this reckoning isn't what these proceedings are about, the footnote continued. The oversight board, "in its capacity as the Debtors' representative, has focused on the identification of resources that can be marshaled for application to outstanding debts, and on reaching agreements to reduce outstanding debts without extensive further litigation."

And this has been accomplished, not quite seven years since Governor Alejandro Garcia Padilla announced in the New York Times that "the debt is not payable," which is my nomination for the first entry in any proposed Quotable Municipal Bond Market.

Debt Leader

Now it's time to find out how this happened. For me, Exhibit I of "this" is defined by the annual state debt medians report published by Moody's Investors Service, which showed how the U.S. territory of Puerto Rico, an impoverished Caribbean island of about 3.3 million people, led the nation when it came to per capita debt.

Every year Moody's would publish the list of 50 states and then way at the bottom, below the states and on a line all its own, would be Puerto Rico, "not included in any totals, averages, or median calculations but provided for comparison purposes only."

In 2004, for example, Connecticut had the most tax-supported debt per capita at $3,558. At the time, I wrote, "The actual No. 1 borrower isn't a state at all. Puerto Rico has $5,758 in net tax-supported debt per capita. That's a little scary." That was the first time I pointed out the incongruity, and I wished I'd done more with it back then.

But far worse was to come. The 2015 report showed that Connecticut still had the most tax-supported debt per capita, at $5,491, and Puerto Rico's had grown to $15,637. In terms of 2014 net tax-supported debt as a percentage of 2013 state gross domestic product, Hawaii topped the state list at 9.18%. Puerto Rico's was 53.85%.

How did this happen? How was Puerto Rico allowed to keep piling on the bonded debt that eventually swallowed the island up? Finding out, as the judge wrote, would be "helpful," as the island "grapples with its past and moves toward the future."

It may do well to keep in mind that back in 2019, the oversight board sought to repudiate $6 billion in full-faith-and-credit bonds because their issuance breached debt limits in the island's constitution. That particular gambit proved a useful negotiating tactic to seal creditor agreement, and otherwise went nowhere, but the board had a point.

The above-cited footnote concludes, "confirmation of the Plan does not preclude further investigations or law enforcement activity with respect to conduct in connection with the past issuance of debt and application of debt proceeds."

Bankers and underwriters may find themselves facing more questions about what happened in Puerto Rico.

Bloomberg Markets

By Joseph Mysak Jr

January 21, 2022

[Rising Interest Rates Hit Municipal-Bonds Market]()

Investors expect climbing rates to fuel more volatility in the year ahead

Municipal bonds are off to their worst start since 2011.

The early-year bond rout has dragged returns on the S&P Municipal Bond Index to minus 1.1% through Jan. 20, counting price changes and interest payments. The loss is an early sign that rising interest rates could make 2022 rockier than last year, when federal stimulus and elevated demand from homebound savers led to record low volatility and historically high prices.

Now investors are eyeing those prices more warily. Muni bond mutual and exchange-traded funds took in a net $830 million through Jan. 19, compared with $6.1 billion last year, according to Refinitiv Lipper. After Fed officials indicated they could lift short-term rates sooner than expected, muni yields jumped alongside Treasury yields, with 10-year AAA muni yields rising to 1.28% Jan. 20 from 1.03% Dec. 30, according to Refinitiv Municipal Market Data. Yields rise as bond prices fall.

Continue reading.

The Wall Street Journal

By Heather Gillers

Jan. 23, 2022

The Municipal Bond Market In 2022 (Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news from the municipal bond market. He talks about the start to 2022 for municipal bonds and year-to-date returns. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Jan 21, 2022

Muni Market Outlook - Don't Panic, Value Starting To Emerge

Summary

- Munis have been selling off lately, driven by above-average valuations going in to 2022, high duration risk, and a stalled federal spending plan.
- Over time, this has proven to be a reasonable way to earn income, especially given the tax advantages. I continue to view sell-offs as a buying opportunity.
- Despite this, I caution readers from getting too exposed to long duration funds. Interest rates will rise this year, most likely, and they don’t want to be caught with too much duration risk.
- Munis continue to have a low correlation to other assets, and provide a reasonable way to manage volatility. While the short term has been painful, longer-term investors in this space should not panic.

Continue reading.

Seeking Alpha

Jan. 24, 2022

Flush With Federal Aid, City Finance Officers Offer Optimistic Outlook.

“It has been a rather incredible two-year period,” notes one official.

Three finance officers from major U.S. cities on Thursday described how the fiscal outlook for their governments has brightened substantially since the early days of the Covid-19 outbreak and stressed how federal aid has provided an important boost.

When the pandemic first struck in early 2020, it sent shockwaves through the world of state and local finance. Since then, budgets in most places have stabilized following massive infusions of federal relief dollars to states and localities directly and to American households. At the same time, certain key state and local revenue streams never dried up as badly as many first anticipated.

Brendan Hanlon, chief financial officer for the city and county of Denver, recalled how the government there entered into the pandemic with a $1.5 billion general fund budget and then lost around $200 million in 2020. One way Denver closed the gap was cutting labor costs, leaving open jobs vacant and offering retirement incentives.

“It has been a rather incredible two-year period. It’s been the depth of the lows and now, with federal funds, we have so many opportunities for investment. It’s a bit of a high of the highs,” he said during an event held by the Milken Institute.

The American Rescue Plan Act, with its $350 billion of direct state and local aid, is proving to be an especially significant source of help for states and localities. They're also gearing up for an influx of new federal dollars for public works under the $1.2 trillion infrastructure law President Biden signed in November.

'It Helped Us Manage'

Elizabeth Reich, chief financial officer for Dallas, noted that the city has received hundreds of millions of dollars in federal aid over the course of the pandemic—its direct ARPA aid alone totals $355 million and an earlier CARES Act allotment was around $234 million. "It helped us manage through the last two years," she said.

"But money alone doesn't cut it. And more important is how you invest that money," Reich added. She explained how Dallas focused its earlier pandemic spending using CARES Act dollars on immediate needs like testing, vaccinations, protective equipment for workers, rental aid, shelter for the homeless and small business assistance.

With ARPA spending, the city has turned its attention to longer-term infrastructure and economic development investments, targeting areas like water and sewer upgrades, housing preservation in lower-income neighborhoods and solving gaps with internet connectivity.

Meanwhile, Reich said that sales taxes in the city have completely recovered and based on the latest figures have been coming in stronger than expected in recent months, which she says is likely attributable to factors like the expanded federal child tax credit and other federal stimulus spending, as well as the city capturing tax revenue from online sales.

She also said that despite fears earlier in the pandemic that Covid-19 would drive down property values and, in turn, sales tax collections, Dallas isn't seeing clear signs of erosion at this point. Property value grew by about 4.56% in 2021, with commercial property value growth slightly outpacing residential, Reich said.

Taxes from weekday hotel stays are down compared to pre-pandemic levels, a sign of decreased business travel, she said. But she also noted that Dallas is seeing companies and people relocate to the city, and that unemployment is falling, although not quite to pre-pandemic levels.

"Overall, Dallas is in a strong position," she said.

Jennie Huang Bennett, Chicago's CFO, said that after Covid struck, the city was facing lost revenues in the ballpark of $1.5 billion in 2020 and 2021, on top of earlier financial difficulties. But she said that the losses from the pandemic were largely one-time hits and federal aid has helped bridge the city's path to recovery, and to support investments in low-income neighborhoods.

Bennett said the city is on track to achieve "structural balance" with its budget by 2023 despite the turmoil Covid caused. Bennett said that income, sales and real estate-based taxes have been performing strongly. But the city is seeing some lagging revenues tied to tourism and hotels, along with ride-sharing, parking garages and utilities, with remote work a likely culprit behind these declines.

Hanlon said it's still unclear what the long-term effects of remote work will be on downtown real estate in Denver. But he said that the city is considering options to potentially promote more residential growth in the area. "We've been talking about how do we make sure we have a nimble, flexible response to different uses of space," he said.

Route Fifty

By Bill Lucia

JAN 13, 2022

Treasury's Final American Rescue Plan Guidance Means It's Time for Local Leaders to Invest in an Inclusive Future.

Ten months after the passage of the $1.9 trillion American Rescue Plan Act (ARP), local officials across the United States continue to possess significant opportunities to deploy the act's $350 billion in flexible Coronavirus State and Local Fiscal Recovery Funds (SLFRF) to address critical priorities. And last week, these leaders received final guidance on how to use this massive investment to build an inclusive future for their communities.

Back in May 2021, the U.S. Department of the Treasury published an interim final rule laying out permitted SLFRF uses, and invited feedback from local officials and other experts. It provided state and local officials with guidance on four statutorily prescribed uses: responding to COVID-19's public health and economic impacts; providing premium pay; investing in water, sewer, and broadband infrastructure; and replacing lost public sector revenue.

Subsequently, cities, counties, and states issued preliminary reports detailing how they intended to use SLFRF dollars. However, as we observed last fall, the lack of a final rule from Treasury on implementing the program may have discouraged some cities from making firm decisions about how they would use their funding allocations, as they awaited clarifications or assurances regarding eligible activities.

Continue reading.

The Brookings Institution

by Alan Berube and Eli Byerly-Duke

Friday, January 14, 2022

ARPA Final Rule – The "B-Sides Collection": Funding Capital Projects

Much has been written by various prognosticators regarding the January 6, 2022, release by the U.S. Treasury of its Final Rule as to the use by state and local governments of federal stimulus funding under the American Rescue Plan Act (ARPA).1 One head-turning change under the new guidance is the Treasury presuming up to $10 million in revenue has been lost by each local government due to the public health emergency. Recipients are permitted to use up to that amount (not to exceed their respective awards) to fund "government services."2 The U.S. Treasury itself has published a high-quality overview describing the Final Rule's guidance.

Here, we embark on a concept borrowed from the music recording industry. Rather than rehash key takeaways from the Final Rule (the "A-side" singles heard on Top 40 radio, if you will), we intend to share our takes on some of the lesser publicized aspects of the new ARPA guidance (the “B-sides”).

We’re launching this series of articles here by reviewing in detail an aspect of Local Fiscal Recovery Funds that garner a great amount of attention from our clients: funding capital projects.

Counties, metropolitan cities and non-entitlement units of local government (i.e., non-metro cities and townships in Ohio) may use their ARPA Local Fiscal Recovery Fund payments under four buckets of use set forth in the statute.[3] Among the listed eligible uses, the first and third buckets are relevant in the context of capital projects: “a) To respond to the public health emergency…; c) For the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency”.[4]

As a response to the COVID-19 public health emergency (i.e., the 1st bucket), a capital project could be funded, in whole or in part, by ARPA funds, subject to heightened reporting and justification procedures written into the Final Rule.

Under this 1st bucket of eligible use analysis, the Final Rule presumes certain enumerated uses — relating to building improvements — as reasonably proportional responses to the pandemic. One such use is the “installation and improvement of ventilation systems in congregate settings… or other public facilities”.[5]

Continuing with the 1st bucket analysis, the Final Rule makes a clear distinction that capital projects, in and of themselves, are not presumed to be reasonably proportional responses to the COVID-19 emergency.[6] Having said that, ARPA funds indeed may be deployed to certain capital expenditures as responses to the pandemic.[7]

First, local governments must satisfy the U.S. Treasury’s two-part framework: (1) there must be a negative public health impact resulting from or exacerbated by COVID; and (2) the local government’s response must be designed to address the identified health impact, which such response must be “reasonably proportional” (i.e., the scale of the response as compared to the scale of the harm).[8]

Second, if a project has total capital expenditures of less than $1 million (i.e., Treasury’s “safe harbor”), the local government must write-up sufficient supporting information (i.e., answer the two-part framework) for its audit file as to those funded components. If a project is equal to or more than $1 million, the local government also must prepare a written justification for the funded components.[9]

Along these lines, local government recipients may consider deploying their ARPA funds to HVAC improvements in public facilities (presumed eligible use), or undertake capital projects that involve building improvements and new facility construction, so long as such projects satisfy the U.S. Treasury’s justification and reporting protocols.

As a provision of government services (i.e., the 3rd bucket), a local government may instead choose to deploy its ARPA funds to parts (or the entirety) of a capital project as a government service, according to its determined amount of lost revenue.

In so doing, the jurisdiction may deploy up to $10 million to the provision of government services, which Treasury defines generally as “services provided by the recipient governments… unless Treasury has stated otherwise”.[10]

But such broad swath of activities remain subject to the Final Rule’s restrictions on use, which are applicable to every ARPA dollar spent.[11]

Finally, local governments must encumber their ARPA funds under capital projects no later than December 31, 2024, with full pay-out on such encumbrances (i.e., purchase orders) by December 31, 2026.

Procurement considerations to guide federal stimulus expenditures

Local governments must keep in mind some key notions when using these funds. First, procurements must comply with applicable state and local laws. The sealed bidding process is always a good option. However, other state statutes establish alternative procurement methods that may be used. For example, Section 167.081 of the Ohio Revised Code allows local governments to utilize cooperative purchasing through a council of governments in lieu of bidding the project itself. Local governments may also use alternative delivery models, such as construction manager at risk or design-build, which have their own statutory procurement methods to be followed.

Second, because this funding is through federal grants, procurements must also comply with *federal law*. Federal regulations, known as the Uniform Guidance, provide their own procurement methods that must be followed when non-federal entities use federal funds. Fortunately, the federal requirements are fairly analogous to Ohio law. For example, for purchases exceeding $250,000, the Uniform Guidance requires local governments to use either a sealed bidding process or a competitive proposal process. These options line up with state and local sealed bidding processes, or the competitive proposal processes in the construction manager at risk or design-build statutes.

Additionally, the Uniform Guidance permits — and in fact expressly "encourages" — the use of cooperative purchasing programs. However, the underlying contract between the cooperative purchasing program and the contractor must itself have complied with the requirements of the Uniform Guidance. It is ultimately the local government's responsibility to confirm this federal compliance. Additionally, as discussed above, the cooperative purchasing program utilized must also comply with the requirements of state law.

Interestingly, the U.S. Treasury has been clear that federal Davis-Bacon Act wage requirements are inapplicable to projects whose federal funding is comprised solely with ARPA Local Fiscal Recovery Funds (although, if a state has a prevailing wage law – and Ohio does – that state's prevailing wage requirements still apply).12

Finally, local governments must remember that capital projects may require compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970,13 particularly in those projects involving vacant or abandoned properties.14

1 H.R. 1319, Public Law 117-2.

2 31 CFR 35.6(d)(1).

3 See ARPA, Title IX Sec. 603(c)(1)(A) through (D).

4 U.S. Treasury, Final Rule, Supplementary Information, at pages 4-5 (emphasis added).

5 31 CFR 35.6(b)(3)(i)(A).

6 See U.S. Treasury, Final Rule, Supplementary Information, at page 57.

7 Id., at pages 190 – 205.

8 See 31 CFR 35.6(b)(1); see also U.S. Treasury, Final Rule, Supplementary Information, at pages 21

– 22, and at page 194.

9 See 31 CFR 35.6(b)(4); see also U.S. Treasury, Final Rule, Supplementary Information, at page 194.

The written justification is comprised of (1) a description of the public harm to be addressed by the capital expenditures; (2) an explanation why such capital expenditures are appropriate to address that harm; and (3) a comparison against two alternative types of capital expenditures (see U.S. Treasury, Final Rule, Supplementary Information, at pages 196 – 198). This document must be either kept in the audit file or filed with the U.S. Treasury (see 31 CFR 35.6(b)(4); see also U.S. Treasury, Final Rule, Supplementary Information, at pages 204 – 205).

10 See U.S. Treasury, Final Rule, Supplementary Information, at page 259.

11 Id. at page 260. The Final Rule's restrictions on use are divided into (1) statutory restrictions under ARPA: offsetting the local government's reduction in net tax revenue; and (extraordinary) deposits into pension funds; and, (2) other restrictions: debt service and replenishing reserves; settlements and judgments; and general restrictions (efforts that contradict the effort to contain COVID-19; conflicts of interest and ethics rules; and other federal, state and local laws).

12 See U.S. Treasury FAQs, updated as of November 15, 2021, Item 6.17. Projects that are funded with other federal funds, in addition to ARPA, must comply with Davis-Bacon Act requirements.

13 42 U.S.C. 4601, and Department of Transportation regulations at 49 CFR Part 24.

14 See U.S. Treasury, Final Rule, Supplementary Information, at pages 136-137.

By Jeffry D. Harris, Caitlin A. Langfitt, Christopher L. McCloskey

Friday, January 14, 2022

Bricker & Eckler LLP.

NASBO: FY2023 Proposed Budget Summaries

Overview

Over the coming months, governors in 33 states will propose a new budget for fiscal 2023. 30 states will approve a one-year budget for fiscal 2023, while 3 states (Kentucky, Virginia, and Wyoming) will consider a two-year budget for fiscal 2023 and fiscal 2024. Seventeen states previously enacted a biennial budget for both fiscal 2022 and fiscal 2023; in some of these states, the governor will propose a revised or supplemental budget. 46 states begin their fiscal year on July 1 (New York begins its fiscal year on April 1, Texas on September 1, and Alabama and Michigan on October 1).

Continue reading.

[Log4j Code Vulnerability Emboldens US Public Finance Cyber Attacks.]

Fitch Ratings-New York/Austin-14 January 2022: The Log4j code vulnerability, nicknamed Log4Shell, could pose significant risk to public finance entities running Java-based software that incorporates the Log4j open source code, says Fitch Ratings. Public finance entities are broadly exposed due to the widespread use of Log4j, and bad actors will have ample opportunity to exploit the vulnerability. This could result in increased ransomware attacks, placing pressures on public finance entities' operations and finances. In addition, cyber insurance, which is increasingly cost prohibitive, may become unattainable for those entities that are not able to demonstrate robust cyber defenses.

Compromised systems can directly affect public finance entities in the near term through ransom payments and/or the costs of remediation and restoration of data and service. Over the longer-term economic disruption from cyberattacks could lead to loss of revenues for state and local governments and enterprises. The ratings impact of a cyberattack will depend on if an issuer has a material financial, operational, or reputational risk as a result of a breach, along with the effectiveness of disaster recovery and operational continuity plans. Pressures that result in a deterioration of financial metrics could lead to negative rating actions. Robust systems monitoring, capital investment in digital assets, regular software updates, network segmentation, and employee and management vigilance against phishing remain important safeguards against cybercrime.

Experts consider Log4Shell to be one of the most serious cyber security threats in decades, adding to an already challenging ransomware landscape. The US Cybersecurity and Infrastructure Security Agency (CISA) termed the vulnerability "critical" and documented international threat actors gearing up to exploit the vulnerability, advising vendors to prioritize software updates. However, due to the widespread use of the code, it will be difficult to identify and mitigate exposure quickly, and risks may not manifest for months if cyber criminals are able to plant malicious code before software is patched.

Log4j is an extremely common and highly configurable library of code that tracks changes and is used in any number of Java-based applications. A critical vulnerability was discovered on Dec. 9, 2021 that permits unauthorized access to Java-based applications and allows threat actors to insert malicious code into the Log4j framework. The vulnerability currently has no easy, comprehensive mitigation solution and allows hackers to adversely affect programs, data and computer networks.

Ransomware attacks on public finance entities have increased in the past three years. Log4Shell makes the risk of attacks more acute due to the ubiquity of Java-based software, the prevalence of a patchwork of legacy systems across the sector and the finite resources of IT staff. Many Java applications are unsupported or proprietary and organizations that do not have robust asset inventories of active applications may not be able to quickly identify embedded Log4j code. Additionally, the large costs of updating existing equipment and software generally mean that institutions, particularly smaller entities, may rely on legacy systems for many years, even with outdated or unsupported software, leading to gaps in institutional security.

Subsequently, proving a 'clean bill of health' with regard to Log4Shell may be difficult, further compounding the existing challenges that public finance issuers face in acquiring cyber insurance. Insurer guidelines necessitate ever more stringent security audits and adherence to industry best practices, such as staffing and system and software updates, in order to qualify for cyber insurance. Cyber insurance was already increasingly unaffordable for public entities with smaller budgets, with diminishing coverage limits and increasing insurance premiums, and Log4Shell will exacerbate this trend. For further discussion on cyber insurance costs, see our commentary Rising Insurance Costs

Add to US Public Finance Cyber Pressures.

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Tax Revenue Is Rising With Inflation. That's Good for Munis.

- **Credit for some munis could improve from bigger tax hauls**
- **Firm promotes active trading stance amid market slide**

Inflation might not be all that bad for municipal bonds.

State and local debt has already posted a 0.9% loss since the start of the year amid speculation the Federal Reserve could raise interest rates as soon as March to combat inflation.

However, munis can offer a hedge against rising prices because their credit quality could actually improve as a result of it, according to MacKay Municipal Managers.

In a report released Thursday, MacKay Shields’ municipal-bond team noted that higher price pressures can mean municipalities are collecting more in taxes that support bond repayment. For example, toll road operators often adjust their debt service coverage levels to inflation as part of their bond covenants.

As a result, John Loffredo, co-head of MacKay Municipal Managers, said his team is looking to increase exposure to sectors that will see their revenues benefit from inflation, such as bonds backed by excise taxes.

To be sure, rising prices and interest rates still pose a risk to the overall municipal bond market. But the firm's stance is illustrative of the way asset management companies are looking to navigate a less rosy outlook for munis in 2022.

"We cannot sit still and wait for the market to perform," said Loffredo, who's expecting the market index to be flat or slightly down in 2022. "To make a positive return, you're going to have to be very active."

Among the the greater threats from rising interest rates will be the hit to low-coupon bonds, which the firm is avoiding. Over the past few years, low-coupon bonds have been embraced by investors because they can offer higher yields, but their longer duration can be a risk during rate hikes.

"Structure is going to be important" this year, said Bob DiMella, co-head of MacKay Municipal Managers, adding the biggest query his team gets from clients is about inflation.

Another possible bright spot through at least the first half of the year could be high-yield municipals, which the firm has an overweight position on.

The high-yield portion of the market will benefit from Puerto Rico's emergence from bankruptcy, given the territory is in the "ninth inning" of its restructuring, Loffredo said.

Once the territory begins repaying its bonds again, the asset class could see strong demand from investors, which will support performance.

"The way you create alpha and positive return is the active trading stance that we're taking," Loffredo said.

Bloomberg Markets

ByAmanda Albright

January 13, 2022, 5:30 AM PST

S&P Outlook For U.S. Public Power And Electric Cooperatives: Stability Amid An Evolving Landscape

Sector View: Stable

We expect our ratings on public power and electric cooperative utilities to remain largely stable in 2022. Our economists expect the U.S. economy to continue to grow. They further conclude that while virus variants might delay a full economic recovery, they do not expect these developments to derail the recovery. These economic views, combined with our expectations that utility management teams will continue to constructively respond to legislative, regulatory, environmental, and operational developments in 2022, lead us to anticipate generally stable revenue streams and ratings in the sector.

Continue reading.

13 Jan, 2022

[S&P Outlook For U.S. Not-For-Profit Transportation Infrastructure: Mostly Stable; Airports Remain Positive As Operators Navigate A New Variant And A New Normal]

Sector View: Mostly Stable

Cautious optimism remains, despite omicron. Our view of business conditions and credit quality across U.S. public transportation infrastructure is positive for airports and special facilities; stable for toll roads, ports, mass transit, and GARVEEs; and negative for parking.

Continue reading.

12 Jan, 2022

S&P Updated U.S. Transportation Infrastructure Activity Estimates Show Air Travel Normalizing By 2023 And A Stymied Transit Recovery.

Key Takeaways

- 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 and contribute to the longest recovery compared with other U.S. transportation infrastructure asset classes.
- The recent surge in coronavirus infections from the omicron variant will likely delay the positive momentum gained in the second half of 2021 for air travel, as assumed in our downside activity estimates. However, we expect industry conditions will improve in 2022, leading to further recovery and normalizing activity levels.
- Our current baseline activity estimates show public transit recapturing almost 70% of pre-pandemic activity by the end of 2022 and only 75% by the end of 2024; and U.S. systemwide enplanements returning to near pre-pandemic levels in the second quarter of 2023, with the international component continuing to lag the broader domestic rebound.
- Our current downside activity estimates, which assume some pullback of recent gains and slower recoveries due to the threat of coronavirus variants, staffing shortages, or weakening consumer confidence, show public transit ridership returning to only 70% of pre-pandemic levels by the end of 2024 and U.S. systemwide enplanements returning to near pre-pandemic levels by the end of 2023.

Continue reading.

12 Jan, 2022

S&P Outlook For Charter Schools: While Growing Demand And Stimulus Funds Provide Flexibility, Risks Persist

Overall, our stable sector view reflects a balance of opportunities and risks in 2022. The opportunities are primarily driven by generally growing charter school demand, economic recovery, and the disbursement of meaningful federal stimulus funds to states and also directly to public schools, providing financial support for operations and growth in reserves. We expect continued credit stability for states and therefore at least stable per-pupil funding trends. But while financial flexibility has improved, risks remain, such as inflation, coronavirus variants, and mid-term elections. Schools with relatively strong enrollment and reserves are likely to continue to fare better, while schools struggling with enrollment declines will have less operating flexibility.

Continue reading.

11 Jan, 2022

NTIA Issues a Request for Comment on Broadband Funding Programs.

Key Points

- This request for comment is the first formal step for NTIA to establish rules for distributing more than $48 billion in broadband funding contained in the Infrastructure Investment and Jobs Act.
- NTIA is seeking comments on general funding issues as well as issues specifically involving the Broadband Equity, Access and Deployment Program and the Middle Mile Broadband Infrastructure Program.
- Written comments are due by February 4, 2022.

On January 10, 2022, the National Telecommunications and Information Administration (NTIA) published a request for comment on how it should administer several of the broadband funding programs created under the recently enacted Infrastructure Investment and Jobs Act (IIJA). The IIJA tasked NTIA with disbursing more than $48 billion in broadband funding and this release is the first formal step in getting that funding to broadband providers.

NTIA seeks comment on specific components of the IIJA, including the Broadband Equity, Access and Deployment (BEAD) Program, the Digital Equity Planning Grant Program, and the Middle Mile Broadband Infrastructure (MMBI) Program, as well as general comments on the broadband package as a whole. At a later date, NTIA will be seeking comment on the State Digital Equity Capacity Grant and Digital Equity Competitive Grant Programs, as well as conducting a Tribal consultation regarding the additional funding for the Tribal Broadband Connectivity Program.

Set forth below is a general overview of the topics of greatest interest to broadband providers and investors about which NTIA would like stakeholders to comment. Written comments are due by February 4, 2022, and NTIA will be holding additional "listening sessions" regarding the broadband funding programs on January 12, January 26, February 9 and February 23. The IIJA requires NTIA to issue the first notice of funding opportunity for the $42.45 billion BEAD program by May 14, 2022, which among other things will request states to declare their intention to participate in the program, and contain additional details about the program, including the permissible uses of grants, and standards for how states should assess broadband providers' capabilities.

General Comments

- **Coordinating with Other Broadband Programs:** Given the array of existing federal and state broadband funding programs, NTIA asks how to verify that IIJA funding complements other federal and state broadband programs. For example, NTIA will likely be interested in how to ensure that broadband providers do not receive duplicative funding to meet the same buildout requirements,

and how current recipients of state or federal broadband funds can use those funds in conjunction with IIJA funds.
- **Matching Funds Requirement:** Certain programs under the IIJA require recipients to put up their own matching funds or obtain them from other sources. The law allows NTIA to grant waivers, and NTIA would like comment on the circumstances and criteria that should be required for a waiver of the matching funds requirement.
- **NTIA Influence Over State Broadband Programs:** States will be the primary recipients of funding and will be responsible for allocating funds toward projects in accordance with state broadband plans. However, NTIA will first need to approve those plans to release funding. NTIA wants to know how it should assess such plans and whether specific types of competitive subgrant processes (e.g., publicly released requests for proposals and reverse auctions) should be presumed acceptable. Additionally, NTIA would like comment on how best to ensure that a wide variety of potential providers are able to access funds, including municipal broadband, public-private partnerships, cooperatives, utility companies, and small and large traditional providers.
- **Made in America / Supply Chain Problems:** The IIJA contains "buy American" requirements to help support American industry. However, there are currently supply chain interruptions and workforce shortages, and NTIA would like comment on how best to balance the concerns animating the "buy American" requirements with the goal of deploying broadband quickly.
- **Data Collection Requirements:** NTIA wants to know what data recipients of IIJA broadband funding should be required to collect and submit to the federal government to help with program assessment and funding coordination.

Broadband Equity, Access and Deployment Comments

- **Technical Requirements:** What technical requirements should NTIA impose on recipients of BEAD funding? The IIJA requires broadband speeds of at least 100/20 Mbps, and NTIA asks what guidance or requirements it should provide with respect to factors such as cybersecurity, latency, network resiliency, and other service quality features and metrics. Moreover, NTIA wants to ensure that BEAD-funded networks meet Americans' evolving needs in the future, and the IIJA directs states to give precedence to "priority broadband projects," which could have more stringent speed, latency, reliability, upgradability and other service requirements as defined by NTIA.
- **Low-Cost Broadband Option:** Recipients of BEAD funding will be required to offer a low-cost broadband option. NTIA will set the eligibility standards, and states will be able to determine (in consultation with NTIA) what features the low-cost product must have (price, speeds, data caps, etc.). NTIA would like comment on how to determine consumer eligibility for the low-cost option, and the best way to guide states in defining their low-cost options. Some commenters could argue that a recipient's subscribers outside of the BEAD funded areas should be eligible for the low-cost option.
- **Eligible Areas:** While BEAD funding must wait until the Federal Communications Commission (FCC) has completed the new broadband availability maps, areas where service providers have committed to provide service through other programs—but have not yet deployed—will not be captured in the new maps. NTIA would like comment on how to handle such areas for purposes of the BEAD program. Here, NTIA will need to balance the risk of providing duplicative funding to a provider with the risk that a provider might not meet the broadband service commitment it has made through another funding program.
- **Other Uses of Funds:** The IIJA already allows BEAD funding to be spent on deployment, data collection, and adoption programs, but also gives NTIA broad discretion to designate other expenses as eligible. What other expenses should NTIA deem eligible for BEAD funding?

Middle Mile Broadband Infrastructure (MMBI) Grants

- **How to Target Funding:** MMBI funding will be needed in areas that currently lack middle-mile infrastructure, as well as in areas where middle-mile services are too expensive. The absence of adequate middle-mile broadband facilities has often been a bottleneck, contributing to the digital divide. NTIA seeks comment on how best to target and prioritize middle-mile funding, and how competition or high-cost factors should be considered.
- **Splice Points:** The IIJA seeks to encourage carrier-neutral interconnection points and bring down backhaul costs. Should NTIA impose requirements on MMBI grant recipients regarding the location of or access to splice points? Should recipients be required to allow other providers to interconnect?
- **Scalability:** As network demand intensifies, NTIA would like to know what, if any, scalability requirements should be imposed on MMBI funding recipients with respect to middle-mile capacity.

Akin Gump Strauss Hauer & Feld LLP – Matthew B. Berry, Preston James Wise and Joseph Calascione

January 11 2022

More Broadband Projects Eligible for Funding Under New ARPA Rules.

The U.S. Treasury Department revised its rules specifying how states can use federal funding provided by the American Rescue Plan Act (ARPA), enabling a broader range of broadband projects to receive support.

The agency originally specified that funding could only be used to provide coverage to un- and underserved locations which lack access to a wireline connection offering speeds of 25 Mbps downstream and 3 Mbps upstream. Its preliminary rules, which were issued in May 2021, also encouraged states to prioritize fiber projects, the inclusion of affordable service options and support for local networks owned and operated by local governments, non-profits and cooperatives.

A set of final rules issued late last week includes two key changes: one provides more flexibility in what areas are eligible for support and the other is designed to ensure consumers can actually afford to use the broadband networks built with ARPA funding.

During a public comment period, stakeholders argued the original 25/3 Mbps service standard was too restrictive and said states should be allowed to fund projects in areas which are technically served but require investment to address issues around broadband quality, reliability and affordability.

So, in its final rules the Treasury Department said it will drop the speed restriction and allow states to fund projects in areas where they have identified a need for additional broadband investment. “Examples of need include lack of access to a connection that reliably meets or exceeds symmetrical 100 Mbps download and upload speeds, lack of affordable access to broadband service, or lack of reliable broadband,” the rules state.

States are now encouraged to prioritize projects that provide service to locations which lack access to a wireline connection offering speeds of at least 100 Mbps downstream and 20 Mbps upstream.

The Treasury Department also moved to address affordability by requiring funding recipients to either participate in the Federal Communications Commission’s Affordable Connectivity subsidy program or otherwise provide an affordability program for low-income consumers.

“The final rule requires recipients to address the affordability needs of low-income consumers in accessing broadband networks funded by SLFRF, given that such a project cannot be considered a necessary investment in broadband infrastructure if it is not affordable to the population the project would serve,” the rules note.

Treasury’s final rules continue to encourage the use of fiber technology where available and maintain a requirement that funded projects be designed to deliver symmetrical speeds of 100 Mbps (or else 100/20 Mbps in areas where the former isn’t feasible). They also continue to encourage support for local networks owned and operated by local governments, non-profits and cooperatives.

The final rules will take effect on April 1, 2022.

fiercetelecom.com

by Diana Goovaerts

Jan 10, 2022

Using the Municipal Bond Market to Help Create Racial Equity: Ice Miller

This Bond Markets and Racial Equity Project is such an important endeavor by the Public Finance Initiative (PFI) and the National League of Cities (NLC) that will have a lasting impact not only in the municipal bond market, but in efforts to close the racial wealth gap. It is all of our responsibility to use our expertise, skills and ability in our respective professions to effect change in an attempt to level the playing field, and it is great to see such distinguished organizations collaborating to move the needle on racial equity.

> The Public Finance Initiative (PFI) and the National League of Cities (NLC) are pleased to announce the launch of the Bond Markets and Racial Equity Project, a bold effort to center equity in municipal bond-funded investments and to measure how social determinants of equity change over time. Funded by a $4 million Robert Wood Johnson Foundation grant described in a case study on the Foundation’s website, this initiative will further identify the factors in a municipal bond issuance that signal progress toward racial equity and income equality to investors and other stakeholders.

https://www.prnewswire.com/news-releases/public-finance-initiative-national-league-of-ci-
ies-and-collaborating-partners-receive-4-million-grant-to-elevate-racial-equity-i-
-bond-markets-301460569.html

Ice Miller LLP – Matthew J. Miller

January 13 2022

Public Finance Initiative, National League of Cities, and Collaborating Partners Receive $4M Grant to Elevate Racial Equity in Bond Markets.

BOSTON, Jan. 13, 2022 /PRNewswire/ — The Public Finance Initiative (PFI) and the National League of Cities (NLC) are pleased to announce the launch of the Bond Markets and Racial Equity Project, a bold effort to center equity in municipal bond-funded investments and to measure how social determinants of equity change over time. Funded by a $4 million Robert Wood Johnson Foundation grant described in a case study on the Foundation's website, this initiative will further identify the factors in a municipal bond issuance that signal progress toward racial equity and income equality to investors and other stakeholders.

The project team will develop a range of tools for cities, public authorities, and their financial advisors to elevate racial equity considerations in bond issuances. Initial lead project partners include the Excellence and Equity in Public Finance Program at the Milken Institute, the Urban Institute, the Government Alliance on Race and Equity (GARE) at Race Forward, and Urban American City, LLC. The Initiative for Responsible Investment at the Harvard Kennedy School's Center for Public Leadership will also serve as a subgrantee.

"We have an opportunity to disrupt long-held patterns of inequality and segregation and to elevate racial equity in new arenas via a program of work that will begin by listening to issuers, investors, and other market stakeholders in national focus groups that we will convene across America," said Lourdes Germán, PFI's Executive Director, who will lead the effort together with NLC. "This project seeks to take what we learn and develop a program to help issuers center racial equity as a key consideration within the municipal bond market, enabling communities and investors to better understand how to effectively leverage the issuance process—and, with this funding, we will develop the metrics, measurement, and reporting to make that possible."

"The Bond Markets and Racial Equity Project is a first-of-its-kind investigation into how public officials can center equity in bond issues in targeted ways that lead to improved social determinants in their communities," said Clarence E. Anthony, NLC CEO and Executive Director. "Along with our key partners, we look forward to enabling more conscientious fiscal decisions, elevating bond markets as an equity vehicle, and supporting individual cities in their impact journeys."

"We are proud to support the creation of tools for policymakers, practitioners, and investors to effectively prioritize equity throughout their work—and to accurately measure the outcomes," said Kimberlee Cornett, Director of Impact Investments at the Robert Wood Johnson Foundation. "We and our partners believe that this essential lens must be developed for the public finance market, which so many communities rely on and so many investors put capital towards."

As the United States has reckoned with systemic racism in its cities, practitioners and policymakers have wondered how the $4 trillion municipal bond market addresses—or fails to address—race and equity. The municipal bond market is one of the largest pools of private investor capital flowing into America's states and localities, and it thus shapes the character of the built environment in communities and directly impacts the social determinants of health and equity in a place.

Regulators, elected officials, and other public leaders have called attention to the challenges at hand. Notably, the recent $1.2 billion federal Infrastructure Investment and Jobs Act explicitly highlights the importance of centering equity across various functional areas of infrastructure investment and of acknowledging the legacy of systemic racism throughout the history of American infrastructure, construction, and maintenance decisions.

Despite efforts to scale up such bonds and create guidance for issuers, however, no common framework currently exists to address racial equity in all phases of municipal bond issues. Additionally, bond issuers lack the training and resources to evaluate equity impacts associated with the infrastructure projects they fund, and they lack long-term data to measure how equity changes in a jurisdiction over time, particularly in low-resource settings with the highest needs.

Throughout 2022, the Public Finance Initiative, in partnership with the National League of Cities, will convene city and public authority leaders through focus groups, online publications, research reports, and more to explore how issuers center racial equity—or fail to do so—in the context of bond issuances or infrastructure projects. Future project outcomes will include a racial equity framework, data tools, research, technical assistance for low-resource jurisdictions, additional guidance on evaluation practices, and other data-driven and impact-focused interventions.

About the Public Finance Initiative
The Public Finance Initiative (PFI) develops public finance programs that center the values of equity, sustainability, and inclusive growth in fiscal decision making with leading foundations and partners. PFI furthers city-to-city learning and builds local governments' capacity to use technology and data in improving their governance, fiscal health, and investment operations. The Public Finance Initiative is a fiscally sponsored organization of TSNE MissionWorks, a 501(c)3 tax-exempt organization. Learn more at publicfinanceinitiative.com and stay connected with PFI on Twitter, LinkedIn and Facebook.

About the National League of Cities
The National League of Cities (NLC) is the voice of America's cities, towns, and villages, representing more than 200 million people. NLC works to strengthen local leadership, influence federal policy, and drive innovative solutions. Stay connected with NLC on Facebook, Twitter, LinkedIn, and Instagram.

Muni Markets And Refurbishing Cleveland's Stadium (Radio)

Joe Mysak, Editor of the Bloomberg Brief: Municipal Markets, discusses the latest news in the municipal bond market. He talks about muni trends and refurbishing the Cleveland Guardians' baseball stadium. Hosted by Paul Sweeney and Matt Miller.

Listen to audio.

Bloomberg Radio

Jan 14, 2022

US Bond funds Post Ouflows on Expectations of Fed Tightening.

Jan 14 (Reuters) – U.S. bond funds faced outflows for the first time in four weeks in the seven days to Jan. 12 on rising prospects that the U.S. Federal Reserve will begin tightening its policy with an interest rate hike as early as March.

According to Refinitiv Lipper data, investors offloaded U.S. bond funds of $3.15 billion, marking the first weekly outflow since Dec. 15.

Investors feared that the Fed will be more aggressive in lifting interest rates after they interpreted minutes from the central banks' December meeting as being more hawkish. Goldman Sachs, J.P.

Morgan and Deutsche Bank expect the Fed will raise rates four times this year.

U.S. taxable bond funds posted net selling of $2.96 billion, the biggest outflow in four weeks, while U.S. municipal bond funds received just $7 million in inflows.

U.S. short/intermediate investment-grade funds and U.S. mortgage funds witnessed outflows of $1.4 billion and $466 million respectively, while U.S. loan participation funds and general domestic taxable fixed income funds saw inflows of about $1.8 billion each.

Meanwhile, inflation-protected funds witnessed their first weekly outflow in over five months, although they were a marginal $10 million.

U.S. equity funds drew inflows of $7.99 billion, their smallest net buying in four weeks.

Among sector funds, financials obtained $2.58 billion, the biggest weekly inflow since mid-February 2021. Industrials, tech and consumer staples also lured $0.95 billion, $0.88 billion and $0.81 billion respectively.

U.S. investors secured value funds of $2.8 billion in a fourth successive week of net buying, while growth funds posted outflows of $7.19 billion, the biggest since Dec. 15.

U.S. money market funds saw outflows of $28.4 billion in a second straight week of net selling.

Reuters

January 14, 2022

Money Is Yanked From Junk Muni Funds for First Time in Months.

- **High-yield muni mutual funds lose $364 million in week**
- **Rate volatility and a negative total return spook investors**

Municipal bond investors have pulled money from high-yield mutual funds for the first time in nearly three months, showing that the unprecedented demand muni funds enjoyed for much of the last year may be waning.

High-yield municipal bond mutual funds lost $364 million in the week ended Wednesday, according to Refinitiv Lipper U.S. Fund Flows data. That’s the first outflow for junk state and local government debt since October, the data shows.

Municipal funds more broadly are coming off a record year of demand, collecting nearly $100 billion of cash in 2021 as investors spooked by the prospect for higher taxes flooded tax-friendly investment strategies. That demand helped push municipal bond prices higher and boosted returns for the asset class, making state and local government debt a top performer among fixed-income in 2021.

The riskiest state and local government debt returned almost 8% last year, besting nearly every other fixed income asset class as a booming economy gave investors confidence in junk and unrated securities, causing spreads to compress and the payout for owning such debt to shrink.

However, increased rate volatility and a negative total return so far this month may have worried some investors, said Kathleen McNamara, senior municipal strategist at UBS. “That causes investors to hesitate and/or pull money from mutual funds," she said.

Month to date, high yield municipals are down about 0.73%, according to Bloomberg's index.

Paul Malloy, head of municipals at The Vanguard Group, said he's being more cautious on risky debt in 2022 as valuations richened last year.

"It's the kind of market, with everything compressed, we like better quality," said Malloy, who oversees Vanguard's $267 billion of municipal debt. "We don't believe this is the time to go bottom feeding at these valuation levels. We are relying on credits with strong long-run fundamentals."

Bloomberg Markets

By Danielle Moran

January 13, 2022, 12:18 PM PST

[Vanguard and Nuveen See Dimmer 2022 Muni Outlook.]

- **Biggest muni managers during 2021's record year spot headwinds**
- **Rising Treasury yields and hawkish Fed likely to dent market**

The two biggest muni managers during last year's record breaking wave of issuance and demand expect the next 12 months to be less sunny.

"This year could be a little bit tougher than last year when we had the wind at our backs," said John Miller, head of municipals at Nuveen, which captured $11.2 billion of muni fund flows in 2021.

Already the $4 trillion municipal bond market looks to be off to its worst start in more than two decades. While January is typically a strong month for munis, the asset class has been hit by the dramatic rise in Treasury yields, spurred by expectations the Federal Reserve will start to raise interest rates as soon as March.

The sharp increase in yields and a more hawkish Fed will be the "biggest headwind" for municipal bonds, Miller said in an interview.

Moreover, those tensions are likely to last for much of the year, with munis unlikely to match their 2021 outperformance, said Paul Malloy, head of municipals at Vanguard Group, which saw $24.5 billion in muni fund flows last year.

"Treasuries are really in the driver's seat," said Malloy. "While fundamentals are really good, we expect munis to move alongside Treasuries."

Combined, Nuveen and Vanguard captured more than a third of last year's muni fund flows, or money added to state and local-government debt funds, according to Refinitiv Lipper U.S. Fund Flows data.

Unprecedented demand, driven in part by investors' fear of higher tax rates, helped drive strong muni returns that bested nearly every other fixed income asset class in 2021. But now, with funds flush with cash and valuations still richer than historical average, Vanguard is turning "back to basics," Malloy said.

“It’s the kind of market, with everything compressed, we like better quality,” said Malloy, who oversees Vanguard’s $267 billion of municipal debt. “We don’t believe this is the time to go bottom feeding at these valuation levels. We are relying on credits with strong long-run fundamentals.”

That includes states and local governments that have continued fully funding their pension payments and bonds sold by colleges with strong endowments.

“Last year we were more aggressive in what we call the mediocre middle,” he said. “This is an environment where there is no need to pursue something that you don’t love for the long run.”

Likewise, Vanguard is avoiding the lowest-quality bonds.

“Anything that we’re not touching is really the lowest quality. The stuff that gets done because there’s not a lot of yield elsewhere and you look at it and go ‘wow, everything has to go 100% right,’ those are the characteristics of what we’re avoiding,” Malloy said, detailing that they’re “not keen” on the more speculative project finance names.

Miller — who oversees Nuveen’s $223 billion of state and local debt — said he’s favoring “credit exposure” over pure interest rate risk.

“We are looking at couponing and other structural characteristics that can provide some cushion should rates continue to migrate higher,” he said. Additionally, the Chicago-based manager continues to be positive on major Illinois-based credits, like the City of Chicago and the state’s general obligation bonds. “There is still a little further to run there,” he said.

Miller runs the muni market’s largest high-yield fund, which returned 9.7% in 2021, besting the junk muni benchmark and 98% of peers over the last year, according to data compiled by Bloomberg. High-yield municipals returned almost 8% last year, outperforming the overall muni market by more than 6 percentage points. But, he said those kind of gains are unlikely a second year in a row. One-hundred to 200 basis points of outperformance “would be pretty good compensation for the risk of high yield just to moderate those expectations a bit this year.”

Both fund managers called the recent surge in coronavirus cases a “blip” and said they aren’t changing their portfolio positions because of the omicron variant.

“People, including myself, are trying to look at this as a short-term blip as far as economic impact,” Miller said.

It’s “nothing that changes our long-run fundamental view,” Malloy added.

Bloomberg Markets

By Danielle Moran

January 11, 2022, 10:54 AM PST

How to Play the Selloff in Munis.

Kim Friedricks, managing director of fixed income at Kayne Anderson Rudnick Investment Management, discusses the selloff in municipal bonds with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

Watch video.

Bloomberg Markets: The Close

January 12th, 2022

Municipal Bond ETFs – Expect More from Your Munis

ETFs and mutual funds have become an increasingly popular means of gaining exposure to municipal bonds. These funds offer investors convenient, diversified access to broad and targeted municipal markets. VanEck's municipal income ETFs offer investors the ability to exercise control over their portfolio yield, duration, and credit exposure at different points in the interest rate cycle.

Target Exposures, Tax-Exempt Income and Low Cost Muni ETFs

The indices underlying each ETF target specific maturity ranges or credit exposures, resulting in distinct performance yield and duration characteristics.

Tactically Managed – Muni Allocation ETF (MAAX)

Actively managed with a proprietary model that uses various objective, data-driven indicators in an attempt to identify periods of heightened credit and/or duration risks. The strategy seeks the tax-exempt income and enhanced risk-adjusted total return by allocating among selected VanEck municipal bond ETFs.

Yield Curve Positioning – Short Muni ETF (SMB), Intermediate Muni ETF (ITM), Long Muni ETF (MLN)

Our investment grade municipal ETF product offerings seek to track indices that reflect a unique segmentation of the investment grade municipal yield curve.

Continue reading.

ETF TRENDS

JANUARY 15, 2022

SIFMA 2021 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.

2021 statistics include:

Issuance (as of December) $475.9 billion, -1.8% Y/Y

Trading (as of December) $8.8 billion ADV, -26.4% Y/Y
Outstanding (as of 3Q21) $4.0 trillion, +2.0% Y/Y

Download Statistics.

January 4, 2022

Treasury Provides Added Flexibility and Clarity With Final ARPA Rule.

State and local advocates seemed generally pleased with final guidelines for the relief law's $350 billion pandemic aid program. The rules offer a big win for smaller localities in particular.

State and local governments receiving pandemic aid payments under a $350 billion federal program gained new flexibility and further clarity with how they can use the funding, under a final rule that the U.S. Treasury Department issued this week.

The 437-page rule-making document released Jan. 6 provides additional information on how aid recipients can spend money from the American Rescue Plan Act on capital expenditures, employee pay and water, sewer and broadband projects, among other areas.

Treasury is also giving governments an option to put up to $10 million of their relief payments towards revenue losses, enabling them to spend the money on a broad range of general government expenses without jumping through administrative hoops outlined in an earlier version of the rule. This is a major win for many smaller communities.

State and local government advocacy groups that have been tracking the development of the rule and urging Treasury to make specific tweaks seemed generally pleased with the final product.

"It is a really well thought out, put together final rule that provides a lot of flexibility," said Eryn Hurley, deputy director of government affairs for the National Association of Counties.

Emily S. Brock, director of the Government Finance Officers Association's federal liaison center echoed that view. "They did an excellent job in expanding in a lot of areas," she said, referring to the Treasury Department. "It was a really thoughtful approach," she added. "They did a lot of stakeholder outreach."

Treasury in May released an "interim final rule," which served as a foundation for the final draft. The department said it received over 1,500 comments on the interim guidelines. The final rule will officially take effect on April 1. But aid recipients can begin following the final guidelines now, ahead of the effective date, Treasury said.

States and localities were free to begin spending the aid funding under the interim final rule. Although some places have held back, awaiting the final regulations. Many officials are leery of doing anything that might run afoul of the federal rules for spending the money, potentially resulting in clawbacks or other repercussions.

"There's already been a ton of investment," said Hurley. "With the final rule coming out we'll see that pattern continue."

Revenue Losses

The text of the American Rescue Plan Act and subsequent Treasury rule-making specify categories of eligible spending for the state and local aid program.

Broadly these include: Responding to the pandemic (both the health and economic fallout); providing "premium pay" to workers doing "essential" work during the health crisis; water, sewer and broadband projects; and backfilling government revenue losses due to Covid-19.

The revenue loss category is the most flexible, giving states and localities a great deal of leeway to use their aid on a variety of general government expenses in an amount equal to revenue losses that they calculate based on a formula included in the Treasury guidance.

Under the final rule, governments can automatically spend up to $10 million under this category.

"That was huge for us," said Hurley.

This is significant for smaller communities in particular. For some, it will unlock the possibility of using their entire aid allotment under the most flexible terms the program provides. And they can do so without completing the revenue loss formula, which some officials had described as complicated and time consuming to work through.

Hurley noted that there are about 2,100 counties that fall into this camp and have awards that are under the $10 million mark.

For governments that will have to complete the revenue loss formula, one concern that emerged earlier in the rule-making process was that a requirement to calculate losses based on calendar years as opposed to fiscal years would add to the administrative burdens.

But Treasury explained that it has made adjustments in the final rule to give recipients "the option to choose whether to calculate revenue loss on a fiscal year or calendar year basis," with the caveat that they must choose one of the two options and stick with it.

Capital Spending and Payroll

The Government Finance Officers Association noted that the final rule expanded a list of uses for how governments can use the funding to respond to the pandemic and its economic effects. This included clarifying that aid recipients can use the money for certain capital expenses, such as building affordable housing, child care facilities, schools, hospitals and other projects.

State and local government groups have pressed for even greater flexibility here, that would permit the money to go more freely towards transportation-oriented projects. The rule doesn't go that far. But Brock said with the latest changes, "you have a lot of opportunity."

Additionally, the final rule expands the share of eligible workers who can receive "premium pay," without a written explanation of why they should qualify. This pay is meant for workers who took on added burdens on the job due to the pandemic.

The range of "eligible" workers that can qualify here is broad and not limited to the public sector. It includes not only workers in fields like health care, emergency response, child care and education, but also grocery and elections workers and transportation and warehousing.

But people in these professions must also meet certain criteria outlined in the rule for them to be eligible for premium pay programs that state and local governments might choose to set up using the federal funds. The allowable bonus pay is also capped at $13 an hour, or a maximum of $25,000 per worker.

In addition to premium pay, Treasury highlighted that its final rule provides governments with a broader set of options to use their aid to restore public employment, and to retain existing employees.

Funding recipients can either hire employees for positions that were filled as of Jan. 27, 2020 but unfilled or cut as of March 3, 2021. Or, they can use their relief dollars to increase the number of budgeted, full-time equivalent employees to 7.5% above their pre-pandemic baseline.

The second option, Treasury says, is meant to account "for the continued underinvestment in state and local governments since the Great Recession."

States and localities can also use the funding to offset pay cuts or lost pay due to furloughs that public employees experienced due to the pandemic, to maintain pay levels in order to avoid layoffs, and to provide retention incentives.

These provisions are notable given that governments have been struggling in a hot job market to recruit and keep workers for certain positions. Public sector employment at the state and local level is also still down compared to where it was before the pandemic hit.

Other Areas

The final rule also includes updates and clarifications related to water, sewer and broadband spending.

For example, Treasury makes clear that funding can be used under this eligible set of expenses on certain projects involving culvert repairs, private wells, dam and reservoir upgrades and preventing contamination in drinking water from lead pipes.

With broadband, the interim final rule specified that areas with internet download speeds of 25 mbps and upload speeds of 3 mbps were eligible for projects. The final rule expands eligibility, opening the door for investments in areas with 100/20 mbps speeds.

Hurley pointed out that the final rule, in contrast to the interim guidance, expands the set of households and communities that are considered to be adversely affected by the pandemic, where aid recipients can direct funds in certain ways without additional analysis to justify that spending.

Treasury made clear that state and local government aid recipients are still barred from dumping their aid into "rainy day" reserve funds, using it for debt service payments, or depositing it into pension funds to pay down liabilities.

The rule also specifies that states cannot use their funding to "directly or indirectly" offset reductions in tax revenue resulting from changes in law or policy, beginning on March 3 of last year. The law's restrictions around offsetting tax reductions have been facing legal challenges brought by multiple states.

An overview of the final Treasury rule can be found here.

Route Fifty

By Bill Lucia

JANUARY 7, 2022

U.S. Treasury Rules Against Cities Using Pandemic Aid to Pay Debt.

The U.S. Treasury Department stuck by its rule that states and cities can't use pandemic relief aid to pay down debt.

On Thursday, the Treasury released its final rule detailing how municipalities can use some $350 billion of aid from the Biden administration's American Rescue Plan. The rule bars governments from using the funds to pay debt service, one of several restrictions that the Treasury has put on the money.

A bevy of governments like Illinois had asked the Treasury to relax that restriction, arguing that they needed to take on debt when the pandemic upended their finances in 2020.

The Treasury has emphasized that the lifeline to states, cities, counties and other governments is intended to help them rebuild their workforces, maintain government services and aid in the U.S. economic recovery.

The final rule also bars governments from using the aid to replenish rainy day funds and to pay off legal settlements.

"First, debt service and reserve replenishment costs do not constitute the provision of services to constituents," the Treasury's final rule says. "As noted in the interim final rule, financing expenses – such as issuance of debt or payment of debt service – do not provide services or aid to citizens."

Bloomberg Politics

By Amanda Albright

January 6, 2022, 9:31 AM PST

As States and Localities Embrace Cryptocurrency, Problems Grow.

While a handful of cities dove in last year, 14 states enacted laws regulating digital currency and many others introduced bills to facilitate transactions while preventing scams.

It's only been a few months since the cryptocurrency MiamiCoin was introduced by Miami, but the venture already has yielded more than $21 million for the city, Mayor Francis Suarez has said. The mayor pledged to share the windfall with residents by distributing dividends in the form of cryptocurrency.

Miami residents eventually could use cryptocurrency instead of cash to pay their taxes and city fees, Suarez contends. The mayors of New York City and Austin, Texas, have said they, too, are working toward accepting and making payments using cyber cash. And other localities are investigating how then can best utilize cryptocurrency.

Meanwhile, multiple states updated their banking statutes to make room for cryptocurrency transactions. Last year, 20-plus state legislatures considered digital asset legislation, and more than a dozen signed bills into law.

But while some public sector leaders want to help facilitate crypto industries in their areas, noting the uptick in businesses and transactions, governments and consumers have fallen prey to scammers.

"States are looking at ways to allow these businesses, this industry, to develop, but they're also aware that they might need to step in as regulators if problems develop," Heather Morton, a legislative analyst for the National Conference of State Legislatures, said.

'A Lot of Promise'

In news interviews, Suarez has said he intends to make Miami the world's "cryptocurrency innovation hub" and has partnered with the company CityCoins to create a local cryptocurrency called MiamiCoin.

He predicted that the success of MiamiCoin eventually could eliminate the need for the city to collect taxes.

Miami's early success in the digital economy prompted New York City and Austin to approve their own coins. Campbell Harvey, a professor of finance at Duke University, predicted others will follow.

"Just think of its branded value," said Harvey, the author of *DeFi and the Future of Finance*, a book about decentralized finance. "These cities are operating and preparing themselves for the future. That's a powerful brand compared to these cities that are stuck in the past."

Harvey said cities that embrace Bitcoin and other cryptocurrencies are positioning themselves to attract businesses involved with that emerging economy, which, in turn, will create jobs for city residents.

Several technology and financial companies have relocated to Miami over the past year, for example. And the crypto wallet firm Blockchain.com announced it would move its headquarters from New York City to Miami because of the Florida city's "welcoming regulatory environment serving as a hotbed of crypto innovation."

The appeals to businesses of locating in a cryptocurrency-friendly city or state, Harvey said, are efficiency and cost savings. For example, payments via cryptocurrency are quicker and cheaper than through traditional credit cards or wire transfers, Harvey said.

"There's a lot of promise here," he said, but added, "It's really very early on."

In fact, city governments and state legislatures have some catching up to do before cryptocurrency can replace traditional means of payment.

In New York City, for example, new Mayor Eric Adams, during his campaign, pledged to accept his first three paychecks in cyber cash. But the city is not equipped to pay employees in that manner. He later explained he would have to convert his traditional paycheck into Bitcoin, but told Bloomberg he aims to eventually give city employees the choice between dollars and cryptocurrency.

Likewise, in Ohio, a 2018 experiment allowing businesses to pay state taxes in cryptocurrency failed when the attorney general determined that existing laws covering electronic payments did not permit it.

As Industry Grows, Problems Grow

Wyoming, which is marketing itself as a crypto-friendly place to do business, has enacted two dozen laws that make it easier for digital currency companies to operate in the state, including an alternative bank charter that allows crypto banks to locate there. By mid-2021, 48 businesses with "bitcoin" in their names had hung their shingles in the state.

"They are seeing some economic development benefits from encouraging these companies to do business in their state and to be basing themselves in Wyoming," Morton said.

Legislatures in 21 states, including Wyoming, considered legislation involving digital assets in 2021; in 14 of them, those bills became law last year.

Some of the states updated laws on the books to add virtual currencies to the list of items the state may return or dispose of under their unclaimed property laws. Several others defined cryptocurrency as a cash equivalent in laws related to sports wagers and criminal actions. And Arizona's lawmakers established a study committee on cryptocurrency.

Morton noted that cryptocurrency did not exist when states adopted their original financial laws regulating money transmissions, like wire transfers and money orders. "They're setting up requirements so cryptocurrency companies have to abide by the rules and regulations of money services and money transmission," she said.

Still, added Morton, a senior fellow in NCSL's fiscal affairs program, "States are very interested in allowing cryptocurrency to continue develop. … "States are looking at ways to allow these businesses, this industry, to develop, but they're also aware that they might need to step in as regulators if problems develop."

Problems have occurred in Massachusetts, Texas and New York, where the attorneys general have levied fines and imposed cease-and-desist orders on scammers posing as crypto companies or even as Tesla boss Elon Musk, promising large returns to investors who send them Bitcoin, according to an investigation by Stateline.

Morton acknowledged that as the industry grows, problems will arise. But she predicted that states' use of cryptocurrency will continue to expand, especially if the Federal Reserve Board eventually adopts a digital dollar, which it is reviewing.

"Those are the areas we're watching to see what happens," she said. "This is where technology meets money."

Route Fifty

By Sharon O'Malley

JAN 7, 2022

S&P Outlook For U.S. States: Federal Funds Fuel Spending; Will Inflation Impede The Impact?

Sector View: Stable

Positive credit strengths offset by significant uncertainties, leading to stable view. States have all come through the first two years of the pandemic holding or even improving credit quality. Much of this is due to the consistent and generous flow of federal funds, but additionally the generally highly rated sector responded to crisis as expected: taking actions to balance budgets. But as the federal monies flow, additional risks remain. We see inflationary uncertainty, coronavirus variants, and ongoing supply chain and employment challenges as potential impediments to further improvement of credit conditions.

Continue reading.

4 Jan, 2022

S&P Outlook For U.S. Local Governments: Risks Remain Despite Support From Stimulus

Sector View: Stable

The stable sector view reflects local governments' proactive management; economic growth; and strong federal fiscal and policy response throughout the pandemic. Multiple rounds of federal stimulus for pandemic-induced revenue and expenditure fluctuations continue to provide a solid foundation for addressing potential pressure caused by new virus variants. When coupled with economic growth around the U.S., we expect local government credit quality to remain stable in 2022; however, borrowers will have to remain flexible to adjust to changing conditions.

Continue reading.

5 Jan, 2022

S&P Outlook For U.S. Not-For-Profit Acute Health Care: A Booster May Be Needed

Sector View: Stable

Our view remains stable as the sector continues to weather the pandemic well–albeit with the benefit of significant federal aid. We expect that healthy balance sheets, demand for services, and improved revenue yield will continue to support hospitals. But there are operating headwinds given significant ongoing expense and revenue pressures likely to continue over the next year.

Continue reading.

6 Jan, 2022

Bonds are the Key to Reining in Runaway Municipal Pension Plans.

In what is the product of the sustained low-rate environment, many municipalities are considering addressing their pension position through bonds. This should be encouraged by policymakers and explored by pension systems.

Bond markets are offering municipalities the opportunity to exchange discount rates of 6, 7 and sometimes even 8 percent for bonds with yields below 3 percent. The spread between the discount rate and the bond yield is the root of the appeal of pension obligation bonds.

A natural question is "How do pension systems become underfunded?" The answer is a combination of issues. The two largest are underperforming investments and insufficient employee contributions.

Continue reading.

THE HILL

BY ERIC J. MASON

01/06/22

Pensions And The Municipal Market (Radio)

Eric Kazatsky, Senior US Municipals Strategist with Bloomberg Intelligence, discusses the latest news out of muni markets, including pensions. Hosted by Paul Sweeney and Taylor Riggs.

Listen to audio.

Bloomberg Radio

Jan 07, 2022

Retirement Communities Lose Residents, Attract Muni Investors.

Senior-living developments weakened by the Covid-19 pandemic hold appeal for bondholders in search of yield

Investors are snapping up municipal debt sold by senior-living facilities despite record default rates, pandemic-related revenue losses and costly labor shortages.

Covid-19's rapid spread through eldercare facilities, along with the pandemic's lockdowns, deterred many older Americans from moving into senior communities. Nearly 8% of the $41 billion in outstanding senior-living bonds are in default as of December, according to Municipal Market Analytics, the most since tracking began in 2009. The sector now accounts for almost one-quarter of defaulted debt in the muni market, not including bonds caught up in Puerto Rico's bankruptcy.

Yet investors remain bullish. After a fall in debt issuance in 2020, senior-living facilities sold $7.4

billion in new bonds in 2021 through Dec. 13, 21% more than they did in 2019, according to an analysis by ICE Data Services.

“The operations have not yet fully recovered, even though, in some places, bond prices have,” said David Hammer, head of municipal-bond portfolio management at Pacific Investment Management Co. He said he has reduced his exposure to senior-living facilities.

The robust appetite for senior-living bonds is a window into investors’ willingness to put aside worries about Covid-19-related financial weakness as the pandemic grinds on into its third year. Retirement communities are among the municipal borrowers hardest hit financially, with Covid-19 driving away prospective residents and adding costs for protective equipment. But with rock-bottom yields, demand for new bonds outstripping supply and the potential for tax increases, the pickings are slim for investors in search of tax-exempt income.

Yields on risky municipal bonds fell in 2021, with investors plowing a record $22 billion into high-yield municipal-bond funds through Dec. 15, according to Refinitiv Lipper. Borrowers rated BAA were paying 2.12% on 30-year bonds as of Dec. 31, according to data from Refinitiv, down 14% from a year earlier.

Meanwhile, 10-year senior-living bonds sold over the past six months yielded 6.6% for taxable debt financing the purchase of retirement facilities in Texas and Oklahoma and 4.4% for tax-exempt debt to buy and refinance a retirement facility in Kentucky, bond documents show. For an investor in the top tax bracket, a 4.4% tax-free yield equates to roughly 7.6%, according to data from Nuveen.

Several senior-living borrowers that considered issuing debt in 2020 and then opted against it, moved forward with selling bonds in 2021 after finding the market more receptive, said Seth Brumby of Reorg, a credit-research firm. The risky debt is a welcome addition for many high-yield funds trying to put investor cash to work.

“Senior-living deals were well-received with strong investor interest,” said Jon Barasch, director of municipal evaluations at ICE Data Services.

Senior-living facilities include nursing homes as well as assisted-living and continuing-care retirement communities, whose offerings range from independent living to medical care and assistance with daily activities. These facilities are permitted by federal law to sell tax-exempt debt the same way that state and local governments do because they are perceived to have a public benefit.

Any individual facility’s default or drop in bond prices would have limited impact on high-yield mutual funds, which mix senior-living bonds with those of other low-rated borrowers such as charter schools and college dormitories. And some recent trends have benefited senior-living facilities, including the graying of the baby boomers and a hot housing market for prospective residents looking to sell their homes.

Still several indicators point to more trouble ahead for the sector. Much of the revenue to pay back bondholders comes from entrance fees residents pay when they move into senior communities. But move-ins remain well below pre-Covid-19 levels. Nonprofit continuing-care retirement communities had an 87% occupancy rate in the third quarter of 2021, down from 93% in the first quarter of 2020, according to the NIC MAP Data Service.

Median net operating margins, including entrance fees, at 151 facilities tracked by Fitch Ratings fell to 18% in 2020 from 23% in 2019 for investment-grade borrowers and to 14% from 18% for those below investment-grade.

A tight labor market is also pressuring expenses, analysts said.

In addition to the $3.2 billion in senior-living muni debt currently in default, borrowers of a further $3.7 billion have reported impairments, such as having to dip into reserves, according to Municipal Market Analytics. MMA partner Matt Fabian said high investor demand has helped prop up struggling facilities by providing access to rescue cash.

“So the record default number understates the amount of disruption the pandemic has created,” Mr. Fabian said.

The Wall Street Journal

By Heather Gillers

Jan. 4, 2022

The Windfall in US Infrastructure Spending Won’t be Coming from the Government Alone.

The recently-passed US infrastructure bill is poised to give $1.2 trillion to cities and states. Business and municipal leaders hope to funnel some of those dollars into a relatively new model for building America’s infrastructure: the public-private partnership (P3).

In these partnerships, public agencies and private investors share responsibility for financing, building, and maintaining infrastructure projects. P3s have been used to build US infrastructure including highways, water treatment systems, courthouses, and arenas. They were behind New York City’s Hudson Yards and the renovation of St. Louis’ Gateway Arch.

But the model is still a relatively unconventional way to fund infrastructure development projects in the US. There were 186 such projects under development in 2020, up from 94 in two years earlier, according to a study by the legal firm Husch Blackwell (pdf). Far more are on the way.

Continue reading.

qz.com

By Camille Squires

January 6, 2022

How Rising Interest Rates May Affect Muni Bond Investors.

KEY POINTS

- Money has piled into municipal bonds as investors aim to lower risk and reduce taxes.
- Some investors may worry about price declines as the Federal Reserve plans for interest rate

increases.
- But muni bonds may see higher coupon rates, and a well-built portfolio may still achieve long-term goals, financial experts say.

Continue reading.

cnbc.com

by Kate Dore

JAN 6 20223

Muni Market Opens 2022 With Calls for Third Year of Record Sales.

- **2021 long-term issuance rose 1.2% to historic $460.6 billion**
  Some analysts see even bigger 2022 amid delayed projects

U.S. municipal bond issuance surged to an all-time high last year as issuers tackled financing needs amid the pandemic, and some Wall Street analysts predict an even bigger slate of sales in 2022.

Long-term municipal issuance rose about 1.2% from 2020, which was also a record, to a total of $460.6 billion in 2021, according to data compiled by Bloomberg. Borrowers have been taking advantage of long-term interest rates that remain low by historical standards and robust demand for tax-exempt debt as lawmakers debate higher income levies on the wealthy.

Although the Federal Reserve is expected to start lifting its benchmark rate in 2022, that may not be enough to deter states and local governments seeking to borrow for deferred infrastructure plans. For one thing, those projects are only getting more costly given the backdrop of elevated inflation, and municipalities also have added flexibility given the billions of dollars of federal pandemic aid they've received.

"Potholes aren't waiting for the end of the pandemic," said Pat Luby, senior municipal strategist at CreditSights. "Road repairs, airport expansions — they continue to need to be done, and deferring those costs only makes it more expensive."

The 2021 record, achieved in December, marked a surprising shift from earlier in the year, as demand for munis dimmed for a stretch amid the lack of clarity over new federal spending measures that could include tax increases on wealthy Americans. But the pace of issuance picked up into year-end as the debate in Washington dragged on.

Luby forecasts 2022 volume of about $480 billion, with increases in both taxable and tax-exempt borrowing.

"If you look at the size of the market, the pace of borrowing has not kept up with inflation, so there is tremendous unmet need," he said.

Citigroup Inc. analysts led by Vikram Rai said last month that they expect an all-time high of $520 billion of debt sales this year, driven by inflation and a positive economic outlook that will spur governments to take on delayed projects.

Bloomberg Markets

By Nic Querolo

January 3, 2022, 10:08 AM PST

Sustainable Investing's Boom Is Here to Stay. What's In Store, According to an ESG Pioneer.

Decades before Wall Street jumped on the ESG bandwagon, Amy Domini was an early and unwavering believer in the value of considering environmental, social, and governance issues in the investment process.

Her interest in sustainable investing took root when she was a stockbroker in the late 1970s. "I'd call clients with a stock tip and be startled when they would get mad and say, 'I'll never buy a company that makes weapons or does business with South Africa,' " says Domini, who started asking about such preferences on new client questionnaires.

In 1984, she co-authored the book Ethical Investing. In 1990, she co-founded KLD Research & Analytics with Peter Kinder and Steven Lydenberg, created the Domini 400 Social Index, and, soon after, launched a passive U.S. equity fund pegged to the index. They eventually sold the firm and its flagship index, which is now owned by MSCI, and converted the fund to an active strategy, the $1.1 billion Domini Impact Equity fund (ticker: DSEPX).

Continue reading.

Barron's

By Sarah Max

January 7, 2022

Investment Impact of $1 Trillion Infrastructure Measure Seen as Mixed.

The new law is likely to encourage telecommunications and broadband investment while leaving roads and bridges to governments

The recently enacted $1 trillion infrastructure measure is likely to create more investment opportunities for private-equity firms in areas they already favor, such as telecommunications, while doing little to expand their presence in the government-dominated transportation sector, industry lawyers and consultants said.

"I think on the margins the law is going to help private investors in sectors they were already interested in and it's probably going to hurt them a little bit in sectors they weren't that interested in to begin with," said Brent Burnett, co-head of real assets investments at Hamilton Lane Inc., a private-markets investment-management and advisory firm.

The Infrastructure Investment and Jobs Act, which President Biden signed in November, designates $550 billion for such things as roads and bridges, the power grid and broadband internet systems. The funding can enhance the attractiveness of investment opportunities that previously appeared uneconomical, said Mike Parker, Americas infrastructure leader at consulting firm Ernst & Young.

He cited as an example the expansion of broadband internet in low-income and rural areas.

“The bill is providing funding that allows for the last mile for certain households that would not otherwise be able to afford the service,” Mr. Parker said. “This is going to create the opportunity both for private capital to serve them as customers and for broader investments in fiber and data centers.”

Searchlight Capital Partners, which last year hired former Federal Communications Commission Chairman Ajit Pai as a partner, is one private-equity shop that is increasing its broadband bets. The New York-based firm last year backed internet services provider Virginia Everywhere LLC, which does business as All Points Broadband, citing plans to partner with governments at all levels to build out services.

“Telecom infrastructure has been a large and growing target for private infrastructure investors. They started to build platforms within rural broadband even ahead of this bill,” Mr. Burnett said. “That’s one area that I think you could see private infrastructure investors playing in at scale.”

But the new law is less likely to create many more opportunities for private-equity firms in projects, such as building roads and bridges, that traditionally have been financed with public capital, said Kent Rowey, a partner at law firm Allen & Overy LLP who works in its global projects, energy, natural resources and infrastructure practice.

The absence of a model common to the U.S. telecommunications, power and energy sectors, where governments act more as regulators than financiers and operators, helps deter private-sector investment in things like highways and bridges, Mr. Rowey said. Government funding and the municipal bond market finance most of the country’s transportation infrastructure.

That the new infrastructure law did little to encourage more private investment in government-heavy infrastructure sectors was one of its big disappointments, he said. Setting up an infrastructure bank in the mold of the Export-Import Bank of the U.S., as well as a mechanism to enable private operators to exit long-term leases of state infrastructure, were some of the things the bill “could have been more ambitious about,” he said.

“Nothing transformational was done,” Mr. Rowey said of the final version of the infrastructure measure.

“A lot of money was authorized and that will improve the country’s infrastructure, create jobs and drive growth in the economy—all very good things—but the law didn’t provide the opportunity for direct private investment in infrastructure assets that we in the industry had hoped for,” he said.

Mr. Rowey added, however, that the measure will likely give a boost to private equity-backed providers of services to the infrastructure sector, as they could benefit from some of the added spending. He cited architectural and engineering firms, water-service companies and operators of port terminals as examples of businesses that stand to gain from a construction boom that the new law may foster.

“A lot of private-equity [portfolio] companies own container terminals, and there’s a lot of money set aside in the bill for modernizing container terminals,” Mr. Rowey said. One such company, Ports America Inc., recently changed hands as the Canada Pension Plan Investment Board bought the Jersey City, N.J.-based business from Oaktree Capital Management LP last year.

“I think there will be more opportunities for infrastructure and private-equity fund managers in purchasing services companies in the infrastructure space than investing directly in the capital expenditures for the assets themselves,” Mr. Rowey said.

The Wall Street Journal

By Luis Garcia

Jan. 7, 2022

[Munis’ Worst Annual Start Since 2001 Imperils ‘January Effect’]

- **Market’s 10-year average January return, 0.9%, trails only May**
- **Fed throws ‘monkey wrench’ into January dynamic: Lanouette**

The municipal-bond market’s worst start to a year since at least 2001 is marking a major departure from what has historically been a period of strength for the securities.

State and local debt has sold off along with the rest of the bond market in the early days of 2022, losing 0.7% last week, according to Bloomberg indexes. That comes as traders are absorbing the possibility that the Federal Reserve will start hiking interest rates as soon as March amid elevated inflation.

While munis are down less than Treasuries to start the year, the weakness in state and local debt is imperiling munis’ so-called January effect, when seasonal tailwinds usually support bond prices. The muni market’s 10-year average return in January, of 0.9%, trails only May, Bloomberg index data show. At this time of year, muni issuance is typically light and an uptick of coupon and principal payments to investors fuels demand as they look to reinvest that cash.

“The Fed has thrown a monkey wrench into the whole January effect,” said Christopher Lanouette, a managing director for CIBC Private Wealth Management. He said he’s reducing exposure to the 8- and 10-year part of the muni curve to prepare for rising rates.

January’s seasonal impact may still be shielding municipal debt. State and local debt extended its selloff on Monday, with yields on the 10-year AAA benchmark rising to 1.2%, the highest since November. However, 10-year Treasury yields have surged to levels last seen in January 2020.

Investor demand will be crucial to assess how municipal performance will hold up should the fixed-income pain continue. Analysts have warned that inflows into municipal-bond funds could slow, especially if interest rates keep rising.

So far, there’s no major sign of demand ebbing. Investors added about $841 million to muni mutual funds during the week ended Wednesday, marking 44 straight weeks of gains, according to Refinitiv Lipper US Fund Flows data.

$1 Billion for Bid

Last week showed increasing signs of selling pressure, with investment managers putting $1 billion of securities out for bid on Jan. 6, the highest since February, according to data compiled by Bloomberg.

Kim Olsan, senior vice president of municipal bond trading at FHN Financial, said the volume of bids-wanted is higher than usual in January, when demand is typically high. The market's rich valuations relative to Treasuries have "put generic yields more on the defensive than is customary so early in the month," she said in a note Monday.

"It's been an unusual start to the year for municipals," she said.

Citigroup Inc. strategists led by Vikram Rai said in a note Monday that there could be "rocky times" ahead for the market, and that it could see outflows from muni funds.

"We may be nearing the cusp of a fund outflow cycle and if we witness another 20-25bp sell-off in Treasury yields before month-end, it might be enough to trigger it," they said.

Bloomberg Markets

By Amanda Albright

January 10, 2022

Muni Funds' Inflows Face 2022 Headwinds With Fed Shifting Course.

- **More than $96.8 billion went into muni funds and ETFs in 2021**
- **'Significantly lower' muni inflows likely in 2022: Parametric**

Municipal investors, who poured a record amount of cash into the $4 trillion market for state and local debt last year, aren't expected to push inflows to new heights in 2022.

Muni mutual funds and exchange-traded funds took in about $96.8 billion in 2021 through Dec. 29, the highest on record for the period, according to Refinitiv Lipper U.S. Fund Flows preliminary data. Investors seeking higher yield amid historically low interest rates were lured in by issuers' improving credit quality from a rebounding economy and billions in federal aid.

However, inflows could slow if rates begin to rise mid-year and the market experiences volatility it hasn't seen recently, said Jamie Iselin, head of muni fixed income for Neuberger Berman, which holds more than $12 billion in muni assets. The potential for weaker demand looms as a crucial factor for the performance of the muni market in 2022, with some analysts forecasting a third straight year of record issuance.

Even with unknowns about the pandemic and economy in 2021, investors had some assurance of accommodative monetary policy to help bolster muni inflows, Iselin said. That momentum of inflows could extend into early 2022, especially as investors seek some shelter from high taxes, a long-standing benefit of investing in the muni market. Money is expected to flow in, but likely at a slower pace later in the year.

"We don't see 2022 inflows matching 2021, which ended up being a record year," said Nisha Patel, a managing director for Parametric Portfolio Associates, which holds $43 billion in muni assets. "2022 inflows will likely be significantly lower."

The risk of an outflow cycle seems greater in 2022 if "any sustainable and sharp rise in rates" occurs, Patel said. The steady drip of muni demand, particularly from retail investors, usually doesn't stop without a notable disruption, and the gradual increase in Treasury rates during 2021 did not serve as that, said Vikram Rai, head of municipal strategy for Citigroup Inc.

“We have had a very long period of inflows in the muni market,” Rai said. “We are very dependent on what happens in the Treasury market.”

Through all of 2021, the yield for 10-year Treasuries ranged between 0.91% to 1.74% and the muni benchmark between 0.66% and 1.23%. However, a 45-basis-point move in the 10-year Treasury or 35-basis-point change in the 10-year AAA muni benchmark in one month could serve as a catalyst, Rai said.

Investor demand has been a supportive factor as muni market valuation got richer in 2021, said Mikhail Foux, head of municipal strategy at Barclays Plc. Volatility spilling over from the Treasury market and demand that’s “relatively robust” — but not strong enough to match the record — could mean more difficulty in making calls in the market and less margin for error, Foux said.

The future of federal legislation such as the House of Representatives’s version of the Build Back Better economic package, which includes an expansion of a state and local tax deduction, would also impact demand, Foux said. The signature bill from President Joe Biden has stalled in Congress amid a lack of support for its $2 trillion price tag, and whether the measure will make it into the final legislation is unclear.

Likewise, an adjustment in the so-called SALT cap could affect muni demand if the 2017 tax law change is revised. The cap — which limits state and local tax deductions to $10,000 — is unpopular with wealthier Americans who have since turned to tax-exempt bonds to ease the impact on their tax bill. The lack of a change so far has helped demand, said Dan Solender, director of tax-free fixed income investments for Lord, Abbett & Co., which holds $36 billion in muni assets.

“2022 should still be a strong year for demand but it’s not likely to be the record one like 2021,” Solender said.

Bloomberg Markets

By Shruti Singh

January 4, 2022

Pimco Sees Munis as Haven From Bond-Market Pain as Fed Hikes.

- **Munis tend to outperform during tightening cycles, Hammer says**
- **The debt’s tax-free interest boosts its appeal, manager says**

Pacific Investment Management Co. expects municipal debt to offer a bond-market haven from rising interest rates, a view that’s already bearing out amid an ugly start to the year for fixed income.

Ten-year Treasury yields climbed on Thursday to the highest since April 2021 as traders bet the Federal Reserve will hike its benchmark rate as soon as March to restrain inflation. U.S. government debt has lost 1.3% this week, on track for its worst stretch since 2020, while munis have only dropped 0.2%, Bloomberg index data show.

The municipal market has a history of outperforming during periods when the Fed hikes rates, according to David Hammer, head of municipal-bond portfolio management for the firm, which oversees more than $76 billion in state and local-government debt. That's because as yields rise, the tax-free interest that munis pay makes them more attractive, he said in an interview.

"It's this dynamic that historically has caused tax-exempt muni spreads to tighten relative to other taxable fixed-income investments as rates rise," he said. "The muni market has a long history of outperforming as interest rates rise."

It's a track record that will likely be put to the test in 2022. At their December meeting, Fed officials were anticipating three quarter-point hikes in 2022. The bond market got a jolt Wednesday after the minutes from that gathering showed policy makers considering earlier and faster rate increases than previously expected.

During the last Fed tightening cycle, which began in December 2015 and lasted until December 2018, investment-grade municipals returned over 7%, while U.S. Treasuries earned about 4%, Hammer said.

The muni market showed its haven potential in 2021, attracting a flood of cash and beating the rest of the bond market, thanks in part to demand fueled by debate over federal tax hikes.

Junk's Appeal

For Hammer, junk-rated munis have also outperformed when rates rise. That segment of the muni market is benefiting from improving credit conditions for issuers, which has kept defaults low. It also offers elevated yields compared to high-yield corporate bonds after accounting for taxes, he said.

"High-yield munis still look attractive," Hammer said. "We see this as a defensive position if the economy was to disappoint."

Hammer favors structures like floating-rate notes, a type of short-term debt with a coupon that is benchmarked off short-term indexes like the SIFMA Municipal Swap index.

When the Fed raises rates, it will cause the coupon that the securities pay to drift higher, while prices typically trade around par. He's avoiding longer-dated securities that are more sensitive to rising rates.

Bloomberg Markets

ByAmanda Albright

January 6, 2022

The Outlook for Public Finance in 2022 in 6 Themes.

Barring unknowable virus mutation scenarios, state and local fiscal managers have the opportunity to navigate trends and crosscurrents already underway to make better decisions. One factor figures into almost everything: inflation.

Last year brought an unusual crop of surprises to the state and local government financial community. But even without 20/20 foresight, several macro trends now underway should make it easier in this new year for well-informed policymakers, professional staff and financial services providers to make better decisions that benefit the public sector at large. Here are six of the top themes to keep in mind, with the caveat that a global coronavirus mutation beyond pharma solutions — one requiring a new round of economic lockdowns — would be all-bets-off:

1. Inflation will remain a monetary fact of life. Most of the kinks in industrial and logistics supply chains should get worked out in the coming year, and red-hot commodity prices are cooling off, but that won't put an end to inflation.

Three factors almost guarantee an inflation rate that ends 2022 well above the Federal Reserve's long-term target of 2 percent: First, real estate prices and rental rates have not yet worked their way into the statistics, and that alone will drive employee wage demands and expectations higher; until interest rates move high enough to cool off the housing market, the costs of shelter will drive up cost-push inflation. Second, salaries, including those of public employees, will have to adjust upward to cover the recent surge in the CPI, and those costs of doing business will not be transitory. Finally, the elephant in the room is the massive increase in the money supply that the Fed's monetary policies of the last two years has left in our midst.

What macroeconomists call aggregate demand ultimately follows money supply when unemployment rates are low. Here's a chart showing the unprecedented surge of "M2″ — cash and demand deposits such as checking accounts, plus time deposits such as savings accounts, money market funds and CDs — in billions of dollars during the pandemic, notably in 2020.

But persistent inflation does not mean we have to return to the 1970s' stagflation debacle. If the U.S. can enter 2023 with annualized price increases receding to about 4 percent, our economy is capable of eventually reverting to a tolerable and somewhat lower long-term trend. The M2 "pig" depicted above will ultimately work itself through the Fed's COVID-19 quantitative-easing "python." Prices and eventually wages will likely reset yet another 10 percent higher by then, but thereafter we should then see offsetting disinflationary forces, including cost-saving technological innovations, the new frugality of a retiring fixed-income baby-boom generation, and an abundant supply of lower-cost labor overseas.

However, even an inflation rate as low as 4 percent next December would probably be enough to trigger an embryonic multiyear wage-price spiral, setting up a new trifecta of trends in the labor markets, the money market and the bond market, all of which will likely impact the finances of states and localities.

2. Payroll budgets will escalate. Every public employer has its own unique workforce characteristics, local labor markets and history, so it's unwise to generalize. But policymakers who think they can penny pinch on labor costs are putting their heads in the sand. Unless a new COVID-19 variant sweeps through the country and compels another lockdown, it's hard to predict an abundant and excess supply of labor in 2022; continued labor scarcity is far more likely.

Employee unions won't be gullible about inflation on the salary side, and in contract negotiations, their leaders would be derelict if they don't push for "COLA plus X" provisions. Where it could get particularly interesting in 2022 is in public employees' cost of housing. My newly hatched term for this is "COHAs" – cost of housing allowances. It seems almost inevitable that high-cost or housing-short municipalities will need to offer rent relief to help their newer employees afford to live locally or risk losing them.

3. Higher interest rates will present cash-management opportunities. Financial media have been focusing on the "taper" of central-bank bond purchases — the end of COVID-19 era quantitative easing. Less mention is made outside of business channels about the revised outlook for short-term interest rates, which shifted up notably as I heralded last October. Again barring a global COVID-19 mutant monster, the Fed now needs to “normalize” its short-term rates by cautiously and prudently lifting the overnight money market rates closer to 1 percent by year-end, and arguably even higher. Eventually, money market rates need to approximate the inflation rate.

For public treasurers and cash managers, the good news is that they will finally be able to report some positive earnings on their short-term investments. The bad news is that public portfolio managers who stick out their necks into longer maturities beyond 2023 will probably come to regret it — and somebody will, as happens in almost every rate cycle.

4. Higher muni bond yields are coming. Current bond yields now make no sense; I cannot reconcile the inflation elephant in the room with the lowest municipal bond interest rates in decades.

Public officials should be racing to the market to get their infrastructure and other funding done as soon as possible. The risk of higher bond yields now clearly outweighs the opportunity for lower costs any time before the next recession. Historically, most long-cycle expansions require an interest rate spike before settling into a lower but sustainable growth rate. For now at least — unless we hit an “exogenous” factor like war or a far-worse mutant virus — a recession seems most likely to be several expansion-cycle years away. That augers for higher muni bond yields in the next year or two.

5. Public pensions will face a COLA pinch. Pension fund trustees will inevitably devote agenda time to educational sessions with their actuaries over their long-term inflation assumptions, and it’s a safe bet that most pension actuaries and employee reps will do their best to brush off the inflation hawks on their boards. Pension boardroom jokes will abound over speakers’ ill-chosen references to “transitory” inflation; I anticipate growing use of the camouflaged substitute term “nonpersistent” to describe 2022 inflation rates in pension circles.

But the reality is that many plans that include cost-of-living increases in retirees’ pensions will experience an increase in their unfunded retiree liabilities as 2022’s COLAs exceed their actuarial assumptions. Of course, the payroll base will eventually grow to catch up, so pension contribution rates as a percentage of pay may remain stable.

6. Fiscal uncertainty will continue to prevail in Washington. The Senate impasse over the Democrats’ Build Back Better plan portends a year of political hurdles for any major fiscal measures that would materially benefit states and localities beyond those already enacted in the 2020 and 2021 COVID-19 relief packages.

If Sen. Joe Manchin’s objections to inflation-inducing federal spending were purely fiscal, that problem could be solved by the party’s progressives by introducing more-impactful “pay-for” revenue-raising planks in their platform, to pluck the richest geese. Those could include reforms of the estate tax step-up, a stiffer minimum tax rate on millionaire incomes, a cap on the pass-through private-business personal income deduction known as QBID , a sensible surtax on company stock buy-backs, reform of the carried-interest preference given to investment fund managers, and elimination of petroleum extraction depletion allowances.

The problem for state and local advocates is that they don’t want to make lifelong enemies of lobbyists for the one percenters who buy muni bonds, and the professional associations are keen to preserve their bipartisan reputation. Maybe the progressive camp in Congress will pivot and play a balanced-budget game with populist tax proposals that have broad voter support. Even so, public finance proponents operating behind the scenes will still be just the tail wagging the dog on any revised federal tax-and-spend package.

The bottom line for public finance: For most state and local officials, 2022 will hopefully be the most “normal” year they’ve experienced since 2019, so awareness and preparation will help navigate these macro crosscurrents.

GOVERNING

OPINION | Jan. 4, 2022 • Girard Miller

Protect Your Muni Bond Portfolio From A Tornado’s Ravages.

I haven’t written about natural disasters affecting municipal bonds since 2019. The recent Kentucky tornados jolted me to pen this. When disasters happen, the news feeds hit just the highlights. They skip the detail we bond investors need. They rarely list which specific schools, buildings, court houses, city or county facilities were obliterated.

The recent Kentucky tornados are an example of the lack of information. My clients own several Kentucky munis. Many were not in harm’s way when the tornados struck. Bowling Green, Kentucky was not so lucky. We owned their Independent School Building Revenue bonds. The good news is that these bonds are backed by the Kentucky Sate Intercept Program. In simple terms, this is a credit enhancement program where the state pledges to pay bond holders in the event of default. This could occur if the municipality supporting the bonds suffered a catastrophe.

The detailed information for Bowling Green Independent School Building Revenue bond holders comes in the Official Statement:

> … the corporation reserves the right, upon 30 days’ notice, to call the bonds in whole or in part on any date at par for redemption upon the total destruction by fire, lightning, windstorm, or other hazard of any building constituting the project…

If these bonds are called it would probably be at par. We bond holders would lose the market premium. The premium per bond at that time was around 107.786 or $1077.86 per $1000 face value. We didn’t want to lose that premium so we sold our bonds, collected the profits and called it a day.

We weren’t worried the State Aid Withholding of Kentucky wouldn’t pay. We just didn’t want to see our market premiums disappear if the bonds were called.

I’ve studied the State Intercept Programs, State Aid Withholding and State Guarantees for municipal bonds. The problem (if you can call it that) is, there have been so few investment grade municipal bond defaults I have no idea if the coupon and principal payments in a catastrophe would be prompt or if there would be a lag.

Certainly, if Kentucky or any other state with an Intercept or Aid program failed to honor their pledge of financial assistance, they would be taken to the municipal bond woodshed by the capital market.

As the weather patterns continue to be tumultuous, stay on top of your municipal bonds to ensure they are safe should an unthinkable event occur. Having a secondary source of repayment such as a credit enhancement provides a nice safety net. And knowing the call features in a disaster is imperative.

Forbes

by Marilyn Cohen

Jan 4, 2022

[Cyber Vulnerabilities Could Impact Municipal Finance.]

Municipal bond credit analysts consider governments unprepared for cyberattacks, a recent survey says.

While cybersecurity risk management has long been on the radar of government IT managers, it's also attracting the attention of municipal finance organizations.

In a Dec. 14 survey by Hilltop Securities, municipal bond credit analysts said they felt state and local governments were unprepared for cyberattacks. A full 63% said they thought governments were "hardly prepared" for cyberattacks, and 30% said they were "somewhat prepared." Only 6% considered state and local governments "on the way to being prepared, with none of the analysts considering municipalities "very prepared" or even "prepared."

The growing number of ransomware attacks state and local governments are facing has municipal bond issuers on alert. The ransomware attack on Atlanta was a "watershed moment," Omid Rahmani, associate director for U.S. public finance at Fitch Ratings, said in a Nov. 1 interview with Hilltop.

In March 2018, Atlanta was hit with SamSam ransomware that crippled the city's online systems and brought many city services to a grinding halt. The hackers demanded $51,000 worth of bitcoin, which the city refused to pay. Estimates of the ultimate recovery cost approached $17 million.

One of changes since the Atlanta attack, according to Rahmani, is that hackers are no longer using shotgun style attacks where they target a large number of entities and hope one or two of them engages the malware. Now, they are analyzing municipal disclosure documents to find not only potential cyber vulnerabilities but also determining a city's "actual appetite for payment," he said.

The recent breach of the Kronos Cloud Solution platform that many municipalities and health care organizations rely on for payroll and workforce tracking is another attack vector agencies must manage and that finance organizations take into consideration.

These vulnerabilities have driven up premiums for cyber insurance. While nearly 90% of local governments surveyed by Public Technology Institute said they have cyber insurance, up from 78% in 2020, policies are increasingly complex and require agencies to meet stringent cybersecurity controls.

Public sector entities with legacy systems and under-resourced IT departments may find it harder to find affordable coverage – especially as ransomware attackers demand larger payoffs. Those with inadequate coverage could face even "greater financial and reputational risks from cyberattacks, which could have negative credit implications, according to Fitch Ratings.

“The landscape is changing quite rapidly right now, from the cybersecurity insurance and the threat landscape side, which leaves local governments in the middle dealing with issues they traditionally haven’t had to deal with,” Rahmani told The Record.

gcn.com

By Susan Miller

JANUARY 3, 2022 03:54 PM ET

Bond Insurance Makes a Comeback - And It Might Be Worth the Cost

The COVID-19 pandemic has put a lot of pressure on municipal bonds. While general obligation bonds remain safe, revenue bonds backed by universities, senior housing, and convention centers are at risk. Fortunately, the resurgence of bond insurance has helped many investors gain peace of mind amid the evolving crisis.

Let’s examine the history of muni bond insurance and how it’s staging a comeback amid the COVID-19 pandemic.

A Brief History of Bond Insurance

Bond insurance guarantees the payment of principal and interest in the event of a default. In addition, bond insurance is also a form of “credit enhancement” that helps issuers reduce borrowing costs. Insurers essentially lend their high credit rating to issuers by guaranteeing the bonds, making them less risky for investors.

While bond insurance was commonplace before 2007, MBIA, Ambac and other large insurers were hard-hit by exposure to mortgage-backed securities and structured finance. Rating agencies promptly cut their credit ratings in response to their failure to make insured bondholders whole, resulting in less than 5% of bonds insured.

Then, in 2014, the City of Detroit defaulted on $18.5 billions’ worth of municipal debt. Bond insurers redeemed themselves during the crisis by keeping insured bondholders whole. And in 2015, Puerto Rico defaulted on its debt, and bond insurers again kept insured bondholders whole. These events helped restore investor confidence in bond insurance.

Why Bond Insurance Is Coming Back

The COVID-19 crisis further reignited demand for bond insurance. With the unpredictability of lockdowns, many investors sought insurance to protect them against default risks. Bond insurance has been particularly valuable for revenue bonds backed by COVID-19-hit assets, such as convention centers or amusement parks.

Bond insurance may also offer alpha to active investors. The spread between insured bonds and 10-year Treasuries rose from 20 to 190 basis points during the height of the crisis. Since then, they’ve come down from their highs, but they remain above pre-crisis levels, suggesting that yields could fall and prices could rise over time.

As of December 2020, insured munis represented about 10% of all muni bond issues, with more high-quality issuers offering insurance as a way to reassure investors concerned about ratings downgrades and defaults. And, the insurance costs just an average of just 20 basis points, making it an extremely affordable way to achieve peace of mind.

The Bottom Line

Bond insurance may not be as popular as before the 2008 financial crisis, but the COVID-19 pandemic is increasing demand for safety. Given the unpredictability of the pandemic and the low cost of insurance, many high-quality issuers are offering insurance to reassure investors and draw in capital at the lowest possible rates.

dividend.com

by Justin Kuepper

Dec 28, 2021

[JPMorgan Sees Muni Housing Bonds Besting Other Sectors Next Year.]()

- **Muni housing bonds outperform during rising-rate environment**
- **Debt offers higher yields, less volatility, says strategist**

Municipal-bond investors seeking shelter from rising rates in 2022 should look to housing bonds, according to JPMorgan Chase & Co.'s lead muni strategist.

Debt issued by states to finance low-interest loans for first-time home-buyers or build affordable housing carry higher yields and are less volatile, so they typically perform better than other muni sectors when rates rise, said Peter DeGroot, head of municipal research and strategy at the biggest U.S. bank.

Housing bonds rated AA and A provide an average extra yield of 11 to 35 basis points over similarly rated revenue bonds to compensate for uncertainty about how quickly homeowners will pay off their mortgages and because investors demand a premium for liquidity, according to JPMorgan. The relatively higher yields of housing bonds and their propensity to trade less frequently reduces the securities' volatility.

Planned Amortization Class bonds, debt with structural features that reduce the likelihood of early principal payments and price like shorter-dated securities, are the best candidates to outperform, DeGroot said.

"Housing bonds have performed extraordinarily well in rising rate environments," he said.

To cool the hottest inflation in a generation, Federal Reserve officials could raise interest three times next year, and many investors are anticipating the first hike around midyear. The rapid spread of the omicron variant and the risk that sustained inflation could bring faster-than-expected interest rate hikes could make the new year volatile.

DeGroot's research found that housing bonds outperformed the overall market during four cycles when investors pulled cash out of bonds: the pandemic shock of March 2020; a protected period of rising long-term Treasury yields in 2018; the "Taper Tantrum" in 2013; and Meredith Whitney's prediction of "hundreds of billions of dollars" of municipal bond defaults in 2010.

From May 22, 2013, when former Fed Chair Ben Bernanke jarred bond buyers by saying the Fed would start scaling back asset purchases — to when yields peaked on Sept. 6, investment grade municipal bonds lost 6.2%, according to the Bloomberg Municipal Bond Index. By contrast, muni housing bonds lost 4.6% over that period.

Bloomberg Markets

By Martin Z Braun

December 27, 2021, 6:47 AM PST

[Why More Public Pension Funds Are Investing in Cryptocurrencies.]

The barriers for state and local institutional investors entering the crypto market are come down, including a clearer regulatory framework and more industry scrutiny.

Cryptocurrency has been around for more than a decade, although it has yet to become the financial industry disrupter that tech enthusiasts were predicting. But one big signal that cryptocurrency is on its way to becoming more mainstream is that some public pension funds are investing in the industry.

At least two pension funds in the past three years—California Public Employees' Retirement System and New Jersey's Common Pension Fund—have invested in companies that make money by mining for Bitcoin, a digital currency created and exchanged independent of banks or governments. Late this summer, Fairfax County, Virginia's employee fund and its police officers pension both invested in a fund that tracks blockchain, the technology that underpins Bitcoin. And this past fall, the Houston Firefighters' Relief and Retirement Fund became the first public pension fund to invest directly in Bitcoin and Ethereum, another platform powered by blockchain technology.

Continue reading.

ROUTE FIFTY

by LIZ FARMER

DECEMBER 30, 2021

[Cash Floods Municipal-Bond Market.]

Tax breaks and stimulus help investors leave behind worries about Covid-19-related defaults

Investors poured more money into municipal bond funds through mid-December last year than they had in decades, providing the fuel for borrowing by states and cities to fund new bridges, sewers and other state and local projects to a second-straight 10-year high.

Municipal bond funds now hold an unprecedented 24% of outstanding debt compared with 16% five years ago, according to Federal Reserve data. The move marks the latest step in a fundamental shift away from a buy-and-hold market in which individual investors quietly collect interest year after year.

The record levels of borrowing and investing in 2021 are evidence that investors have moved well past their early worries the pandemic would drive a wave of municipal defaults and bankruptcies. Buoyed by stimulus funds, state and local governments issued $302.3 billion of debt for new projects as of Dec. 29, the most in at least a decade.

Meanwhile, investors plowed $64 billion into muni mutual and exchange-traded funds through Dec. 15, according to data from Refinitiv Lipper, more than they ever have during that period since tracking began in 1992. That includes $22 billion into high-yield funds that hemorrhaged cash in 2020.

“Generally there’s a better credit environment, you have lower supply [and] more demand, and then you just have investors who are willing to take on more risk to replace the yield that they previously got on their high-grade bonds,” said Eric Friedland, director of municipal-bond research at asset manager Lord Abbett.

Bonds issued by state and local governments are particularly precious to investors because they carry interest payments usually free from federal, and often state, taxes. Expectations for possible tax increases under a Democratic administration likely stoked investors’ appetites, Mr. Friedland said.

The S&P Municipal Bond Index had a total 2021 return of 1.76%, including price changes and interest payments through Dec. 30. That compares with minus 2.13% for the S&P U.S. Treasury Bond Index and minus 1.79% for the S&P U.S. Investment Grade Corporate Bond A Index.

High-yield municipal bonds racked up more-substantial gains as investors abandoned their fears of default, with the S&P Municipal Bond High Yield Index returning 6.77% through Dec. 30.

The government and nonprofit borrowers that issue bonds in the nearly $4 trillion municipal market are generally in better financial shape than they were in 2020, according to analysts and financial reports. Tax collections and stimulus funds have buoyed municipal balance sheets. The federal infrastructure package recently signed into law could lead to additional money for capital projects.

The median number of days worth of cash on hand was up 11% in 2021 for 173 nonprofit hospitals that have filed their 2021 financial statements, according to Merritt Research Services. For airports that have filed statements, median days cash on hand increased by 22% and for private colleges and universities, a similar cash metric increased 12%.

“These sectors have built up significant cash and reserves that they didn’t have at the onset of the virus in 2020,” said Richard Ciccarone, Merritt’s president and chief executive. Still, he said, “Not everybody’s coming back in good shape.”

Defaults, a rarity in the muni market, remain higher than during the pre-pandemic period, though they have fallen from 2020, according to Municipal Market Analytics. Some borrowers have fared particularly badly. There were 33 defaults in 2021 among assisted-living and other senior-housing borrowers, the most since the firm’s record-keeping began in 2009.

Some state and local governments also remain on shaky ground, using bond money to plug budget gaps or relying on stimulus funds to paper over financial problems. Towns across the U.S. in 2021 resorted to pension-obligation borrowing, using a record-breaking amount of debt to top up retirement funds in the hopes that market returns will outpace interest costs.

Even with borrowing for new projects at a 10-year record, total debt issuance fell short of some expectations. Citigroup twice revised its forecast for total 2021 issuance downward, after Congress declined to include two bond programs in the infrastructure bill. “We could not convince our policy makers,” said Vikram Rai, Citigroup’s head of municipal strategy.

Including refinancing deals, municipal borrowers had sold a total of $454 billion as of Dec. 21, also at least a 10-year record.

Cities and states could probably sell roughly $100 billion more of bonds without driving down prices, according to an analysis of lending capacity by Municipal Market Analytics. The mismatch between supply and demand grew after the 2017 tax overhaul prohibited the use of tax-exempt borrowing for early refinancing while simultaneously making tax-free yield more precious to some investors by capping the state and local tax deduction.

The Wall Street Journal

By Heather Gillers

Updated Jan. 2, 2022 10:57 am ET

[The $1.2T Infrastructure Bill is 'A Positive for the Municipal Market,' Analyst Says.]

Jennifer Johnson, Senior Vice President and Director of Municipal Bond Research at Franklin Templeton, joins Yahoo Finance Live to discuss the impact the President Biden-backed infrastructure bill will have on the municipal bonds market, the 2022 outlook for bonds, and the rising prominence of ETF in the market.

[Watch video.]

Yahoo Finance Video

Wed, December 29

[Congress Provides Substantial Funding for Variety of Water Projects in Infrastructure Law With Emphasis on Low Income Communities.]

The Infrastructure Investment and Jobs Act (IIJA) contains significant water-related provisions, amounting to $82.5 billion in spending.[1] Areas addressed by these provisions include drinking water safety, clean water more generally, access to water, and research.

Background

America faces many serious problems involving water. People in rural areas remain dependent on often unreliable wells, and the water infrastructure of many U.S. cities has deteriorated as many existing pipes remain contaminated by lead. Meanwhile, from 1996 to 2018, the cost of water and wastewater has increased at annual rates of 5.09% and 5.64%, respectively, compared to an annual increase in the Consumer Price Index of only 2.1%.[2]

In Flint, Michigan, the city's drinking water was contaminated with lead in 2014, beginning a crisis that lasted until at least 2019. Between 6,000 and 12,000 children were exposed to high levels of lead.[3] The Flint disaster provides examples of many of the problems the water provisions of the IIJA seek to confront: environmental injustice, the continued use of lead service pipes, and failures of local, state, and federal governments.

Threats to clean drinking water go beyond lead, however, and in many ways, regulation has failed to keep up with new risks. For example, the Environmental Protection Agency has not issued National Primary Drinking Water Regulations for new contaminants since 1996, although it announced its final determination to regulate perfluorooctanesulfonic acid (PFOS) and perfluorooctanoic acid (PFOA) in March 2021.[4] PFOS, PFOA, and other per- and polyfluoroalkyl substances (PFAS) have contaminated water supplies in many places across the country, and because they remain in the environment for a long time and do not easily degrade, pose particular problems to remediate.

These water-related problems were part of a broader set of infrastructure-related problems the IIJA sought to address. The law grew out of the $2.3 trillion American Jobs Plan announced by President Biden on March 31, 2021, amounting to $4 trillion in combination with the American Families Plan announced in April.[5] The plans' "human infrastructure" provisions were split off into the still-unpassed Build Back Better Act to seek bipartisan support for the IIJA, and the IIJA itself was cut considerably. The final version of the IIJA authorizes a total of $1.2 trillion in spending over several years. The bill finally became law on November 15, 2021.

Safe Drinking Water

The largest category of water-related investments in the Act involves improvements in drinking water safety and sanitation, including around $24 billion in grants to states over five years under the existing Safe Drinking Water Act and Federal Water Pollution Control Act. The Infrastructure Investment and Jobs Act also provides $15 billion for projects to replace lead water pipes and service lines, and $9 billion for addressing PFAS and other "emerging contaminants."[6] Section 50101's amendments to the Safe Drinking Water Act, in addition to authorizing new spending, clarify that SDWA grants "to assist in responding to and alleviating any emergency situation" can include responses to cybersecurity events and heightened lead exposure. (Section 50113 also concerns cybersecurity support for public water systems.) These amendments also provide that "State-based nonprofit organizations that are governed by community water systems" are eligible for technical assistance under Section 1442(e).

Section 50102 reauthorizes the Safe Drinking Water Act's Drinking Water State Revolving Loan Funds and appropriations for their capitalization grants. It also amends SDWA Section 1452(d) to give states more ways of subsidizing projects serving disadvantaged communities: "grants, negative interest loans, other loan forgiveness, and through buying, refinancing, or restructuring debt."

Section 50103 authorizes appropriations for the SDWA's source water quality protection partnership petition program and allows counties to form such partnerships on behalf of unincorporated areas.

Section 50104 expands the projects eligible for grants to small and disadvantaged communities under the Safe Drinking Water Act to include "the purchase of point-of-entry or point-of-use filters and filtration systems that are certified by a third party using science-based test methods for the removal of contaminants of concern." (This is the only reference to point-of-use systems in the IIJA.) It also requires the EPA to "establish a competitive grant program" through which eligible entities would "assist eligible individuals in covering the costs incurred by the eligible individual in connecting the household of the eligible individual to a public water system."

Section 50105 includes several measures to reduce lead in drinking water. It increases and extends appropriations for lead reduction grants, and allows them to be used to replace privately-owned lead service lines, "with priority for disadvantaged communities based on the affordability criteria established by the applicable State under [SDWA] section 1452(d)(3), low-income homeowners, and landlords or property owners providing housing to low-income renters." It also requires water systems to replace privately-owned lead service lines without cost to low-income customers, and to notify state governments of planned lead service line replacements.

Section 50110 requires the EPA to "establish a voluntary school and child care program lead testing, compliance monitoring, and lead reduction grant program" and to publish school lead testing guidance for public water systems. It also reauthorizes appropriations for SDWA Section 1464(d)'s existing Voluntary School and Child Care Program Lead Testing Grant Program.

Another grant program, for state responses to contaminants, authorized by SDWA section 1459A(j), is expanded by IIJA section 50114 beyond its previous definition of "underserved communities" to include, for example, communities "with a population of less than 10,000 individuals that the Administrator determines does not have the capacity to incur debt sufficient to finance a project or activity."[7]

Water Systems

Section 50106 requires the EPA to establish a grant program for "Operational Sustainability of Small Public Water Systems," while section 50107 requires it to establish a "Midsize and Large Drinking Water System Infrastructure Resilience and Sustainability Program." Section 50109 requires the EPA to establish another grant program "to assist qualifying households with need in maintaining access to drinking water and wastewater treatment," based on the results on a study required by Section 50108. The Indian Reservation Drinking Water Grant Program will be expanded under section 50111 to include wastewater system improvements as well as drinking water system improvements.

Research

The law funds water-related research by several entities – both scientific research into new technologies and studies of social problems. Section 50201 provides $75 million annually through fiscal year 2026 for research, investigations, training, and information grants, including to state water pollution control agencies and nonprofit organizations. Section 50222 revises the Federal Water Pollution Control Act to provide "funding to carry out groundwater research on enhanced aquifer use and recharge in support of sole-source aquifers" to state, local, and tribal governments jointly with research institutions. Section 50115 requires the EPA to conduct annual studies on the prevalence of boil water advisories, while section 50112 requires it to report on advanced drinking-water-related technologies. Section 50108 requires it to conduct a "Needs assessment for nationwide rural and urban low-income community water assistance," while 50216 requires it to "identify historical distributions of funds to small and disadvantaged communities and new opportunities and methods to improve on the distribution of funds under" the Clean Water State Revolving Funds and Drinking Water State Revolving Funds.

Section 50213 requires the EPA to establish a competitive grant pilot program for the sharing of water data. The EPA is directed by section 50217 to establish "centers of excellence for stormwater control infrastructure technologies" at universities, other research institutions, and nonprofit organizations (as well as grants to state, local, and tribal governments for stormwater infrastructure projects involving new technologies). Under section 50218, the EPA must establish a Water Reuse Interagency Working Group "to develop and coordinate actions, tools, and resources to advance water reuse across the United States, including through the implementation of the February 2020 National Water Reuse Action Plan."

Sections 50219 and 50220 require studies by the EPA of advanced clean water technologies and capital improvement needs for Clean Water State Revolving Fund-eligible projects, respectively. Section 50221 funds the Water Resource Research Act's Water Resource Research Institutes but puts tighter controls on the funding, such as Department of the Interior evaluations of each Institute every five years. Finally, section 50222 directs the EPA to "provide funding to carry out groundwater research on enhanced aquifer use and recharge in support of sole-source aquifers."

Clean Water

Beyond drinking water provisions, other provisions of the IIJA concern wastewater and other clean water issues. Section 50202 establishes the Wastewater Efficiency Grant Pilot Program for publicly-owned treatment works, while Section 50203 funds the Clean Water Act's Pilot Program for Alternative Water Source Projects and makes stormwater projects eligible for it. Similarly, section 50204 funds Sewer Overflow and Stormwater Reuse Municipal Grants and expands their scope to include "notification systems to inform the public of combined sewer or sanitary overflows that result in sewage being released into rivers and other waters." Sections 50205 through 50209 create new grant programs: the Clean Water Infrastructure Resiliency and Sustainability Program; the Small and Medium Publicly Owned Treatment Works Circuit Rider Program; the Small Publicly Owned Treatment Works Efficiency Grant Program; Grants for Construction and Refurbishing of Individual Household Decentralized Wastewater Systems for Individuals with Low or Moderate Income; and, finally, a program of grants to publicly-owned water treatment works (POTWs) and nonprofit entities, to cover the cost of connecting low-income individuals to POTWs.

The next few sections revise and fund existing programs. Section 50210 funds the Clean Water State Revolving Funds at a rate of $2.40 billion for FY2020, $2.75 billion for FY2023, $3.00 billion for FY2024, and $3.25 billion for each of FY2025 and FY2026. Section 50211 funds the Innovative Water Infrastructure Workforce Development program and expands the use of grants under the program. Section 50212 funds grants to Alaska to improve sanitation in rural and native villages. Section 50215 reauthorizes Water Infrastructure Finance and Innovation Act (WIFIA) funding, while section 50214 requires WIFIA loan applicants to submit only one final rating option letter instead of two.

Water Rights

Section 70101 establishes the $2.5 billion Indian Water Rights Settlement Completion Fund to pay for "obligations identified by the Secretary of the Interior, under an Indian water settlement approved and authorized by an Act of Congress before the date of enactment of this Act."

Conclusion

The IIJA greatly expands funding for, and revises rules regarding, such areas as lead pipe replacement, filtration systems, and general water and sewer infrastructure. It remains to be seen whether even this additional spending is sufficient for the nation's water problems.

Sullivan & Worcester LLP – Jeffrey M. Karp

December 27 2021

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[1] https://pacinst.org/wp-content/uploads/2021/11/US_Infrastructure_Brief.pdf.

[2] https://www.awwa.org/AWWA-Articles/awwas-2019-water-and-wastewater-rate-survey-reveals-increasing-utility-costs-boosting-rates.

[3] https://web.archive.org/web/20160203004456/http://www.wnem.com/story/30995770/united-way-estimates-cost-of-helping-children-100m.

[4] 86 FR 12272.

[5] https://www.politico.com/news/2021/05/24/infrastructure-talks-near-collapse-490637.

[6] https://pacinst.org/wp-content/uploads/2021/11/US_Infrastructure_Brief.pdf.

[7] SDWA § 1459A(c)(2) (42 U.S.C. 300j-19a).

Retirement Communities Lose Residents, Attract Muni Investors.

Senior-living developments weakened by the Covid-19 pandemic hold appeal for bondholders in search of yield

Investors are snapping up municipal debt sold by senior-living facilities despite record default rates, pandemic-related revenue losses and costly labor shortages.

Covid-19's rapid spread through eldercare facilities, along with the pandemic's lockdowns, deterred many older Americans from moving into senior communities. Nearly 8% of the $41 billion in outstanding senior-living bonds are in default as of December, according to Municipal Market Analytics, the most since tracking began in 2009. The sector now accounts for almost one-quarter of defaulted debt in the muni market, not including bonds caught up in Puerto Rico's bankruptcy.

Yet investors remain bullish. After a fall in debt issuance in 2020, senior-living facilities sold $7.4 billion in new bonds in 2021 through Dec. 13, 21% more than they did in 2019, according to an analysis by ICE Data Services.

"The operations have not yet fully recovered, even though, in some places, bond prices have," said David Hammer, head of municipal-bond portfolio management at Pacific Investment Management Co. He said he has reduced his exposure to senior-living facilities.

The robust appetite for senior-living bonds is a window into investors' willingness to put aside worries about Covid-19-related financial weakness as the pandemic grinds on into its third year. Retirement communities are among the municipal borrowers hardest hit financially, with Covid-19 driving away prospective residents and adding costs for protective equipment. But with rock-bottom yields, demand for new bonds outstripping supply and the potential for tax increases, the pickings are slim for investors in search of tax-exempt income.

Yields on risky municipal bonds fell in 2021, with investors plowing a record $22 billion into high-yield municipal-bond funds through Dec. 15, according to Refinitiv Lipper. Borrowers rated BAA were paying 2.12% on 30-year bonds as of Dec. 31, according to data from Refinitiv, down 14% from a year earlier.

Meanwhile, 10-year senior-living bonds sold over the past six months yielded 6.6% for taxable debt financing the purchase of retirement facilities in Texas and Oklahoma and 4.4% for tax-exempt debt to buy and refinance a retirement facility in Kentucky, bond documents show. For an investor in the top tax bracket, a 4.4% tax-free yield equates to roughly 7.6%, according to data from Nuveen.

Several senior-living borrowers that considered issuing debt in 2020 and then opted against it, moved forward with selling bonds in 2021 after finding the market more receptive, said Seth Brumby of Reorg, a credit-research firm. The risky debt is a welcome addition for many high-yield funds trying to put investor cash to work.

“Senior-living deals were well-received with strong investor interest,” said Jon Barasch, director of municipal evaluations at ICE Data Services.

Senior-living facilities include nursing homes as well as assisted-living and continuing-care retirement communities, whose offerings range from independent living to medical care and assistance with daily activities. These facilities are permitted by federal law to sell tax-exempt debt the same way that state and local governments do because they are perceived to have a public benefit.

Any individual facility’s default or drop in bond prices would have limited impact on high-yield mutual funds, which mix senior-living bonds with those of other low-rated borrowers such as charter schools and college dormitories. And some recent trends have benefited senior-living facilities, including the graying of the baby boomers and a hot housing market for prospective residents looking to sell their homes.

Still several indicators point to more trouble ahead for the sector. Much of the revenue to pay back bondholders comes from entrance fees residents pay when they move into senior communities. But move-ins remain well below pre-Covid-19 levels. Nonprofit continuing-care retirement communities had an 87% occupancy rate in the third quarter of 2021, down from 93% in the first quarter of 2020, according to the NIC MAP Data Service.

Median net operating margins, including entrance fees, at 151 facilities tracked by Fitch Ratings fell to 18% in 2020 from 23% in 2019 for investment-grade borrowers and to 14% from 18% for those below investment-grade.

A tight labor market is also pressuring expenses, analysts said.

In addition to the $3.2 billion in senior-living muni debt currently in default, borrowers of a further $3.7 billion have reported impairments, such as having to dip into reserves, according to Municipal Market Analytics. MMA partner Matt Fabian said high investor demand has helped prop up struggling facilities by providing access to rescue cash.

“So the record default number understates the amount of disruption the pandemic has created,” Mr. Fabian said.

The Wall Street Journal

By Heather Gillers

Jan. 4, 2022 7:00 am ET

Municipal Sector Market Review.

Summary

- The municipal sector continues to benefit from a strengthening credit environment and a supportive technical backdrop.
- We discuss some of the key themes of the sector such as the impact of rising short-term rates on leverage costs, a low level of underlying yields and more.
- We discuss the performance of the sector across different credit sub-sectors, investment vehicles and fund houses.
- And highlight our stance in this sector via our Municipal Income Portfolio.

Continue reading.

Seeking Alpha

Jan. 03, 2022

How Private Capital Strangled Our Cities.

By following the money, a new history of urban inequality turns our attention away from federal malfeasance and toward capital markets and financial instruments.

Credit and debt, two sides of the same proverbial coin, place a bet on time. Credit makes money mobile and funds the future. Soon enough, however, it becomes debt, with the lender demanding from the borrower returns with interest that threaten to constrict the possibility of further credit. Personal debt masquerades as moral obligation, a contract freely chosen, yet at the heart of the promise debt creates is not social reciprocity, as the late David Graeber wrote in *Debt: The First 5000 Years*, but a "simple, cold, and impersonal" market transaction. As nothing more than a "matter of impersonal arithmetic," debt requires shame and ultimately the threat of force to fulfill its terms and realize the returns for creditors it promises. It lodges coercion at the heart of the supposedly "free" market.

The squeeze is only intensified in the seemingly impersonal world of institutional finance. If debt ensures stability and solvency for some, the economic growth it propels fuels dependency and inequality for others, not only between creditor and debtor but also further down the line, as the borrower passes on the costs of debt to those with less power to control the terms of the deal. This devil's bargain is particularly true when it comes to municipal debt, argues the Stanford University historian Destin Jenkins in *The Bonds of Inequality*, his new book on the power the bond market has leveraged over San Francisco and other US cities. The debt-financed spending that cities have long used to spur growth, Jenkins contends, has also underwritten the racial and income inequality of the post–World War II metropolis, while funneling profits to bankers and reinforcing city dependency on finance capitalism. This unequal compact hid in plain sight until the 1970s, when the urban fiscal crises of the era revealed that cities were deeply in hock to financial institutions. But debt was just the way business was done, and banks and other lenders saw no reason to ease the terms of this deal, preferring instead to underwrite the continued hollowing-out of the American metropolitan landscape.

Continue reading.

The Nation

By Samuel Zipp

Jan 4, 2022

Over $60 Billion Flowed Into Municipal Bond Funds in 2021.

Infrastructure focus and investors looking to curb higher taxes have helped municipal bonds see over $60 billion in fund flows during 2021.

Municipal bonds offer a way for investors to help stymie the effects of higher taxes. That's certainly the case heading into 2022 after the trillion-dollar infrastructure package got signed into law by President Biden.

"Investors have poured more money into municipal bond funds so far this year than they have in decades, providing the fuel for borrowing by states and cities to fund new bridges, sewers and other state and local projects to a second-straight 10-year high," Wall Street Journal reports.

That influx of funds is translating into municipal bonds capturing a larger share of the debt market. Investor habits are also changing with more investors looking to hold munis temporarily as opposed to holding for the long-term horizon.

"Municipal bond funds now hold an unprecedented 24% of outstanding debt compared with 16% five years ago, according to Federal Reserve data," WSJ adds further. "The move marks the latest step in a fundamental shift away from a buy-and-hold market where individual investors quietly collect interest year after year."

Additionally, the fundamentals of supply and demand are also affecting the municipal bond market. More demand for munis is happening at a time when supply is slow, pushing bond prices higher as investors swap yield for the quality that munis can offer.

"Generally there's a better credit environment, you have lower supply [and] more demand, and then you just have investors who are willing to take on more risk to replace the yield that they previously got on their high-grade bonds," said Eric Friedland, director of municipal-bond research at asset manager Lord Abbett.

ETF TRENDS

by BEN HERNANDEZ

JANUARY 3, 2022

Looking Back at 2021 in State and Local Government.

States and localities demonstrated their resilience as they navigated a second year marked by the pandemic. There are plenty of pressing issues on the horizon heading into 2022.

It’s been another eventful and challenging year for states and localities across the U.S., as Covid-19 and the fallout it is causing for public health systems and the nation’s economy continue to dominate government affairs at all levels. There was a glimmer of hope heading into the summer that the pandemic might finally be waning as vaccines became widely available and case counts fell. But that moment gave way to the rise of the delta variant and, now, omicron and another wave of infections. The new variant and skyrocketing case counts amid the winter holiday season mean that America will face more pandemic-driven sickness and disruption as 2022 begins and that state and local governments will continue to be occupied with responding to the crisis.

This year has also been a notable one for federal legislation with major implications for states and localities. First, there was the American Rescue Plan Act, which provided $350 billion in direct aid to states and local governments—a historic amount of funding. Then, in November, President Biden signed a bipartisan infrastructure law that boosted the amount of federal funding for public works by about $550 billion. For many state, city and county leaders, getting infrastructure legislation like this passed has been a longstanding priority. In the coming year, how states and localities are beginning to use their ARPA funds and the added infrastructure dollars will be a major storyline to watch.

Continue reading.

ROUTE FIFTY

by BILL LUCIA

DECEMBER 29, 2021

2021: The Year in Bond Funds

Credit risk prevails in a rocky year for bond markets.

Bond markets had to contend with a rocky 2021 characterized by rising inflation, a bumpier economic recovery, and the start of tighter monetary policy. The threat of inflation gathered pace over the year, unnerving government-bond markets in the process and culminating in the Federal Reserve’s hawkish pivot in the fourth quarter. Meanwhile, the stretch for yield that began in 2020 continued, with lower-quality credit surging for much of the year.

As a result, performance across fixed-income Morningstar Categories was mixed as more-credi--sensitive strategies outpaced most of the pack, while interest-rate-sensitive and non-U.S. dollar-denominated bond funds posted losses. High-yield municipal funds led the way, with an average return of 5.7%, while emerging-markets local-currency bond funds plunged 7.3% on average. The Morningstar U.S. Core Bond Index, a proxy for typical U.S. bond exposure, fell 1.6% for the year, posting its worst calendar-year return since the taper tantrum roiled fixed-income markets in 2013.

Fed Tightens Policy Amid Rising Inflation
Driven by a first-quarter spike, interest rates rose in 2021, causing notable volatility at times as investors got to grips with rising inflation, a changing economic outlook, and new coronavirus variants. The year began with a significant steepening of the yield curve as the market reacted to the potential for both higher economic growth and inflation. The 10-year U.S. Treasury yield spiked 81 basis points over the first quarter to end the period at 1.74%. However, as the economic recovery became bumpier and inflation continued to rise, the yield curve partly retraced the first quarter’s

steepening over the remainder of the year. Short-term yields modestly rose, while the 10-year yield declined to 1.52% by the end of 2021.

The Fed characterized inflation as transitory for much of the year but abandoned that tag in November as core price inflation prints continued to rise. At the most recent reading, CPI rose 6.8% over the trailing 12 months through November 2021. In response to the growing threat of inflation and an improved job market, the Fed pivoted to a more hawkish stance in the fourth quarter. The Fed began tapering asset purchases in November, aiming to complete the wind-down by mid-2022. However, in December, the Fed doubled the pace of the tapering, speeding up the timeline to an expected finish in March 2022. Fed officials also increased their expectations for rate hikes in recent meetings, with the latest projections now indicating three rake hikes in 2022.

As inflation expectations rose, U.S. Treasury Inflation-Protected Securities outperformed nominal Treasuries; the Morningstar U.S. TIPS Index returned 5.7% for 2021, while the Morningstar U.S. Treasury Bond Index posted a 2.3% loss. Within the inflation-protected bond category, strategies that added credit exposure alongside TIPS led the way. One such offering was Lord Abbett Inflation Focused (LIFIX), which rallied 10.4% and bested all but one of its peers. Meanwhile, short-term Treasuries fared better than longer-term issues given the first-quarter yield-curve steepening. Tracking one- to three-year maturity issues resulted in a modest 0.7% fall for Vanguard Short-Term Treasury Index (VSBSX).

Within the intermediate core and core-plus bond categories, strategies that held elevated allocations to securitized sectors and/or high-yield debt, both of which have less interest-rate sensitivity than Treasuries and investment-grade corporates, were among the top performers, though gains were modest. Pioneer Bond (PICYX) posted a 0.7% return, which outpaced its typical core-plus category peer by 140 basis points thanks to its elevated allocations to securitized and junk-rated credits.

Credit Investors Hunt for Yield

Alongside rising inflation, credit-sensitive assets continued to outperform. Within corporate credit, junk-rated bonds outperformed investment-grade issues over 2021 as investors stretched for yield, though there was a brief period of risk-off sentiment in the fourth quarter driven by the emergence of the omicron coronavirus variant and the Fed’s more hawkish stance. The Morningstar U.S. High Yield Bond Index rose 5.2%, while the Morningstar U.S Corporate Bond Index (which tracks investment-grade issues) posted a 1.1% loss. Energy credits gained a significant boost from a surge in the price of oil due to robust demand. Crude Oil (WTI) began the year just under $50 dollars a barrel and ended it at $75, having pared back some of its substantial gains in the fourth quarter.

The U.S. high-yield default rate fell below 1% in 2021, and positive credit trends helped the lowest-rated credits outperform. The Bloomberg index for credits rated CC to D rocketed 12.5%, with the highest returns at the lower end of the credit-quality spectrum. The best performers in the high-yield category were typically funds that tilted toward lower-quality bonds and/or had a hefty allocation to equities. Fidelity Capital & Income (FAGIX) held roughly one fifth of assets in equities for most of the year and profited from the continued rally in stocks to return 11.7% for the year, besting nearly all comers in the category.

Convertible bonds, hybrid securities that combine debt and equity characteristics, also benefited from the continued upswing in equities. MainStay MacKay Convertible (MCNVX) returned 10.1% and landed in the convertibles category’s best decile over the period. Meanwhile, bank loans were back in vogue. The S&P/LSTA Leveraged Loan Index added 5.2% for the year as investors eyed the sector’s floating-rate coupons, which increase as interest rates rise. Similar to the theme across corporate bonds, lower-rated loans outperformed. Invesco Senior Floating Rate (OOSYX) gained 9.1% and beat all bank-loan category peers thanks to its sizable stake in loans rated below B.

Strong Dollar Weighs Down Global Returns
Alongside the Fed, central banks across the globe began to tighten monetary policy in late 2021, though they did so to varying degrees. The Bank of England unexpectedly hiked rates to 0.25% in December 2021, becoming the first G7 central bank to raise rates since the onset of the coronavirus pandemic. The European Central Bank took a more gradual approach, electing to taper its bond purchases but to continue them for at least the first 10 months of 2022. Meanwhile, the Bank of Japan remained among the most dovish central banks by dialing back some emergency funding while pledging to keep monetary policy ultra-loose.

The U.S. dollar enjoyed a strong 2021, gaining 6.7% for the year against a basket of developed-markets currencies, driven by the American economy's relative strength and the Fed's tighter policy outlook. That backdrop helped the U.S.-dollar-hedged version of the Morningstar Global Core Bond Index limit its slide to 1.7%, while the unhedged version dropped 5.7%. Across world bond funds, those that ventured further outside of sovereign debt into corporate and securitized credit fared better in 2021. AB Global Bond (ANAIX) did just that, which helped limit its slide to 0.8% and placed it among the world bond USD hedged category's top performers.

Emerging markets were also weighed down by the strength of the U.S. dollar along with a weaker outlook for growth. Local-currency-denominated emerging-markets debt materially lagged hard-currency fare, with the J.P. Morgan Index for the former plunging 8.8%, while the latter slid 1.8% for the year. Here, too, corporates outperformed; the J.P. Morgan CEMBI Diversified Index gained 0.5%. Avoiding local-currency debt and adding a dose of corporate credit helped limit Fidelity New Markets Income's (FNMIX) fall to 1.8%, while its typical emerging-markets bond category peer declined 2.4%.

Demand for Munis Continues
Municipal debt continued to see robust demand in 2021 as further fiscal stimulus, particularly March 2021's $1.9 trillion American Rescue Plan, along with the potential for higher income taxes, helped fuel investor appetite. Long-term muni sales exceeded $450 billion in 2021, roughly in line with 2020's record-breaking numbers. That backdrop helped the Bloomberg Municipal Bond Index gain 1.5% for the year, outpacing U.S. Treasuries by over 3 percentage points in the process.

The general fixed-income theme of lower-quality credit outperforming over the year also extended to the muni market. The Bloomberg High Yield Municipal Bond Index surged 7.8% as the hunt for yield and munis' lower default rate compared with corporates helped drive demand. BlackRock High Yield Municipal (MAYHX) was one of the strongest performers over the year in the high-yield muni category, rocketing 9.2% in part because of its overweighting in lower-rated bonds.

morningstar.com

Sam Kulahan, CFA

Jan 3, 2022

Municipal Bond ETFs Have Enjoyed a Stellar Year.

Municipal bond exchange traded funds are attracting huge inflows as investors diversify their fixed income portfolios with tax-exempt muni offerings.

Municipal bond funds now make up an unprecedented 24% of outstanding total debt circulating in the markets, compared to just 16% five years ago, marking a shift in investor habits away from buy-and-hold individual securities until maturity, the Wall Street Journal reports.

The record levels of borrowing and investing in 2021 also reflect investors' improving risk outlook as we move pass the pandemic-era uncertainty as many previously feared that the downturn would trigger a wave of municipal defaults and bankruptcies.

However, after finding support from stimulus funds, state and local governments have issued $301.9 billion in debt for new projects as of December 21, the most amount of new debt in at least a decade.

Meanwhile, investors have funneled $64 billion into municipal bond-related mutual funds and ETFs through December 15, according Refinitiv Lipper data, marking the largest inflows for that that period since tracking began in 1992. The figure also includes $22 million into high-yield muni funds that bled cash last year.

"Generally there's a better credit environment, you have lower supply [and] more demand, and then you just have investors who are willing to take on more risk to replace the yield that they previously got on their high-grade bonds," Eric Friedland, director of municipal bond research at asset manager Lord Abbett, told the WSJ.

Many have also turned to debts issued by state and local governments because they carry interest payments free from federal, and often state, taxes. This preferential tax treatment has seen greater demand on increased expectations for potential tax hikes under a Democratic administration to make up for tremendous fiscal spending measures.

ETF TRENDS

by MAX CHEN

DECEMBER 29, 2021

How States and Localities Can Use Data to Spend Federal Funds Wisely.

Applying an evidence-based approach to funding new infrastructure problems can ensure communities get the biggest bang for each federal buck.

The $1.2 trillion Infrastructure Investment and Jobs Act will deliver the nation's largest investment in roads, bridges, clean water, broadband, electric vehicles and rail in more than half a century. Now, state, city and county policymakers will have to decide how to prioritize, allocate and monitor the effectiveness of these infrastructure investments.

The challenges that state and local leaders face in managing this influx of federal funds are considerable and elicit many questions like: How will lawmakers allocate the record $1.2 trillion investment? What guidelines and requirements will accompany these new resources? How do states make sure that these funds are directed in equitable and inclusive ways? And how can states approach these decisions in ways that deliver long-term fiscal responsibility and benefits—even when the money runs out?

For many years, The Pew Charitable Trusts has worked with state leaders on developing best practices for spending taxpayer dollars prudently, maintaining balanced budgets, investing in evidence-based policies, and planning for and mitigating other fiscal risks. Through our experience, we've learned a great deal about how states can use data and evidence to spend funds wisely. These experiences offer valuable and replicable lessons for state policymakers as they make decisions about the incoming infrastructure funds.

Continue reading.

Route Fifty

By Michael Caudell-Feagan,
Executive Vice President & Chief Program Officer, The Pew Charitable Trusts

DEC 22, 2021

Infrastructure Investment and Jobs Act: Orrick

In November, the bipartisan Infrastructure Investment and Jobs Act (the "Act") was enacted into law. In addition to reauthorizing existing programs, the Act adds $550 billion in funding for new infrastructure investments, including for transportation, water, power, renewable energy and broadband.

This summary discusses provisions of the Act of particular interest to the municipal finance industry, organized into two parts. First, a summary of provisions related to tax-exempt financing by state and local governments. The Act authorizes two new categories of tax-exempt bonds for broadband projects and carbon capture facilities, and also increases the national volume cap available for tax-exempt bonds issued for certain transportation projects, which are often used for projects involving public-private partnerships ("P3"). And second, a highlight of various provisions that provide funding to state, local and tribal governments for particular types of infrastructure. Since many of these provisions relate to new programs, federal agencies will be working through the rulemaking process to implement these new programs over the coming months.

Tax-Exempt Financing Provisions
The Act adds two new types of "exempt facility" bonds, and increases the federal volume cap for a third type. Most tax-exempt bonds are issued as "governmental" bonds subject to the private activity limitations imposed by Section 141 of the Code, which generally limit the amount of involvement of a private entity in the financed projects (i.e., limitations on private business use of the projects). Exempt facility bonds are a separate category of tax-exempt bonds, which are generally not subject to private business use or other private activity limitations, but can only be used to finance qualifying facilities, such as airports, solid waste, and multifamily housing, and are subject to additional requirements and restrictions, such as TEFRA approval and costs of issuance limitations. Several types of exempt facility bonds, including the new types authorized by the Act, may be issued to finance projects owned by a private entity.

Qualified Broadband Projects. The Act adds a new type of exempt facility bonds for qualified broadband projects. A qualified project must provide access to residential and/or commercial locations at speeds of not less than 100 megabits per second ("mbps") downstream and 20 mbps upstream, and must provide access to locations that are currently underserved by broadband service. The project must be designed to provide service to one or more census block groups where more than 50% of residential households do not currently have access to fixed terrestrial broadband service delivering at least 25 mbps downstream and at least 3 mbps upstream, and at least 90% of the locations (residential or commercial) at which access will be provided are locations where a broadband service provider did not previously provide service of at least 25 mbps downstream and at least 3mbps upstream. In addition, before bonds are issued, the issuer must (i) notify all broadband service providers in the area of the planned project, (ii) request information from them on their ability to provide gigabit capable Internet access (1,000 mbps), and (iii) allow each provider at least 90 days to respond to the notice and request. These requirements have some interpretive questions that may require guidance from Treasury, but in advance of any guidance, it appears that these bonds would work well to finance land-based broadband infrastructure in geographic areas in which no broadband service is currently available.

Exempt facility bonds are usually subject to state volume cap limitations, but the Act provides for a 75% exemption from volume cap for privately owned broadband projects, such that only 25% of the volume cap is required, and a 100% exemption for governmentally owned projects, such that no volume cap is required.

Qualified Carbon Dioxide Capture Facilities. The Act adds a second new type of exempt facility bonds for qualified carbon dioxide capture facilities. Qualifying facilities can either be (i) components of an industrial carbon dioxide facility, or (ii) a direct air capture facility. The Act has a number of detailed requirements for qualifying facilities, some of which may require guidance from the Treasury Department to interpret.

An industrial carbon dioxide facility means a facility that emits carbon dioxide as a result of combustion, gasification, bioindustrial processes, fermentation, or certain types of manufacturing processes (but not including natural gas extraction and transportation). Eligible components for financing with these bonds include equipment used for the capture, treatment, purification, compression, transportation or storage of produced carbon dioxide, or certain components that are used to convert solid or liquid products made from coal, petroleum residue, biomass or other materials into a synthesis gas composed of primarily carbon dioxide and hydrogen for direct use or a subsequent chemical or physical conversion. The Act generally requires that eligible components of an industrial carbon dioxide facility must be at least 65% efficient in capturing and storing carbon dioxide, and for this purpose, storing carbon dioxide means injection into a facility for geologic storage, or injection into an enhanced oil or gas recovery well followed by geologic storage. To the extent the efficiency is less than 65%, only the corresponding percentage of the costs are eligible for financing (i.e., components that are 40% efficient can only have 40% of the costs financed with these exempt facility bonds).

Direct air capture facilities are defined by reference to Section 45Q(e)(1) of the Internal Revenue Code of 1986, which currently provides for a business income tax credit for certain of such facilities. A direct air capture facility for this purpose is a facility that captures carbon dioxide from the ambient air—not including capturing carbon dioxide deliberately released from subsurface springs and not including facilities that use natural photosynthesis to capture carbon dioxide. To the extent that a facility receives tax-exempt financing for a portion of the eligible costs and is also eligible for the Section 45Q tax credit, the eligible tax credit will be reduced by the proportional amount of tax-exempt financing, but with a cap of a 50% reduction.

Exempt facility bonds for qualified carbon dioxide capture facilities are subject to a 75% exemption from volume cap, such that only 25% of the volume cap amount is required.

Qualified Highway and Surface Freight National Volume Cap Increase. Existing law allowed the issuance of exempt facility bonds for certain transportation projects that receive federal funding, but only with an allocation of volume cap from the Secretary of Transportation. These types of exempt facility bonds were often used for P3 transportation projects, as these bonds are not subject to the private business use or other private activity limitations. The national volume cap limit for these bonds was set at $15 billion in 2005, and as of November 2021, approximately $13.8 billion had been used, and another $934 million has been allocated to projects but not yet issued. The Act increases the national volume cap limitation to $30 billion, providing a significant increase for potential financing of additional P3 transportation projects.

New and Notable Infrastructure Programs
The Act provides an enormous amount of funding for a broad range of infrastructure projects. Below is a summary of particular provisions, focused by sector, that may be of interest to state and local governments, tribal governments, and other participants in particular infrastructure sectors. This is not comprehensive, but focuses on some of the larger programs that relate to capital infrastructure projects. Numerous other provisions of the Act may be of interest to particular participants in the municipal finance industry, including grant funding for cybersecurity initiatives, brownfield development, energy efficiency assessments, and job training and technical assistance related to climate resilience or infrastructure projects.

Airports. The Act provides $15 billion over the next five years in formula-based grants to airports for the Airport Improvement Program, which generally allows flexibility in funding improvements to runways, taxiways, terminals and other projects. There is also $5 billion available in the Airport Terminal Program for discretionary grants for terminal improvements and other landside projects.

The Act also makes airport-related projects eligible for loans and other credit support pursuant to the Transportation Infrastructure Finance and Innovation Act ("TIFIA"). TIFIA loans have been used as a source of low-interest, long-term funding for various highway and surface transportation projects. In addition to expanding the eligibility to include airport-related projects, the Act further extends the repayment terms on TIFIA loans for up to 75 years for certain infrastructure projects.

Broadband Projects. The Act authorizes a total of $65 billion in funding for broadband infrastructure. This includes $42.45 billion in grant programs for states, territories, and the District of Columbia to develop broadband projects, as well as $2 billion in grant and loan programs to provide broadband service in rural areas. The Act also provides $2.75 billion in new grant programs to promote digital inclusion and equity. An additional $1 billion is available for grants to various entities, including electrical utilities and cooperatives, for "middle mile" infrastructure to expand broadband to unserved areas.

Energy Infrastructure. The Act includes $65 billion for a range of energy infrastructure programs, including $5 billion for a new grant program to make electrical grids more resilient to weather, wildfire and natural disasters, $5 billion for federal assistance for innovative approaches to making transmission, storage, and distribution infrastructure more resilient (plus another $1 billion for remote or rural areas), and $3 billion for a matching grant program for smart grid investments.

The Act creates a $2.5 billion revolving loan fund program for new or upgraded transmission lines, and allows the Department of Energy to acquire a portion of the capacity of the line in order to serve as an "anchor-tenant" for the line to promote economic viability. The Act also authorizes more than $500 million in incentive payments to owners of hydroelectric facilities for capital improvements that improve grid resiliency, improve dam safety, or are environmental improvements.

Ports, Waterways and Ferries. The Act expands the scope of eligible projects for the Department of Transportation's Port Infrastructure Development Program, and provides $2.25 billion over the next five years in funding for competitive grants pursuant to that program. In addition to the types of projects previously authorized, the Act authorizes projects that improve resilience to climate change or reduce greenhouse gas emissions at ports, such as electrification, vehicle charging infrastructure, and equipment replacements or retrofits. The Act also provides additional funding for grants pursuant to the Marine Highways Program, and for grants to reduce truck emissions at ports.

The Act provides $1.25 billion in grants for passenger ferries, and establishes a $1 billion program for ferry service in rural areas, which also allows use of these funds for operating costs.

Public Schools. Although not often thought of as an infrastructure sector, the Act provides $500 million in competitive grants to public schools for energy efficiency improvements, renewable energy, or alternative fuel infrastructure for vehicles. The Act also provides $5 billion in funding for the replacement of school buses with zero emission or alternative fuel buses, and $200 million in funding for grants to address lead contamination in school drinking water.

Public Transit and Rail. Numerous provisions of the Act provide funding for public transit and rail projects, including $8 billion in grants for new and expanded bus and rail service, $4.75 billion in grants for maintenance, replacement and rehabilitation of buses and rail assets, $5.25 billion in grants for low- and no-emission buses, including supporting facilities and workforce training, and $2 billion in certain grant programs to help make public transit systems more accessible to seniors and persons with disabilities. The Act also includes several programs addressing maintenance backlogs for passenger and freight rail, as well as capital projects that improve intercity passenger rail.

The Act also expands eligibility for TIFIA loans to (i) public infrastructure projects located within walking distance of, and accessible to certain public transit facilities, (ii) economic development projects that incorporate private investment and are physically or functionally related to passenger rail.

Roads and Bridges. The largest area of new spending in the Act is directed towards highways, roads, and bridges. In addition to reauthorizing existing highway programs, the Act provides more than $36 billion in competitive and formula grants for bridge repairs and replacement, as well as $7.5 billion in grants for surface transportation projects of local and/or regional significance, $5 billion for multi-modal, multi-jurisdictional projects of national or regional significance, and a $3.2 billion increase in grant funding for highway and rail projects of national and regional significance. The Act also provides funding for certain specific highway transportation projects, creates a grant program for both formula and competitive grants for transportation resiliency projects, and another grant program for replacing culverts under roads, bridges, railroad tracks, and trails.

Tribal Governments. Indian tribes are eligible recipients for many of the new programs in the Act that are otherwise described in this summary, such as the grants for vehicle charging and alternative fuel infrastructure and grants for electric grid resiliency projects. The Act also expands the eligibility for certain existing programs to include Indian tribes, such as for grants for certain rail projects, and sets aside funds for tribes, such as a 5% set aside in rural public transportation formula grants for public transportation projects on Indian reservations.

Vehicle Charging and Alternative Fuel Infrastructure. This is not exclusive to a particular infrastructure sector, but instead a particular category of projects that affects multiple sectors. The Act provides $7.5 billion in grants to states, local governments, tribes, and territories for publicly accessible electric vehicle charging infrastructure, as well as infrastructure for hydrogen, propane, or natural gas fueled vehicles. The goal of these grants is to create alternative fuel corridors, which can either be corridors designated by the Department of Transportation, or by a state or group of states in certain cases. These grants will be prioritized for rural areas, low and moderate income neighborhoods, and areas with low amounts of private parking or with high-density housing. These funds will be available for up to 80% of the costs of projects, with a maximum grant amount of $15 million, and in order to require private participation, the grants are to be used to contract with a private entity for acquisition and installation of the infrastructure, and the private entity must agree to pay the portion of the project costs not funded with federal grants.

In addition to that particular grant program, there are multiple other provisions in the Act providing funding for electric vehicle or alternative fuel infrastructure, either by expanding the eligibility of such infrastructure for funding from existing programs (e.g., the Surface Transportation Block Grant Program), or as part of new programs targeted at particular sectors as discussed elsewhere in this summary (e.g., schools and ports).

Water and Wastewater. The Act provides $55 billion in new funding for water and wastewater projects, primarily through programs pursuant to the existing Drinking Water and Clean Water State Revolving Loan Funds ("SRFs"). $15 billion will be made available through the Drinking Water SRF for grants, loans, and forgivable loans for lead pipe replacement in service lines, without any state cost-share requirement. $10 billion is being made available through both SRF programs as grants to states and water/wastewater utilities to treat perfluoroalkyl or polyfluoroalkyl substances or other identified contaminants of emerging concern.

by John Stanley

December 27, 2021

Orrick, Herrington & Sutcliffe LLP

Cyber Threat Brief: A Log (4j) Has Been Added To The Fire

Key Takeaways

- The recently discovered vulnerability in the widely used software library Apache Log4j highlights the increasing risk that cyber events pose to credit.
- We think cyber governance will play a central role in determining the magnitude of the impact on entities from this security flaw over the coming weeks and months.
- Entities that are badly prepared, handle the event poorly, have weaker balance sheets, and lack adequate cyber insurance or other means to address the potential financial impact will be most exposed.

Continue reading. [Free registration required.]

17 Dec, 2021

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9 Big Public Finance Surprises in 2021.

This year taught us to humbly expect the unexpected, from hundreds of billions in federal "helicopter money" to $35,000 bonuses to lure back retired transit workers. And how is your public pension fund doing on something called ESG?

Americans entered this year with hopes that COVID-19 would be vanquished and life would return to normal, but that didn't happen. Plenty of unexpected things did happen, as they always do of course, and much of it was felt by government, from insurrectionists storming the U.S. Capitol in January to some surprise upsets (and near-upsets) in last month's state and local elections. The world of public finance experienced its own twists and turns: Congress finally funded infrastructure, for example, but then stalled on tax provisions favorable to municipalities. Here's where the year brought results that few had predicted:

1. Budget surpluses. Economists almost universally expected that states and local governments would suffer revenue shortfalls as a result of the pandemic. Congress approved megabillion-dollar aid packages to bail them out from a pandemic recession that nobody had ever experienced. But a "fiscal trifecta" materialized: The federal helicopter money sent directly to households provided billions for spending that supported sales taxes. The stock market surged, which brought record income-tax receipts from investors' capital gains. And real estate prices zoomed, boosting property tax rolls. Most states ended fiscal 2021 with a budget surplus, not a deficit. One exception: Petroleum-producing states saw lower extraction revenues until oil prices rebounded late in the year.

2. A property tax bonanza. There is much ado in professional circles these days about "reimagining local government revenues." Some of the targets for reform are fines and fees, which tend to burden lower-income residents disproportionately, and sales taxes are deemed regressive as well. But the big money driver across the municipal sector is in the property tax, which is also disliked by advocates of progressive taxation. Nevertheless, whether reformers like it or not, the stability and reliability of the property tax is now buttressed by surging home prices, which make it an unheralded growth engine in the local government revenue base. Although there will be some jurisdictions that now face property tax backlash if they don't cut tax rates to compensate for surging parcel assessments, reform advocates will face an uphill battle if they seek to displace reliance on today's power train in municipal budgets.

3. The return of inflation. Despite midyear assurances from federal officials and central bankers that inflation would be transitory, rising costs have persisted and worsened. November's consumer price index (CPI) readout of 6.8 percent was the highest in 39 years. Government purchasing departments have strained all year to outwit the pressures of sticker shock: The costs of everything from police cars to highway de-icing supplies went up and stayed up. A surging CPI also triggers higher salaries and pension costs. Even when supply chain snags are worked out, the costs of housing and rents continue skyward, and that will keep pressuring the inflation indexes in coming months because of lag effects in those data series. November's producer prices jumped 9 percent over last year, which will likewise pressure consumer prices early in 2022. Right now, inflation looks to be the top issue and biggest unknown in state and local finance next year.

4. Resignation nation. Pundits predicted that the workforce would change forever with remote work and hybrid office/home employment patterns becoming more prevalent, but nobody expected to see the level of job-jumping and "time out" workforce departures that are now driving human resources departments and municipal managers batty. Although some public services professions continue to draw new recruits, and have been more stable than the fickle hospitality industry workforce, the ground has shifted. Governments are no longer employers of last resort as the unemployment rate shrinks. Employee retention has become a nationwide challenge, and government employers are hardly immune. Inducements like child care and flexible work schedules must be accompanied by top-down efforts to make public agencies a happier place to work, because that is what more employees are demanding. Psychic income from public service alone is not a sufficient motivator anymore, unless it's backed up by team engagement — and higher pay. New York has been paying $35,000 rehiring bonuses for retired transit workers who fill vacancies, and the Big Apple is not alone. Some public employers are even using federal COVID-19 aid, directly or indirectly, to pay bonuses.

5. Labor in the catbird seat. With inflation and tight employment markets now the prevailing environment for labor negotiations, public-sector unions have more clout than they have seen since before the Great Recession. On the fiscal side, budgeters must now expect to see contract demands for "CPI plus X percent" and catch-up salary increases to compensate for a decade of frugality. As services-sector employers, state and local governments will now face mounting cost pressures. With all that (nonrecurring) federal fiscal assistance sloshing and swishing around, some of it will be expected to take the form of permanent wage increases. Next year looks to be a contentious one for public-sector labor negotiators and their budgeting sidekicks who run the numbers. Expect more compensation dispute arbitration in jurisdictions where rocks hit hard places.

6. The muni bond market that Dems left at the altar. Almost everybody in the public finance community who works in Washington, D.C., had high hopes that Congress' tortured budget reconciliation bill would ultimately include goodies for the municipal bond market. Build America Bonds revival, advance refunding and enhanced bank eligibility for muni investments were all included in earlier drafts in the House, but they got scuttled when Senate centrists took the upper hand and sliced the size of the package, which in turn forced the tax committees to cut them out as revenue-losers. Like Detroit Lions and Seattle Mariners fans, it now looks like we'll just have to wait for next year unless Christmas magic arrives on the Senate floor in coming days. In retrospect, the sad and inexplicable surprise here was that these low-cost muni bond market incentives were not embedded in the bipartisan infrastructure bill, to leverage and optimize federal outlays.

7. Jerry-rigged SALT relief. Rather than wait for Congress, 20 states crafted workaround schemes for business owners to get credits for their state and local taxes at the state level. However, such Rube Goldberg schemes don't help working middle-class households. Congressional SALT relief remains in "placeholder" status. Until and unless President Biden's Build Back Better taxing-an--spending package clears the Senate, we won't know for sure which, if any, federal taxpayers will see higher SALT deduction caps, and who gets left with coal in their stockings. (At this writing the SALT elves were still nagging Santa, but Beltway insiders now doubt a breakthrough this month.)

8. Pensions: big wins for ESG. Public pension plan trustees and advocacy groups had been increasingly focused on environmental, social and governance (ESG) considerations in their investment policies, but 2021 overshot most proponents' expectations. European leaders, shareholders and courts successfully pressured Big Oil companies like Shell to migrate to a lower-carbon business model, and American activists won board seats at Exxon. Even the New York Stock Exchange now has a high-priority ESG initiative. As the tide turned, U.S. portfolio managers quickly gussied up their profiles and marketing pitches: ESG has become a hot strategy for mutual fund and pension managers as younger investors increasingly demand that their investments align with their values. Proof of the pudding is that "zero-carbon offsets" are now trading on global financial exchanges and Big Money is buying them at scale. Expect to see ESG become a recurring agenda topic in pension-land as ESG mutual funds now quickly creep into 457, 403(b) and 401(a) retirement plan menus as the products du jour.

9. And a leveraged CalPERS. It's still just top of their first inning in this new game, but a summary of surprises in 2021 cannot overlook the recent decision by the nation's largest public pension fund to leverage its assets by borrowing about $25 billion for investments aimed at increasing the portfolio's returns. Critics say the California Public Employees' Retirement System's 6.8 percent target for compounding annual investment returns with this leveraging initiative is wishful and that trustees would rather play with fire than raise contribution rates. Although supporters claim it's "diversification," others would say this strategy is even more risky than issuing pension funding bonds. Would you take out a home equity loan to fund your IRA, in a year when stocks gained 20 percent and now trade near peak levels with lofty valuations? Or is this really just a savvy CalPERS shortcut to bigger positions in high-yielding asset categories like private lending as interest rates increase? Time will tell.

governing.com

Dec. 21, 2021 • Girard Miller

[What the Stalled Infrastructure Bill Means for Munis.]

In this edition of “Muni Moment,” Fitch Ratings Senior Director Eric Kim discusses what the stalled infrastructure legislation could mean for the municipal bond market. He speaks with Bloomberg’s Taylor Riggs on “Bloomberg Markets: The Close.”

[Watch video.]

Bloomberg Markets: The Close

December 22nd, 2021, 12:18 PM PST

[Congress Provides Substantial Funding for Variety of Water Projects in Infrastructure Law With Emphasis on Low Income Communities.]

The Infrastructure Investment and Jobs Act (IIJA) contains significant water-related provisions, amounting to $82.5 billion in spending.[1] Areas addressed by these provisions include drinking water safety, clean water more generally, access to water, and research.

Background

America faces many serious problems involving water. People in rural areas remain dependent on often unreliable wells, and the water infrastructure of many U.S. cities has deteriorated as many existing pipes remain contaminated by lead. Meanwhile, from 1996 to 2018, the cost of water and wastewater has increased at annual rates of 5.09% and 5.64%, respectively, compared to an annual increase in the Consumer Price Index of only 2.1%.[2]

In Flint, Michigan, the city’s drinking water was contaminated with lead in 2014, beginning a crisis that lasted until at least 2019. Between 6,000 and 12,000 children were exposed to high levels of lead.[3] The Flint disaster provides examples of many of the problems the water provisions of the IIJA seek to confront: environmental injustice, the continued use of lead service pipes, and failures of local, state, and federal governments.

Threats to clean drinking water go beyond lead, however, and in many ways, regulation has failed to keep up with new risks. For example, the Environmental Protection Agency has not issued National Primary Drinking Water Regulations for new contaminants since 1996, although it announced its final determination to regulate perfluorooctanesulfonic acid (PFOS) and perfluorooctanoic acid (PFOA) in March 2021.[4] PFOS, PFOA, and other per- and polyfluoroalkyl substances (PFAS) have contaminated water supplies in many places across the country, and because they remain in the environment for a long time and do not easily degrade, pose particular problems to remediate.

These water-related problems were part of a broader set of infrastructure-related problems the IIJA sought to address. The law grew out of the $2.3 trillion American Jobs Plan announced by President Biden on March 31, 2021, amounting to $4 trillion in combination with the American Families Plan announced in April.[5] The plans' "human infrastructure" provisions were split off into the still-unpassed Build Back Better Act to seek bipartisan support for the IIJA, and the IIJA itself was cut considerably. The final version of the IIJA authorizes a total of $1.2 trillion in spending over several years. The bill finally became law on November 15, 2021.

Safe Drinking Water

The largest category of water-related investments in the Act involves improvements in drinking water safety and sanitation, including around $24 billion in grants to states over five years under the existing Safe Drinking Water Act and Federal Water Pollution Control Act. The Infrastructure Investment and Jobs Act also provides $15 billion for projects to replace lead water pipes and service lines, and $9 billion for addressing PFAS and other "emerging contaminants."[6] Section 50101's amendments to the Safe Drinking Water Act, in addition to authorizing new spending, clarify that SDWA grants "to assist in responding to and alleviating any emergency situation" can include responses to cybersecurity events and heightened lead exposure. (Section 50113 also concerns cybersecurity support for public water systems.) These amendments also provide that "State-based nonprofit organizations that are governed by community water systems" are eligible for technical assistance under Section 1442(e).

Section 50102 reauthorizes the Safe Drinking Water Act's Drinking Water State Revolving Loan Funds and appropriations for their capitalization grants. It also amends SDWA Section 1452(d) to give states more ways of subsidizing projects serving disadvantaged communities: "grants, negative interest loans, other loan forgiveness, and through buying, refinancing, or restructuring debt."

Section 50103 authorizes appropriations for the SDWA's source water quality protection partnership petition program and allows counties to form such partnerships on behalf of unincorporated areas.

Section 50104 expands the projects eligible for grants to small and disadvantaged communities under the Safe Drinking Water Act to include "the purchase of point-of-entry or point-of-use filters and filtration systems that are certified by a third party using science-based test methods for the removal of contaminants of concern." (This is the only reference to point-of-use systems in the IIJA.) It also requires the EPA to "establish a competitive grant program" through which eligible entities would "assist eligible individuals in covering the costs incurred by the eligible individual in connecting the household of the eligible individual to a public water system."

Section 50105 includes several measures to reduce lead in drinking water. It increases and extends appropriations for lead reduction grants, and allows them to be used to replace privately-owned lead service lines, "with priority for disadvantaged communities based on the affordability criteria established by the applicable State under [SDWA] section 1452(d)(3), low-income homeowners, and landlords or property owners providing housing to low-income renters." It also requires water systems to replace privately-owned lead service lines without cost to low-income customers, and to notify state governments of planned lead service line replacements.

Section 50110 requires the EPA to "establish a voluntary school and child care program lead testing, compliance monitoring, and lead reduction grant program" and to publish school lead testing guidance for public water systems. It also reauthorizes appropriations for SDWA Section 1464(d)'s existing Voluntary School and Child Care Program Lead Testing Grant Program.

Another grant program, for state responses to contaminants, authorized by SDWA section 1459A(j), is expanded by IIJA section 50114 beyond its previous definition of "underserved communities" to include, for example, communities "with a population of less than 10,000 individuals that the Administrator determines does not have the capacity to incur debt sufficient to finance a project or activity."[7]

Water Systems

Section 50106 requires the EPA to establish a grant program for "Operational Sustainability of Small Public Water Systems," while section 50107 requires it to establish a "Midsize and Large Drinking Water System Infrastructure Resilience and Sustainability Program." Section 50109 requires the EPA to establish another grant program "to assist qualifying households with need in maintaining access to drinking water and wastewater treatment," based on the results on a study required by Section 50108. The Indian Reservation Drinking Water Grant Program will be expanded under section 50111 to include wastewater system improvements as well as drinking water system improvements.

Research

The law funds water-related research by several entities – both scientific research into new technologies and studies of social problems. Section 50201 provides $75 million annually through fiscal year 2026 for research, investigations, training, and information grants, including to state water pollution control agencies and nonprofit organizations. Section 50222 revises the Federal Water Pollution Control Act to provide "funding to carry out groundwater research on enhanced aquifer use and recharge in support of sole-source aquifers" to state, local, and tribal governments jointly with research institutions. Section 50115 requires the EPA to conduct annual studies on the prevalence of boil water advisories, while section 50112 requires it to report on advanced drinking-water-related technologies. Section 50108 requires it to conduct a "Needs assessment for nationwide rural and urban low-income community water assistance," while 50216 requires it to "identify historical distributions of funds to small and disadvantaged communities and new opportunities and methods to improve on the distribution of funds under" the Clean Water State Revolving Funds and Drinking Water State Revolving Funds.

Section 50213 requires the EPA to establish a competitive grant pilot program for the sharing of water data. The EPA is directed by section 50217 to establish "centers of excellence for stormwater control infrastructure technologies" at universities, other research institutions, and nonprofit organizations (as well as grants to state, local, and tribal governments for stormwater infrastructure projects involving new technologies). Under section 50218, the EPA must establish a Water Reuse Interagency Working Group "to develop and coordinate actions, tools, and resources to advance water reuse across the United States, including through the implementation of the February 2020 National Water Reuse Action Plan."

Sections 50219 and 50220 require studies by the EPA of advanced clean water technologies and capital improvement needs for Clean Water State Revolving Fund-eligible projects, respectively. Section 50221 funds the Water Resource Research Act's Water Resource Research Institutes but puts tighter controls on the funding, such as Department of the Interior evaluations of each Institute every five years. Finally, section 50222 directs the EPA to "provide funding to carry out groundwater research on enhanced aquifer use and recharge in support of sole-source aquifers."

Clean Water

Beyond drinking water provisions, other provisions of the IIJA concern wastewater and other clean water issues. Section 50202 establishes the Wastewater Efficiency Grant Pilot Program for publicly-owned treatment works, while Section 50203 funds the Clean Water Act's Pilot Program for Alternative Water Source Projects and makes stormwater projects eligible for it. Similarly, section 50204 funds Sewer Overflow and Stormwater Reuse Municipal Grants and expands their scope to include "notification systems to inform the public of combined sewer or sanitary overflows that result in sewage being released into rivers and other waters." Sections 50205 through 50209 create new grant programs: the Clean Water Infrastructure Resiliency and Sustainability Program; the Small and Medium Publicly Owned Treatment Works Circuit Rider Program; the Small Publicly Owned Treatment Works Efficiency Grant Program; Grants for Construction and Refurbishing of Individual Household Decentralized Wastewater Systems for Individuals with Low or Moderate Income; and, finally, a program of grants to publicly-owned water treatment works (POTWs) and nonprofit entities, to cover the cost of connecting low-income individuals to POTWs.

The next few sections revise and fund existing programs. Section 50210 funds the Clean Water State Revolving Funds at a rate of $2.40 billion for FY2020, $2.75 billion for FY2023, $3.00 billion for FY2024, and $3.25 billion for each of FY2025 and FY2026. Section 50211 funds the Innovative Water Infrastructure Workforce Development program and expands the use of grants under the program. Section 50212 funds grants to Alaska to improve sanitation in rural and native villages. Section 50215 reauthorizes Water Infrastructure Finance and Innovation Act (WIFIA) funding, while section 50214 requires WIFIA loan applicants to submit only one final rating option letter instead of two.

Water Rights

Section 70101 establishes the $2.5 billion Indian Water Rights Settlement Completion Fund to pay for "obligations identified by the Secretary of the Interior, under an Indian water settlement approved and authorized by an Act of Congress before the date of enactment of this Act."

Conclusion

The IIJA greatly expands funding for, and revises rules regarding, such areas as lead pipe replacement, filtration systems, and general water and sewer infrastructure. It remains to be seen whether even this additional spending is sufficient for the nation's water problems.

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[1] https://pacinst.org/wp-content/uploads/2021/11/US_Infrastructure_Brief.pdf.

[2] https://www.awwa.org/AWWA-Articles/awwas-2019-water-and-wastewater-rate-survey-reveals-increasing-utility-costs-boosting-rates.

[3] https://web.archive.org/web/20160203004456/http://www.wnem.com/story/30995770/united-way-estimates-cost-of-helping-children-100m.

[4] 86 FR 12272.

[5] https://www.politico.com/news/2021/05/24/infrastructure-talks-near-collapse-490637.

[6] https://pacinst.org/wp-content/uploads/2021/11/US_Infrastructure_Brief.pdf.

[7] SDWA § 1459A(c)(2) (42 U.S.C. 300j-19a).

Sullivan & Worcester LLP

Jeffrey M. Karp

December 27 2021

S&P U.S. Public Finance Rating Activity, November 2021

View the S&P Report.

21 Dec, 2021

Recyclers Are Lining Up for the Municipal Market's Cash.

- **Turning plastic into petrochemicals, sugarcane waste into fuel**
- **Debt for wood-chip-to-insulation plant sells at 8% in 2051**

In Washington state, municipal bonds are financing a project to convert plastic waste into petrochemical ingredients. In Louisiana, municipal debt is paying for a biorefinery to turn sugarcane waste into fuel pellets and soil additives.

These are only two of what promises to be another robust calendar of borrowers in the recycling field in 2022, assuming this next stage of the pandemic doesn't completely quash investors' risk appetite. I base that expectation on several things: the apparent momentum behind such projects nationwide; the pace of deals I've observed this year, with at least three this month alone; and the unrelenting appetite for speculative offerings with long-term yields still historically low.

This is the high-risk, high-reward part of the municipal market. As we've seen time and again, it's hard to take one thing and turn it into something else, which is why $1 billion in recycler bonds are in the Bloomberg Default/Distress Report.

We only got a glimpse into the plans of these latest entrants — from Washington and Louisiana — because they each sold bonds whose proceeds will be held in escrow and invested in securities backed by the U.S. government. The newly sold debt earned top ratings, with the companies planning a mandatory tender and remarketing in 2022. Companies typically do this to avoid losing their allocation of private activity bonds.

Offering documents gave no indication of a likely rating for the next round of borrowing. But the typical recycling deal is most often unrated or speculative grade.

Coming Attractions

Prospective buyers for these two issues got preliminary limited offering memoranda that were more like coming attractions.

The Washington Economic Development Finance Authority sold $50.8 million in environmental facilities revenue bonds for the Mura Cascade ELP LLC project in late November. The project aims to convert 130,000 tons of plastic waste into about 100,000 tons of petrochemical ingredients.

The accompanying document was 56 pages, with an appendix on the company that was only five pages, but was promising: "Mura is seeking to change the way that society views end-of-life plastics, in that it should be looked at as a valuable resource and not as a waste product."

And this: “It is Mura’s ambition to be the largest producer of renewable petrochemicals globally with a production capacity of one million tons per annum by 2025.”

Last week, the Louisiana Local Government Environmental Facilities and Community Development Authority sold $60 million in revenue bonds for the American Biocarbon CT, LLC project, to be located at the Cora Texas Sugar Mill in White Castle, Louisiana.

The preliminary official statement is a mere 80 pages, the description of the project a few sentences. This included the statement that the company already operates a “demonstration scale plant with similar equipment configuration, but less product quantities. This demonstration scale plant is capable of producing approximately 10,000 tons per year of pellets and up to 5,000 tons per year of biochar, consuming 30,000 tons per year of bagasse when at full operation.”

Sugarcane Waste

This is at least the second plant contemplated or under construction to recycle bagasse, which is what they call sugarcane waste. In 2019, I wrote about Southeast Renewable Fuels LLC, which wanted to sell $190 million in bonds to finance a mill to turn bagasse into pulp. The company’s website says it has obtained approval from the state of Florida to sell industrial revenue bonds, but it doesn’t seem to have done so yet, so we may see two bagasse recyclers financed in the muni market in 2022.

A previous bagasse recycler came to grief. Back in the early 1990s, Flo-Sun Inc., one of Florida’s largest sugar companies, borrowed almost $300 million to build two power plants to burn bagasse and, after sugarcane-grinding season, wood. This was to produce steam and electricity.

The plants eventually went bust and the debt defaulted. But the recycling sector’s unpromising history hasn’t deterred new entrants, and buyers continue to line up if the price is right.

Just last week the Finance Authority of Maine sold $85 million in unrated bonds for a company that wants to recycle wood chips into insulation material. The bonds, sold in minimum denominations of $100,000, were priced at par to yield 8% to their 2051 maturity, or 651 basis points over the benchmark.

Bloomberg Markets

By Joseph Mysak Jr

December 21, 2021, 10:16 AM PST

— With assistance by Marisa Gertz

[Muni Housing Bonds Set to Outperform in 2022 Amid Rising Rates, Analyst Says.]

- Municipal housing bonds will perform better than other muni sectors next year as interest rates are set to rise amid the Federal Reserve’s tapering of its asset purchases, JPMorgan Head of Municipal Research and Strategy Peter DeGroot told Bloomberg.
- Keep in mind the 10-year U.S. Treasury yield is up more than 50% on a Y/Y basis, now changing hands at sub 1.48%.

- Meanwhile, the iShares Trust National Muni exchange-traded fund (NYSEARCA:MUB) is off nearly 1% in the past year.
- DeGroot highlights that debt issued by states to finance low-interest loans for first-time homebuyers or develop affordable housing carry higher yields and are less volatile.
- “Housing bonds have performed extraordinarily well in rising rate environments,” DeGroot told Bloomberg.
- Specifically, planned amortization class bonds, which is a way to protect investors from prepayment risk, are the best candidates to outperform, DeGroot added.
- Towards the end of November, muni bonds were about to snap a three-month losing streak.

Seeking Alpha

Dec. 27, 2021

How Waterfront States and Cities are Harnessing Their Blue Economies.

Communities are becoming strategic about planning the use of their shorelines rather than relying solely on tourism and recreation to generate water-related revenue.

A growing handful of coastal states, cities and counties are focusing their economic development efforts on industries that rely on the ocean.

Participants in the so-called “blue economy,” shoreside communities contributed $385 billion to the gross domestic product in 2019 and supported 3 million jobs in more than 20 marine industries, including fishing, tourism, off-shore oil drilling and boat building, according to the Center for the Blue Economy in Monterey, California.

Although 30 states and 1,000 counties abut an ocean or another major body of water, some states, including Massachusetts, Rhode Island, Washington and Alaska, along with coastal cities like Gulfport, Mississippi and San Diego, have, over the past few years, become strategic about planning the use of their shorelines rather than relying solely on tourism and recreation to generate water-related revenue.

Continue reading.

Route Fifty

By Sharon O’Malley

DEC 24, 2021

Fitch: Media Contracts Limit Impact of Postponed Games on Sports Ratings

Fitch Ratings-Chicago/New York-22 December 2021: National media contracts will limit the near-term ratings impact on sports leagues of the recent postponement of North American professional sports games following the sharp uptick in Covid-19 infections caused by the delta and omicron variants among players, says Fitch Ratings. The credit profiles of sports facilities with a high proportion of attendance-driven revenues could be more impacted by the postponement of games in the near term, compared with facilities with a high mix of contractual revenue such as that associated with premium seating and sponsorships, whose credit profiles are expected to be more stable.

The NBA, NHL and NFL have all observed a sudden increase in positive coronavirus tests afflicting players since mid-December. This has led, in some cases, to roster shortages and teams' inability to compete. Earlier this week, the NHL and NHL Players' Association announced that five additional games will be postponed this week, bringing the total number of games postponed this season to 50. Meanwhile, the NBA postponed five games this week, resulting in a total of seven games postponed this season so far, and the NFL announced its first three schedule changes for the season last week.

League-level debt is secured by national media contracts, with payment in full linked to a league's ability to deliver a full schedule of games under the terms of the contracts. US sports leagues were able to reschedule a significant number of regular season games in 2020 and still hold playoffs, enabling most of them to realize the full value of their national media contracts.

Leagues are taking extraordinary measures to continue operations amid the recent outbreak of cases and retain the flexibility to reschedule games, including potentially extending the season beyond the normal timeframe. The return to a bubble format is viewed as unlikely at this stage, given the high costs associated with operating under such conditions. An entire suspension of the season is also viewed as unlikely, unless there is a continued surge in infections among players.

A material disruption to the flow of national media contract revenue that could negatively affect league ratings is viewed as unlikely at this time. However, if leagues are unable to complete the season in order to deliver the full value of these contracts to their media partners, broadcasters may look to receive credits for lost content in current or future years.

Future contractual broadcast revenues could also be reduced or spread across future years as a form of credit for lost value. In 2020, amid greater uncertainty around the successful completion of their seasons, the leagues' full delivery on national media contracts illustrated the ability of leagues to navigate through a challenging environment and mitigate the impact to credit profiles.

For facilities, rescheduled games, particularly to nonprime hours or "off-days," could have a negative impact on attendance and per-cap spending trends during the season. Government mandated capacity restrictions or the inability of marquee players to play due to league health and safety protocols could also adversely impact attendance and the cash flows that service facilities' debt.

Fitch is closely monitoring developments related to the coronavirus pandemic and its impact on professional sports. There are a wide range of potential outcomes on the length of the disruption, depending on the severity of this Covid-19 wave. Player salaries, the largest expense item for leagues, may have flexibility through existing collective bargaining agreements or future negotiations with player unions to adjust for changing revenues if leagues and franchises face further financial pressures

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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.

Taxable Municipal Supply Has Staying Power: 2022 Outlook

Summary

- We believe taxable muni supply could exceed $100 billion again in 2022 and total 25% of expected new issue supply.
- New money supply is expected to be higher, whereas debt used to “advance refund” tax-exempt munis by issuing taxable munis may decline slightly year over year.
- However, it appears that infrastructure legislation will be neutral for the muni market. The bill passed by the House of Representatives in November excludes municipal bond-friendly provisions. It’s unlikely that Senate Democrats will include these provisions in their version of the bill.

Continue reading.

Seeking Alpha

Dec. 22, 2021
